Second Quarter Report 2014

For the three and six month periods ended June 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 six month periods ended June 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 six month periods ended June 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 July 29, 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 July 29, 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. 2	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**
Sales	**$ 23,068**	$ 14,410	$ 21,140	$ 25,504	$ 22,698	$ 15,207	$ 17,502	$ 23,298
Gross profit	**3,943**	925	3,512	5,211	3,641	1,718	1,916	4,889
Gross profit margin %	**17.1**	6.4	16.6	20.4	16.0	11.3	11.0	21.0
Operating income (loss)	**554**	(2,362)	829	1,494	663	(1,506)	(838)	581
Net income (loss)	**95**	(1,843)	460	933	311	5,128	(176)	316
Earnings (loss) per share:								
Basic	**0.01**	(0.27)	0.07	0.14	0.05	0.77	(0.03)	0.05
Diluted	**0.01**	(0.27)	0.07	0.14	0.05	0.77	(0.03)	0.05
EBITDA	**1,470**	(1,447)	1,783	2,424	1,598	6,647	355	1,405
EBITDA per share	**0.22**	(0.22)	0.26	0.38	0.25	1.00	0.05	0.21

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

	Three month periods ended June 30		Six month periods ended June 30	
	2014	**2013**	**2014**	**2013**
Sales	**$ 23,068**	$ 22,698	**$ 37,478**	$ 37,905
Cost of sales	**(19,125)**	(19,057)	**(32,610)**	(32,546)
Gross profit	**3,943**	3,641	**4,868**	5,359
Selling expenses	**(2,200)**	(2,159)	**(4,385)**	(4,150)
Administrative expenses	**(1,202)**	(1,250)	**(2,284)**	(2,446)
Administrative expenses – one-time, non-operating	**-**	-	**-**	(391)
Other gains (losses)	**13**	431	**(7)**	785
Operating income (loss)	**554**	663	**(1,808)**	(843)
Gain on sale of real estate	**-**	-	**-**	7,297
Contingent shares – loss	**-**	-	**-**	(80)
Investment income	**44**	56	**104**	83
Finance costs	**(362)**	(360)	**(720)**	(508)
Income (loss) before taxes	**236**	359	**(2,424)**	5,949
Income tax (expense) recovery	**(141)**	(48)	**676**	(510)
Net income (loss) for the period	**$ 95**	$ 311	**$ (1,748)**	$ 5,439
Earnings (loss) per share - $ per share				
Basic	**0.01**	0.05	**(0.26)**	0.81
Diluted	**0.01**	0.05	**(0.26)**	0.81
Funds flow from operations	**$ 1,483**	$ 1,124	**$ 81**	$ 223
Funds flow from operations per share	**0.22**	0.17	**0.01**	0.03

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 $23,068 in the three month period ended June 30, 2014, an increase of $370 or 1.6% from sales of $22,698 in the comparative three month period of 2013. The improvement in sales in the current quarter was led by the USA segment which helped offset weaker sales reported by the Canadian segment (see Section 5).

In the six month period ended June 30, 2014, consolidated sales were $37,478, a decrease of $427 or 1.1% from sales of $37,905 in the comparative six month period of 2013. Sales were ahead of last year in the USA segment but lower in the Canadian segment.

Gross profit

Consolidated gross profit was $3,943 in the three month period ended June 30, 2014, as compared to $3,641 in the comparative three month period of 2013. Gross profit margin improved to 17.1% of sales in the current quarter as compared to a gross profit margin of 16.0% in Q2/13.

Consolidated gross profit was $4,868 in the six month period ended June 30, 2014, as compared to $5,359 in comparative six month period of 2013. Gross profit margin of 13.0% of sales in the current six month period was slightly weaker than a gross profit margin of 14.1% reported in the comparative six month period of 2013.

Persistently elevated raw material costs have continued to squeeze margins. The Corporation is focused on pursuing initiatives to improve the quality of gross profit margin on sales by increasing pricing where possible or by generally maintaining pricing discipline.

Selling and administrative expenses

Selling and administrative expenses in both current year periods were broadly aligned with the expenses in the comparative periods of 2013. Additionally in 2013, one-time non-operating administrative expenses amounted to $391.

Other gains (losses)

In the three and six month periods of 2013, other gains included unrealized foreign exchange gains arising on an inter-segment loan caused by favourable currency movements. In December 2013 PFB re-capitalized its USA operations, by converting the inter-segment loan into equity of its USA subsidiary. This change had the effect of eliminating the effect of currency volatility on a go-forward basis from the consolidated statement of income.

Operating income (loss)

Operating income of $554 resulted in the current quarter as compared to operating income of $663 reported in Q2/13, an adverse variance of $109. However, operating income in the prior year quarter benefited from an unrealized foreign currency gain of $497 arising on an inter-segment loan. As noted in Section 5(b) of this MD&A, the inter-segment loan was extinguished in December 2013. On a like-for-like measurement basis, the operating results in the current quarter were much improved over the operating results in the prior year quarter.

In the six month period ended June 30, 2014, an operating loss of $1,808 resulted as compared to an operating loss of $843 reported in comparative six month period of 2013, an adverse variance of $965 with most of the shortfall occurring in the first quarter. In the comparative six month period of 2013, the reported operating loss benefited from the inclusion of an unrealized foreign currency gain of $772 arising on the inter-segment loan which accounted for most of the adverse variance between the two periods. (See Section 5(b) of this MD&A).

Income (loss) before taxes

In the current quarter, income before taxes was $236 was reported as compared to income before taxes of $359 in Q2/13.

In the six month period ended June 30, 2014, a loss before taxes of $2,424 was reported as compared to income before taxes of $5,949 reported in the comparative six month period of 2013. In the comparative year, reported income was significantly augmented by a gain on sale of real estate in the amount of $7,297. Excluding that one-time gain, a loss before taxes of $1,707 would have resulted in the prior year period.

Income taxes

Income tax expense in the current period was $141 as compared to income tax expense of $48 in Q2/13. The current period tax expense included a $94 adjustment to the estimated tax provision reported in Q1/14. The effective income tax rate of 27.9% for the six month period is reasonably representative of the blended tax rate expected for 2014.

Net income (loss)

Net income of $95 resulted in the current quarter as compared to net income of $311 reported in the comparative quarter of 2013. In the six month period ended June 30, 2014, a loss of $1,748 resulted as compared to net income of $5,439 in the comparative six month period of 2013. The results in 2013 included a one-time after-tax gain of $6,198 on the sale of real estate. Excluding the gain from the 2013 comparative results would have resulted in a loss of $759.

Earnings (loss) per share

Basic earnings per share in the current quarter were $0.01 as compared to earnings per share of $0.05 reported in Q2/13. In the six month period ended June 30, 2014, a loss per share of $0.26 resulted as compared to earnings per share of $0.81 reported in the comparative six month period of 2013. Excluding the effects of the after-tax gain on the sale of real estate in the prior year period which equated to earnings of $0.94 per share, a loss per share of $0.13 would have resulted.

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.

Segment revenues and income

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

Segment operating income (loss) represents the income (loss) 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 six month periods ended June 30, 2014 and 2013, is set out in the tables below:

Three month periods ended June 30	**Sales revenues**		**Operating income (loss)**	
	2014	**2013**	**2014**	**2013**
Canada	**$ 18,447**	$ 19,972	**$ 759**	$ 922
USA	**4,621**	2,726	**(191)**	(687)
Totals for segments	**$ 23,068**	$ 22,698	**568**	235
Corporate - expense			**(12)**	(69)
Foreign exchange (loss) gain on inter-segment loan			**(2)**	497
Consolidated operating income			**554**	663

Six month periods ended June 30	Sales revenues		Operating income (loss)	
	2014	**2013**	**2014**	**2013**
Canada	**$ 30,364**	$ 32,825	**$ (823)**	$ 401
USA	**7,114**	5,080	**(962)**	(1,694)
Totals for segments	**$ 37,478**	$ 37,905	**(1,785)**	(1,293)
Corporate - (expense) income			**(24)**	69
Corporate - one-time, non-operating expenses			**-**	(391)
Foreign exchange gain on inter-segment loan			**1**	772
Consolidated operating loss			**(1,808)**	(843)

(a) Canada

Sales

Sales generated by the Canadian segment decreased from $19,972 in Q2/13 to $18,447 in the current quarter, a decrease of 7.6% or $1,525 which contributed to year-to-date sales being 7.5% lower than in the corresponding six month period of 2013.

A harsh winter across most of Canada is believed to have delayed customer construction schedules which led to lower than expected EPS foam sales being realized by the Canadian segment in the first half of the year. The overall order backlog remains robust but with some regional variations.

Operating income (loss)

The Canadian segment reported operating income of $759 in the current quarter, a decrease of $163 as compared to operating income of $922 reported in Q2/13.

In the six month period ended June 30, 2014, the Canadian segment reported an operating loss of $823 as compared to operating income of $401 in the comparative six month period of 2013. Most of the year-over-year shortfall occurred in the first quarter as a result of elevated raw material costs, a weaker Canadian dollar negatively impacting raw materials costs, and the adverse effects that lower sales volumes had on manufacturing costs. Selling price increases were implemented in the current quarter in an attempt at restoring margins to more acceptable levels.

(b) USA

Sales

Sales in the USA segment increased from $2,726 in Q2/13 to $4,621 in the current quarter, an increase of $1,895 or 69.5%. In the six month period ended June 30, 2014, USA segment sales were $7,114 versus $5,080 in the comparative six month period of 2013, and increase of 40.0%.

Both the Custom Homes Group and the EPS facility in Lebanon, Ohio, contributed to the year-over-year improvement in sales.

Operating loss

The USA segment reported a significantly reduced operating loss of $191 in the current quarter as compared to an operating loss of $687 in the comparative quarter of 2013. This represents an improvement of $496. In the six month period ended June 30, 2014, the USA segment reported an operating loss of $962 as compared to an operating loss of $1,694 in the comparative six month period of 2013, an improvement of $732. The drivers of improvement were a combination of were increased sales and enhanced margins.

The USA segment operating loss in each of the comparative periods of 2013 have been re-presented to exclude unrealized foreign exchange gains of $497 and $772, respectively, which arose on an inter-segment loan which was extinguished in December 2013. The re-presentation provides a more representative year-over-year comparison of operating performance for the segment.

Segment assets and liabilities

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

	As at Jun 30, 2014	As at Dec 31, 2013
Assets		
Segmented assets	**$ 56,031**	$ 51,107
Assets not allocated to segments:		
Cash and cash equivalents	**2,680**	8,938
Freehold land and buildings	**6,379**	6,458
Restricted marketable securities	**2,297**	2,392
Total assets	**$ 67,387**	$ 68,895
Liabilities		
Segmented liabilities	**$ 13,124**	$ 11,007
Liabilities not allocated to segments:		
Finance lease obligations	**14,473**	14,417
Corporate – taxes payable	**3**	1,094
Total liabilities	**$ 27,600**	$ 26,518
Net segmented assets		
Canada	**$ 36,061**	$ 32,658
USA	**6,846**	7,442

Other segment information

	Three month periods ended June 30		Six month periods ended June 30	
	2014	**2013**	**2014**	**2013**
Additions to non-current assets:				
Canada	**$ 935**	$ 240	**$ 1,035**	$ 383
USA	**-**	67	**-**	74
Total	**$ 935**	$ 307	**$ 1,035**	$ 457
Depreciation and amortization:				
Canada	**$ 641**	$ 650	**$ 1,277**	$ 1,155
USA	**160**	178	**325**	342
Total	**$ 801**	$ 828	**$ 1,602**	$ 1,497
Inter-segment sales	**$ 330**	$ 141	**$ 472**	$ 359

6. Liquidity

Sources of liquidity

The Corporation expects its current cash balances, future cash flows generated by 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.

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Cash

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

	June 30, 2014	December 31, 2013
Cash held with banks	**$ 2,230**	$ 4,362
Short-term investments	**-**	4,515
Restricted cash	**450**	61
	$ 2,680	$ 8,938

PFB's cash balances typically fluctuate throughout the year in line with the seasonality of its businesses. The reduction in cash in the six month period ended June 30, 2014, was primarily attributed to an 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, finance costs, and regular quarterly dividend payments.

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

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 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 utilized.

Summary of cash flows

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

	Three month periods ended June 30		Six month periods ended June 30	
	2014	2013	2014	2013
Net cash flows from (used in):				
Operating activities	**$ 2,529**	$ 1,769	**$ (3,588)**	$ (4,409)
Investing activities	**(930)**	(189)	**(908)**	9,355
Financing activities	**(835)**	(7,537)	**(1,697)**	(2,266)
Effect of foreign exchange on cash held in foreign currency - gain (loss)	**8**	-	**(65)**	49
Net increase (decrease) in cash and cash equivalents	**$ 772**	$ (5,957)	**$ (6,258)**	$ 2,729
Cash and cash equivalents – beginning of period	**1,908**	10,384	**8,938**	1,698
Cash and cash equivalents – end of period	**$ 2,680**	$ 4,427	**$ 2,680**	$ 4,427

(a) Operating activities

Net cash from operating activities was $2,529 in the current quarter as compared to $1,769 in the comparative quarter of 2013, an increase of $760. In the six month period ended June 30, 2014, net cash used in operating activities was $3,588 versus $4,409 in the comparative six month period of 2013.

Generally, non-cash working capital increases have been lower in the current year periods than in the comparative year periods.

(b) Investing activities

Net cash used in investing activities was $930 in the current quarter as compared to cash flows used in investing activities of $189 in Q2/13. In the six month period ended June 30, 2014, net cash used in investing activities was $908 versus net cash from operating activities of $9,355 in the comparative six 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 $1,035 for property, plant and equipment and intangible assets were $645 higher than in 2013.

(c) Financing activities

Net cash used in financing activities in the current quarter was $835 as compared to net cash used in financing activities of $7,537 in the comparative quarter of 2013. In the comparative quarter, the Corporation paid a special dividend to shareholders of in the aggregate amount of $6,739.

In the six month period ended June 30, 2014, net cash flows used in financing activities were $1,697 versus $2,266 in the comparative six month period of 2013. In addition to the one-time, special dividend paid 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 which occurred in the six month period ended June 30, 2014 are shown in the following table:

	Jun 30, 2014	**Dec 31, 2013**	**Change**
Trade receivables	**$ 11,217**	$ 8,785	$ 2,432
Inventories	**10,611**	8,321	2,290
Prepaid expenses	**851**	672	179
Trade and other payables	**(7,832)**	(7,012)	(820)
Deferred revenue	**(3,406)**	(1,852)	(1,554)
	$ 11,441	$ 8,914	$ 2,527

Non-cash working capital increased in the six month period ended June 30, 2014 by $2,527.

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

All three classes of inventory, raw materials, work-in-process and finished goods have increased since the beginning of the year which is normal in the cycle. Inventory values at the end of the current quarter were slightly higher than anticipated due to lower second quarter sales revenues by the Canadian segment.

The increase in trade and other payables of $820 since the beginning of the year is reflective of seasonal increases in operating activities and the timing of when receipts and payments for raw materials occur.

Deferred revenue has steadily increased in the current six month period by an aggregate amount of $1,554, reflective of increased sales contract activity in the USA segment.

7. Capital resources

Capital structure

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

	June 30, 2014	**December 31, 2013**
Shareholders' equity	**$ 39,787**	$ 42,377
Long-term debt	**-**	-
	$ 39,787	$ 42,377

Share capital

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

	June 30, 2014 (Six 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 in each year, respectively. The dividend payment in February 2014 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 in each year, respectively. The dividend payment in May 2014 amounted to $403 (2013 - $7,143).

Dividends paid by the Corporation qualify as eligible dividends and satisfy the enhanced gross-up and dividend tax credit change enacted under Canadian tax law.

Normal course issuer bid

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

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

Long-term debt

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

8. Commitments and contractual obligations

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

In the first quarter of 2013, a significant change in the Corporation's commitments and contractual obligations resulted from completing a number of leasing 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 June 30, 2014 and December 31, 2013, are as outlined in the following table:

Contractual obligations (Payment due periods)	**Total**	**Within 1 year**	**2–3 years**	**4–5 years**	**Over 5 years**
As at June 30, 2014					
Finance lease obligations	33,426	1,719	3,248	3,204	25,255
Operating lease obligations	14,924	1,514	2,282	1,655	9,473
Commitments for PP&E and intangible assets	630	630	-	-	-
Total contractual obligations	$ 48,980	$ 3,863	$ 5,530	$ 4,859	$ 34,728
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:

	Jun 30, 2014	**Dec 31, 2013**
Current	**$ 298**	$ 253
Long-term	**14,175**	14,164
Total	**$ 14,473**	$ 14,417

(b) Performance bonds

As at June 30, 2014, the estimated aggregate value of shipments yet to be made under Canadian contracts which are secured by performance bonds was $2,500 (December 31, 2013 - $2,900). In the USA, performance bonds in the amount of $529 were pledged to various government agencies as at June 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 June 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 on the units and the distributions flow to the Corporation as they are paid. The distributions have been included in investment income in the consolidated statement of income (loss).

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 six month periods ended June 30, 2014, no change in valuation was recorded in the financial statements.

11. Current Outlook

Operating parameters within the industry in Canada continue to exhibit regional disparities occasioned by local conditions. The recent harsh winter disrupted construction schedules which impacted the timing of EPS shipments by the Corporation in the first half year despite the Corporation having a solid order book. Elevated raw material costs have generally persisted throughout the first six months of the year with the resulting continued squeeze on margins. Product pricing was increased in the second quarter which helped partially mitigate increased costs but margins remain weaker than their historical averages. Notwithstanding, the Canadian market has remained relatively sluggish as unpredictable raw materials supply dynamics coupled with competitor sales activities create challenging market conditions affecting all participants. Pricing discipline remains a key area of focus for the Corporation during these times.

By contrast, our operations in the USA continue to report improving results. Design activities and deposits collected from customers for customized products have increased substantially in the first six months of this year and the USA operation is focused on expediently converting signed contracts into revenues. The cycle time for these projects tends to be long, sometimes lengthier than twelve months, so these are positive indicators for the immediate future. 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, an unused revolving credit facility 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 June 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 June 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 July 29, 2014, the Corporation's board of directors declared a regular quarterly dividend of $0.06 per common share. The dividend will be paid on August 29, 2014, to shareholders of record at the close of business on August 14, 2014.

17. Related party transactions

There have been no material changes in related party transactions in the three and six month periods ended June 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

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

The following amendments to 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.

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, 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.

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 Q2	2014 Q1	2013 Q4	2013 Q3	2013 Q2	2013 Q1	2012 Q4	2012 Q3
Net income (loss)	**$ 95**	$ (1,843)	$ 460	$ 933	$ 311	$ 5,128	$ (176)	$ 316
Add back (deduct):								
Income taxes	**141**	(817)	77	270	48	462	(520)	117
Finance costs	**362**	358	359	342	360	148	152	129
Investment income	**(44)**	(60)	(67)	(51)	(56)	(27)	(2)	(4)
Depreciation	**868**	863	869	869	878	879	857	796
Amortization	**48**	52	85	61	57	57	44	51
EBITDA	**1,470**	(1,447)	1,783	2,424	1,598	6,647	355	1,405
EBITDA per share	**0.22**	(0.22)	0.26	0.38	0.25	1.00	0.05	0.21

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Condensed Consolidated Financial Statements

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

The accompanying unaudited condensed consolidated financial statements of PFB Corporation for the three and six month periods ended June 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: July 29, 2014

Consolidated Statements of Income (Loss)

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

	Note	Three month periods ended June 30		Six month periods ended June 30	
		2014	**2013**	**2014**	**2013**
Sales		**$ 23,068**	$ 22,698	**$ 37,478**	$ 37,905
Cost of sales	7, 8	**(19,125)**	(19,057)	**(32,610)**	(32,546)
Gross profit		**3,943**	3,641	**4,868**	5,359
Selling expenses	8	**(2,200)**	(2,159)	**(4,385)**	(4,150)
Administrative expenses	8	**(1,202)**	(1,250)	**(2,284)**	(2,446)
Administrative expenses – one-time, non-operating		**-**	-	**-**	(391)
Other gains (losses)		**13**	431	**(7)**	785
Operating income (loss)		**554**	663	**(1,808)**	(843)
Gain on sale of real estate		**-**	-	**-**	7,297
Contingent shares – loss		**-**	-	**-**	(80)
Investment income		**44**	56	**104**	83
Finance costs		**(362)**	(360)	**(720)**	(508)
Income (loss) before taxes		**236**	359	**(2,424)**	5,949
Income taxes (expense) recovery		**(141)**	(48)	**676**	(510)
Net income (loss) for the period		**$ 95**	$ 311	**$ (1,748)**	$ 5,439
Earnings (loss) per share - $ per share					
Basic		**0.01**	0.05	**(0.26)**	0.81
Diluted		**0.01**	0.05	**(0.26)**	0.81
Weighted average number of common shares outstanding					
Basic		**6,719,703**	6,739,203	**6,720,048**	6,681,284
Diluted		**6,719,703**	6,739,203	**6,720,048**	6,681,284

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

Consolidated Statements of Comprehensive (Loss) Income

For the three and six month periods ended June 30, 2014 and 2013
Thousands of Canadian dollars

	Note	Three month periods ended June 30		Six month periods ended June 30	
		2014	**2013**	**2014**	**2013**
Net income (loss) for the period		**$ 95**	$ 311	**$ (1,748)**	$ 5,439
Other comprehensive (loss) income:					
Items that may subsequently be reclassified to income:					
Foreign currency translation adjustments					
Exchange differences on translating foreign operations		**(443)**	(74)	**58**	(105)
Restricted available for sale financial assets	11				
Unrealized losses on available for sale financial assets, net of tax		**(79)**	(234)	**(71)**	(170)
Other comprehensive (loss) income for the period		**(522)**	308	**(13)**	(275)
Comprehensive (loss) income for the period		**$ (427)**	$ 3	**$ (1,761)**	$ 5,164

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

Consolidated Balance Sheets

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

	Note	June 30, 2014	June 30, 2013	December 31, 2013
ASSETS				
Current assets				
Cash and cash equivalents		**$ 2,680**	$ 4,427	$ 8,938
Trade receivables	11	**11,217**	13,404	8,785
Inventories	7	**10,611**	8,617	8,321
Income taxes recoverable		**182**	-	-
Prepaid expenses		**851**	871	672
Total current assets		**25,541**	27,319	26,716
Non-current assets				
Marketable securities - restricted	11	**2,297**	2,307	2,392
Property, plant and equipment	8	**34,398**	35,980	34,882
Intangible assets		**1,300**	1,477	1,369
Goodwill		**1,972**	1,952	1,968
Deferred income tax assets		**1,879**	1,423	1,568
Total non-current assets		**41,846**	43,139	42,179
Total assets		**$ 67,387**	$ 70,458	$ 68,895
LIABILITIES				
Current Liabilities				
Trade and other payables		**$ 7,832**	$ 7,879	$ 7,012
Deferred revenue		**3,406**	3,154	1,852
Income taxes payable		**-**	763	965
Finance lease obligations	9, 11	**298**	253	253
Total current liabilities		**11,536**	12,049	10,082
Non-current liabilities				
Finance lease obligations	9, 11	**14,175**	14,221	14,164
Accrued defined benefit pension plan		**76**	379	76
Deferred income tax liabilities		**1,813**	2,175	2,196
Total non-current liabilities		**16,064**	16,775	16,436
Total liabilities		**27,600**	28,824	26,518
SHAREHOLDERS' EQUITY				
Common shares		**20,959**	21,019	20,973
Accumulated other comprehensive loss		**(63)**	(276)	(50)
Retained earnings		**18,891**	20,891	21,454
Shareholders' equity		**39,787**	41,634	42,377
Total liabilities and shareholders' equity		**$ 67,387**	$ 70,458	$ 68,895

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

Consolidated Statements of Changes in Equity

As at June 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		-	-	-	-	-	5,439	5,439
Other comprehensive income (loss) for the period, net of tax		-	-	(105)	(170)	-	-	(275)
Total comprehensive income (loss) for the period		-	-	(105)	(170)	-	5,439	5,164
Payment of dividends	10	-	-	-	-	-	(7,535)	(7,535)
Settlement of contingent shares held in escrow		-	955	-	-	-	-	955
Cancellation of contingent shares held in escrow		(25,000)	-	-	-	-	-	-
Balances at June 30, 2013		**6,739,203**	**$ 21,019**	**$ (47)**	**$ (170)**	**$ (65)**	**$ 20,897**	**$ 41,634**
Net income for the period		-	-	-	-	-	1,393	1,393
Other comprehensive income (loss) for the period, net of tax		-	-	(17)	65	184	-	232
Total comprehensive income (loss) for the period		-	-	(17)	65	184	1,393	1,625
Payment of dividends		-	-	-	-	-	(810)	(810)
Repurchased pursuant to normal course issuer bid		(14,800)	(46)	-	-	-	(26)	(72)
Balances at December 31, 2013		**6,724,403**	**$ 20,973**	**$ (64)**	**$ (105)**	**$ 119**	**$ 21,454**	**$ 42,377**
Loss for the period		-	-	-	-	-	(1,748)	(1,748)
Other comprehensive income (loss) for the period, net of tax		-	-	58	(71)	-	-	(13)
Total comprehensive income (loss) for the period		-	-	58	(71)	-	(1,748)	(1,761)
Payment of dividends	10	-	-	-	-	-	(806)	(806)
Repurchased pursuant to normal course issuer bid	10	(4,700)	(14)	-	-	-	(9)	(23)
Balances at June 30, 2014		**6,719,703**	**$ 20,959**	**$ (6)**	**$ (176)**	**$119**	**$ 18,891**	**$ 39,787**

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

Consolidated Statement of Cash Flows

For the three and six month periods ended June 30, 2014 and 2013
Thousands of Canadian dollars

	Note	Three month periods ended June 30		Six month periods ended June 30	
		2014	2013	**2014**	2013
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES					
Net income (loss) for the period		**$ 95**	$ 311	**$ (1,748)**	$ 5,439
Adjustments for:					
Depreciation expense	8	**868**	877	**1,731**	1757
Amortization expense		**48**	58	**100**	114
(Gain) loss on disposal of property, plant and equipment		**-**	-	**(11)**	7
Gain on sale of real estate		**-**	-	**-**	(7,297)
Contingent shares – loss		**-**	-	**-**	80
Finance costs		**361**	360	**720**	508
Investment income		**(44)**	(56)	**(104)**	(83)
Income tax expense (recovery)		**141**	37	**(676)**	499
Unrealized foreign exchange loss (gain)		**14**	(463)	**69**	(801)
Funds flow from operations		**1,483**	1,124	**81**	223
Changes in non-cash working capital	15	**855**	881	**(2,527)**	(4,259)
Unrealized foreign exchange loss (gain) gain relating to non-cash working capital		**(3)**	(62)	**5**	(21)
Cash from (used in) operating activities		**2,335**	1,943	**(2,441)**	(4,057)
Income taxes recovered (paid)		**194**	(174)	**(1,147)**	(352)
Net cash from (used in) operating activities		**2,529**	1,769	**(3,588)**	(4,409)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES					
Purchase of property, plant and equipment	8,15	**(913)**	(245)	**(1,009)**	(390)
Purchase of intangible assets		**(22)**	-	**(26)**	-
Proceeds from disposal of property, plant and equipment		**-**	**-**	**23**	-
Interest (received) paid		**(34)**	56	**26**	83
Distributions received from marketable securities		**39**	**-**	**78**	-
Cash proceeds from disposal of land, net of costs		**-**	**-**	**-**	9,662
Net cash (used in) from investing activities		**(930)**	(189)	**(908)**	9,355
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		**(71)**	(34)	**(148)**	(174)
Finance costs paid		**(361)**	(360)	**(720)**	(508)
Dividends paid to shareholders	10	**(403)**	(7,143)	**(806)**	(7,535)
Payment for buy-back of common shares	10	**-**	**-**	**(23)**	-
Net cash used in financing activities		**(835)**	(7,537)	**(1,697)**	(2,266)
Effects of exchange rate changes on the balance of cash held in foreign currencies – gain (loss)		**8**	-	**(65)**	49
Net increase (decrease) in cash and cash equivalents		**772**	(5,957)	**(6,258)**	2,729
Cash and cash equivalents at the beginning of the period		**1,908**	10,384	**8,938**	1,698
Cash and cash equivalents at the end of the period		**$ 2,680**	$ 4,427	**$ 2,680**	$ 4,427

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 six month periods ended June 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 July 29, 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 six month periods ended June 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 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.

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, 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.

4. Critical accounting estimates 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

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 six month periods ended June 30, 2014 and 2013 is set out in the tables below:

Three month periods ended June 30	Sales revenues		Operating income (loss)	
	2014	2013	**2014**	2013
Canada	**$ 18,447**	$ 19,972	**$ 759**	$ 922
USA	**4,621**	2,726	**(191)**	(687)
Totals for segments	**$ 23,068**	$ 22,698	**568**	235
Corporate - expense			**(12)**	(69)
Foreign exchange (loss) gain on inter-segment loan			**(2)**	497
Consolidated operating income			**554**	663

Six month periods ended June 30	Sales revenues		Operating income (loss)	
	2014	2013	**2014**	2013
Canada	**$ 30,364**	$ 32,825	**$ (823)**	$ 401
USA	**7,114**	5,080	**(962)**	(1,694)
Totals for segments	**$ 37,478**	$ 37,905	**(1,785)**	(1,293)
Corporate – (expense) income			**(24)**	69
Corporate – one-time, non-operating expenses			**-**	(391)
Foreign exchange gain on inter-segment loan			**1**	772
Consolidated operating loss			**(1,808)**	(843)

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 Jun 30, 2014	**As at Dec 31, 2013**
Assets		
Segmented assets	**$ 56,031**	$ 51,107
Assets not allocated to segments:		
Cash and cash equivalents	**2,680**	8,938
Freehold land and buildings	**6,379**	6,458
Restricted marketable securities	**2,297**	2,392
Total assets	**$ 67,387**	$ 68,895
Liabilities		
Segmented liabilities	**$ 13,124**	$ 11,007
Liabilities not allocated to segments:		
Finance lease obligations	**14,473**	14,417
Corporate - taxes payable	**3**	1,094
Total liabilities	**$ 27,600**	$ 26,518
Net segmented assets		
Canada	**$ 36,061**	$ 32,658
USA	**6,846**	7,442

5.3 Other segment information

	Three month periods ended June 30		Six month periods ended June 30	
	2014	**2013**	**2014**	**2013**
Additions to non-current assets:				
Canada	**$ 935**	$ 240	**$ 1,035**	$ 383
USA	**-**	67	**-**	74
Total	**$ 935**	$ 307	**$ 1,035**	$ 457
Depreciation and amortization:				
Canada	**$ 641**	$ 650	**$ 1,277**	$ 1,155
USA	**160**	178	**325**	342
Total	**$ 801**	$ 828	**$ 1,602**	$ 1,497
Inter-segment sales	**$ 330**	$ 141	**$ 472**	$ 359

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 June 30, 2014	As at Dec 31, 2013
Raw materials	**$ 4,987**	$ 4,169
Work in progress	**2,628**	1,958
Finished goods	**2,996**	2,194
	$ 10,611	$ 8,321

The cost of inventories recognized as an expense in cost of sales during the three and six month periods ended June 30, 2014 was $15,967 and $29,212 (2013 - $17,099 and $29,479), respectively.

The cost of inventories recognized as an expense during the three and six month periods ended June 30, 2014, includes $167 and $278 (2013 - $23 and $25) in respect of 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 six month periods ended June 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 June 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	-	-	9	58	381	448
Disposal of PP&E assets	-	-	(14)	(43)	-	(57)
Sale leaseback transaction	-	(21,633)	-	14,622	-	(7,011)
Transfers between asset classes	-	64	1,664	(109)	(1,619)	-
Effect of foreign currency exchange differences	47	287	233	2	30	599
Balance at June 30, 2013	**2,109**	**8,826**	**35,314**	**15,481**	**199**	**61,929**
Additions	-	-	7	131	470	608
Disposal of PP&E assets	-	-	(28)	(122)	-	(150)
Sale leaseback transaction	-	25	-	-	-	25
Transfers between asset classes	-	48	444	1	(493)	-
Effect of foreign currency exchange differences	9	58	57	1	(2)	123
Balance at December 31, 2013	**$ 2,118**	**$ 8,957**	**$ 35,794**	**$ 15,492**	**$ 174**	**$ 62,535**
Additions	-	128	1	216	880	1,225
Disposal of PP&E assets	-	-	(333)	(78)	-	(411)
Transfers between asset classes	-	8	444	-	(452)	-
Effect of foreign currency exchange differences	1	17	16	(2)	-	32
Balance at June 30, 2014	**$ 2,119**	**$ 9,110**	**$ 35,922**	**$ 15,628**	**$ 602**	**$ 63,381**
Accumulated Depreciation						
Balance at January 1, 2013		**$ 10,779**	**$ 20,305**	**$ 424**	**$ -**	**$ 31,508**
Depreciation expense	-	392	1,019	346	-	1,757
Disposal of PP&E assets	-	-	(35)	(11)	-	(46)
Sale leaseback transaction	-	(7,412)	-	-	-	(7,412)
Transfers between asset classes	-	119	(52)	(67)	-	-
Effect of foreign currency exchange differences	-	50	89	3	-	142
Balance at June 30, 2013	**-**	**3,928**	**21,326**	**695**	**-**	**25,949**
Depreciation expense	-	318	1,001	419	-	1,738
Disposal of PP&E assets	-	-	(2)	(73)	-	(75)
Transfers between asset classes	-	(119)	52	67	-	-
Effect of foreign currency exchange differences	-	17	25	(1)	-	41
Balance at December 31, 2013	**-**	**4,144**	**22,402**	**1,107**	**-**	**27,653**
Depreciation expense	-	272	1,002	457	-	1,731
Disposal of PP&E assets	-	-	(333)	(66)	-	(399)
Effect of foreign currency exchange differences	-	(2)	-	-	-	(2)
Balance at June 30, 2014	**$ -**	**$ 4,414**	**$ 23,071**	**$ 1,498**	**$ -**	**$ 28,983**
Net book values						
June 30, 2013	$ 2,109	$ 4,898	$ 13,988	$ 14,786	$ 199	$ 35,980
December 31, 2013	2,118	4,813	13,392	14,385	174	34,882
June 30, 2014	**2,119**	**4,696**	**12,851**	**14,130**	**602**	**34,398**

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

Depreciation expense for the three and six month periods ended June 30, 2014, in the amounts of $777 and $1,541 (2013 - $788 and $1,577) is included in cost of sales, with amounts of $55 and $120 (2013 - $59 and $120) included in selling expenses, and amounts of $36 and $70 (2013 - $30 and $60) included in administrative expenses, respectively.

9. Finance lease obligations

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

	Minimum lease payments	
	Jun 30, 2014	**Dec 31, 2013**
No later than one year	**$ 1,719**	$ 1,672
Later than one year and not later than five years	**6,452**	6,313
Later than five years	**25,255**	26,081
Total minimum lease payments	**33,426**	34,066
Less: amounts representing finance costs	**18,953**	19,649
Present value of minimum lease payments	**$ 14,473**	$ 14,417

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

	Jun 30, 2014	**Dec 31, 2013**
Current	**$ 298**	$ 253
Long-term	**14,175**	14,164
Total	**$ 14,473**	$ 14,417

10. Issued capital

10.1 Normal Course Issuer Bid

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

In the six month period ended June 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 six month period ended June 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 of each year, respectively. The dividend payment in February 2014 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 of each year, respectively. The dividend payment in May 2014 amounted to $403 (2013 - $7,143).

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 June 30, 2014 and December 31, 2013, are stated in the following table:

				June 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	**$ 2,680**	**$ 2,680**	$ 8,938	$ 8,938
Restricted marketable securities	Available for sale	Fair value	Level 1	**2,297**	**2,297**	2,392	2,392
Trade receivables	Loans and receivables	Amortized cost	N/A	**11,217**	**11,217**	8,785	8,785
Trade and other payables	Loans and receivables	Amortized cost	N/A	**(7,832)**	**(7,832)**	(7,012)	(7,012)
Finance lease obligations	Loans and receivables	Amortized cost	N/A	**(14,473)**	**(14,473)**	(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 June 30, 2014.

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

	As at June 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	**$ 2,287**	**5.0%**	**$ 93**	$ 2,812	5.0%	$ 96
Net monetary liabilities	**(2,242)**	**5.0%**	**(91)**	(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 June 30, 2014, the Corporation had no long-term debt.

As at June 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 June 30, 2014 and December 31, 2013:

As at June 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	**$ 7,832**	**$ 7,832**	**$ -**	**$ -**	**$ -**	**$ -**
Finance lease obligations	**33,426**	**1,719**	**1,677**	**1,571**	**1,549**	**26,910**
Total	**$ 41,258**	**$ 9,551**	**$ 1,677**	**$ 1,571**	**$ 1,549**	**$ 26,910**
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 June 30, 2014 and December 31, 2013 were as stated in the table below:

	Jun 30, 2014	Dec 31, 2013
Not later than one year	**$ 1,514**	$ 1,431
Later than one year and not later than five years	**3,937**	4,225
Later than five years	**9,473**	9,643
	$ 14,924	$ 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 June 30, 2014, the estimated aggregate value of shipments required to satisfy Canadian contracts secured by performance bonds was $2,500 (December 31, 2013 - $2,900). In the USA, performance bonds in the amount of $529 (December 31, 2013 - $340) were pledged to various government agencies as at June 30, 2014.

13.2 Expenditures for property, plant and equipment

As at June 30, 2014, the Corporation had commitments of $630 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 June 30, 2014 and 2013, the Corporation had the following trading transactions with related parties:

		Three month periods ended June 30		Six month periods ended June 30	
	Nature of transactions	**2014**	2013	**2014**	2013
Aeonian Capital Corporation	Management services	**$ 87**	$ 87	**$ 175**	$ 175
		$ 87	$ 87	**$ 175**	$ 175

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 June 30		Six month periods ended June 30	
Increase (decrease) in:	**2014**	2013	**2014**	2013
Trade receivables	**$ 1,499**	$ 2,804	**$ 2,432**	$ 5,083
Inventories	**156**	(990)	**2,290**	863
Prepaid expenses	**161**	137	**179**	316
Trade and other payables	**(1,935)**	(1,520)	**(820)**	(284)
Deferred revenue	**(736)**	(1,312)	**(1,554)**	(1,719)
	$ (855)	$ (881)	**$ 2,527**	$ 4,259

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

	Three month period ended June 30		Six month period ended June 30	
	2014	**2013**	**2014**	**2013**
Property, plant and equipment acquired with finance lease obligations	**$ 112**	$ 58	**$ 216**	$ 14,680

16. Subsequent events

On July 29, 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 August 29, 2014, to shareholders of record at the close of business on August 14, 2014.

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