Management's Discussion and Analysis

For the three and six month periods ended June 30, 2019 and 2018

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, 2019 and 2018 and notes thereto and in conjunction with the Corporation's annual MD&A for the year ended December 31, 2018.

PFB's unaudited interim condensed consolidated financial statements for the three and six month periods ended June 30, 2019 and 2018 have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. On January 1, 2019 the Corporation adopted IFRS 16, *Leases*, with retrospective application. See Note 3.3 of the unaudited interim condensed consolidated statements for reconciliations of results excluding IFRS 16 effects.

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.

In this MD&A, unless otherwise indicated, results for the second quarter of 2019 (three and six month periods ended June 30, 2019) are compared with results from the second quarter of 2018, adjusted for the retrospective application of IFRS 16, *Leases* (three and six month periods ended June 30, 2018). This MD&A has been prepared as of July 25, 2019. 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 25, 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. 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, 2018.

2. Summary of quarterly financial data

	Applying *IFRS 16*						**Excluding *IFRS 16***	
	2019		**2018**				**2017**	
	Qtr. 2	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**
Sales	**$ 35,421**	$ 24,113	$ 35,283	$ 39,374	$ 32,640	$ 21,048	$ 28,045	$ 28,649
Gross profit	**9,436**	4,729	8,148	9,752	7,520	3,751	6,266	6,645
Gross profit margin %	**26.6**	19.6	23.1	24.8	23.0	17.8	22.3	23.2
Operating income (loss)	**4,255**	(952)	3,109	4,789	2,481	(682)	1,712	2,273
Net income (loss)	**3,061**	(1,172)	2,077	3,263	1,536	(706)	1,240	1,519
Earnings (loss) per share:								
Basic	**0.45**	(0.17)	0.31	0.48	0.23	(0.10)	0.18	0.23
Diluted	**0.44**	(0.17)	0.31	0.48	0.23	(0.10)	0.18	0.23
Adjusted EBITDA [1]	**5,410**	185	4,289	5,965	3,666	522	2,659	3,240
Adjusted EBITDA per share [1]	**$ 0.80**	$ 0.03	$ 0.64	$ 0.89	$ 0.55	$ 0.08	$ 0.40	$ 0.48

[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 (unaudited)

	Three month periods ended June 30		Six month periods ended June 30	
	2019	**2018**	**2019**	**2018**
Sales	**$ 35,421**	$ 32,640	**$ 59,534**	$ 53,688
Cost of sales	**(25,985)**	(25,120)	**(45,369)**	(42,417)
Gross profit	**9,436**	7,520	**14,165**	11,271
Selling expenses	**(3,151)**	(3,187)	**(6,160)**	(6,020)
Administrative expenses	**(2,012)**	(1,761)	**(3,710)**	(3,313)
Other losses	**(18)**	(91)	**(992)**	(139)
Operating income	**4,255**	2,481	**3,303**	1,799
Investment income	**5**	13	**28**	45
Finance costs	**(293)**	(354)	**(588)**	(664)
Income before taxes	**3,967**	2,140	**2,743**	1,180
Income taxes expense	**(906)**	(604)	**(854)**	(350)
Net income for the period	**$ 3,061**	$ 1,536	**$ 1,889**	$ 830
Earnings per share - $ per share				
Basic	**$ 0.45**	$ 0.23	**$ 0.28**	$ 0.13
Diluted	**$ 0.44**	$ 0.23	**$ 0.27**	$ 0.13

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 $35,421 in the three month period ended June 30, 2019, an increase of $2,781 or 8.5% from sales of $32,640 in the comparative three month period of 2018. Both operating segments contributed to the overall growth with the USA segment growing at a faster pace over the comparable period in 2018.

In the six month period ended June 30, 2019, consolidated sales were $59,534, an increase of $5,846 or 10.9% from sales of $53,688 in the comparative six month period of 2018. Consolidated sales of $59,534 for a six month period were a record high. Both US and Canadian segments experienced revenue growth in the six month period. The depreciation of the Canadian dollar relative to the US dollar, during the first six months of 2019 compared to the six months of 2018 resulted in a favourable foreign exchange impact on consolidated revenue.

Gross profit

Consolidated gross profit was $9,436 in the three month period ended June 30, 2019, as compared to $7,520 in the comparative three month period of 2018. Gross profit margin increased to 26.6% of sales in the current quarter as compared to a gross profit margin of 23.0% in Q2/18, an increase of 3.6%.

Consolidated gross profit increased to $14,165 in the six month period ended June 30, 2019, as compared to $11,271 in comparative six month period of 2018, a favourable variance of $2,894. Gross profit margin of 23.8% of sales in the current six month period was higher than a gross profit margin of 21.0% reported in the comparative six month period of 2018.

The increase in gross profit in the current three and six-month period was predominately driven by decreased raw material input costs, increased volumes offset somewhat by higher freight costs.

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

Selling and administrative expenses

In the current quarter, selling and administrative expenses have increased with sales but have slightly decreased, as a percentage of sales to 14.6% of sales for the current quarter contrasted with 15.2% 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 17.4% to 16.6% in the comparable and current six month period.

Operating income

Operating income of $4,255 in the current quarter compared to operating income of $2,481 reported in Q2/18, a favourable variance of $1,774.

In the six month period ended June 30, 2019, operating income of $3,303 compared to operating income of $1,799 reported in the comparative six month period of 2018, a favourable variance of $1,504. The six month period includes other expenses of $950 related to a one-time, non-cash grant of a restricted share unit award. Excluding the impact of the RSU, the operating income would have had a favourable variance of $2,454.

Income before taxes

In the current quarter, income before taxes of $3,967 was reported as compared to income before taxes of $2,140 in Q2/18, an increase of $1,827.

In the six month period ended June 30, 2019, income before taxes of $2,743 was reported as compared to income before taxes of $1,180 reported in the comparative six month period of 2018, a favourable variance of $1,563. The six month period includes other expense of $950 related to a one-time, non-cash grant of a restricted share unit award.

Income taxes

Income tax expense in the current quarter was $906 as compared to income tax expense of $604 in Q2/18 and increased as a result of higher taxable income.

The second quarter consolidated effective income tax rate of 22.8% is inclusive of reductions in the Alberta corporate income tax rates which were substantially enacted on June 28, 2019.

Net income

Net income of $3,061 in the current quarter compares to net income of $1,536 reported in the comparative quarter of 2018, an increase of $1,525. In the six month period ended June 30, 2019, net income of $1,889 compared to net income of $830 in the comparative six month period of 2018, an increase of $1,059. Excluding the impact of the other expenses related to the RSU grant, net income would have been $2,839 for the six month period.

Earnings per share

Basic and diluted earnings per share in the current quarter were $0.45 and $0.44, respectively, as compared to basic and diluted earnings per share of $0.23 and $0.23, respectively, reported in Q2/18.

In the six month period ended June 30, 2019, basic and diluted earnings per share of $0.28 and $0.27, respectively, as compared to basic and diluted earnings per share of $0.13 and $0.13, respectively, reported in the comparative six month period of 2018.

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 company 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, 2018 and 2017 and Note 3 of the condensed interim consolidated financial statements for the three and six month periods ended June 30, 2019) 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

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 represents the income reported by each segment excluding any allocations of corporate income or expenses, and foreign exchange gains or losses arising on inter-segment settlements.

Prior period segment information has been restated for the application of IFRS 16 – *Leases*; see Note 3.

Information regarding each reportable operating segment for the three and six month periods ended June 30, 2019 and 2018, is set out below:

Three month periods ended June 30	**Sales revenues**		**Operating income**	
	2019	**2018**	**2019**	**2018**
Canada	**$ 21,925**	$ 21,206	**$ 2,927**	$ 1,580
USA	**13,496**	11,434	**1,139**	766
Total for segments	**$ 35,421**	$ 32,640	**4,066**	2,346
Corporate – income			**186**	131
Foreign exchange gain on inter-segment settlements			**3**	4
Consolidated operating income			**$ 4,225**	$ 2,481

Six month periods ended June 30	Sales revenues		Operating income	
	2019	**2018**	**2019**	**2018**
Canada	**$ 37,211**	$ 34,939	**$ 3,354**	$ 1,172
USA	**22,323**	18,749	**576**	364
Total for segments	**$ 59,534**	$ 53,688	**3,930**	1,536
Corporate – (expense) income			**(630)**	260
Foreign exchange gain on inter-segment settlements			**3**	3
Consolidated operating income			**$ 3,303**	$ 1,799

(a) Canadian segment

Sales

Sales generated by the Canadian segment increased from $21,206 in Q2/18 to $21,925 in the current quarter, an increase of 3.4% or $719 which contributed to year-to-date Canadian sales being 6.5% higher than in the corresponding six month period of 2018.

Sales exhibited regional differences, however were broad-based across Western and Eastern Canada.

Operating income

The Canadian segment reported operating income of $2,927 in the current quarter, a significant increase of $1,347 as compared to operating income of $1,580 reported in Q2/18.

In the six month period ended June 30, 2019, the Canadian segment reported operating income of $3,354 as compared to operating income of $1,172 in the comparative six month period of 2018, a favourable variance of $2,182.

The improved operating income was primarily related to elevated sales and decreased raw material input costs, offset by higher freight costs.

(b) USA segment

Sales

As reported in Canadian dollars, sales in the USA segment increased from $11,434 in Q2/18 to $13,496 in the current quarter, an increase of $2,062 or 18.0%. Q2/19 growth benefited from the timing and completion of several large infrastructure projects. Foreign currency movements had a favorable impact when translating US sales into Canadian dollars during Q2/19. Average foreign exchange rates experienced by the Corporation during the periods reflected the depreciation of the Canadian currency from an average rate of $1.29 per US$1.00 in the 2018 comparative quarter, to an average rate of approximately $1.34 per US$1.00 in the current quarter.

Eliminating the effect of foreign exchange fluctuations, the sales, expressed in USA dollars, were $10,096 in the current quarter or 14.1% higher than Q2/18 sales of $8,850.

As reported in Canadian dollars, sales in the USA segment increased from $18,749 in six month period ending June 30, 2018, to $22,323 in the current six month period, an increase of $3,574 or 19.1%. During the six month period, foreign currency movements had a favorable impact when translating US sales into Canadian dollars. Average foreign exchange rates experienced by the Corporation during the six month periods reflected a depreciation of the Canadian currency from an average rate of $1.28 per US$1.00 in the 2018 comparative period, to an average rate of approximately $1.33 per US$1.00.

Eliminating the effect of foreign exchange fluctuations, the sales, expressed in USA dollars, were $16,732 in the current six month period or 14.7% higher than sales of $14,589 in the comparative six month period. USA segment growth was broad-based across our core EPS products and custom homes and structural insulated panels.

Operating income

The USA segment reported operating income of $1,139 in the current quarter as compared to operating income of $766 in the comparative quarter of 2018. This represents an increase of $373. In the six month period ended June 30, 2019, the USA segment reported an operating income of $576 as compared to an operating income of $364 in the comparative six month period of 2018, a favorable variance of $212. The drivers of improvement were operational leverage based on increased volumes and decreased raw material input 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, 2019	As at Dec 31, 2018
Assets		
Segmented assets	**$ 56,471**	$ 53,156
Assets not allocated to segments:		
Cash and cash equivalents	**14,360**	16,944
Restricted marketable securities	**1,483**	1,483
Freehold land and buildings	**22,080**	22,750
Corporate taxes[1]	**264**	289
Total assets	**$ 94,658**	$ 94,622
Liabilities		
Segmented liabilities	**$ 19,189**	$ 19,436
Liabilities not allocated to segments:		
Lease obligations	**10,095**	10,609
Long-term debt	**8,393**	8,568
Total liabilities	**$ 37,677**	$ 38,613
Net segmented assets		
Canada	**$ 29,575**	$ 25,341
USA	**7,707**	8,379

[1] Deferred taxes.

5.3 Other segment information

	Three month periods ended June 30		Six month periods ended June 30	
	2019	2018	2019	2018
Additions to non-current assets:				
Canada	**$ 182**	$ 95	**$ 485**	$ 397
USA	**215**	244	**443**	754
Total	**$ 397**	$ 339	**$ 928**	$ 1,151
Additions to right-of-use assets:				
Canada	**$ 49**	$ -	**$ 49**	$ 65
USA	**-**	-	**37**	29
Total	**$ 49**	$ -	**$ 86**	$ 94
Depreciation and amortization:				
Canada	**$ 643**	$ 686	**$ 1,274**	$ 1,406
USA	**245**	229	**485**	445
Corporate	**267**	270	**533**	538
Total	**$ 1,155**	$ 1,185	**$ 2,292**	$ 2,389
Inter-segment sales	**$ 2,298**	$ 1,906	**$ 4,265**	$ 3,241

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, 2019 and December 31, 2018 were as follows:

	June 30, 2019	**December 31, 2018**
Cash held with banks	**$ 13,360**	$ 13,744
Short-term investments	**1,000**	3,200
	$ 14,360	$ 16,944

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, 2019 was primarily attributed to fund non-cash working capital requirements, corporate tax instalments, finance costs and regular quarterly dividend payments. The majority of the cash held with banks comprises of cash and cash equivalents held by the USA segment

Cash - restricted

Restricted cash amounted to $1,906, an increase of $559 from $1,347 over the last six months. Restricted cash comprises cash collected from certain customers of the USA segment that is contractually segregated from other cash and not comingled, as it is held exclusively for disbursements to suppliers and service providers specific to those individual customer contracts.

PFB's restricted cash balances typically fluctuate throughout the year in line with seasonality and contracts with customers for bundled construction contracts.

Bank credit facilities

In January 2019, the Corporation increased its credit facility arrangements from $10,000 to $17,000. The revolving facility continues to be secured by a first ranking security interest in trade receivables and inventories of the Canadian subsidiary, without any additional financial covenants.

The Corporation continues to provide a guarantee and postponement of claim to the bank in the amount of $17,000 which has increased from prior agreements with the bank reflecting the increased credit facility. The interest rate applicable on draws made against the facility is at the Canadian bank's prime rate and the facility carries a nominal maintenance fee.

The Canadian and USA revolving credit facilities remained fully available at the end of the current quarter. The Corporation continues to follow a policy of carrying US dollar balances and borrowing in Canadian dollars, when required, rather than executing multiple cross border foreign exchange transactions.

Summary of cash flows

A summary of cash flows for the three and six month periods ended June 30, 2019 and 2018 are shown in the following table:

	Three month periods ended June 30		Six month periods ended June 30	
	2019	**2018**	**2019**	**2018**
Net cash flows from (used in):				
Cash from (used in) operating activities, before income taxes paid	**$ 5,606**	$ 4,094	**$ 3,019**	$ (3,948)
Income taxes paid, net	**(938)**	(112)	**(1,333)**	(273)
Net cash from (used in) operating activities	**4,668**	3,982	**1,686**	(4,221)
Net cash used in investing activities	**(947)**	(1,141)	**(1,443)**	(2,077)
Net cash (used in) from financing activities	**(1,061)**	(2,478)	**(2,231)**	939
Effects of exchange rates on cash and cash equivalents, and restricted cash held in foreign currencies	**(223)**	(479)	**(596)**	288
Net increase (decrease) in cash and cash equivalents	**2,437**	(116)	**(2,584)**	(5,071)
Cash and cash equivalents – beginning of period	**11,923**	7,225	**16,944**	12,180
Cash and cash equivalents – end of period	**$ 14,360**	$ 7,109	**$ 14,360**	$ 7,109

(a) Operating activities

Net cash from operating activities was $4,668 in the current quarter as compared to $3,982 in the comparative quarter of 2018, an increase of $686. In the six month period ended June 30, 2019, net cash from operating activities was $1,686 versus net cash used in operating activities of $4,221 in the comparative six month period of 2018, an increase of $5,907.

Net cash from operating activities increased in the second quarter as a result of higher net income and changes in non-cash working capital, as compared to the 2018 comparative period. For the six month period, net cash from operating activities increased due to higher net income, changes in non-cash changes in working capital related to inventory and non-cash, share-based expense, as compared to the 2018 period.

The changes in non-cash working capital amounts which occurred in the six month period ended June 30, 2019 are shown in the following table:

	June 30, 2019	Dec 31, 2018	Change
Trade receivables	**$ 14,387**	$ 13,082	$ 1,305
Inventories	**13,732**	11,638	2,094
Prepaid expenses	**1,038**	374	664
Contract costs	**480**	475	5
Trade and other payables	**(9,152)**	(10,894)	1,742
Contract liabilities	**(8,654)**	(6,464)	(2,190)
	$ 11,831	$ 8,211	$ 3,620

Non-cash working capital increased in the six month period ended June 30, 2019 by $3,620 (2018 - $8,172) and is lower in the current year period than in the comparative year period.

The increased trade receivables balance is reflective of higher sales and the seasonality of the sales cycle as business activity increases during the second and third quarters.

All three classes of inventory, raw materials, work-in-progress and finished goods have increased since the beginning of the year, which is normal in the operating cycle to support increased sales activity. Inventory of raw materials at Q2/19 were $6,926 or $1,068 lower than Q2/18, which is reflective of lower external raw material purchases. Work-in-progress inventory is $931 lower at Q2/19 than the comparable period in Q2/18 across the majority of locations. Finished goods inventory is $213 higher at Q2/19 than the comparable period in Q2/18 as more work-in-progress inventory was converted into finished goods inventory.

Prepaid expenses of $1,038 have increased due to seasonal activity and are comparable to Q2/18 of $1,127.

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 $5 in the last six months and are primarily related to sales commissions in the USA segment on sales of bundled contracts.

The decrease in trade and other payables of $1,742 since the beginning of the year is reflective of the payment of year-end trade payables and year-end employee incentives.

Contract liabilities represent consideration received prior to delivery of performance obligations and customers' rebates earned, but not yet paid. Contract liabilities increased by $2,190 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 and additional customer rebates earned and not paid on higher sales activity. 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 $947 in the current quarter as compared to cash flows used in investing activities of $1,141 in Q2/18, or a decrease of $194, primarily related to decreased restricted cash. In the six month period ended June 30, 2019, net cash used in investing activities was $1,443 versus $2,077 in the comparative six month period of 2018, or a decrease of $634, primarily related to decreased capital expenditures.

(c) Financing activities

Net cash used in financing activities in the current quarter was $1,061 as compared to net cash used in financing activities of $2,478 in the comparative quarter of 2018, or a decrease of $1,417, primarily as a result of not repaying on the unsecured credit facility.

In the six month period ended June 30, 2019, net cash used in financing activities were $2,231 versus net cash generated from financing activities of $939 in the comparative six month period of 2018, primarily as a result of not borrowing on the unsecured credit facility.

7. Capital resources

Capital structure

PFB manages its capital structure to ensure its ongoing operations, to optimize returns to shareholders, and to safeguard corporate assets.

PFB's capital structure consists of net debt (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, 2019 and December 31, 2018, is outlined in the following table:

	As at June 30, 2019	**As at December 31, 2018**
Debt	**$ 8,393**	$ 8,568
Less: cash and cash equivalents	**14,360**	16,944
Surplus cash	**$ (5,967)**	$ (8,376)
Shareholders' equity	**$ 56,981**	$ 56,009

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, 2019 and December 31, 2018, is set forth in the following table:

	June 30, 2019 (Six Months)		December 31, 2018 (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	**6,741,003**	**$ 21,169**	6,716,003	$ 20,947

Share-based options and restricted share units

The Corporation granted 100,000 share-based options during the six month period ended June 30, 2019, and 25,000 share-based options were exercised in the period. The Corporation awarded 100,000 restricted share units, all fully vested and outstanding during the six month period ended June 30, 2019.

Dividends

In the first quarter of 2019, the Corporation's board of directors declared a regular quarterly dividend of $0.08 (2018 - $0.08) per common share which was paid in the month of February in each year, respectively. The dividend payment in February 2019 amounted to $538 (2018 - $538).

In the second quarter of 2019, the Corporation's board of directors declared a regular quarterly dividend of $0.09 (2018 - $0.08) per common share which was paid in the month of May in each year, respectively. The dividend payment in May 2019 amounted to $607 (2018 - $537).

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

Normal course issuer bid

In January 2018, PFB obtained approval from the Toronto Stock Exchange to renew its Normal Course Issuer Bid ("issuer bid") for a 12-month period, which commenced on January 10, 2018, and ended January 9, 2019. The Normal Course Issuer Bid lapsed on January 11, 2019, without renewal or share repurchases.

Comprehensive income

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

On January 1, 2018, the Corporation adopted IFRS 9 and opted an irrevocable election to account for changes in the fair value of the marketable securities – restricted, through other comprehensive income, until derecognition through the completion of the plan of arrangement or the release of the trust units held in escrow.

A summary of comprehensive income for the three and six month periods ended June 30, 2019 and 2018 is as follows:

	Three month periods ended June 30		Six month periods ended June 30	
	2019	2018	2019	2018
Net income for the period	**$ 3,061**	$ 1,536	**$ 1,889**	$ 830
Other comprehensive (loss) income	**(473)**	401	**(942)**	1,048
Comprehensive income for the period	**$ 2,588**	$ 1,937	**$ 947**	$ 1,878

In the second quarter of 2019, comprehensive income was $2,588 as compared to comprehensive income of $1,937 in the comparative quarter of 2018. Other comprehensive loss of $473 in the current quarter consisted of losses in the amount of $473 (Q2/18 – income of $393) attributed to foreign currency translation when consolidating PFB's USA operations, and a gain of $nil (Q2/18 – gain of $8) representing unrealized gains on restricted marketable securities, net of tax, based on a price of $8.10 per trust unit.

Included in accumulated other comprehensive income at June 30, 2019, were foreign currency translation adjustments equal to $2,874, unrealized gains on financial assets of $406 and $(70) of defined benefit valuation changes, net of tax, for total accumulated other comprehensive income of $3,210.

Long-term debt

Total long-term debt of $8,393 as at June 30, 2019 compares to long-term debt of $8,738 as at June 30, 2018, a reduction of $345. The reduction in long-term debt in the current period was a result of scheduled principal repayments. There were no prepayments or additional increases in long-term debt in the current period.

The terms of the long-term debt are a fixed interest rate of 3.25% from a Canadian bank, a 20 year amortization period and an option to renew 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 in the Canadian segment.

The Corporation is subject to an annual covenant calculation on the long-term debt, tested on an annual, year-end basis. The financial covenant specifies a Debt Service Coverage Ratio of not less than 1.25:1. The Debt Service Coverage Ratio is defined as adjusted EBITDA for the current year, less dividends, divided by the sum of all principal and interest payments during the course of the year. The most recently calculated covenant test was performed on December 31, 2018 and exceeded the minimum requirement of 1.25:1.

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, 2019 and December 31, 2018, are as outlined in the following table:

Contractual obligations[1] (Payment due periods)	**Total**	**Within 1 year**	**2–3 years**	**4–5 years**	**Over 5 years**
As at June 30, 2019					
Long-term debt (principle & interest)	**$ 11,058**	**$ 623**	**$ 1,246**	**$ 1,246**	**$ 7,943**
Lease obligations	**17,330**	**1,966**	**3,461**	**3,219**	**8,684**
Commitments for PP&E and intangible assets	**666**	**666**	**-**	**-**	**-**
Total contractual obligations	**$ 29,054**	**$ 3,255**	**$ 4,707**	**$ 4,465**	**$ 16,627**
As at December 31, 2018					
Long-term debt (principle & interest)	$ 11,369	$ 623	$ 1,246	$ 1,246	$ 8,254
Lease obligations	18,294	2,013	3,565	3,345	9,371
Commitments for PP&E and intangible assets	252	252	-	-	-
Total contractual obligations	$ 29,915	$ 2,888	$ 4,811	$ 4,591	$ 17,625

[1] Long term debt and finance lease obligations in the above table represent the aggregate outstanding principal amounts and related finance costs.

8.2 Performance bonds

At June 30, 2019, the Canadian segment did not have any performance bonds outstanding (December 31, 2018 - $nil). In the USA, performance bonds in the amount of $624 were pledged to various government agencies as at June 30, 2019 (December 31, 2018 - $651).

9. Financial instruments and leases

The Corporation continues to hold restricted marketable securities in the form of trust units of a prior Canadian REIT, which completed a plan of arrangement by an acquiring entity on May 24, 2018. 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.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. Under the terms of the sale-leaseback agreement, the security deposit shall remain in escrow until March 15, 2023, upon which the cash will be released. The total unrealized gain on the financial assets, as recorded in accumulated other comprehensive income on the balance sheet, in the amount of $406, net of tax, will remain until disposition. Upon completion of the plan of arrangement or release of the escrow account, the gain on disposal will subsequently be transferred as a reclassification adjustment directly to equity as a result of the adoption of IFRS 9 and irrevocable election to account for changes in the fair value of marketable securities through other comprehensive income, until derecognition.

10. Current Outlook

The second quarter of 2019 was a strong quarter for the Corporation in sales and overall performance, exceeding 2018 and setting record high sales and adjusted EBITDA. Overall the Corporation posted sales growth of $2,781 for Q2/19 and $5,846 of growth for the first six months of 2019 as compared to the prior year periods. Sales for the quarter were primarily driven by our core EPS building and insulation products across Canada and the USA and benefited from the substantial completion of several large infrastructure projects in the USA segment. Sales growth for the first half of 2019 was broad based, over multiple product offerings and aligned with strategic initiatives intended to drive top line growth. Sales in the USA segment when consolidated and expressed in Canadian dollars resulted in positive foreign exchange tailwinds as a result of a weaker Canadian dollar when compared to the prior periods in 2018.

The Corporation's principal raw material input costs remained stable, softening slightly during Q2/19 and at levels below those in the first half of 2018. The lack of any significant unplanned production outages and turnaround delays, higher global inventories and lower global demand continue to support lower cost structures. The overall reduction of raw material input costs, along with increased revenues and stable product pricing, were offset somewhat by higher freight costs and resulted in gross margins of 26.6% in Q2/19 as compared to 23.0% in Q2/18, a 3.6% increase. Uncertainty related to styrene, our principal raw material input, remains as a result of continued trade and tariff disputes between the USA and China. Additionally, the potential impacts of both planned and unplanned production disruptions and overall world oil price trends has the potential to impact North American styrene pricing moving forward.

The longer-term devaluation of the Canadian dollar against the U.S. dollar limits the ability of competitors to import their products into Canada and increases the USA segment sales when expressed in Canadian dollars. The majority of our raw materials are priced and purchased in U.S. dollars and a weaker Canadian dollar results in an increase in the cost of sales. Continued volatility of the Canadian dollar is possible based on geo-political environments and ongoing global trade and tariff disputes.

The influence of world crude oil prices on the economies of North America continues to be a macro driver of the outlook for the Corporation. Despite some short-term volatility in the latter half of 2018, the longer-term crude oil price is showing some stability. In general, although the oil effect can impact regions within North America differently, the Corporation continues to perform well in both Canada and the USA.

The Corporation continues to experience sustained demand for EPS product lines in both the Canadian and USA operating segments as we enter the third quarter of 2019. Infrastructure activity in Canada and the USA continue to present good opportunities for growth supporting an overall increase in commercial activity. 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. The USA expansion continues to be a strategic objective and we remain optimistic as interests by customers in our branded products that are manufactured in the USA continue to gain traction.

Although the USA and Canadian residential construction sectors have slowed in 2019, the commercial construction sectors are showing positive trends which are having an offsetting effect. Overall, in the first half of 2019, the Corporation has demonstrated strong overall performance with continued broad based sales growth combined with margin gains from increased volumes and reductions in raw material input costs. The Corporation remains cautiously optimistic for the second half of 2019 on the back of building order books. Shortages of available contractors and increasing build costs continue to persist, which can adversely impact project timing and cause project delays. In addition the probability for severe weather events during the third quarter typically increase and can impact performance.

The Corporation continues to search for suitable acquisitions to expand its strategic footprint with focus on 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, other than those disclosed in the balance sheet as the available portion of credit facilities.

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, 2019, 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, 2019, 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, 2019, 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, 2019, the Corporation's annual audited consolidated financial statements for the year ended December 31, 2018 and its 2018 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

Dividends

On July 25, 2019, the Corporation's board of directors declared a regular quarterly dividend of $0.09 per common share. The dividend will be paid on August 30, 2019, to shareholders of record at the close of business on August 16, 2019.

16. Related party transactions

There have been no material changes in related party transactions in the three and six month periods ended June 30, 2019. 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 2018. There have been no material changes in the uncertainties and material risk factors facing the Corporation since December 31, 2018.

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

Effective January 1, 2019 the Corporation adopted new IFRS standard – IFRS 16, *Leases*. The effect of adoption of this new standard is outlined in more detail in Note 3.3 of the interim consolidated financial statements as at June 30, 2019, which also discloses the restated comparative financial statements for the impacts of adopting the new accounting standard for the periods ended June 30, 2018 and December 31, 2018.

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:

	Applying *IFRS 16*						**Excluding *IFRS 16***	
	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3
Net income (loss) (As per financial statements)	**$ 3,061**	$ (1,172)	$ 2,077	$ 3,263	$ 1,536	$ (706)	$ 1,240	$ 1,519
Add back (deduct):								
Income taxes (recovery)	**906**	(52)	751	1,211	604	(254)	323	592
Finance costs	**293**	295	300	319	354	310	173	183
Investment income	**(5)**	(23)	(18)	(4)	(13)	(32)	(24)	(21)
Depreciation	**1,119**	1,106	1,149	1,145	1,150	1,168	912	934
Amortization	**36**	31	30	31	35	36	35	33
Adjusted EBITDA	**5,410**	185	4,289	5,965	3,666	522	2,659	3,240
Adjusted EBITDA per share	**$ 0.80**	$ 0.03	$ 0.64	$ 0.89	$ 0.55	$ 0.08	$ 0.40	$ 0.48

Adjusted EBITDA was a record amount for a second quarter. Adjusted EBITDA of $5,410 in the current quarter increased by $1,744 from $3,666 in the comparative three month period of 2018. The increased adjusted EBITDA is primarily related to increased operating earnings from $2,481 in Q2/18 to $4,255 in Q2/19 or an increase of $1,774.