P·F·B CORPORATION

Better building ideas

Management's Discussion and Analysis

For the three month periods ended March 31, 2021 and 2020

Management's discussion and analysis (MD&A)

The following discussion and analysis of the consolidated results of operations and financial condition of PFB Corporation ("PFB" or the "Corporation") should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements for the three month periods ended March 31, 2021 and 2020 and notes thereto and in conjunction with the Corporation's annual MD&A for the year ended December 31, 2020.

PFB's unaudited interim condensed consolidated financial statements for the three month periods ended March 31, 2021 and 2020 have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*.

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

This MD&A has been prepared as of May 6, 2021. 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 May 6, 2021, 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, 2020.

2. Summary of quarterly financial data

	2021	2020				2019		
	Qtr. 1	**Qtr. 4**	**Qtr. 3**	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**	**Qtr. 2**
Sales	**$ 26,058**	$ 37,059	$ 41,986	$ 31,518	$ 24,233	$ 36,824	$ 36,874	$ 35,421
Gross profit	**6,735**	12,024	15,417	9,531	5,737	10,461	10,202	9,436
Gross profit margin %	**25.8**	32.4	36.7	30.2	23.7	28.4	27.7	26.6
Operating income	**2,309**	6,959	9,975	5,088	770	5,237	4,940	4,255
Net income	**1,654**	4,993	7,331	3,750	346	3,695	3,442	3,061
Earnings per share:								
Basic	**0.24**	0.73	1.09	0.56	0.05	0.55	0.51	0.45
Diluted	**0.23**	0.70	1.08	0.55	0.05	0.54	0.50	0.44
Adjusted EBITDA [1]	**3,383**	8,047	11,065	6,278	1,909	6,363	6,080	5,410
Adjusted EBITDA per share [1]	**$ 0.50**	$ 1.18	$ 1.64	$ 0.94	$ 0.29	$ 0.95	$ 0.90	$ 0.80

[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 March 31	
	2021	**2020**
Sales	**$ 26,058**	**$ 24,233**
Cost of sales	**(19,323)**	**(18,496)**
Gross profit	**6,735**	**5,737**
Selling expenses	**(2,848)**	**(3,144)**
Administrative expenses	**(1,634)**	**(1,734)**
Other gains (losses)	**56**	**(89)**
Operating income	**2,309**	**770**
Investment income	**26**	**46**
Finance costs	**(271)**	**(290)**
Income before taxes	**2,064**	**526**
Income taxes expense	**(410)**	**(180)**
Net income for the period	**$ 1,654**	**$ 346**
Earnings per share - $ per share		
Basic	**$ 0.24**	**$ 0.05**
Diluted	**$ 0.23**	**$ 0.05**

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

4. Consolidated results of operations

Sales

Consolidated sales for the first quarter reporting period were $26,058, an increase of $1,825 or 7.5% of sales as compared to $24,233 in Q1/20. Overall sales growth for the quarter was driven primarily by growth in the Canadian segment on increased volumes of our core EPS insulation and building products. The USA segment growth in the current quarter was offset by unfavourable currency movements when translating US sales into Canadian dollars.

Gross profit

Consolidated gross profit was $6,735 in the current quarter as compared to $5,737 in Q1/20. Gross profit margin in the current quarter increased to 25.8% of sales as compared to a gross profit margin of 23.7% in Q1/20. The cost of inventories recognized as an expense in cost of sales during the three month period ended March 31, 2021 was $16,944, contrasted to $16,279 during the 2020 comparative period, an increase of $665. Material costs increased with higher sales, but remained consistent to the prior period, when expressed as a percentage of net sales. Overall reductions in labour and overhead costs contributed to higher gross profit in the first quarter.

Operating income

Operating income of $2,309 compared with $770 reported in Q1/20 resulting in a favourable variance of $1,539, on stronger margins and lower selling expenses. Selling and administrative expenses of $4,482, decreased by $396 as compared to $4,878 in the prior quarter, contributing significantly to higher operating income.

Income before tax

In the current quarter, income before taxes of $2,064 compared to income before taxes of $526 reported in the comparative quarter of 2020, a favourable variance of $1,538.

Income taxes

Income tax expense in the current quarter was $410, as compared to $180 in Q1/20. The effective tax rate of 19.9% for the current quarter is distorted by favourable prior period corporate income tax reassessments, when compared to an effective tax rate of 34.2% in Q1/20.

Net income

Net income of $1,654 in the current quarter compared to net income of $346 reported in the comparative quarter of 2020, or a favourable variance of $1,308.

Basic and diluted earnings per common share in the current quarter was $0.24 and $0.23, respectively, as compared to a basic and diluted earnings per share of $0.05 in Q1/20. Basic earnings per common share increased by $0.19 per share.

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, 2020 and 2019 and Note 3 of the condensed interim consolidated financial statements for the three month period ended March 31, 2021) 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 revenues 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 below). There are varying levels of integration between each segment.

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

Information for each reportable operating segment for the three month periods ended March 31 is set out below:

	Sales revenues		Operating income	
	2021	**2020**	**2021**	**2020**
Canada	**$ 16,421**	$ 14,790	**$ 1,754**	$ 625
USA	**9,637**	9,443	**441**	62
Total for segments	**$ 26,058**	$ 24,233	**2,195**	687
Corporate – income			**89**	86
Foreign exchange gain (loss) on inter-segment settlements			**25**	(3)
Consolidated operating income			**$ 2,309**	$ 770

(a) Canada

Sales

Sales generated by the Canadian segment increased from $14,790 in the first quarter of 2020 to $16,421 in the current quarter, an increase of $1,631 or 11.0%. Sales were led by strong performance in Eastern Canada and supported by gains in the oil producing regions as well. Sales growth was driven by core EPS insulation and building products on increased commercial, residential and infrastructure activity and offset slightly by softer sales of structural insulated panels due to changes in project timing.

Operating income

The Canadian segment reported operating income of $1,754 for the current quarter compared to operating income of $625 in Q1/20, a favourable variance of $1,129. The improvement was driven by strong sales growth, slightly favourable raw materials, operational efficiencies in both labour and overheads and decreased selling and administrative spending.

(b) USA

Sales

As reported in Canadian dollars, USA segment sales in the current quarter increased to $9,637 from $9,443 in Q1/20 an increase of $194 or 2.1%. The increased sales were primarily driven by growth of EPS insulation and building products and shipments of structural insulated panels. The significantly weaker US dollar in Q1/21, compared to Q1/20, created an unfavorable currency effect when local USA segment sales were converted into Canadian dollars for consolidation purposes mitigating the impact of increased volumes.

Average foreign exchange rates experienced by the Corporation during the three-month period reflected the strong appreciation of the Canadian currency from an average rate of $1.34 per US$1.00 in the 2020 comparative period to an average rate of approximately $1.26 per US$1.00 in the current period. Eliminating the effect of foreign exchange fluctuations, sales increased 8.6% for the period, in USA dollars. Currency movements resulted in approximately a 6% reduction in sales, when translating from the local US currency to the Canadian presentation currency.

Operating income

The USA segment reported operating income of $441 in the current quarter compared to $62 in the comparative quarter of 2020, a favourable variance of $379. Despite higher material costs, operating income gains were driven by stronger sales, improved operational efficiencies in labour and overhead, along with lower selling and administrative expenses.

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 Mar 31, 2021	As at Dec 31, 2020
Assets		
Segmented assets	**$ 52,022**	$ 46,869
Assets not allocated to segments:		
Cash and cash equivalents	**24,996**	32,271
Restricted marketable securities	**1,483**	1,483
Freehold land and buildings	**20,258**	20,570
Corporate taxes [1]	**314**	313
Total assets	**$ 99,073**	$ 101,506
Liabilities		
Segmented liabilities [2]	**$ 20,066**	$ 22,789
Liabilities not allocated to segments:		
Lease obligations	**8,673**	8,895
Debt	**7,764**	7,856
Total liabilities	**$ 36,503**	$ 39,540
Net segmented assets		
Canada	**$ 25,940**	$ 18,746
USA	**6,016**	5,334

[1] Deferred taxes.

5.3 Other segment information

	Three month periods ended March 31	
	2021	2020
Additions to non-current assets:		
Canada	**$ 244**	$ 419
USA	**77**	112
Total	**$ 321**	$ 531
Additions to right-of-use assets:		
Canada	**$ -**	$ -
USA	**75**	-
Total	**$ 75**	$ -
Depreciation and amortization:		
Canada	**$ 596**	$ 623
USA	**217**	252
Corporate	**261**	264
Total	**$ 1,074**	$ 1,139
Inter-segment sales	**$ 1,611**	$ 904

6. Liquidity

Sources of liquidity

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

Cash and cash equivalents

Cash and cash equivalent balances as at March 31, 2021 and December 31, 2020 were as follows:

	March 31, 2021	**December 31, 2020**
Cash held with banks	**$ 23,996**	$ 24,771
Short-term investments	**1,000**	7,500
	$ 24,996	$ 32,271

PFB's cash balances typically fluctuate with the seasonality of its business. The reduction in cash balances in the current quarter was primarily used to fund increased non-cash working capital, primarily a seasonal build-up of inventory and changes to accounts payable. The majority of the cash held with banks is comprised of cash and cash equivalents held by the USA segment.

Cash - restricted

Restricted cash decreased over the last three months to $1,792, or a decrease of $241 from $2,033 on December 31, 2020 as a result of activity within the Custom Homes Group. 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

Canada

The Corporation has a credit facility in the amount of $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. 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.

USA

In April 2021, the Corporation renewed its US credit facility arrangement in the amount of $3,000 under the same terms. The revolving facility continues to be secured by all inventory and equipment of the USA subsidiary, and subject to certain additional covenants. The interest rate applicable on draws made against the facility is a variable rate based on an index plus 0.25%.

The Canadian and USA revolving credit facilities remained fully available at the end of the current year.

The Corporation continues to follow a policy of carrying US dollar balances in the USA segment 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 month periods ended March 31, 2021 and 2020 are shown in the following table:

	2021	2020
Net cash flows used in:		
Cash used in operating activities, before income taxes paid	**$ (2,792)**	$ (4,811)
Income taxes paid, net	**(2,870)**	(643)
Net cash used in operating activities	**(5,662)**	(5,454)
Net cash used in investing activities	**(32)**	(605)
Net cash used in financing activities	**(1,299)**	(1,255)
Effects of exchange rates on cash and cash equivalents, and restricted cash held in foreign currencies	**(282)**	674
Net decrease in cash and cash equivalents	**(7,275)**	(6,640)
Cash and cash equivalents – beginning of period	**32,271**	20,129
Cash and cash equivalents – end of period	**$ 24,996**	$ 13,489

(a) Operating activities

Cash used in operating activities, before income taxes paid, was $2,792 as compared to $4,811 in the comparative prior quarter, a decrease of $2,019. The decrease is primarily attributed to higher net income and decreased changes in non-cash working capital in the current quarter when compared with the 2020 comparative quarter.

Change in non-cash working capital [1]

The changes in non-cash working capital amounts which occurred in the first three months of 2021 are as follows:

	Mar 31, 2021	Dec 31, 2020	Change
Trade receivables	**$ 11,719**	$ 10,692	$ 1,027
Inventories	**13,442**	10,061	3,381
Prepaid expenses	**1,387**	546	841
Contract costs	**776**	732	44
Trade and other payables	**(8,931)**	(11,661)	2,730
Contract liabilities	**(9,548)**	(7,719)	(1,829)
	$ 8,845	$ 2,651	$ 6,194

[1] Definitions of non-IFRS measures used in the above table are detailed in section 19 of this MD&A.

Non-cash working capital increased in the current quarter by $6,194.

The trade receivables balance is reflective of increased selling activity during the first quarter as sales begin to improve.

Inventory increased in the current quarter and is a normal occurrence as operations begin building-up raw material, work-in-process and finished goods inventories ahead of the seasonal upsurge in sales activities. The increase in the current quarter is reflective of higher volumes and higher input costs. As is typical during the first quarter, commitments for external resin inventories were entered at competitive market pricing to manage further raw material cost increases and ensure a consistent supply of product. Regional government and health authorities may implement new COVID-19 restrictions that may impact our business operations and our customers' operations that could result in a slowing draw-down of finished goods inventories in the short term.

Prepaid expenses increased by $841, primarily related to higher insurance costs and renewals in the first quarter within the Canadian and USA segments along with other normal course operating activities.

Contract costs represent the incremental costs of obtaining a contract with a customer on the expectation these costs will be recovered. Contract costs increased by $44 and are primarily related to sales commissions payable on the achievement of performance obligations in the USA segment on sales of bundled contracts within the Custom Homes Group.

The decrease in trade and other payables of $2,730 since the beginning of the year was primarily related to the payment of year-end payroll incentives during the first quarter and the timing of payments in the normal course of operations.

Contract liabilities represent consideration received prior to delivery of performance obligations and customers' rebates earned, but not yet paid. Contract liabilities increased by $1,829 during the period, primarily representing the payment of customers' rebates, reflecting amounts paid-out in the first quarter. The decreased contract liabilities from rebates was somewhat offset by slightly increased deposits from customers within the Custom Homes Group.

(b) Investing activities

Cash flows used in investing activities in the current quarter were $32 as compared to cash flows used in investing activities of $605 in Q1/20, primarily as a result of changes in restricted cash within the Custom Homes Group and a reduction in the purchase of property, plant and equipment.

(c) Financing activities

Cash flows used in financing activities in the current quarter were $1,299, similar to cash flows used in financing activities of $1,255 in Q1/20, an increase of $44. The regular quarterly dividend payment made to shareholders in February 2021 was $680, an increase of $78 compared to the $602 payment made to shareholders in February 2020.

7. Capital resources

Capital structure

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

PFB's capital structure consists of net debt (current portion of 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).

PFB's capital structure, net of cash and cash equivalents, as at March 31, 2021 and December 31, 2020, is as outlined in the following table:

	As at March 31, 2021	**As at December 31, 2020**
Debt (excluding lease obligations)	**$ 7,764**	$ 7,856
Less: cash and cash equivalents	**24,996**	32,271
Net debt (surplus cash)	**(17,232)**	(24,415)
Shareholders' equity	**$ 62,570**	$ 61,966

Share capital

A summary of the Corporation's share capital position as at March 31, 2021 and December 31, 2020, is set forth in the following table:

	March 31, 2021 (Three Months)		**December 31, 2020 (Twelve Months)**	
	No. of Shares	**Amount**	**No. of Shares**	**Amount**
Balance, beginning of period	**6,797,003**	**$ 22,014**	6,691,003	$ 21,012
Exercise of stock options	**-**	**-**	6,000	52
Exercise of restricted share units	**-**	**-**	100,000	950
Balance, end of period	**6,797,003**	**$ 22,014**	6,797,003	$ 22,014

Dividends

In the three-month periods ended March 31, 2021 and 2020, the Corporation's Board of Directors declared a regular quarterly dividend of $0.10 (2020 - $0.09) per common share which was paid in the month of February in each year, respectively.

The dividend payment in February 2021 amounted to $680 (2020 - $602).

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

Normal course issuer bid

In September 2020, the Corporation obtained approval from the Toronto Stock Exchange ("TSX") to renew its Normal Course Issuer Bid (the "Bid") program for a 12-month period, which commenced on September 3, 2020, and ends no later than September 2, 2021. The renewal allows the Corporation to purchase, up to a maximum of 50,000 of its common shares representing 0.74% of the Corporation's 6,791,003 issued and outstanding common shares as at August 24, 2020, subject to daily maximum purchases of 1,000 common shares. The Corporation may also make one block purchase per calendar week, which exceeds such daily restriction, subject to the rules of the TSX. The Corporation will purchase from time-to-time its common shares at market prices by means of open market transactions on the Toronto Stock Exchange).

In the quarter ended March 31, 2021, the Corporation did not purchase any of its common shares.

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.

A summary of comprehensive income for the three month periods ended March 31, 2021 and 2020 is as follows:

	2021	**2020**
Net income for the period	**$ 1,654**	$ 346
Other comprehensive (loss) income	**(386)**	2,407
Comprehensive income for the period	**$ 1,268**	$ 2,753

In the first quarter of 2021, other comprehensive loss was $386 as compared to other comprehensive income of $2,407 in the comparative quarter of 2020. Other comprehensive loss in the current quarter consisted of $386 attributed to foreign currency losses upon translation of PFB's USA operations, which contrasted with significant foreign currency gains of $2,407 in the comparative quarter of 2020.

Included in accumulated comprehensive income at March 31, 2021, were foreign currency translation adjustments totalling $1,480, unrealized gains on restricted financial assets of $406, and losses of $53 related to defined benefit pension plan valuation changes, net of tax, for total accumulated other comprehensive income of $1,833.

Debt

The current portion of debt matures on March 5, 2022. Total debt of $7,764 as at March 31, 2021 compares to debt of $8,128 as at March 31, 2020, a reduction of $364. The reduction in debt in the current period was a result of scheduled principal repayments. There were no prepayments or additional increases in debt in the current period.

The terms of the 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 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 debt, tested on an annual, year-end basis. The financial covenant specifies a Debt Service Coverage Ratio of not less than 1.25:1.00. 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, 2020 and exceeded the minimum requirement of 1.25:1.00.

8. Commitments and contractual obligations

8.1 Debt, lease obligations and commitments for PP&E and intangible assets

PFB's contractual obligations and commitments as at March 31, 2021 and December 31, 2020, 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 March 31, 2021					
Debt [2] (principal & interest)	**$ 7,971**	**$ 7,971**	**$ -**	**$ -**	**$ -**
Lease obligations	**14,462**	**1,928**	**3,446**	**2,768**	**6,320**
Commitments for PP&E and intangible assets	**164**	**164**	**-**	**-**	**-**
Other long-term obligations	**680**	**137**	**360**	**182**	**1**
Fixed price utility contracts	**884**	**355**	**474**	**55**	**-**
Total contractual obligations	**$ 24,161**	**$ 10,555**	**$ 4,280**	**$ 3,005**	**$ 6,321**
As at December 31, 2020					
Debt (principal & interest)	$ 10,123	$ 623	$ 1,246	$ 1,246	$ 7,008
Lease obligations	14,886	1,972	3,503	2,817	6,594
Commitments for PP&E and intangible assets	352	352	-	-	-
Other long-term obligations	564	219	345	-	-
Fixed price utility contracts	972	355	507	110	-
Total contractual obligations	$ 26,897	$ 3,521	$ 5,601	$ 4,173	$ 13,602

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

[2] Full repayment on March 5, 2022.

8.2 Performance bonds

As at March 31, 2021, the Canadian segment did not have any contracts secured by a performance bonds (December 31, 2020 - $nil). In the USA, performance bonds in the amount of $644 were pledged to various government agencies as at March 31, 2021 (December 31, 2020 - $607).

8.3 Letters of credit

As at March 31, 2021, letters of credit in the amount of $909 (2020 - $nil) were outstanding for inventory purchases expected to settle in the second quarter of 2021. The Corporation did not post any cash to collateralize its letters of credit.

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 Corporation reported record Q1/21 sales and adjusted EBITDA for a first quarter reporting period. Sales in Q1/21 were $26,058, an increase of $1,825 over the comparative period in 2020. Sales growth in the quarter was strong in both operating segments but led by the Canadian Segment with increased volumes of core EPS insulating and building products. The USA Segment also supported growth for the Corporation with volume gains that, when measured in Canadian dollar terms, recorded sales growth despite a significantly stronger Canadian dollar. USA Segment sales are converted into

Canadian terms upon consolidation and were adversely impacted by changes in the CAD/USD exchange rates, on a comparative basis.

Margin performance in the first quarter of 2021 remained strong. The impact of rising raw material input costs was not a factor influencing gross margins in Q1/21, remaining stable on a year-over-year basis. Improvements in operating efficiencies around labour and overheads resulted in improved gross margins at 25.8% for the current quarter compared to 23.7% for Q1/20, an increase of 210 basis points. In addition to improved gross margins, reductions in selling and administrative expenses, as a result of continued spending controls, resulted in a record adjusted EBITDA of $3,383 for a first quarter period, as compared to $1,909 for Q1/20, an increase of $1,474.

The recent winter storms that ravaged the US Gulf Coast during the first quarter of 2021 interrupted petrochemical production. This tightened North American supply of styrene monomer and introduced unexpected price volatility in our principal raw material input, which also had the effect of increasing North American EPS resin prices. The spike in raw material prices reversed in early Q2/21, however, prices will likely remain at levels higher than last year. The earlier concerns of shortages developing for both styrene monomer and EPS resin were not realized as the Corporation successfully managed inventories without adverse effects on customer deliveries.

The Corporation has implemented price increases across the majority of products and services to reflect higher raw material input costs and general inflationary trends. There are timing delays with regard to price increase implementation and the beneficial financial effects will start to take hold in Q2/21 and will be fully realized throughout the remainder of the year. In addition to price increases, the Corporation will continue to implement optimized raw material inventory and procurement strategies and continue to improve operational efficiencies and implement spending controls in an effort to further protect margins. The Corporation is a net buyer of US dollars as the majority of our raw materials are priced in US dollars. The stronger Canadian dollar will reduce cost of sales and have an off-setting effect to rising raw material prices.

The Corporation continues to follow strict COVID-19 employee safety protocols, procedures and practices intended to ensure the health and welfare of all our employees, customers, contractors and visitors as well as to support the broader effort to contain the virus in the communities in which we operate. The Corporation's COVID-19 protocols have proven to be very effective resulting in no material disruptions to our regional operations to date. The Corporation acknowledges as new COVID-19 variants emerge, the potential for increased transmission rates persist and as such we continue to review and improve our COVID-19 protocols.

Looking forward to the remainder of 2021, the Corporation continues to experience increased demand for our nationally branded insulation building products and services across North America. Order books remain strong and continue to build as the construction industry prepares for the busy spring and summer season. Residential, commercial and infrastructure construction continues to show signs of strength as consumers and businesses drive demand for both renovations and new builds and governments approve new stimulus spending targeted toward infrastructure. As efforts to contain the COVID-19 virus are complicated by the emergence of several new variants, some general uncertainty persists. However as vaccination efforts continue to accelerate across North America there is cause for optimism as North American economies continue to recover.

Our focus is on profitability and positive cash flows throughout 2021. Our balance sheet is very strong and management is confident the Corporation is well positioned. Our geographic footprint and diverse portfolio of building products and services positions the Corporation to continue providing products and services to the commercial and residential construction sectors, large scale infrastructure projects and various industrial applications.

Management will continue to make every effort to keep our employees safe while providing critical products and services to our customers, protecting and supporting the communities in which we operate, increasing value for our shareholders and searching for suitable acquisitions to expand our business.

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 and outstanding letters of credit.

12. Disclosure controls and procedures

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 March 31, 2021, 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 March 31, 2021, 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 March 31, 2021, 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.

The Corporation's annual audited consolidated financial statements for the year ended December 31, 2020 and its 2020 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. Related party transactions

There have been no material changes in related party transactions in the first quarter of 2021. See Note 19 of the condensed interim consolidated financial statements.

16. 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 2020. There have been no material changes in the uncertainties and material risk factors facing the Corporation since December 31, 2020.

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

The International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") have issued amendments to certain accounting standards were effective for annual periods beginning on or after January 1, 2021 and have been adopted by the Corporation, as applicable. The Corporation has determined the amendments had no material impact on the disclosures or amount recognized in the condensed interim consolidated financial statements.

18. Subsequent events

On April 13, 2021, the Corporation entered into additional physical-supply utility contracts with a third-party supplier for its own usage. See Note 21 in the financial statements.

On April 19, 2021, the USA segment renewed its credit facility arrangement with a US bank, under the same terms and existing conditions, for a variable rate revolving facility of $3,000 US dollars. The revolving facility continues to be secured by all inventory and equipment of the USA subsidiary.

As at May 6, 2021, upon the receipt of inventory, the Corporation settled approximately $200 of letters of credit.

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.
Non-cash working capital	A financial measure to monitor how much capital we have committed to the day-to-day operations of our business. Non-cash working capital represents current assets (excluding cash or cash equivalents, restricted cash and income taxes recoverable) less current liabilities (excluding income taxes payable, current portions of lease obligations and current portion of debt).

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

	2021 Q1	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2
Net income (As per financial statements)	**$ 1,654**	$ 4,993	$ 7,331	$ 3,750	$ 346	$ 3,695	$ 3,442	$ 3,061
Add back (deduct):								
Income taxes	**410**	1,703	2,371	1,125	180	1,302	1,254	906
Finance costs	**271**	273	278	282	290	287	288	293
Investment income	**(26)**	(10)	(5)	(4)	(46)	(47)	(44)	(5)
Depreciation	**1,036**	1,048	1,053	1,089	1,102	1,080	1,095	1,119
Amortization	**38**	40	37	36	37	46	45	36
Adjusted EBITDA	**3,383**	8,047	11,065	6,278	1,909	6,363	6,080	5,410
Adjusted EBITDA per share	**$ 0.50**	$ 1.18	$ 1.64	$ 0.94	$ 0.29	$ 0.95	$ 0.90	$ 0.80

A record adjusted EBITDA was achieved for a first quarter reporting period, exceeding the previous first quarter record set in 2020. Adjusted EBITDA was $3,383 in the three month period March 31, 2021, an increase of $1,474 from $1,909 in the comparative three month period of 2020. The higher adjusted EBITDA is primarily related to strong sales growth and solid operating earnings.