Management's Discussion and Analysis

For the three and nine month periods ended September 30, 2018 and 2017

Management's discussion and analysis (MD&A)

The following discussion and analysis of the consolidated results of operations and financial condition of PFB Corporation ("PFB" or the "Corporation") should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements for the three and nine month periods ended September 30, 2018 and 2017 and notes thereto and in conjunction with the Corporation's annual MD&A for the year ended December 31, 2017.

PFB's unaudited interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2018 and 2017 have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Certain comparatives figures have been reclassified to conform to the presentation adopted in the current year.

Management is required to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. Management believes that the estimates and assumptions are reasonably based on information available at the time that such estimates and assumptions were made. These estimates and assumptions have been discussed with the Audit Committee of the Board of Directors of the Corporation. Actual results may differ under different assumptions and conditions.

This MD&A has been prepared as of October 25, 2018. All figures in this MD&A are stated in thousands of Canadian dollars, except where stated otherwise.

1. Advisory regarding forward looking statements

Securities laws encourage public issuers to disclose forward-looking information in their management's discussion and analysis (MD&A) so that investors can get a better understanding of future prospects and make informed investment decisions. Forward-looking information and statements included in this interim MD&A about PFB's objectives and management's expectations, beliefs, intentions or strategies for the future are not guarantees of future performance and should not be unduly relied upon.

All forward-looking statements reflect management's current views as at October 25, 2018, with respect to future events, and they are subject to certain risks, uncertainties and assumptions that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such risks, uncertainties and assumptions include, but are not limited to: general economic conditions; the cost and availability of capital; actions by government authorities; actions by regulatory authorities; availability of raw materials; changes in raw materials prices; currency exchange rates; interest rates; competitor activity; industry pricing pressures; seasonality of the construction industry; and weather related factors. A more detailed assessment of the risks that could cause actual results to materially differ from current expectations can be found in the Risk Management and Assessment section of the Corporation's annual MD&A or in the Risk Factors section of the Annual Information Form for the year ended December 31, 2017.

2. Summary of quarterly financial data

	2018			**2017**				**2016**
	Qtr.3	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**
Sales	**$ 39,374**	$ 32,640	$ 21,048	$ 28,045	$ 28,649	$ 29,376	$ 19,487	$ 25,058
Gross profit	**9,659**	7,428	3,659	6,266	6,645	5,473	2,944	5,932
Gross profit margin %	**24.5**	22.8	17.4	22.3	23.2	18.6	15.1	23.7
Operating income (loss)	**4,668**	2,361	(805)	1,712	2,273	745	(1,212)	2,039
Net income (loss)	**3,265**	1,545	(701)	1,240	1,519	412	(890)	1,145
Earnings (loss) per share:								
Basic and diluted	**0.48**	0.23	(0.10)	0.18	0.23	0.06	(0.13)	0.17
Adjusted EBITDA [1]	**5,607**	3,309	131	2,659	3,240	1,762	32	2,996
Adjusted EBITDA per share [1]	**$ 0.83**	$ 0.49	$ 0.02	$ 0.40	$ 0.48	$ 0.26	$ -	$ 0.44

[1] Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. Definitions of non-IFRS measures used in the above table, along with relevant other notes, are detailed in Section 19 of this MD&A.

3. Consolidated statements of income (unaudited)

	Three month periods ended September 30		Nine month periods ended September 30	
	2018	**2017**	**2018**	**2017**
Sales	**$ 39,374**	$ 28,649	**$ 93,062**	$ 77,512
Cost of sales	**(29,715)**	(22,004)	**(72,316)**	(62,450)
Gross profit	**9,659**	6,645	**20,746**	15,062
Selling expenses	**(3,147)**	(2,917)	**(9,174)**	(8,570)
Administrative expenses	**(1,834)**	(1,499)	**(5,199)**	(4,721)
Other (losses) gains	**(10)**	44	**(149)**	35
Operating income	**4,668**	2,273	**6,224**	1,806
Gain on sale of marketable securities	**-**	-	**-**	275
Investment income	**4**	21	**49**	90
Finance costs	**(192)**	(183)	**(595)**	(659)
Income before taxes	**4,480**	2,111	**5,678**	1,512
Income taxes expense	**(1,215)**	(592)	**(1,569)**	(471)
Net income for the period	**$ 3,265**	$ 1,519	**$ 4,109**	$ 1,041
Earnings per share - $ per share				
Basic	**$ 0.48**	$ 0.23	**$ 0.61**	$ 0.16
Diluted	**$ 0.48**	$ 0.23	**$ 0.61**	$ 0.16

The Corporation's operations follow seasonal patterns in the construction industry which influences the timing of sales and earnings in the annual reporting cycle. Sales in the first and fourth quarter of each year are typically the lowest in the annual reporting cycle.

4. Consolidated results of operations

Sales

Consolidated sales were $39,374 in the three month period ended September 30, 2018, an increase of $10,725 or 37.4% from sales of $28,649 in the comparative three month period of 2017. The increase in consolidated sales in the current quarter is a result of higher sales in both the Canadian and USA segments (see Section 5).

In the nine month period ended September 30, 2018, consolidated sales were $93,062, an increase of $15,550 or 20.1% from sales of $77,512 in the comparative nine month period of 2017. The increase in sales is a result of higher sales, in both the Canadian and USA segments (see Section 5).

Gross profit

Consolidated gross profit was $9,659 in the three month period ended September 30, 2018, as compared to $6,645 in the comparative three month period of 2017, an increase of $3,014. Gross profit margin of 24.5% of sales in the current quarter compared to a gross profit margin of 23.2% in Q3/17. The increase in gross profit margin is attributable to price increases implemented in the second quarter and operational efficiencies realized on higher volumes.

Consolidated gross profit was $20,746 in the nine month period ended September 30, 2018, as compared to $15,062 in comparative nine month period of 2017, or a favorable variance of $5,684 and is largely attributable to higher sales. Gross profit margin of 22.3% of sales in the current nine month period was higher than a gross profit margin of 19.4% reported in the comparative nine month period. The increase of gross profit as a percentage of sales for the current nine months is a result of price increases implemented in the second quarter and operational efficiencies realized on higher sales.

Selling and administrative expenses

Selling and administrative expenses of $4,981 in the current quarter compared to $4,416 reported in Q3/17, an increase of $565. In the nine month period ended September 30, 2018, selling and administrative expenses of $14,373 compared to $13,291 reported in the comparative nine month period of 2017, an increase of $1,082. The increases are related to higher payroll costs as we expand our sales staff and marketing expenses. For the current quarter and the current nine month period, selling and administrative expenses as a percentage of sales are lower than the comparative periods.

Operating income

Operating income of $4,668 in the current quarter compared to operating income of $2,273 reported in Q3/17, a favorable variance of $2,395.

In the nine month period ended September 30, 2018, operating income of $6,224 compared to operating income of $1,806 reported in the comparative nine month period of 2017, an increase of $4,418.

Income before taxes

In the current quarter, income before taxes of $4,480 was reported as compared to income before taxes of $2,111 in Q3/17. In the nine month period ended September 30, 2018, income before taxes of $5,678 was reported as compared to income before taxes of $1,512 reported in the comparative nine month period of 2017.

Income taxes

Income tax expense in the current period was $1,215 as compared to income tax expense of $592 in Q3/17. The effective income tax rate of 27.6%, applied for the nine month period is reasonably representative of the blended tax rate expected for 2018.

Net income

Net income of $3,265 in the current quarter compares to net income of $1,519 reported in the comparative quarter of 2017. In the nine month period ended September 30, 2018, net income was $4,109 compared to net income of $1,041 in the comparative nine month period of 2017.

Earnings per share

Basic and diluted earnings per share in the current quarter were $0.48 as compared to earnings per share of $0.23 reported in Q3/17. In the nine month period ended September 30, 2018, basic and diluted earnings per share of $0.61 compared to net income per share of $0.16 reported in the comparative nine month period of 2017.

5. Reportable operating segments

The Corporation has two reportable operating segments:

Operating segments	Description of segments
Canada	Manufacturing and sales operations located in Canada for expanded polystyrene (EPS) products and structural insulating panels *Brands*: Plasti-Fab® EPS Product Solutions®; Advantage ICF System®; and Insulspan® SIPS; DuroFoam®
United States of America (USA)	Manufacturing and sales operations located in the USA for EPS products, building systems and structures, design services and installations *Brands*: Plasti-Fab® EPS Product Solutions®; Insulspan® SIPS; DuroSpan™; Riverbend® Timber Framing; Precision Craft® Log & Timber Homes; M.T.N. Design℠; Total Home Solution®; Point Zero™; TimberScape ™

The Corporation operates individual legal entities in Canada and the USA which are reported as operating segments and revenue is reported in accordance with that segmentation.

Each operating segment mirrors the Corporation’s accounting policies (as described in Note 2 to the audited consolidated financial statements for the years ended December 31, 2017 and 2016 and Note 3 of the condensed interim consolidated financial statements for the three and nine month periods ended September 30, 2018) and its internal controls and reporting systems.

Segment performance predominantly focuses on operating results and the manner in which resources are allocated based on Canadian and USA operations, respectively. The Canadian segment primarily derives its revenues from the sale of expanded polystyrene ("EPS") foam products, which it manufactures at its facilities in Canada. The USA segment primarily derives its revenues from the sale of EPS foam products, customized log and timber structures made at its facilities in the United States which typically include design and installation services that together provide the basis for a bundled sale of its manufactured products.

The chief operating decision maker evaluates performance on the basis of operating income or loss, as reported on a periodic basis. This performance measure is considered to be the most relevant in evaluating the results of each operating segment.

5.1 Segment sales and operating income

Segment sales represent sales revenues directly attributable to each segment after inter-segment sales have been eliminated (see supplemental disclosures in the other segment information table). There are varying levels of integration between each segment.

Segment operating income or loss represents the income or loss reported by each segment excluding any allocations of corporate income or expenses, and foreign exchange gains or losses arising on inter-segment settlements.

Information regarding each reportable operating segment for the three and nine month periods ended September 30, 2018 and 2017, is set out below:

Three month periods ended September 30	**Sales revenues**		**Operating income**	
	2018	**2017**	**2018**	**2017**
Canada	**$ 24,095**	$ 19,573	**$ 2,782**	$ 1,687
USA	**15,279**	9,076	**1,696**	352
Totals for segments	**$ 39,374**	$ 28,649	**4,478**	2,039
Corporate – income			**193**	238
Foreign exchange loss on inter-segment settlements			**(3)**	(4)
Consolidated operating income			**$ 4,668**	$ 2,273

Nine month periods ended September 30	**Sales revenues**		**Operating income**	
	2018	**2017**	**2018**	**2017**
Canada	**$ 59,034**	$ 51,740	**$ 3,750**	$ 1,202
USA	**34,028**	25,772	**2,021**	397
Totals for segments	**$ 93,062**	$ 77,512	**5,771**	1,599
Corporate – income			**453**	213
Foreign exchange loss on inter-segment settlements			**-**	(2)
Consolidated operating income			**$ 6,224**	$ 1,806

(a) Canadian segment

Sales
Sales generated by the Canadian segment were $24,095 in Q3/18 compared with $19,573 in the comparative Q3/17 period, an increase of 23.1% or $4,522. In the nine month period ended September 30, 2018 sales were $59,034 an increase of $7,294 or 14.1% over $51,740 in the comparative period.

Operating income
The Canadian segment reported operating income of $2,782 in the current quarter, an increase of $1,095 as compared to operating income of $1,687 reported in Q3/17 as a result of higher sales. In the nine month period ended September 30, 2018, the Canadian segment reported operating income of $3,750 as compared to operating income of $1,202 in the comparative nine month period of 2017, a positive variance of $2,548 as a result of higher sales.

(b) USA segment

Sales

As reported in Canadian dollars, sales in the USA segment were $15,279 in Q3/18 compared with $9,076 in Q3/17. This is an increase of $6,203 or 68.3%. USA segment sales, expressed in US dollars, were USD$11,697 in the current quarter, an increase of 61.5% from Q3/17 sales of USD$7,243. Foreign exchange effects positively impacted sales as a result of a strengthening US dollar, upon the translation of USA segment sales into Canadian dollars. The average foreign exchange rates experienced by the Corporation reflects the change of the Canadian currency from an average rate of $1.25 per USD in the 2017 comparative quarter to an average rate of approximately $1.30 per USD in the current quarter. Sales in the third quarter have increased across all US operations.

As reported in Canadian dollars, sales in the USA segment increased from $25,772 in the nine month period of 2017 to $34,028 in the current 2018 nine month period, an increase of $8,256 or 32.0%. Eliminating the effect of foreign exchange fluctuations, sales, expressed in USA dollars, were USD$26,286 in the 2018 nine month period or 33.1% higher than sales of USD$19,746 in the comparative 2017 nine month period. The average foreign exchange rates experienced by the Corporation reflected the slight appreciation of the Canadian currency from an average rate of $1.31 per USD to an average rate of approximately $1.29 per USD in the 2017 and 2018 nine month periods, respectively. A slight appreciation of the Canadian dollar had a negative impact when translating USA segment sales into consolidated results which are reported in Canadian dollars. Sales were positively impacted by a strong third quarter and increased sales across all US operations.

Operating income

The USA segment reported operating income of $1,696 in the current quarter as compared to operating income of $352 in the comparative quarter of 2017, a favourable variance of $1,344. In the nine month period ended September 30, 2018, the USA segment reported operating income of $2,021 as compared to an operating income of $397 in the comparative nine month period of 2017, a favourable variance of $1,624. Increased sales resulted in higher operating income in the current quarter and year-to-date.

5.2 Segment assets and liabilities

Management measures capital employed using net segmented assets. The reconciliation of segmented assets and liabilities in relation to consolidated assets and liabilities is set out in the table below:

	As at Sept 30, 2018	As at Dec 31, 2017
Assets		
Segmented assets	**$ 51,347**	$ 41,570
Assets not allocated to segments:		
Cash and cash equivalents	**11,416**	12,268
Freehold land and buildings	**22,754**	23,386
Restricted marketable securities	**1,483**	1,239
Corporate – taxes[1]	**261**	308
Total assets	**$ 87,261**	$ 78,771
Liabilities		
Segmented liabilities	**$ 21,373**	$ 15,788
Liabilities not allocated to segments:		
Finance lease obligations	**3,153**	3,232
Long term debt	**8,653**	8,906
Corporate – taxes[1]	**-**	20
Total liabilities	**$ 33,179**	$ 27,946
Net segmented assets		
Canada	**$ 22,954**	$ 19,802
USA	**7,020**	5,980

[1] Current and deferred taxes.

5.3 Other segment information

	Three month periods ended September 30		Nine month periods ended September 30	
	2018	**2017**	**2018**	**2017**
Additions to non-current assets:				
Canada	**$ 214**	$ 240	**$ 611**	$ 522
USA	**71**	73	**825**	570
Corporate	**20**	48	**20**	7,823
Total	**$ 305**	$ 361	**$ 1,456**	$ 8,915
Depreciation and amortization:				
Canada	**$ 511**	$ 504	**$ 1,557**	$ 1,646
USA	**160**	169	**461**	528
Corporate	**268**	294	**805**	779
Total	**$ 939**	$ 967	**$ 2,823**	$ 2,953
Inter-segment sales	**$ 2,206**	$ 1,124	**$ 5,447**	$ 4,416

6. Liquidity

Sources of liquidity

The Corporation expects its current cash balances, future cash flows generated by operations, and unused credit facilities will be sufficient to fund its ongoing business requirements over the next twelve months, including: working capital; contractual obligations; and payment of regular dividends.

Cash

Cash and cash equivalent balances as at September 30, 2018 and December 31, 2017 were as follows:

	September 30, 2018	**December 31, 2017**
Cash held with banks	**$ 9,756**	$ 12,180
Restricted cash	**1,660**	88
	$ 11,416	$ 12,268

PFB's cash balances typically fluctuate with the seasonality of its business. The reduction in cash balances for the nine month period ended September 30, 2018 was primarily attributed to fund non-cash working capital requirements, corporate tax installments, finance costs and regular quarterly dividend payments. The restricted cash primarily comprises of cash held in US dollars by the Corporation.

Restricted cash comprises of cash collected from certain customers of the USA segment which is contractually segregated from other cash as it is held for making disbursements to suppliers and service providers specific to those customers' contracts.

Bank credit facilities

The Canadian revolving credit facility balance as at September 30, 2018 was $nil. During the third quarter, the Corporation repaid the credit facility. Repayments in the third quarter were $3,364.

Summary of cash flows

A summary of cash flows for the three and nine month periods ended September 30, 2018 and 2017 are shown in the following table:

	Three month periods ended September 30		Nine month periods ended September 30	
	2018	**2017**	**2018**	**2017**
Net cash flows from (used in):				
Cash from operating activities, before income taxes paid	**$ 7,773**	$ 4,730	**$ 3,184**	$ 1,529
Income taxes recovered (paid), net	**123**	460	**(150)**	23
Net cash from operating activities	**$ 7,896**	$ 5,190	**$ 3,034**	$ 1,552
Net cash used in investing activities	**(301)**	(303)	**(1,352)**	(8,781)
Net cash used in financing activities	**(4,268)**	(2,127)	**(2,688)**	(2,372)
Effects of exchange rates on cash and cash equivalents held in foreign currencies	**(134)**	(200)	**154**	(365)
Net increase (decrease) in cash and cash equivalents	**$ 3,193**	$ 2,560	**$ (852)**	$ (9,966)
Cash and cash equivalents – beginning of the period	**8,223**	4,645	**12,268**	17,171
Cash and cash equivalents – end of the period	**$ 11,416**	$ 7,205	**$ 11,416**	$ 7,205

(a) Operating activities

Net cash from operating activities was $7,896 in the current quarter as compared to $5,190 in the comparative quarter of 2017, an increase of $2,706. Higher net income and changes in non-cash working capital contributed to the improved net cash from operating activities. In the nine month period ended September 30, 2018, net cash from operating activities was $3,034 versus net cash from operating activities of $1,552 in the comparative nine month period of 2017, a favorable variance of $1,482. Increased net income contributed to the increased cash from operating activities.

The changes in non-cash working capital amounts which occurred in the nine month period ended September 30, 2018 are shown in the following table:

	Sep 30, 2018	**Dec 31, 2017**	**Change**
Trade receivables	**$ 17,064**	$ 9,809	$ 7,255
Inventories	**12,819**	9,998	2,821
Prepaid expenses	**849**	474	375
Contract costs	**447**	527	(80)
Trade and other payables	**(10,170)**	(8,737)	(1,433)
Contract liabilities	**(8,028)**	(5,158)	(2,870)
	$ 12,981	$ 6,913	$ 6,068

Non-cash working capital increased in the nine month period ended September 30, 2018 by $6,068 to $12,981.

The increased trade receivables balance is reflective of significantly higher sales and the seasonality of the sales cycle.

Inventory values have increased since the beginning of the year to $12,819 which is considered normal in the seasonal operating cycle, and is higher than Q3/17 inventory levels of $10,559. The ending balances of raw materials, work in progress and finished goods inventory exceed inventory levels in the comparative quarter on higher selling activity.

The increase in trade and other payables of $1,433 since the beginning of the year is reflective of normal operating activities and reflective of the seasonality of the business cycle.

Prepaid expenses of $849 have increased due to seasonal activity and are comparable to Q3/17 of $661.

Contract costs represent the incremental costs of obtaining a contract with a customer on the expectation these costs will be recovered. Contract costs have decreased by $80 in the last nine months and are primarily related to completion of performance obligations and payment of commissions in the USA segment on sales of bundled contracts.

Contract liabilities represent consideration received prior to delivery of performance obligations and customers' rebates earned, but not yet paid. Contract liabilities increased by $2,870 since the beginning of the year, representing increased consideration from customers paid to secure their future deliveries of custom products, mainly in the USA segment and customers' rebates earned on shipped sales orders.

(b) Investing activities

Net cash used in investing activities was $301 in the current quarter and comparable to cash flows used in investing activities of $303 in Q3/17. In the nine month period ended September 30, 2018, net cash used in investing activities was $1,352 versus $8,781 in the comparative nine month period of 2017. The purchase of the Crossfield property in Q1/17 contributed to the significant cash used in investing activities in the comparable nine month period. Capital expenditures in the current nine months of $1,456 for property, plant and equipment and intangible assets were $216 higher than capital expenditures for the comparable prior period.

(c) Financing activities

Net cash used in financing activities in the current quarter was $4,268 as compared to net cash used in financing activities of $2,127 in the comparative quarter of 2017, or a variance of $2,141 and primarily related to the repayment of the bank credit facility.

In the nine month period ended September 30, 2018, net cash used in financing activities were $2,688 versus net cash used in financing activities of $2,372 in the comparative nine month period of 2017.

7. Capital resources

Capital structure

PFB manages its capital structure to ensure its consolidated operations continue to operate as a going concern, to optimize returns to shareholders, and to safeguard corporate assets.

PFB's capital structure consists of net debt (long-term debt offset by cash and cash equivalents) and equity of the Corporation (comprising issued share capital, reserves, and retained earnings as detailed in the consolidated statement of changes in equity).

The Corporation's capital structure as at September 30, 2018 and December 31, 2017, is outlined in the following table:

	As at September 30, 2018	As at December 31, 2017
Debt	**$ 8,653**	$ 8,906
Less: cash and cash equivalents	**(11,416)**	(12,268)
Surplus cash	**$ (2,763)**	$ (3,362)
Shareholders' equity	**$ 54,082**	$ 50,825

Share capital

The Corporation has one class of publicly traded voting common shares. A summary of the Corporation's share capital position as at September 30, 2018 and December 31, 2017, is set forth in the following table:

	September 30, 2018 (Nine Months)		December 31, 2017 (Twelve Months)	
	No. of Shares	Amount	No. of Shares	Amount
Balance, beginning of period	**6,716,003**	**$ 20,947**	6,716,003	$ 20,947
Balance, end of period	**6,716,003**	**$ 20,947**	6,716,003	$ 20,947

Share-based options

The Corporation granted 400,000 share-based options during the nine month period ended September 30, 2018, and no share options were exercised in the period.

Dividends

In the first quarter of 2018, the Corporation's board of directors declared a regular quarterly dividend of $0.08 (2017 - $0.07) per common share which was paid in the month of February in each year, respectively. The dividend payment in February 2018 amounted to $538 (2017 - $470).

In the second quarter of 2018, the Corporation's board of directors declared a regular quarterly dividend of $0.08 (2017 - $0.07) per common share which was paid in the month of May in each year, respectively. The dividend payment in May 2018 amounted to $537 (2017 - $470).

In the third quarter of 2018, the Corporation's board of directors declared a regular quarterly dividend of $0.08 (2017 - $0.07) per common share which was paid in the month of August in each year, respectively. The dividend payment in August 2018 amounted to $538 (2017 - $470).

Dividends paid by the Corporation qualify as eligible dividends and satisfy the enhanced gross-up and dividend tax credit change enacted under Canadian tax law.

Comprehensive income (loss)

Comprehensive income consists of net income or loss, together with certain other economic gains and losses which, collectively, are described as "other comprehensive income" and those items are excluded from the consolidated statements of income.

A summary of comprehensive income (loss) for the three and nine month periods ended September 30, 2018 and 2017 is as follows:

	Three month periods ended September 30		**Nine month periods ended September 30**	
	2018	**2017**	**2018**	**2017**
Net income for the period	**$ 3,265**	$ 1,519	**$ 4,109**	$ 1,041
Other comprehensive (loss) income	**(339)**	(748)	**724**	(1,316)
Comprehensive income (loss) for the period	**$ 2,926**	$ 771	**$ 4,833**	$ (275)

In the third quarter of 2018, comprehensive income was $2,926 as compared to a comprehensive income of $771 in the comparative quarter of 2017. Other comprehensive loss of $339 in the current quarter consisted of losses attributed to foreign currency translation when consolidating PFB's USA operations (Q3/17 – losses of $679).

Included in accumulated comprehensive income, at September 30, 2018, were foreign currency translation adjustments totaling $2,698, net of tax, marketable securities adjustments of $406, net of tax, and $68 of defined benefit valuation changes, net of tax, for total accumulated other comprehensive income of $3,172.

Long-term debt

As at February 28, 2017, the Corporation obtained long-term debt at a fixed interest rate of 3.25% from a Canadian bank to fund the purchase of property in Crossfield, Alberta. The long-term debt is being amortized over a 20 year amortization period and subject to renewal in 5 years. The long-term debt is eligible for prepayment privilege, subject to certain prepayment penalties and is supported by a first mortgage on the Corporation's property. Borrowing and closing costs were expensed as incurred.

The Corporation is subject to certain covenants on its long-term debt, one of which is a financial covenant to maintain a Debt Service Coverage Ratio of not less than 1.25:1. The financial covenant ratio is tested on an annual, year-end basis. The Corporation was in compliance with the financial covenant as at the prior annual reporting period. A test of Debt Service Coverage compliance will be performed as at December 31, 2018.

During the course of the third quarter, the Corporation repaid $85 of principal repayments on long-term debt.

8. Commitments and contractual obligations

8.1 Debt, leases, commitments for PP&E and intangible assets

PFB's contractual obligations and commitments as at September 30, 2018 and December 31, 2017, are as outlined in the following table:

Contractual obligations (Payment due periods)	**Total**	**Within 1 year**	**2–3 years**	**4–5 years**	**Over 5 years**
As at September 30, 2018					
Long-term debt (par value)	**$ 8,653**	**$ 347**	**$ 728**	**$ 777**	**$ 6,801**
Finance lease obligations	**7,041**	**638**	**1,021**	**864**	**4,518**
Operating lease obligations	**11,624**	**1,335**	**2,569**	**2,432**	**5,288**
Commitments for PP&E and intangible assets	**570**	**570**	**-**	**-**	**-**
Total contractual obligations	**$ 27,888**	**$ 2,890**	**$ 4,318**	**$ 4,073**	**$ 16,607**
As at December 31, 2017					
Long-term debt (par value)	$ 8,906	$ 339	$ 711	$ 758	$ 7,098
Finance lease obligations	7,398	648	1,045	854	4,851
Operating lease obligations	10,855	1,217	1,969	1,846	5,823
Commitments for PP&E and intangible assets	273	273	-	-	-
Total contractual obligations	$ 27,432	$ 2,477	$ 3,725	$ 3,458	$ 17,772

Finance lease obligations in the above table represent the aggregate outstanding principal amounts and related finance costs. Long-term debt represents the outstanding principal amounts.

8.2 Performance bonds

At September 30, 2018, the Canadian segment did not have any performance bonds outstanding (December 31, 2017 - $nil). In the USA, performance bonds in the amount of $617 were pledged to various government agencies as at September 30, 2018 (December 31, 2017 - $598).

8.3 Letters of credit

The Corporation has drawn letters of credit from its bank to guarantee payments for inventory purchases expected to settle in the fourth quarter. The Corporation did not post any cash to collateralize its letters of credit. Letters of credit outstanding as at September 30, 2018 were $1,075 (2017 - $nil).

9. Financial instruments and leases

The Corporation adopted IFRS 9 and opted an irrevocable election to account for changes in the fair value of marketable securities through other comprehensive income, until derecognition. This irrevocable election is made on an instrument-by-instrument basis to present in other comprehensive income changes in the fair value of an investment in an equity investment not held for trading. The effect of adoption of these new standards is outlined in more detail in Note 3 to our condensed interim consolidated financial statements.

The Corporation continues to hold marketable securities in the form of trust units of a Canadian REIT which was the landlord of certain buildings being leased. The units are restricted as they were pledged, at inception of the leases, as security for minimum rent obligations for a period of ten years during which time they will be held in an escrow account.

The Canadian REIT paid a final monthly distribution on the units on May 15, 2018. The distributions have been included in investment income in the consolidated statements of income.

On February 28, 2017, upon closing of the purchase of leased assets from the Canadian REIT, the Corporation received from escrow 318,421 trust units. During the first quarter of 2017, the Corporation sold 318,421 trust units for gross proceeds of $1,883, resulting in a gain on items that have been reclassified from the statement of comprehensive income to the statement of income for $275. The remaining 183,084 trust units remain in escrow until a plan of arrangement relating to the acquisition of the REIT by a third party is completed and the resolution of the escrow account is determined.

Under the new IFRS 9 accounting standards, gains and losses presented in other comprehensive income cannot be subsequently transferred to profit or loss. However, upon derecognition, the Corporation may transfer the cumulative gain or loss within equity. As a result of accounting changes on January 1, 2018, the Corporation will not realize any gains or losses on the disposition of trust units through the statement of income and any gains or losses remain in the statement of comprehensive income, which upon derecognition, will be transferred as a reclassification adjustment directly to equity.

In January 2018 an offer to acquire all units of the Canadian REIT, at an all-cash transaction price of $8.10, was proposed by an acquiring entity by way of a plan of arrangement structure. The unitholders approved the transaction in March 2018 and regulatory approval was obtained in April 2018. The transaction completed on May 24, 2018 and all units ceased trading. The Corporation has 183,084 trust units remaining in an escrow account, which will result in the conversion of cash proceeds of approximately $1,483 upon the completion of the plan of arrangement. Based on the acquisition price of $8.10 per unit at the end of the second quarter of 2018, accumulated unrealized gains on marketable securities of $406, net of tax, will be realized upon the completion of the plan of arrangement. The accumulated unrealized gains will remain in the statement of other comprehensive income upon disposition and subsequently transferred as a reclassification adjustment directly to equity, upon the completion of the plan of arrangement. As at the end of the third quarter, the plan of arrangement remains outstanding with no expected date of completion.

10. Current Outlook

The Corporation continued to build on the positive momentum in Q2/18 with very strong sales and margin performance in Q3/18. The Corporation experienced record sales in Q3/18 driven by increased business activity in both the Canadian and USA segments across a broad range of product offerings and in accordance with several strategic initiatives intended to drive topline growth. Management is focused on sustaining strong performance into the fourth quarter, although future growth rates are dependent on macro and regional economic factors as well as seasonal weather patterns which can add an element of uncertainty at this time of the year.

As expected, our principal raw material input cost remained level at prices established in Q2/18 but materially higher than Q3/17. This longer-term cycle is due primarily to the effects of current oil prices trending higher and macro-economic inflationary impacts. To date in 2018, the severe weather events and hurricane activity experienced in the USA has not impacted raw material input prices or increased volatility. Barring additional weather events, the Corporation expects styrene pricing to remain relatively level with the potential to soften slightly as would be typical at this time of year. However, uncertainty remains as a result of continued trade and tariff disputes between the United States and China, which could have the potential to impact NA styrene supply and price. The updated trade agreement among Canada, United States and Mexico is expected to have little impact on our operations.

The Corporation's resin strategy implemented during the first half of 2018 proved effective in mitigating material cost impacts and positioned the Corporation well for Q3/18 performance. The price increases introduced in April 2017 and again in April 2018, necessary to address higher raw material input costs as well as overall inflationary trends on other cost drivers, experience timing delays and the beneficial financial effects of this most recent increase will continue take hold over the balance of the year. These factors and operational efficiencies realized through increased volumes in the current nine-month period, improved gross margin to 22.3% compared to 19.4% over the same period in 2017. The Corporation will continue to monitor raw material input pricing and other cost drivers and adjust inventories accordingly.

The influence of world crude oil prices on the economies of NA are the largest driver in the outlook for the Corporation. In general, the oil effect has been positive for the general economy that we operate in and in our continuing cost structure. During the course of the year, crude oil prices have been volatile but generally rising. We continue to see economic recovery in the oil producing regions in which we operate. The longer-term devaluation of the Canadian dollar against the USD limited the ability of competitors to import their products into Canada and increased the contribution made by USA segment revenues when expressed in CAD terms. However the majority of our raw materials are priced and purchased in USD and a weaker CAD exchange rate results in overall increased cost of sales. Comparing Q3/18 to Q3/17, the CAD exchange rate weakened providing slight tailwinds for reporting currency revenue growth after experiencing headwinds in Q1/18 and Q2/18. Continued volatility of the CAD is possible based on geo-political environments and ongoing global trade and tariff disputes.

PFB continues to experience demand for our core EPS product lines in both US and Canadian segments as we enter the fourth quarter. Infrastructure activity in the US and Canada present good opportunities for continued growth and, as is typical at this time year, projects push for completion prior to the onset of adverse weather. Generally speaking, the oil producing regions of Canada continue to recover as construction activity increases, pulling increased demand for our nationally branded insulation and building products. The United States expansion continues to be a strategic objective and we remain cautiously optimistic as interests by customers in our branded products that are manufactured in the US continue to gain traction. Growth in the US housing market as well as a strong US economy is having positive effects on our custom homes business as well as our structural insulated panel systems, but shortages of available contractors and increasing build costs persist which can adversely impact project timing. The custom homes business continues to build a strong order book positioning it well for the remainder of 2018 and into early 2019. We continue to search for suitable acquisitions to expand our USA initiatives.

11. Off-balance sheet arrangements

The Corporation does not believe it has any off-balance sheet arrangements (other than what has been reported in this MD&A) that have, or are reasonably likely to have, a current or future material effect on the Corporation's financial condition, results of operations, or liquidity.

12. Disclosure controls and procedures (DC&P)

DC&P are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the chief executive officer (CEO) and the chief financial officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of our DC&P was conducted, as at September 30, 2018, by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that, as at September 30, 2018, our DC&P, as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), was effective.

Notwithstanding the foregoing, no absolute assurances can be made that the Corporation's controls over disclosure will detect or prevent all failures of individuals within the organization to disclose material information otherwise required to be set forth in reports or news releases issued by the Corporation.

13. Internal controls over financial reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external reporting purposes in accordance with IFRS.

All control systems contain inherent limitations, no matter how well designed and operated. As a result, management acknowledges that the Corporation's internal controls over financial reporting will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any, have been detected.

As at September 30, 2018, the CEO and CFO assessed the effectiveness of the Corporation's internal control over financial reporting and concluded that it was effective and that no material weaknesses in the Corporation's internal control over financial reporting had been identified.

14. Critical accounting policies and estimates

The Corporation prepares its financial statements in accordance with IFRS, which requires estimates and judgements to be made. The estimates and judgments are based on historical experience, current trends, and all information deemed relevant at the time financial statements are prepared.

Except for the accounting standards that become effective January 1, 2018, the Corporation's annual audited consolidated financial statements for the year ended December 31, 2017 and its 2017 annual MD&A outlined the accounting policies and estimates that are critical to the understanding of the Corporation's results of operations and its businesses.

15. Subsequent events

On October 25, 2018, the Corporation's board of directors declared a regular quarterly dividend of $0.08 per common share. The dividend will be paid on November 30, 2018, to shareholders of record at the close of business on November 16, 2018.

On October 12, 2018, letters of credit in the amount of $537 to guarantee payments for inventory purchases settled. Additional costs of inventories incurred in bringing inventory to their present location and condition amounted to $5 and will be expensed in future periods as cost of sales.

16. Related party transactions

There have been no material changes in related party transactions in the three and nine month periods ended September 30, 2018. See Note 19 of the condensed interim consolidated financial statements.

17. Risk management and assessment

Detailed descriptions of the Corporation's risk management and assessment can be found in the Corporation's annual MD&A for 2017. There have been no material changes in the uncertainties and material risk factors facing the Corporation since December 31, 2017.

18. Application of new and revised International Financial Reporting Standards (IFRSs)

Effective January 1, 2018 the Corporation adopted new IFRS standards – IFRS 15, *Revenue from Contracts with Customers*, IFRS 9, *Financial Instruments* and IFRS 2, *Share-based payment*. The effect of adoption of these new standards is outlined in more detail in Note 3 of the condensed interim consolidated financial statements as at September 30, 2018, which also discloses the restated comparative financial statements for the impacts of adopting new accounting standards for the periods ended January 1, 2017, December 31, 2017 and September 30, 2017.

In January 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single model for lessees to bring leases on-balance sheet while lessor accounting remains largely unchanged and retains the finance and operating lease distinctions. The standard requires the lessees to recognize a lease liability reflecting discounted future lease payments and a "right-of-use asset" for all lease contracts, and record it on the balance sheet, except with respect to lease contracts that meet limited exception criteria. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted.

The Corporation intends to adopt IFRS 16 at its effective date for annual period beginning on January 1, 2019. The Corporation is currently assessing and quantifying the effect of this standard on the consolidated financial statements, information systems and internal controls. During the third quarter, the Corporation has completed its initial assessment of the potential impact on its consolidated financial statements. The most significant impact of adopting IFRS 16 will be the recognition of right-of-use assets and corresponding lease liabilities on its operating leases for office spaces, warehouses, lands and office equipment. The Corporation plans to apply IFRS 16 by using the retrospective approach whereby all comparative periods are restated as if IFRS 16 always applied. On the transition date of January 1, 2019, the Corporation expects to recognize additional leases on the consolidated balance sheet and changes to cost of sales; as operating expenses will be presented as depreciation and finance costs.

19. Non-IFRS Financial Measures

The Corporation uses measurements primarily based on IFRS as issued by the IASB and also certain secondary non-IFRS measurements.

The non-IFRS measures used by the Corporation are considered to be useful as complimentary measures in assessing financial performance. Non-IFRS measurements do not have a standardized meaning prescribed by IFRS and, as such, are unlikely to be comparable in definition to similar measures presented by other companies. The definitions of non-IFRS measurements used in this MD&A can be found in the section below:

Measure	Definition
Adjusted EBITDA	Represents earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA is an absolute measure of our operating performance and provides an indication of the results generated by our business activities prior to how the activities are financed, how assets are depreciated and amortized, or how results are taxed.
Adjusted EBITDA per share	Adjusted EBITDA divided by the basic weighted average number of shares outstanding in the period.

The following table shows the reconciliation of quarterly net income (loss) to quarterly adjusted EBITDA and related per share amounts for the current quarter and previous seven quarters:

	2018 Q3	**2018 Q2**	**2018 Q1**	**2017 Q4**	**2017 Q3**	**2017 Q2**	**2017 Q1**	**2016 Q4**
Net income (loss) (As per financial statements)	**$ 3,265**	$ 1,545	$ (701)	$ 1,240	$ 1,519	$ 412	$ (890)	$ 1,145
Add back (deduct):								
Income taxes (recovery)	**1,215**	605	(251)	323	592	156	(277)	602
Finance costs	**192**	224	179	173	183	196	280	354
Investment income	**(4)**	(13)	(32)	(24)	(21)	(19)	(50)	(62)
Depreciation	**908**	913	900	912	934	981	941	932
Amortization	**31**	35	36	35	33	36	28	25
Adjusted EBITDA	**5,607**	3,309	131	2,659	3,240	1,762	32	2,996
Adjusted EBITDA per share	**$ 0.83**	$ 0.49	$ 0.02	$ 0.40	$ 0.48	$ 0.26	$ -	$ 0.44

Adjusted EBITDA was $5,607 in the three month period September 30, 2018, an increase of $2,367 from $3,240 in the comparative three month period of 2017. The increased adjusted EBITDA is primarily related to increased net income of $1,746 and income taxes of $623 in Q3/18 compared to Q3/17. Significant one-time events in 2017 have had the impact to reduce the finance costs and investment income, on a permanent basis, resulting in an unfavorable adjusted EBITDA with comparable periods.