P·F·B CORPORATION

*Insulating Building Products*

# Q2

## Second Quarter Report 2005

# PRESIDENT'S LETTER TO SHAREHOLDERS

The strong second quarter results of PFB Corporation reflect a combination of many factors. The robust construction materials market has created increased demand from building owners for our energy-efficient insulating building products as a result of high energy costs. Additionally, a shortage of skilled labor on jobsites has provided motivation for builders to use our ready-to-assemble building systems.

Accordingly, this market has been positive for our financial results combined with a variety of operational factors including higher sales volumes across our entire product lines, higher selling prices, and the inclusion of operating results from corporate acquisitions made last year. Despite higher raw material costs, gross profit margins have improved.

Net income for the three months ended June 30, 2005, was $1,576,000, $0.25 per share, compared to net income of $423,000, $0.07 per share, in the comparative period in 2004. Sales were $20,856,000 in the second quarter of 2005 as compared to $11,623,000 in the second quarter of 2004, an increase in sales of $9,233,000 or 79.4%.

Net income for the six months ended June 30, 2005 was $1,584,000, $0.25 per share, as compared to net income of $458,000, $0.08 per share in the comparative six months of 2004. Sales in the six month period ended June 30, 2005 were $34,179,000 as compared to $18,940,000 in the six month period ended June 30, 2004, an increase in sales of $15,239,000 or 80.5%.

Consolidated results in 2005 and comparative figures for the 2004 periods include the results of EnerGreen Structural Insulated Panel Company Inc. from April 30, 2004, and Riverbend Timber Framing Inc., from October 1, 2004.

Subsequent to the corporate acquisitions last year, we have rationalized overhead and expect to continue that process throughout this year. Raw material prices remain volatile but volume is in ample supply at this time. Our focus is to match raw material costs and selling prices and thus maintain margins where possible. All facilities are operating at high levels of capacity and future capacity additions are being contemplated.

The Board of Directors has approved a revision to the Corporation's dividend policy that inaugurates a quarterly dividend of $0.06 per common share to be paid on August 31, 2005 to shareholders of record on August 15, 2005. This policy replaces the previous annual dividend policy.

Respectfully submitted on behalf of the Board of Directors.

C. Alan Smith

President and Chief Executive Officer

July 28, 2005

# MANAGEMENT'S DISCUSSION AND ANALYSIS 2005 SECOND QUARTER RESULTS

## 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 22, 2005, 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 the price of raw materials; foreign exchange rates; interest rates; competitor activity; industry pricing pressures; seasonality of the construction industry; and weather related factors.

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 Management and Assessment section of the MD&A included in the Annual Report for 2004.

## FINANCIAL HIGHLIGHTS (unaudited)

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Sales | $ 20,856 | $ 11,623 | $ 34,179 | $ 18,940 |
| Gross profit | 6,098 | 2,951 | 8,932 | 4,741 |
| Income before interest and investment income and taxes [1] | 2,560 | 715 | 2,260 | 613 |
| Net income | 1,576 | 423 | 1,584 | 458 |
| Funds provided from operations [2] | 2,405 | 876 | 2,676 | 1,220 |
| Earnings per share: | | | | |
| Basic | 0.25 | 0.07 | 0.25 | 0.08 |
| Diluted | 0.25 | 0.07 | 0.25 | 0.08 |

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

[1] Income before interest and investment income and taxes is a non-GAAP measure and is defined as gross profit less selling and administrative expenses.

[2] Funds provided from operations is a non-GAAP measure and is defined as cash flow from operations before changes in non-cash working capital.

# FINANCIAL RESULTS ANALYSIS

The following results of operations 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, 2004.

Insulspan Corporation, previously EnerGreen Structural Insulated Panel Company Inc., was acquired on April 30, 2004 and the results of its operations have been consolidated since that date. Insulspan Incorporated, a United States subsidiary of PFB, acquired Riverbend Timber Framing, Inc. effective October 1, 2004 and the results of its operations have been consolidated since that date. Accordingly, comparative figures for the corresponding periods are affected by the timing of the acquisitions.

Results from the United States subsidiary's operations are translated into Canadian dollars on a periodic basis for inclusion in the consolidated results.

## SALES

Consolidated net sales for the second quarter ended June 30, 2005 were $20,856,000, an increase of $9,233,000 or 79.4% compared with $11,623,000 for the corresponding period in 2004.

Consolidated net sales for the six months ended June 30, 2005 were $34,179,000, an increase of $15,239,000 or 80.5% compared to $18,940,000 for the corresponding period in 2004.

A summary of sales by segment expressed in Canadian dollars for the three month and six month periods ended June 30 are as outlined in the following table:

| | Three months ended June 30, 2005 | | | Six months ended June 30, 2005 | | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | % change | 2005 | 2004 | % change |
| Canada | $ 14,563,000 | $ 11,172,000 | 30.4% | $ 24,448,000 | $ 18,444,000 | 32.6% |
| United States | 6,292,000 | 358,000 | 1657.5% | 9,702,000 | 403,000 | 2307.4% |
| Other | 1,000 | 93,000 | -98.9% | 29,000 | 93,000 | -68.8% |
| Total | $ 20,856,000 | $ 11,623,000 | 79.4% | $ 34,179,000 | $ 18,940,000 | 80.5% |

Increased sales revenues in the current quarter reflect generally improved sales volumes and selling price increases. The introductions of new products, as well as exports, were significant factors in increased sales.

The Insulspan companies experienced an aggregate increase in sales revenues during the current quarter of fiscal 2005 compared with sales in the first quarter that reflect expected seasonal fluctuations.

## GROSS PROFIT

Consolidated gross profit was $6,098,000 for the current quarter compared with $2,951,000 for the corresponding period in 2004, an increase of $3,147,000. Gross profit expressed as a percentage of sales averaged 29.2% in the current quarter which was up from 25.4% in the comparative quarter of fiscal 2004.

Consolidated gross profit in the six month period ended June 30, 2005 was $8,932,000 compared with $4,741,000 reported in the six months ended June 30, 2004, an increase of $4,191,000 or 88.4%.

Raw material pricing continued its volatility during the second quarter of 2005. This volatility could remain a feature through the remainder of the year.

SELLING AND ADMINISTRATION

Selling and administrative expenses in aggregate were $3,516,000 or 16.9% of consolidated sales in the current quarter as compared to $2,236,000 or 19.2% of sales in the second quarter of fiscal 2004. On a year-to-date basis selling and administrative expenses were $6,637,000 or 19.4% of sales as compared to $4,128,000 or 21.8% over the same period in fiscal 2004.

Selling and marketing costs amounted to $2,440,000 or 11.7% of consolidated sales in the current quarter as compared to $1,522,000 or 13.1% of consolidated sales in the second quarter of fiscal 2004. The increase of $918,000 is primarily due to expanded operations arising from inclusion of the Insulspan operations acquired in fiscal 2004. On a year-to-date basis selling and marketing expenses were $4,662,000 or 13.6% of sales as compared to $2,831,000 or 14.9% over the same period in fiscal 2004.

Administrative costs amounted to $1,076,000 or 5.2% of sales in the current quarter as compared to $714,000 or 6.1% of sales in the second quarter of fiscal 2004. On a year-to-date basis administrative expenses were $1,975,000 or 5.8% of sales as compared to $1,297,000 or 6.9% over the same period in fiscal 2004. The quarterly and year-to-date increases in administrative costs include the incremental costs resulting from inclusion of the Insulspan operations, increased professional fees related to legal and accounting and the fair value of stock-based compensation of $44,000 expensed in the current quarter arising from the issuance of stock options.

We continue to pursue opportunities for optimizing our cost structures.

UNREALIZED FOREIGN EXCHANGE LOSS

During the second quarter of fiscal 2005, the Corporation recorded an unrealized foreign exchange loss of $22,000. On a year-to-date basis the unrealized foreign exchange loss was $35,000. There were no unrealized foreign exchange gains or losses in the comparative quarter and six month period in fiscal 2004. The unrealized foreign exchange losses arise from translating United States denominated assets and liabilities into Canadian dollars as of the financial statement date. Since December 31, 2004, the Canadian dollar has weakened overall against the United States dollar by approximately 1.9%.

INTEREST AND INVESTMENTS

The net interest expense in the current quarter was $50,000 as compared to interest income of $12,000 in the second quarter of fiscal 2004. On a year-to-date basis net interest expense was $71,000 as compared to interest income of $48,000 in the first six months of fiscal 2004.

The increase in interest expense in the current quarter was attributed to an increase in outstanding debt in the second quarter. By comparison, PFB had no long-term debt in the six month period of fiscal 2004. Interest income was earned on cash balances in 2004.

Investment income on marketable securities was $7,000 in the current year compared to $25,000 in the first six months of fiscal 2004. A net gain on the sale of marketable securities in the current year was $283,000, compared to a net gain of $97,000 in the corresponding period in fiscal 2004. PFB disposed of its investment in marketable securities in March 2005.

### INCOME TAX EXPENSE

Income tax expense for the current quarter was $934,000 or 37.2% of income before taxes as compared to income tax expense of $313,000 or 42.5% of income before taxes in the second quarter of fiscal 2004. On a year-to-date basis income tax expense was $895,000 or 36.1% of income before taxes as compared to $325,000 or 41.5% of income before taxes in 2004.

### NET INCOME AND EARNINGS PER SHARE

Net income was $1,576,000 ($0.25 per share) compared with $423,000 ($0.07 per share) in the comparative quarter, an increase of $1,153,000. For the six month period, net income was $1,584,000 ($0.25 per share) compared to $458,000 ($0.08 per share) in the comparative period.

The basic weighted average number of common shares outstanding increased from 5,840,801 at the end of the second quarter of fiscal 2004 to 6,322,036 at the end of the current quarter. The weighted average number of fully diluted common shares increased from 5,843,200 at the end of the second quarter of fiscal 2004 to 6,324,687 at the end of the current quarter (see Note 8 to the interim unaudited consolidated financial statements). The year-on-year increase in both the basic and fully diluted common shares is mainly attributable to the issuances of shares from treasury to effect the corporate acquisitions in fiscal 2004. Of the 800,000 common shares issued to acquire Riverbend Timber Framing Inc. in the fourth quarter of fiscal 2004, 399,999 are subject to a contingency agreement and held in an escrow account.

## CASH FLOWS AND FINANCIAL CONDITION

### CASH FLOWS

The Corporation ended the second quarter of fiscal 2005 with $2,029,000 in cash and cash equivalents, a decrease of $2,826,000 from the cash and cash equivalents balance of $4,855,000 at December 31, 2004.

### CASH FLOWS - OPERATING

Funds provided by operations in the current quarter were $2,405,000, compared to $876,000 of funds provided from operations in the comparative quarter of the prior year. For the six months ended June 30, 2005, funds provided by operations were $2,676,000 an increase of $1,456,000 over the comparative period.

Current assets have increased by $5,897,000 from $15,310,000 as at June 30, 2004 to $21,207,000 as at June 30, 2005 due mainly to increased accounts receivable of $2,632,000 and an increase in inventories of $3,598,000. Both these increases are commensurate with the growth in business activity. Increased accounts receivable balances are also reflective of higher average selling prices and higher inventories are reflective of increased raw material costs as compared to a year ago. Raw materials and work-in-process inventories normally peak in value at the end of the second quarter.

Current liabilities were $11,181,000 at June 30, 2005 compared with $4,490,000 as at June 30, 2004. The increase is made up of: an increase in accounts payable and accrued liabilities of $2,295,000; $3,461,000 in customer deposits, $618,000 representing the current portion of long-term debt; and income taxes payable of $317,000. At June 30, 2005, the Corporation had income taxes payable of $317,000 compared with income taxes recoverable of $270,000 at June 30, 2004, a net change of $587,000 attributed to increased net income in the current fiscal year.

CASH FLOWS - INVESTING

Cash used in investing activities was $384,000 in the current quarter as compared to $1,247,000 in the comparative period of 2004. Capital expenditures in the current quarter were $386,000 as compared to $718,000 in the second quarter of fiscal 2004. In the comparative period in 2004, $523,000 was used in the corporate acquisition.

CASH FLOWS - FINANCING

During the quarter cash was used to repay long-term debt of $47,000.

FINANCIAL CONDITION

Working capital of the Corporation increased by an amount of $1,978,000 in the current quarter, increasing from $8,048,000 and a current ratio of 1.86 times at March 31, 2005 to $10,026,000 and a current ratio of 1.90 times at June 30, 2005.

As at June 30, 2005, the Corporation had $5,078,000 of long-term debt, virtually unchanged from that reported at March 31, 2005. During the current quarter, a $42,000 capital lease agreement for replacement equipment was completed. At June 30, 2005, the Corporation had an unused revolving credit facility of $5,000,000.

Total assets increased to $47,516,000 from $44,119,000 reported at March 31, 2005. Shareholders' equity increased to $31,556,000 from $29,936,000 as at March 31, 2005. The increase includes net income for the current quarter of $1,576,000 plus $44,000 of stock-based compensation costs which has been credited to the contributed surplus account. Total assets and shareholders' equity does not include $2,000,000 attributed to an amount of 399,999 common shares issued as contingent consideration to effect a corporate acquisition in 2004. The value attributed to those shares will be booked to goodwill and share capital when the contingency is met.

Funded debt to invested capital ratio, defined as the aggregate of shareholders' equity to funded debt less cash on hand, was 14.7% as at the end of the current quarter, unchanged from March 31, 2005.

# OUTLOOK

A combination of organic sales growth and growth resulting from acquired operations last year, provide optimism that sales in 2005 will continue to improve from sales in the 2004 comparative period.

The volatility of raw material costs continues to be uncertain for the balance of this year.

Throughout the balance of the year cash will be used to fund larger accounts receivable and inventories that arise from both higher levels of activity and higher selling prices and raw material costs.

We continue with our capital spending programs to upgrade and expand production capacity and divest surplus assets.

Our cash balances, anticipated future cash flows from operations and approved credit facilities are expected to be sufficient to meet immediate funding requirements at this time.

Stephen P. Hardy
Vice President and Chief Financial Officer
July 22, 2005

P·F·B CORPORATION

# CONSOLIDATED STATEMENTS OF OPERATIONS

| Six months ended June 30<br>In thousands of dollars (unaudited) | 2005 | 2004 |
|---|---|---|
| Sales | $ 34,179 | $ 18,940 |
| Cost of goods sold | 25,247 | 14,199 |
| Gross profit | 8,932 | 4,741 |
| Selling and administrative expenses | 6,637 | 4,128 |
| Unrealized foreign exchange loss | 35 | - |
| | 2,260 | 613 |
| Interest income (expense), net | (71) | 48 |
| Investment income | 7 | 25 |
| Gain on sale of marketable securities | 283 | 97 |
| Income before taxes | 2,479 | 783 |
| Income taxes | (895) | (325) |
| Net income | $ 1,584 | $ 458 |
| Earnings per common share – basic [Note 8] | $ 0.25 | $ 0.08 |
| Earnings per common share – diluted [Note 8] | $ 0.25 | $ 0.08 |
| Weighted average number of common shares outstanding | 6,312,756 | 5,770,748 |

P·F·B CORPORATION

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| Six months ended June 30<br>In thousands of dollars (unaudited) | 2005 | 2004 |
|---|---|---|
| **Cash provided by (used in):** | | |
| **Operating** | | |
| Net income | $ 1,584 | $ 458 |
| Items not affecting cash flows: | | |
| Depreciation and amortization | 1,486 | 930 |
| (Gain) loss on sale of capital assets | (2) | 4 |
| Gain on sale of marketable securities | (283) | (97) |
| Stock based compensation | 44 | - |
| Future income taxes | (188) | (75) |
| Unrealized foreign exchange loss | 35 | - |
| | 2,676 | 1,220 |
| Changes in non-cash working capital | (3,758) | (3,397) |
| Unrealized foreign exchange loss relating to non-cash working capital | (53) | - |
| | (1,135) | (2,177) |
| **Financing** | | |
| Increase in long-term debt | 1,000 | - |
| Repayment of long-term debt | (75) | - |
| Dividend paid | (1,479) | (1,256) |
| Issuance of common shares | 123 | 97 |
| Purchase of common shares for cancellation [Note 9] | (13) | (8) |
| Unrealized foreign exchange gain relating to financing | 43 | - |
| | (401) | (1,167) |
| **Investing** | | |
| Purchase of capital assets | (1,997) | (1,043) |
| Proceeds from sale of capital assets | 2 | - |
| Additions to product development costs | - | (35) |
| Business acquisition [Note 3] | - | (523) |
| Proceeds on sale of marketable securities | 693 | 559 |
| Repayment of capital on marketable securities | 9 | 42 |
| | (1,293) | (1,000) |
| Foreign exchange gain on cash held in foreign currency | 3 | - |
| **Decrease in cash and cash equivalents** | (2,826) | (4,344) |
| **Cash and cash equivalents, beginning of the period** | 4,855 | 6,204 |
| **Cash and cash equivalents, end of the period** | $ 2,029 | $ 1,860 |
| Cash paid for interest | $ 87 | $ - |
| Cash paid for taxes | $ 818 | $ 698 |

# CONSOLIDATED STATEMENTS OF OPERATIONS

| Three months ended June 30<br>In thousands of dollars (unaudited) | 2005 | 2004 |
|---|---|---|
| Sales | $ 20,856 | $ 11,623 |
| Cost of goods sold | 14,758 | 8,672 |
| Gross profit | 6,098 | 2,951 |
| Selling and administrative expenses | 3,516 | 2,236 |
| Unrealized foreign exchange loss | 22 | - |
| | 2,560 | 715 |
| Interest income (expense), net | (50) | 12 |
| Investment income | - | 9 |
| Gain on sale of marketable securities | - | - |
| Income before taxes | 2,510 | 736 |
| Income taxes | (934) | (313) |
| Net income | $ 1,576 | $ 423 |
| | | |
| Earnings per common share – basic [Note 8] | $ 0.25 | $ 0.07 |
| Earnings per common share – diluted [Note 8] | $ 0.25 | $ 0.07 |
| | | |
| Weighted average number of common shares outstanding | 6,322,036 | 5,840,801 |

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# CONSOLIDATED STATEMENTS OF CASH FLOWS

| Three months ended June 30<br>In thousands of dollars (unaudited) | 2005 | 2004 |
|---|---|---|
| **Cash provided by (used in):** | | |
| **Operating** | | |
| Net income | $ 1,576 | $ 423 |
| Items not affecting cash flows: | | |
| Depreciation and amortization | 742 | 473 |
| (Gain) loss on sale of capital assets | (2) | - |
| Stock based compensation | 44 | - |
| Future income taxes | 46 | (20) |
| Unrealized foreign exchange gain | (1) | - |
| | 2,405 | 876 |
| Changes in non-cash working capital | (792) | (421) |
| Unrealized foreign exchange gain relating to non-cash working capital | 3 | - |
| | 1,616 | 455 |
| **Financing** | | |
| Repayment of long-term debt | (47) | - |
| Unrealized foreign exchange gain relating to financing | 34 | - |
| | (13) | - |
| **Investing** | | |
| Purchase of capital assets | (386) | (718) |
| Proceeds from sale of capital assets | 2 | - |
| Additions to product development costs | - | (19) |
| Business acquisition [Note 3] | - | (523) |
| Repayment of capital | - | 13 |
| | (384) | (1,247) |
| Foreign exchange loss on cash held in foreign currency | (17) | - |
| **Increase (decrease) in cash and cash equivalents** | 1,202 | (792) |
| **Cash and cash equivalents, beginning of the period** | 827 | 2,652 |
| **Cash and cash equivalents, end of the period** | $ 2,029 | $ 1,860 |
| Cash paid for interest | $ 55 | $ - |
| Cash paid for taxes | $ 268 | $ 274 |

P·F·B CORPORATION

# CONSOLIDATED BALANCE SHEETS

| In thousands of dollars | June 2005 | June 2004 | December 2004 |
|---|---|---|---|
| | unaudited | unaudited | audited |
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 2,029 | $ 1,860 | $ 4,855 |
| Marketable securities | - | 448 | 419 |
| Accounts receivable | 9,858 | 7,226 | 8,562 |
| Inventories | 8,583 | 4,985 | 6,049 |
| Income taxes recoverable | - | 270 | - |
| Prepaid expenses | 737 | 521 | 804 |
| **Total current assets** | 21,207 | 15,310 | 20,689 |
| Capital assets | 20,999 | 15,820 | 19,187 |
| Asset held for sale [Note 4] | 507 | - | - |
| Intangible assets | 61 | 255 | 78 |
| Goodwill [Note 3] | 4,044 | 1,084 | 4,044 |
| Product development costs [Note 5] | 374 | 208 | 448 |
| Future income tax asset | 324 | 55 | 204 |
| **Total assets** | $ 47,516 | $ 32,732 | $ 44,650 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | $ 6,785 | $ 4,490 | $ 7,764 |
| Customer deposits | 3,461 | - | 2,742 |
| Income taxes payable | 317 | - | 52 |
| Current portion of long-term debt | 618 | - | 127 |
| | 11,181 | 4,490 | 10,685 |
| Long-term debt [Note 6] | 4,460 | - | 2,281 |
| Future income taxes | 319 | 372 | 387 |
| **Total liabilities** | 15,960 | 4,862 | 13,353 |
| Contingent liabilities [Note 11] | | | |
| **Shareholders’ Equity** | | | |
| Share capital [Note 7] | 17,257 | 15,151 | 17,132 |
| Contributed surplus [Note 7 (c)] | 89 | 55 | 55 |
| Retained earnings | 14,210 | 12,664 | 14,110 |
| **Total shareholders’ equity** | 31,556 | 27,870 | 31,297 |
| **Total liabilities and shareholders’ equity** | $ 47,516 | $ 32,732 | $ 44,650 |

# CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

| Six months ended June 30<br>In thousands of dollars (unaudited) | 2005 | 2004 |
|---|---|---|
| Retained earnings, beginning of period | $ 14,110 | $ 13,466 |
| Net income | 1,584 | 458 |
| Dividends paid | (1,479) | (1,256) |
| Premium on redemption of common shares [Note 9] | (5) | (4) |
| Retained earnings, end of period | $ 14,210 | $ 12,664 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATMENTS

## (UNAUDITED)

June 30, 2005

## 1. DESCRIPTION OF THE BUSINESS

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

The principal business activity of PFB is manufacturing insulated building products from expanded polystyrene materials and marketing these products in North America and Japan. These integrated product lines are marketed under Plasti-Fab, Insulspan and Riverbend brand names and trade marks.

The Corporation owns three wholly-owned operating subsidiaries: Plasti-Fab Ltd. ("Plasti-Fab"), Insulspan Incorporated and Insulspan Corporation. These subsidiaries operate manufacturing facilities in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, and Ontario in Canada, and in the State of Michigan, USA.

## 2. ACCOUNTING POLICIES

### (a) Basis of Presentation

The interim consolidated financial statements of PFB have been prepared by management in accordance with Canadian generally accepted accounting principles and include the accounts of PFB and its direct and indirect, wholly-owned operating subsidiaries, Plasti-Fab Ltd., Insulspan Corporation, and Insulspan Incorporated. 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, 2004. 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 periods presented in these consolidated 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 consolidated financial position and consolidated results of operations of PFB as of and for the three and six month periods ended June 30, 2005 and 2004.

Sales of PFB'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 PFB'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.

3. BUSINESS ACQUISITIONS

(a) EnerGreen Structural Insulated Panel Company Inc.

On April 30, 2004, PFB 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 held in escrow with 50,000 shares have been 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 |
| Total cash consideration | | 523,000 |
| Issuance of common shares | | 1,100,000 |
| | $ | 1,623,000 |
| Capital assets | $ | 1,000,000 |
| Intangible assets | | 256,000 |
| Goodwill | | 423,000 |
| Future income tax liability | | (56,000) |
| | $ | 1,623,000 |

Intangible assets consisted of registered trade marks $156,000 and customer lists $100,000. Goodwill is not deductible for income tax purposes and the fair value attributed to customer lists is being amortized over 3 years.

In the fourth quarter of fiscal 2004, EnerGreen changed its name to Insulspan Corporation. Additionally, following the acquisition of Riverbend and the Insulspan SIPS brand of structural insulated panels (see Note 3(b) below), PFB determined that all future manufacturing and marketing activities of structural insulated panels will be consolidated under the industry-leading Insulspan SIPS brand. Accordingly, the $156,000 fair value attributed to the EnerGreen trade name was written off during the fourth quarter of fiscal 2004 and the resulting non-cash charge to earnings was reported under other expenses.

(b) Riverbend Timber Framing, Inc.

Effective October 28, 2004, a newly-formed and wholly-owned subsidiary of PFB registered in the United States, Insulspan Incorporated, acquired 100% of the common shares of Riverbend Timber Framing, Inc. ("Riverbend"), a Michigan, USA, company that manufactures structural insulated panels and timber frame structural members. Insulspan Incorporated also purchased the land and buildings of Riverbend for USD $1,566,000. On November 5, 2004, Riverbend was merged with Insulspan Incorporated.

PFB issued 800,000 common shares on October 28, 2004 to effect the acquisition and the value of each common share issued was determined based on the average market price of PFB's common shares traded on the Toronto Stock Exchange taken over a five-day period before and after the closing of the transaction. The results of the acquired operations have been included in the consolidated financial statements of PFB since October 1, 2004, the effective date of the transaction.

In addition, 399,999 of the common shares are held in an escrow account and will be released to the vendor at such time as the surviving corporation reports a specific level of accumulated pre-tax income. The equity instruments held in escrow have a carrying value of $2,000,000 which will be recognized when the contingency is met. At that time, share capital and goodwill will be increased by $2,000,000.

Goodwill is not deductible for income tax purposes and the acquisition was accounted for using the purchase method. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed on the effective date:

| | | |
|---|---|---|
| Cash paid | $ | 601,000 |
| Acquisition costs | | 255,000 |
| Total cash consideration | | 856,000 |
| Issuance of common shares | | 2,000,000 |
| | $ | 2,856,000 |
| Capital assets | $ | 3,755,000 |
| Non-cash working capital | | (1,820,000) |
| Long-term debt | | (2,059,000) |
| Goodwill | | 2,960,000 |
| Future income tax liability | | (43,000) |
| | | 2,793,000 |
| Cash acquired | | 63,000 |
| | $ | 2,856,000 |

## 4. ASSETS HELD FOR SALE

Plasti-Fab owns land and buildings with a carrying amount of $507,000 located in Kitchener, Ontario, which originally housed a manufacturing facility but, more recently, has been used for storage of inventory. The buildings require significant expenditures for renovations and Plasti-Fab has no long-term use for the facility. Discussions have been initiated with a third party who is interested in purchasing the land and buildings and it is expected that a sale can be concluded within twelve months.

## 5. PRODUCT DEVELOPMENT COSTS

In the fourth quarter of fiscal 2004, PFB's wholly-owned subsidiary, Plasti-Fab, completed a major product development initiative at its resin manufacturing facility in Alberta.

The deferred product development costs meet specified criteria related to technology, market and financial feasibility and the aggregate capitalized costs of $448,000 are being amortized over a 3-year period commencing on January 1, 2005. Management continues to expect significant future benefits to be realized from this initiative.

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

## 6. LONG-TERM DEBT

In the first quarter of fiscal 2005, Plasti-Fab drew down an additional $1,000,000 of its $5,000,000 non-revolving term facility with a Canadian bank at an interest rate of 5.9% fixed for a term of 5 years and subject to a 15 year amortization.

Additionally in the first quarter of fiscal 2005, Plasti-Fab completed the purchase of land and buildings located in Ajax, Ontario, on January 27, 2005, which it had previously leased for manufacturing operations. The purchase price was $2,675,000 plus land transfer taxes and legal expenses of $43,000. The purchase transaction consisted of a down payment of $1,000,000 and a vendor-take back mortgage of $1,675,000, payable in four annual installments of $418,750 at an interest rate of 2.7% compounded annually. The mortgage interest rate comprises a gross rate of 9.0% per annum compounded annually less a discount of 6.3% in return for prompt payment of the required principal and interest amounts on the specified due dates. It is PFB's intention to pay the annual principal and interest amounts on the specified due dates. The due date of the first principal and interest payment is January 11, 2006.

Long-term debt is as follows:

| | June 30 2005 | December 31 2004 |
|---|---|---|
| Non-revolving term facility - 5.90% fixed for 5-year term | $ 990,000 | $ - |
| Non-revolving term facility - 5.65% fixed for 5-year term | 978,000 | 1,000,000 |
| Mortgage note – floating rate | 1,282,000 | 1,282,000 |
| Vendor-take back mortgage – 2.70% fixed for four years | 1,675,000 | - |
| Capital leases | 153,000 | 126,000 |
| | 5,078,000 | 2,408,000 |
| Current portion | (618,000) | (127,000) |
| | $ 4,460,000 | $ 2,281,000 |

The fair value of long-term debt obligations as at June 30, 2005 is $5,223,000.

## 7. SHARE CAPITAL

### (a) Authorized

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, 2005 | | Twelve months ended December 31, 2004 | |
|---|---|---|---|---|
| | Shares | Amount | Shares | Amount |
| Balance, beginning of period | 6,699,735 | $17,132,000 | 5,688,435 | $13,958,000 |
| Issued for the acquisition of EnerGreen [Note 3(a)] | - | - | 200,000 | 1,100,000 |
| Issued for the acquisition of Riverbend [Note 3(b)] | - | - | 400,001 | 2,000,000 |
| Issued for the acquisition of Riverbend and held in escrow [Note 3(c)] | - | - | 399,999 | - |
| Issued as a result of a private Placement | - | - | 20,000 | 100,000 |
| Less: share issue costs | - | - | - | (3,000) |
| Issued on the exercise of stock options | 25,000 | 133,000 | - | - |
| Cancellation of repurchased shares [Note 9] | (2,700) | (8,000) | (8,700) | (23,000) |
| Balance, end of period | 6,722,035 | $17,257,000 | 6,699,735 | $17,132,000 |

(c) Stock-Based Compensation Plan

On March 9, 2005, a director of PFB exercised 25,000 stock options at an exercise price of $4.90 per common share and an amount of $10,000 has been reclassified from the contributed surplus account to the share capital account.

On June 1, 2005, 25,000 stock options each were granted to two directors at an option price of $5.30 per common share. Upon grant, the options were fully vested and had a fair value of approximately $0.88 per option or $44,000 in aggregate. The aggregate fair value of $44,000 (2004 - $Nil) has been reported as compensation expense in the current quarter and an equivalent amount has been credited to contributed surplus.

PFB's current outstanding and exercisable stock options as at June 30, 2005 are as follows:

| Weighted Average Exercise Price | Number Outstanding and Exercisable at June 30, 2005 | Weighted Amount Remaining Contractual Life |
|---|---|---|
| $5.30 | 50,000 | 4.90 years |

8. 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:

| | 2005 | 2004 |
|---|---|---|
| Net income | $ 1,576,000 | $ 423,000 |
| Weighted average number of common shares Outstanding | 6,322,036 | 5,840,801 |
| Shares assumed issued | 42,734 | 25,000 |
| Shares assumed purchased | (40,083) | (22,601) |
| Adjusted weighted average number of common shares outstanding | 6,324,687 | 5,843,200 |
| Earnings per share: | | |
| Basic | $ 0.25 | $ 0.07 |
| Diluted | $ 0.25 | $ 0.07 |

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

| | 2005 | 2004 |
|---|---|---|
| Net income | $ 1,584,000 | $ 458,000 |
| Weighted average number of common shares Outstanding | 6,312,756 | 5,770,748 |
| Shares assumed issued | 34,811 | 25,000 |
| Shares assumed purchased | (32,557) | (22,152) |
| Adjusted weighted average number of common shares outstanding | 6,315,010 | 5,773,596 |
| Earnings per share: | | |
| Basic | $ 0.25 | $ 0.08 |
| Diluted | $ 0.25 | $ 0.08 |

9. NORMAL COURSE ISSUER BID

PFB did not purchase any common shares under the Normal Course Issuer Bid in the second quarter of fiscal 2005. In the first six months of fiscal 2005, PFB has purchased 2,700 (2004 - 1,700) common shares for cancellation under a Normal Course Issuer Bid for an aggregate price of $13,000 (2004 - $8,000), of which $5,000 (2004 - $4,000) was charged to retained earnings.

10. FINANCIAL INSTRUMENTS

In the normal course of its operations, PFB's operating subsidiaries are exposed to changes in the U.S. dollar exchange rate relative to the Canadian dollar on U.S. dollar denominated sales and purchases. PFB's subsidiary companies periodically enter into forward foreign exchange contracts.

At June 30, 2005, none of PFB's operating subsidiaries held any forward foreign exchange contracts.

## 11. CONTINGENT LIABILITIES

### (a) Contingent Liabilities

In the normal course of their operations, PFB's operating subsidiaries may occasionally become involved in various claims. While the final outcome with respect to any claims pending at June 30, 2005 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the PFB's consolidated financial position or consolidated results of operations.

### (b) Environment

PFB's operating subsidiaries are subject to various laws, regulations and government policies relating to health and safety, production operations, storage and transportation of goods, disposal and environmental emissions of various substances and materials, and to the protection of the environment in general. It is the opinion of management that PFB's operating subsidiaries are in compliance with such laws, regulations and government policies in all material respects.

## 12. RELATED PARTY TRANSACTIONS

In the second quarter of fiscal 2005, Plasti-Fab paid $25,000 (2004 - $25,000) in consultancy fees to Aeonian Capital Corporation ("Aeonian") which is controlled by C. Alan Smith, President, Chief Executive Officer, and a director of PFB. The consultancy fees are reported under selling and administrative expenses. Cumulative consultancy fees paid to Aeonian in fiscal 2005 has totalled $50,000 (2004 - $50,000).

In the second quarter of fiscal 2005, Insulspan Incorporated paid Riverbend Investments LLC ("Riverbend LLC") rent of USD $13,000 (2004 - Nil) on a leased property in the State of Michigan, USA. Riverbend LLC is controlled by Frank B. Baker, President of Insulspan and a director of PFB. The property rental expenses are reported under selling and administrative expenses. Cumulative rent paid to Riverbend LLC in fiscal 2005 has totalled $26,000 (2004 - $Nil).

In the second quarter of fiscal 2005, PFB paid $42,000 (2004 - $54,000) for legal services provided by a law firm in which a director of PFB is a partner. The legal services fees are reported under selling and administrative expenses. Cumulative legal fees paid to the law firm in fiscal 2005 total $74,000 (2004 - $86,000).

All related party transactions are in the normal course of operations and are measured at their exchange value, which approximates the fair market value as with any third party.

## 13. SEGMENTED INFORMATION

PFB is organized and managed as a single reportable business which is focused on selling proprietary insulating building products that use expanded polystyrene rigid insulation. All of PFB's direct and indirect subsidiaries in Canada and the United States are wholly-owned and considered to be fully integrated operations.

Selected financial information for the three months ended June 30, 2005 is as follows:

| | 2005 | 2004 |
|---|---|---|
| Sales | | |
| Canada | $ 14,563,000 | $ 11,172,000 |
| United States | 6,292,000 | 358,000 |
| Other | 1,000 | 93,000 |
| | $ 20,856,000 | $ 11,623,000 |

Selected financial information as at and for the six months ended June 30, 2005 is as follows:

| | 2005 | 2004 |
|---|---|---|
| Sales | | |
| Canada | $ 24,448,000 | $ 18,444,000 |
| United States | 9,702,000 | 403,000 |
| Other | 29,000 | 93,000 |
| | $ 34,179,000 | $ 18,940,000 |
| Capital assets, intangible assets and goodwill | | |
| Canada | $ 19,236,000 | $ 17,159,000 |
| United States | 6,376,000 | - |
| | $ 25,612,000 | $ 17,159,000 |
| Total assets | | |
| Canada | $ 38,255,000 | $ 32,584,000 |
| United States | 9,385,000 | - |
| | $ 47,640,000 | $ 32,584,000 |

## 14. COMPARATIVE FIGURES

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

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