

# *Building*



*the future together*

*First Interim Report* **1**

## *Report to the Shareholders*

**Financial results** from continuing operations during the three months ended March 31, 2001 showed continued improvement over the comparative prior period. Revenues were \$7,968,000 compared to \$6,083,000 in 2000 and Earnings from Continuing Operations were \$188,000 compared to \$2,000 in the comparative period. Net earnings for the quarter were \$188,000 (\$0.03 per common share), compared with \$5,292,000 (\$0.94 per common share) for the comparative quarter in 2000. Included in results for the quarter ended March 31, 2000 were Net Earnings of \$5,290,000 (\$0.94 per common share) relating to the discontinued operations and disposition of the Morval Division, which was sold effective March 31, 2000.

On March 26, 2001, the company increased the regular annual dividend from \$0.10 per common share to \$0.15 per common share and paid a special dividend of \$0.75 for a combined payment of \$0.90 per common share. The financial condition of the company remains very strong with working capital of \$9,851,000 and no long-term debt. Management is confident that financial resources are adequate to support capital expenditures necessary to maintain the strong growth trend.

Raw material costs that increased rapidly during 2000 appear to have receded from their highs for this pricing cycle and currently are reflecting historical levels.

Recent speculation that the economy in North America is heading into a slower growth phase has instilled a cautionary note in our long range planning. Nevertheless, we are proceeding on schedule with capacity expansion in our eastern markets and continue to plan to expand capacity in our western market regions later this year. Our order book continues firm and we, at this time, expect continued growth in all markets during the year.

Our focus is on providing our customers the greatest value with quality products created through the application of our employees' expertise. As the recognized leader in our industrial markets, we are reinventing the methods of delivering quality and value to our customers through the use of new products, technologies and the goal of continuous production improvement.

Respectfully submitted on behalf of the Board of Directors.

A handwritten signature in black ink, appearing to read "C. Alan Smith".

**C. Alan Smith**  
President  
*April 25, 2001*

## *Financial Highlights from Continuing Operations*

Three Months Ended March 31

	2001	2000
Sales	\$ 7,968,000	\$ 6,083,000
Earning before interest and taxes	\$ 141,000	\$ 15,000
Net earnings	\$ 188,000	\$ 2,000
Cash flow from operations	\$ 590,000	\$ 359,000
Earnings per share	\$ 0.03	\$ 0.00

### *Management's Discussion and Analysis of 2001 First Quarter Results*

**The following** should be read in conjunction with PFB Corporation's unaudited financial statements contained herein, along with the Management Discussion and Analysis and financial statements contained in the Annual report for the year ended December 31, 2000.

#### **Financial Results**

During the first quarter of 2001, sales were \$7,968,000, an increase of 31% over the \$6,083,000 reported during the prior year period. Sales in the Western and Prairie regions provided strong year-on-year growth. Gross profit as a percentage of sales was 20.4% compared to 22.1% in the prior year period, due to changes in product mix and higher raw material prices than experienced in the prior year period. The current trend on raw material prices continues to be favourable.

Cash flow from operations improved to \$590,000 compared to \$359,000 in the prior year period. Non-cash working capital increased by \$2,364,000 mainly due to payment of current taxes in the period arising from the sale of the Morval division in 2000, plus lower payables overall as a result of taking advantage of favourable early settlement discounts.

Cash and cash equivalents at the end of the period amounted to \$1,990,000. During the period, the ordinary and a special dividend amounting to a total of 90¢ per share (aggregate \$5,078,000) was paid. In addition, \$3,000,000 was invested in selected marketable securities with the objective of generating higher returns on our capital employed.

Net earnings after tax were \$188,000 (\$0.03 per share) compared to \$2,000 (\$0.00 per share) in the prior year period. Interest and investment income amounted to \$191,000 in the quarter.

#### **Outlook**

Styrene prices have declined significantly from their cyclical peaks in mid-year 2000, and some price stability is expected in the near term. We are pressing ahead with our marketing plans and new initiatives aimed at growing sales in conjunction with expenditures to increase our manufacturing capacity.

However, we remain cautious about the future potential impact of a slowing North American economy and the recent volatility of the Canadian dollar. Our current order intake and sales inquiry activity is in line with expectations and our key market indicators remain positive at this time.



**Stephen P. Hardy**

*Vice President and Chief Financial Officer*

## Statements of Operations

Three months ended March 31

In thousands of dollars (unaudited)	2001	2000
Sales	\$ 7,968	\$ 6,083
Cost of goods sold	6,345	4,739
Gross profit	1,623	1,344
Selling and administrative expenses	1,482	1,329
Earnings before interest and taxes	141	15
Interest income (expense)	107	(15)
Investment income (Note 2)	84	-
Income tax (expense) recovery	(144)	2
Earnings from continuing operations	\$ 188	\$ 2
Discontinued operations		
Net earnings from operations		
of Morval Division	-	235
Net gain on disposal		
of Morval Division	-	5,055
Net earnings	\$ 188	\$ 5,292
Basic and fully diluted earnings		
per common share		
Earnings from continuing operations	\$ 0.03	\$ 0.00
Net earnings	\$ 0.03	\$ 0.94

## Statements of Cash Flows

Three months ended March 31

In thousands of dollars (unaudited)	2001	2000
<b>Operating</b>		
Funds provided from continuing operations	\$ 590	\$ 359
Changes in non-cash working capital	(2,364)	(3,861)
Other assets	20	-
	(1,754)	(3,502)
Net cash provided from		
discontinued operations	-	17,330
	(1,754)	13,828
<b>Financing</b>		
Dividend paid	(5,078)	(564)
	(5,078)	(564)
<b>Investing</b>		
Purchase of capital assets	(671)	(531)
Marketable securities	(3,000)	-
<b>(Decrease) increase in cash</b>		
<b>and cash equivalents</b>	(10,503)	12,733
<b>Cash and cash equivalents</b>		
<b>(bank indebtedness),</b>		
<b>beginning of the period</b>	12,493	(95)
<b>Cash and cash equivalents,</b>		
<b>end of the period</b>	\$ 1,990	\$ 12,638
<b>Funds provided from continuing operations:</b>		
Earnings from continuing operations	\$ 188	\$ 2
Items not requiring funds:		
Depreciation & amortization	395	357
Future taxes	7	0
	\$ 590	\$ 359

## Balance Sheet

March 31, 2001 and December 31, 2000

In thousands of dollars (unaudited)	2001	2000
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,990	\$ 12,493
Marketable securities (Note 2)	3,000	-
Accounts receivable	4,233	4,064
Inventories	3,235	3,410
Prepaid expenses	327	298
	<b>12,785</b>	20,265
Capital assets	<b>12,953</b>	12,677
Other assets	90	110
	<b>\$ 25,828</b>	\$ 33,052
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,425	\$ 3,740
Income taxes payable	(491)	1,535
	<b>2,934</b>	5,275
Future income taxes	<b>1,127</b>	1,120
	<b>4,061</b>	6,395
<b>Shareholders' Equity</b>		
Share capital	<b>13,802</b>	13,802
Retained earnings	<b>7,965</b>	12,855
	<b>21,767</b>	26,657
	<b>\$ 25,828</b>	\$ 33,052

## Statements of Retained Earnings

Three months ended March 31

In thousands of dollars (unaudited)	2001	2000
Retained earnings, beginning of year	\$ 12,855	\$ 11,468
Net earnings	188	5,292
Dividends paid	(5,078)	(564)
Retained earnings, end of year	\$ 7,965	\$ 16,196

## Notes to the Interim Financial Statements

March 31, 2001

### 1. Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements and the notes hereto should be read in conjunction with the most recent annual financial statements. These interim financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. Therefore, the results of operations for the interim period shown in this report are not necessarily indicative of results to be expected for the fiscal year. In the opinion of Management, the accompanying unaudited financial statements include all adjustments necessary to present fairly the financial position of the Corporation as of March 31, 2001.

Sales of the Corporation's products are driven by customer and industrial demand for insulation and building products. In addition to changing economic conditions, the timing of customers' construction projects can be influenced by weather conditions. Consequently, demand for the Corporation's products is typically stronger in the second and third quarters and less strong in the first and fourth quarters of its fiscal cycle.

### 2. Marketable Securities

During the quarter, the Corporation invested \$3,000,000 of its cash resources in selected marketable securities reported under current assets. The objective is to generate a higher rate of return on capital employed. Income is received monthly and reported as investment income. Marketable securities are recorded at cost and are written down for any permanent decline in market value. The market value at March 31, 2001 is \$3,054,000.