



**ANNUAL INFORMATION FORM  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**March 8, 2019**

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# **ANNUAL INFORMATION FORM**

## **FOR THE YEAR ENDED DECEMBER 31, 2018**

### **INFORMATION INCORPORATED BY REFERENCE**

PFB Corporation's Audited Consolidated Financial Statements and Annual Management's Discussion and Analysis (the "MD&A"), for the fiscal year ended December 31, 2018, were filed on SEDAR on March 8, 2019, and both are available for viewing at [www.sedar.com](http://www.sedar.com). The Annual MD&A, in its entirety, is incorporated by reference in, and forms part of, this Annual Information Form.

Unless otherwise specified in this Annual Information Form, all references to the "Corporation" or "PFB" include PFB Corporation, its predecessors and subsidiaries.

### **FORWARD-LOOKING STATEMENTS**

Certain statements in this Annual Information Form contain forward-looking statements about PFB Corporation's objectives and management's expectations, beliefs, intentions or strategies for the future.

Forward-looking information and statements included in this Annual Information Form 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 March 8, 2019, 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.

### **CORPORATE STRUCTURE**

#### **Name, Address and Incorporation**

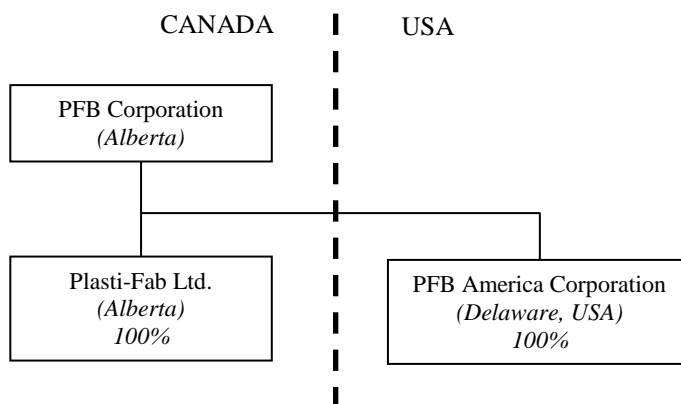
PFB Corporation (the "Corporation") was incorporated under the name of 1024415 Alberta Ltd. in the Province of Alberta on January 1, 2003. A predecessor company named PFB Corporation ("PFB") was incorporated as Plasti-Fab Ltd. in the Province of Alberta on February 15, 1968. On March 31, 1989, PFB was the continuing company resulting from an amalgamation under the Business Corporations Act (Alberta) of Plasti-Fab Ltd. with its subsidiary Morval-Durofoam Limited and 339381 Alberta Ltd.

On May 1, 2003, PFB completed a plan of arrangement under the Business Corporations Act (Alberta) with Advantage Wallsystems Inc. ("Advantage") and 1024415 Alberta Ltd., a newly-created subsidiary of PFB. Under the arrangement, 1024415 Alberta Ltd. acquired all of the outstanding shares of PFB and all of the outstanding shares of Advantage in a share exchange transaction. Plasti-Fab Ltd. ("Plasti-Fab") was a continuing wholly-owned subsidiary of 1024415 Alberta Ltd. resulting from the subsequent amalgamation under the Business Corporations Act (Alberta) of PFB, Insulation Industries Ltd., and Advantage. Also on May 1, 2003, 1024415 Alberta Ltd. changed its name to PFB Corporation.

The registered and corporate office of the Corporation is located at: 300, 2891 Sunridge Way N.E., Calgary, Alberta, Canada T1Y 7K7. Telephone: (403) 569 4300. Fax: (403) 569 4075. Web site: [www.pfbcorp.com](http://www.pfbcorp.com).

## Inter-Corporate Relationships

The following chart outlines the structure of the Corporation as at December 31, 2018, the jurisdiction of incorporation of the Corporation and each of its material subsidiaries, and the percentage of common shares in those material subsidiaries, which were beneficially owned, controlled or directed by the Corporation. The USA corporate structure includes three Limited Liability Corporations held by PFB America Corporation (PFB Custom Homes Group LLC, PFB Manufacturing LLC & PFB America Real Estate LLC).



## GENERAL DEVELOPMENT OF THE BUSINESS

The Corporation, through its wholly-owned subsidiaries, is a vertically-integrated manufacturer of proprietary insulating building products based on expanded polystyrene (EPS) technology. The Corporation's products are manufactured in nine facilities located in Canada and in five facilities located in the USA.

Expandable polystyrene resin is manufactured by Plasti-Fab at its polymer plant located in Crossfield, Alberta, for use exclusively in its downstream, Canadian and USA-based EPS moulding operations. Plasti-Fab also purchases EPS resin from other suppliers to supplement its internal production requirements. The EPS moulding operations in Canada and the USA supply EPS foam core materials used to manufacture Insulspan Structural Insulating Panel Systems (SIPS). Insulspan SIPS are sold into the residential and commercial construction sectors for use as an energy-efficient enclosure system for walls and roof combinations. Sales of Riverbend Timber Framing and Precision Craft Log and Timber Home packages typically include an Insulspan SIPS package for creating insulated building envelopes and roof systems around timber home structures and sold as a bundled product.

Insulspan SIPS are manufactured in Delta, British Columbia, and in Blissfield, Michigan, USA. Riverbend Timber Framing (Riverbend) structures are also manufactured in Blissfield, Michigan, and Precision Craft log and timber structures are manufactured in Boise, Idaho. There is a degree of interchangeability between the Blissfield and Boise timber production operations driven by the geographical location of customers.

### Three-Year History

The Corporation's acquisitions strategy has focused on identifying and pursuing additional channels of distribution for its vertically-integrated EPS-based insulating building products. The acquisition of the EPS operations in Lester Prairie, Minnesota in late 2015 extended the geographical location of the Corporation's operations in the United States. The Corporation continues to focus its growth strategy in the United States.

### 2016

The Corporation focused on pursuing initiatives directed at growing sales and improving the profitability of its operations in both Canada and the USA. The Corporation focused on integrating the Lester Prairie, Minnesota EPS moulding acquisition into the USA segment. Significant revenue growth and profitability occurred in the United States segment during the year; however, a significant revenue decline occurred in the oil producing regions of the Canadian segment.

### 2017

In 2017, elevated input costs for the Corporation's main raw material, styrene monomer, had resulted in a squeeze on gross profit margins. On February 28, 2017, the Corporation acquired 27 acres of land and manufacturing facilities thereon that it leased in Crossfield, Alberta. Subsequent to the extinguishment of these financial leases, 318,421 marketable securities held in escrow as security deposits were released and disposed of in the open market.

## 2018

In the first quarter of 2018, elevated input costs of the Corporation's main raw material, styrene monomer, resulted in a negative impact on gross profits, however to a lesser effect, than in 2017, due to supply chain strategies. Higher demand resulted in increased volumes of insulation to most market segments, which in turn resulted in operational efficiencies and economies of scale. The Corporation commemorated 50 years of operation with a new record high of Sales.

## 2019 – To the date of filing

There have been no major events that have influenced the general development of the Corporation's business up to the date of this Annual Information Form.

### Significant Acquisitions

The Corporation has not made any significant acquisitions in its most recent financial year that required the filing of a Business Acquisitions Report under Part 8 of National Instrument 51-102.

## DESCRIPTION OF THE BUSINESS

### Overview

The primary focus of the business is manufacturing and selling proprietary insulating building products that use expanded polystyrene rigid insulation. All of the Corporation's subsidiaries are wholly-owned and have a high degree of integration.

The Corporation owns and promotes a number of widely-recognized and well respected brands, including: Plasti-Fab<sup>®</sup> EPS Product Solutions; Advantage ICF System<sup>®</sup>, Insulspan<sup>®</sup> SIPS; DuroFoam<sup>®</sup>, DuroSpan<sup>®</sup>, Riverbend<sup>®</sup> Timber Framing; and Precision Craft<sup>®</sup> Log and Timber Homes, M.T.N. Design<sup>SM</sup>, Total Home Solution<sup>®</sup>; Point Zero<sup>TM</sup>, TimberScape.<sup>TM</sup>

The Canadian operating segment consists of EPS resin manufacturing, EPS moulding operations and structural insulating panel operations primarily servicing markets in Canada. The USA operating segment consists of EPS moulding operations, structural insulating panel operations, and two design centers that include manufacturing operations which manufacture timber frame and log structures. The PFB Custom Homes Group includes these design centers and timber operations as well as professional construction services, architectural services, project management services and installation capabilities, that together provide the basis for a bundled sale of its manufactured products.

### Products and Services

The Corporation's insulating building products are used in a wide variety of residential, industrial and commercial construction projects across North America. The Corporation employs commissioned sales representatives to make direct sales as well as independent sales agents, and registered dealers and distributors in Canada and the United States to sell its nationally branded products.

#### (a) Plasti-Fab Manufactured EPS Resin

The major raw material used by Plasti-Fab in the manufacture of its core products is expandable polystyrene resin, which consists of a polystyrene bead impregnated with pentane, which in turn acts as an expanding agent during processing. Expandable polystyrene resin is manufactured by Plasti-Fab and is created using a batch suspension process in which various raw materials, including styrene monomer, water, and other chemicals and additives, are mixed together. The key ingredient is styrene monomer which represents a significant portion of the total manufacturing cost of the resin. Liquid styrene monomer is a downstream manufactured product derivative of crude oil and natural gas and is available in Canada, with alternative supplies available from various petrochemical facilities located in North America and overseas. The underlying pricing of styrene monomer is denominated in U.S. dollars which creates foreign exchange risk for the Corporation.

Since 1987, Plasti-Fab has produced the majority of its expandable polystyrene resin feedstock requirements at the ISO 9000 registered polymer plant located in Crossfield, Alberta. Plasti-Fab's manufactured resin is used exclusively in downstream moulding operations throughout the Corporation. In recent years, the Plasti-Fab resin operation has successfully achieved continuous improvements which have resulted in increased production output of resin.

To supplement its resin requirements, Plasti-Fab purchases resin from a number of international chemical corporations that market resin products in North America. Historically, Plasti-Fab has been able to source adequate supply of external resin when required to do so, as it is generally widely available. The price of external resin is driven by the price of styrene monomer, which is subject to global supply and demand and subject to upstream feedstock availability all factors that are outside the control of Plasti-Fab.

**(b) Plasti-Fab® EPS Product Solutions**

Plasti-Fab EPS products are manufactured in seven facilities located across Canada and two facilities located in the United States. The finished products from these facilities are distributed to customers either directly or through reseller channels. EPS foam is a rigid closed cell plastic with many unique properties that can be engineered as design specifications into Plasti-Fab finished products. EPS reduces heat flow (thermal resistance), is lightweight, strong and easy to work, making it ideal for a wide variety of insulation and construction applications.

Plasti-Fab EPS Product Solutions include EPS rigid foam boards used for insulating roofs, floors and walls; flotation and buoyancy products; geotechnical engineered applications; packaging and display; and building systems.

Plasti-Fab is the exclusive supplier of EPS rigid insulation used in the Corporation's SIPS operations in Canada and the United States. The Plasti-Fab product portfolio also includes the proprietary Advantage Insulating Concrete Forming (ICF) System.

A laminated EPS product is marketed under the name of DuroFoam®. DuroFoam is now available in all markets in Canada. In the USA the product is marketed under the name of DuroSpan® and is available regionally.

All of Plasti-Fab's EPS products are sensitive to transportation costs. As a result, efficient distribution and the close proximity of its manufacturing plants to end-markets are important in generating profitable sales. Plasti-Fab products are transported in many ways including by its own fleet of trailers hauled by a combination of owned and leased tractor units under exclusive contract, and by common carriers.

Quality assurance programs and manufacturing technical support and expertise is provided by the PFB Technical Centre located in Crossfield, Alberta. The PFB Technical Centre is a Standards Council of Canada accredited laboratory.

Plasti-Fab EPS insulating products are manufactured by one of the following processes:

**(i) Block Moulded Products**

Block moulded products continue to represent a significant proportion of the company's revenues. In the block moulding process, polystyrene resin is pre-expanded using steam under controlled conditions. After a defined ageing time, the expanded resin is fused in a large block mould where, under specific steam and pressure conditions, a large billet of EPS foam is created. Various densities of product can be achieved by the block moulding process to create products for specific customer applications.

EPS billets are cut into various shapes using a hot wire process. The rigid insulation board products are used by customers in a number of applications including foundations, floor, walls and roof insulation. They are also used in marine construction to create floating structures and in geotechnical engineering applications such as under roadways, to create embankments, or in lightweight fill applications. Many original equipment manufacturers use Plasti-Fab EPS products in their processes.

**(ii) Shape Moulded Products**

The shape moulding production process is similar to the block moulding process, with the exception that products are moulded directly into their finished shape in custom production moulds. The Corporation's key shape moulded product is the Advantage ICF System. The intellectual property attributes of the Advantage ICF System have been derived through patents, regulatory approvals and certain proprietary knowledge related to the system's manufacture and its applications.

The Advantage ICF System incorporates two sheets of shape moulded rigid EPS insulation connected together with embedded plastic web connectors made from polypropylene resin. A number of individual components make up the Advantage ICF System including: straight blocks; 90 degree corners; 45 degree angles; half blocks, taper blocks, T blocks, and brick ledges. The Advantage ICF System is available with either a six inch or an eight inch internal cavity.

To create an Advantage ICF System foundation or wall, the Advantage ICF blocks are easily interlocked on the job site to create a wall which has a continuous internal cavity. Reinforcing steel is placed on the designed-for-purpose integral plastic webs. The Advantage ICF system wall is held in place using a simple, but highly-effective, bracing system that is constructed on the job site. Upon completing the desired interlocked wall, the internal cavity is filled with concrete. The finished result is a superior, energy-efficient building envelope that provides long-term energy cost savings, comfort, security, and superior sound proofing properties.

#### **(c) Insulspan® Structural Insulating Panel System (SIPS)**

PFB has been manufacturing SIPS since 2004, since completing two acquisitions, one in Canada and one in the USA. Prior to the acquisitions, SIPS manufacturing was outsourced to several, regional laminators. The Corporation adopted Insulspan SIPS as the brand name for all its structural insulating panel products. Insulspan SIPS are manufactured in a leased facility located in British Columbia, and in a wholly-owned facility located in Michigan, USA.

Each Insulspan SIP typically consists of two sheets of OSB laminated under pressure to an EPS foam core using a water activated bonding adhesive. The result is a panel which has high insulating properties and the ability to carry structural loads. For wall panels in load bearing applications, lumber studs are installed as structural ribs at 1.2 metres on centre at the panel joints. For roof panels, lumber studs or I-joists are installed as the structural ribs. For non-structural applications on post and beam construction, OSB splines are used for joining panels. Panels are available in various thicknesses for wall and roof applications.

The cost of manufacturing Insulspan SIPS can be sensitive to the changes in the prices of both EPS resin and Oriented Strand Board (OSB) which creates risk exposure for the Corporation's operations. Notwithstanding, conventional construction techniques also typically utilize OSB, which somewhat mitigates the relative market pricing impact.

Insulspan SIP blanks are used as raw materials in the products of original equipment manufacturers. Additionally, Insulspan SIP products are designed and cut into ready-to-assemble building systems. To supply this market, Insulspan SIP blanks are precision cut from computerized drawings to exact specifications in a quality controlled factory environment to create ready-to-assemble Insulspan SIPS.

Insulspan SIPS meet building code requirements for residential and commercial applications in Canada and the United States and are used in a number of building envelope applications including roofs, walls, and floors. Insulspan SIPS products are an industry-leading building system which is considered to be a superior, cost-effective alternative to regular stick frame constructed walls and roofs. The solid EPS core of a structural insulating panel provides high thermal resistance and reduced air leakage to create a highly energy-efficient structure.

#### **(d) PFB Custom Homes Group**

##### **1. Riverbend® Timber Framing**

Timber framing is a method of construction in which solid wood timbers are joined together to form the structural framework or skeleton of a building. Timber framing is similar to post and beam construction except that the timbers are connected by pegged mortise and tenon joinery techniques. The elegant framework of a Riverbend timber frame structure is typically enclosed with an Insulspan SIPS to create a strong, energy-efficient building envelope around the internally exposed timber frame structure.

Riverbend timber frames are manufactured in Blissfield, Michigan, USA, in a factory employing state-of-the-art cutting equipment capable of processing a variety of species of wood. Complementing the use of new cutting technology, time-served craftsmen hand carve the more intricate timber designs that make each timber package distinctive in the eyes of a home owner. After machine cutting or hand carving, each timber frame component is typically cleaned and oiled to preserve the character of the wood's grain and pre-fitting occurs before shipping to ensure trouble free, on-site assembly. Each combined Riverbend Timber Framing structure and Insulspan SIPS package is supplied with a professional, on-site advisory service. Installation services can also be provided as a value-added service when requested by customers.

A major component of the Riverbend product offering is an extensive plan book backed by a professional design department that creates customized designs for customers. The geographical reach of Riverbend Timber Framing has historically existed in the Western regions of both Canada and the United States and more recently extending into the Eastern regions of the United States.

## **2. PrecisionCraft® Log and Timber Homes**

PrecisionCraft Log and Timber Homes is a premier design of log and timber frame structures which specialize in mountain style homes that include handcrafted log, timber frame, hybrid log, timber, post and beam, and milled log options. The operations located in Boise, Idaho, USA, have been providing quality manufacturing and professional installation services for over twenty years. Their product and service offerings include a Total Home Solution® package that is a beginning-to-end approach which combines award-winning designs services, flexible construction solutions, and a competitive builder bidding process which can include turnkey cost estimates.

## **3. M.T.N. Design<sup>SM</sup>**

M.T.N. Design is an exclusive, award winning design services operation within the PFB Custom Homes Group, which comprises Riverbend Timber Framing and PrecisionCraft Log and Timber Homes brands. M.T.N. Design creates imaginative architecture for specialized building styles starting with initial conceptual drawings all the way through to detailed construction plans.

## **4. PointZero™**

Point Zero Homes is a venture by PFB Custom Homes Group focused on energy efficient homes, utilizing design, building systems and smart technology to create healthy, comfortable and efficient, high performance homes.

## **5. TimberScape™**

TimberScape custom luxury outdoor wooden structures are made of log or timber materials.

### **Sales and Marketing**

Plasti-Fab markets its EPS foam products through a permanent, technically-oriented sales force, whose sales efforts are directed at building owners, designers, engineers, developers, contractors, distributors, wholesalers, retailers, governments, fabricators and other customers. Plasti-Fab's value proposition to the construction industry is helping customers build economical and energy-efficient building structures incorporating EPS product solutions. All Plasti-Fab products have a commitment to quality, excellent customer service and technical expertise. Providing technical knowledge to customers is a key selling attribute, as EPS applications require a high level of understanding of the material properties to ensure best fit for intended purpose. A system of technical training is maintained for all front line sales staff and support services.

Insulspan is a leading brand for SIPS in Canada and in the United States and the system has been featured on several nationally broadcast home improvement type television shows. Insulspan SIPS have won many design awards throughout its history and Insulspan SIPS are available as a ready-to-assemble format which provides builders with precision manufactured components, complete site assembly drawings, quality accessories, and just-in-time delivery.

Insulspan SIPS are sold through authorized dealers and to preferred builders in Canada, the United States and occasionally international markets.

PFB Custom Homes Group products occupy a high-end niche in the custom homes market and are sold by direct sales staff. The nature of the custom homes market is characterized by long lead times, which begin with the design process with a potential customer and continue to actual shipment of products including in some cases installation or the development of a turn-key custom home. Accordingly, the timing of product shipments can change and can be unpredictable. Advance customer deposits are required at contract inception and throughout the contract period in advance of performing work.

Leads are developed through the sophisticated use of the Internet, social media, and by attending trade shows. Interested potential customers are guided through the entire process of purchasing a custom home, from the initial conceptual design stage through to taking delivery.

The Corporation's entire insulating building products portfolio is constantly being showcased at numerous trade and home shows across North America, as well as being promoted through web sites and selective advertising campaigns.

### **Seasonality**

The Corporation's product sales generally follow seasonal trends in the construction industry in North America that are somewhat driven by prevailing weather patterns. Sales tend to decline in late fall and remain slow through the winter months, recovering in spring, with peak volumes normally experienced between the months of June and October. Accordingly, the changeability of winter weather patterns can dramatically impact the timing of when products are required to be shipped to customer job sites.



## **Competition**

Plasti-Fab competes with other manufacturers of similar products as well as with producers of substitute products. Plasti-Fab is the largest integrated producer of moulded EPS insulating products for the construction market in Canada. However, EPS construction products compete with a large number of other products such as wood fibre, extruded polystyrene foam, fibreglass, polyisocyanurate foam, and polyurethane foam. Competing products are produced by a wide range of organizations, including much larger global companies. The Advantage ICF System competes with numerous other manufacturers and distributors of insulating concrete forming systems.

Insulspan SIPS compete with both large and small SIP manufacturers in Canada and the United States that have varying degrees of sophistication. In North America, stick frame construction is the mass-market method of constructing residential buildings and Insulspan currently supplies only a minor fraction of new homes built in the North American market. The future success of Insulspan SIPS is largely dependent on; i) the continuing and growing trend of new home buyers demanding higher specification homes that provide enhanced living comforts and superior energy efficiency delivered at a competitive price, ii) manufacturing SIPS walls and roof within plants as a substitute for onsite labour shortages within the US residential construction markets

The timber frame and log markets in North America have largely been driven by the baby boomer generation and a generally more prosperous customer base. The market was adversely impacted by the 2008/2009 financial crisis and the resulting economic slowdown that served to intensify competition amongst industry players operating in a smaller market. Riverbend and Precision Craft have capacity and scalability to supply significant volumes of their products without compromising quality or delivery performance. Riverbend, Precision Craft and PointZero compete with other large timber frame, log, and post and beam manufacturers along with hundreds of smaller operators which occupy niches in their regional territories.

## **Environmental Protection**

The Corporation is subject to various federal, provincial, and municipal environmental laws and regulations governing emissions, disposals, transportation, and handling of certain materials used in its operations. The Corporation is attentive to environmental laws and regulations and believes it operates in compliance with such laws and regulations.

The Corporation cannot predict the nature of future regulatory requirements. Therefore, a future change in regulatory requirements could impact the Corporation's capital and operating costs and, as a consequence, its competitiveness.

In the normal course of manufacturing its products, the Corporation handles, stores, and transports limited amounts of hazardous materials. Specific procedures have been established for these activities to provide for the safe containment of such materials. However, no assurances can be given that mishandling of these materials will not occur.

The Corporation is committed to responsibly managing the direct and indirect impact it has on the environment. Initiatives are in place to minimize the amount of post-manufacturing material diverted to landfills and maximize the amount of manufacturing scrap recycled back into the production process, and to minimize disposal requirements and reduce raw material input costs.

The Corporation is committed to the concepts of sustainable development and regular sustainability reporting to its stakeholders. Accordingly, the Corporation publishes certain performance measures each year in its annual report and on its sustainability website, which can be found at [www.pfbsustainability.com](http://www.pfbsustainability.com).

All construction materials must adhere to fire safety requirements during their manufacture, transportation and storage. The Corporation uses industry standard flame retardant in the manufacturing of EPS resin to ensure insulation products meet strict building code fire performance requirements when used as a component in building assemblies (see environmental consideration in the Risk factors section below).

## **Employees**

The Corporation's workforce at its manufacturing locations fluctuates with the seasonal nature of the construction markets they serve. In 2018, the combined average number of employees in Canada and the United States measured as full-time equivalents ("FTE's") was 430, an increase of 18 employees from an average of 412 FTE's in 2017.

In Kitchener, Ontario, in 2018, an average of 23 FTE's were members of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union which is their certified bargaining agent. The average number of FTE's remains the same from the previous year. The collective labour agreement was last re-negotiated on April 1, 2015, with an effective date of April 1, 2015, and it remains in force until March 31, 2019. The Corporation has commenced negotiations to sign a new collective labour agreement.

In 2018, an average of 27 FTE's (unchanged from an average of 27 FTE's in 2017) in Delta, British Columbia, were members of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (the "Union"), which is their certified bargaining agent.

On December 31, 2018 the contract in place since March 2015 expired and negotiations are ongoing for a new collective labour agreement.

In January 2018 the Insulspan operation at Delta, BC was certified by the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (the "Union"). The Union completed negotiations in mid-August 2018 and a collective agreement was signed and remains in force until July 31, 2022.

An average of 13 FTE, in Delta, British Columbia, Insulspan, were members of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (the "Union"), which is their certified bargaining agent.

No other employees are under collective agreements and the Corporation has not suffered any business interruptions due to labour disputes.

### Foreign Operations

Under International Financial Reporting Standards ("IFRS"), the Corporation determined that it has two reportable operating segments, Canada and the USA. The largest part of the Corporation's operations are located in Canada and generated 61% of consolidated sales revenues in the year ended December 31, 2018 as compared to 65% of revenues in 2017. These percentages are translated into Canadian dollars on consolidation and include foreign exchange movements in each of those respective reporting years. The average foreign exchange rates (*C\$ per US\$1*) in 2018 were unchanged at \$1.30 compared to \$1.30 in 2017.

### Principal Facilities Owned or Leased by the Corporation

In December 2015, the Corporation purchased real property and EPS moulding equipment assets located in Lester Prairie, Minnesota, USA.

In February 2017, the Corporation exercised an option to purchase a leased property consisting of 27 acres of land and buildings at Crossfield, Alberta that it occupies.

As at December 31, 2018, the Corporation conducts its operations at the facilities listed below: <b>Location</b>	<b>Facilities</b>	<b>Square Footage</b>	<b>Owned/Leased</b>
Delta, British Columbia, Canada	EPS Moulding plant and sales office	46,500	Leased
Delta, British Columbia, Canada	SIPS manufacturing plant and design office	54,000	Leased
Calgary, Alberta, Canada	Corporate office	16,500	Leased
Crossfield, Alberta, Canada	Polymer plant	11,000	Owned
	EPS Moulding plant and sales office	59,000	Owned
	EPS Moulding plant and sales office	80,000	Owned
	Technical Centre	3,000	Owned
Edmonton, Alberta, Canada	Sales office and distribution warehouse	10,000	Leased
Saskatoon, Saskatchewan, Canada	EPS Moulding plant and sales office	18,000	Leased
Winnipeg, Manitoba, Canada	EPS Moulding plant and sales office	25,000	Owned
	Sales office and warehouse	3,000	Leased
Kitchener, Ontario, Canada	EPS Moulding plant and sales office	106,000	Owned
Ajax, Ontario, Canada	EPS Moulding plant	54,000	Leased
Blissfield, Michigan, USA	Insulspan SIPS manufacturing plant	32,000	Owned
Blissfield, Michigan, USA	Timber Framing manufacturing plant	17,000	Owned
Blissfield, Michigan, USA	Design centre, sales and administrative offices and storage facilities	16,000	Owned

Boise, Idaho, USA	Design centre, sales and administrative offices and manufacturing facility	27,800	Leased
Lebanon, Ohio, USA	EPS Moulding plant and sales office	90,000	Owned
Lester Prairie, Minnesota, USA	EPS Moulding plant, sales and administrative offices and storage facilities	135,000	Owned

### Reorganizations

There has been no material reorganizations of the Corporation or any of its subsidiaries within the three most recently completed financial years.

### Sustainability

PFB's supply chain includes links with major corporations that support the Responsible Care<sup>®</sup> Initiative. Responsible Care is the chemical industry's commitment to sustainability – the betterment of society, the environment, and the economy. At the interface with those companies, PFB's operating practices are subject to audit by them, which helps the industry to operate safely, profitably and with care for future generations.

PFB trains its employees to become experts in their field and, through its dedicated employees, supports numerous industry trade associations including: Expanded Polystyrene Industry Alliance (EPS-IA); Structural Insulated Panel Association (SIPA); American Society for Testing and Materials (ASTM); Construction Specifications Canada; local Home Builders Associations; local Built Green programs; regional building supply associations; and regional roofing associations.

PFB is active in the communities in which it operates. To ensure the appropriate use of its products, PFB provides on-site technical advisory services and product knowledge training to customers. Professional instruction courses for credit are provided for Architectural AIA, as well as ICF University, SIP School for builders and Home Planning Seminars for consumers.

### RISK FACTORS

PFB is subject to risks and uncertainties inherent in the operation of its business. Management defines risk as the possibility that an event might happen in the future that could negatively affect the financial condition and/or results of operations of the Corporation. The following section describes specific and general risks that could affect PFB. The Audit Committee and the Board of Directors play an important role in developing risk management programs and reviewing and monitoring them on a quarterly basis. As it is difficult to predict whether any risk will happen or its related consequences, the actual effect of any risk on PFB's business could be materially different from anticipated.

The following descriptions of general and specific risks do not include all possible risks, as there may be other risks existing of which the Corporation is currently unaware.

#### (a) Raw material price and supply

The price of raw materials, specifically, styrene monomer, expandable polystyrene resin, polypropylene copolymers, oriented strand board, and raw timbers combined represent a significant portion of manufacturing costs in PFB's businesses. Historically, there have been considerable cyclical and other causes of volatility in the price of these materials which is outside the control of PFB. There are no futures markets for these materials available to PFB, which limits the ability to lock in prices for fixed periods of time.

PFB may, from time-to-time, build inventories of both raw materials and finished goods which can lead to the assumption of risk due to an inability to match carrying costs to selling prices under certain fixed price sales contracts. Conversely, from time to time, PFB may be short of inventory that has been contracted to be delivered under fixed price sales contracts that can lead to the assumption of risk also due to an inability to match costs to selling prices.

Management continues to explore opportunities to minimize the impact that price swings in purchasing raw materials has on PFB's earnings. The changing dynamics in the petrochemical industry, primarily driven by world oil prices, refining capacity, petrochemical manufacturing capacity, reliability of transportation infrastructure and other global events, and changing dynamics affecting other industries, are difficult to predict. Such changes may create the potential for raw material supply disruptions or shortages which would be detrimental to PFB's operations.

**(b) Economic and market conditions**

PFB's business is affected by prevailing general economic conditions, consumer confidence and spending, and both the demand for and prices of its EPS products and insulating building systems in those geographical areas in which it operates. Weaker economic conditions, the impact of changing mortgage rates and other interest rates potentially affecting the construction industry, and the possibility of slowdowns in residential and/or commercial construction activity, typically evidenced by the change in the number of building permits issued, may translate into lower demand for PFB's products. Such effects may also adversely affect the financial condition and credit risk of PFB's customers, including their ability to obtain credit to finance their businesses, which could create uncertainty over the collectability of trade receivables.

**(c) International Trade**

PFB exports some of its products to customers outside of Canada and imports some of its raw materials to Canada and certain of its inputs are affected by global commodity prices. PFB's international operations are subject to inherent risks, including: change in the free flow of goods between countries; fluctuations in currency values; discriminatory fiscal policies; unexpected changes in local regulations and laws; and the uncertainty of enforcement of remedies in foreign jurisdictions. In addition, trade agreements between Canada and foreign jurisdictions could change and foreign jurisdictions could impose tariffs, quotas, trade barriers, and other similar restrictions on the PFB's international sales. All of these risks could result in increased costs or decreased revenues, either of which could have a material adverse effect on the Company's financial condition and results of operations.

**(d) Competition**

As a market leader in its industry, PFB faces intense and growing competition from other manufacturers of all sizes located in both Canada and the United States, new entrants into the markets we serve, along with manufacturers of substitute products which compete with EPS. Competition can affect PFB's pricing strategies and lower its sales revenues and net income. Competition can also affect PFB's ability to retain existing customers and attract new ones. A competitive business climate increases the resolve to provide exceptional customer service, quality products, and the need to be price competitive. Management continues to identify ways to grow revenues, manage expenses and increase productivity. This requires anticipating and responding quickly to the constant changes in its businesses and markets.

**(e) Currency**

PFB has a net exposure to the U.S. dollar which makes it vulnerable to fluctuations in the foreign exchange rate between the Canadian dollar and the U.S. dollar. The timing of foreign exchange rate fluctuations between the Canadian dollar and the U.S. dollar can have a significant effect on PFB's operating results, the effect and magnitude of which depends on the product mix of sales and raw material purchases.

From time-to-time, management may commit to utilizing derivative financial instruments in the normal course of business as a means of management of its foreign currency exposure. Management attempts to make informed judgements in such transactions but there is the possibility that markets may respond in ways not predicted. To the extent that PFB does not fully hedge its foreign currency exposure and exchange rate risk, or PFB's subsidiaries are not able or do not raise their selling prices accordingly when exchange rates are moving in an unfavorable direction, the profitability of the business could be adversely affected.

**(f) Acquisitions**

PFB's growth strategy includes making strategic acquisitions when possible. There is no assurance that it will find suitable companies to acquire or that it will have the financial resources needed to complete any acquisition. There could also be challenges integrating the operations of any acquired company with existing operations.

**(g) Financing and Liquidity**

In developing business operations to their full potential, significant capital and operating expenditures may be required on an ongoing basis. PFB has historically generated sufficient cash flow from its operations to fund its capital expenditure requirements, repay financing obligations, and maintain regular dividend payments. Future development of new products and the growth of PFB's business through internal expansion or by acquisitions may depend on access to external financing. PFB's cash position and existing credit facilities are considered adequate to meet its current and medium-term needs. There is no guarantee that financing for future expansion of PFB's operations will be available on acceptable terms, if required.

**(h) Reputation**

Negative publicity regarding PFB's business practices, regardless of whether true or false, could adversely affect PFB's reputation that, in turn, could affect its operations, customers, and share value. PFB manages reputational risk by placing the utmost importance on corporate governance and full and fair disclosure. Good corporate governance practice emanates from an effective board of directors. PFB's board of directors and its board committees have been formed to competently perform the role of overseeing the appropriate management of PFB's affairs with the objective of maximizing the long-term value of PFB. A detailed summary outlining PFB's corporate governance practices can be found in the most recent Management Information Circular.

**(i) Environmental Considerations**

Environmental issues are gaining in importance for PFB's stakeholders. PFB is committed to responsibly managing the direct and indirect impact it has on the environment. PFB believes that it is in substantial compliance with applicable environmental laws in jurisdictions where it has operations. PFB takes custody of hazardous materials when the goods physically arrive at its facilities. All construction materials must adhere to fire safety requirements during their manufacture, transportation and storage. During the end of 2016, the Corporation transitioned away from HBCD, as a brominated flame retardant used in EPS resin, to an alternative replacement for HBCD as part of Environment Canada regulations. The replacement brominated polymeric flame retardant is specifically innovative for polystyrene foams and applicable to manufacturers to ensure insulation products meet strict building code fire performance requirements when used as a component in building assemblies. PFB will continue to work with Environment Canada and other industry partners in assessing environmental considerations.

**(j) Information Technology**

PFB makes extensive use of information technology in conducting its businesses. This involves web-based connections, access to secure, centrally located servers and databases, and maintaining both existing and implementing new business software applications. The security and safeguarding of information technology assets and protocols will continue to be increasingly important to PFB. PFB minimizes its exposure to I.T. risks by continuously reviewing its access and application controls, performing disaster recovery testing, locating its backbone I.T. assets in an industry-leading secure offsite location, and hiring and training specialist employees with respect to the protection and use of I.T. assets and related intellectual property. Failure in the completeness, accuracy, availability or security of PFB's information systems or a breach of data security could adversely affect its operations and financial results. Correspondingly, computer viruses, cyber-attacks, security breaches, unforeseen natural disasters and related events or disruptions could result in information systems failures that may adversely affect PFB's operations and financial results.

**(k) Cyber Security**

PFB relies on information technology and information systems in all area of operations. These systems are subject to an increasing number of sophisticated cyber threats. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving. A successful cyber-attack may result in a breach of sensitive information or its systems to be disrupted, the PFB's financial position, brand and/or its ability to achieve strategic objectives may be negatively affected.

**(l) Trade Credit**

PFB's subsidiaries provide trade credit to their customers in the normal course of business. PFB's credit policy is universally adopted across its businesses. The policy requires the credit history of each new customer to be closely examined before credit is granted, which may include performing solvency tests if a particular account is expected to become significant. Management diligently reviews past due trade receivables on a weekly basis which helps minimize credit risk. The diversity of PFB's activities and customer base also helps minimize the credit risk to which it may be exposed.

**(m) Employee Future Benefits**

A defined benefit pension plan (the "Plan") exists for certain Ontario-based employees who are members of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied industrial and Service Workers International union. The latest accounting valuation of the Plan calculated in accordance with IAS 19 was completed as at December 31, 2018, and it identified that the Plan had a net asset arising from a defined benefit asset of \$10 when compared to defined benefit asset of \$91 at the end of the 2017 comparative year. Throughout 2018 and 2017, PFB made both normal service and special payment contributions to the Plan. The actual rate of return on plan assets and changes in interest rates and other variables could result in changes in PFB's funding requirements for the Plan. The Plan assets are not immune to market fluctuations and, as a result, PFB may be required to make additional cash contributions in future.

PFB operates group 401K plans for all qualifying employees located in Minnesota, Michigan, Ohio and Idaho, USA, in which qualifying employees may elect to defer current wages for retirement. PFB has the option to match employee contributions to the plans. The assets of the plan are held separately from those of PFB by a trust company that is governed by a custodial agreement (ERISA). PFB also utilizes the services of registered investment brokers and third party administrators in the fulfillment of its actuarial and fiduciary responsibilities with respect to the plans.

**(n) Seasonal and Climatic factors in the Construction Industry**

Due to the seasonal nature of the construction industry, PFB's actual reported sales exhibit variations when viewed on a quarter-by-quarter basis. Typically, sales are weakest in the first and fourth quarters of the year and strongest in the second or third quarters. Sales in any quarter can be significantly influenced by weather patterns, particularly the timing of when winter begins and ends and its severity.

**(o) Plant and Facilities**

PFB operates a number of manufacturing facilities across North America, most of which operate at or near capacity for significant portions of the year. Any disruption to operations at any plant and facility arising from natural or man-made causes such as fire, flood, labour disputes, interferences with access or egress, or other events, could have a material impact on PFB and its business operations.

**(p) Off-Balance Sheet Arrangements and Operating Leases**

The Corporation does not believe it has any off balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on its financial condition, results of operations, or liquidity, other than those disclosed in the balance sheet as the available portion of credit facilities, outstanding letters of credit and operating leases.

**(q) Human Resources**

PFB's success depends on the abilities, experience, engagement, and succession of its management teams. The loss of key employees through either attrition or retirement could adversely impact the Company's future business and financial results. PFB attempts to mitigate these risks by offering competitive compensation and benefits packages, training, succession planning, and providing a positive cultural environment.

**(r) Internal and Disclosure Controls**

Ineffective internal controls over financial reporting or inadequate disclosure controls could result in an increased risk of a material misstatement in financial reporting and public disclosures. In accordance with guidelines adopted for publicly-traded companies in Canada, PFB assesses the effectiveness of its internal and disclosure controls using a top-down, risk-based approach in which both qualitative and quantitative measures are considered. An internal control system, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance to management and the Board of Directors regarding the achievement of results. PFB's current systems of internal and disclosure controls places reliance on key personnel across the Company to perform a variety of control functions which include performing reviews, analysis, reconciliations and monitoring. The undetected failure of individuals performing such functions or implementing controls as designed could adversely impact PFB's financial results.

**(s) Volatility and Market Share Price**

The market price of PFB's common shares may be volatile and could be subject to fluctuations in response to quarterly variations in financial results or other events or factors. Consequently, broad market fluctuations or the failure of PFB's financial results to meet expectations in a particular reporting period may adversely affect the market price of its common shares.

**DIVIDENDS**

The Corporation commenced paying dividends in 1997. The Board of Directors reviews the Corporation's dividend policy from time-to-time in the context of the Corporation's earnings, financial condition and other relevant factors. In 2005, the Corporation announced a change to its dividend policy whereby an annual dividend was replaced with quarterly dividends.

The following table summarizes the regular quarterly dividends per common share paid in each of the three most recently completed financial years plus the current year:

Year	Regular Quarterly Dividends - Month Paid			
	February	May	August	November
2016	\$ 0.07	\$ 0.07	\$ 0.07	\$ 0.07
2017	\$ 0.07	\$ 0.07	\$ 0.07	\$ 0.08
2018	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08
2019	\$ 0.08			

## CAPITAL STRUCTURE

The authorized capital of the Corporation consists of an unlimited number of common voting shares without par value. The holders of common shares are entitled to receive notice of, and to attend, all annual and special meetings of shareholders. The holders of common shares are entitled to one vote in respect of each common share held at all such meetings and they are entitled to receive any dividends declared by the board of directors of the Corporation.

The holders of common shares would participate ratably in any distribution of the Corporation's assets upon liquidation, dissolution or winding-up, or other distribution of the Corporation's assets among shareholders for the purpose of winding up the Corporation's affairs. There are no constraints imposed on the ownership of the Corporation's common shares.

## MARKET FOR SECURITIES

The common shares of the Corporation are listed and posted for trading on The Toronto Stock Exchange under the symbol PFB. As at March 8, 2019, there were 6,716,003 common shares outstanding.

The table below shows the monthly trading history of the Corporation's common shares in fiscal 2018:

Month	High Price	Low Price	Trading volume	Closing Price
January	\$ 9.65	\$ 8.21	56,745	\$ 9.36
February	\$ 9.50	\$ 8.19	33,857	\$ 8.31
March	\$ 8.97	\$ 7.90	7,342	\$ 8.49
April	\$ 8.36	\$ 7.91	2,866	\$ 8.20
May	\$ 8.48	\$ 7.91	20,119	\$ 8.22
June	\$ 8.40	\$ 8.15	18,447	\$ 8.26
July	\$ 8.66	\$ 8.20	8,118	\$ 8.56
August	\$ 9.00	\$ 8.54	15,500	\$ 8.80
September	\$ 9.01	\$ 7.91	52,002	\$ 8.75
October	\$ 10.45	\$ 8.31	120,321	\$ 9.23
November	\$ 9.75	\$ 8.81	21,099	\$ 9.10
December	\$ 9.87	\$ 9.00	13,035	\$ 9.50

## ESCROWED SECURITIES

As at December 31, 2018, none of the Corporation's common shares were held in escrow.

## DIRECTORS AND OFFICERS

The directors of the Corporation are elected for a one-year term to serve until the next Annual Meeting of Shareholders, or until their successors are duly elected or appointed, or until a director vacates his office or is replaced in accordance with the by-laws of the Corporation. The Articles of the Corporation provide for a minimum of 3 directors and a maximum of 15 directors.

As at December 31, 2018, the directors and executive officers of the Corporation, as a group, beneficially owned, directly or indirectly, 4,776,191 common shares of the Corporation representing 71.12% of the issued and outstanding common shares. The information as to common shares owned by directors and officers has been furnished by the respective directors and officers individually and has not been verified by management.

### Name, Occupation and Security Holding

The following table outlines the names and municipalities of residence of all of the current directors and executive officers of the Corporation together with their respective principal occupations for the past five years.

Name and Country of Residence	Director and/or Officer Since	Position Held With The Corporation	Principal Occupation within the Last Five Years	Number and Percentage of Securities held
Frank B. Baker <sup>(2)</sup> Michigan, United States	2004	Director	Corporate Director	475,823 7.08%
Bruce M. Carruthers Alberta, Canada	1992	Director	Former Chief Operating Officer of PFB Corporation.	51,500 0.77%
Donald J. Douglas <sup>(1) (2) (3)</sup> Alberta, Canada	2005	Director	Chairman Emeritus, United Communities Inc. 2014 and, prior thereto, President and Chief Executive Officer, from 1984 to 2014	30,000 0.45%
Leslie A. Lundquist <sup>(1)</sup> Calgary, Canada	2018	Director	Director at Lundquist Investment Management Inc., from June 26, 2018 to present	Nil Nil%
John K. Read <sup>(1) (3) (4)</sup> Alberta, Canada	2005	Director	President of Picante Capital Corp., a privately held investment firm	36,000 0.54%
C. Alan Smith Alberta, Canada	1993	Executive Chairman	President, Aeonian Capital Corporation	2,972,168 44.26%
William H. Smith, Q.C. Alberta, Canada	1992	Corporate Secretary and a Director	Principal of William H. Smith Professional Corporation, LLP, a law firm. From July 2012 to December 2012, Executive Vice President and thereafter Vice Chair of Mosaic Capital Corporation. From October 2007 to July 2010, counsel to McCarthy Tetrault LLP, a law firm and prior thereto from 1987 a partner.	42,600 0.63%
Gordon G. Tallman <sup>(1) (3)</sup> Alberta, Canada	2002	Director	Corporate Director	25,000 0.37%
Vanessa H. Rennie Alberta, Canada	2015	Director	Vice President, Aeonian Capital Corporation	1,500 0.02%
Robert Graham Alberta, Canada	2017	CEO	Corporate Officer	10,000 0.15%
Mirko Papuga Alberta, Canada	2016	CFO	Corporate Officer	500 0.01%
Ethelred, Ortega Alberta, Canada	2013	CIO	Corporate Officer	Nil Nil%
Marc Brisebois Alberta, Canada	2010	Vice President, Sales	Corporate Officer	1,000 0.01%
Gregory J. MacKenzie Alberta, Canada	2002	Vice President, Manufacturing	Corporate Officer	3,000 0.04%

#### Members of Board Committees:

<sup>(1)</sup> Member of the Audit Committee.

<sup>(2)</sup> Member of the Environmental and Safety Committee.

<sup>(3)</sup> Member of the Corporate Governance and Nominating Committee.

<sup>(4)</sup> Member of the Human Resources and Compensation Committee.



### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

As at March 8, 2019, the date of this Annual Information Form, other than as stated below, none of the proposed directors or executive officers of the Corporation:

- (a) 10 years prior to March 8, 2019 has been a director or executive officer of any company that, while that person was acting in that capacity:
  - (i) has been subject to an event that resulted, after that person ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;
  - (ii) has been, within a year of that person ceasing to act in that capacity, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangements or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;
- (b) has, within the last 10 years prior to March 8, 2018, been declared bankrupt or made a proposal under any legislation relating to bankruptcy or insolvency, or subject to or instituted any proceedings, arrangements or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold assets of the director or executive officer.

Gordon Tallman was a director of Oilsands Quest Inc. on November 28, 2011, when it filed for creditor protection under the Companies' Creditor Arrangement Act (Canada) ("CCAA"). The NYSE Amex ("NYSE") also halted trading in the common shares of the Company on that date. Mr. Tallman formally resigned from the Board of Oilsands Quest Inc. effective December 20, 2011. On June 01, 2012 the NYSE MKT LLC delisted OQI for failure to meet its continued listing requirements. In August 2012, the Alberta Securities Commission and other securities commissions in Canada issued cease trade orders for failure to file audited financial statements and MD&A for the year ended April 30, 2012. All assets of OQI have been sold and the company is no longer in existence.

John K. Read resigned from the Board of Directors of Oilsands Quest Inc. ("OQI") in September 2011. On November 28, 2011, OQI filed for creditor protection under the Companies' Creditor Arrangement Act (Canada) ("CCAA"). The NYSE Amex ("NYSE") also halted trading in the common shares of the Company on that date. On June 01, 2012 the NYSE MKT LLC delisted OQI for failure to meet its continued listing requirements. In August 2012, the Alberta Securities Commission and other securities commissions in Canada issued cease trade orders for failure to file audited financial statements and MD&A for the year ended April 30, 2012. All assets of OQI have been sold and the company is no longer in existence.

William H. Smith was a director and officer of Oilexco Incorporated when, as a consequence of the severe disruption in the financial and commodity markets during the fall of 2008, it filed for protection under the Companies Creditors' Arrangement Act (Canada) and its wholly-owned subsidiary in the United Kingdom filed for administration for the benefit of its creditors. Oilexco Incorporated was subsequently suspended from trading by the TSX-V and a cease trade order was issued by Alberta Securities Commission for failure by Oilexco Incorporated to file financial statements. In addition, the directors of Oilexco Incorporated, including Mr. Smith, were reprimanded by the TSX-V based on the TSX-V finding that Oilexco Incorporated ought to have issued certain press releases when it was insolvent. Mr. Smith was also a director of SemBioSys Genetics Inc. until May 2012. Subsequently, a creditor obtained the appointment of a receiver for certain assets of SemBioSys over which the creditor held security.

Donald J. Douglas resigned from the board of directors of Trafina Energy Ltd. on June 13, 2012. On June 13, 2012, the board of directors of Trafina Energy Ltd. authorized the signing officers of the Corporation to consent to the National Bank of Canada's receivership order. Subsequently, the company ceased operations.

To the knowledge of the Corporation, no director or executive officer of the Corporation has an existing or potential conflict of interest with the Corporation or any of its subsidiaries.

## COMMITTEES OF THE BOARD OF DIRECTORS

As of the date hereof, there are four committees of the board of directors: the Audit Committee; the Environmental and Safety Committee; the Corporate Governance and Nominating Committee; and the Human Resources and Compensation Committee. The board members of each committee are indicated in the table disclosed under the section of this Annual Information Form titled ‘Directors and Officers’.

### **Audit Committee**

The Audit Committee assists the Board of Directors in fulfilling its responsibilities for oversight and supervision of financial reporting and accounting matters. The Committee supervises the adequacy of internal accounting controls and financial reporting practices and procedures and the quality and integrity of audited and unaudited financial statements, including through discussion with the Corporation’s external auditors. The Committee reviews business plans, and operating and capital budgets, and the Committee is responsible for ensuring efficient and effective assessment of the management of risk throughout the Corporation.

### **Audit Committee Charter**

The Corporation’s Audit Committee operates under a written charter that sets out its responsibilities and composition requirements. A copy of the Audit Committee Charter is attached at Appendix A to this Annual Information Form.

### **Audit Committee Composition**

All members of the Corporation’s Audit Committee meet the independence criteria set out in “Multilateral Instrument 52-110 – Audit Committees”. All members of the Audit Committee are outside and unrelated directors.

The following information sets out the relevant education and experience of each director relevant to the performance of his duties as a member of the Audit Committee:

- (a) Donald J. Douglas has been a director of the Corporation since June 1, 2005 and is a past Chair of the Audit Committee. Mr. Douglas is Chairman Emeritus, United Communities Inc. since 2014 and, prior thereto was, President and Chief Executive Officer, from 1984 to 2014. He has also been a director of several other public companies. He received a Bachelor of Commerce degree, in 1972, from University of Alberta and a Master’s Degree in Business Administration, in 1976, from IMEDE Management Development Institute, Lausanne, Switzerland.
- (b) Gordon G. Tallman has been a director of the Corporation since 2002 and he is currently Chair of the Audit Committee. Prior to his retirement from the Royal Bank of Canada in 2002, Mr. Tallman had a lifetime career with the Bank where he held senior positions including Senior Vice President – Prairies, until his retirement. Mr. Tallman has remained active in business and community activities through corporate directorships. Mr. Tallman’s extensive experience with the Bank provides him with the expertise and financial literacy to carry out his duties as a member of the Audit Committee. Mr. Tallman is a graduate of the Directors’ Education Program of the Corporate Governance College of the Institute of Corporate Directors.
- (c) John K. Read has been a director of the Corporation since June 1, 2005 and is a past Chair of the Audit Committee. Mr. Read acquired significant experience and exposure to accounting and financial reporting issues as the Corporate Director and President of Picante Capital Corp. (formerly John K. Read Investments Ltd.), a private company, and in his former roles as Partner, Chief Executive Officer, and a Director of The Colt Engineering Companies. Mr. Read is a professional engineer and has been a director of several publicly traded companies.
- (d) Leslie A. Lundquist received her Bachelor of Commerce degree (finance concentration) from the University of Calgary in 1992 and earned her CFA designation in 1995. At the time of Ms. Lundquist’s retirement she was a Senior Vice President, Portfolio Manager and also the firm’s real estate analyst at Franklin Bissett Investment Management.

Ms. Lundquist spent over 20 years in the investment management industry in Calgary, beginning at Bissett & Associates Investment Management Ltd. in 1992 and remaining with that firm through its evolution to Franklin Bissett Investment Management until her retirement in 2015. During that time she filled various roles, including trading and analysis functions on the fixed income and equity desks, analytical responsibilities for income trusts, real estate investment trusts and other high dividend stocks, portfolio management responsibilities for high net worth, institutional, and not-for-profit groups, and fund management responsibilities for Bissett’s income trust (later high dividend) mutual funds.

### **Pre-Approval Policies and Procedures**

The Audit Committee has delegated to the Chair of the Committee the authority to act on behalf of the Committee between meetings of the Audit Committee with respect to the pre-approval of audit and permitted non-audit services, up to \$10,000, provided by Deloitte LLP from time-to-time. The Chair reports on any such pre-approval at each meeting of the Committee.

### **External Auditor Service Fees**

The following table sets out the approximate audit engagement fees for the audit services of the external auditor, Deloitte LLP, in each of the last two financial years for services provided to the Corporation.

	<b>2018</b>	<b>2017</b>
Audit Fees <sup>1</sup>	\$190,000	\$ 192,500
Audit-Related Fees <sup>2</sup>	-	15,000
Total External Auditor Service Fees	\$190,000	\$ 207,500

<sup>1</sup> “Audit fees” include the total fees paid to Deloitte LLP for annual audit of the consolidated financial statements.

<sup>2</sup> “Audit Related Fees” include fees paid to Deloitte LLP for assurance and related services and consulting fees relative to accounting and financial disclosure standards.

### **LEGAL PROCEEDINGS AND REGULATOR ACTIONS**

To the best of its knowledge, the Corporation is not aware of any material litigation outstanding, threatened or pending against the Corporation nor has there been any regulatory actions as at the date hereof.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Reference is made to the heading “Note 26 - Related Party Transactions” in the Corporation’s Audited Consolidated Financial Statements for the years ended December 31, 2018 and 2017, incorporated herein by reference, and available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **MATERIAL CONTRACTS**

The Corporation did not enter into any material contracts within the last year.

### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Corporation’s common shares is the Alliance Trust Company, Calgary, Alberta.

### **INTERESTS OF EXPERTS**

Deloitte LLP is the auditor of the Corporation and is independent within the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta. Deloitte LLP has prepared an opinion with respect to the Corporation’s consolidated financial statements for the years ended December 31, 2018 and 2017.

### **ADDITIONAL INFORMATION**

Additional information about the Corporation can be found filed on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors’ and officers’ remuneration and indebtedness and the principal holders of the Corporation’s securities will be set out in the Corporation’s Management Information Circular, furnished in connection with the Annual Meeting of Shareholders to be held on May 9, 2019.

The Corporation’s 2018 Annual Report contains audited consolidated financial statements for the years ended December 31, 2018 and 2017. Additional financial information is provided in the Corporation’s audited Consolidated Financial Statements and Annual Management’s Discussion and Analysis for the most recently completed financial year ending December 31, 2018.

Upon request to the Chief Executive Officer at 300, 2891 Sunridge Way N.E., Calgary, Alberta, T1Y 7K7, the Corporation will provide to any person or company:

- (a) When the securities of the Corporation are in the course of a distribution under a preliminary short form prospectus or a short form prospectus:
  - (i) One copy of this Annual Information Form (AIF) together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this AIF;
  - (ii) One copy of the comparative consolidated financial statements of the Corporation for its most recently completed financial year together with any accompanying report of the auditor and one copy of the most recent interim financial statements of the Corporation that have been filed;
  - (iii) One copy of the Management Information Circular in respect of its most recent annual meeting of shareholders that involved the election of directors; and
  - (iv) One copy of any other documents that are incorporated by reference into a preliminary short form prospectus or prospectus and are not required to be provided under clauses (i) to (iii) above; or
- (b) At any other time, one copy of any documents referred to in clauses (a)(i), (ii), and (iii) above, provided that the Corporation may require the payment of a reasonable charge if the request is made by a person or company who is not a security holder of the Corporation.

**PFB CORPORATION**  
**APPENDIX A – AUDIT COMMITTEE MANDATE**

**A. Objectives of the Audit Committee**

1. The Audit Committee will assist the directors to discharge their duties and responsibilities in the area of financial reporting and risk management and, in particular to review, comment on and generally oversee:
  - (a) the financial reporting process;
  - (b) the audit process;
  - (c) the system of internal control;
  - (d) management of financial risks; and
  - (e) the process of monitoring regulatory compliance, particularly in the area of financial disclosures.
2. The Committee will maintain effective working relationships among the Board, management and the external auditors.

**B. Composition of Committee**

1. The Audit Committee will consist only of Directors who meet the definition of “independent director” promulgated by security regulatory authorities. All members of the Committee will be “financially literate” as may be determined from time to time by regulatory authorities but in general having a working familiarity with basic finance and accounting practice.
2. The Committee shall consist of not fewer than three Directors and a majority of Committee members shall constitute a quorum.
3. Members of the Committee shall be appointed annually by the Board of Directors at the first meeting of Directors following the Annual Meeting of Shareholders. Members of the Audit Committee shall serve at the pleasure of the Board of Directors.
4. The Board of Directors shall choose a Committee member to act as Chair and the Committee shall appoint a secretary which may be the Secretary of the Corporation but need not be a member of the Committee.
5. Members of the Committee shall be entitled to receive such remuneration for serving on the Committee and attending meetings as the Board of Directors may determine from time to time.

**C. Financial Disclosure Functions**

1. All publicly disclosed financial information will be reviewed by the Audit Committee and approved by the Board prior to its release.
2. The Chair of the Audit Committee will meet separately with the Chief Executive Officer prior to each Audit Committee meeting to set the agenda for the meeting and to discuss any issues which may be forthcoming.
3. The Chair of the Audit Committee will meet separately with the external auditor prior to each Audit Committee Meeting to discuss the agenda and any issues, which may be forthcoming.
4. Prior to the release of any financial statements, the Audit Committee will meet with the Chief Executive Officer and the External Auditor to review the annual financial statements, quarterly financial statements (if appropriate), management’s discussion and analysis and related press release. The Audit Committee will also meet in camera. In each case the Committee will review and make a recommendation for approval thereof to the Board of Directors:
  - (a) the appropriateness of the Corporation’s significant accounting principles and practices, including acceptable alternatives, and the appropriateness of any significant changes in accounting principles and practices;

- (b) the existence and substance of significant accruals, estimates, or accounting judgements, and the level of conservatism;
  - (c) unusual or extraordinary items, transactions with related parties, and adequacy of disclosures;
  - (d) asset and liability carrying values;
  - (e) income tax status and related reserves;
  - (f) qualifications contained in letters of representation;
  - (g) assurances of compliance with covenants in trust deeds or loan agreements;
  - (h) identification of business risks, uncertainties, commitments, and contingent liabilities;
  - (i) the adequacy of explanations for significant financial variances between years.
5. The Audit Committee will review the Corporation's Annual Information Form and make a recommendation for approval thereof to the Board of Directors.

**D. External Audit Process:**

1. The Audit Committee will oversee the external audit process including:
  - (a) the selection and appointment of an auditing firm (to be confirmed by the Corporation's shareholders) to conduct the annual audit of the Corporation's annual financial statements and to review the Corporation's quarterly financial statements, if engaged to perform reviews, including related notes and management's discussion and analysis in each case;
  - (b) assessing the independence of appointed auditing firm and with respect to any non-audit services provided by the auditing firm, approve in advance any such services and the fees charged by the firm for such services and assess the impact on the independence of the auditor. The Audit Committee has delegated to the Chair of the Committee the authority to act on behalf of the Committee between meetings of the Audit Committee with respect to the pre-approval of audit and permitted non-audit services, up to \$10,000, provided by Deloitte LLP from time-to-time. The Chair reports on any such pre-approval at each meeting of the Committee;
  - (c) reviewing the external audit plan including, objectives, scope, materiality, timing, estimated fees, locations to be visited and areas of audit risk;
  - (d) reviewing audit reports and reviews and findings, including corresponding management responses;
  - (e) recommending approval of the annual audit fee to the Board of Directors;
  - (f) private discussions regarding the quality of financial personnel, the level of co-operation received, unresolved material differences of opinion or disputes.
  - (g) Complete a formal assessment of the external auditor at least every two years.
2. The Committee will review and approve hiring policies regarding persons who have been associated with the auditors.

**E. Internal Financial Controls**

The Audit Committee will have responsibility to:

1. Review the operation of the Company's pension and employee and officer bonus programs and the reporting of such programs to governmental, regulatory authorities and shareholders.
2. Review the effectiveness of control and control systems utilized by the Corporation in connection with financial reporting and other identified business risks.
3. Review incidents of fraud, illegal acts and conflicts of interest and recommend to the Board systems and processes designed to detect and reduce vulnerability to fraud, illegal acts and conflicts of interest.
4. Review documents filed with securities commissions, including the Corporation's annual report.
5. Review material valuation issues.

6. Review the effectiveness of computerized accounting systems, the adequacy of protections against damage and disruption and security of confidential information through information systems reporting.
7. Review current and outstanding litigation.
8. Review cases where management has sought accounting advice on a specific issue from an accounting firm other than the one appointed as auditor.
9. Establish process for handling complaints about accounting, internal control or auditing matters and for the confidential, anonymous submission by employees of concerns relating to accounting or auditing matters.

#### **F. Authority, Resources, Meetings and Reports**

1. The members of the Committee shall have the right, for the purpose of discharging the powers and responsibilities of the Committee, to inspect any relevant records of the Corporation and its subsidiaries.
2. The Committee shall have adequate resources to discharge its responsibilities with the right to incur costs of up to \$10,000 per annum (not including audit fees) without further approval by the Board. The Committee may retain such persons to assist it as the Committee deems necessary.
3. The Committee shall meet not less than four times per year.
4. The Board of Directors shall be kept informed of the Committee's activities by a report presented at the Board meeting following each Audit Committee meeting.
5. The Committee shall keep minutes of its meetings in which shall be recorded all actions taken by the Committee which minutes shall be made available to the Board of Directors.

#### **G. Discharge of Duties**

In contributing to the Committee's discharging of its duties under this mandate, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this mandate is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the Committee's duties is monitoring and reviewing to gain reasonable assurance (but not to ensure) that the Company's business activities are being conducted effectively and that the financial reporting objectives are being met and to enable the Committee to report thereon to the Board.

#### **H. Agenda for Meetings**

The following outlines a program for regular meetings of the Audit Committee. Prospectuses, acquisitions or takeovers will require meetings over and above the following annual program.

##### **After the first quarter (prior to release of first quarter results)**

- Obtain information on any changes in financial reporting requirements;
- Review first quarter financial statements, management discussion and draft press release;
- Receive external auditor's review letter and comments (if appropriate);
- Review Audit Committee terms of reference and recommend changes;
- Review the management letter of the external auditors related to the last annual audit and the Company's responses to the recommendations made;
- Review whistleblower reports;
- Obtain information on how Company officers monitor the effectiveness of the Company's internal controls; review any significant changes planned regarding systems or controls within the next year;
- Review reports from Company officers outlining any areas of concern and significant changes in financial or other risks facing the Company;
- Review final audit fee for previous year;

- Receive reports on any other areas which have a likelihood of financial impact including litigation, environmental claims, insurance claims and employee health and safety claims.

**After the second quarter (prior to release of second quarter results)**

- Review second quarter financial statements, management discussion and draft press release;
- Review whistleblower reports;
- Receive external auditor's review letter and comments (if appropriate);
- Review external Audit Planning Memorandum;
- Review and approve external auditors' budget and engagement letter; and
- Receive reports on any other areas which have a likelihood of financial impact including litigation, environmental claims, insurance claims and employee health and safety claims.

**After the third quarter (prior to release of third quarter results)**

- Review third quarter financial statements, management discussion and draft press release;
- Review whistleblower reports;
- Receive external auditor's review letter and comments (if appropriate);
- Review reports from Company officers outlining any areas of concern and significant changes in financial or other risks facing the Company;
- Review all significant accounting policies, particularly when choices are available;
- Obtain reports of financings and other significant transactions, and other potentially difficult matters whose treatment in the annual financial statements merits advance consideration;
- Review a report provided by Company officers of related party transactions; and
- Receive reports on any other areas which have a likelihood of financial impact including litigation, environmental claims, insurance claims and employee health and safety claims.

**After the fourth quarter (prior to release of annual financial statements)**

- Review in detail (with Company's officers and the auditors) and make a recommendation to the Board concerning annual audited financial statements and auditors report thereon;
- Review whistleblower reports;
- Review draft press release;
- Review performance of external auditors and relationship with management;
- Discuss in private with Company officers the level and timeliness of service provided by the auditors and whether they recommend the reappointment of the auditors;
- Recommend to the Board of Directors appointment of external auditors for the coming year;
- Review designated officers' expenses and perquisite summaries;
- Review performance of pension plans;
- Review draft of Annual Information Form; and
- Receive reports on any other areas which have a likelihood of financial impact including litigation, environmental claims, insurance claims and employee health and safety claims.



**Standard Agenda Items**

- Questions for management and auditors;
- Questions for private discussion with external auditors (members of management not present);
- Questions for private discussion with management (external auditors not present); and
- Date of next meeting.

**Meeting(s) to be Called as Required**

- Review the contents of any prospectus prior to its release;
- If there is a plan to change auditors, review all issues related to the change and the steps planned for an orderly transition; and
- Review any new appointment to the position of chief financial officer or to any other key executive position with financial reporting responsibilities.

**Annual Meeting Cycle**

Detailed questions, background material, alternatives for decisions, etc. covering each agenda item will be developed for distribution to participants prior to the meeting.