Management's Discussion and Analysis

For the three and six month periods ended June 30, 2018 and 2017

Management's discussion and analysis (MD&A)

The following discussion and analysis of the consolidated results of operations and financial condition of PFB Corporation ("PFB" or the "Corporation") should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements for the three and six month periods ended June 30, 2018 and 2017 and notes thereto and in conjunction with the Corporation's annual MD&A for the year ended December 31, 2017.

PFB's unaudited interim condensed consolidated financial statements for the three and six month periods ended June 30, 2018 and 2017 have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Certain comparatives figures have been reclassified to conform to the presentation adopted in the current year.

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 26, 2018. 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 26, 2018, 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, 2017.

2. Summary of quarterly financial data

	2018		2017				2016	
	Qtr. 2	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**
Sales	**$ 32,640**	$ 21,048	$ 28,045	$ 28,649	$ 29,376	$ 19,487	$ 25,058	$ 28,838
Gross profit	**7,428**	3,659	6,266	6,645	5,473	2,944	5,932	7,434
Gross profit margin %	**22.8**	17.4	22.3	23.2	18.6	15.1	23.7	25.8
Operating income (loss)	**2,361**	(805)	1,712	2,273	745	(1,212)	2,039	3,104
Net income (loss)	**1,545**	(701)	1,240	1,519	412	(890)	1,145	1,936
Earnings (loss) per share:								
Basic and diluted	**0.23**	(0.10)	0.18	0.23	0.06	(0.13)	0.17	0.29
Adjusted EBITDA [1]	**3,309**	131	2,659	3,240	1,762	32	2,996	4,066
Adjusted EBITDA per share [1]	**$ 0.49**	$ 0.02	$ 0.40	$ 0.48	$ 0.26	$ -	$ 0.44	$ 0.61

[1] Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. Definitions of non-IFRS measures used in the above table, along with relevant other notes, are detailed in Section 19 of this MD&A.

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

	Three month periods ended June 30		Six month periods ended June 30	
	2018	**2017**	**2018**	**2017**
Sales	**$ 32,640**	$ 29,376	**$ 53,688**	$ 48,863
Cost of sales	**(25,212)**	(23,903)	**(42,601)**	(40,446)
Gross profit	**7,428**	5,473	**11,087**	8,417
Selling expenses	**(3,191)**	(2,958)	**(6,027)**	(5,653)
Administrative expenses	**(1,785)**	(1,781)	**(3,365)**	(3,222)
Other (losses) gains	**(91)**	11	**(139)**	(9)
Operating income (loss)	**2,361**	745	**1,556**	(467)
Gain on sale of marketable securities	-	-	-	275
Investment income	**13**	19	**45**	69
Finance costs	**(224)**	(196)	**(403)**	(476)
Income (loss) before taxes	**2,150**	568	**1,198**	(599)
Income taxes (expense) recovery	**(605)**	(156)	**(354)**	121
Net income (loss) for the period	**$ 1,545**	$ 412	**$ 844**	$ (478)
Earnings (loss) per share - $ per share				
Basic	**$ 0.23**	$ 0.06	**$ 0.13**	$ (0.07)
Diluted	**$ 0.23**	$ 0.06	**$ 0.13**	$ (0.07)

The Corporation's operations follow seasonal patterns in the construction industry which influences the timing of sales and earnings in the annual reporting cycle. Sales in the first and fourth quarter of each year are typically the lowest in the annual reporting cycle.

4. Consolidated results of operations

Sales

Consolidated sales were a record high of $32,640 in the three month period ended June 30, 2018, an increase of $3,264 or 11.1% from sales of $29,376 in the comparative three month period of 2017. Both operating segments contributed to the overall growth with Western Canadian oil producing regions experiencing a strong recovery over comparable period in 2017.

In the six month period ended June 30, 2018, consolidated sales were $53,688, an increase of $4,825 or 9.9% from sales of $48,863 in the comparative six month period of 2017. Consolidated sales of $53,688 for the first six month period were a record high. Both US and Canadian segments experienced revenue growth in the six month period and remain in line with our expectations. An appreciation of the Canadian dollar exchange rate in terms of United States dollars during the first six months of 2018 compared to its devaluation during the first six months of 2017 resulted in an unfavorable foreign exchange effect, when comparing period revenues.

Gross profit

Consolidated gross profit was $7,428 in the three month period ended June 30, 2018, as compared to $5,473 in the comparative three month period of 2017. Gross profit margin increased to 22.8% of sales in the current quarter as compared to a gross profit margin of 18.6% in Q2/17.

Consolidated gross profit was $11,087 in the six month period ended June 30, 2018, as compared to $8,417 in comparative six month period of 2017. Gross profit margin of 20.7% of sales in the current six month period was higher than a gross profit margin of 17.2% reported in the comparative six month period of 2017.

The increase in gross profit in the current three and six-month period was predominantly driven by increased sales, along with reductions in labour and overhead costs as well as decreased raw material input costs used in manufacturing when measured as a percentage of sales. The cost of inventories recognized as an expense in cost of sales during the current and six month period ended June 30, 2018 was $22,489 and $38,111 contrasted with the 2017 periods of $21,410 and $36,218, respectively. Sales growth outpaced the cost of inventories, resulting in elevated gross margin, or compared to the second quarter for 2017, sales growth of $3,264 exceeded increased costs of inventories of $1,079, contributing to elevated gross profit. Similarly, for the six month and the respective comparable period, growth of $4,825 exceeded increased costs of inventory of $1,893, contributing to elevated gross profit.

An appreciation of the Canadian currency in the current three and six-month period, compared to the respective prior periods, reduced the cost of raw materials, which are primarily purchased in US dollars.

Selling and administrative expenses

Selling and administrative expenses have increased with sales but have slightly decreased, as a percentage of sales, or about 15.3% of sales for the current quarter contrasted with 16.1% in the comparative quarter. Similarly for the six month period, selling and administrative expenses have increased with sales, but decreased as a percentage of sales, from 18.2% to 17.5% in the comparable and current six month period, respectively.

Operating income (loss)

Operating income of $2,361 in the current quarter compared to operating income of $745 reported in Q2/17, a favorable variance of $1,616.

In the six month period ended June 30, 2018, operating income of $1,556 compared to operating loss of $467 reported in the comparative six month period of 2017, a favorable variance of $2,023.

The primary reason for the increased operating income was increased sales, decreased basic raw material input costs, labour and overhead costs.

Income (loss) before taxes

In the current quarter, income before taxes was $2,150 was reported as compared to income before taxes of $568 in Q2/17.

In the six month period ended June 30, 2018, income before taxes of $1,198 was reported as compared to a loss before taxes of $599 reported in the comparative six month period of 2017.

Income before taxes increased significantly from the comparable periods primarily due to increased revenue.

Income taxes

Income tax expense in the current period was $605 as compared to income tax expense of $156 in Q2/17 and increased as a result of higher taxable income.

The second quarter consolidated effective income tax rate of 28.1% is inclusive of tax adjustments in the second quarter of 2018.

Net income (loss)

Net income of $1,545 in the current quarter compares to net income of $412 reported in the comparative quarter of 2017. In the six month period ended June 30, 2018, net income of $844 compared to net loss of $478 in the comparative six month period of 2017.

Earnings (loss) per share

Basic and diluted earnings per share in the current quarter were $0.23 as compared to earnings per share of $0.06 reported in Q2/17. In the six month period ended June 30, 2018, earnings per share of $0.13 compared to a loss per share of $0.07 reported in the comparative six month period of 2017.

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; DuroSpan™; Riverbend® Timber Framing; Precision Craft® Log & Timber Homes; M.T.N. Design℠; Total Home Solution®; Point Zero™; TimberScape ™

The Corporation operates individual legal entities in Canada and the USA which are reported as operating segments and revenue is reported in accordance with that segmentation.

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, 2017 and 2016 and Note 3 of the condensed interim consolidated financial statements for the three and six month periods ended June 30, 2018) and its internal controls and reporting systems.

Segment performance predominantly focuses on operating results and the manner in which resources are allocated based on Canadian and USA operations, respectively. The Canadian segment primarily derives its revenues from the sale of expanded polystyrene ("EPS") foam products, which it manufactures at its facilities in Canada. The USA segment primarily derives its revenues from the sale of EPS foam products, customized log and timber structures made at its facilities in the United States which typically include design and installation services that together provide the basis for a bundled sale of its manufactured products.

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

5.1 Segment sales and operating income (loss)

Segment sales represent sales revenues directly attributable to each segment after 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 or loss represents the income or loss reported by each segment excluding any allocations of corporate income or expenses, and foreign exchange gains or losses arising on inter-segment settlements.

Information regarding each reportable operating segment for the three and six month periods ended June 30, 2018 and 2017, is set out below:

Three month periods ended June 30	**Sales revenues**		**Operating income**	
	2018	**2017**	**2018**	**2017**
Canada	**$ 21,206**	$ 18,672	**$ 1,480**	$ 188
USA	**11,434**	10,704	**746**	314
Totals for segments	**$ 32,640**	$ 29,376	**2,226**	502
Corporate – income			**131**	243
Foreign exchange gain on inter-segment settlements			**4**	-
Consolidated operating income			**$ 2,361**	$ 745

Six month periods ended June 30	Sales revenues		Operating income (loss)	
	2018	**2017**	**2018**	**2017**
Canada	**$ 34,939**	$ 32,167	**$ 968**	$ (485)
USA	**18,749**	16,696	**325**	45
Totals for segments	**$ 53,688**	$ 48,863	**1,293**	(440)
Corporate – income (expense)			**260**	(25)
Foreign exchange gain (loss) on inter-segment settlements			**3**	(2)
Consolidated operating income (loss)			**$ 1,556**	$ (467)

(a) Canadian segment

Sales

Sales generated by the Canadian segment increased from $18,672 in Q2/17 to $21,206 in the current quarter, an increase of 13.6% or $2,534 which contributed to year-to-date sales being 8.6% higher than in the corresponding six month period of 2017.

Sales exhibited regional differences, with the oil-producing regions continuing an economic recovery and leading increased sales in the Canadian segment.

Operating income (loss)

The Canadian segment reported operating income of $1,480 in the current quarter, a significant increase of $1,292 as compared to operating income of $188 reported in Q2/17.

In the six month period ended June 30, 2018, the Canadian segment reported operating income of $968 as compared to operating loss of $485 in the comparative six month period of 2017, a favourable variance of $1,453.

The improved operating income was primarily related to elevated sales, decreased raw material input costs and decreased labor and overhead costs.

(b) USA segment

Sales

As reported in Canadian dollars, sales in the USA segment increased from $10,704 in Q2/17 to $11,434 in the current quarter, an increase of $730 or 6.8%. Foreign currency movements had an unfavorable impact when translating US sales into Canadian dollars during Q2/18. Average foreign exchange rates experienced by the Corporation during the periods reflected an appreciation of the Canadian currency from an average rate of $1.34 per US$1.00 in the 2017 comparative period, to an average rate of approximately $1.29 per US$1.00 in the current year periods.

Eliminating the effect of foreign exchange fluctuations, the sales, expressed in USA dollars, were $8,850 in the current quarter or 10.9% higher than Q2/17 sales of $7,982.

As reported in Canadian dollars, sales in the USA segment increased from $16,696 in six month period ending June 30, 2017, to $18,749 in the current six month period, an increase of $2,053 or 12.3%. During the six month period, foreign currency movements had an unfavorable impact when translating US sales into Canadian dollars. Average foreign exchange rates experienced by the Corporation during the six month periods reflected an appreciation of the Canadian currency from an average rate of $1.33 per US$1.00 in the 2017 comparative period, to an average rate of approximately $1.28 per US$1.00.

Eliminating the effect of foreign exchange fluctuations, the sales, expressed in USA dollars, were $14,589 in the current six month period or 16.7% higher than sales of $12,503 in the comparative six month period. USA segment growth was led by building systems and structures, as well as increased activity for our geo-technical products through large public works projects that concluded in the first six months of 2018. Both trends contributed significantly to the sales growth.

Operating income
The USA segment reported operating income of $746 in the current quarter as compared to operating income of $314 in the comparative quarter of 2017. This represents an increase of $432. In the six month period ended June 30, 2018, the USA segment reported an operating income of $325 as compared to an operating income of $45 in the comparative six month period of 2017, a favorable variance of $280. The drivers of improvement were primarily increased sales and to a lesser extent, slightly decreased cost of sales, however offset somewhat by increased freight costs.

5.2 Segment assets and liabilities

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

	As at June 30, 2018	As at Dec 31, 2017
Assets		
Segmented assets	**$ 52,780**	$ 41,570
Assets not allocated to segments:		
Cash and cash equivalents	**8,223**	12,268
Freehold land and buildings	**23,090**	23,386
Restricted marketable securities	**1,483**	1,239
Corporate – taxes[1]	**241**	308
Total assets	**$ 85,817**	$ 78,771
Liabilities		
Segmented liabilities	**$ 18,840**	$ 15,788
Liabilities not allocated to segments:		
Bank indebtedness	**3,364**	-
Finance lease obligations	**3,188**	3,232
Long-term debt	**8,738**	8,906
Corporate – taxes[1]	**-**	20
Total liabilities	**$ 34,130**	$ 27,946
Net segmented assets		
Canada	**$ 27,305**	$ 19,802
USA	**6,635**	5,980

[1] Current and deferred taxes.

5.3 Other segment information

	Three month periods ended June 30		**Six month periods ended June 30**	
	2018	**2017**	**2018**	**2017**
Additions to non-current assets:				
Canada	**$ 95**	$ 194	**$ 397**	$ 282
USA	**244**	391	**754**	497
Corporate	**-**	2	**-**	7,775
Total	**$ 339**	$ 587	**$ 1,151**	$ 8,554
Depreciation and amortization:				
Canada	**$ 522**	$ 555	**$ 1,046**	$ 1,142
USA	**157**	180	**301**	359
Corporate	**269**	282	**537**	485
Total	**$ 948**	$ 1,017	**$ 1,884**	$ 1,986
Inter-segment sales	**$ 1,906**	$ 1,439	**$ 3,241**	$ 3,292

6. Liquidity

Sources of liquidity

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

Cash

Cash and cash equivalent balances as at June 30, 2018 and December 31, 2017 were as follows:

	June 30, 2018	December 31, 2017
Cash held with banks	**$ 7,109**	$ 12,180
Restricted cash	**1,114**	88
	$ 8,223	$ 12,268

PFB's cash balances typically fluctuate with the seasonality of its business. The reduction in cash balances for the six month period ended June 30, 2018 was primarily attributed to fund non-cash working capital requirements, corporate tax installments, finance costs and regular quarterly dividend payments. The cash held on hand and the restricted cash primarily compromises of cash held in US dollars by the Corporation.

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

The Canadian revolving credit facilities were drawn down by $3,364 as at June 30, 2018 to fund working capital requirements in the Canadian segment. Repayments in the second quarter were $1,252. Repayments of the credit facility are expected to continue from the Canadian segment over the course of the year. The Corporation continues to follow a policy of carrying US dollar balances and borrowing in Canadian dollar rather than executing multiple cross-border foreign exchange transactions during variations in cash requirements.

Summary of cash flows

A summary of cash flows for the three and six month periods ended June 30, 2018 and 2017 are shown in the following table:

	Three month periods ended June 30		Six month periods ended June 30	
	2018	**2017**	**2018**	**2017**
Net cash flows from (used in):				
Cash from (used in) operating activities, before income taxes paid	**$ 3,785**	$ 2,398	**$ (4,589)**	$ (3,201)
Income taxes paid, net	**(112)**	(199)	**(273)**	(437)
Net cash from (used in) operating activities	**$ 3,673**	$ 2,199	**$ (4,862)**	$ (3,638)
Net cash used in investing activities	**(311)**	(561)	**(1,051)**	(8,478)
Net cash (used in) from financing activities	**(2,169)**	(1,646)	**1,580**	(245)
Effects of exchange rates on cash and cash equivalents held in foreign currencies	**(479)**	(268)	**288**	(165)
Net increase (decrease) in cash and cash equivalents	**$ 714**	$ (276)	**$ (4,045)**	$ (12,526)
Cash and cash equivalents – beginning of period	**7,509**	4,921	**12,268**	17,171
Cash and cash equivalents – end of period	**$ 8,223**	$ 4,645	**$ 8,223**	$ 4,645

(a) Operating activities

Net cash from operating activities was $3,673 in the current quarter as compared to $2,199 in the comparative quarter of 2017, an increase of $1,474. In the six month period ended June 30, 2018, net cash used in operating activities was $4,862 versus net cash used in operating activities of $3,638 in the comparative six month period of 2017, an increase of $1,224.

Net cash from operating activities increased in the second quarter as a result of higher net income and unrealized foreign exchange, as compared to the 2017 comparative period. For the six month period, net cash used in operating activities increased primarily due to non-cash changes in working capital, related to inventory as compared to the 2017 period.

The changes in non-cash working capital amounts which occurred in the six month period ended June 30, 2018 are shown in the following table:

	Jun 30, 2018	**Dec 31, 2017**	**Change**
Trade receivables	**$ 14,750**	$ 9,809	$ 4,941
Inventories	**15,518**	9,998	5,520
Prepaid expenses	**1,127**	474	653
Contract costs	**556**	527	29
Trade and other payables	**(8,972)**	(8,737)	(235)
Contract liabilities	**(7,894)**	(5,158)	(2,736)
	$ 15,085	$ 6,913	$ 8,172

Non-cash working capital increased in the six month period ended June 30, 2018 by $8,172 (2017 - $4,614).

The increased trade receivables balance is reflective of higher sales and the seasonality of the sales cycle.

Inventory levels have increased since the beginning of the year, which is normal in the operating cycle to support increased activity. Inventory of raw materials at Q2/18 were $7,994 or $2,645 higher than Q2/17, which is reflective of external raw material purchases driven by our resin procurement strategies implemented in Q1/18 and carried over into Q2/18. Resin inventories will reduce to more typical levels into Q3/18 and Q4/18. Work in progress and finished goods inventory is $808 and $197 higher at Q2/18 than the comparable period in Q2/17 and is reflective of additional sales activity and strong order books for building systems and structures.

Prepaid expenses of $1,127 have increased due to seasonal activity and are comparable to Q2/17 of $964.

Contract costs represent the incremental costs of obtaining a contract with a customer on the expectation these costs will be recovered. Contract costs have increased by $29 in the last six months and are primarily related to sales commissions in the USA segment on sales of bundled contracts.

The increase in trade and other payables of $235 since the beginning of the year is reflective of normal operating activities and reflective of the seasonality of the business cycle.

Contract liabilities represent consideration received prior to delivery of performance obligations and customers' rebates earned, but not yet paid. Contract liabilities increased by $2,736 since the beginning of the year, primarily representing increased consideration from customers paid to secure their future deliveries of custom products, mainly in the USA segment. Customers' rebates are generally lower in the first quarter than other times of the year, reflecting amounts paid out and the lower seasonality of sales in the first and fourth quarters.

(b) Investing activities

Net cash used in investing activities was $311 in the current quarter as compared to cash flows used in investing activities of $561 in Q2/17. In the six month period ended June 30, 2018, net cash used in investing activities was $1,051 versus $8,478 in the comparative six month period of 2017. The purchase of the Crossfield property in Q1/17 contributed to the significant cash used in investing activities in the comparable six month period. Capital expenditures in the current six months of $1,151 for property, plant and equipment and intangible assets were $272 higher than capital expenditures for the comparable prior period.

(c) Financing activities

Net cash used in financing activities in the current quarter was $2,169 as compared to net cash used in financing activities of $1,646 in the comparative quarter of 2017.

In the six month period ended June 30, 2018, net cash generated from financing activities were $1,580 versus net cash used in financing activities of $245 in the comparative six month period of 2017. In the current six month period, net cash changes in financing activities primarily relate to changes in bank indebtedness.

7. Capital resources

Capital structure

PFB manages its capital structure to ensure its consolidated operations continue to operate as a going concern, to optimize returns to shareholders, and to safeguard corporate assets.

PFB's capital structure consists of net debt (bank indebtedness and long-term debt offset by cash and cash equivalents) and equity of the Corporation (comprising issued share capital, reserves, and retained earnings as detailed in the consolidated statement of changes in equity).

The Corporation's capital structure as at June 30, 2018 and December 31, 2017, is outlined in the following table:

	As at June 30, 2018	**As at December 31, 2017**
Debt	**$ 8,738**	$ 8,906
Bank indebtedness	**3,364**	-
Less: cash and cash equivalents	**(8,223)**	(12,268)
Deficit (surplus) cash	**$ 3,879**	$ (3,362)
Shareholders' equity	**$ 51,687**	$ 50,825

Share capital

The Corporation has one class of publicly traded voting common shares. A summary of the Corporation's share capital position as at June 30, 2018 and December 31, 2017, is set forth in the following table:

	June 30, 2018 (Six Months)		**December 31, 2017 (Twelve Months)**	
	No. of Shares	**Amount**	**No. of Shares**	**Amount**
Balance, beginning of period	**6,716,003**	**$ 20,947**	6,716,003	$ 20,947
Balance, end of period	**6,716,003**	**$ 20,947**	6,716,003	$ 20,947

Share-based options

The Corporation granted 400,000 share-based options during the six month period ended June 30, 2018, and no share options were exercised in the period.

Dividends

In the first quarter of 2018, the Corporation's board of directors declared a regular quarterly dividend of $0.08 (2017 - $0.07) per common share which was paid in the month of February in each year, respectively. The dividend payment in February 2018 amounted to $538 (2017 - $470).

In the second quarter of 2018, the Corporation's board of directors declared a regular quarterly dividend of $0.08 (2017 - $0.07) per common share which was paid in the month of May in each year, respectively. The dividend payment in May 2018 amounted to $537 (2017 - $470).

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.

Comprehensive income (loss)

Comprehensive income consists of net income or loss, together with certain other economic gains and losses which, collectively, are described as "other comprehensive income" and those items are excluded from the consolidated statements of income.

A summary of comprehensive income (loss) for the three and six month periods ended June 30, 2018 and 2017 is as follows:

	Three month periods ended June 30		Six month periods ended June 30	
	2018	**2017**	**2018**	**2017**
Net income (loss) for the period	**$ 1,545**	$ 412	**$ 844**	$ (478)
Other comprehensive income (loss)	**411**	(348)	**1,063**	(568)
Comprehensive income (loss) for the period	**$ 1,956**	$ 64	**$ 1,907**	$ (1,046)

In the second quarter of 2018, comprehensive income was $1,956 as compared to comprehensive income of $64 in the comparative quarter of 2017. Other comprehensive income of $411 in the current quarter consisted of a gain of $403 (Q2/17 – loss of $452) attributed to foreign currency translation when consolidating PFB's USA operations, and a gain of $8 (Q2/17 – gain of $104) representing unrealized gains on restricted marketable securities, net of tax, and based on a price of $8.10 per trust unit.

Included in accumulated other comprehensive income at June 30, 2018, were foreign currency translation adjustments totaling $3,037, gains from marking to market securities available for sale of $406 and $68 of defined benefit valuation changes, net of tax, for total accumulated other comprehensive income of $3,511.

Long-term debt

As at February 28, 2017, the Corporation obtained long-term debt at a fixed interest rate of 3.25% from a Canadian bank to fund the purchase of property in Crossfield, Alberta. The long-term debt is being amortized over a 20 year amortization period and subject to renewal in 5 years. The long-term debt is eligible for prepayment privilege, subject to certain prepayment penalties and is supported by a first mortgage on the Corporation's property. Borrowing and closing costs were expensed as incurred.

The Corporation is subject to certain covenants on its long-term debt, one of which is a financial covenant to maintain a Debt Service Coverage Ratio of not less than 1.25:1. The financial covenant ratio is tested on an annual, year-end basis. The Corporation was in compliance with the financial covenant as at the prior annual reporting period. A test of Debt Service Coverage compliance will be performed as at December 31, 2018.

During the course of the second quarter, the Corporation repaid $168 of principal repayments on long-term debt.

8. Commitments and contractual obligations

8.1 Leases and commitments for PP&E and intangible assets

PFB's contractual obligations and commitments as at June 30, 2018 and December 31, 2017, 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, 2018					
Long-term debt (par value)	**$ 8,738**	**$ 344**	**$ 722**	**$ 772**	**$ 6,900**
Finance lease obligations	**7,160**	**645**	**1,021**	**862**	**4,632**
Operating lease obligations	**11,922**	**1,272**	**2,591**	**2,448**	**5,611**
Commitments for PP&E and intangible assets	**468**	**468**	**-**	**-**	**-**
Total contractual obligations	**$ 28,288**	**$ 2,729**	**$ 4,334**	**$ 4,082**	**$ 17,143**
As at December 31, 2017					
Long-term debt (par value)	$ 8,906	$ 339	$ 711	$ 758	$ 7,098
Finance lease obligations	7,398	648	1,045	854	4,851
Operating lease obligations	10,855	1,217	1,969	1,846	5,823
Commitments for PP&E and intangible assets	273	273	-	-	-
Total contractual obligations	$ 27,432	$ 2,477	$ 3,725	$ 3,458	$ 17,772

Finance lease obligations in the above table represent the aggregate outstanding principal amounts and related finance costs. Long-term debt represents the outstanding principal amounts.

8.2 Performance bonds

At June 30, 2018, the Canadian segment did not have any performance bonds outstanding (December 31, 2017 - $nil). In the USA, performance bonds in the amount of $628 were pledged to various government agencies as at June 30, 2018 (December 31, 2017 - $598).

9. Financial instruments and leases

The Corporation adopted IFRS 9 and opted an irrevocable election to account for changes in the fair value of marketable securities through other comprehensive income, until derecognition. This irrevocable election is made on an instrument-by-instrument basis to present in other comprehensive income changes in the fair value of an investment in an equity investment not held for trading. The effect of adoption of these new standards is outlined in more detail in Note 3 to our condensed interim consolidated financial statements.

The Corporation continues to hold marketable securities in the form of trust units of a Canadian REIT which was the landlord of certain buildings being leased. The units are restricted as they were pledged, at inception of the leases, as security for minimum rent obligations for a period of ten years during which time they will be held in an escrow account.

The Canadian REIT paid a final monthly distribution on the units on May 15, 2018. The distributions have been included in investment income in the consolidated statements of income.

On February 28, 2017, upon closing of the purchase of leased assets from the Canadian REIT, the Corporation received from escrow 318,421 trust units. During the first quarter of 2017, the Corporation sold 318,421 trust units for gross proceeds of $1,883, resulting in a gain on items that have been reclassified from the statement of comprehensive income to the statement of income for $275. The remaining 183,084 trust units remain in escrow until a plan of arrangement relating to the acquisition of the REIT by a third party is completed and the resolution of the escrow account is determined.

Under the new IFRS 9 accounting standards, gains and losses presented in other comprehensive income cannot be subsequently transferred to profit or loss. However, upon derecognition, the Corporation may transfer the cumulative gain or loss within equity. As a result of accounting changes on January 1, 2018, the Corporation will not realize any gains or losses on the disposition of trust units through the statement of income and any gains or losses remain in the statement of comprehensive income, which upon derecognition, be transferred as a reclassification adjustment directly to equity.

In January 2018 an offer to acquire all units of the Canadian REIT, at an all-cash transaction price of $8.10, was proposed by an acquiring entity by way of a plan of arrangement structure. The unitholders approved the transaction in March 2018 and regulatory approval was obtained in April 2018. The transaction completed on May 24, 2018 and all units ceased trading. The Corporation has 183,084 trust units remaining in an escrow account, which will result in the conversion of cash proceeds of approximately $1,483 upon the completion of the plan of arrangement. Based on the acquisition price of $8.10 per unit at the end of the second quarter of 2018, accumulated unrealized gains on marketable securities of $406, net of tax, will be realized upon the completion of the plan of arrangement. The accumulated unrealized gains will remain in the statement of other comprehensive income upon disposition and subsequently transferred as a reclassification adjustment directly to equity, upon the completion of the plan of arrangement.

10. Current Outlook

Q2/18 was a strong quarter for the Corporation in both revenue and overall performance, compared to Q2/17. As expected, the previously reported Q1/18 sharp increase in our principal raw material costs caused by unplanned manufacturing disruptions in the upstream styrene monomer supply chain have retreated and leveled out during Q2/18. However, pricing remains materially higher than Q2/17 levels and continue to exhibit overall inflationary trends. This longer term cycle is due primarily to the effects of current oil price trending higher and overall macro-economic inflationary trends. North American (NA) resin prices have also leveled off during Q2/18 and remain higher than Q2/17 prices. NA styrene spot prices in US dollars rose 29% from May 2017 to June 2018. The Corporation expects some softening in the NA styrene market which is typical in Q3, however made more uncertain as a result of the continued trade and tariff disputes between the United States and China, which has the potential to impact NA styrene supply and price.

The Corporation implemented prices increases in April 2017 to offset rising input costs and followed up with another price increase in April 2018 to address both continued rising input costs and inflationary impacts on other cost drivers. There are timing delays with price increase implementation and the beneficial financial effects of this most recent increase will take hold in stages over the balance of the year. The Corporation's resin strategy implemented during Q1/18 and Q2/18 proved effective. Increased inventories at the end of Q2/18 were driven by increased resin inventories above typical norms and increased finish goods and work in progress inventories, as the Corporation ramped up production in response to strong order books, typical during the second and third quarters. Short-term bank indebtedness was required to fund the external resin purchases. The Corporation will continue to monitor raw material input pricing and other cost drivers and adjust inventories accordingly through procurement strategies intended to mitigate the impacts of overall inflationary trends. The collective strategies, to date, have resulted in a Q2/18 gross margin of 22.8% which represents a 4.2% increase over Q2/17 and were driven by reductions in material cost along with gains in labour and overhead benefiting from increased overall volumes. Revenues for Q2/18 increased by $3,265 over the comparative period. Overall order books remain strong into Q3/18.

The influence of world crude oil prices on the economies of NA are the largest driver in the outlook for the Corporation. In general, the oil effect has overall been positive for the general economy that we operate in and in our continuing cost structure. During the fourth quarter of 2017 and continuing in 2018, crude oil prices have been rising. We continue to see economic recovery in the oil producing regions in which we operate. The longer-term devaluation of the Canadian Currency has restricted the ability of competitors to import their products into Canada, a positive outcome for PFB as well as increasing the contribution of US revenues when expressed in CAD terms. Offsetting this is the fact that the majority of our raw materials are priced and purchased in USD, as such a weaker Canadian dollar exchange rate results in overall increased cost of sales. In the shorter term however, when comparing Q2/18 to Q2/17, the Canadian dollar exchange rate strengthened materially reversing this effect and mitigating overall revenue growth. Continued volatility of the Canadian currency is likely based on the current geo-political environment and ongoing global trade and tariff disputes.

PFB continues to build strong order books for our core EPS product lines in both US and Canadian segments well into the third and fourth quarters of 2018. Infrastructure activity in the US and Canada present good opportunities for continued growth as both governments invest and create jobs. Generally speaking, the oil producing regions of Canada continue to recover as construction activity increases, pulling increased demand for our nationally branded insulation and building products. Our focus on growth, in large part, continues to be in the United States and we remain cautiously optimistic. Interest by customers in our nationally branded products that are manufactured in the US continue to gain traction. Growth in the US housing market as well as a strong US economy has positive effects on our custom homes business, however increasing shortages of available contractors and increasing overall build costs could delay projects timing. The custom homes business continues to build a strong order book positioning it well for the remainder of 2018. Additionally, we continue to search for suitable acquisitions to expand our USA initiatives.

11. 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.

12. Disclosure controls and procedures (DC&P)

DC&P are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the chief executive officer (CEO) and the chief financial officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of our DC&P was conducted, as at June 30, 2018, by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that, as at June 30, 2018, our DC&P, as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), was effective.

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.

13. 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 IFRS.

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, 2018, 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.

14. Critical accounting policies and estimates

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

Except for the accounting standards that become effective January 1, 2018, the Corporation's annual audited consolidated financial statements for the year ended December 31, 2017 and its 2017 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.

15. Subsequent event

On July 26, 2018, the Corporation's board of directors declared a regular quarterly dividend of $0.08 per common share. The dividend will be paid on August 31, 2018, to shareholders of record at the close of business on August 17, 2018.

16. Related party transactions

There have been no material changes in related party transactions in the three and six month periods ended June 30, 2018. See Note 19 of the condensed interim consolidated financial statements.

17. 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 2017. There have been no material changes in the uncertainties and material risk factors facing the Corporation since December 31, 2017.

18. Application of new and revised International Financial Reporting Standards (IFRSs)

Effective January 1, 2018 the Corporation adopted new IFRS standards – IFRS 15, *Revenue from Contracts with Customers*, IFRS 9, *Financial Instruments* and IFRS 2, *Share-based payment*. The effect of adoption of these new standards is outlined in more detail in Note 3 of the condensed interim consolidated financial statements as at June 30, 2018, which also discloses the restated comparative financial statements for the impacts of adopting new accounting standards for the periods ended January 1, 2017, December 31, 2017 and June 30, 2017.

In January 2016, the IASB issued *IFRS 16 - Leases*, which supersedes *IAS 17 - Leases*. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single model for lessees to bring leases on-balance sheet while lessor accounting remains largely unchanged and retains the finance and operating lease distinctions. The standard requires the lessees to recognize a lease liability reflecting discounted future lease payments and a "right-of-use asset" for all lease contracts, and record it on the balance sheet, except with respect to lease contracts that meet limited exception criteria. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted.

The Corporation intends to adopt IFRS 16 at its effective date for annual period beginning on January 1, 2019. The Corporation is currently assessing and quantifying the effect of this standard on the consolidated financial statements, information systems and internal controls. During the second quarter, the Corporation continued to identify the leases which are in scope of IFRS 16. The Corporation is evaluating plans to apply IFRS 16 by using retrospective approach whereby all comparative periods are restated as if IFRS 16 always applied. On the transition date of January 1, 2019, the Corporation expects to recognize additional leases on the consolidated balance sheet and changes to our cost of sales; operating expenses will be presented as depreciation and finance costs.

19. Non-IFRS Financial Measures

The Corporation uses measurements primarily based on IFRS as issued by the IASB and also certain secondary non-IFRS measurements.

The non-IFRS measures used by the Corporation are considered to be useful as complimentary measures in assessing financial performance. Non-IFRS 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-IFRS measurements used in this MD&A can be found in the section below:

Measure	**Definition**
Adjusted EBITDA	Represents earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA is an absolute measure of our operating performance and provides an indication of the results generated by our business activities prior to how the activities are financed, how assets are depreciated and amortized, or how results are taxed.
Adjusted EBITDA per share	Adjusted EBITDA divided by the basic weighted average number of shares outstanding in the period.

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

	2018 Q2	**2018 Q1**	**2017 Q4**	**2017 Q3**	**2017 Q2**	**2017 Q1**	**2016 Q4**	**2016 Q3**
Net income (loss) (As per financial statements)	**$ 1,545**	$ (701)	$ 1,240	$ 1,519	$ 412	$ (890)	$ 1,145	$ 1,936
Add back (deduct):								
Income taxes (recovery)	**605**	(251)	323	592	156	(277)	602	870
Finance costs	**224**	179	173	183	196	280	354	354
Investment income	**(13)**	(32)	(24)	(21)	(19)	(50)	(62)	(56)
Depreciation	**913**	900	912	934	981	941	932	939
Amortization	**35**	36	35	33	36	28	25	23
Adjusted EBITDA	**3,309**	131	2,659	3,240	1,762	32	2,996	4,066
Adjusted EBITDA per share	**$ 0.49**	$ 0.02	$ 0.40	$ 0.48	$ 0.26	$ -	$ 0.44	$ 0.61

Adjusted EBITDA was $3,309 in the three month period June 30, 2018, an increase of $1,547 from $1,762 in the comparative three month period of 2017. The increased adjusted EBITDA is primarily related to increased net income from $412 in Q2/17 to $1,545 in Q2/18 or an increase of $1,133. Significant one-time events in 2017 have had the impact to reduce the finance costs and investment income, on a permanent basis, resulting in an unfavorable adjusted EBITDA with comparable periods.