P·F·B CORPORATION
Better building ideas

Management's Discussion and Analysis

For the three and six month periods ended June 30, 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 condensed interim consolidated financial statements for the three and six month periods ended June 30, 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 condensed interim consolidated financial statements for the three and six month periods ended June 30, 2021 and 2020 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 2021 (three and six month periods ended June 30, 2021) are compared with results from the second quarter of 2020. It should be noted that for comparison-purposes, the quarter in 2020 reflects the impact of the emerging pandemic and the associated North American government and health authority actions taken during that time.

This MD&A has been prepared as of July 29, 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 July 29, 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. 2	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**
Sales	**$ 40,049**	$ 26,058	$ 37,059	$ 41,986	$ 31,518	$ 24,233	$ 36,824	$ 36,874
Gross profit	**9,760**	6,735	12,024	15,417	9,531	5,737	10,461	10,202
Gross profit margin %	**24.4**	25.8	32.4	36.7	30.2	23.7	28.4	27.7
Operating income	**4,737**	2,309	6,959	9,975	5,088	770	5,237	4,940
Net income	**3,247**	1,654	4,993	7,331	3,750	346	3,695	3,442
Earnings per share:								
Basic	**0.48**	0.24	0.73	1.09	0.56	0.05	0.55	0.51
Diluted	**0.46**	0.23	0.70	1.08	0.55	0.05	0.54	0.50
Adjusted EBITDA [1]	**5,804**	3,383	8,047	11,065	6,278	1,909	6,363	6,080
Adjusted EBITDA per share [1]	**$ 0.85**	$ 0.50	$ 1.18	$ 1.64	$ 0.94	$ 0.29	$ 0.95	$ 0.90

[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	
	2021	**2020**	**2021**	**2020**
Sales	**$ 40,049**	$ 31,518	**$ 66,107**	$ 55,751
Cost of sales	**(30,289)**	(21,987)	**(49,612)**	(40,483)
Gross profit	**9,760**	9,531	**16,495**	15,268
Selling expenses	**(2,908)**	(2,733)	**(5,756)**	(5,877)
Administrative expenses	**(2,074)**	(1,905)	**(3,708)**	(3,639)
Other (losses) gains	**(41)**	195	**15**	106
Operating income	**4,737**	5,088	**7,046**	5,858
Insurance claim – gain	**-**	65	**-**	65
Investment income	**1**	4	**27**	50
Finance costs	**(267)**	(282)	**(538)**	(572)
Income before taxes	**4,471**	4,875	**6,535**	5,401
Income taxes expense	**(1,224)**	(1,125)	**(1,634)**	(1,305)
Net income for the period	**$ 3,247**	$ 3,750	**$ 4,901**	$ 4,096
Earnings per share - $ per share				
Basic	**$ 0.48**	$ 0.56	**$ 0.72**	$ 0.61
Diluted	**$ 0.46**	$ 0.55	**$ 0.69**	$ 0.60

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 for a second quarter reporting period at $40,049 in the three month period ended June 30, 2021, an increase of $8,531 or 27.1% from sales of $31,518 in the comparative three month period of 2020. Overall sales in the second quarter were expected to show recovery from the pandemic impacts during the comparable period of 2020, however Q2/21 sales also showed a 13.1% increase when compared to Q2/19, demonstrating sustained growth – over both pandemic (Q2/20) and non-pandemic periods (Q2/19).

In the six month period ended June 30, 2021, consolidated sales were a record at $66,107, a strong increase of $10,356 or 18.6% from sales of $55,751 in the comparative six month period of 2020.

In both of the above periods, the Canadian and USA operating segments contributed to strong sales growth. Sales growth was led by strong demand and increased volumes of EPS insulation and building products and also increased demand for structural insulated panel systems. Sales growth was partially offset by schedule changes and project delays in the Custom Homes business despite very robust and growing order books. In addition, the USA segment growth was offset by unfavourable currency movements when translating US sales into Canadian dollars, further highlighting the strength of second quarter sales.

Gross profit

Consolidated gross profit was $9,760 in the three month period ended June 30, 2021, as compared to $9,531 in the comparative three month period of 2020, an increase of $229. Gross profit margin contracted to 24.4% of sales in the current quarter as compared to a gross profit margin of 30.2% in Q2/20, a decrease of 5.8%.

Consolidated gross profit increased to $16,495 in the six month period ended June 30, 2021, as compared to $15,268 in the comparative six month period of 2020, a favourable variance of $1,227. Gross profit margin of 25.0% of sales in the current six month period was lower than a gross profit margin of 27.4% reported in the comparative six month period of 2020. The cost of inventories recognized as an expense in cost of sales during the current and six month period ended June 30, 2021 was $26,424 and $43,368 contrasted with the 2020 periods of $18,982 and $35,261, respectively.

The increase in gross profit was driven by stronger sales volumes, but significantly offset by higher raw material input costs. The gross profit margin decrease in the current three and six-month periods was entirely driven by significantly higher raw material input costs. As the majority of raw materials are purchased in US dollars, the appreciation of the Canadian dollar had the effect to mitigate the increased material costs. Excluding the effects of increased raw material input costs on the cost of sales, increased sales as well as management's continued focus on operational efficiencies and spending controls helped to mitigate the compressed gross profit margins.

The Corporation implemented price increases during the current quarter to reflect higher raw material costs and overall inflationary trends, however due to timing of implementation, the price increases had limited impact on the current quarter results. Price increases will continue to take hold in the second half of 2021.

Selling and administrative expenses

In the current quarter, selling and administrative expenses increased to support higher sales activity, however reduced as a percentage of sales at 12.4% for the current quarter compared with 14.7% in the comparative quarter, an improvement of 2.3%. Similarly, for the six month period, selling and administrative expenses have decreased proportionately with sales at 14.3% in the current six month period, contrasted to 17.1% in the comparable six month period, a favourable improvement of 2.8%.

Other (losses) gains

In the current quarter, other losses of $41 are contrasted against other gains of $195 in Q2/20. The comparable period of Q2/20 includes one-time, realized foreign currency gains of $206 upon the settlement and recognition of realized currency gains on an intercompany loan, which were not repeated in Q2/21. Had the realized currency gains been excluded, the Q2/20 other losses would have been $11 and comparable to Q2/21 other losses of $41.

Operating income

Operating income of $4,737 in the current quarter compared to operating income of $5,088 reported in Q2/20, an unfavourable variance of $351. The decrease is primarily attributable to higher raw material costs.

In the six month period ended June 30, 2021, operating income of $7,046 compared to operating income of $5,858 reported in the comparative six month period of 2020, a favourable variance of $1,188. The higher operating earnings are primarily attributable to increased volumes.

Income before taxes

In the current quarter, income before taxes of $4,471 was reported as compared to income before taxes of $4,875 in Q2/20, a decrease of $404.

In the six month period ended June 30, 2021, income before taxes of $6,535 was reported as compared to income before taxes of $5,401 reported in the comparative six month period of 2020, a favourable variance of $1,134.

Income taxes

Income tax expense in the current quarter was $1,224 as compared to income tax expense of $1,125 in Q2/20. Prior period adjustments had the effect to slightly increase non-cash deferred tax expenses in the current quarter. The effective income tax rate of 25.0% for the six month period is reasonably representative of the blended tax rate expected for 2021.

Net income

Net income of $3,247 in the current quarter compared to net income of $3,750 reported in the comparative quarter of 2020, a decrease of $503. In the six month period ended June 30, 2021, net income of $4,901 compared to net income of $4,096 in the comparative six month period of 2020, an increase of $805.

Earnings per share

Basic and diluted earnings per share in the current quarter were $0.48 and $0.46, respectively, as compared to basic and diluted earnings per share of $0.56 and $0.55, respectively, reported in Q2/20.

In the six month period ended June 30, 2021, basic and diluted earnings per share of $0.72 and $0.69, respectively, as compared to basic and diluted earnings per share of $0.61 and $0.60, respectively, reported in the comparative six month period of 2020.

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, 2020 and 2019 and Note 3 of the condensed interim consolidated financial statements for the three and six month periods ended June 30, 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 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, 2021 and 2020, is set out below:

Three month periods ended June 30	Sales revenues		Operating income	
	2021	**2020**	**2021**	**2020**
Canada	**$ 25,320**	$ 19,419	**$ 3,630**	$ 3,481
USA	**14,729**	12,099	**922**	1,394
Total for segments	**$ 40,049**	$ 31,518	**4,552**	4,875
Corporate – income			**187**	215
Foreign exchange loss on inter-segment settlements			**(2)**	(2)
Consolidated operating income			**$ 4,737**	$ 5,088

Six month periods ended June 30	Sales revenues		Operating income	
	2021	**2020**	**2021**	**2020**
Canada	**$ 41,741**	$ 34,209	**$ 5,384**	$ 4,106
USA	**24,366**	21,542	**1,363**	1,456
Total for segments	**$ 66,107**	$ 55,751	**6,747**	5,562
Corporate – income			**276**	301
Foreign exchange gain (loss) on inter-segment settlements			**23**	(5)
Consolidated operating income			**$ 7,046**	$ 5,858

(a) Canadian segment

Sales

Sales generated by the Canadian segment increased from $19,419 in Q2/20 to $25,320 in the current quarter, an exceptional increase of 30.4% or $5,901, which contributed to year-to-date Canadian sales being 22.0% higher than in the corresponding six month period of 2020.

Canadian segment sales showed growth in all regions driven by strong demand and increased volumes of core EPS insulation and building products and increased structural insulated panel sales. Overall sales in the second quarter were expected to show recovery from the pandemic impacts during the comparable period of 2020, however Q2/21 sales also showed a 15.5% increase when compared to Q2/19, demonstrating sustained growth – over both pandemic (Q2/20) and non-pandemic periods (Q2/19).

Operating income

The Canadian segment reported operating income of $3,630 in the current quarter, an increase of $149 as compared to operating income of $3,481 reported in Q2/20.

In the six month period ended June 30, 2021, the Canadian segment reported operating income of $5,384 as compared to operating income of $4,106 in the comparative six month period of 2020, a favourable variance of $1,278.

In both the second quarter and the year-to-date results, the improved operating income was primarily related to significantly increased volumes, however offset by significantly increased material costs. The effects of the Q2/21 announced price increases had limited impact on the current Canadian segment results due to the timing of implementation. The Corporation expects price increase to continue to take hold in the second half of 2021.

USA segment

Sales

As reported in Canadian dollars, sales in the USA segment increased from $12,099 in Q2/20 to $14,729 in the current quarter, an increase of $2,630 or 21.7%. Foreign currency movements had an unfavourable impact when translating US sales into Canadian dollars during Q2/21. Average foreign exchange rates experienced by the Corporation during the periods reflected the appreciation of the Canadian dollar from an average rate of $1.39 per US$1.00 in the 2020 comparative quarter, to an average rate of approximately $1.23 per US$1.00 in the current quarter.

Eliminating the effect of foreign exchange fluctuations, the sales, expressed in USA dollars, were $12,008 in the current quarter or $3,246 higher, equivalent to 37.0% growth when compared to Q2/20 sales of $8,762. Similarly as in the Canadian segment above, overall sales in the second quarter were expected to show recovery from pandemic impacts during the comparable period of 2020, however Q2/21 sales also showed a 18.9% increase in local US dollars, when compared to Q2/19, demonstrating sustained growth – over both pandemic (Q2/20) and non-pandemic periods (Q2/19).

As reported in Canadian dollars, sales in the USA segment increased from $21,542 in six month period ending June 30, 2020, to $24,366 in the current six month period, an increase of $2,824 or 13.1%. During the six month period, foreign currency movements had an unfavourable impact when translating USA sales into Canadian dollars. Average foreign exchange rates experienced by the Corporation during the six month periods reflected an appreciation of the Canadian dollar from an average rate of $1.36 per US$1.00 in the 2020 comparative period, to an average rate of approximately $1.25 per US$1.00. Eliminating the effect of foreign exchange fluctuations, the sales, expressed in USA dollars, were $19,629 in the current six month period or $3,852 or equivalent to 24.4% increase in sales over $15,777 in the comparative six month period.

USA segment growth was driven by strong demand and increased volumes of core EPS insulation and building products and structural insulating panel systems. Expected growth in the quarter for the Custom Homes Group was constrained due to changes and project delays, despite very robust and growing order books.

Operating income

The USA segment reported operating income of $922 in the current quarter as compared to operating income of $1,394 in the comparative quarter of 2020. This represents a decrease of $472. In the six month period ended June 30, 2021, the USA segment reported an operating income of $1,363 as compared to an operating income of $1,456 in the comparative six month period of 2020, a slight decrease of $93. The decrease in gross profit and gross profit margins in the USA segment over both periods referenced above, were a direct result of increased raw material input costs and to small degree project schedule changes and delays adversely impacting sales within the Custom Homes Group.

The effects of Q2/21 announced price increases had limited impact on the current USA segment results due to the timing of implementation. The Corporation expects price increase to continue to take hold in the second half of 2021.

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, 2021	**As at Dec 31, 2020**
Assets		
Segmented assets	**$ 62,250**	$ 46,869
Assets not allocated to segments:		
Cash and cash equivalents	**22,973**	32,271
Restricted marketable securities	**1,483**	1,483
Freehold land and buildings	**19,937**	20,570
Corporate taxes[1]	**197**	313
Total assets	**$ 106,840**	$ 101,506
Liabilities		
Segmented liabilities	**$ 26,079**	$ 22,789
Liabilities not allocated to segments:		
Lease obligations	**8,386**	8,895
Debt	**7,671**	7,856
Total liabilities	**$ 42,136**	$ 39,540
Net segmented assets		
Canada	**$ 29,686**	$ 18,746
USA	**6,485**	5,334

[1] Deferred taxes.

5.3 Other segment information

	Three month periods ended June 30		Six month periods ended June 30	
	2021	**2020**	**2021**	**2020**
Additions to non-current assets:				
Corporate	**$ -**	$ 10	**$ -**	$ 10
Canada	**195**	68	**439**	487
USA	**170**	492	**247**	604
Total	**$ 365**	$ 570	**$ 686**	$ 1,101
Additions to right-of-use assets:				
Canada	**$ 23**	$ 25	**$ 23**	$ 25
USA	**-**	-	**75**	-
Total	**$ 23**	$ 25	**$ 98**	$ 25
Depreciation and amortization:				
Canada	**$ 598**	$ 611	**$ 1,194**	$ 1,235
USA	**210**	249	**427**	501
Corporate	**259**	265	**520**	528
Total	**$ 1,067**	$ 1,125	**$ 2,141**	$ 2,264
Inter-segment sales	**$ 944**	$ 1,392	**$ 2,555**	$ 2,297

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, 2021 and December 31, 2020 were as follows:

	June 30, 2021	**December 31, 2020**
Cash held with banks	**$ 22,973**	$ 24,771
Short-term investments	**-**	7,500
	$ 22,973	$ 32,271

PFB's cash balances typically fluctuate with the seasonality of its business. The decrease in cash balances for the six month period ended June 30, 2021 was primarily attributed to an increase in non-cash working capital requirements, and also the scheduled payment of corporate income taxes and instalments, finance costs and the regular quarterly dividend payments. The majority of the cash held with banks is comprised of cash and cash equivalents held by the USA segment.

Cash - restricted

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. Restricted cash amounted to $1,389, a decrease of $221 from $1,610 over the last six months. Restricted cash was drawn down, with payments being applied to the completion of ongoing performance obligations in 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

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 Q2/21.

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 and six month periods ended June 30, 2021 and 2020 are shown in the following table:

	Three month periods ended June 30		**Six month periods ended June 30**	
	2021	**2020**	**2021**	**2020**
Net cash flows (used in) from:				
Cash from (used in) operating activities, before income taxes	**$ 461**	$ 9,819	**$ (2,331)**	$ 5,008
Income taxes paid, net	**(992)**	(107)	**(3,862)**	(750)
Net cash (used in) from operating activities	**(531)**	9,712	**(6,193)**	4,258
Net cash from (used in) investing activities	**63**	(1,111)	**31**	(1,716)
Net cash used in financing activities	**(1,335)**	(1,198)	**(2,634)**	(2,453)
Effects of exchange rates on cash and cash equivalents, and restricted cash held in foreign currencies	**(220)**	187	**(502)**	861
Net (decrease) increase in cash and cash equivalents	**(2,023)**	7,590	**(9,298)**	950
Cash and cash equivalents – beginning of period	**24,996**	13,489	**32,271**	20,129
Cash and cash equivalents – end of period	**$ 22,973**	$ 21,079	**$ 22,973**	$ 21,079

(a) Operating activities

Net cash used in operating activities was $531 in the current quarter as compared to cash generated of $9,712 in the comparative quarter of 2020, a variance of $10,243. In the six month period ended June 30, 2021, net cash used in operating activities was $6,193 versus net cash generated from operating activities of $4,258 in the comparative six month period of 2020, a variance of $10,451.

Net cash used in operating activities in the second quarter was primarily due to increased working capital, as compared to the 2020 comparative period. Similarly, for the six month period, net cash used in operating activities was due to higher working capital primarily related to accounts receivables and inventory, but was offset slightly by additional contract liabilities in the Custom Homes Group, as compared to the 2020 period.

The changes in non-cash working capital amounts which occurred in the six month period ended June 30, 2021 are shown in the following table[1]:

	June 30, 2021	Dec 31, 2020	Change
Trade receivables	**$ 17,637**	$ 10,692	$ 6,945
Inventories	**18,600**	10,061	8,539
Prepaid expenses	**1,387**	546	841
Contract costs	**878**	732	146
Trade and other payables	**(13,093)**	(11,661)	(1,432)
Contract liabilities	**(11,293)**	(7,719)	(3,574)
	$ 14,116	$ 2,651	$ 11,465

1 The above table references non-cash working capital as defined in Section 18, below.

Debt due on March 5, 2022 in the amount of $7,671 is excluded in the above non-cash operating working capital calculation but represents an amount due in approximately seven months. Management is evaluating repayment, renewal and refinancing options and will determine an outcome in due course.

Non-cash working capital increased in the six month period ended June 30, 2021 by $11,465 (2020 - $3,071).

The increased trade receivables balance is reflective of higher sales, particularly in relation to 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 in volume since the beginning of the year, which is normal in the operating cycle to support increased sales activity. The second quarter inventory values also reflect the higher commodity prices used in the manufacture of raw materials, reflecting higher input costs.

Prepaid expenses of $1,387 have increased due to the normal course of operations and are comparable to Q2/20 of $1,251.

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 $146 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 $1,432 since the beginning of the year is a result of higher seasonal activity and accruals for higher raw material input costs.

Contract liabilities represent consideration received prior to delivery of performance obligations and customers' rebates earned, but not yet paid. Contract liabilities increased by $3,574 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 on strong sales and project management activity. Contract liabilities also increased on additional customer rebates earned and not paid in the second quarter on strong sales activity.

(b) Investing activities

Net cash generated from investing activities was $63 in the current quarter compared to cash flows used in investing activities of $1,111 in Q2/20, or a variance of $1,174. Similarly, in the six month period ended June 30, 2021, net cash from investing activities was $31 versus cash used in investing activities of $1,716 in the comparative six month period of 2020, or a variance of $1,747. In both periods, changes in investing activities was due to the release and decrease of restricted cash as a result of more contracts in progress and those corresponding draws of restricted cash to support the completion of performance obligations within the Custom Homes Group.

(c) Financing activities

Net cash used in financing activities in the current quarter was $1,335 as compared to net cash used in financing activities of $1,198 in the comparative quarter of 2020, or an increase of $137. In the six month period ended June 30, 2021, net cash used in financing activities were $2,634 versus net cash used in financing activities of $2,453 in the comparative six month period of 2020, or an increase of $181. In both periods, the increased cash used in financing activities was related to increased dividends paid to shareholders and partially offset by one-time proceeds received from insurance in the comparable prior periods.

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 (comprised of debt, excluding lease obligations, offset by cash and cash equivalents, excluding restricted cash) and equity of the Corporation (comprised of issued share capital, reserves, accumulated other comprehensive income and retained earnings as detailed in the consolidated statement of changes in equity).

The Corporation's capital structure as at June 30, 2021 and December 31, 2020, is outlined in the following table:

	As at June 30, 2021	**As at December 31, 2020**
Debt (excluding lease obligations)	**$ 7,671**	$ 7,856
Less: cash and cash equivalents (excluding restricted cash)	**22,973**	32,271
Surplus cash (cash in excess of debt)	**$ (15,302)**	$ (24,415)
Shareholders' equity	**$ 64,704**	$ 61,966

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, 2021 and December 31, 2020, is set forth in the following table:

	June 30, 2021 (Six 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 restricted share units	**-**	**-**	100,000	950
Exercise of stock options	**-**	**-**	6,000	52
Balance, end of period	**6,797,003**	**$ 22,014**	6,797,003	$ 22,014

Dividends

In the first quarter of 2021, 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).

In the second quarter of 2021, 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 May in each year, respectively. The dividend payment in May 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 change enacted under Canadian tax law.

Normal course issuer bid

In September 2020, 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, 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 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 quarters ended June 30, 2021 and 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, 2021 and 2020 is as follows:

	Three month periods ended June 30		Six month periods ended June 30	
	2021	**2020**	**2021**	**2020**
Net income for the period	**$ 3,247**	$ 3,750	**$ 4,901**	$ 4,096
Other comprehensive (loss) income	**(451)**	(1,128)	**(837)**	1,279
Comprehensive income for the period	**$ 2,796**	$ 2,622	**$ 4,064**	$ 5,375

In the second quarter of 2021, comprehensive income was $2,796 as compared to comprehensive income of $2,622 in the comparative quarter of 2020. Other comprehensive loss of $451 (Q2/20 – loss of $1,128) in the current quarter consisted of losses attributed to foreign currency translation when consolidating PFB's USA operations. Significant foreign currency volatility between the Canadian and US dollars in the current and prior periods reflect the majority of the changes in other compressive losses.

Included in accumulated other comprehensive income at June 30, 2021, were favourable foreign currency translation gains equal to $1,029, unrealized gains on financial assets of $406 and unfavourable losses of $53 on defined benefit plan valuation changes, net of tax, for total accumulated other comprehensive income of $1,382.

Debt

The current portion of debt matures on March 5, 2022. Total debt of $7,671 as at June 30, 2021 compares to debt of $8,038 as at June 30, 2020, a reduction of $367. There were no prepayments or additional increases in debt the current period. Management is evaluating repayment, renewal and refinancing options and will determine an outcome in due course.

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 Leases and commitments for PP&E and intangible assets

PFB's contractual obligations and commitments as at June 30, 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 June 30, 2021					
Debt [2] (principle & interest)	**$ 7,815**	**$ 7,815**	**$ -**	**$ -**	**$ -**
Lease obligations	**13,972**	**1,880**	**3,365**	**2,639**	**6,088**
Letters of credit [3]	**364**	**364**	**-**	**-**	**-**
Commitments for PP&E and intangible assets	**896**	**896**	**-**	**-**	**-**
Other long-term obligations	**634**	**91**	**360**	**183**	**-**
Fixed price utility contracts	**795**	**355**	**440**	**-**	**-**
Total contractual obligations	**$ 24,476**	**$ 11,401**	**$ 4,165**	**$ 2,822**	**$ 6,088**

As at December 31, 2020					
Debt (principle & 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 finance lease obligations in the above table represent the aggregate outstanding principal amounts and related finance costs.

[2] Represents both of the principal and interest repayments until maturity on March 5th, 2022.

[3] Subsequent June 30th, 2021 all outstanding letters of credit settled and $nil remain as outstanding obligations as of the date of this report.

8.2 Performance bonds

At June 30, 2021, the Canadian segment did not have any performance bonds outstanding (December 31, 2020 - $nil). In the USA, performance bonds in the amount of $666 were pledged to various government agencies as at June 30, 2021 (December 31, 2020 - $607).

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

Consolidated sales were a record high for a second quarter reporting period at $40,049 as compared to sales of $31,518 in Q2/20, an increase of 27.1%. Overall, sales in the second quarter were expected by management to show recovery from pandemic related impacts on the comparable period in 2020 however Q2/21 sales also showed a 13.1% increase over Q2/19 demonstrating sustained growth over both pandemic (Q2/20) and non-pandemic (Q2/19) periods. On a year-to-date basis, sales for the first half of 2021 were also a record at $66,107 as compared to $55,751 for the first half of 2020, a $10,356 increase. Sales growth for the current quarter and the first half of 2021 were strong in both the Canadian and USA operating segments, led by increased volumes of core EPS insulation and building products across all regions. This included increased sales of structural insulated panel systems. An offset to the PFB overall sales growth was reduced product deliveries by PFB Custom Homes Group. Deliveries of products are being impacted by pandemic related factors over which PFB has no control such as; delays experienced by customers in obtaining building permits, on-site inspection services and approvals as well as delays from contractors experiencing labour and material shortages. Customer sales orders throughout this product line remain very robust and continue to grow. Finally, overall USA segment sales growth was unfavourably impacted by a stronger Canadian dollar when translating USA segment sales into Canadian dollars.

Of greatest significance was gross profit margin compression as a result of factors that will continue to have ongoing effects on operations into the third quarter. The raw material supply chain of EPS resin production by major industry suppliers experienced shutdowns and reduced production as a result of the fierce winter storm that ravaged the US Gulf Coast during the first quarter of 2021. This led to shortages of styrene, EPS resin and other materials which significantly raised costs of acquiring these products. These significantly higher raw material input costs compare unfavourably with comparative periods in 2020, when low input costs were experienced as a result of pandemic influences. This unexpected price volatility in our principal raw material input and the forecast of shortages of materials led management to accumulate higher priced levels of physical inventory to enable us to meet customer demand. It was necessary to raise product prices to our customers with price increases that were generally accepted by customers. However, there are timing delays with respect to price increase implementation and the timing difference compared to rising raw material inventory costs that resulted in gross profit margin being compressed to 24.4% during Q2/21 as compared to 30.2% during Q2/20. The effects of experiencing a rapid increase in our raw material input costs takes time to flow through the operations; and therefore, management expects continued profit margin pressure into Q3/21. The spike in raw material prices began to reverse in Q2/21 however; input costs are forecasted to remain elevated above prior year. Operational efficiencies during the second quarter had a favourable impact on margins as the Corporation continued to effectively manage labour and overhead costs on significantly increased sales volumes and activity. Virtually all gross profit margin compression is related to material costs. The effect of the margin compression was that adjusted EBITDA for Q2/21 contracted to $5,804 compared to $6,278 for Q2/20, although adjusted EBITDA showed overall gains for the first half of 2021 at $9,187 as compared to $8,187 for the comparable period in 2020.

It is expected that during the third quarter, the price increases implemented in Q2/21 across the majority of products and services will continue to take hold and mitigate the higher costs of inventory but customer timing delays as a result of contractual commitments may persist with regard to price increase implementation. Anecdotal evidence suggests that we have increased market share by being able to supply products to customers as a result of material shortages experienced by competitors during the period as a result of the Corporation's strategy to accumulate externally-sourced raw materials. In addition to the further penetration of product price increases expected during Q3/21, the Corporation will return to an optimized raw material inventory and procurement strategy as well as continue to focus on operational efficiencies and spending controls to further mitigate margin compression.

Looking forward to the remainder of 2021, the Corporation has continued to experience robust demand for our nationally branded insulation building products and services across North America. Order books remain very strong and continue to build across all business lines, products and services and continue to benefit from the construction industry's busy summer and fall seasons. Residential, commercial and infrastructure construction continues to show signs of sustained strength as consumers and businesses drive demand for both renovations and new building projects. In addition, Governments continue to approve new stimulus spending targeted toward infrastructure. However some uncertainty persists regarding continued COVID-19 related delays on job sites as well as possible price volatility and supply constraints for construction materials that have the potential to adversely impact customer schedules and product deliveries.

The Corporation continues to follow COVID-19 employee safety protocols, procedures and practices intended to ensure the health and welfare of all our employees, customers, contractors and visitors. The Corporation encourages all employees to get vaccinated and continues to follow government and health authority guidelines in the regions we operate, easing restrictions in tandem with recent Canadian and US Government announcements. The Corporation acknowledges as new COVID-19 variants emerge, the potential for increased transmission rates persist and as such we continue to review our COVID-19 protocols.

Our focus is on profitability and positive cash flows throughout the remainder of 2021. Our balance sheet remains 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 focus on employee safety while providing critical products and services to our customers, protect and support the communities in which we operate, and search for suitable acquisitions and other initiatives to increase 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, 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 June 30, 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 June 30, 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 three and six month periods ended June 30, 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. 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 Q2	2021 Q1	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3
Net income (As per financial statements)	**$ 3,247**	$ 1,654	$ 4,993	$ 7,331	$ 3,750	$ 346	$ 3,695	$ 3,442
Add back (deduct):								
Income taxes	**1,224**	410	1,703	2,371	1,125	180	1,302	1,254
Finance costs	**267**	271	273	278	282	290	287	288
Investment income	**(1)**	(26)	(10)	(5)	(4)	(46)	(47)	(44)
Depreciation	**1,028**	1,036	1,048	1,053	1,089	1,102	1,080	1,095
Amortization	**39**	38	40	37	36	37	46	45
Adjusted EBITDA	**5,804**	3,383	8,047	11,065	6,278	1,909	6,363	6,080
Adjusted EBITDA per share	**$ 0.85**	$ 0.50	$ 1.18	$ 1.64	$ 0.94	$ 0.29	$ 0.95	$ 0.90

Adjusted EBITDA of $5,804 in the current quarter decreased by $474 from $6,278 in the comparative three month period of 2020. The decreased adjusted EBITDA is primarily as a result of higher commodity prices.