

Q2



Proven Product Solutions

P•F•B CORPORATION
SECOND QUARTER REPORT

2002

P•F•B
CORPORATION

PRESIDENT'S REPORT TO SHAREHOLDERS

The six months ended June 30, 2002 produced improved earnings over the comparative prior period but lower sales revenues. Net earnings for the six months were \$1,202,000 compared to \$1,168,000 in the 2001 comparative period while sales revenues were \$17,406,000 compared to \$18,546,000 in 2001.

Net earnings were \$0.22 per common share compared with \$0.21 per common share for the comparative six months period in 2001.

For the three months ended June 30, 2002 sales revenues were marginally reduced at \$10,043,000 compared with \$10,578,000 during the comparative quarter in 2001. Net Earnings for the second quarter were \$1,154,000 (\$0.21 per common share) compared with \$980,000 (\$0.18 per common share) in 2001.

We are proceeding on schedule with plant capacity expansion in our western market region. Our order book has firmed, despite a slow start earlier in the year, and, at this time, we expect continued growth in our markets during the remainder of the year.

Rising raw material costs continue as well as our effort to pass increases through to our customers in higher prices for our products. The chemical sector of the economy has been characterised by higher raw material prices despite signs that the general economy has been struggling to maintain its growth rate. This divergence can not continue indefinitely.

We continue to deploy our core competency in expanded polystyrene foam into rapidly developing building systems markets that utilise our proprietary insulating concrete forming systems and our proprietary structural insulated panel systems. Both these building systems show improvement in performance over that experienced last year.

As a matter of complete disclosure to our shareholders, we have included a "Contingent Liability" footnote to our balance sheet documenting a current development. We have received an approach from the purchaser of our Morval Division (in March 2000) for a payment under certain clauses of the asset sale agreement. Although no legal action has been taken, management is investigating the circumstances of the claim and is engaged in ongoing discussions with the purchaser.

We value the continued support of our customers and our employees.

Respectfully submitted on behalf of the Board of Directors.

C. Alan Smith
Chief Executive Officer
July 31, 2002

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Sales	\$ 10,043	\$ 10,578	\$ 17,406	\$ 18,546
Earnings before interest and taxes	\$ 1,501	\$ 1,334	\$ 1,724	\$ 1,475
Net earnings	\$ 1,154	\$ 980	\$ 1,202	\$ 1,168
Cash flow from operations	\$ 1,330	\$ 1,445	\$ 1,668	\$ 2,035
Earnings per share	\$ 0.21	\$ 0.18	\$ 0.22	\$ 0.21

Note: All figures in \$000's except earnings per share

Management's Discussion and Analysis of 2002 Second Quarter Results

The following should be read in conjunction with PFB Corporation's unaudited financial statements contained herein, along with Management's Discussion and Analysis and financial statements contained in the Annual Report for the year ended December 31, 2001.

RESULTS OF OPERATIONS

Sales

Sales revenues in the second quarter of 2002 were 5.1% lower than in the prior year period. Overall, sales in our Western Canadian markets were lower than anticipated. A number of large construction projects with originally scheduled start dates in the current quarter were delayed. Sales in Eastern Canada also remained slightly softer than expected due mainly to the continuing impact of the North American economic uncertainties. Consequently, sales revenues in the six-month period were 6.1% lower than in the corresponding period in 2001.

Margins

Gross profit in the current quarter, expressed as a percentage of sales, was 32.2% and compared favourably to the 28.5% reported in the prior year period. This improvement is mainly attributed to raw materials pricing being lower than in the corresponding period in 2001. Since the beginning of the current fiscal year, we have experienced progressive increases in raw material prices, which ended the quarter on par with pricing in June of last year. Pricing in 2001 was in a declining cyclical trend. Correspondingly, gross profit expressed as a percentage of sales in the six-month period was 28.4% compared to 25.0% last year.

Selling and Administrative Expenses

Selling and administrative expenses were higher in both the current quarter and the six-month period compared with last year as a result of a planned increase in employee numbers.

Equity in Net Income of Roxi Capital Corp. ("Roxi")

The second quarter results include a proportional share of Roxi's net income for the same period amounting to \$60,000 and reported in accordance with the equity method of reporting. The inclusion of the second quarter income eliminates the \$42,000 deficit that arose in quarter one to give a cumulative, proportional share of income of \$18,000. The investment in Roxi was completed in January 2002. Therefore, there are no comparative figures for 2001. Roxi is experiencing growing year-on-year demand for its patented insulating concrete forming system.

Interest and Investment Income

Interest income of \$20,000 was earned in the current quarter on cash balances held with banks and on short-term investments. As is normal, cash balances in the second quarter are generally lower than in the first quarter.

A number of marketable securities were sold during the quarter generating a capital gain of \$88,000, net of trading commissions. Investment income in the current quarter from marketable securities amounted to \$16,000 (\$217,000 in 2001). Investment income in the current quarter has been reduced by \$16,000 to reflect an estimate of the proportion of distributions received over the six-month period attributed to repayment of capital. The adjusted cost base of marketable securities has been reduced by the same amount.

Income Taxes

Income tax expense in the current quarter amounted to \$531,000 (\$601,000 in 2001) and included a credit of \$64,000 (Nil in 2001) relating to the draw down of the future income tax liability. Income tax expense in the six-month period amounted to \$789,000 (\$745,000 in 2001) and included a credit of \$132,000 (Nil in 2001) relating to the draw down of the future income tax liability.

Net Earnings

Net earnings after tax in the current quarter were \$1,154,000 (\$0.21 per share) compared to \$980,000 (\$0.18 per share) in the corresponding quarter last year. Net earnings in the six-month period were \$1,202,000 (\$0.22 per share) compared to \$1,168,000 (\$0.21 per share) in the first half of 2001.

Liquidity and Capital Resources

Cash flows from operations in the current quarter amounted to \$1,330,000 compared to \$1,445,000 in the prior year period. This is reflective of the lower sales revenues and higher selling and administrative expenses than reported in the prior year quarter. Non-cash working capital increased by \$1,648,000 in the quarter due mainly to an increase in customer receivables associated with the higher sales revenues reported in quarter two. Inventory values increased by approximately 5% during the quarter due to building feedstock to support sales in quarter three and purchasing raw materials slightly ahead of schedule in a period of rising prices.

Purchases of capital assets in the current quarter amounted to \$591,000 bringing total capital asset purchases to \$790,000 after six months. In quarter two, we commenced work on expanding capacity in our Western manufacturing facilities at a total expected cost of \$2,800,000, with completion scheduled by fiscal year end. Approximately two thirds of capital expenditures in the six-month period relate to the expansion project, with the balance attributed to maintenance of existing assets.

During the quarter, under the Normal Course Issuer Bid program, 32,200 common shares were repurchased for cancellation for an aggregate amount of \$180,000. The total number of shares repurchased for cancellation in the six-month period amounts to 85,900 for an aggregate price of \$431,000. At June 30, 2002 the closing market price of PFB's common shares traded on the Toronto Stock Exchange was \$6.10 per share.

We increased our net investment in marketable securities during the second quarter as well as changing the portfolio mix. The portfolio change generated a capital gain of \$88,000 and we anticipate achieving higher yields in future periods. The proceeds of sale amounted to \$742,000, and this sum was reinvested together with an additional amount of \$533,000.

Cash and cash equivalents at the end of the period amounted to \$3,333,000.

Outlook

In quarter two, quoting activity was extremely buoyant despite actual sales revenues lagging behind last year's pace. As we enter the third quarter, order intake and product shipments have started out very strong. However, as reported previously, raw materials prices have progressively increased during the first six-months of this year. If there is a continuation of this trend, or market prices remain at levels experienced in June 2002, a dilution in the quality of gross margins may occur later in the year. The strengthening Canadian dollar against its U.S. counterpart during the current quarter has positively offset the full impact of raw materials cost increases. Currently, the Canadian dollar is trading weaker than at the end of quarter two. We continue to pursue every opportunity to recover cost increases through higher selling prices to our customers.

Forward Looking Statements

Certain statements in this Interim Report and Management's Discussion and Analysis constitute forward-looking statements. These include statements about management's expectations, beliefs, intentions or strategies for the future. All forward-looking statements reflect management's current views with respect to future events and are subject to certain risks, uncertainties and assumptions that may cause the actual results, performance or achievements of PFB 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; actions by government authorities; actions by regulatory authorities; changes in raw materials prices; changes in foreign exchange and interest rates; competitor activity; industry pricing pressures; seasonality of the construction industry; and weather.



Stephen P. Hardy

Vice President and Chief Financial Officer

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Statement of Operations

Six months ended June 30		
In thousands of dollars (unaudited)	2002	2001
Sales	\$ 17,406	\$ 18,546
Cost of goods sold	12,458	13,913
Gross profit	4,948	4,633
Selling and administrative expenses	3,224	3,158
Earnings before interest and taxes	1,724	1,475
Interest income	53	137
Investment income	196	301
	1,973	1,913
Income tax expense	(789)	(745)
	1,184	1,168
Equity in net income of significantly influenced company (Note 2)	18	-
Net earnings	\$ 1,202	\$ 1,168
Earnings per common share – basic:		
Net income for the period	\$ 0.22	\$ 0.21
Earnings per common share – diluted:		
Net income for the period	\$ 0.22	\$ 0.21
Weighted average number of common shares outstanding	5,565,483	5,642,191

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Statements of Cash Flows

Six months ended June 30		
In thousands of dollars (unaudited)	2002	2001
OPERATING		
Net earnings	\$ 1,202	\$ 1,168
Items not affecting cash flows:		
Depreciation & amortization	787	828
Gain on disposal of capital assets	(22)	-
Gain on disposal of marketable securities	(88)	-
Marketable securities – change in accounting estimate	(61)	-
Equity in net income of significantly influenced company	(18)	-
Future taxes	(132)	39
Cash flow from operations	1,668	2,035
Changes in non-cash working capital	(3,859)	(4,248)
Other assets	-	50
	(2,191)	(2,163)
FINANCING		
Dividend paid	(1,117)	(5,078)
Purchase of common shares for cancellation	(431)	-
	(1,548)	(5,078)
INVESTING		
Purchase of capital assets	(790)	(1,064)
Proceeds from disposal of capital assets	22	-
Acquisition of marketable securities	(1,275)	(3,000)
Proceeds on sale of marketable securities	742	-
Repayment of capital on marketable securities	16	-
Investment in significantly influenced company	(750)	-
	(2,035)	(4,064)
(Decrease) in cash and cash equivalents	(5,774)	(11,305)
Cash and cash equivalents, beginning of the period	9,107	12,493
Cash and cash equivalents, end of the period	\$ 3,333	\$ 1,188
Cash paid for interest	\$ -	\$ -
Cash paid for taxes	\$ 1,628	\$ 2,764



Statements of Operations

Three months ended June 30 In thousands of dollars (unaudited)	2002	2001
Sales	\$ 10,043	\$ 10,578
Cost of goods sold	6,805	7,568
Gross profit	3,238	3,010
Selling and administrative expenses	1,737	1,676
Earnings before interest and taxes	1,501	1,334
Interest income	20	30
Investment income	104	217
	1,625	1,581
Income tax expense	(531)	(601)
	1,094	980
Equity in net income of significantly influenced company (Note 2)	60	-
Net earnings	\$ 1,154	\$ 980
Earnings per common share – basic: Net income for the period	\$ 0.21	\$ 0.18
Earnings per common share – diluted: Net income for the period	\$ 0.21	\$ 0.18
Weighted average number of common shares outstanding	5,565,483	5,642,191



Statements of Cash Flows

Three months ended June 30 In thousands of dollars (unaudited)	2002	2001
OPERATING		
Net earnings	\$ 1,154	\$ 980
Items not affecting cash flows:		
Depreciation & amortization	389	433
Gain on disposal of capital assets	(1)	-
Gain on disposal of marketable securities	(88)	-
Equity in net income of significantly influenced company	(60)	-
Future taxes	(64)	32
Cash flow from operations	1,330	1,445
Changes in non-cash working capital	(1,648)	(1,884)
Other assets	-	30
	(318)	(409)
FINANCING		
Purchase of common shares for cancellation	(180)	-
	(180)	-
INVESTING		
Purchase of capital assets	(591)	(393)
Proceeds from disposal of capital assets	1	-
Acquisition of marketable securities	(1,275)	-
Proceeds on sale of marketable securities	742	-
Repayment of capital on marketable securities	16	-
	(1,107)	(393)
(Decrease) in cash and cash equivalents	(1,605)	(802)
Cash and cash equivalents, beginning of the period	4,938	1,990
Cash and cash equivalents, end of the period	\$ 3,333	\$ 1,188
Cash paid for interest	\$ -	\$ -
Cash paid for taxes	\$ 693	\$ 582



Balance Sheet

June 30, 2002 and December 31, 2001 In thousands of dollars (unaudited)	2002	2001
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,333	\$ 9,107
Marketable securities	1,494	828
Accounts receivable	5,989	4,456
Inventories	3,838	2,838
Prepaid expenses	368	434
	15,022	17,663
Investment in significantly influenced company (Note 2)	768	-
Capital assets	12,653	12,650
	\$ 28,443	\$ 30,313
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,589	\$ 4,354
Income taxes payable	(574)	53
	3,015	4,407
Future income taxes	724	856
	3,739	5,263
SHAREHOLDERS' EQUITY		
Share capital	13,548	13,757
Retained earnings	11,156	11,293
	24,704	25,050
	\$ 28,443	\$ 30,313

Contingent Liabilities (Note 4)



Statements of Retained Earnings

Six months ended June 30 In thousands of dollars (unaudited)	2002	2001
Retained earnings, beginning of period	\$ 11,293	\$ 12,855
Net earnings	1,202	1,168
Dividends paid	(1,117)	(5,078)
Premium on redemption of common shares (Note 3)	(222)	-
Retained earnings, end of period	\$ 11,156	\$ 8,945

June 30, 2002

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements and 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 PFB Corporation ("PFB") as of June 30, 2002.

Sales of PFB'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 a number of factors including the prevailing economic climate and 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.

Cash and cash equivalents consist of cash on hand, balances held with banks, and investments in money market instruments.

2. INVESTMENTS

On January 21, 2002, PFB invested \$750,000 to acquire 7,500,000 units of Roxi Capital Corp. ("Roxi") at a price of \$0.10 per unit by way of a private placement. Each unit consists of one treasury common share and one share purchase warrant which can be exercised for one treasury common share at a price of \$0.10 per share prior to the expiry date of January 21, 2004. The investment constitutes 41.5% of the outstanding common shares of Roxi, a public corporation.

Roxi, through its wholly owned subsidiary Advantage Wallsystems Inc., holds Canadian and American patents for the Advantage Insulating Concrete Forming System. As part of the transaction, PFB and Advantage Wallsystems Inc. have entered into a long-term supply agreement under which the PFB's Plasti-Fab Division will be the exclusive manufacturer and supplier of Advantage products.

The net earnings for the six-month period include PFB's share of Roxi's cumulative net earnings since the date of investment and reported using the equity basis. PFB's proportional share of Roxi's net earnings after six-months amounted to \$18,000 and the balance sheet carrying value has been increased to \$768,000.

3. NORMAL COURSE ISSUER BID

In the six-month period, under the Normal Course Issuer Bid program, PFB has purchased and cancelled 85,900 of its common shares for an aggregate price of \$431,000, of which \$222,000 was charged to retained earnings as a premium on redemption of common shares. PFB may purchase from time to time, no later than August 21, 2002, an additional 190,210 of its common shares at market prices.

4. CONTINGENT LIABILITIES

The company has received a request from Woodbridge Foam Corporation ("Woodbridge"), the purchaser of the Morval Division in March 2000, for a payment of \$1,700,000 under the representations and warranties clauses of the purchase agreement.

The company does not agree with the claims being made by Woodbridge and, accordingly, has made no provision in its financial statements. It is not clear if resolution will be possible without litigation.

5. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.