PFB Corporation

Management's discussion and analysis for 2019

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 12, 2020, with respect to future events, and they are subject to certain risks, uncertainties and assumptions that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such risks, uncertainties and assumptions include, but are not limited to: general economic conditions; the cost and availability of capital; actions by government authorities; actions by regulatory authorities; availability of raw materials; changes in raw materials prices; currency exchange rates; interest rates; competitor activity; industry pricing pressures; seasonality of the construction industry; and weather related factors. A more detailed assessment of the risks that could cause actual results to materially differ from current expectations can be found in the Risk Management and Assessment section of 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, 2019 and 2018 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, 2019 and 2018, 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 12, 2020. 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 Nevada, 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, 2019 and 2018

$ thousands, except per share amounts

	Applying IFRS 16							
	2019 Q4	**2019 Q3**	**2019 Q2**	**2019 Q1**	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Sales	**$ 36,824**	$ 36,874	$ 35,421	$ 24,113	$ 35,283	$ 39,374	$ 32,640	$ 21,048
Gross profit	**10,461**	10,202	9,436	4,729	8,148	9,752	7,520	3,751
Gross profit margin % [1]	**28.4**	27.7	26.6	19.6	23.1	24.8	23.0	17.8
Operating income (loss)	**5,237**	4,940	4,255	(952)	3,109	4,789	2,481	(682)
Net income (loss)	**3,695**	3,442	3,061	(1,172)	2,077	3,263	1,536	(706)
Earnings (loss) per share:								
Basic	**0.55**	0.51	0.45	(0.17)	0.31	0.48	0.23	(0.10)
Diluted	**0.54**	0.50	0.44	(0.17)	0.31	0.48	0.23	(0.10)
Adjusted EBITDA [1]	**6,363**	6,080	5,410	185	4,289	5,965	3,666	522
Adjusted EBITDA per share [1]	**$ 0.95**	$ 0.90	$ 0.80	$ 0.03	$ 0.64	$ 0.89	$ 0.55	$ 0.08

[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, 2019, 2018, and 2017

$ thousands except where indicated	Applying IFRS 16 **2019**	Applying IFRS 16 2018	Excluding IFRS 16 2017
Operating results			
Consolidated results:			
Sales	**$ 133,232**	$ 128,345	$ 105,557
Gross profit	**34,828**	29,171	21,328
Operating income	**13,480**	9,697	3,518
Net income	**9,026**	6,170	2,281
Adjusted EBITDA [1]	**18,038**	14,441	7,693
Sales by operating segment:			
Canada	**78,152**	78,346	68,970
USA	**55,080**	49,999	36,587
Operating income by segment:			
Canada	**7,831**	5,009	1,746
USA	**5,973**	4,105	1,319
Per common share data			
Earnings per share:			
Basic	**1.34**	0.92	0.34
Diluted	**1.31**	0.92	0.34
Dividend paid per share – Regular	**0.35**	0.32	0.29
Dividend paid per share – Special	**1.00**	-	-
Adjusted EBITDA per share - Basic [1]	**2.68**	2.16	1.14
Book value [1]	**8.32**	8.34	7.57
Financial condition			
Total assets	**92,703**	94,622	78,771
Current assets	**44,353**	44,053	33,363
Current liabilities	**19,264**	19,511	14,522
Non-cash working capital [1]	**7,033**	8,211	6,913
Property, plant and equipment (net)	**35,030**	36,694	40,099
Right-of-use assets (net)	**7,391**	8,305	-
Intangible assets (net)	**1,540**	1,447	1,405
Goodwill	**2,275**	2,360	2,217
Lease obligations including current portion	**9,846**	10,609	3,232
Long-term debt including current portion	**8,217**	8,568	8,906
Other long-term liabilities	**1,260**	1,397	1,874
Shareholders' equity	**55,644**	56,009	50,825
Financial ratios			
Gross profit margin [1]	**26.1%**	22.7%	20.2%
Operating margin [1]	**10.1%**	7.6%	3.3%
Net income margin [1]	**6.8%**	4.8%	2.2%
Current ratio [1]	**2.30x**	2.26x	2.30x
Return on equity [1]	**16.1%**	12.3%	4.4%

[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 the Corporation'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 2019 increased by 3.8% or $4,887 to $133,232 as compared to sales of $128,345 in 2018. This was a record high of consolidated sales for the Corporation. Sales in the first and second quarters exhibited growth on a quarter-by-quarter comparative basis, declined slightly in the third quarter, before finishing with a record fourth quarter. Sales growth was driven by increased business activity in the USA operating segment across a broad range of product and service offerings. The Canadian segment sales remained similar to those reported in 2018, recording a very slight year over year decline.

Gross profit

Consolidated gross profit in 2019 was $34,828, an increase of 19.4% or $5,657 as compared to gross profit of $29,171 reported in 2019. The gross profit margin of 26.1% of sales in 2019 was higher than a gross profit margin of 22.7% of sales reported in 2018. The increase in gross profit margin in the current year was predominantly influenced by two factors; higher sales and lower material costs throughout the year. The increase in sales of $4,887 contributed to higher gross profit. The cost of inventories recognized as an expense in cost of sales during the year was $77,842, and contrasted with $79,805 in the prior year, primarily due to decreased input costs of our principal raw material, styrene monomer, throughout the year. The combined effect of higher sales and lower cost of sales in the year resulted in strong margin performance.

Selling expenses

Consolidated selling expenses increased to $12,514 in 2019 from $11,974 in 2018, an increase of $540. The increases were mainly related to additional sales staff, commissions, and marketing initiatives intended to drive top line growth. Overall, selling expenses when expressed as a percentage of sales, were 9.4% in 2019 when compared to 9.3% in 2018 and remain in proportion to sales.

Administrative expenses

Consolidated administrative expenses increased to $7,742 in 2019 from expenses of $7,348 reported in 2018, an increase of $394. The increases were primarily a result of additional administrative staff, increased employee profit sharing and higher corporate office operating costs. Overall, administrative expenses when expressed as a percentage of sales, were 5.8% in 2019 when compared to 5.7% in 2018 and remain in proportion to overall sales.

Other losses

Other losses in 2019 of $1,092 versus losses of $152 in 2018 were related to share-based compensation expenses of $990 in 2019 versus $44 in 2018. The recognition and measurement of an RSU award on January 1, 2019 in the amount of $950 resulted in one-time share based compensation expense. Realized foreign currency losses of $79 accounted for the majority of the remaining other losses, as over the last twelve months the value of the Canadian dollar versus the U.S. dollar has weakened overall.

A loss of $11 was realized on the disposals of property, plant and equipment in the current year as compared to a small gain on disposals of $58 in 2018.

Investment income

Investment income reported in 2019 was $119 versus $67 in 2018. Investment income primarily consisted of $96 (2018 - $25) for interest earned on bank balances, and $23 (2018 - $23) of interest collected from customers on past due trade receivables.

Finance costs

Finance costs decreased by $118 from $1,281 in the prior year to $1,163 in the current year and are primarily related to a reduction of draws on the revolving credit facility and a reduction of interest expenses, whereas draws and repayments occurred more frequently in the prior year.

During 2019, operating line usage incurred $1 in finance costs (2018 - $77).

Income before taxes

Income before taxes in 2019 was $12,436 as compared to income before taxes of $8,483 in 2018, an increase of $3,953, and primarily attributable to higher gross margin from record sales and lower material costs during the year.

Income taxes

Income tax expense in the current year was $3,410 as compared to income tax expense of $2,313 in 2018. The effective tax rate in 2019 was 27.4% (2018 – 27.3%) and is comparable to prior year. The current tax expense increased from $2,027 in 2018 to $3,661 in 2019 as a result of record sales and higher taxable income in Canada and the USA.

In 2019, the Government of Alberta enacted a reduction in the provincial corporate tax rate from 12 percent to eight percent over four years and as a result the deferred tax expense decreased by $537 from an expense of $286 in 2018 to a recovery of $251 in 2019.

The current year effective tax rate approximates the full effect of the tax reductions, tax rates of subsidiaries operating in other jurisdictions and other adjustments that are reflected in the current and deferred income taxes.

Net income and earnings per share

Consolidated net income in 2019 was $9,026 as compared to consolidated net income of $6,170 in 2018. Basic earnings per share of $1.34 and diluted earnings per share of $1.31 in 2019 compared to basic and diluted earnings per share of $0.92 in 2018. Increased sales from higher volumes and lower raw material input costs contributed to higher net income and earnings per share in the current year.

The weighted average number of basic and diluted common shares outstanding in the current year was 6,720,859 (2018 – 6,716,003) and 6,907,535 (2018 – 6,732,470).

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, 2019 and 2018) and its internal controls and reporting systems.

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

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

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

Prior year segment information has been restated for the application of IFRS 16 – *Leases*, see Note 4 of the audited consolidated financial statements.

Information regarding each reportable operating segment for years ended December 31, 2019 and 2018 is set out below:

	Sales revenues		Operating income	
	2019	**2018**	**2019**	**2018**
Canada	**$ 78,152**	$ 78,346	**$ 7,831**	$ 5,009
USA	**55,080**	49,999	**5,973**	4,105
Total for segments	**$ 133,232**	$ 128,345	**13,804**	9,114
Corporate – (loss) income			**(330)**	585
Foreign exchange gain (loss) on inter-segment settlements			**6**	(2)
Consolidated operating income			**$ 13,480**	$ 9,697

Canada

Sales

Sales reported by the Canadian operating segment decreased to $78,152 in 2019 from $78,346 in 2018, a slight decrease of $194 or 0.2%. Canadian segment sales were softer in the second half of the year on a comparative basis. Sales growth of our core EPS insulating and building products were robust across most regions, with the exception of the oil-producing regions in Canada and were offset by lower sales of our structural insulated panel systems due to reduced residential construction sector activity.

In the fourth quarter of 2019, the Canadian segment sales decreased to $18,140 compared to $19,312 in the comparative quarter, a decrease of 6.1%. Canadian sales were weakest in the oil producing markets, reflective of challenging economic conditions. Sales of building systems' products decreased in the fourth quarter as compared to the fourth quarter of 2018.

Operating income

Operating income generated by the Canadian segment in the current year was $7,831, an increase of $2,822 or 56% from operating income of $5,009 in 2018. Margins remained strong throughout the year as a result of significantly lower raw material input costs. Higher labour, overhead and freight costs throughout the year had a slightly unfavourable impact on margins.

USA

Sales

Operations in the USA were strong throughout all operations for the year. Sales growth was largely driven by our Custom Homes Group project based business and supported by our core EPS insulation and building products. As reported in Canadian dollars, sales in the current year were $55,080 versus sales of $49,999 in 2018, an increase of $5,081 over prior year or 10.2%. These figures are stated in Canadian dollars and a weaker Canadian dollar in 2019 created a favourable currency effect when USA segment sales transacted in U.S. dollars are converted into the reporting currency.

Eliminating the marginal effect of foreign exchange fluctuations, sales, expressed in USA dollars, were $41,534 for the 2019 year or 8.3% higher than sales of $38,366 in the comparative 2018 year.

In the fourth quarter of 2019, the USA segment sales showed strong growth with sales of $18,684 compared with $15,971 in the three month period of 2018, an increase of approximately 17.0%. These figures are stated in Canadian dollars and during the fourth quarter of 2019 and 2018, currency movements were comparable at $1.32 per US $1.00 in both periods. Sales, expressed in USA dollars, were $14,154 in the fourth quarter or 17.2% higher than sales of $12,080 in the comparative quarter. The primary sales growth in the fourth quarter was related to the sale and delivery of bundled products within the Custom Homes Group.

Operating income

The USA segment generated operating income in the current year of $5,973, compared to operating income of $4,105 in 2018, an increase of $1,868 on a year-over-year basis. Operating income increased due to lower raw material input costs and improvements in labour, overhead and freight expenses when expressed as a percent of sales.

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, 2019	**As at Dec 31, 2018**
Assets	Segment assets	**$ 49,198**	$ 53,156
	Assets not allocated to segments:		
	Cash and cash equivalents	**20,129**	16,944
	Restricted marketable securities	**1,483**	1,483
	Freehold land and buildings	**21,567**	22,750
	Corporate taxes [1]	**326**	289
	Total assets	**$ 92,703**	$ 94,622
Liabilities	Segment liabilities	**$ 18,996**	$ 19,436
	Liabilities not allocated to segments:		
	Lease obligations	**9,846**	10,609
	Long-term debt	**8,217**	8,568
	Total liabilities	**$ 37,059**	$ 38,613
Net segment assets	Canada	**$ 22,889**	$ 25,341
	USA	**7,313**	8,379

[1] Deferred taxes.

6.3 Other segment information

	2019	2018
Additions to non-current assets:		
Canada	**$ 1,172**	$ 795
USA	**917**	1,007
Corporate	**113**	31
Total	**$ 2,202**	$ 1,833
Additions to right-of-use assets:		
Canada	**$ 351**	$ 269
USA	**126**	28
Total	**$ 477**	$ 297
Depreciation and amortization:		
Canada	**$ 2,526**	$ 2,752
USA	**973**	919
Corporate	**1,059**	1,073
Total	**$ 4,558**	$ 4,744
Inter-segment sales	**$ 8,202**	$ 7,052

7. Results of operations - fourth quarters ended December 31, 2019 and 2018

$ thousands except where indicated	2019	2018
Consolidated results:		
Sales	**$ 36,824**	$ 35,283
Gross profit	**10,461**	8,148
Operating income	**5,237**	3,109
Net income	**3,695**	2,077
Earnings per share:		
Basic	**0.55**	0.31
Diluted	**0.54**	0.31
Weighted average number of shares outstanding		
Basic	**6,720,859**	6,716,003
Diluted	**6,907,535**	6,732,470
Sales by operating segment:		
Canada	**18,140**	19,312
USA	**18,684**	15,971
Operating income by segment:		
Canada	**1,339**	954
USA	**3,763**	2,025

Sales

Consolidated sales in the fourth quarter of 2019 were $36,824, an increase of $1,541 or 4.4% as compared to sales of $35,283 reported in the fourth quarter of 2018. All of the growth in fourth quarter sales came from the USA segment, which reported a 17.0% increase, compared with sales in Q4/18.

Gross profit

Gross profit, expressed as a percentage of sales was 28.4% in the current year quarter, an increase from 23.1% in the fourth quarter of 2018. The higher gross profit in the fourth quarter of 2019 is reflective of the trend experienced throughout the year of significantly lower material costs. Improvements in labour, overhead and freight expenses also contributed to higher gross profit, when expressed as a percent of sales, compared to the prior year period.

Operating income

Increased sales and better-quality margins factored into much improved operating income results in the current quarter versus Q4/18. Operating income was $5,237 in the current quarter as compared to $3,109 in Q4/18, a favourable variance of $2,128, with the USA segment operating income contributing to the majority of the increase.

Net income and earnings per share

Net income in the current quarter was $3,695 as compared to a net income of $2,077 in the comparative quarter of 2018, a favourable variance of $1,618.

Basic and diluted earnings per share in the current quarter were $0.54 and $0.55, respectively as compared to $0.31 and $0.31, respectively, reported for the fourth quarter of 2018.

8. Liquidity and capital resources

Sources of liquidity

PFB maintained a strong liquidity position, which increased from the beginning of the current year reflecting strong sales and an efficient cash conversion cycle from both operating segments. PFB ended 2019 with cash and cash equivalents of $20,129, or a $3,185 increase from the prior year. The net cash from operating activities increased by $5,839 compared to the prior year. Future liquidity depends on PFB being able to sustain cash flows from operating activities in conjunction with the 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, 2019 and 2018. 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, 2019.

Cash and cash equivalents

Cash and cash equivalent balances as at December 31, 2019 and 2018 were as follows:

	December 31, 2019	**December 31, 2018**
Cash held with banks	**$ 18,629**	$ 13,744
Short-term investments	**1,500**	3,200
	$ 20,129	$ 16,944

As at December 31, 2019, PFB held net cash balances of $20,129, an increase from the cash position as at December 31, 2018, which was $16,944. A significant proportion of the cash on hand, resides in the USA segment.

Cash - restricted

Restricted cash amounted to $924, a decrease of $423 from $1,347 in 2018 as cash was applied towards contractual performance obligations. 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 2019, 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, 2019 and 2018 exceeded the minimum requirement of 1.25:1.

Total balance of current and non-current portions of long-term debt was $8,217 as at December 31, 2019, which has decreased by $351 for principal repayments.

Bank credit facilities

Canada

In January 2019, the Corporation increased its credit facility arrangements from $10,000 to $17,000. The revolving facility continues to be 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 $17,000.

The interest rate applicable on draws made against the facility is the Canadian bank's prime rate and the facility carries a nominal maintenance fee. The credit facility was not drawn as at December 31, 2019 and 2018.

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, 2019 and 2018.

Change in non-cash working capital

The balance sheet changes in the principal components of non-cash working capital in 2019 and 2018 are highlighted in the following table.

	2019	**2018**	**Change**
Trade receivables	**$ 10,746**	$ 13,082	$ (2,336)
Inventories	**11,598**	11,638	(40)
Prepaid expenses	**469**	374	95
Contract cost	**487**	475	12
Trade and other payables	**(10,324)**	(10,894)	570
Contract liabilities	**(5,943)**	(6,464)	521
	$ 7,033	$ 8,211	$ (1,178)

In 2019, non-cash working capital decreased by an amount of $1,178 to $7,033 at the end of the current year from $8,211 in 2018.

Trade receivables decreased on the balance sheet by $2,336 in 2019 and reflective of decreased sales in the final month of the fourth quarter compared to Q4/18. The value of actual trade receivables written-off in the current year increased to $46 from $13 in 2018.

Inventory carrying costs at the end of 2019 decreased slightly from the prior year. The overall carrying cost of inventories at the end of 2019 was $11,598 as compared to $11,638 at the end of 2018, an increase of $40. Raw materials and finished goods were at higher levels, while work-in-process decreased slightly, however are in line with seasonal activity.

Trade and other payables were $570 lower at the end 2019 as compared to at the end of 2018, consistent with a general decrease in trading activities in the latter part of the fourth quarter.

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 decreased by $521 in 2019 as a result of strong performance by the Custom Homes Group delivering on performance obligations in the fourth quarter.

Summary of cash flows

A summary of cash flows for the years ended December 31, 2019 and 2018 are included in the following table:

	2019	2018
Net cash flows from (used in):		
Cash from operating activities, before income taxes	**$ 20,190**	$ 13,010
Income taxes paid, net	**(2,653)**	(1,312)
Net cash from operating activities	**17,537**	11,698
Net cash used in investing activities	**(1,613)**	(2,943)
Net cash used in financing activities	**(12,038)**	(4,794)
Effects of exchange rates on cash and cash equivalents, and restricted cash held in foreign currencies	**(701)**	803
Net increase in cash and cash equivalents	**3,185**	4,764
Cash and cash equivalents – beginning of the year	**16,944**	12,180
Cash and cash equivalents – end of the year	**$ 20,129**	$ 16,944

(a) Operating activities

In 2019, cash from operating activities before income taxes paid, was $20,190 as compared to $13,010 in the comparative year, an increase of $7,180. The year-over-year increase was primarily due to higher net income in the current year from record sales. Income taxes paid of $2,653 in the current compared to $1,312 in the prior year as a result of higher taxable income in the USA segment, resulting in net cash from operating activities of $17,537 in 2019 compared to $11,698 in 2018.

(b) Investing activities

Net cash used in investing activities in 2019 was $1,613 as compared to cash used in investing activities of $2,943 in 2018, a decrease of $1,330. Investing activities decreased primarily due to decreases in restricted cash resulting on the delivery of performance obligations in the Custom Homes Group.

In the current year, purchases of property plant and equipment (PP&E) were $1,885 and purchases of intangible assets were $317 compared to PP&E purchases of $1,769 and intangible purchases of $64 in 2018, an overall net change of $369. PP&E expenditures were mainly directed at maintenance of business operations, while intangible expenditures were mainly directed at future optimization and efficiency of operations.

(c) Financing activities

Cash used in financing activities in 2019 was $12,038 as compared to $4,794 in 2018, an increase of $7,244.

Repayment of lease obligations in 2019, reflect the adoption of the lease accounting standard, for leased property, vehicles, trucks and trailers, office equipment, machinery and equipment, which amounted to $1,157 as compared to lease repayments of $1,025 in 2018. Comparative amounts for 2018 have been restated for the application of the new lease accounting standard. Finance costs reflect the adoption of the new lease standard, and prior comparative amounts have been restated. A decrease in finance costs from $1,281 in 2018 to $1,163 in 2019 reflect lower lease obligations related to property.

During 2019, the Corporation paid a regular quarterly dividend of $0.08 per common share in February. The Corporation increased the dividend in the second quarter of 2019 and paid an increased regular quarterly dividend of $0.09 per common share in May, August and November. Additionally, in the fourth quarter of 2019, PFB paid a one-time, special dividend of $1.00 per common share which increased total dividends paid in 2019 to an aggregate amount of $9,044 as compared to dividends paid in 2018 of $2,150.

In 2019, PFB purchased shares for cancellation under a Normal Course Issuer Bid. In 2019, the purchased shares cost $525 with respect to 50,000 common shares cancelled (see the normal course issuer bid section below for more details).

Outstanding share data

The issued and outstanding number of common shares as at March 12, 2020 was 6,691,003.

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, accumulated comprehensive income, 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, 2019 and 2018, is as outlined in the following table:

	As at December 31, 2019	As at December 31, 2018
Long-term debt (excluding lease obligations)	**$ 8,217**	$ 8,568
Less: cash and cash equivalents	**20,129**	16,944
Net debt (surplus cash)	**$ (11,912)**	$ (8,376)
Shareholders' equity	**$ 55,656**	$ 56,009
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.

Share-based options

PFB granted 100,000 share options in the year ended December 31, 2019. In the year ended December 31, 2018, PFB granted 400,000 share options, of which 25,000 were exercised in Q2/19.

Restricted share units

PFB granted 100,000 restricted share units on January 1, 2019. Each restricted share unit is entitled to dividend equivalent payments to be paid at the time regular and special dividends are paid. Dividend equivalent payments paid in 2019 amounted to $135.

Share capital

The Corporation has one class of publicly traded voting common shares. A summary of the Corporation's share capital position as at December 31, 2019 and 2018, is set forth in the following table:

	December 31, 2019		December 31, 2018	
	No. of Shares	Amount	No. of Shares	Amount
Balance, beginning of the year	**6,716,003**	**$ 20,947**	6,716,003	$ 20,947
Exercise of stock options	**25,000**	**222**	-	-
Repurchased pursuant to normal course issuer bid	**(50,000)**	**(157)**	-	-
Balance, end of the year	**6,691,003**	**$ 21,012**	6,716,003	$ 20,947

Dividends

During 2019, The Board of Directors increased the quarterly dividend per common share to $0.09. The Board of Directors declared a regular quarterly dividend of $0.08 per common share in February, and $0.09 per common share in May, August and November of 2019.

PFB declared a one-time, special dividend of $1.00 per common share which was paid in November of 2019. Aggregate dividends paid in the year ended December 31, 2019, amounted to $9,044 (2018 - $2,150).

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 August 2019, the Corporation obtained approval from the Toronto Stock Exchange to renew its Normal Course Issuer Bid (the "Bid") program for a twelve month period, which commenced on September 3, 2019 and ends no later than September 2, 2020. The renewal allows the Corporation to purchase up to a maximum of 50,000 of its common shares, representing 0.74% of the Corporation's 6,741,003 issued and outstanding common shares as at August 29, 2019, subject to daily maximum purchases of 1,000 common shares and other normal terms and limitations of such bids. The Corporation will purchase from time-to-time its common shares at market prices by means of open market transactions on the Toronto Stock Exchange.

During 2019, the Corporation purchased for cancellation 50,000 of its common shares for an aggregate price of $525, of which $368 was charged to retained earnings as a premium on redemption of the common shares. In the comparative year 2018, the Corporation did not purchase any of its common shares.

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.

On January 1, 2018, the Corporation adopted IFRS 9 and adopted an irrevocable election to account for changes in the fair value of the marketable securities – restricted, through other comprehensive income, until derecognition through the completion of the plan of arrangement or the release of the trust units held in escrow.

A summary of comprehensive income for the three and twelve month periods ended December 31, 2019 and 2018 is as follows:

	Three month periods ended December 31		**Twelve month periods ended December 31**	
	2019	**2018**	**2019**	**2018**
Net income for the period	**$ 3,695**	$ 2,077	**$ 9,026**	$ 6,170
Other comprehensive (loss) income	**(339)**	989	**(1,014)**	1,704
Comprehensive income for the period	**$ 3,356**	$ 3,066	**$ 8,012**	$ 7,874

In the fourth quarter of 2019, comprehensive income was $3,356 as compared to a comprehensive income of $3,066 in the comparative quarter of 2018. Other comprehensive loss of $339 (Q4/18 – income of $989) in the current quarter consisted of losses of $505 (Q4/18 – income of $1,127) attributed to foreign currency translation when consolidating PFB's USA operations and a gain of $166 (Q4/18 – loss of $138) from pension plan valuation changes.

Included in accumulated comprehensive income at December 31, 2019, were foreign currency translation adjustments totalling $1,180, and $166 of defined benefit valuation changes, net of tax, for total accumulated other comprehensive loss of $1,014. The foreign currency translation adjustments throughout 2019, reflect a slightly weakened Canadian dollar throughout 2019 when retranslating USA segment from US dollars into Canadian dollars, resulting in the currency translation adjustment of $1,180. The $166 gain in pension plan valuation changes in December 31, 2019 from a loss of $138 at December 31, 2018, reflects re-measurements of the net defined benefit liability through accumulated other comprehensive income, effected for tax.

9. Contractual obligations and commitments

In the normal course of business, PFB is obligated to make future contractual payments. As at December 31, 2019, PFB's contractual obligations and commitments are as outlined in the following table:

Contractual obligations [1] (Payment due periods)	**Total**	**Within 1 year**	**2-3 years**	**4–5 years**	**Over 5 years**
Long-term debt (principal & interest)	**$ 10,746**	$ 623	$ 1,246	$ 1,246	$ 7,631
Lease obligations	**16,672**	2,024	3,599	3,084	7,965
Commitments for PP&E and intangible assets	**1,086**	1,086	-	-	-
Other long-term obligations	**999**	218	436	345	-
Fixed-price utility contracts	**1,505**	355	710	440	-
Total contractual obligations	**$ 31,008**	$ 4,306	$ 5,991	$ 5,115	$ 15,596

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

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. Lease obligations have increased as a result of new lease accounting standards with respect to finance obligations for property (land, office space, manufacturing and storage facilities), vehicles, truck and trailers office equipment, machinery and 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, 2019, the USA, performance bonds in the amount of $620 (2018 - $651) 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, 2019 and 2018, 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**	**2019 Fair Value**	**2018 Fair Value**
Cash and cash equivalents	Assets at amortized cost	Amortized cost	Level 1	**$ 20,129**	$ 16,944
Cash - restricted	Assets at amortized cost	Amortized cost	Level 1	**924**	1,347
Restricted marketable securities	FVOCI	Fair value	Level 2	**1,483**	1,483
Trade receivables	Assets at amortized cost	Amortized cost	N/A	**10,746**	13,082
Trade and other payables	Financial liabilities at amortized cost	Amortized cost	N/A	**(10,324)**	(10,894)
Long-term debt	Financial liabilities at amortized cost	Amortized cost	Level 2	**(8,217)**	(8,568)

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, 2019.

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. 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, 2019, the Corporation's Canadian subsidiary had access to a revolving credit facility with a Canadian bank. The revolving credit facility has a limit of $17,000 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, 2019.

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.

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 2019 and 2018, the Corporation had the following transactions with related parties:

Related party	Nature of transactions	2019	2018
E. Carruthers Trucking	Transportation services	**$ 2,168**	$ 2,163
Aeonian Capital Corporation	Management services	**350**	350
		$ 2,518	$ 2,513

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

Related party	Nature of transactions	2019	2018
E. Carruthers Trucking	Transportation services	**$ 75**	$ 81

Aeonian Capital Corporation ("Aeonian"), and its affiliates, owned 2,972,168 (2018 - 2,991,168) common shares of the Corporation representing 44.4% (2018 – 44.5%) of the 6,691,003 issued and outstanding shares as at December 31, 2019. 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 3, 2020, the Board of Directors declared a regular quarterly dividend of $0.09 per common share, which was paid on February 28, 2020, to shareholders of record at the close of business on February 14, 2020.

14. Outlook

Strong performance in the fourth quarter of 2019 by the Corporation generated record Q4/19 sales, strong margin performance and record adjusted EBITDA. USA segment sales were aligned with our strategic initiatives intended to increase USA segment sales as a proportion of total consolidated sales. Canadian segments sales were softer than expected, however margin performance significantly improved on a year-over-year basis.

As a result, the Corporation experienced record consolidated sales of $133,232 in 2019 as compared to $128,345 in 2018, recording year over year sales growth in three out of four quarters during the year. In 2019, overall sales were led by the USA segment while the Canadian segment maintained similar sales levels to those experienced in 2018. Sales growth and activity were very strong in our Custom Homes Group and in our core EPS insulation and building product sales. Sales in our Structural Insulated Panel systems were softer due to residential construction sector headwinds in Canada. Management is focused on sustaining current performance and continuing to grow the business into 2020, in line with our strategic initiatives intended to drive top line growth.

The Corporation set a record adjusted EBITDA of $6,363 in Q4/19 and a record adjusted EBITDA of $18,038 in 2019 as compared to 2018 adjusted EBITDA of $14,441, a 24.9% year over year increase. Favourably consistent raw material input costs along with stable product pricing and stable operating efficiencies resulted in gross margins of 26.1% for 2019 as compared to 22.7% for 2018, an increase of 3.4% of sales. Uncertainty related to styrene monomer, our principal raw material input, as a result of continued trade and tariff disputes between the United States and China persist, however the impact has contributed to lower and more stable pricing.

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 USA segment sales 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 an increase in the cost of sales. Continued volatility of the Canadian dollar is possible based on geo-political environments and ongoing global trade and tariff disputes.

The influence of lower world crude oil prices on the economies of North America continues to be a positive macro driver of the outlook for the Corporation. In general, although the oil effect can impact regions within North America differently, the Corporation continues to perform well in both Canada and the USA.

The Corporation continues to experience sustained demand for EPS product lines in both Canada and the USA operating segments. Infrastructure activity in Canada and the USA continue to present good opportunities for growth, however can distort quarter comparative sales based on project timing. Generally speaking, the Canadian economy remains stable and there continues to be sustained demand for our nationally branded insulation and building products across the country. The United States expansion continues to be a strategic objective and we remain optimistic as increased interest in our branded products that are manufactured in the USA continue to gain traction with customers. The Corporation continues to search for suitable acquisitions to expand our strategic footprint with focus on USA initiatives.

Although the USA and Canadian residential construction sectors slowed in 2019, the commercial construction sectors remained active which had an offsetting effect. Residential construction is showing signs of improving into 2020. The Corporation remains cautiously optimistic for the first quarter of 2020 as order books are building toward spring and summer construction seasons, with the caveat that the potential effects of the unfolding coronavirus are unknown.

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, 2019, 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, 2019, 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, 2019, 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, refining capacity, petrochemical manufacturing capacity, reliability of transportation infrastructure 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 fluctuating economic conditions, consumer confidence and spending, and both the demand for and prices of its EPS products and insulating building systems in those geographical areas in which it operates. Volatile economic conditions generally including but not limited to factors affecting the construction industry (residential and commercial) such as; the impact of changing mortgage rates and other interest rates 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 Canada and the USA and imports some of its raw materials so that some inputs are affected by global commodity prices. PFB's operations are subject to inherent risks, including: changes 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, the United States and foreign jurisdictions could change with unpredictable results and foreign jurisdictions could impose tariffs, quotas, trade barriers, and other similar restrictions on the PFB's international sales. Seemingly unrelated events such as pandemics or regional health concerns can interrupt the supply of goods and materials or reduce demand for goods. All of these risks could result in increased costs, decreased revenues, increased competition, reduced demand or supply chain disruptions any 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, PFB 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 competitive products. Competition can affect PFB'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

PFB 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 PFB'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 PFB'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

PFB's growth strategy includes making strategic acquisitions when possible. There is no assurance that PFB will find suitable businesses or assets 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. PFB 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 PFB's business through internal expansion or by acquisitions may depend on access to external financing. PFB'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 PFB's operations will be available on acceptable terms, if required.

17.8 Reputation

Negative publicity regarding PFB's business practices and products, regardless of whether true or false, could adversely affect PFB's reputation which 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. PFB's board of directors and its board committees have been formed to competently perform the role of overseeing the appropriate management of PFB's affairs with the objective of maximizing the long-term value of PFB. A detailed summary outlining PFB's corporate governance practices can be found in the most recent Management Information Circular.

17.9 Trade credit

PFB's subsidiaries provide trade credit to their customers in the normal course of business. PFB'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 PFB'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 globally including PFB's stakeholders and customers. PFB is committed to responsibly managing the direct and indirect impact it has on the environment, including in its manufacturing processes, disposal and reuse of waste, transportation of products and raw materials. The insulating properties of PFB's products contribute to reducing energy use and reduce greenhouse gas emissions. PFB believes that it is in substantial compliance with applicable environmental laws in jurisdictions where it has operations. PFB takes custody of hazardous materials when the goods physically arrive at its facilities.

17.11 Information technology

PFB relies on information technology in conducting its businesses. This involves web-based connections, access to secure, centrally located servers and databases, and maintaining existing applications and implementing new applications. The security and safeguarding of information technology assets and protocols will continue to be increasingly important to PFB. PFB manages 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 offsite 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 PFB'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 PFB's operations and financial results.

17.12 Cyber Security

PFB relies on information technology and information systems in all area 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 incursion or cyber-attack may result in a breach of sensitive information or systems being disrupted, possibly negatively affecting PFB's financial position, brand and/or its ability to achieve strategic objectives.

17.13 Seasonality and climatic factors affecting the construction industry

Due to the seasonal nature of the construction industry, PFB's 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 patterns, particularly the timing of when winter begins and ends and its severity.

17.14 Plant and facilities

PFB 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 PFB 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, 2019, and it identified that the Plan had a net asset arising from a defined benefit asset of $304 when compared to defined benefit asset of $10 at the end of the 2018 comparative year. Throughout 2019 and 2018, PFB 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 PFB's funding requirements for the Plan. The Plan assets are not immune to market fluctuations and, as a result, PFB may be required to make additional cash contributions in future.

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

17.16 Human resources

PFB'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. PFB attempts to mitigate these risks by offering competitive compensation and benefits packages, training, succession planning, and providing a positive and diverse cultural environment.

17.17 Off-Balance Sheet Arrangements and Operating Leases

PFB 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.

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, PFB 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. PFB'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 PFB's financial results.

17.19 Volatility of Market Share Price

The market price of PFB's common shares may be volatile and could be subject to fluctuations in response to quarterly variations in financial results, general market conditions and other unpredictable events or factors. Consequently, broad market fluctuations or the failure of PFB'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, 2019 and 2018, 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 17 of the audited consolidated financial statements for the year ended December 31, 2019.

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, 2019 and 2018, 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, 2019 and 2018, 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 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. Management reviews the useful lives of the assets at least annually to ensure that expected and actual lives are as closely aligned.

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 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.

18.13 Leases

IFRS 16 - *Leases*, requires management to make judgements and estimates in order to determine the value of the right-of-use assets and the lease liabilities. Judgements may relate to the identification of a lease in a contract and the determination of the lease term and whether an extension or termination option in a lease will be exercised.

Estimates may relate to the lease term, separation of lease and non-lease components and the determination of the appropriate discount rates.

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

Effective January 1, 2019 the Corporation adopted new IFRS standard – IFRS 16 **-** *Leases,* using the retrospective approach by restatement of each prior reporting period presented in accordance with IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors.* The effect of adoption of the new standard is outlined in more detail in Note 4 of the audited consolidated financial statements as at December 31, 2019, which also discloses the restated comparative financial statements for the impacts of adopting new accounting standard as at January 1, 2018 and for the year ended December 31, 2018.

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 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:

	Applying IFRS 16		Excluding IFRS 16
	2019	**2018**	**2017**
Net income	**$ 9,026**	$ 6,170	$ 2,281
Add back (deduct):			
Income taxes	**3,410**	2,313	794
Finance costs	**1,163**	1,281	832
Investment income	**(119)**	(67)	(114)
Depreciation	**4,400**	4,612	3,768
Amortization	**158**	132	132
Adjusted EBITDA	**$ 18,038**	$ 14,441	$ 7,693
Adjusted EBITDA per share	**$ 2.68**	$ 2.15	$ 1.14

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 2019 and 2018:

	2019 Q4	**2019 Q3**	**2019 Q2**	**2019 Q1**	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Net income (loss) (As per financial statements)	**$ 3,695**	$ 3,442	$ 3,061	$ (1,172)	$ 2,077	$ 3,263	$ 1,536	$ (706)
Add back (deduct):								
Income taxes (recovery)	**1,302**	1,254	906	(52)	751	1,211	604	(254)
Finance costs	**287**	288	293	295	300	319	354	310
Investment income	**(47)**	(44)	(5)	(23)	(18)	(4)	(13)	(32)
Depreciation	**1,080**	1,095	1,119	1,106	1,149	1,145	1,150	1,168
Amortization	**46**	45	36	31	30	31	35	36
Adjusted EBITDA	**6,363**	6,080	5,410	185	4,289	5,965	3,666	522
Adjusted EBITDA per share	**$ 0.95**	$ 0.90	$ 0.80	$ 0.03	$ 0.64	$ 0.89	$ 0.55	$ 0.08

The results of adjusted EBITDA reflect the adoption of new accounting standards, leases on January 1, 2019. Adjusted EBITDA was $6,363 in the three month period ended December 31, 2019, an increase of $2,074 from $4,289 in the comparative three-month period of 2018. Adjusted EBITDA for the twelve month period of $18,038 compared to the restated adjusted EBITDA of $14,441 in the 2018 comparative year, or an increase of $3,597. As reported in Q1/19, the adoption of new lease accounting standard had the impact of slightly decreasing comparative net income and significantly increasing deprecation and finance cost, resulting in a favourable impact to the comparative adjusted EBITDA.

For the year ended December 31, 2019, adjusted EBITDA was $18,038, an increase of $3,597 from $14,441 in 2018. The increased adjusted EBITDA is reflective of higher net income from record sales during 2019 from higher volumes and lower raw material input costs.

Robert Graham	**Mirko Papuga**
Chief Executive Officer	Chief Financial Officer
March 12, 2020	March 12, 2020