PFB Corporation

Management's discussion and analysis for 2018

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 the company's future prospects and make informed investment decisions.

Forward-looking information and statements included in this 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 March 8, 2019, 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.

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 this MD&A.

2. Other advisories regarding this MD&A

The following MD&A of the operating results and financial condition of PFB Corporation ("PFB" or the "Corporation") for the years ended December 31, 2018 and 2017 should be read in conjunction with PFB's audited consolidated financial statements and related notes which is available on SEDAR at www.sedar.com and on PFB's website at www.pfbcorp.com. Additionally, PFB maintains a website at www.pfbsustainability.com that provides our measurement and reporting of sustainable development data in accordance with the Global Reporting Initiative.

The audited consolidated financial statements of PFB, for the years ended December 31, 2018 and 2017, have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB").

This MD&A was reviewed by the Audit Committee and approved by PFB's Board of Directors on March 8, 2019. Any events occurring after that date may affect the usefulness of the information contained in this document.

The currency presented in this MD&A is Canadian dollars ($ thousands) unless otherwise stated.

3. Business overview

PFB Corporation is a Canadian publicly-traded company incorporated under the Alberta Business Corporations Act. PFB's corporate office is located at 300, 2891 Sunridge Way NE, Calgary, Alberta, Canada T1Y 7K7. The principal business activity of PFB is manufacturing insulating building products made from expanded polystyrene materials and marketing those products in North America. We report our results of operations under two segments; Canada and the United States of America ("USA").

Plasti-Fab Ltd., the Corporation's Canadian wholly-owned subsidiary, operates manufacturing and sales facilities in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, and Ontario in Canada. PFB America Corporation, the Corporation's wholly-owned subsidiary in the USA, operates manufacturing and sales facilities in the states of Minnesota, Michigan, Ohio, and Idaho.

Our operations are vertically-integrated in that expandable polystyrene resin is manufactured at PFB's polymer plant located in Crossfield, Alberta, for use exclusively in our downstream expanded polystyrene ("EPS") manufacturing operations. Expandable polystyrene resin is also sourced from other suppliers to supplement internally produced raw materials. Plasti-Fab® EPS Product Solutions® supplies EPS foam cores used to manufacture Insulspan® SIPS (Structural Insulating Panel Systems). The PFB Custom Homes Group provides a complete design, supply and installation capability for Point Zero ® Homes, Precision Craft Log & Timber Homes® and Riverbend® Timber Framing structures which are typically sold with an accompanying Insulspan® SIPS enclosure package and Advantage ICF Systems® (Insulating Concrete Forming System) foundation. Complete design services are provided by M.T.N. Design℠ to compliment the product offering.

Plasti-Fab EPS Product Solutions are products manufactured using EPS as base raw materials, that are delivered to customers' in five market categories: rigid insulation board; insulating building systems; geotechnical engineered applications; buoyancy, and products for packaging and display applications.

Advantage ICF Systems® are insulating concrete forming systems which, by incorporating concrete and steel, are employed to build insulated foundations and walls in both residential and commercial construction markets. Insulspan SIPS are used to create a building's structural wall frame and to replace trusses on roof systems to form an energy-efficient structural envelope.

4. Financial information

4.1 Financial highlights summary – quarterly

Years ended December 31, 2018 and 2017

$ thousands, except per share amounts

	2018 Q4	**2018 Q3**	**2018 Q2**	**2018 Q1**	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Sales	**$ 35,283**	$ 39,374	$ 32,640	$ 21,048	$ 28,045	$ 28,649	$ 29,376	$ 19,487
Gross profit	**8,055**	9,659	7,428	3,659	6,266	6,645	5,473	2,944
Gross profit margin %[1]	**22.8**	24.5	22.8	17.4	22.3	23.2	18.6	15.1
Operating income (loss)	**2,988**	4,668	2,361	(805)	1,712	2,273	745	(1,212)
Net income (loss)	**2,080**	3,265	1,545	(701)	1,240	1,519	412	(890)
Earnings (loss) per share:								
Basic and diluted	**0.31**	0.48	0.23	(0.10)	0.18	0.23	0.06	(0.13)
Adjusted EBITDA [1]	**3,931**	5,607	3,309	131	2,659	3,240	1,762	32
Adjusted EBITDA per share [1]	**0.59**	$ 0.83	$ 0.49	$ 0.02	$ 0.40	$ 0.48	$ 0.26	$ -

[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 20 of this MD&A.

PFB's operations exhibit seasonal variations concurrent with those that generally influence the construction industry, including variability in weather patterns. Typically, sales revenues are lowest in the first and fourth quarters and highest in the second and third quarters of the fiscal cycle.

4.2 Selected annual financial information for years ended December 31, 2018, 2017, and 2016

$ thousands except where indicated	**2018**	2017	2016
Operating results			
Consolidated results:			
Sales	**$ 128,345**	$ 105,557	$ 101,533
Gross profit	**28,801**	21,328	24,675
Operating income	**9,212**	3,518	8,267
Net income	**6,189**	2,281	4,688
Adjusted EBITDA [1]	**12,978**	7,693	12,105
Sales by operating segment:			
Canada	**78,346**	68,970	64,962
USA	**49,999**	36,587	36,571
Operating income (loss) by segment:			
Canada	**4,602**	1,746	5,725
USA	**4,026**	1,319	2,672
Per common share data			
Earnings per share – Basic and diluted	**0.92**	0.34	0.70
Dividend paid per share – Regular	**0.32**	0.29	0.27
Adjusted EBITDA per share - Basic [1]	**1.93**	1.14	1.80
Book value [1]	**8.43**	7.57	7.69
Financial condition			
Total assets	**88,832**	78,771	78,837
Current assets	**44,053**	33,363	36,440
Current liabilities	**18,644**	14,522	11,520
Non-cash working capital [1]	**8,211**	6,913	7,560
Property, plant and equipment (net)	**39,209**	40,099	35,041
Intangible assets (net)	**1,447**	1,405	1,496
Goodwill	**2,360**	2,217	2,332
Finance lease obligations including current portion	**3,239**	3,232	14,220
Long-term debt including current portion	**8,568**	8,906	-
Other long-term liabilities	**2,350**	1,874	1,767
Shareholders' equity	**56,636**	50,825	51,646
Financial ratios			
Gross profit margin [1]	**22.4%**	20.2%	24.3%
Operating margin [1]	**7.2%**	3.3%	8.1%
Net income margin [1]	**4.8%**	2.2%	4.6%
Current ratio [1]	**2.36x**	2.30x	3.16x
Return on equity [1]	**12.2%**	4.4%	9.1%

[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 20 of this MD&A.

5. Consolidated results of operations

The results of PFB's operations in the United States of America are translated into Canadian dollars on a periodic basis for inclusion in the consolidated financial statements.

Sales

Consolidated sales in 2018 increased by 21.6% or $22,788 to $128,345 as compared to sales of $105,557 in 2017. This was a record high of consolidated sales for the Corporation. Sales in each quarter of the current year exceeded the sales in the comparative quarter, resulting in strong sales momentum through 2018. Sales Growth was driven by increased business activity in both Canadian and USA segments across a broad range of product and service offerings.. Price increases implemented during 2018 also contributed to increased sales.

As described in the reportable operating segments section which follows, both the Canadian and USA segments reported increased sales in 2018 as compared to sales in 2017.

Gross profit

Consolidated gross profit in 2018 was $28,801, an increase of 35.0% or $7,473 as compared to gross profit of $21,328 reported in 2017. The gross profit margin of 22.4% of sales in 2018 was higher than a gross profit margin of 20.2% of sales reported in 2017. The increase in gross profit margin in the current year was predominantly influenced by operational gains realized through increased production and sales volumes offset somewhat by higher material cost as a percent of sales compared to prior year. The Corporation implemented resin production and procurement strategies in the first half of 2018 to mitigate the impact of rising raw material input costs. The cost of inventories recognized as an expense in cost of sales during the year was $80,184, and contrasted with $68,263 in the prior year. The incremental increase in sales of $22,788 compared to the incremental increase in cost of goods sold of $15,315 over the course of the year resulted in increased gross profit of $7,473

Selling expenses

Consolidated selling expenses increased to $11,985 in 2018 from $11,424 in 2017, an increase of $561. The increases were mainly related to additional sales staff, commissions, and marketing initiatives intended to drive top line growth. Overall, selling expenses remain in proportion to sales and lower than prior year when expressed as a percent of sales.

Administrative expenses

Consolidated administrative expenses increased to $7,452 in 2018 from expenses of $6,399 reported in 2017, an increase of $1,053. The increases were primarily a result of additional administrative staff, increased employee profit sharing on strong performance and higher realized foreign currency exchange losses, compared to prior year. Administrative expenses remain in proportion to overall sales and in line with strategic initiatives and corporate succession plans.

Other losses and gains

Other losses in 2018 of $152 versus gains of $13 in 2017 were principally currency related. Foreign currency losses in 2018 of $166 compared to losses of $16 in the comparative year. Over the last twelve months, the value of the Canadian dollar versus the U.S. dollar has progressively weakened overall.

A gain of $58 was realized on the disposals of property, plant and equipment in the current year as compared to a small gain on disposals of $51 in 2017.

In addition, share-based payments expenses of $44 in the current year compared to $nil in the prior year and reflect the immediate expense related to the vested portion of options to a director and the straight-lining expense of the unvested portion of options related to senior management.

Gain on sale of marketable securities

There were no dispositions of marketable securities in the current year. During the first quarter of 2017, 318,421 restricted trust units were released from escrow and were sold in the open market for proceeds of $1,883, resulting in a gain of $275.

Investment income

Investment income reported in 2018 was $67 versus $114 in 2017. Investment income consisted of $19 (2017 - $74) received on distributions of restricted marketable securities, $25 (2017 - $17) for interest earned on bank balances, and $23 (2017 - $23) of interest collected from customers on past due trade receivables. The decreased trust units held and a final distribution in the second quarter of 2018 resulted in $55 less investment income in 2018 compared to 2017. No further trust distributions will occur on the marketable securities held in escrow. Interest earned on bank balances increased by $8 as a result of higher cash balances in the second half of 2018.

Finance costs

Finance costs decreased by $66 from $832 in the prior year to $766 in the current year and are primarily related to building lease obligations being extinguished in March 2017 and replaced by a lower interest rate and less long-term debt attributable to a mortgage on a repurchased property.

During the first half of 2018 the operating line was drawn to fund working capital requirements in the Canadian Segment and resulted in finance costs of $77 (2017 - $39) over the course of the year. The operating line was fully repaid during the third quarter of 2018.

Income before taxes

Income before taxes in 2018 was $8,513 as compared to income before taxes of $3,075 in 2017, an increase of $5,438 and primarily attributable to higher gross margin from record sales in the year.

Income taxes

Income tax expense in the current year was $2,324 as compared to income tax expense of $794 in 2017. The effective tax rate in 2018 was 27.3% (2017 – 25.8%) and is higher in the current year due to a one-time tax recovery in 2017 which had the effect to decrease the effective tax rate. The current tax expense increased from $401 in 2017 to $2,027 in 2018 as a result of record sales and higher taxable income. The deferred tax expense decreased by $96 from an expense of $393 in 2017 to an expense of $297 in 2018.

On December 22, 2017 the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act. The reduction of the U.S. corporate rate caused an adjustment to the USA segment's deferred tax assets and liabilities to the lower base rate of 21%. Based on the Corporation's current understanding of the Tax Act, the impact of enacted tax changes in the USA segment resulted in a tax expense of $1 for enacted rate changes. The lower US corporate tax rate and additional deductions for bonus depreciation, is expected to have a positive effect on future earnings in the USA. In the current year the full effect of the tax reductions were reflected in the current and deferred income taxes.

Net income and earnings per share

Consolidated net income in 2018 was $6,189 as compared to consolidated net income of $2,281 in 2017. Basic and diluted earnings per share of $0.92 in 2018 compared to basic and diluted earnings per share of $0.34 in 2017. Increased sales from higher volumes and selling prices, raw material supply strategies and efficiencies from economies of scale contributed to higher net income and earnings per share in the current year.

The weighted average number of basic common shares outstanding in the current year was unchanged at 6,716,003 common shares and diluted common shares outstanding in the current year was 6,732,470 (2017 – 6,716,003).

6. 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®; 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®; DuroSpan; Insulspan® SIPS; 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, 2018 and 2017) 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.

6.1 Segment sales revenues 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 years ended December 31, 2018 and 2017 is set out below:

	Sales revenues		Operating income	
	2018	**2017**	**2018**	**2017**
Canada	**$ 78,346**	$ 68,970	**$ 4,602**	$ 1,746
USA	**49,999**	36,587	**4,026**	1,319
Total for segments	**$ 128,345**	$ 105,557	**8,628**	3,065
Corporate – income			**586**	452
Foreign exchange (loss) gain on inter-segment settlements			**(2)**	1
Consolidated operating income			**$ 9,212**	$ 3,518

Canada

Sales

Sales reported by the Canadian operating segment increased to $78,346 in 2018 from $68,970 in 2017, an increase of $9,376 or 13.6%. In the three-month period ended December 31, 2018, the Canadian segment sales were $19,312 compared to $17,230 in the three-month period of 2017, an increase of 12.1%. Canadian sales were strongest in the oil producing markets in which we operate as they continue to shows signs of recovery and overall stability.

Operating income

Operating income generated by the Canadian segment in the current year was $4,602, an increase of $2,856 or 164% from operating income of $1,746 in 2017. Operating income increase was driven by operational leverage realized on higher sales volumes as well as the positive impact of price increases implemented in the first half of 2018. Improvements in labour, overhead and freight were offset slightly by higher average material costs compared to prior year when measured as a percent of sales.

USA

Sales

As reported in Canadian dollars, sales in the current year were $49,999 versus sales of $36,587 in 2017, an increase of $13,412 over prior year or 36.7%.

Year-over-year comparisons of USD sales revenue when translated into Canadian dollars for reported purposes are impacted by currency movements. The average foreign exchange rates experienced by the Corporation in 2018 and 2017 showed no movement at an average rate of $1.30 per US$1.00 in the 2017 comparative year to an average rate of approximately $1.30 per US$1.00 in the current year, despite an overall weakening of the Canadian dollar over the last twelve months. Eliminating the marginal effect of foreign exchange fluctuations, sales, expressed in USA dollars, were $38,366 for the 2018 year or 35.8% higher than sales of $28,247 in the comparative 2017 year.

In the fourth quarter of 2018, the USA segment sales showed strong growth with sales of $15,971 compared with $10,815 in the three month period of 2017, an increase of approximately 47%, supported by a favourable foreign currency translation adjustment during the last three months in a strengthening US dollar. The average foreign exchange rates experienced by the Corporation reflected the depreciation of the Canadian currency from an average rate of $1.27 per US$1.00 in the 2017 comparative three month period to an average rate of $1.32 per US$1.00 in the current three month period,. Eliminating the effect of foreign exchange fluctuations, sales, expressed in USA dollars, were $12,080 for Q4-2018 or 42% higher than sales of $8,501 in the comparative quarter.

Operating income

The USA segment generated operating income in the current year of $4,026, compared to operating income of $1,319 in 2017, an increase of $2,707 on a year-over-year basis. Operating income increased primarily due to operational efficiencies realized on higher sales. Improvements in labour and overhead were offset somewhat by increased material and freight costs as a percent of sales, when compared to prior year.

6.2 Segment assets and liabilities

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

		As at Dec 31, 2018	**As at Dec 31, 2017**
Assets	Segment assets	**$ 47,366**	$ 41,658
	Assets not allocated to segments:		
	Cash and cash equivalents	**16,944**	12,180
	Freehold land and buildings	**22,750**	23,386
	Restricted marketable securities	**1,483**	1,239
	Corporate taxes [1]	**289**	308
	Total assets	**$ 88,832**	$ 78,771
Liabilities	Segment liabilities	**$ 20,389**	$ 15,788
	Liabilities not allocated to segments:		
	Finance lease obligations	**3,239**	3,232
	Long term debt	**8,568**	8,906
	Corporate taxes [1]	**-**	20
	Total liabilities	**$ 32,196**	$ 27,946
Net segment assets	Canada	**$ 19,970**	$ 19,802
	USA	**7,007**	6,068

[1] Current and deferred taxes.

6.3 Other segment information

	2018	2017
Additions to non-current assets:		
Canada	**$ 795**	$ 914
USA	**1,007**	648
Corporate	**31**	7,724
Total	**$ 1,833**	$ 9,286
Depreciation and amortization:		
Canada	**$ 2,066**	$ 2,177
USA	**627**	675
Corporate	**1,073**	1,048
Total	**$ 3,766**	$ 3,900
Inter-segment sales	**$ 7,052**	$ 5,657

7. Results of operations - fourth quarters ended December 31, 2018 and 2017

$ thousands except where indicated	2018	2017
Consolidated results:		
Sales	**$ 35,283**	$ 28,045
Gross profit	**8,055**	6,266
Operating income	**2,988**	1,712
Net income	**2,080**	1,240
Earnings per share – basic	**0.31**	0.18
Weighted average number of shares outstanding		
Basic	**6,716,003**	6,716,003
Diluted	**6,732,470**	6,716,003
Sales by operating segment:		
Canada	**19,312**	17,230
USA	**15,971**	10,815
Operating income by segment:		
Canada	**852**	544
USA	**2,005**	922

Sales

Consolidated sales in the fourth quarter of 2018 were $35,283, an increase of $7,238 or 25.8% as compared to sales of $28,045 reported in the fourth quarter of 2017. The increase in fourth quarter sales was attributed to both the Canadian and USA operating segments, which both delivered robust sales in the final quarter of the year. Mild weather in the Canadian and USA segments during the months of October and November resulted in favourable conditions for project activity and continued shipments of materials

Gross profit

Gross profit, expressed as a percentage of sales was 22.8% in the current year quarter, a slight increase from 22.3% in the fourth quarter of 2017. The higher gross profit in the fourth quarter of 2018 is reflective of the trend experienced throughout the year as operational efficiencies from higher sales volumes drove improvements in labour and overhead, which were offset somewhat by higher average material costs, when expressed as a percent of sales, compared to the prior year period.

Operating income

Operating income was $2,988 in the current quarter as compared to $1,712 in Q4/17, a favourable variance of $1,276.

Net income and earnings per share

Net income in the current quarter was $2,080 as compared to a net income of $1,240 in the comparative quarter of 2017, a favourable variance of $840.

Basic earnings per share in the current quarter were $0.31 as compared to $0.18 reported for the fourth quarter of 2017.

8. Liquidity and capital resources

Sources of liquidity

PFB ended 2018 with cash and cash equivalents of $16,944, adjusting for increases in restricted cash in the current and prior year. PFB's liquidity position increased from the beginning of the current year reflecting strong sales and an efficient cash conversion cycle from both operating segments. Net cash from operating activities increased by $2,638 compared to the prior year. Future liquidity depends on PFB being able to sustain cash flows from operating activities; additionally the Corporation maintains availability of bank credit facilities. The Corporation's credit facilities and long-term debt contain certain covenants, with which the Corporation was in compliance as at December 31, 2018 and 2017. PFB anticipates that future liquidity will be adequate to fund its ongoing business activities including anticipated changes in non-cash working capital, capital expenditures, payment of financial obligations, and payment of regular dividends over the next twelve months.

PFB's revolving credit facility in Canada and the USA were unused as at December 31, 2018.

Cash and cash equivalents

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

	December 31, 2018	**December 31, 2017**
Cash held with banks	**$ 13,744**	$ 12,180
Short-term investments	**3,200**	-
	$ 16,944	$ 12,180

As at December 31, 2018, PFB held net cash balances of $16,944, an increase from the cash position as at December 31, 2017, which was $12,180. A significant proportion of the cash on hand, resides in the USA segment.

Cash - restricted

Restricted cash amounted to $1,347, an increase of $1,259 from $88 in 2017. Restricted cash comprises cash collected from certain customers of the USA segment that is contractually segregated from other cash and not comingled, as it is held exclusively for disbursements to suppliers and service providers specific to those individual customer contracts.

PFB's cash and restricted cash balances typically fluctuate throughout the year in line with seasonality and contracts with customers for bundled construction contracts.

Borrowings

During 2018 there were no additional borrowings of long-term debt. During 2017, the Corporation obtained long-term debt in a form of a mortgage in the amount of $9,152 from a Canadian bank to fund the purchase of a real estate transaction. The terms of the debt are a fixed interest rate of 3.25% for a 5-year period, with a 20-year amortization.

The Corporation is subject to certain covenants on its outstanding 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 Debt Service Coverage Ratio is defined as adjusted EBITDA for the current year, less dividends, divided by the sum of all principal and interest payments during the course of the year. The calculated Debt Service Coverage Ratio at December 31, 2018 and 2017 exceeded the minimum requirement of 1.25:1.

Total balance of current and non-current portions of long-term debt was $8,568 as at December 31, 2018, which has decreased by $338 for principal repayments.

Bank credit facilities

Canada

The Corporation's Canadian subsidiary has a $10,000 revolving facility secured by a first ranking security interest in trade receivables and inventories of the Canadian subsidiary. The Corporation provides a guarantee and postponement of claim to the bank in the amount of $10,000.

The interest rate applicable on draws made against the facility is the Canadian bank's prime rate plus 0.5% and the facility carries a monthly standby fee when not being utilized. The credit facility was not drawn as at December 31, 2018 and 2017.

USA

In December 2018, the Corporation's USA subsidiary renewed credit facility arrangements with a US bank for a variable rate revolving facility in the amount of $1,250. The revolving facility is secured by all inventory and equipment of the USA subsidiary. The interest rate applicable on draws made against the facility is a variable rate based on an index plus 0.25%.

Under the facility, the USA subsidiary is subject to certain covenants, including financial covenants to maintain an Operating Cash Flow to Fixed Charge Coverage ratio of not less than 1.20:1 and to maintain a Total Debt to Tangible Net Worth Ratio of less than 3.00 to 1.00. The credit facility was not drawn as at December 31, 2018 and 2017.

Change in non-cash working capital

Changes in the principal components of non-cash working capital in 2018 and 2017 are highlighted in the following table.

	2018	**2017**	**Change**
Trade receivables	**$ 13,082**	$ 9,809	$ 3,273
Inventories	**11,638**	9,998	1,640
Prepaid expenses	**374**	474	(100)
Contract cost	**475**	527	(52)
Trade and other payables	**(10,894)**	(8,737)	(2,157)
Contract liabilities	**(6,464)**	(5,158)	(1,306)
	$ 8,211	$ 6,913	$ 1,298

In 2018, non-cash working capital increased by an amount of $1,298 to $8,211 at the end of the current year from $6,913 in 2017, primarily attributed to changes in trade receivables and inventories on higher sales activity.

Trade receivables increased by $3,273 in 2018 and was commensurate with the increase experienced in fourth quarter sales revenues.

Inventory carrying costs at the end of 2018 increased from the prior year with higher raw materials, work-in-progress and finished goods on higher sales activity. The carrying cost of inventories at the end of 2018 was $11,638 as compared to $9,998 at the end of 2017, an increase of $1,640.

Trade and other payables were $2,157 higher at the end 2018 as compared to at the end of 2017, consistent with a general increase in trading activities in the latter part of the fourth quarter and higher sales activity throughout the year.

Customer deposits collected, mainly in the USA segment, represent future contract liabilities to transfer goods or services to a customer for which consideration has been received and the Corporation remains obligated to perform. Contract liabilities increased by $1,306 in 2018 and mirrored the increase in sales that the USA segment experienced in the fourth quarter of 2018.

Summary of cash flows

A summary of cash flows for the years ended December 31, 2018 and 2017 are included in the following table:

	2018	2017
Net cash flows from (used in):		
Cash from operating activities, before income taxes paid	**$ 11,749**	$ 7,943
Income taxes paid, net	**(1,312)**	(144)
Net cash from operating activities	**10,437**	7,799
Net cash used in investing activities	**(2,943)**	(9,165)
Net cash used in financing activities	**(3,533)**	(3,219)
Effects of exchange rates on cash and cash equivalents held in foreign currencies	**803**	(369)
Net increase (decrease) in cash and cash equivalents	**4,764**	(4,954)
Cash and cash equivalents – beginning of the year	**12,180**	17,134
Cash and cash equivalents – end of the year	**16,944**	$ 12,180

(a) Operating activities

In 2018, cash from operating activities before income taxes paid, was $11,794 as compared to $7,943 in the comparative year, an increase of $3,851. The year-over-year increase was primarily due to higher net income in the current year from record sales. Income taxes paid of $1,312 in the current compared to $144 in the prior year as a result of higher taxable income, resulting in net cash from operating activities of $10,437 in 2018 compared to $7,799 in 2017.

(b) Investing activities

Net cash used in investing activities in 2018 was $2,943 as compared to cash used in investing activities of $9,165 in 2017, a decrease of $6,222. Investing activities decreased primarily to the repurchase of net leased assets of $7,675 in the prior year, offset by higher restricted cash balances and purchases of capital assets.

(c) Financing activities

Cash used in financing activities in 2018 was $3,533 as compared to $3,219 in 2017.

Financing activities were comparable in the current year to the prior year, except for the repurchase of leased assets in the prior year. In 2017, as part of the acquisition of the Crossfield, Alberta property, the Corporation extinguished finance lease obligations in the amount of $10,982 relating to the property. The net cash inflows from long-term debt, net of payments, related to the Crossfield, Alberta acquisition was $8,906. Repayment of finance lease obligations in 2018, which included buildings and vehicles leases, amounted to $279 as compared to lease repayments of $246 in 2017. Finance costs incurred in 2018 declined significantly to $766 compared to finance costs of $832 incurred in 2017, a favourable reduction by $66.

As a significant one-time event in 2017, the Corporation sold 318,421 trust units resulting in cash flow from financing activities in the amount of $1,883.

During 2018, PFB paid regular quarterly dividends of $0.08 per common share in February, May, August and in November, resulting in dividends paid of $2,150 (2017 - $1,948).

Outstanding share data

The issued and outstanding number of common shares as at March 8, 2019 was 6,716,003.

Capital structure and capital management

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).

PFB's capital structure, net of cash and cash equivalents, as at December 31, 2018 and 2017, is as outlined in the following table:

	As at December 31, 2018	**As at December 31, 2017**
Borrowings	**$ 8,568**	$ 8,906
Less: cash and cash equivalents	**16,944**	12,180
Surplus cash	**$ (8,376)**	$ (3,274)
Shareholders' equity	**$ 56,636**	$ 50,825
Net borrowings to equity ratio	**N/A**	N/A

PFB considers the amount of capital it requires in proportion to the associated risks. Adjustments may be made to PFB's capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. The capital structure can be maintained or adjusted in a variety of ways as circumstances change, including: adjusting the amount of dividends paid to shareholders; purchasing shares for cancellation (under Normal Course Issuer Bids); issuing new shares; and increasing or repaying debt financing.

PFB pursues its capital management objectives by prudently managing the capital generated through internal growth of its operations, optimizing the use of lower cost capital when required, and raising share capital when deemed appropriate, to fund significant strategic growth initiatives.

Entities within PFB's consolidated group have non-capital tax losses carried forward to be utilized against future taxable income that is expected to be generated by those entities.

Share-based options

The Corporation granted 400,000 share-based options in the year ended December 31, 2018, and no share options were exercised in the year.

Dividends

The Board of Directors declared regular quarterly dividends of $0.08 per common share in February, May and August, and November of 2018.

Aggregate dividends paid in the year ended December 31, 2018, amounted to $2,150 (2017 - $1,948).

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

Normal course issuer bid

In January 2018, PFB obtained approval from the Toronto Stock Exchange to renew its Normal Course Issuer Bid ("issuer bid") for a 12-month period, which commenced on January 10, 2018, and ended January 9, 2019.

During the year ended December 31, 2018 and 2017, the Corporation did not purchase any of its common shares for cancellation under the Normal Course Issuer Bid. The Normal Course Issuer Bid lapsed on January 11, 2019, without renewal.

Comprehensive income

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

A summary of comprehensive income for the three and twelve month periods ended December 31, 2018 and 2017 is as follows:

	Three month periods ended December 31		Twelve month periods ended December 31	
	2018	**2017**	**2018**	**2017**
Net income for the period	**$ 2,080**	$ 1,240	**$ 6,189**	$ 2,281
Other comprehensive income (loss)	**1,004**	162	**1,728**	(1,154)
Comprehensive income for the period	**$ 3,084**	$ 1,402	**$ 7,917**	$ 1,127

In the fourth quarter of 2018, comprehensive income was $3,084 as compared to a comprehensive income of $1,402 in the comparative quarter of 2017. Other comprehensive income of $1,004 (Q4/17 – income of $162) in the current quarter consisted of income of $1,142 (Q4/17 – income of $84) attributed to foreign currency translation when consolidating PFB's USA operations, a gain of $nil (Q4/17 – gain of $62) representing unrealized gain on restricted marketable securities, net of tax, and a loss of $138 (Q4/17 – gain of $16) from pension plan valuation changes.

Included in accumulated comprehensive income at December 31, 2018, were foreign currency translation adjustments totaling $1,689, marketable securities adjustments of $177, net of tax, and $(138) of defined benefit valuation changes, net of tax, for total accumulated other comprehensive income of $1,728. The $2,898 increase in foreign currency translation adjustments from December 31, 2017 loss of $1,209, to $1,689 gain, reflects the weakened Canadian dollar throughout 2018 when retranslating USA segment from US dollars into Canadian dollars. The marketable securities, in the form of units of a Canadian REIT, represent $177 of accumulated unrealized gains since March 2013 as part of a sale-leaseback arrangement and have decreased for 318,421 units disposed of in 2017. The $154 loss in pension plan valuation changes from a gain of $16 at December 31, 2017, to a net loss of $138 at December 31, 2018, reflects valuation changes in accumulated other comprehensive income.

9. Contractual obligations and commitments

In the normal course of business, PFB is obligated to make future contractual payments. As at December 31, 2018, PFB's contractual obligations and commitments 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**
Long-term debt	**$ 11,369**	$ 623	$ 1,246	$ 1,246	$ 8,254
Finance lease obligations	**7,030**	649	1,054	922	4,405
Operating leases	**11,381**	1,404	2,548	2,463	4,966
Commitments for PP&E and intangible assets	**252**	252	-	-	-
Total contractual obligations	**$ 30,032**	$ 2,928	$ 4,848	$ 4,631	$ 17,625

Long-term debt obligations are a result of significant one-time events in 2017 and represent a mortgage on the purchase of certain leased assets in 2017. Finance lease obligations are with respect to buildings in Canada used for manufacturing operations, automobiles used by employees, and materials handling equipment. Operating leases are with respect to leases for land, certain facilities used in PFB's operations, and general items of office equipment.

From time-to-time, under the terms of certain sales contracts, PFB's subsidiaries may be required to provide performance bonds as security. Performance bonds are considered normal practice for suppliers and contractors participating in larger construction projects, usually of a public nature. In the USA, government agencies in certain states have requirements for bonds to be posted when certain types of licensing applications are made in those states. As at December 31, 2018, the USA, performance bonds in the amount of $651 (2017 - $598) were pledged to various government agencies.

10. Financial instruments and financial risks

Fair value of financial instruments

PFB's financial assets and liabilities that are recorded at fair value on a recurring basis have been classified into one of three categories based upon the following fair value hierarchy:

Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Fair value is based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Fair value is based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

A summary of the categories and fair values of financial instruments held by PFB as at December 31, 2018 and 2017, are stated in the following table. The carrying costs of each financial instrument for each year in the consolidated balance sheets are equal to their fair values.

Financial instrument	Category	Measurement	Hierarchy	2018 Fair Value	2017 Fair Value
Cash and cash equivalents	Assets at amortized cost	Amortized cost	Level 1	**$ 16,944**	$ 12,180
Cash - restricted	Assets at amortized cost	Amortized cost	Level 1	**1,347**	88
Restricted marketable securities	FVOCI	Fair value	Level 2	**1,483**	1,239
Trade receivables	Assets at amortized cost	Amortized cost	N/A	**13,082**	9,809
Trade and other payables	Financial liabilities at amortized cost	Amortized cost	N/A	**(10,894)**	(8,737)
Long-term debt	Financial liabilities at amortized cost	Amortized cost	Level 2	**(8,568)**	(8,906)

Credit risk

Credit risk is defined as the risk that PFB's counterparties in a transaction fail to meet or discharge their obligation to PFB.

The Corporation's exposure to credit risk is associated with trade receivables and the potential risk that any customer is unable to pay amounts when due. Allowances for doubtful accounts and bad debts are estimated and maintained as at the balance sheet date. The amounts reported for trade receivables on the balance sheet are net of allowances for doubtful accounts and the net carrying value represents PFB's maximum exposure to credit risk.

The Corporation's subsidiaries provide trade credit to their customers in the normal course of business and PFB's credit policy is universally adopted across all its businesses. The policy requires the credit history of each new customer to be closely examined before credit is granted, which may involve performing solvency tests if a particular account is expected to become significant. It is not normal practice to require customers' to provide collateral or security as a condition of approving trade credit. The diversity of PFB's customer base and product offering combine to minimize overall exposures to credit risks.

Customers ordering highly-customized manufactured products are required to make advance payments at various predefined stages of a sales contract. All payments received in advance of invoicing are reported as contract liabilities under the current liability section of the balance sheet. Final contract balances are typically required to be paid in full before products are shipped.

Management diligently reviews past due trade receivables balances on a weekly basis to monitor potential credit risks. Accounts are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer may default. A number of factors are considered in determining the likelihood of impairment. All bad debt write-offs and changes in the doubtful trade receivables reserve are expensed or credited, as applicable, to selling expenses in the consolidated statement of income.

PFB believes that credit risk associated with its trade receivables is limited for the following reasons:

- Trade receivables balances are spread amongst a broad customer base which is dispersed across a wide geographic range;
- The aging profile of trade receivables balances are systematically monitored by management;
- Larger customers are offered a discount off invoice for prompt payment which is strictly enforced; and
- Payments for highly-customized orders are received in advance of products being shipped.

Potential credit risk associated with contractual holdback amounts pertaining to certain large projects is considered to be low as the customers involved are required to provide bonding to the owners of the projects. The credit risk on cash balances is limited because the counterparties are large commercial banks in Canada and the United States.

Payments of interest collected from customers on past due trade receivables balances is included as part of investment income in the consolidated statement of income.

Foreign currency risk

Currency risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Corporation operates in both Canada and the United States of America and is exposed to foreign exchange risks arising from changes in foreign exchange rates between the two countries. At the present time, the Corporation has a net exposure to the United States dollar, as the prices of most raw materials used in its businesses are denominated in U.S. dollars. Raw material supplies denominated in U.S. dollars are usually paid within thirty days or less of receiving actual deliveries, which is consistent with industry practices.

Periodically, management may commit to entering into foreign exchange contracts to attempt to protect earnings against relatively short-term fluctuations in exchange rates. In such cases, management attempts to make informed judgements in entering such transactions but there is a possibility that markets may not respond in ways predicted. To the extent that the Corporation does not fully hedge its foreign currency exposure and exchange rate risk, or the Corporation's subsidiaries are not able to or do not raise their selling prices accordingly when exchange rates are moving in an unfavourable direction, the profitability of the business could be adversely affected. The Corporation does not enter into currency driven derivative financial instruments for speculative purposes. The Corporation did not hold any foreign exchange contracts as at December 31, 2018.

Historically, the Corporation has mainly financed its USA operations from internal resources with demand loans denominated in Canadian dollars on which the USA operations is exposed to currency risk. As the exchange rate between the Canadian and U.S. dollars fluctuated, unrealized gains and losses arising on the loans were recorded in the consolidated statement of income in accordance with IFRS. In 2013, PFB refinanced its USA subsidiary by making equity investments instead of purchasing debt instruments from it. Foreign exchange gain or losses on inter-segment settlements represent transactions between the Canadian and USA segment are settled on a monthly basis and involve foreign currency risk.

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates.

The Corporation's interest rate risk is mitigated with a fixed rate of interest at 3.25% on its long-term debt until renewal in March 2022. Management believes that the potential adverse impact of interest rate fluctuations on the current level of borrowings exposed to interest rate risk will not be significant in relation to its expected future earnings.

As at December 31, 2018, the Corporation's Canadian subsidiary had access to a revolving credit facility with a Canadian bank. The revolving credit facility has a limit of $10,000 based on marginable trade receivables and inventories and the revolving credit facility was unused. The Corporation's USA subsidiary had access to a revolving credit facility with a US bank. The revolving credit facility has a limit of $1,250, based on all inventory and equipment. The revolving credit facility was unused at December 31, 2018.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Corporation's liquidity risk is that it is not able to settle liabilities when due or that it can do so only at an abnormally high cost. Accordingly, one of management's primary goals is to maintain an optimum level of liquidity by actively managing assets, liabilities and cash flows generated by operations. The Corporation's future strategies can be financed through a combination of cash flows generated by operations, borrowing under existing credit facilities, and the issuance of equity. Management prepares regular budgets and cash flow forecasts to help predict future changes in liquidity.

11. Off-balance sheet arrangements

The Corporation does not believe it has any off balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on its financial condition, results of operations, or liquidity, other than those disclosed in the balance sheet as the available portion of credit facilities, outstanding letters of credit and operating leases.

12. Related party transactions

All related party transactions are constituted in the ordinary course of business and they have been measured at the agreed exchange amounts which approximate fair value. All transactions with related parties have been approved by the Corporation's Board of Directors.

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation.

In the years ended December 2018 and 2017, the Corporation had the following transactions with related parties:

Related party	Nature of transactions	2018	2017
E. Carruthers Trucking	Transportation services	**$ 2,163**	$ 1,920
Aeonian Capital Corporation	Management services	**350**	350
		$ 2,513	$ 2,270

The following related party balances were outstanding at the end of the reporting years:

Related party	Nature of transactions	2018	2017
E. Carruthers Trucking	Transportation services	**$ 81**	$ 68

Aeonian Capital Corporation ("Aeonian"), and its affiliates, owned 2,991,168 (2017 - 2,967,668) common shares of the Corporation representing 44.5% (2017 – 44.2%) of the 6,716,003 issued and outstanding shares as at December 31, 2018. Aeonian is controlled by C. Alan Smith, President and Chairman of PFB. The Corporation is charged fees by Aeonian for management services including those provided by Mr. Smith. The fees are reported under administrative expenses in the consolidated statement of income.

E. Carruthers Trucking is owned by a sibling of a member of the Board of PFB. The transactions have occurred in the normal course of operations at arm's length and are based on standard commercial terms.

13. Subsequent events

Declaration of regular quarterly dividend

On February 1, 2019, the Board of Directors declared a regular quarterly dividend of $0.08 per common share, which was paid on February 28, 2019, to shareholders of record at the close of business on February 14, 2019.

Letters of credit

Outstanding letters of credit for $1,301 remain outstanding as guarantee payments for inventory purchases.

Operating credit facility

As at January 18, 2019, the operating credit facility in Canada was increased to $17,000.

14. Outlook

The Corporation continued to build on the positive momentum in the third quarter with strong sales and margin performance in the fourth quarter, driven by increased volumes, supported by warmer seasonal weather patterns and little to no impact from North American extreme weather events.

As a result, the Corporation experienced record-high consolidated sales of $128,345 in 2018 while recording year-over-year sales growth in each quarter. During 2018, performance was 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 2019 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 into the first quarter of 2019.

As expected, our principal raw material input cost softened during the fourth quarter due to higher global inventories and lower global demand tied to uncertainty created by ongoing US - China trade disputes. In addition, there were no major unplanned production disruptions in recent months. Going into the first quarter of 2019, raw material input costs appear relatively stable and at levels lower than those experienced in 2018, a departure from the previous two years. This should have positive effects on gross margins heading into the first quarter of 2019. However, uncertainty remains as a result of continued trade and tariff disputes between the United States and China, the potential for unplanned production disruptions and overall world oil price trends, all factors that could impact North American styrene pricing in 2019.

The Corporation's resin strategies intended to mitigate the impact of raw material input cost volatility proved effective in 2018 and will be implemented proactively in 2019, as required. Price increases implemented in the second quarter of 2018 became effective over the course of the year and have positioned the Corporation well for 2019. These factors and operational efficiencies realized through increased volumes and record sales resulted in 2018 gross margins of 22.4% compared to 20.2% 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 North America 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 U.S. dollar limits the ability of competitors to import their products into Canada and increases the contribution made by USA segment revenues when expressed in Canadian dollars. The majority of our raw materials are priced and purchased in U.S. dollars and a weaker Canadian dollar results in overall increased cost of sales. Comparing the fourth quarter of 2018 to the fourth quarter of 2017, the Canadian dollar weakened providing tailwinds for reporting consolidated sales in Canadian dollars. The currency impact in 2018 remained neutral as headwinds in the first and second quarter of 2018 were offset by tailwinds in the third and fourth quarter of 2018. As a result, sales growth for the Corporation was not materially impacted by year-over-year currency fluctuations, but instead driven by increased volumes, increased business activity and improved pricing. Continued volatility of the Canadian dollar is possible based on geo-political environments and ongoing global trade and tariff disputes.

The Corporation continues to experience strong demand for EPS product lines in both the Canadian and USA operating segments as we enter 2019. Infrastructure activity in Canada and the USA present good opportunities for continued growth. 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 group enters 2019 with a strong order book. The Corporation continues to search for suitable acquisitions to expand our US initiatives.

15. 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 disclosures.

An evaluation of our DC&P was conducted, as at December 31, 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 December 31, 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 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.

16. 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 PFB'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 December 31, 2018, the CEO and CFO, assessed the effectiveness of the Corporation's internal controls over financial reporting and concluded that it was effective and that no material weaknesses in the Corporation's internal controls over financial reporting has been identified.

17. Risk management and assessment

PFB is subject to risks and uncertainties inherent in the operation of its business. Management defines risk as the possibility that an event might happen in the future that could negatively affect the financial condition and/or results of operations of the Corporation. The following section describes specific and general risks that could affect PFB. The Audit Committee and the Board of Directors play an important role in developing risk management programs and reviewing and monitoring them on a quarterly basis. As it is difficult to predict whether any risk will happen or its related consequences, the actual effect of any risk on PFB's business could be materially different from anticipated.

The following descriptions of general and specific risks do not include all possible risks, as there may be other risks existing of which the Corporation is currently unaware.

17.1 Raw material price and supply

The price of raw materials, specifically, styrene monomer, expandable polystyrene resin, polypropylene copolymers, oriented strand board, and raw timbers combined represent a significant portion of manufacturing costs in PFB's businesses. Historically, there have been considerable cyclical and other causes of volatility in the price of these materials, which is outside the control of PFB. There are no futures markets for these materials available to PFB, which limits the ability to lock in prices for fixed periods of time.

PFB may, from time-to-time, build inventories of both raw materials and finished goods which can lead to the assumption of risk due to an inability to match carrying costs to selling prices under certain fixed price sales contracts. Conversely, from time to time, PFB may be short of inventory that has been contracted to be delivered under fixed price sales contracts that can lead to the assumption of risk also due to an inability to match costs to selling prices.

Management continues to explore opportunities to minimize the impact that price swings in purchasing raw materials has on PFB's earnings. The changing dynamics in the petrochemical industry, primarily driven by world oil prices and other global events, and changing dynamics affecting other industries, are difficult to predict. Such changes may create the potential for raw material supply disruptions or shortages which would be detrimental to PFB's operations.

17.2 Economic and market conditions

PFB's business is affected by prevailing general and regional economic conditions, consumer confidence and spending, and both the demand for and prices of its EPS products and insulating building systems in those geographic areas in which it operates. Weaker economic conditions, the impact of changing mortgage rates and other interest rates potentially affecting the construction industry, and the possibility of slowdowns in residential and/or commercial construction activity, typically evidenced by the change in the number of building permits issued, may translate into lower demand for PFB's products. Such effects may also adversely affect the financial condition and credit risk of PFB's customers, including their ability to obtain credit to finance their businesses, which could create uncertainty over the collectability of trade receivables.

17.3 International Trade

PFB exports some of its products to customers outside of Canada and imports some of its raw materials to Canada and certain of its inputs are affected by global commodity prices. PFB's international operations are subject to inherent risks, including: change in the free flow of goods between countries; fluctuations in currency values; discriminatory fiscal policies; unexpected changes in local regulations and laws; and the uncertainty of enforcement of remedies in foreign jurisdictions. In addition, trade agreements between Canada and foreign jurisdictions could change and foreign jurisdictions could impose tariffs, quotas, trade barriers, and other similar restrictions on the PFB's international sales. All of these risks could result in increased costs or decreased revenues, either of which could have a material adverse effect on the Company's financial condition and results of operations.

17.4 Competition

As a market leader in its industry, the Corporation faces intense and growing competition from other manufacturers of all sizes located in both Canada and the United States, new entrants into the markets we serve, along with manufacturers of substitute products which compete with EPS. Competition can affect the Corporation's pricing strategies and lower its sales revenues and net income. Competition can also affect PFB's ability to retain existing customers and attract new ones. A competitive business climate increases the resolve to provide exceptional customer service, quality products, and the need to be price competitive. Management continues to identify ways to grow revenues, manage expenses and increase productivity. This requires anticipating and responding quickly to the constant changes in its businesses and markets.

17.5 Currency

The Corporation has a net exposure to the U.S. dollar which makes it vulnerable to fluctuations in the foreign exchange rate between the Canadian dollar and the U.S. dollar. The timing of foreign exchange rate fluctuations between the Canadian dollar and the U.S. dollar can have a significant effect on the Corporation's operating results, the effect and magnitude of which depends on the product mix of sales and raw material purchases.

From time-to-time, management may commit to utilizing derivative financial instruments in the normal course of business as a means of management of its foreign currency exposure. Management attempts to make informed judgements in such transactions but there is the possibility that markets may respond in ways not predicted. To the extent that PFB does not fully hedge its foreign currency exposure and exchange rate risk, or the Corporation's subsidiaries are not able or do not raise their selling prices accordingly when exchange rates are moving in an unfavourable direction, the profitability of the business could be adversely affected.

17.6 Acquisitions

The Corporation's growth strategy includes making strategic acquisitions when possible. There is no assurance that it will find suitable companies to acquire or that it will have the financial resources needed to complete any acquisition. There could also be challenges integrating the operations of any acquired company with existing operations.

17.7 Financing and liquidity

In developing business operations to their full potential, significant capital and operating expenditures may be required on an ongoing basis. The Corporation has historically generated sufficient cash flow from its operations to fund its capital expenditure requirements, repay financing obligations, and maintain regular dividend payments. Future development of new products and the growth of the Corporation's business through internal expansion or by acquisitions may depend on access to external financing. The Corporation's cash position and existing credit facilities are considered adequate to meet its current and medium-term needs. There is no guarantee that financing for future expansion of the Corporation's operations will be available on acceptable terms, if required.

17.8 Reputation

Negative publicity regarding the Corporation's business practices, regardless of whether true or false, could adversely affect the Corporation's reputation which, in turn, could affect its operations, customers, and share value. PFB manages reputational risk by placing the utmost importance on corporate governance and full and fair disclosure. Good corporate governance practice emanates from an effective board of directors. Corporation's board of directors and its board committees have been shaped to competently perform the role of overseeing the appropriate management of Corporation's affairs with the objective of maximizing the long-term value of Corporation. A detailed summary outlining Corporation's corporate governance practices can be found in the most recent Management Information Circular.

17.9 Trade credit

The Corporation's subsidiaries provide trade credit to their customers in the normal course of business. The Corporation's credit policy is universally adopted across its businesses. The policy requires the credit history of each new customer to be closely examined before credit is granted, which may include performing solvency tests if a particular account is expected to become significant. Management diligently reviews past due trade receivables on a weekly basis, which helps minimize credit risk. The diversity of the Corporation's activities and customer base also helps minimize the credit risk to which it may be exposed.

17.10 Environmental considerations

Environmental issues are gaining in importance for the Corporation's stakeholders. The Corporation is committed to responsibly managing the direct and indirect impact it has on the environment. The Corporation believes that it is in substantial compliance with applicable environmental laws in jurisdictions where it has operations. The Corporation takes custody of hazardous materials when the goods physically arrive at its facilities. All construction materials must adhere to fire safety requirements during their manufacture, transportation and storage. The Corporation will continue to work with Environment Canada and other industry partners in assessing environmental considerations.

17.11 Information technology

The Corporation makes extensive use of information technology in conducting its businesses. This involves web-based connections, access to secure, centrally located servers and databases, and maintaining both existing and implementing new business software applications. The security and safeguarding of information technology assets and protocols will continue to be increasingly important to the Corporation. The Corporation minimizes its exposure to I.T. risks by continuously reviewing its access and application controls, performing disaster recovery testing, locating its backbone I.T. assets in an industry-leading secure location, and hiring and training specialist employees with respect to the protection and use of I.T. assets and related intellectual property. Failure in the completeness, accuracy, availability or security of the Corporation's information systems or a breach of data security could adversely affect its operations and financial results. Correspondingly, computer viruses, cyber-attacks, security breaches, unforeseen natural disasters and related events or disruptions could result in information systems failures that may adversely affect the Corporation's operations and financial results.

17.12 Cyber Security

The Corporation relies on information technology and information systems in all areas of operations. These systems are subject to an increasing number of sophisticated cyber threats. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving. A successful cyber-attack may result in a breach of sensitive information or its systems to be disrupted, the Corporation's financial position, brand and/or its ability to achieve strategic objectives may be negatively affected.

17.13 Seasonality and climatic factors affecting the construction industry

Due to the seasonal nature of the construction industry, the Corporation's actual reported sales exhibit variations when viewed on a quarter-by-quarter basis. Typically, sales are weakest in the first and fourth quarters of the year and strongest in the second or third quarters. Sales in any quarter can be significantly influenced by weather events, particularly the timing of when winter begins and ends, and the severity thereof.

17.14 Plant and facilities

The Corporation operates a number of manufacturing facilities across North America, most of which operate at or near capacity for significant portions of the year. Any disruption to operations at any plant and facility arising from natural or man-made causes such as fire, flood, labour disputes, interferences with access or egress, or other events, could have a material impact on the Corporation and its business operations.

17.15 Employee future benefits

A defined benefit pension plan (the "Plan") exists for certain Ontario-based employees who are members of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied industrial and Service Workers International union. The latest accounting valuation of the Plan calculated in accordance with IAS 19 was completed as at December 31, 2018, and it identified that the Plan had a defined benefit pension asset of $10 compared to a defined benefit asset of $91 at the end of the comparative year. Throughout 2018 and 2017, the

Corporation made both normal service and special payment contributions to the Plan. The actual rate of return on plan assets and changes in interest rates and other variables could result in changes in the Corporation's funding requirements for the Plan. The Plan assets are not immune to market fluctuations and, as a result, the Corporation may be required to make additional cash contributions in future.

The Corporation operates group 401K plans for all qualifying employees located in Minnesota, Michigan, Ohio and Idaho, USA, in which qualifying employees may elect to defer current wages for retirement. The Corporation has the option to match employee contributions to the plans. The assets of the plan are held separately from those of the Corporation by a trust company, which is governed by a custodial agreement (ERISA). The Corporation also utilizes the services of registered investment brokers and third party administrators in the fulfillment of its actuarial and fiduciary responsibilities with respect to the plans.

17.16 Human resources

The Corporation's success depends on the abilities, experience, engagement, and succession of its management teams. The loss of key employees through either attrition or retirement could adversely impact the Company's future business and financial results. The Corporation attempts to mitigate these risks by offering competitive compensation and benefits packages, training, succession planning, and providing a positive cultural environment.

17.17 Off-Balance Sheet Arrangements and Operating Leases

The Corporation does not believe it has any off balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on its financial condition, results of operations, or liquidity, other than those disclosed in the balance sheet as the available portion of credit facilities, outstanding letters of credit and operating leases.

17.18 Internal and Disclosure Controls

Ineffective internal controls over financial reporting or inadequate disclosure controls could result in an increased risk of a material misstatement in financial reporting and public disclosures. In accordance with guidelines adopted for publicly-traded companies in Canada, the Corporation assesses the effectiveness of its internal and disclosure controls using a top-down, risk-based approach in which both qualitative and quantitative measures are considered. An internal control system, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance to management and the Board of Directors regarding the achievement of results. The Corporation's current systems of internal and disclosure controls places reliance on key personnel across the Company to perform a variety of control functions which include performing reviews, analysis, reconciliations and monitoring. The undetected failure of individuals performing such functions or implementing controls as designed could adversely impact the Corporation's financial results.

17.19 Volatility of Market Share Price

The market price of the Corporation's common shares may be volatile and could be subject to fluctuations in response to quarterly variations in financial results or other events or factors. Consequently, broad market fluctuations or the failure of the Corporation's financial results to meet expectations in a particular reporting period may adversely affect the market price of its common shares.

18. Critical accounting judgements and estimates

In the application of the Corporation's accounting policies, as described in Note 2 to the consolidated financial statements for the years ended December 31, 2018 and 2017, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on a combination of historical experience, available knowledge of current conditions, and other factors that are considered to be reasonable and relevant under the circumstances. Actual costs and outcomes may significantly differ from these estimates and assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

The following are the key assumptions concerning the future and other key sources of estimating uncertainty at the end of the reporting year, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.

18.1 Revenue Recognition

IFRS 15 requires management to make judgments and estimates. Judgement relates to the identification of performance obligations in each contract. Some contracts with customers include a bundled set of goods and services and judgement is required to determine the goods and services that are distinct performance obligations. Judgement is required to determine any level of integration and any interdependency between goods and services entered with customers. Allocation of the transaction price to different performance obligations may require estimates. In instances where information is incomplete or not available, determination of selling prices include market conditions and other observable inputs such as the scope of work and geographic region.

Judgements and estimates are also required to determine an appropriate measure of progress and pattern of delivery when determining how control of promised goods or services transfers to a customer.

Estimates of incentives or rebates are updated regularly as information becomes available and only to the extent that the variable consideration is constrained.

18.2 Remaining performance obligations

Many factors may lead to a change during a contract performance period, which can result in a change to contract profitability from one financial reporting period to another. Some of the factors that can change the contract revenue include differing site conditions, the availability of skilled labour, the performance of subcontractors, unusual weather and the accuracy of original contracts. Judgements are required of factors that may impact remaining, unsatisfied performance obligations. Estimates are required to determine the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied, or partially unsatisfied, as at the end of each reporting period. Judgement is also required to determine the timing of when unsatisfied performance obligations will become realized as revenue in future periods.

18.3 Cash-generating unit ("CGU")

Determination of which assets constitutes a CGU is subject to management judgements. Also, the asset composition of a CGU can directly impact the recoverability of assets included therein. The recoverable amount of a CGU is assessed at the CGU level and is the higher of the CGU's fair value less costs of disposal and its value in use. A CGU may be impaired when its carrying amount exceeds its recoverable amount. Key assumptions used for the value in use calculations are set out in note 16 of the audited consolidated financial statements for the year ended December 31, 2018.

18.4 Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit(s) to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and determining a suitable discount rate in order to calculate present value.

In the years ended December 31, 2018 and 2017, no impairment of goodwill was recognized. Notwithstanding, reasonable changes in one or more of the variable assumptions or the discount rate used to estimate the present value of future cash flows could have a bearing on the valuation outcomes and conclusions.

18.5 Impairment of tangible and intangible assets

Determining whether tangible and intangible assets are impaired requires an estimation of the value-in-use of the CGUs to which they have been allocated. The value-in-use calculation requires management to estimate the future cash flows expected to arise from the CGU and a suitable discount rate to be determined in order to calculate present value.

In the years ended December 31, 2018 and 2017, no impairment of tangible and intangible assets was recognized. Notwithstanding, reasonable changes in one or more of the variable assumptions or the discount rate used to estimate the present value of future cash flows could have a bearing on the valuation outcomes and conclusions.

18.6 Valuation of inventories

Management reviews the carrying amount of finished goods inventories at the end of each reporting year and the recorded amount is adjusted to the lower of cost or net realizable value. As part of the review, management is required to make certain assumptions when determining expected realizable amounts.

An inventory reserve is maintained for slow-moving raw materials and work-in-progress inventories. The value of slow-moving inventories is based on management's assessment of market conditions for its products as determined by historical usage and estimated future demand. Any write-downs in value may be reversed if the circumstances which caused them no longer exist.

18.7 Allowance for doubtful accounts

Amounts included in allowance for doubtful accounts reflect the lifetime expected credit losses for trade receivables. Management determines allowances based on best estimates of future expected credit losses, considering historical credit loss experience, current economic conditions, and forecasts of future economic conditions. Significant or unanticipated changes in economic conditions could impact the magnitude of future expected credit losses. The value of the allowance for doubtful accounts reserve typically tracks the seasonality trend of trade receivables. Specific reserves may be created for individual customers in exceptional circumstances. Bad debts are written off against the reserve.

18.8 Income taxes

The Corporation is subject to income taxes in both Canada and the USA. When preparing current and future tax expense at the end of each reporting year, management is required to make certain estimates and assumptions regarding the timing of when temporary differences will reverse and tax rates that will be in force at that time. Unknown future events and circumstances, such as changes in tax rates and laws, may materially affect the assumptions and estimates made from one year to the next and thereby affect the consolidated financial statements.

18.9 Measurement of retirement benefits

Post-employment benefits are accounted for on an actuarial basis. The Corporation engages the services of an independent actuary to perform valuations of the Corporation's defined benefits plan and the actuary provides a certified opinion thereon. For inclusion in the valuation, management is required to make certain assumptions including an appropriate discount rate and the estimated return of plan assets. The estimates are reviewed for reasonableness by the actuary. Due to the nature of the assumptions made and used in the valuations, there is the potential for fluctuations of a material nature in the value of the defined benefits in future years.

18.10 Property, plant and equipment

The Corporation estimates the useful life of property plant and equipment that it owns or is held under a finance lease. The actual useful life of assets and components of assets could vary significantly from the estimated useful lives used in determining periodic depreciation expense. Additionally the amortization of financial lease obligations associated with leasing these assets can be based on parameters that are notional and not precisely measured. The effect of employing these estimates does not necessarily match cash flows from operations with costs recorded as expense. Management reviews the useful lives of the assets at least annually to ensure that expected and actual lives are as closely aligned as is practical.

18.11 Valuations performed during a business combination

The Corporation makes judgments, estimates and assumptions that affect the quantitative and qualitative valuation of business combinations. These may include: estimates of future cash flows and working capital requirements; potential acquisition synergies; costs to complete the transaction; the value of contingent consideration; strategic direction; management effectiveness, and operating efficiencies. Fair value of assets acquired and liabilities assumed in a business combination is estimated based on information available at the date of acquisition and involves considerable judgment in determining the fair values assigned to acquired intangible assets, land, property, plant and equipment, and other assets, and the liabilities assumed on acquisition. Unknown future events and changes in assumptions and estimates may impact future cash flows and materially impact the valuation of each business combination.

18.12 Finance leases

Management uses judgment in determining whether a lease should be accounted for as a finance lease. In doing so, management considers the lease terms and, in some cases, those terms may not always conclusively support the classification as a finance lease.

18.13 Share-based payment arrangements

The compensation costs relating to share-based payment arrangements are based on estimates of how many common shares will actually vest and be exercised.

19. 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 4 of the consolidated financial statements as at December 31, 2018, which also discloses the restated comparative financial statements for the impacts of adopting new accounting standards for the periods ended January 1, 2017 and December 31, 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 will apply IFRS 16 retrospectively and recognize the cumulative effect of initial application on January 1, 2019, subject to permitted and elected practical expedients. The Corporation will not apply this standard to short-term leases and leases for which the underlying asset is of low value. The Corporation has elected not to separate non-lease components from lease components for all underlying asset classes except Property, which the Corporation has elected to separate and exclude non-lease components from lease components.

The Corporation continues to assess and quantify the effect of this standard on the consolidated financial statements, information systems and internal controls. During the fourth quarter, the Corporation has further reviewed existing contracts for lease recognition, completed an analysis of discount rates and the tax-effects of leases upon retrospective adoption.

The measurement of the total lease expense over the term of a lease will be unaffected by the new standard, however, management expects to recognize additional right-of-use assets and lease obligations on the consolidated balance sheet. Management also expects changes to cost of sales as operating expenses will be presented as depreciation and finance costs. Material changes are expected to the consolidated balance sheet and immaterial changes to the consolidated statement of income. Although total cash movement will be unchanged, the presentation in the statement of cash flows will differ under the new standard. The full quantification of the new standard will be disclosed in the condensed interim consolidated financial statements for the first quarter of 2019.

20. 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 the Corporation's 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.
Non-cash working capital	A financial measure to monitor how much capital we have committed to the day-to-day operations of our business. Non-cash working capital represents current assets (excluding cash or cash equivalents, restricted cash and income taxes recoverable) less current liabilities (excluding income taxes payable, current portions of finance lease obligations and current portion of long-term debt).
Book value	Shareholders' equity divided by the actual number of common shares outstanding as at December 31 each year.

Gross profit margin	Gross profit divided by sales, expressed as a percentage.
Operating margin	Gross profit less selling expenses, administrative expenses and other gains (losses) divided by sales.
Net income margin	Net income divided by sales.
Current ratio	Current assets divided by current liabilities.
Return on equity	A financial measure used to assist in analyzing shareholder value. Net income for the year divided by opening shareholders' equity.

The following table shows the reconciliation of net income to adjusted EBITDA and related per share amounts for the years ended December 31:

	2018	**2017**	**2016**
Net income	**$ 6,189**	$ 2,281	$ 4,688
Add back (deduct):			
Income taxes	**2,324**	794	2,392
Finance costs	**766**	832	1,421
Investment income	**(67)**	(114)	(234)
Depreciation	**3,634**	3,768	3,748
Amortization	**132**	132	90
Adjusted EBITDA	**$ 12,978**	$ 7,693	$ 12,105
Adjusted EBITDA per share	**$ 1.93**	$ 1.14	$ 1.80

The following table shows the reconciliation of quarterly net income to quarterly adjusted EBITDA and related per share amounts for each of the quarters in 2018 and 2017:

	2018 Q4	**2018 Q3**	**2018 Q2**	**2018 Q1**	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Net income (loss) (As per financial statements)	**$ 2,080**	$ 3,265	$ 1,545	$ (701)	$ 1,240	$ 1,519	$ 412	$ (890)
Add back (deduct):								
Income taxes (recovery)	**755**	1,215	605	(251)	323	592	156	(277)
Finance costs	**171**	192	224	179	173	183	196	280
Investment income	**(18)**	(4)	(13)	(32)	(24)	(21)	(19)	(50)
Depreciation	**913**	908	913	900	912	934	981	941
Amortization	**30**	31	35	36	35	33	36	28
Adjusted EBITDA	**3,931**	5,607	3,309	131	2,659	3,240	1,762	32
Adjusted EBITDA per share	**$ 0.59**	$ 0.83	$ 0.49	$ 0.02	$ 0.40	$ 0.48	$ 0.26	$ -

Adjusted EBITDA was $3,931 in the three month period ended December 31, 2018, an increase of $1,272 from $2,659 in the comparative three-month period of 2017. The increased adjusted EBITDA is primarily a result of higher sales.

For the year ended December 31, 2018, adjusted EBITDA was $12,978, an increase of $5,285 from $7,693 in 2017. The increased adjusted EBITDA is reflective of higher net income from record sales during 2018 from higher volumes, selling prices, raw material supply strategies and manufacturing efficiencies.

Robert Graham	**Mirko Papuga**
Chief Executive Officer	Chief Financial Officer
March 8, 2019	March 8, 2019