Management's Discussion and Analysis

For the three and six month periods ended June 30, 2020 and 2019

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, 2020 and 2019 and notes thereto and in conjunction with the Corporation’s annual MD&A for the year ended December 31, 2019.

PFB’s unaudited condensed interim consolidated financial statements for the three and six month periods ended June 30, 2020 and 2019 have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*.

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 2020 (three and six month periods ended June 30, 2020) are compared with results from the second quarter of 2019. This MD&A has been prepared as of July 30, 2020. 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 30, 2020, 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, 2019.

2. Summary of quarterly financial data

	2020		2019				2018	
	Qtr. 2	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**
Sales	**$ 31,518**	$ 24,233	$ 36,824	36,874	$ 35,421	$ 24,113	$ 35,283	$ 39,374
Gross profit	**9,531**	5,737	10,461	10,202	9,436	4,729	8,148	9,752
Gross profit margin %	**30.2**	23.7	28.4	27.7	26.6	19.6	23.1	24.8
Operating income (loss)	**5,088**	770	5,237	4,940	4,255	(952)	3,109	4,789
Net income (loss)	**3,750**	346	3,695	3,442	3,061	(1,172)	2,077	3,263
Earnings (loss) per share:								
Basic	**0.56**	0.05	0.55	0.51	0.45	(0.17)	0.31	0.48
Diluted	**0.55**	0.05	0.54	0.50	0.44	(0.17)	0.31	0.48
Adjusted EBITDA [1]	**6,278**	1,909	6,363	6,080	5,410	185	4,289	5,965
Adjusted EBITDA per share [1]	**$ 0.94**	$ 0.29	$ 0.95	$ 0.90	$ 0.80	$ 0.03	$ 0.64	$ 0.89

[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 18 of this MD&A.

3. Consolidated statements of income (unaudited)

	Three month periods ended June 30		Six month periods ended June 30	
	2020	**2019**	**2020**	**2019**
Sales	**$ 31,518**	$ 35,421	**$ 55,751**	$ 59,534
Cost of sales	**(21,987)**	(25,985)	**(40,483)**	(45,369)
Gross profit	**9,531**	9,436	**15,268**	14,165
Selling expenses	**(2,733)**	(3,151)	**(5,877)**	(6,160)
Administrative expenses	**(1,905)**	(2,012)	**(3,639)**	(3,710)
Other losses	**195**	(18)	**106**	(992)
Operating income	**5,088**	4,255	**5,858**	3,303
Insurance claim – gain	**65**	-	**65**	-
Investment income	**4**	5	**50**	28
Finance costs	**(282)**	(293)	**(572)**	(588)
Income before taxes	**4,875**	3,967	**5,401**	2,743
Income taxes expense	**(1,125)**	(906)	**(1,305)**	(854)
Net income for the period	**$ 3,750**	$ 3,061	**$ 4,096**	$ 1,889
Earnings per share - $ per share				
Basic	**$ 0.56**	$ 0.45	**$ 0.61**	$ 0.28
Diluted	**$ 0.55**	$ 0.44	**$ 0.60**	$ 0.27

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 $31,518 in the three month period ended June 30, 2020, a decrease of $3,903 or 11.0% from sales of $35,421 in the comparative three month period of 2019. Both operating segments were negatively impacted by delayed shipments and extended delivery schedules as a result of government and health authority mandated restrictions intended to slow the spread of the novel coronavirus.

In the six month period ended June 30, 2020, consolidated sales were $55,751, a decrease of $3,783 or 6.4% from sales of $59,534 in the comparative six month period of 2019. Both US and Canadian segments experienced revenue contraction in the six month period driven primarily by reduced economic activity as a result of the COVID-19 pandemic. The appreciation of the US dollar relative to the Canadian dollar, during the first six months of 2020 compared to the six months of 2019 offset some of the revenue declines and resulted in favourable foreign exchange impact on consolidated revenue.

Gross profit

Consolidated gross profit was $9,531 in the three month period ended June 30, 2020, as compared to $9,436 in the comparative three month period of 2019, an increase of $95. Gross profit margin increased to 30.2% of sales in the current quarter as compared to a gross profit margin of 26.6% in Q2/19, an increase of 3.6%.

Consolidated gross profit increased to $15,268 in the six month period ended June 30, 2020, as compared to $14,165 in the comparative six month period of 2019, a favourable variance of $1,103. Gross profit margin of 27.4% of sales in the current six month period was higher than a gross profit margin of 23.8% reported in the comparative six month period of 2019.

The increase in gross profit and gross profit margin in the current three and six-month period was predominately driven by lower raw material input costs and supported by stable market pricing, improved operating efficiencies and discretionary spending controls implemented in the second quarter.

A depreciation of the Canadian currency in the current three and six-month periods, increased the cost of raw materials which are primarily purchased in US dollars. A first quarter, intercompany loan minimized foreign currency purchases and the associated currency risk during the second quarter. At the end of the second quarter, the intercompany loan was settled.

Selling and administrative expenses

In the current quarter, selling and administrative expenses decreased proportionately with sales, and remained consistent as a percentage of sales at 14.7% for the current quarter contrasted with 14.6% in the comparative quarter. Similarly for the six month period, selling and administrative expenses have decreased proportionately with sales, and remained comparable as a percentage of sales at 17.1% in the current six month period, contrasted to 16.6% in the comparable six month period.

A reduction in selling expenses in the second quarter was driven by management implemented discretionary spending and travel controls in response to the downturn in market conditions resulting from government restrictions in reaction to the pandemic.

Operating income

Operating income of $5,088 in the current quarter compared to operating income of $4,255 reported in Q2/19, a favourable variance of $833. The improvement is attributable to stronger gross profit, a reduction in selling and administrative expenses and realized gains on foreign currency transactions.

In the six month period ended June 30, 2020, operating income of $5,858 compared to operating income of $3,303 reported in the comparative six month period of 2019, a favourable variance of $2,555. The improvement is attributable to stronger gross profit, a reduction in selling and administrative expenses and the comparable impact of a $950 one-time non-cash other loss related to the granting of restricted stock units that was recorded in the prior year.

Insurance claim - gain

The settlement of an insurance claim resulted in a gain of $65 attributed to insurance proceeds received in the quarter.

Income before taxes

In the current quarter, income before taxes of $4,875 was reported as compared to income before taxes of $3,967 in Q2/19, an increase of $908.

In the six month period ended June 30, 2020, income before taxes of $5,401 was reported as compared to income before taxes of $2,743 reported in the comparative six month period of 2019, a favourable variance of $2,658. The variance includes one-time, non-cash other loss of $950 recorded in the prior period.

Income taxes

Income tax expense in the current quarter was $1,125 as compared to income tax expense of $906 in Q2/19 and increased as a result of higher taxable income. The effective income tax rate of 24.2% for the six month period is reasonably representative of the blended tax rate expected for 2020.

Net income

Net income of $3,750 in the current quarter compares to net income of $3,061 reported in the comparative quarter of 2019, an increase of $689. In the six month period ended June 30, 2020, net income of $4,096 compared to net income of $1,889 in the comparative six month period of 2019, an increase of $2,207. Excluding the impact of the other expenses related to the RSU grant, in the prior period, net income would have been $2,839.

Earnings per share

Basic and diluted earnings per share in the current quarter were $0.56 and $0.55, respectively, as compared to basic and diluted earnings per share of $0.45 and $0.44, respectively, reported in Q2/19.

In the six month period ended June 30, 2020, basic and diluted earnings per share of $0.61 and $0.60, respectively, as compared to basic and diluted earnings per share of $0.28 and $0.27, respectively, reported in the comparative six month period of 2019.

5. Reportable operating segments

The Corporation has two reportable operating segments:

Operating segments	Description of segments
Canada	Manufacturing and sales operations located in Canada for expanded polystyrene (EPS) products and structural insulating panels *Brands*: Plasti-Fab® EPS Product Solutions®; Advantage ICF System®; and Insulspan® SIPS; DuroFoam®
United States of America (USA)	Manufacturing and sales operations located in the USA for EPS products, building systems and structures, design services and installations *Brands*: Plasti-Fab® EPS Product Solutions®; Insulspan® SIPS; DuroSpan™; Riverbend® Timber Framing; Precision Craft® Log & Timber Homes; M.T.N. Design℠; Total Home Solution®; Point Zero™; TimberScape ™

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

Each operating segment mirrors the Corporation's accounting policies (as described in Note 2 to the audited consolidated financial statements for the years ended December 31, 2019 and 2018 and Note 3 of the condensed interim consolidated financial statements for the three and six month periods ended June 30, 2020) 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.

Information regarding each reportable operating segment for the three and six month periods ended June 30, 2020 and 2019, is set out below:

Three month periods ended June 30	**Sales revenues**		**Operating income**	
	2020	**2019**	**2020**	**2019**
Canada	**$ 19,419**	$ 21,925	**$ 3,481**	$ 2,927
USA	**12,099**	13,496	**1,394**	1,139
Total for segments	**$ 31,518**	$ 35,421	**4,875**	4,066
Corporate – income			**215**	186
Foreign exchange (loss) gain on inter-segment settlements			**(2)**	3
Consolidated operating income			**$ 5,088**	$ 4,255

Six month periods ended June 30	Sales revenues		Operating income	
	2020	**2019**	**2020**	**2019**
Canada	**$ 34,209**	$ 37,211	**$ 4,106**	$ 3,354
USA	**21,542**	22,323	**1,456**	576
Total for segments	**$ 55,751**	$ 59,534	**5,562**	3,930
Corporate – income (expense)			**301**	(630)
Foreign exchange (loss) gain on inter-segment settlements			**(5)**	3
Consolidated operating income			**$ 5,858**	$ 3,303

(a) Canadian segment

Sales

Sales generated by the Canadian segment decreased from $21,925 in Q2/19 to $19,419 in the current quarter, a decrease of 11.4% or $2,506 which contributed to year-to-date Canadian sales being 8.1% lower than in the corresponding six month period of 2019.

Sales exhibited regional differences with oil producing regions of Canada experiencing contraction due to reduced economic activity offset somewhat by several large infrastructure public works projects moving forward in Eastern Canada.

Operating income

The Canadian segment reported operating income of $3,481 in the current quarter, an increase of $554 as compared to operating income of $2,927 reported in Q2/19.

In the six month period ended June 30, 2020, the Canadian segment reported operating income of $4,106 as compared to operating income of $3,354 in the comparative six month period of 2019, a favourable variance of $752.

The improved operating income was primarily related to decreased raw material input costs and reduced selling expenses.

(b) USA segment

Sales

As reported in Canadian dollars, sales in the USA segment decreased from $13,496 in Q2/19 to $12,099 in the current quarter, a decrease of $1,397 or 10.4%. Foreign currency movements had a favorable impact when translating US sales into Canadian dollars during Q2/20. Average foreign exchange rates experienced by the Corporation during the periods reflected the depreciation of the Canadian currency from an average rate of $1.34 per US$1.00 in the 2019 comparative quarter, to an average rate of approximately $1.39 per US$1.00 in the current quarter.

Eliminating the effect of foreign exchange fluctuations, the sales, expressed in USA dollars, were $8,762 in the current quarter or 13.2% lower than Q2/19 sales of $10,096.

As reported in Canadian dollars, sales in the USA segment decreased from $22,323 in six month period ending June 30, 2019, to $21,542 in the current six month period, a decrease of $781 or 3.5%. During the six month period, foreign currency movements had a favorable impact when translating USA 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 $1.33 per US$1.00 in the 2019 comparative period, to an average rate of approximately $1.36 per US$1.00.

Eliminating the effect of foreign exchange fluctuations, the sales, expressed in USA dollars, were $15,777 in the current six month period or 5.7% lower than sales of $16,732 in the comparative six month period.

USA segment declines were driven by reduced economic activity due to the ongoing health crisis as well as the comparable impact of a large infrastructure project that occurred in the first six months of 2019 and was not repeated in 2020.

Operating income

The USA segment reported operating income of $1,394 in the current quarter as compared to operating income of $1,139 in the comparative quarter of 2019. This represents an increase of $255. In the six month period ended June 30, 2020, the USA segment reported an operating income of $1,456 as compared to an operating income of $576 in the comparative six month period of 2019, a favorable variance of $880. The drivers of improvement were primarily decreased raw material input costs, supported by improved operating efficiencies and reduced selling 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 June 30, 2020	As at Dec 31, 2019
Assets		
Segmented assets	**$ 56,350**	$ 49,198
Assets not allocated to segments:		
Cash and cash equivalents	**21,079**	20,129
Restricted marketable securities	**1,483**	1,483
Freehold land and buildings	**21,286**	21,567
Corporate taxes[1]	**357**	326
Total assets	**$ 100,555**	$ 92,703
Liabilities		
Segmented liabilities	**$ 23,295**	$ 18,996
Liabilities not allocated to segments:		
Lease obligations	**9,379**	9,846
Long-term debt	**8,038**	8,217
Total liabilities	**$ 40,712**	$ 37,059
Net segmented assets		
Canada	**$ 27,260**	$ 22,889
USA	**5,795**	7,313

[1] Deferred taxes.

5.3 Other segment information

	Three month periods ended June 30		Six month periods ended June 30	
	2020	**2019**	**2020**	**2019**
Additions to non-current assets:				
Corporate	**$ 10**	$ -	**$ 10**	$ -
Canada	**68**	182	**487**	485
USA	**492**	215	**604**	443
Total	**$ 570**	$ 397	**$ 1,101**	$ 928
Additions to right-of-use assets:				
Canada	**$ 25**	$ 49	**$ 25**	$ 49
USA	**-**	-	**-**	37
Total	**$ 25**	$ 49	**$ 25**	$ 86

Depreciation and amortization:				
Canada	**$ 611**	$ 643	**$ 1,235**	$ 1,274
USA	**249**	245	**501**	485
Corporate	**265**	267	**528**	533
Total	**$ 1,125**	$ 1,155	**$ 2,264**	$ 2,292
Inter-segment sales	**$ 1,392**	$ 2,298	**$ 2,297**	$ 4,265

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, 2020 and December 31, 2019 were as follows:

	June 30, 2020	December 31, 2019
Cash held with banks	**$ 20,410**	$ 18,629
Short-term investments	**669**	1,500
	$ 21,079	$ 20,129

PFB's cash balances typically fluctuate with the seasonality of its business. The increase in cash balances for the six month period ended June 30, 2020 was primarily attributed to deferred Canadian corporate income tax instalments and deferred GST/HST sales tax payments. The majority of the cash held with banks comprised of cash and cash equivalents held by the USA segment.

Cash - restricted

Restricted cash amounted to $1,610, an increase of $686 from $924 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, primarily related to the Custom Homes Group.

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 Canadian 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.

In April 2020, the Corporation increased its US credit facility arrangements from $1,250 to $3,000. The revolving facility continues to be secured by all inventory and equipment of the USA subsidiary, and subject to certain additional covenants.

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, 2020 and 2019 are shown in the following table:

	Three month periods ended June 30		Six month periods ended June 30	
	2020	**2019**	**2020**	**2019**
Net cash flows from (used in):				
Cash from operating activities, before income taxes paid	**$ 9,819**	$ 5,606	**$ 5,008**	$ 3,019
Income taxes paid, net	**(107)**	(938)	**(750)**	(1,333)
Net cash from operating activities	**9,712**	4,668	**4,258**	1,686
Net cash used in investing activities	**(1,111)**	(947)	**(1,716)**	(1,443)
Net cash used in financing activities	**(1,198)**	(1,061)	**(2,453)**	(2,231)
Effects of exchange rates on cash and cash equivalents, and restricted cash held in foreign currencies	**187**	(223)	**861**	(596)
Net increase (decrease) in cash and cash equivalents	**7,590**	2,437	**950**	(2,584)
Cash and cash equivalents – beginning of period	**13,489**	11,923	**20,129**	16,944
Cash and cash equivalents – end of period	**$ 21,079**	$ 14,360	**$ 21,079**	$ 14,360

(a) Operating activities

Net cash from operating activities was $9,712 in the current quarter as compared to $4,668 in the comparative quarter of 2019, an increase of $5,044. In the six month period ended June 30, 2020, net cash from operating activities was $4,258 versus net cash from operating activities of $1,686 in the comparative six month period of 2019, an increase of $2,572.

Net cash from operating activities increased in the second quarter primarily from changes in non-cash working capital, as compared to the 2019 comparative period. For the six month period, net cash from operating activities increased due to higher net income and favourable non-cash changes to working capital related to inventory, but was offset by non-cash, share-based expense, as compared to the 2019 period.

The changes in non-cash working capital amounts which occurred in the six month period ended June 30, 2020 are shown in the following table:

	June 30, 2020	**Dec 31, 2019**	**Change**
Trade receivables	**$ 15,021**	$ 10,746	$ 4,275
Inventories	**13,239**	11,598	1,641
Prepaid expenses	**1,251**	469	782
Contract costs	**503**	487	16
Trade and other payables	**(11,510)**	(10,324)	(1,186)
Contract liabilities	**(8,400)**	(5,943)	(2,457)
	$ 10,104	$ 7,033	$ 3,071

Non-cash working capital increased in the six month period ended June 30, 2020 by $3,071 (2019 - $3,620).

The increased trade receivables balance is reflective of higher sales, particularly in relation to a large public works project, 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. During the second quarter, inventory levels decreased, as a result of increased quarter-over-quarter sales activity and active inventory management. Inventory levels decreased from $16,018 in the first quarter to $13,239 in the second quarter or a reduction in inventory by $2,779, primarily by the reduction in raw materials.

Prepaid expenses of $1,251 have increased due to seasonal activity and are comparable to Q2/19 of $1,038.

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 $16 in the last six months and are primarily related to sales commissions in the USA segment on sales of bundled contracts.

The increase in trade and other payables by $1,186 since the beginning of the year is primarily due to deferred government GST/HST sales tax payments.

Contract liabilities represent consideration received prior to delivery of performance obligations and customers' rebates earned, but not yet paid. Contract liabilities increased by $2,457 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 $1,111 in the current quarter as compared to cash flows used in investing activities of $947 in Q2/19, or an increase of $164, primarily related to a slight increase in capital expenditures. In the six month period ended June 30, 2020, net cash used in investing activities was $1,716 versus $1,443 in the comparative six month period of 2019, or an increase of $273, primarily related to increased capital expenditures and changes in restricted cash.

(c) Financing activities

Net cash used in financing activities in the current quarter was $1,198 as compared to net cash used in financing activities of $1,061 in the comparative quarter of 2019, or an increase of $137. The change in cash used in financing activities was primarily related proceeds from insurance and to the non-occurrence of cash inflows from one-time, cash proceeds received upon the exercise of options in the prior period.

In the six month period ended June 30, 2020, net cash used in financing activities were $2,453 versus net cash used in financing activities of $2,231 in the comparative six month period of 2019, or an increase of $222. The increase in cash used in financing activities reflect higher repayments on mortgage and lease obligations, an increase in the quarterly dividend payments to shareholders, but the increase was partially offset by proceeds from insurance and the non-occurrence of cash inflows from one-time, cash proceeds received upon the exercise of options in the prior period.

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, 2020 and December 31, 2019, is outlined in the following table:

	As at June 30, 2020	**As at December 31, 2019**
Debt	**$ 8,038**	$ 8,217
Less: cash and cash equivalents	**21,079**	20,129
Surplus cash	**$ (13,041)**	$ (11,912)
Shareholders' equity	**$ 59,843**	$ 55,644

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, 2020 and December 31, 2019, is set forth in the following table:

	June 30, 2020 (Six Months)		December 31, 2019 (Twelve Months)	
	No. of Shares	Amount	No. of Shares	Amount
Balance, beginning of period	**6,691,003**	**$ 21,012**	6,716,003	$ 20,947
Exercise of stock options	**-**	**-**	25,000	222
Repurchased pursuant to normal course issuer bid	**-**	**-**	(50,000)	(157)
Balance, end of period	**6,691,003**	**$ 21,012**	6,691,003	$ 21,012

Dividends

In the first quarter of 2020, the Corporation's board of directors declared a regular quarterly dividend of $0.09 (2019 - $0.08) per common share which was paid in the month of February in each year, respectively. The dividend payment in February 2020 amounted to $602 (2019 - $538).

In the second quarter of 2020, the Corporation's board of directors declared a regular quarterly dividend of $0.09 (2019 - $0.09) per common share which was paid in the month of May in each year, respectively. The dividend payment in May 2020 amounted to $602 (2019- $607).

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 August 2019, the Corporation obtained approval from the Toronto Stock Exchange to renew its Normal Course Issuer Bid (the "Bid") program for a 12-month period, which commenced on September 3, 2019 and ends no later than September 2, 2020. On March 7, 2020, the Corporation obtained approval from the Toronto Stock Exchange to amend its Bid from 50,000 (or 0.74% of PFB's issued and outstanding shares as of August 26, 2019), to 100,000 common shares (or 1.48% of PFB's shares as of August 26, 2019). In the quarter ended June 30, 2020, 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 and six month periods ended June 30, 2020 and 2019 is as follows:

	Three month periods ended June 30		Six month periods ended June 30	
	2020	2019	2020	2019
Net income for the period	**$ 3,750**	$ 3,061	**$ 4,096**	$ 1,889
Other comprehensive (loss) income	**(1,128)**	(473)	**1,279**	(942)
Comprehensive income for the period	**$ 2,622**	$ 2,588	**$ 5,375**	$ 947

In the second quarter of 2020, comprehensive income was $2,622 as compared to comprehensive income of $2,588 in the comparative quarter of 2019. Other comprehensive loss of $1,128 in the current quarter consisted of losses in the amount of $1,128 (Q2/19 – loss of $473) attributed to foreign currency translation when consolidating PFB's USA operations.

Included in accumulated other comprehensive income at June 30, 2020, were foreign currency translation adjustments equal to $3,915, unrealized gains on financial assets of $406 and $96 of defined benefit valuation changes, net of tax, for total accumulated other comprehensive income of $4,417.

Long-term debt

Total long-term debt of $8,038 as at June 30, 2020 compares to long-term debt of $8,393 as at June 30, 2019, a reduction of $355. 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, 2019 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, 2020 and December 31, 2019, 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, 2020					
Long-term debt (principle & interest)	**$ 10,435**	**$ 623**	**$ 1,246**	**$ 1,246**	**$ 7,320**
Lease obligations	**15,781**	**1,962**	**3,514**	**3,019**	**7,286**
Commitments for PP&E and intangible assets	**474**	**474**	**-**	**-**	**-**
Other long-term obligations	**945**	**164**	**436**	**345**	**-**
Fixed price utility contracts	**1,205**	**355**	**575**	**275**	**-**
Total contractual obligations	**$ 28,840**	**$ 3,578**	**$ 5,771**	**$ 4,885**	**$ 14,606**
As at December 31, 2019					
Long-term debt (principle & interest)	$ 10,746	$ 623	$ 1,246	$ 1,246	$ 7,631
Lease obligations	16,672	2,024	3,599	3,084	7,965
Commitments for PP&E and intangible assets	1,086	1,086	-	-	-
Other long-term obligations	999	218	436	345	-
Fixed price utility contracts	1,505	355	710	440	-
Total contractual obligations	$ 31,008	$ 4,306	$ 5,991	$ 5,115	$ 15,596

[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, 2020, the Canadian segment did not have any performance bonds outstanding (December 31, 2019 - $nil). In the USA, performance bonds in the amount of $650 were pledged to various government agencies as at June 30, 2020 (December 31, 2019 - $620).

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 followed the first quarter with another strong performance in the second quarter of 2020, posting a record adjusted EBITDA for a second quarter reporting period at $6,278 as well as strong gross margin and net income on a three and six month comparative basis. As expected, sales were adversely impacted by the various North American government and health authority actions intended to slow the spread of the COVID-19 pandemic. Sales were softer in both Canada and USA reporting segments and lower demand was felt in the majority of industries we serve as delivery schedules were extended and projects delayed. The Corporation continued uninterrupted operations in all regions with no material disruptions minimizing the potential impact on sales.

Favourable raw material input costs along with stable product pricing, improved operating efficiencies and overhead spending controls resulted in gross margins of 30.2% for Q2/20 as compared to 26.6% for Q2/19, an increase of 3.6% of sales. We expect this level of gross margin performance to be relatively stable due to pressures within the petrochemical industry that will contribute to styrene monomer pricing stability and continued operational efficiencies. In addition to the improved gross margins, management implemented cost controls to reduce SG&A expenses contributing to favourable net income and adjusted EBITDA performance for the current quarter and the first six months of the year.

The Corporation continues to operate and serve customers in all regions as an “essential or allowable business” as defined by local, state, provincial and federal orders that remain in effect in Canada and the United States. The Corporation has implemented strict 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 with no confirmed virus outbreaks at any of our locations to date.

Governments in Canada and the United Sates have implemented various fiscal policies to provide COVID-19 related support, subsidies, tax deferral and loan programs intended to support businesses, enable continued operations and limit job losses. The Corporations business is seasonal in nature and employment is based on customer demand. Although demand contracted somewhat in the second quarter, the Corporation has not participated in any government support programs to date other than taking advantage of some tax deferral opportunities during the second quarter. The Corporation will continue to review and assess options moving forward and take action if required.

At this time the Corporation is experiencing continued demand for our nationally branded insulation building products and services across North America. Our order book remains strong and growing as governments ease restrictions, construction activity recovers and government stimulus spending is rolled out. However, as efforts to contain the virus continue, general uncertainty remains. As such, we expect our growth trajectory to be interrupted by this health crisis as we are unable to accurately quantify the impact these events will have on our customers’ requirements.

Our focus is to remain profitable and generate positive cash flows for the second half of 2020. Our balance sheet is 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 public and private 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, protect and support the communities in which we operate and preserve value for our shareholders.

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, 2020, 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, 2020, 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, 2020, 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, 2019 and its 2019 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 three and six month periods ended June 30, 2020. 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 2019. There have been no material changes in the uncertainties and material risk factors facing the Corporation since December 31, 2019.

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, 2020 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. 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:

	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3
Net income (loss) (As per financial statements)	**$ 3,750**	$ 346	$ 3,695	$ 3,442	$ 3,061	$ (1,172)	$ 2,077	$ 3,263
Add back (deduct):								
Income taxes (recovery)	**1,125**	180	1,302	1,254	906	(52)	751	1,211
Finance costs	**282**	290	287	288	293	295	300	319
Investment income	**(4)**	(46)	(47)	(44)	(5)	(23)	(18)	(4)
Depreciation	**1,089**	1,102	1,080	1,095	1,119	1,106	1,149	1,145
Amortization	**36**	37	46	45	36	31	30	31
Adjusted EBITDA	**6,278**	1,909	6,363	6,080	5,410	185	4,289	5,965
Adjusted EBITDA per share	**$ 0.94**	$ 0.29	$ 0.95	$ 0.90	$ 0.80	$ 0.03	$ 0.64	$ 0.89

Adjusted EBITDA was a record amount for a second quarter reporting period. Adjusted EBITDA of $6,278 in the current quarter increased by $868 from $5,410 in the comparative three month period of 2019. The increased adjusted EBITDA is primarily related to increased operating earnings of $4,255 in Q2/19 to $5,088 in Q2/20 or an increase of $833.