

# Q2

Second Quarter Report 2004



**P·F·B**  
CORPORATION

## PRESIDENT'S LETTER TO SHAREHOLDERS

Revenues of \$11,623,000 during the three months ended June 30, 2004 reflect an 8.5% higher level of activity compared to revenues of \$10,715,000 during the second quarter in 2003. Gross margins improved during the period compared to the second quarter in the previous year. Net income for the quarter was \$423,000 (\$0.07 per share) compared with \$615,000 (\$0.11 per share) in the comparative period of 2003. Of note is the pre-tax capital gain on sale of marketable securities included during the comparable period of 2003 in the amount of \$256,000.

It is uncertain what course raw material prices will take for the balance of the year, as producers continue to attempt additional price increases. Current prices for feedstock derivatives are at all time highs; and with crude oil prices still rising, it is likely that the highs for crude oil prices have not yet been seen for this cycle.

For the six months ended June 30, 2004, sales totaled \$18,940,000 compared to sales of \$18,329,000 for the comparable period in 2003. Net income for the period was \$458,000 (\$0.08 per share) compared to net income of \$87,000 (\$0.01 per share) in 2003.

Operations of Advantage ICF insulating concrete forming systems were totally integrated with those of the Corporation on May 1, 2003. Since then, sales of Advantage ICFs have improved steadily and the product line has established itself in our Plasti-Fab "EPS Product Solutions" strategy.

Effective April 30, 2004, we completed the acquisition of EnerGreen Structural Insulated Panel Company, Inc. and integrated it with our PlastiSpan structural insulated panel (SIP) business. This acquisition brings manufacturing capacity to our SIP strategy through the EnerGreen plant located in Aldergrove, B.C.

We continue to pursue the growth of our SIP business through our relationship with the Insulspan Group of Blissfield, Michigan. The deepening of our relationship with Insulspan, including the integration of systems and the provision of capital through a real estate transaction, is a significant event for PFB Corporation, which will add a new dimension to our vertically integrated EPS products strategy.

Respectfully submitted on behalf of the Board of Directors.



**C. Alan Smith**

President and Chief Executive Officer

August 04, 2004

## MANAGEMENT'S DISCUSSION AND ANALYSIS 2004 SECOND QUARTER RESULTS

### ABOUT FORWARD LOOKING STATEMENTS

Certain statements in this Interim Report, including this Management's Discussion and Analysis (MD&A), contain forward-looking statements about the objectives of PFB Corporation ("PFB" or the "Corporation") and management's expectations, beliefs, intentions or strategies for the future.

All forward-looking statements reflect management's current views as at July 16, 2004 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; actions by government authorities; actions by regulatory authorities; availability of raw materials; changes in raw materials prices; foreign exchange rates; interest rates; competitor activity; industry pricing pressures; seasonality of the construction industry; and weather.

You will find a more detailed assessment of the risks that could cause actual results to materially differ from our current expectations in the Risk Assessment section of the MD&A included in the Annual Report for 2003.

### FINANCIAL HIGHLIGHTS

	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Sales	\$ 11,623	\$ 10,715	\$ 18,940	\$ 18,329
Gross profit	2,937	2,483	4,719	3,586
Income before interest and investment income and taxes <sup>2</sup>	715	596	613	92
Net income	423	615	458	87
Funds provided from operations <sup>1</sup>	876	1,116	1,220	1,415
Earnings per share:				
Basic	0.07	0.11	0.08	0.01
Diluted	0.07	0.11	0.08	0.01

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

<sup>1</sup> Funds provided by operations is a non-GAAP measure and is defined as cash flow from operations before changes in non-cash working capital.

<sup>2</sup> Income before interest and investment income and taxes is a non-GAAP measure and is defined as gross profit less selling and administrative expenses.

## RESULTS OF OPERATIONS

The following should be read in conjunction with PFB's unaudited interim consolidated financial statements contained herein, along with the MD&A and the audited consolidated financial statements contained in PFB's Annual Report for the year ended December 31, 2003.

### SALES

Sales revenues of \$11,623,000 in the second quarter of 2004 were \$908,000 or 8.5% higher than in the second quarter of the prior year. Construction activity across most of Canada was much more active which provided added impetus to the demand for Plasti-Fab products. Increased demand was partly attributed to customer orders that were carried over from the first quarter due to the adverse weather.

Sales in British Columbia continued the solid start recorded in the first quarter by posting significant gains over sales reported in the same quarter of 2003. The same positive trend was experienced in other sales regions with the exception of the Prairies which had a prolonged period of wet weather throughout the quarter. All regions reported increased sales of the Advantage ICF products. We expect this momentum to continue following the introduction of a number of new and innovative Advantage ICF products which were launched near the end of the current quarter.

The current quarter also included two months' incremental sales arising from the acquisition of EnerGreen Structural Insulated Panel Company Inc. (EnerGreen) completed on April 30, 2004. The PlastiSpan Structural Insulated Panel activities have been integrated with those of EnerGreen and the unified operation is actively pursuing new sales opportunities across Canada, the Western United States, and in Japan.

### GROSS PROFIT

Gross profit, expressed as a percentage of sales, averaged 25.3% of sales in the current quarter compared with 23.2% in the prior year quarter. As in the first quarter, an increased weighting of higher margin product sales enhanced the overall quality of the gross profit margin and offset the adverse effect of increasing raw materials costs. The effect of rapidly rising raw materials costs on gross profit in the second quarter of 2004 has been mitigated by the average cost of inventories employed in our manufacturing operations. Products sold in the second quarter were predominantly manufactured from raw materials purchased at prices lower than prevailing current market prices.

Styrene prices have been rising rapidly since late in fiscal 2003, and this trend has continued entering the third quarter of 2004. By the end of the second quarter, styrene prices had reached all time highs, driven by exceptionally high benzene prices. Favourable foreign exchange rates have partly offset the full impact of rising raw materials prices.

The combination of EnerGreen and PlastiSpan SIPs operations was completed in the second quarter. Plasti-Fab now supplies EPS foam cores to EnerGreen as part of our integrated, proprietary products strategy.

From a manufacturing perspective, actual operating expenses in the current quarter were relatively unchanged as compared with those reported in the prior year quarter. Actual manufacturing expenses typically increase in the second quarter commensurate with increased production throughput. However, the positive effect of a year-on-year production volume increase resulted in a reduction in average unit costs which also contributed to the growth in gross profit.

#### **SELLING AND ADMINISTRATIVE EXPENSES**

Selling and administrative expenses in aggregate were \$2,222,000 in the current quarter as compared to \$1,887,000 in the first quarter of 2003, an increase of \$335,000 or 17.8%, mainly reflecting the addition of personnel.

Selling and marketing costs amounted to \$1,520,000 or 13.1% of sales in the current quarter as compared to \$1,370,000 or 12.8% of sales in the second quarter of 2003. The increase is mainly attributable to higher payroll costs, which is partly due the annualized effect of increasing the number of sales personnel during 2003 along with acquiring additional people with the EnerGreen acquisition. Advertising and marketing expenditures increased by \$17,000 in the current quarter as compared to the same quarter in fiscal 2003.

Administrative costs amounted to \$702,000 or 6.0% of sales in the current quarter as compared to \$527,000 or 4.8% of sales in the second quarter of 2003. Payroll related costs are higher in the current quarter due to several recruitments in the second half of 2003 plus additional administrative costs of the newly-acquired EnerGreen subsidiary.

#### **INTEREST AND INVESTMENT INCOME**

Interest earned on cash and cash equivalents during the second quarter amounted to \$12,000 as compared to \$8,000 earned in the second quarter of 2003. Cash and cash equivalent balances throughout the second quarter were generally similar to those reported in the second quarter of 2003.

Income received from investment in marketable securities amounted to \$9,000 as compared to \$341,000 reported in the second quarter of 2003, which included a significant capital gain of \$256,000. The value of our investment in marketable securities in the current quarter was approximately 75% lower than the average amount invested during the second quarter in 2003. Yields, although still very respectable, were lower in the current quarter than in the comparative quarter of 2003.

Our estimate of the split for distributions received between repayment of capital and income remains unchanged at 60% and 40%, respectively.

#### **INCOME TAXES**

Income tax expense was \$313,000 or 42.5% of pre-tax income in the current quarter.

## INCOME AND EARNINGS PER SHARE

Income before investment interest and taxes improved to \$715,000, up from \$596,000 reported in the second quarter of 2003, representing an improvement of \$119,000 or 20.0%. In the first six months of 2004, income before investment interest and taxes improved to \$613,000 as compared to \$92,000 reported in the first six months of 2003. However, the results for the first six months in 2003 were adversely impacted by a one-time cost of \$229,000 for rationalizing our production facilities in Alberta.

Net income for the three months ended June 30, 2004 was \$423,000 compared to net income of \$615,000 in the three months ended June 30, 2003, which included the significant capital gain on the sale of marketable securities of \$256,000. Excluding the capital gain, results for the current quarter were 17.8% higher than in the corresponding quarter of 2003. Basic and diluted earnings per share were \$0.07 per share in the current quarter as compared to \$0.11 per share in the comparative quarter in 2003.

Net income in the six month period ended June 30, 2004 amounted to \$458,000 as compared with net income of \$87,000 for the first six months in 2003. Basic and diluted earnings per share in the first six months were \$0.08 per share as compared to \$0.01 per share in the first six months of the corresponding year. As a result of a small private placement of treasury shares in the first quarter of 2004 and the issuance of treasury shares for the acquisition of EnerGreen in the second quarter, the weighted average number of outstanding shares as at June 30, 2004 was 5,770,748 as compared to 5,615,895 at June 30, 2003.

## CASH FLOWS AND FINANCIAL CONDITION

### CASH FLOWS

For the three months ended June 30, 2004, funds provided by operations amounted to \$455,000 as compared with \$(580,000) used in operations in the comparative quarter of 2003, a positive net change of \$1,035,000. At June 30, 2004, accounts payable and accrued liabilities exhibited normal seasonal fluctuations as compared to the position at March 31, 2004, when accounts payable and accrued liabilities were unusually low due to the timing of styrene purchases in the first quarter.

No cash was used in financing activities during the current quarter.

Investment in capital property of \$718,000 in the second quarter is comparable to the amount of \$681,000 reported in the corresponding quarter of 2003. Capital purchases in the current quarter included: additional production capacity, new delivery equipment, an EPS recycling system, plus other maintenance capital. The cash component of the EnerGreen acquisition was \$523,000. Non-taxable repayment of capital on marketable securities amounted to \$13,000.

At the close of the second quarter, PFB had \$1,860,000 in cash and cash equivalents, a decrease of \$792,000 during the quarter. Cash and cash equivalent balances were \$661,000 lower than the corresponding balances at the end of the second quarter of fiscal 2003.

## FINANCIAL CONDITION

PFB's working capital decreased by \$384,000 to \$10,820,000 in the second quarter of 2004 from \$11,204,000 reported at March 31, 2004. The current ratio declined from 4.89 times at March 31, 2004 to 3.41 times at June 30, 2004, due mainly to the change in accounts payable and accrued liabilities.

Accounts receivable increased by \$2,169,000 in the current quarter and driven by the cyclical nature of sales which typically increase as spring moves into summer. The ageing profile of accounts receivable remains in line with our expectations.

Inventories marginally decreased in the current quarter by an amount of \$87,000 but, overall, inventory values remain considerably higher than normal at this time of year, reflecting both higher volumes and higher costs.

At June 30, 2004, the accounts payable and accrued liabilities balance of \$4,490,000 was \$1,609,000 higher than at March 31 2004, as highlighted in the cash flows section above.

Income taxes recoverable reduced by \$58,000 in the current quarter to \$270,000 as our required tax provision for the current year more closely aligns with our monthly tax instalments.

PFB continues to have no long-term debt.

Total assets increased during the current quarter from \$29,509,000 to \$32,677,000 mainly as a result of the EnerGreen acquisition as reported in Note 3 to the financial statements. Shareholders' equity increased from \$26,347,000 to \$27,821,000 partly as a result of the reported net income of \$423,000 in the current quarter plus share capital increased by an amount of \$1,100,000 representing 200,000 common shares issued from treasury at a price of \$5.50 per share to effect the EnerGreen acquisition.

## OUTLOOK

We continue to remain optimistic toward sales revenue growth in fiscal 2004.

Construction activity in regional markets is reflective of local conditions which are not homogeneous across our total market area.

Advantage ICF products are expected to keep up the growth momentum. The success to-date for the Advantage ICFs has mainly been generated in the residential construction sector and we anticipate that additional growth can be realized in the commercial construction sector as well.

On April 30, 2004, the first component in our structural insulated panel growth strategy was completed with the acquisition of EnerGreen. This manufacturing capability for producing structural insulated panels will greatly enhance our ability to grow this part of our business.

Continuous increases in styrene are a concern for the remainder of the year. We continue to increase the selling prices for our products in our markets to counter these cost increases. Current indications are that higher styrene prices will continue.

We remain committed to pursuing continuous improvement initiatives in our manufacturing facilities to reduce production costs, which includes prudent capital spending plans directed at growing our business and reducing our manufacturing costs.

Our solid equity base and debt free balance sheet provides us with the financial strength to grow our business which is the main thrust of our strategy.



**Stephen P. Hardy**

Vice President and Chief Financial Officer

July 16, 2004

## CONSOLIDATED STATEMENTS OF OPERATIONS

Six months ended June 30 In thousands of dollars (unaudited)	2004	2003
Sales	\$ 18,940	\$ 18,329
Cost of goods sold	14,221	14,743
Gross profit	4,719	3,586
Selling and administrative expenses	4,106	3,494
	613	92
Interest income	48	32
Investment income	25	139
Gain on sale of marketable securities	97	256
Income before taxes	783	519
Income taxes	(325)	(207)
Equity loss of significantly influenced company	-	(225)
Net income	\$ 458	\$ 87
Earnings per common share - basic [Note 6]	\$ 0.08	\$ 0.01
Earnings per common share - diluted [Note 6]	\$ 0.08	\$ 0.01
Weighted average number of common shares outstanding	5,770,748	5,615,895

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Six months ended June 30 In thousands of dollars (unaudited)	2004	2003
Retained earnings, beginning of period	\$ 13,521	\$ 12,748
Adjustment for change in accounting policy [Note 2 (c)]	(55)	-
Balance at beginning of period, as restated	13,466	12,748
Net income	458	87
Dividends paid	(1,256)	(1,223)
Premium on redemption of common shares [Note 7]	(4)	(24)
Retained earnings, end of period	\$ 12,664	\$ 11,588

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended June 30  
In thousands of dollars (unaudited)

2004

2003

### Cash provided by (used in):

#### Operating

Net income	\$ 458	\$ 87
Items not affecting cash flows:		
Depreciation and amortization	930	1,066
(Gain) loss on sale of capital assets	4	4
Gain on sale of marketable securities	(97)	(256)
Equity in loss of significantly influenced company	-	225
Future income taxes	(75)	289
	1,220	1,415
Changes in non-cash working capital	(3,397)	(3,847)
	(2,177)	(2,432)

#### Financing

Dividend paid	(1,256)	(1,223)
Issuance of common shares	97	119
Purchase of common shares for cancellation [Note 7]	(8)	(54)
	(1,167)	(1,158)

#### Investing

Purchase of capital assets	(1,043)	(838)
Proceeds from sale of capital assets	-	24
Additions to product development costs	(35)	(22)
Business acquisition	(523)	(108)
Proceeds on sale of marketable securities	559	2,081
Repayment of capital on marketable securities	42	64
	(1,000)	1,201

#### Decrease in cash and cash equivalents

(4,344)

(2,389)

#### Cash and cash equivalents, beginning of the period

6,204

4,910

#### Cash and cash equivalents, end of the period

\$ 1,860

\$ 2,521

Cash paid for interest	\$ -	\$ -
Cash paid for taxes	\$ 698	\$ 626

## CONSOLIDATED STATEMENTS OF OPERATIONS

Three months ended June 30

In thousands of dollars (unaudited)

	2004	2003
Sales	\$ 11,623	\$ 10,715
Cost of goods sold	8,686	8,232
Gross profit	2,937	2,483
Selling and administrative expenses	2,222	1,887
	715	596
Interest income	12	8
Investment income	9	85
Gain on sale of marketable securities	-	256
Income before taxes	736	945
Income taxes	(313)	(316)
Equity loss of significantly influenced company	-	(14)
Net income	\$ 423	\$ 615

Earnings per common share - basic [Note 6]	\$ 0.07	\$ 0.11
--	---------	---------

Earnings per common share - diluted [Note 6]	\$ 0.07	\$ 0.11
--	---------	---------

Weighted average number of common shares outstanding	5,840,801	5,690,491
--	-----------	-----------

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended June 30

In thousands of dollars (unaudited)

2004

2003

### Cash provided by (used in):

#### Operating

Net income	\$	423	\$	615
Items not affecting cash flows:				
Depreciation and amortization		473		440
(Gain) loss on sale of capital assets		-		5
Gain on sale of marketable securities		-		(256)
Equity in loss of significantly influenced company		-		14
Future income taxes		(20)		298
		876		1,116
Changes in non-cash working capital		(421)		(1,696)
		455		(580)

#### Financing

Purchase of common shares for cancellation [Note 7]		-		(22)
---	--	---	--	------

#### Investing

Purchase of capital assets		(718)		(681)
Proceeds from sale of capital assets		-		23
Additions to product development costs		(19)		(13)
Business acquisition		(523)		(108)
Proceeds on sale of marketable securities		-		2,081
Repayment of capital on marketable securities		13		38
		(1,247)		1,340

<b>Increase (decrease) in cash and cash equivalents</b>		<b>(792)</b>		<b>738</b>
---	--	--------------	--	------------

<b>Cash and cash equivalents, beginning of the period</b>		<b>2,652</b>		<b>1,783</b>
---	--	--------------	--	--------------

<b>Cash and cash equivalents, end of the period</b>	<b>\$</b>	<b>1,860</b>	<b>\$</b>	<b>2,521</b>
---	-----------	--------------	-----------	--------------

Cash paid for interest	\$	-	\$	-
------------------------	----	---	----	---

Cash paid for taxes	\$	274	\$	115
---------------------	----	-----	----	-----

## CONSOLIDATED BALANCE SHEETS

In thousands of dollars	June 2004	June 2003	December 2003
	unaudited	unaudited	audited
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 1,860	\$ 2,521	\$ 6,204
Marketable securities	448	-	952
Accounts receivable	7,226	6,815	4,850
Inventories	4,985	3,666	3,659
Income taxes recoverable	270	1,050	-
Prepaid expenses	521	424	440
<b>Total current assets</b>	<b>15,310</b>	<b>14,476</b>	<b>16,105</b>
Capital assets	15,820	14,879	14,710
Intangible assets	255	-	-
Goodwill	1,084	661	661
Product development costs [Note 4]	208	161	173
<b>Total assets</b>	<b>\$ 32,677</b>	<b>\$ 30,177</b>	<b>\$ 31,649</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	\$ 4,490	\$ 4,136	\$ 3,806
Income taxes payable	-	-	28
	4,490	4,136	3,834
Future income taxes	317	319	336
<b>Total liabilities</b>	<b>4,807</b>	<b>4,455</b>	<b>4,170</b>
Contingent liabilities [Note 9]			
<b>Shareholders' Equity</b>			
Share capital [Note 5]	15,151	14,134	13,958
Contributed surplus [Note 5 (c)]	55	-	-
Retained earnings	12,664	11,588	13,521
<b>Total shareholders' equity</b>	<b>27,870</b>	<b>25,722</b>	<b>27,479</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 32,677</b>	<b>\$ 30,177</b>	<b>\$ 31,649</b>

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2004

### 1. DESCRIPTION OF THE BUSINESS

PFB Corporation ("PFB" or the "Corporation") is incorporated under the Alberta Business Corporations Act and its head office is located in Calgary, Alberta, Canada.

Its principal business activity is manufacturing, marketing and distributing expanded polystyrene (EPS) insulation products and proprietary building systems through two wholly-owned subsidiaries, Plasti-Fab Ltd. (Plasti-Fab) and EnerGreen Structural Insulated Panel Company Inc. (EnerGreen). Plasti-Fab operates manufacturing and sales facilities in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, and Ontario. The Plasti-Fab brand of EPS products and proprietary building systems are marketed and distributed to customers nationally across Canada and in the United States. EnerGreen operates a manufacturing and sales facility in British Columbia where it manufactures Structural Insulated Panels (SIPs) for Canadian, U.S., and international markets, including Japan.

### 2. ACCOUNTING POLICIES

#### (a) Basis of Presentation

The interim consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles and include the accounts of PFB and its wholly-owned subsidiaries, Plasti-Fab Ltd., EnerGreen Structural Insulated Panel Company Inc., and 1036750 Alberta Ltd. All inter-company accounts and transactions have been eliminated on consolidation.

#### (b) Significant Accounting Policies

The interim consolidated financial statements and notes hereto should be read in conjunction with the audited consolidated financial statements and the notes thereto in PFB's annual report for the year ended December 31, 2003. These interim financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements. Certain information and disclosures normally required to be included in notes to annual consolidated financial statements have been condensed or omitted from these interim 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 these financial statements are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the accompanying interim consolidated financial statements include all adjustments necessary to present fairly the financial position and results of operations of PFB as of and for the three and six month periods ended June 30, 2004.

Sales of the Corporation's products are driven by customer and industrial demand for insulation and building products. The timing of customers' construction projects can be influenced by a number of factors including the prevailing economic climate and weather. 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.

Intangible assets with a finite life are amortized over their estimated life. Acquired customer lists (see Note 3 (b)) are being amortized over a period of three years. Intangible assets with indefinite lives are tested for impairment at least annually and when events or changes in circumstances indicate that their carrying values may be impaired. Acquired registered trade marks (see Note 3 (b)) have been determined by management to have an indefinite life and have not been amortized.

(c) **Recent Changes to Accounting Standards**

On January 1, 2004, the Corporation adopted the Canadian Institute of Chartered Accountants accounting pronouncement for stock-based compensation. The new accounting pronouncement requires the Corporation to recognise compensation expense in each reporting period based on the fair value of the stock options granted during that period. The Corporation determines the fair value of each stock option grant using the Black-Scholes option pricing model. As a result of applying this new accounting policy, the Corporation's opening retained earnings have been restated to include the fair value of stock options granted in December 2002.

In December 2001, the AcSB issued AcG-13 "Hedging Relationships", as amended. In June 2002, EIC-128 "Accounting for Trading Speculative or Non-Hedging Derivative Financial Instruments" was also issued. AcG-13 establishes the criteria for identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. EIC-128 establishes that a freestanding derivative financial instrument that gives rise to a financial asset or financial liability and is entered into for trading or speculative purposes, or that does not qualify for hedge accounting under AcG-13, should be recognized on the balance sheet and measured at fair value, with changes in fair value recognized in current income. Both AcG-13 and EIC-128 were effective for the fiscal year beginning January 1, 2004, and the Corporation's hedging program complies with the requirements of EIC-128. Accordingly, the adoption of the new recommendations is not expected to have a material impact on the PFB's consolidated financial statements.

### 3. BUSINESS ACQUISITIONS

(a) Advantage Wallsystems Inc.

PFB completed the acquisition of Advantage Wallsystems Inc. on May 1, 2003. PFB had previously acquired 41.5% of the common shares of Advantage Wallsystems Inc. ("Advantage"). On May 1, 2003, the Corporation acquired the remaining 58.5% of the issued and outstanding common shares of Advantage and the acquisition is accounted for using the purchase method. The results of operations of Advantage have been included with those of the Corporation from January 21, 2002 at 41.5% and from May 1, 2003 at 100%. On May 1, 2003, Advantage was amalgamated with the Corporation's wholly-owned subsidiary, Plasti-Fab Ltd.

The total purchase price of \$1,363,000 is comprised of the initial investment of \$750,000, the issuance of 211,744 common shares of PFB valued at \$2.38 per share for the remaining 58.5% of Advantage, and acquisition related direct costs of \$108,000.

The purchase price allocation is as follows:

	41.50% January 21, 2002	58.50% May 1, 2003
Cash	\$ 750,000	\$ -
Issuance of shares (net)	-	505,000
Acquisition costs	-	108,000
	\$ 750,000	\$ 613,000
Cash	\$ 102,000	\$ 1,000
Non-cash working capital	64,000	(288,000)
Future income tax asset	-	680,000
Capital assets	102,000	100,000
Assets under capital lease	35,000	12,000
Goodwill	553,000	108,000
Lease obligations	(31,000)	-
Long-term debt	(75,000)	-
	\$ 750,000	\$ 613,000

Goodwill is not deductible for income tax purposes.

(b) **EnerGreen Structural Insulated Panel Company Inc.**

On April 30, 2004, the Corporation acquired all of the issued and outstanding shares of EnerGreen Structural Insulated Panel Company Inc. for total consideration of \$1,623,000. The consideration consisted of \$500,000 in cash and 200,000 common shares of PFB Corporation issued at \$5.50 per share, plus \$23,000 of acquisition costs. The issued common shares are held in escrow with 50,000 shares to be released on each of the following dates: July 31, 2004, October 31, 2004, January 31, 2005, and April 30, 2005.

EnerGreen is located in Aldergrove, British Columbia, Canada, and manufactures Structural Insulated Panels (SIPs) for Canadian, U.S., and international markets, including Japan.

The financial results of EnerGreen have been consolidated in the financial results of PFB from the effective date. The acquisition is accounted for using the purchase method and the following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Cash paid	\$ 500,000
Acquisition costs	23,000
<hr/>	
Total cash consideration	523,000
Issuance of common shares	1,100,000
	<hr/>
	\$ 1,623,000
Capital assets	\$ 1,000,000
Intangible assets	256,000
Goodwill	423,000
Future income tax liability	(56,000)
	<hr/>
	\$ 1,623,000

Intangible assets consist of registered trade marks \$156,000 and customer lists \$100,000. Goodwill is not deductible for income tax purposes.

**4. PRODUCT DEVELOPMENT COSTS**

PFB's wholly-owned subsidiary, Plasti-Fab, incurred expenditures of \$19,000 (2003 - \$9,000) in the second quarter of 2004 in connection with a major product development initiative at its resin manufacturing facility located in Alberta. The project is expected to be completed before the end of fiscal 2004. Management has reviewed the nature of the expenditures and is satisfied that they continue to meet the specified criteria related to technology, market and financial feasibility for deferral under Canadian generally accepted accounting principles. The aggregate costs of the project will be amortized over a three-year period once the project is completed.

PFB's policy for product development costs requires the periodic review of the carrying value of such costs in order to determine if there has been impairment in value based on a reduction in expected future cash flows. If it is determined that the carrying value exceeds the net recoverable amount, the asset will be written down to the net recoverable amount.

## 5. SHARE CAPITAL

### (a) Authorised

Unlimited number of voting common shares without nominal or par value.

Unlimited number of preferred shares without nominal or par value, issuable in series at the discretion of the directors of the Corporation, of which none are outstanding.

### (b) Common Shares Issued

	Six months ended June 30, 2004		Twelve months ended December 31, 2003	
	Shares	Amount	Shares	Amount
Balance, beginning of period	5,688,435	\$ 13,958,000	5,534,391	\$ 13,540,000
Issued as a result of the exercise of stock options	-	-	25,000	119,000
Issued as a result of acquisitions	200,000	1,100,000	211,744	505,000
Issued as a result of a private placement	20,000	100,000	-	-
Less: share issue costs	-	(3,000)	-	-
Cancellation of repurchased shares	(1,700)	(4,000)	(82,700)	(206,000)
Balance, end of period	5,906,735	\$ 15,151,000	5,688,435	\$ 13,958,000

### (c) Stock-Based Compensation Plan

PFB's outstanding and exercisable stock options as at June 30, 2004, relate to options granted to a director in December 2002. Upon grant, these options were fully vested and had a fair value of approximately \$2.20 per option, or \$55,000 in aggregate. See Note 2 (c).

PFB's current outstanding and exercisable stock options as at June 30, 2004 are as follows:

Weighted Average Exercise Price	Number Outstanding and Exercisable at June 30, 2004	Weighted Amount Remaining Contractual Life
\$4.90	25,000	3.5 years

**6. RECONCILIATION OF EARNINGS PER COMMON SHARE**

The following table sets forth the reconciliation of basic and diluted earnings per share for the three months ended June 30.

	2004	2003
Net income	\$ 423,000	\$ 615,000
Weighted average number of common shares outstanding	5,840,801	5,690,491
Shares assumed issued	25,000	25,000
Shares assumed purchased	(22,601)	(24,698)
Adjusted weighted average number of common shares outstanding	5,843,200	5,690,793
Earnings per share:		
Basic	\$ 0.07	\$ (0.11)
Diluted	\$ 0.07	\$ (0.11)

The following table sets forth the reconciliation of basic and diluted earnings per share for the six months ended June 30.

	2004	2003
Net income	\$ 458,000	\$ 87,000
Weighted average number of common shares outstanding	5,770,748	5,615,895
Shares assumed issued	25,000	25,000
Shares assumed purchased	(22,152)	(24,162)
Adjusted weighted average number of common shares outstanding	5,773,596	5,616,733
Earnings per share:		
Basic	\$ 0.08	\$ (0.01)
Diluted	\$ 0.08	\$ (0.01)

## 7. NORMAL COURSE ISSUER BID

In the second quarter, PFB purchased nil (2003 - 4,400) common shares for cancellation under a Normal Course Issuer Bid program for an aggregate price of \$nil (2003 - \$22,000), of which \$nil (2003 - \$8,000) was charged to retained earnings. In the current fiscal period, PFB has purchased for cancellation 1,700 (2003 - 11,000) common shares for an aggregate price of \$8,000 (2003 - \$54,000) of which \$4,000 (2003 - \$24,000) has been charged to retained earnings.

## 8. FINANCIAL INSTRUMENTS

In the normal course of its operations, PFB's operating subsidiaries, Plasti-Fab and EnerGreen, are exposed to changes in the U.S. dollar exchange rate relative to the Canadian dollar. Plasti-Fab and EnerGreen periodically enter into forward foreign exchange contracts. At June 30, 2004, Plasti-Fab has contracted a number of forward foreign exchange contracts with an aggregate value of U.S. \$1,200,000 and a blended exchange rate of CAD \$1.00 = U.S. \$0.761. The monthly foreign exchange contracts run from July to September 2004. As at June 30, 2004, an unrealized foreign exchange gain of \$15,000 has been recorded in the financial statements under selling and administrative expenses with the offset included in accounts receivable.

## 9. CONTINGENT LIABILITIES

In November 2002, the Corporation's Plasti-Fab subsidiary received a request from Woodbridge Foam Corporation ("Woodbridge"), the purchaser of the Morval Division in March 2000, for \$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 consolidated financial statements. It is not clear if resolution of this matter will be possible without litigation.

In the normal course of operations, the Corporation occasionally becomes involved in various claims. While the final outcome with respect to any claims pending at June 30, 2004 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's financial position or results of operations.

## 10. RELATED PARTY TRANSACTIONS

In the second quarter of 2004, PFB paid \$25,000 (2003 - \$25,000) in consultancy fees to Aeonian Capital Corporation ("Aeonian"). Cumulative consultancy fees paid to Aeonian in fiscal 2004 totalled \$50,000 (2003 - \$50,000).

## 11. COMPARATIVE FIGURES

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