Brampton Brick Limited

2016 Second Quarter Report

BRAMPTON BRICK Limited

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FOR THE SECOND QUARTER ENDED JUNE 30, 2016
PREPARED AS OF AUGUST 3, 2016

The following management's discussion and analysis of financial condition and results of operations ("MD&A") for the three and six month interim periods ended June 30, 2016, should be read in conjunction with the condensed interim consolidated financial statements as at and for the three and six month periods ended June 30, 2016, and with the audited 2015 annual consolidated financial statements and the 2015 annual MD&A included in the Company's 2015 Annual Report, which may be found on SEDAR at www.sedar.com. All amounts are stated in thousands of Canadian dollars, except per share amounts, unless otherwise indicated.

DISCUSSION OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2016

The Company recorded a net income of $5,272, or $0.48 per share, for the second quarter ended June 30, 2016, compared to a net income of $5,667, or $0.50 per share, for the second quarter of 2015. The aggregate weighted average number of Class A Subordinate Voting shares and Class B Multiple Voting shares outstanding for the second quarter of 2016 and 2015 were 10,947,254 and 10,941,491, respectively.

Revenues increased by 12% to $43,818 in the second quarter of 2016 from $39,138 for the corresponding quarter of 2015 due to higher shipments in both the Masonry Products and Landscape Products business segments. Favourable weather conditions for residential construction combined with a strong housing market contributed to a significant increase in masonry and landscape product shipments in the Company's Canadian market over the corresponding quarter in 2015.

Cost of sales for the second quarter ended June 30, 2016 increased 10% to $31,039, from $28,283 for the corresponding period in 2015 primarily due to the increase in the volume of shipments. In addition, costs were unfavourably impacted at the Farmersburg, Indiana clay brick plant due to the installation of new production processing equipment, which limited production and resulted in increased unit production costs in excess of $500. As well, the Boisbriand, Quebec concrete products manufacturing plant acquired in April 2016 incurred retrofitting and trial production costs during the quarter. Current plans are to commence production at this facility in the third quarter to supply the Quebec and Eastern Ontario markets. During the second quarter of 2015, costs of sales were positively impacted by property tax credits amounting to $537 on assessments relating to prior periods.

Selling expenses for the second quarter of 2016 increased to $2,832, from $2,433 for the corresponding quarter of 2015, owing to an increase in sales promotion and personnel costs related to the increase in revenues.

General and administrative expenses increased to $2,110 for the second quarter ended June 30, 2016, from $1,040 for the corresponding period in 2015. In 2015, collections from customer accounts receivable previously provided for in the allowance for doubtful accounts and other provision reversals amounted to $900, which contributed to a significant decrease in expenses in the second quarter.

Other expense of $49 incurred during the second quarter of 2016 compared to $42 for the corresponding period in 2015 includes the net gains and losses on the translation of foreign currency transactions, converted into the functional currency using exchange rates prevailing at the dates of the transactions.

The operating income for the quarter ended June 30, 2016, increased to $7,788 from an operating income of $7,343 for the same quarter of 2015.

Finance expense for the three months ended June 30, 2016 was $578, compared to $161 for the corresponding quarter of 2015. Excluding the change in the fair value of the interest rate swap which amounted to an unrealized loss of $129 (2015 – unrealized gain of $352), net interest expense for the current quarter decreased to $449 compared to $513 in the second quarter of 2015 on lower debt balances. The decrease in outstanding debt balances was due to scheduled repayments amounting to $2,500 made in the second half of 2015.

Provision for income taxes totaled $1,938 for the second quarter of 2016 compared to $1,515 for the same period in 2015. The increase was due to the improvement in operating results from the Canadian operations in the second quarter of 2016 compared to the same period in 2015. The income tax provision, in both periods, relates to the pre-tax income of the Company's Canadian operations. The Company has not recorded a deferred tax asset with respect to the potential deferred tax benefit pertaining to losses incurred by its U.S. operations.

SIX MONTHS ENDED JUNE 30, 2016

For the six months ended June 30, 2016, the Company recorded net income of $1,534, or $0.14 per share, compared to a net income of $1,030, or $0.08 per share, for the same period in 2015. The aggregate weighted average number of Class A Subordinate Voting shares and Class B Multiple Voting shares outstanding for the periods ended June 30, 2016 and June 30, 2015 was 10,947,254 and 10,940,926, respectively.

Revenues for the six months ended June 30, 2016 grew to $62,476, a 15% increase from $54,201, for the same period in 2015. Comparatively mild weather conditions in the first half of 2016 and the continued strength in the Canadian housing market supported the momentum in residential construction, which combined with an improved and expanded product portfolio contributed to higher shipment volumes in both the Masonry Products and Landscape Products business segments.

Cost of sales for the six months ended June 30, 2016 increased by 12% from the corresponding period in 2015, compared to a 15% increase in revenues for the same period primarily due to an increase in shipments and the increase in costs incurred during the temporary shutdown of the Farmersburg, Indiana clay brick facility for maintenance and the installation of new process equipment. While production at this plant resumed in the month of April 2016, it was at lower levels than anticipated due to continued refinements to the new equipment resulting in increased costs during the current period.

As noted earlier, costs were also incurred at the Boisbriand, Quebec facility in preparation for an anticipated start-up in the third quarter of 2016.

The improvement in gross margin for the period ended June 30, 2016 was primarily due to the positive impact of lower per unit costs on higher production volumes in both the Masonry Products and Landscape Products business segments of the Canadian operations and was partially offset by property tax credits amounting to $537 in 2015 compared to $37 in 2016 as noted above under the caption 'Discussion of Operations' for the three months ended June 30, 2016.

Selling expenses for the six-month period ended June 30, 2016 were $5,507, compared to $4,568 for the corresponding period in 2015. The increase for the first six months of 2016 was largely due to higher sales promotion and personnel costs related to the increase in revenues. In addition, the cost of enhanced customer relationship management systems and related product marketing costs contributed to the increase in selling expenses for the six months ended June 30, 2016.

General and administrative expenses increased to $3,714 for the six months of 2016, compared to $2,681 for the same period of 2015, due to the same reasons noted above under the discussion for the three months ended June 30, 2016.

Other expense of $262 for the six-month period ended June 30, 2016 compared to $385 for the corresponding prior period relates primarily to the loss on translation of foreign currency transactions as a result of currency exchange fluctuations attributed to the U.S. dollar during the period.

Operating income for the six months ended June 30, 2016 was $4,053, compared to $2,720 for the same period in 2015.

Finance expense for the year-to-date period of 2016 totaled $1,351, compared to $1,070 for the six-month period of 2015. Excluding the unrealized loss on the interest rate swap of $524 (2015 – $132), finance expense for the six months of 2016 decreased to $827 compared to $938 for the corresponding period in 2015. This decrease in finance expense was due to lower bank operating advances.

A provision for income taxes totaling $1,168 was recorded for the first six months of 2016 compared to $620 for the same period in 2015. The income tax provisions for the first half of 2016 and 2015 relate to the Company's Canadian operations. The Company has not recorded a deferred tax asset with respect to the potential deferred tax benefit pertaining to losses incurred by its U.S. operations.

The following paragraphs explain each operating business segment in more detail:

MASONRY PRODUCTS

Revenues of the Masonry Products business segment increased by 10% to $28,943 for the quarter ended June 30, 2016, compared to $26,338 for the same quarter in 2015, due to continued strength in new home construction and mild weather conditions which increased shipments in the Canadian markets for this business segment. Operating income for the current quarter decreased to $4,382, compared to $4,788 for the same quarter in 2015. The increase in costs of sales as noted above was attributable to higher shipments and process improvement costs incurred at the Farmersburg, Indiana clay brick facility which reduced the level of production activity during the second quarter of 2016.

For the six months ended June 30, 2016, revenues of the Masonry Products business segment increased 15% to $45,798 from $39,941 in the corresponding period of 2015. Mild weather conditions and an increase in housing starts fostered an increase in residential construction in the first quarter of 2016, and this momentum carried through into the second quarter of 2016, historically, a period of higher construction activity.

Costs of sales for the six months of 2016 increased by 11% to $36,497 compared to $32,978, for the corresponding period in 2015. The increase in costs of sales was due to higher masonry products' shipments which were largely offset by the impact of lower per unit costs on comparatively higher production volumes. As noted earlier, costs at the Farmersburg, Indiana clay brick facility were higher in the first half of 2016 as compared to the same period of 2015 due to a temporary shutdown for maintenance and the installation of new process manufacturing equipment during the period. In addition, property tax credits on prior period assessments amounting to $531 were recognized in 2015.

The operating income for the six months ended June 30, 2016 was $2,655 compared to $1,120 for the comparative period of 2015.

LANDSCAPE PRODUCTS

Revenues of the Landscape Products business segment for the three months ended June 30, 2016 increased to $14,875 from $12,800 for the same period in 2015. Growth in revenues during the quarter was supported by favourable weather conditions, an enhanced product range and customer service initiatives which are now fully operational. Cost of sales for the quarter ended June 30, 2016 increased to $9,737 from $9,147, primarily due to an increase in product shipments which were offset, in part, by the favourable benefits of higher production levels and other operating efficiencies.

As a result, the operating income for the second quarter of 2016 increased to $3,406 compared to $2,556 for the same period in 2015.

For the six months ended June 30, 2016, revenues of the Landscape Products business segment increased to $16,678 from $14,260 for the corresponding period of 2015. Mild weather conditions in the first half of the year, higher shipments and new product introductions contributed to the increase in revenues for the first six months of 2016.

Cost of sales for the six months ended June 30, 2016 increased to $12,442 from $10,861 for the corresponding period in 2015, for the reasons discussed above.

Both selling and general and administrative expenses were higher during the period primarily due to continued improvements to customer service management systems and an increase in other general and administrative expenses, as noted above, which increased the operating expenses of this business segment.

As a result, operating income of the Landscape Products business segment for the first six months of 2016 decreased to $1,398 from $1,602 for the same period for 2015.

CASH FLOWS

Cash used for operating activities decreased to $2,514 for the six months ended June 30, 2016, compared to $7,402 for the same period in 2015. An improvement in operating results, a decrease in trade payables' disbursements and a comparative decrease in inventories held were partially offset by an increase in trade receivables, due to higher shipment levels and the timing of collections and higher income tax payments.

Cash utilized for purchases of property, plant and equipment totaled $8,378 in the first six months of 2016, compared to $2,195 for the corresponding period in 2015. These purchases included equipment upgrades at both U.S. facilities, as well as at certain Canadian plants.

On April 9, 2016, the Company completed the acquisition of certain assets from Eurobloq Inc., a concrete products manufacturing company located in the Province of Quebec. The assets acquired included land and buildings and concrete products manufacturing equipment, all located in Boisbriand, Quebec. The purchase price for the assets of $5,000 and other related acquisition costs were financed from the Company's committed revolving term loan and its demand operating credit facility. On April 1, 2016, an amount of $3,405 was drawn on the committed revolving term loan.

FINANCIAL CONDITION

The Company's Masonry Products and Landscape Products business segments are seasonal in nature. The Landscape Products business is affected by seasonality to a greater degree than the Masonry Products business is. As a result of this seasonality, operating results are impacted accordingly and cash requirements are generally expected to increase through the first half of the year and decline through the second half of the year.

As at June 30, 2016, bank operating advances were $5,544. There was no outstanding balance as at December 31, 2015.

Trade payables totaled $16,974 at June 30, 2016 compared to $17,655 at December 31, 2015.

The ratio of total liabilities to shareholders' equity was 0.63:1 at June 30, 2016 compared to 0.57:1 at December 31, 2015. The increase in this ratio from December 2015 to June 2016 was primarily due to higher bank operating advances, an increase in other liabilities owing to the timing of commodity tax payments which increased due to higher revenues and an increase in the committed revolving term loan as noted above. In addition, the increase in this ratio was supported by a decrease in the foreign exchange translation gain included in 'Accumulated other comprehensive income' due to the relative strengthening of the Canadian dollar against the U.S. dollar during the first six months of 2016. This increase was partially offset by a decrease in income taxes accrued and lower trade payables balances.

As at June 30, 2016, the Company's current ratio was 1.82:1, representing working capital of $27,908 compared to 1.94:1 and $27,125, respectively, as at December 31, 2015. The increase in working capital was due to comparatively higher trade receivables which increased due to the timing of collections and was offset by an increase in bank operating advances and other liabilities, and a decrease in cash and cash equivalents and inventories held. Cash and cash equivalents totaled $673 at June 30, 2016, compared to $4,021 at December 31, 2015.

The Company's demand operating facility provides for borrowings of up to $22,000 based on margin formulae for trade receivables, certain other qualified receivables and inventories, less priority claims and the mark-to-market exposure on swap contracts. It is a demand facility secured by a general security agreement over all of the Company's assets excluding the Company's 225 Wanless Drive, Brampton, Ontario property. The agreement also contains certain financial covenants.

As at June 30, 2016, the borrowing limit based on the margin formulae was $22,000. Its utilization was $5,864 and was comprised of a current account balance of $5,544 and outstanding letters of credit of $320.

The Company was in compliance with all financial covenants under its term financing agreement and operating credit facility as at June 30, 2016 and anticipates it will maintain compliance throughout the year.

The Company expects that future cash flows from operations, cash and cash equivalents on hand and the unutilized balance of its operating credit facility will be sufficient to satisfy its obligations as they become due.

Information with respect to the Company's material off-balance sheet arrangements, which consist primarily of operating leases, purchase commitments and natural gas supply and transportation contracts, is disclosed in the table of contractual obligations in the annual MD&A included with the Company's 2015 Annual Report and in Note 13 to the condensed interim consolidated financial statements.

With respect to contractual obligations outstanding as at June 30, 2016, changes during the first six months included scheduled payments of principal and interest on debt and finance lease obligations and operating leases. Additional changes included reductions in the remaining balances of the Company's purchase obligations under its natural gas supply and transportation contracts. These are more fully described in Note 13 to the condensed interim consolidated financial statements.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following is a summary of selected quarterly financial information for each of the eight most recently completed quarters (in thousands of dollars, except per share amounts):

TOTAL OPERATIONS	June 30		March 31		December 31		September 30	
	2016	2015	2016	2015	2015	2014	2015	2014
Revenues	$ 43,818	$ 39,138	$18,658	$15,063	$32,362	$27,200	$ 40,465	$ 37,451
Net income (loss) attributable to shareholders of Brampton Brick Limited								
	$ 5,272	$ 5,507	$(3,738)	$(4,637)	$ (524)	$(10,231)	$ 4,324	$ 3,355
Net income (loss)								
	$ 5,272	$ 5,667	$(3,738)	$(4,637)	$ (534)	$(10,232)	$ 4,324	$ 3,354
Net income (loss) per share								
Basic	$ 0.48	$ 0.50	$ (0.34)	$ (0.42)	$ (0.05)	$ (0.94)	$ 0.39	$ 0.31
Diluted	$ 0.47	$ 0.49	$ (0.34)	$ (0.42)	$ (0.05)	$ (0.94)	$ 0.39	$ 0.30

The quarterly financial information presented reflects the seasonal nature of the Company's Masonry Products and Landscape Products business segments. Historically, sales of these business segments are greater in the second and third quarters of each year than in the first and fourth quarters. Consequently, the results of operations and cash flows reported each quarter are not necessarily indicative of the results to be expected for the year, and the financial condition of the Company at the end of each quarter reflects these seasonal fluctuations.

Major factors affecting the comparability of the quarterly results are described below:

QUARTERS ENDED JUNE 30

Favourable weather conditions, sustained momentum in the housing market which supported the strength in residential construction, as well as an expanded product portfolio produced an increase in revenues for the quarter ended June 30, 2016. The increase in costs of sales were due to increases in shipments and costs associated with both upgrades to process equipment installed at the Farmersburg, Indiana clay brick plant and the retrofit and other costs associated with the April 2016 acquisition of the Boisbriand, Quebec facility, during the current quarter. In addition, higher selling expenses due to an increase in sales promotion and personnel costs related to the increase in revenues increased operating expenses during the current quarter of 2016.

For the quarter ended June 30, 2015, transactions that positively impacted the results were a property tax credit of $537, decreases in bad debt and other provisions, and an unrealized gain on the change in the fair value of the interest rate swap.

As a result, net income for the quarter ended June 30, 2016 was $5,272, compared to $5,667 for the same period in 2015.

QUARTERS ENDED MARCH 31

Revenues during the first quarter of 2016 increased across all product lines compared to the corresponding three months in 2015. Comparatively milder weather conditions and an increase in housing starts led to strong growth in the Company's Canadian markets.

Costs of sales increased due to higher shipments but were largely offset by lower per unit manufacturing costs on comparatively higher production levels. In addition, costs associated with a temporary shutdown for maintenance and process improvements at the Farmersburg plant were incurred.

During the first quarter of 2016, higher marketing and customer service related expenses were also incurred.

As a result, the net loss for the first quarter of 2016 decreased by $899 compared to the same quarter in 2015.

QUARTERS ENDED DECEMBER 31

Revenues for the fourth quarter of 2015 increased by 19% over the same period in 2014, due to higher masonry and landscape product shipments. The comparative year-over-year increase in cost of sales was 10%, due to lower per unit manufacturing costs on higher production volumes.

Operating results improved significantly in the fourth quarter of 2015 for the reasons discussed above. In the fourth quarter of 2014, an impairment loss of $11,611 was recognized on the Farmersburg, Indiana plant but was partially offset by the gain on the sale of the Milton plant recognized during the fourth quarter of 2014 which amounted to $3,155.

QUARTERS ENDED SEPTEMBER 30

Higher shipments in both the Masonry Products and Landscape Products business segments during the third quarter of 2015 was due, in part, to the new facilities located at Hillsdale and Brockville, Ontario, which were acquired in 2014. In addition, an expanded product portfolio and improvements in marketing and customer service initiatives, contributed to the significant increase in revenues compared to the prior period.

Operating costs during the third quarter of 2015 were higher by an increase in overall production volumes. In the corresponding period of 2014, higher costs of sales associated with the start-up and related retrofit costs of commissioning the newly acquired Hillsdale and Brockville plants were incurred.

OTHER

Information with respect to 'Changes in Accounting Policies' is contained in Note 2 to the 2015 annual consolidated financial statements included in the Company's 2015 Annual Report. The condensed interim consolidated financial statements as at and for the three and six month periods ended June 30, 2016 have been prepared using the same accounting policies applied to the Company's annual consolidated financial statements for the year ended December 31, 2015, along with applicable changes in accounting policies effective January 1, 2016, as described in Note 2 to the 2015 annual consolidated financial statements.

Information with respect to 'Critical Accounting Judgments and Estimates' is disclosed in the 2015 annual MD&A and in Note 3 to the 2015 annual consolidated financial statements included in the Company's 2015 Annual Report. To date, there have not been any significant changes to the Company's critical accounting judgments and estimates.

Information with respect to transactions with related parties is disclosed: (a) for the year ended December 31, 2015, in Note 23 to the 2015 annual consolidated financial statements included in the Company's 2015 Annual Report; and (b) for the three and six month periods ended June 30, 2016, in Note 14 to the condensed interim consolidated financial statements.

The aggregate number of issued and outstanding Class A Subordinate Voting shares and Class B Multiple Voting shares as at June 30, 2016 is disclosed in Note 9 to the condensed interim consolidated financial statements. There have been no changes to the issued and outstanding shares to the date of this MD&A.

During the second quarter of 2016, The Toronto Stock Exchange (the "TSX") accepted a notice of intention (the "Notice') filed by the Company to make a normal course issuer bid ("NCIB"). The Notice provided that the Company, during the 12-month period which commenced on May 16, 2016 and ends on May 15, 2017, could purchase on the TSX up to 460,431 Class A Subordinate Voting shares in total, being approximately 5% of the total number of Class A Subordinate Voting shares outstanding as of May 5, 2016. The Company did not repurchase any Class A Subordinate Voting shares under the NCIB during the period ended June 30, 2016.

The aggregate number of outstanding stock options as at June 30, 2016 that were fully vested and convertible to Class A Subordinate Voting shares upon exercise by the option holders is disclosed in Note 10 to the condensed interim consolidated financial statements for the period ended June 30, 2016. There have been no changes to the outstanding number of stock options to the date of this MD&A.

Additional information relating to the Company, including the Company's Annual Report and Annual Information Form for the year ended December 31, 2015 and the Management Information Circular issued in connection with the Annual General Meeting of Shareholders held on May 26, 2016, may be found on SEDAR at www.sedar.com.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting during the three month period ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

OUTLOOK

The Company's Masonry Products and Landscape Products business segments are cyclical. Demand for masonry products fluctuates in accordance with the level of new residential construction as well as industrial, commercial and institutional construction activity. Demand for landscape products fluctuates in accordance with the level of industrial, commercial and institutional construction activity, as well as consumer spending patterns.

Both business segments are seasonal, with the Landscape Products business affected to a greater degree than the Masonry Products business.

The favourable market conditions that prevailed in the first quarter of 2016 continued through the second quarter of this year. An increase in both residential and commercial construction activity and favourable weather conditions in the Company's various market regions contributed to improved operating results. These market conditions are likely to continue through the third quarter, which is historically a period of higher volume, and weather permitting, should translate into a continuing improvement in results.

The Boisbriand facility started commercial production in the third quarter for the Company's Quebec and Eastern Ontario markets, which will have a positive impact on the Company's results going forward.

The Canadian clay brick facility has seen increased capacity utilization in the second quarter in response to increased growth in the Ontario residential housing market. An increase in capacity utilization is expected in the third quarter with the potential for a further reduction in per unit costs.

Activity in the Company's U.S. market regions related to residential housing remains at historically low levels with respect to pricing and industry-wide clay brick capacity utilization. The Company's U.S. clay brick plant is in the early stages of producing more commercial sector products, which ultimately are anticipated to help improve capacity utilization and the plant's gross margin levels.

Since the signing of the Universal Resource Recovery Inc. ("Universal") lease with its tenant, Universal has been self-sufficient on a cash basis. As a result, the Company did not need to fund any cash shortfalls in 2015 and through to June 30, 2016. Additionally, any excess cash flow at Universal is expected to be used to repay the loan receivable of the Company and of the other joint venture partner during the lease period.

FORWARD-LOOKING STATEMENTS

Certain statements contained herein constitute "forward-looking statements". All statements that are not historical facts are forward-looking statements, including, among others, statements regarding the expected repayment of the loan receivable from Universal and the expected self-sufficiency on a cash basis of Universal, forecasts of sufficient cash flows from operations and other sources of financing, anticipated compliance with financial covenants under debt agreements, anticipated sales of masonry and landscape products, and other statements regarding future plans, objectives, production levels, costs, productivity, results, business outlook and financial performance. There can be no assurance that such forward-looking statements will prove to be accurate.

Such forward-looking statements are based on information currently available to management, and are based on assumptions and analyses made by management in light of its experience and its perception of historical trends, current conditions and expected future developments, including, among others, assumptions regarding pricing, weather and seasonal expectations, production efficiency, and there being no significant disruptions affecting operations or other material adverse changes.

Such forward-looking statements also involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others: changes in economic conditions, including the demand for the Company's primary products and the level of new home, commercial and other construction; large fluctuations in production levels; fluctuations in energy prices and other production costs; changes in transportation costs; foreign currency exchange and interest rate fluctuations; legislative and regulatory developments; as well as those assumptions, risks, uncertainties and other factors identified and discussed under "Risks and Uncertainties" in the 2015 annual MD&A included in the Company's 2015 Annual Report and those identified and reported in the Company's other public filings (including the Annual Information Form for the year ended December 31, 2015), which may be accessed at www.sedar.com.

The forward-looking information contained herein is made as of the date hereof. Other than as specifically required by law, the Company undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on forward-looking statements.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL REPORT

Under National Instrument 51-102, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of an interim financial report, the interim financial report must be accompanied by a notice indicating that the interim financial report has not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the company have been prepared by and are the responsibility of the company's management.

No auditor has performed a review of these condensed interim consolidated financial statements.

Jeffrey G. Kerbel
President and Chief Executive Officer

Trevor M. Sandler
Vice President, Finance and
Chief Financial Officer

Dated as of the 3rd day of August, 2016.

Condensed Interim Consolidated Balance Sheets

(unaudited)(in thousands of Canadian dollars)	Notes	June 30, 2016	December 31, 2015
ASSETS			
Current Assets			
Cash and cash equivalents		**$ 673**	$ 4,021
Trade and other receivables		**28,527**	18,711
Inventories		**30,985**	32,163
Other assets		**1,837**	1,111
Loan receivable	4	**87**	85
		62,109	56,091
Non-current assets			
Loans receivable	4	**4,913**	4,947
Property, plant and equipment	5	**169,188**	168,091
		174,101	173,038
Total assets	15	**$ 236,210**	$ 229,129
LIABILITIES			
Current liabilities			
Bank operating advances	6	**$ 5,544**	$ –
Trade payables		**16,974**	17,655
Income tax payable	11	**424**	1,729
Current portion of debt	7	**6,468**	6,380
Current derivative financial instrument	8	**217**	248
Decommissioning provisions		**30**	30
Other liabilities		**4,544**	2,924
		34,201	28,966
Non-current liabilities			
Non-current portion of debt	7	**35,635**	32,970
Non-current derivative financial instrument	8	**811**	256
Decommissioning provisions		**5,355**	5,377
Deferred tax liabilities	11	**15,621**	15,681
		57,422	54,284
Total liabilities		**$ 91,623**	$ 83,250
EQUITY			
Equity attributable to shareholders of Brampton Brick Limited			
Share capital	9	**$ 33,755**	$ 33,755
Contributed surplus	10	**2,919**	2,641
Accumulated other comprehensive income		**9,107**	12,176
Retained earnings		**98,804**	97,270
		144,585	145,842
Non-controlling interests	14	**2**	37
Total equity		**144,587**	145,879
Total liabilities and equity		**$ 236,210**	$ 229,129

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

(unaudited)(in thousands of Canadian dollars, except per share amounts)	Notes	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenues	14, 15, 16	**$ 43,818**	$ 39,138	**$ 62,476**	$ 54,201
Cost of sales		**31,039**	28,283	**48,940**	43,839
Selling expenses		**2,832**	2,433	**5,507**	4,568
General and administrative expenses		**2,110**	1,040	**3,714**	2,681
(Gain) loss on disposal of property, plant and equipment		**–**	(3)	**–**	8
Other expense		**49**	42	**262**	385
	15	**36,030**	31,795	**58,423**	51,481
Operating income		**7,788**	7,343	**4,053**	2,720
Finance expense	6, 7, 8	**(578)**	(161)	**(1,351)**	(1,070)
Income before income taxes		**7,210**	7,182	**2,702**	1,650
(Provision for) recovery of income taxes	11				
Current		**(1,902)**	(1,368)	**(1,226)**	(462)
Deferred		**(36)**	(147)	**58**	(158)
		(1,938)	(1,515)	**(1,168)**	(620)
Net income for the period		**$ 5,272**	$ 5,667	**$ 1,534**	$ 1,030
Net income attributable to:					
Shareholders of Brampton Brick Limited		**$ 5,272**	$ 5,507	**$ 1,534**	$ 870
Non-controlling interests		**–**	160	**–**	160
Net income for the period		**$ 5,272**	$ 5,667	**$ 1,534**	$ 1,030
Other comprehensive (loss) income					
Items that will be reclassified subsequently to profit or loss when specific conditions are met:					
Foreign currency translation (loss) income		**$ (183)**	$ (742)	**$ (3,069)**	$ 2,974
Total comprehensive income (loss) for the period		**$ 5,089**	$ 4,925	**$ (1,535)**	$ 4,004
Total comprehensive income (loss) attributable to:					
Shareholders of Brampton Brick Limited		**$ 5,089**	$ 4,765	**$ (1,535)**	$ 3,844
Non-controlling interests		**–**	160	**–**	160
Total comprehensive income (loss) for the period		**$ 5,089**	$ 4,925	**$ (1,535)**	$ 4,004
Net income per Class A Subordinate Voting share and Class B Multiple Voting share attributable to shareholders of Brampton Brick Limited					
Basic	12	**$ 0.48**	$ 0.50	**$ 0.14**	$ 0.08
Diluted	12	**$ 0.47**	$ 0.49	**$ 0.14**	$ 0.08

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

(unaudited) (in thousands of Canadian dollars)	Notes	Attributable to shareholders of Brampton Brick Limited						
		Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total	Non-Controlling interest	Total Equity
Balance – January 1, 2015		**$ 33,711**	**$ 2,293**	**$ 4,573**	**$ 92,600**	**$ 133,177**	**$ 27**	**$ 133,204**
Net income for the period		–	–	–	870	**870**	160	**1,030**
Other comprehensive income (net of taxes, $nil)		–	–	2,974	–	**2,974**	–	**2,974**
Total comprehensive income for the period		**–**	**–**	**2,974**	**870**	**3,844**	**160**	**4,004**
Stock options exercised	9	44	(8)	**–**	**–**	**36**	–	**36**
Share-based compensation	10	**–**	214	**–**	**–**	**214**	–	**214**
Dividends paid to non-controlling interests	14	**–**	–	**–**	**–**	**–**	(140)	**(140)**
Balance – June 30, 2015		**$ 33,755**	**$ 2,499**	**$ 7,547**	**$ 93,470**	**$ 137,271**	**$ 47**	**$ 137,318**
Balance – January 1, 2016		**$ 33,755**	**$ 2,641**	**$ 12,176**	**$ 97,270**	**$ 145,842**	**$ 37**	**$ 145,879**
Net income for the period		–	–	–	1,534	**1,534**	–	**1,534**
Other comprehensive loss (net of taxes, $nil)		–	–	(3,069)	–	**(3,069)**	–	**(3,069)**
Total comprehensive (loss) income for the period		**–**	**–**	**(3,069)**	**1,534**	**(1,535)**	–	**(1,535)**
Share-based compensation	10	–	278	–	–	**278**	–	**278**
Dividends paid to non-controlling interests	14	–	–	–	–	**–**	(35)	**(35)**
Balance – June 30, 2016		**$ 33,755**	**$ 2,919**	**$ 9,107**	**$ 98,804**	**$ 144,585**	**$ 2**	**$ 144,587**

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

(unaudited)(in thousands of Canadian dollars)	Notes	Six months ended June 30, 2016	2015
Cash provided by (used for)			
Operating activities			
Net income for the period		**$ 1,534**	$ 1,030
Items not affecting cash and cash equivalents			
Depreciation	5	**4,797**	4,475
Current tax provision	11	**1,226**	462
Deferred tax (recovery) provision	11	**(58)**	158
Loss on disposal of property, plant and equipment		**–**	8
Unrealized foreign currency exchange loss (gain)		**180**	(282)
Net interest expense	6, 7	**827**	938
Derivative financial instrument loss	8	**524**	132
Other	10	**278**	214
		9,308	7,135
Changes in non-cash items			
Trade and other receivables		**(9,881)**	(9,143)
Inventories		**512**	(3,192)
Other assets		**(759)**	(226)
Trade payables		**(778)**	(2,521)
Other liabilities		**1,615**	599
		(9,291)	(14,483)
Income tax payments		**(2,531)**	(54)
Cash used for operating activities		**(2,514)**	(7,402)
Investing activities			
Purchase of property, plant and equipment	5	**(8,378)**	(2,195)
Loan advances		**–**	(400)
Proceeds from repayments of loans receivable		**32**	17
Proceeds from disposal of property, plant and equipment		**–**	169
Cash used for investing activities		**(8,346)**	(2,409)
Financing activities			
Increase in bank operating advances	6	**5,544**	10,816
Increase in Committed Revolving Term loan	7	**3,405**	–
Payment of term loans	7	**(156)**	(141)
Interest paid	6, 7	**(737)**	(873)
Payments on obligations under finance leases		**(471)**	(545)
Proceeds from exercise of stock options	9	**–**	36
Payment of dividends by subsidiary to non-controlling interests	14	**(35)**	(140)
Cash provided by financing activities		**7,550**	9,153
Foreign exchange on cash held in foreign currency		**(38)**	47
Decrease in cash and cash equivalents		**(3,348)**	(611)
Cash and cash equivalents at the beginning of the period		**4,021**	1,419
Cash and cash equivalents at the end of the period		**$ 673**	$ 808

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

June 30, 2016 (Unaudited – in thousands of Canadian dollars, unless otherwise stated)

1. GENERAL INFORMATION

Brampton Brick Limited and its subsidiaries, together referred to as the ("Company"), primarily manufacture and sell masonry and landscape products. The Company has clay brick manufacturing plants located in Brampton, Ontario and in Farmersburg, Indiana. Plants located in Markham, Hillsdale, Brampton and Brockville, Ontario and in Wixom, Michigan manufacture concrete masonry and landscape products. On April 9, 2016, the Company completed the acquisition of certain assets of a concrete products manufacturing company, located at Boisbriand, in the Province of Quebec.

Brampton Brick Limited is incorporated and domiciled in Canada. The address of its registered office is 225 Wanless Drive, Brampton, Ontario.

The Company's Class A Subordinate Voting shares trade on the Toronto Stock Exchange under the ticker symbol "BBL.A". The Company's Class B Multiple Voting shares do not trade on any public market.

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements as at and for the three and six month periods ended June 30, 2016 are unaudited and include all adjustments that management considers necessary for a fair presentation in accordance with IAS 34 Interim Financial Reporting. The Company's business is seasonal. Results for the three and six month periods ended June 30, 2016 are not necessarily indicative of results for the full fiscal year or any other future period.

These condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements. The condensed interim consolidated financial statements as at and for the three and six month periods ended June 30, 2016 have been prepared using the same accounting policies applied to the Company's annual consolidated financial statements for the year ended December 31, 2015, along with applicable changes in accounting policies effective January 1, 2016, as described in Note 2 to the annual consolidated financial statements.

STATEMENT OF COMPLIANCE

These condensed interim consolidated financial statements as at and for the three and six month periods ended June 30, 2016 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

These condensed interim consolidated financial statements were approved by the Board of Directors on August 3, 2016.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

The following is a brief overview of accounting standard changes and amendments that the Company will be required to adopt in future years.

IFRS 9 *Financial Instruments* is effective for annual periods beginning on or after January 1, 2018 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities largely carry forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

The Company is evaluating the impact of this standard on its consolidated financial statements.

IFRS 15 *Revenue from contracts with customers* is effective for annual periods beginning on or after January 1, 2018 and is based on the principle that revenues should reflect the consideration to which the entity expects to be entitled to, in exchange for the transfer of promised goods or services. The standard provides a single, principle-based, five-step model for revenue recognition to be applied to all customer contracts and requires enhanced disclosures. The Company is evaluating the impact of this standard on the consolidated financial statements.

IFRS 16 *Leases* is effective for annual periods beginning on or after January 1, 2019. It eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17, Leases. It establishes principles for the recognition, measurement, presentation and disclosure of leases with the objective of ensuring that lessees and lessors provide relevant information for all leases with a term of more than 12 months, unless the underlying asset is of low value for those transactions.

The standard introduces a single lessee accounting model which requires a lessee to recognize:

a) assets by recognizing the present value of the lease payments;

b) liabilities by recognizing its obligation to make future payments; and

c) depreciation of lease assets separately from interest on lease liabilities in the income statement.

The Company is evaluating the impact of this standard on the consolidated financial statements.

Amendment to IFRS 2, *Share-based payment* is effective for annual periods beginning on or after January 1, 2018 and clarifies that:

a) the accounting for the impact of vesting and non-vesting conditions on the measurement of cash-settled, share-based payments should follow the equity-settled, share-based payments approach which is based on an assessment of the satisfaction of market conditions and performance conditions;

b) a share-based payment transaction with a net settlement feature, permitting an entity to settle the net share-based payment arrangement by withholding a portion of the equity instruments to meet the statutory tax withholding obligation, should be classified as an equity-settled transaction in its entirety if the transaction would have otherwise been classified as equity-settled if it had not included the net settlement feature; and

c) where the classification of a cash-settled, share-based payment is changed to an equity-settled, share-based payment, then the transaction is measured at the fair value of the equity instrument at the modification date and recognized for services rendered up to the modification date. Any difference between the carrying amount of the liability with respect to the cash-settled, share-based payment and the amount recognized in equity is recorded in profit or loss, immediately.

This amendment is not expected to impact the consolidated financial statements.

Amendments effective for annual periods beginning on or after January 1, 2017 are as below:

Amendment to IAS 7, *Statement of cash flows* requires the following disclosure for changes in liabilities arising from cash flows classified in the statement of cash flows as cash flows from financing activities:

a) changes from financing cash flows;
b) changes arising from obtaining or losing control of subsidiaries or other businesses;
c) the effect of changes in foreign exchange rates;
d) changes in fair values; and
e) other changes.

This amendment has disclosure requirements and is not expected to impact the consolidated financial statements.

Amendment to IAS 12, *Income taxes* clarifies that in determining the deferred tax assets to be recognized on unrealized losses, taxation law restrictions on the sources of future taxable profits, against which deductions may be made on the reversal of deductible temporary differences, should be considered. Additionally, in estimating the probable future taxable profit, if there is sufficient evidence to conclude that it is probable that the entity will recover from a financial asset more that its carrying value, such amounts may be included. This amendment is not expected to significantly impact the consolidated financial statements.

4. LOANS RECEIVABLE

The secured, non-interest bearing, non-current loan receivable ("loan receivable") from Universal Resource Recovery Inc. ("Universal") totaled $4,700 as at June 30, 2016 (December 31, 2015 - $4,700). A repayment in the amount of $450 was received in July 2016, reducing the loan receivable to $4,250.

In relation to this loan receivable, the Company has registered, as security, a mortgage on Universal's property located in Welland, Ontario

Other Loans Receivable as at June 30, 2016 total $300, of which $213 is classified as non-current.

5. PROPERTY, PLANT AND EQUIPMENT

	Land and Land Improvements	Buildings	Machinery and Equipment	Mobile Equipment	Total
As at December 31, 2015					
Cost	$ 86,991	$ 34,665	$ 153,234	$ 7,391	$ 282,281
Accumulated depreciation and impairment loss	(18,146)	(17,100)	(73,613)	(5,331)	(114,190)
Net book value	**68,845**	**17,565**	**79,621**	**2,060**	**168,091**
For the six months ended June 30, 2016					
Additions	1,285	1,427	5,620	223	8,555
Depreciation for the period	(378)	(494)	(3,455)	(470)	(4,797)
Exchange differences	(416)	(469)	(1,757)	(19)	(2,661)
	491	**464**	**408**	**(266)**	**1,097**
As at June 30, 2016					
Cost	87,417	35,099	154,825	7,482	284,823
Accumulated depreciation and impairment loss	(18,081)	(17,070)	(74,796)	(5,688)	(115,635)
Net book value	**$ 69,336**	**$ 18,029**	**$ 80,029**	**$ 1,794**	**$ 169,188**

For the three and six month periods ended June 30, 2016, depreciation expense totaled $2,503 (2015 – $2,295) and $4,797 (2015 – 4,475), respectively, of which $2,421 (2015 – $2,221) and $4,638 (2015 – $4,321), respectively, were included in Cost of sales and $82 (2015 – $74) and $159 (2015 – $154), respectively, were included in General and administrative expenses.

On April 9, 2016, the Company completed the acquisition of certain assets from Eurobloq Inc., a concrete products manufacturing company located in the province of Quebec for a purchase price of $5,000 plus transaction costs. The assets acquired include land and buildings and concrete products manufacturing equipment, all located in Boisbriand, Quebec.

Mobile equipment and machinery and equipment includes the following amounts acquired by means of finance leases:

	June 30, 2016	December 31, 2015
Cost – financed leases	$ 7,855	$ 7,879
Accumulated depreciation	(5,262)	(4,703)
	$ 2,593	**$ 3,176**

6. BANK OPERATING ADVANCES

The Company's credit facility provides for borrowings of up to $22,000 (2015 – $22,000) based on margin formulae for trade receivables and inventories, less priority claims and the mark-to-market exposure on swap contracts. It is a demand facility secured by a general security agreement over all assets excluding the Company's 225 Wanless Drive, Brampton, Ontario property. The agreement also contains certain financial covenants. As at June 30, 2016, the Company is in compliance with all the financial covenants.

As at June 30, 2016, the borrowing limit was $22,000 (December 31, 2015 – $22,000). The utilization was $5,864 (December 31, 2015 – $343) and comprised of: a current account balance of $5,544 (December 31, 2015 – Nil); and outstanding letters of credit for $320 (December 31, 2015 – $343).

As at June 30, 2016, the rate of interest on the current account is based on the Canadian bank prime rate plus a credit spread of 0.75%. The Company's credit spread is variable and determined by its fixed charge coverage ratio.

7. DEBT

Debt consists of the following:

		June 30, 2016 $	December 31, 2015 $
Committed revolving reducing term loan – monthly instalments commenced July 2015 to July 2019	(a)	**24,000**	24,000
Committed revolving term loan – monthly instalments to commence July 2016 to December 2017	(b)	**13,500**	10,095
Demand non-revolving loan – monthly instalments commenced January 2014 to December 2019	(c)	**2,165**	2,252
Other term loans		**169**	245
		39,834	36,592
Obligations under finance leases		**2,269**	2,758
		42,103	39,350
Less: Payments due within one year – current portion		**6,468**	6,380
Non-current portion of debt		**35,635**	32,970

(a) The $24,000 committed revolving reducing term loan ("committed term loan") bore interest at the bank's prime rate plus 0.30% until January 29, 2015. Thereafter, the 30 day bankers' acceptance rate plus a stamp fee of 1.80% is effective. The term of this loan is five years and requires monthly interest payments for its duration. Principal repayments of $400 per month from July to November commenced in 2015 and continue until 2018, with a balloon payment on July 31, 2019. The committed term loan is secured only by a mortgage on the Company's 225 Wanless Drive, Brampton, Ontario property.

On January 30, 2015, the Company entered into a floating-to-fixed interest rate swap agreement to fix the interest rate on this term loan, as further described in Note 8, 'Derivative Financial Instrument'.

(b) The committed revolving term loan bears interest at the bank's prime rate plus 0.50%. Principal repayments of $100 per month from July to November, which commence in 2016 and continue until 2017 with a maturity date of December 31, 2017, are scheduled on the committed revolving term loan.

On April 1, 2016 an amount of $3,405 was drawn on the committed revolving term loan. The Company acquired certain assets for $5,000 from Eurobloq Inc., a concrete products manufacturing company located in Boisbriand, Quebec, as described in Note 5. The purchase price including other related costs was financed from both the demand operating credit facility and a drawdown on the committed revolving term loan.

The committed revolving term loan is secured by a mortgage over the Company's properties located in Hillsdale and Markham, Ontario and two quarry sites located in Brampton and Cheltenham, Ontario.

(c) The demand non-revolving loan obtained in 2013 was advanced to Universal to repay its then outstanding term loan balance and was recognized as a loan receivable, which is described in Note 4. An amount of $450 was received from Universal in July 2016 and was applied towards the repayment of this demand non-revolving loan balance.

The agreements for these loans contain certain financial covenants. As at June 30, 2016, the Company is in compliance with all the financial covenants.

8. DERIVATIVE FINANCIAL INSTRUMENT

The Company has entered into a floating-to-fixed interest rate swap with a current notional value of $24,000 (originally $26,000), to minimize its exposure to fluctuations in cash flows from changes in interest rates on the committed term loan of the same amount. The swap notional value will decrease proportionately with the outstanding balance of the underlying committed term loan as scheduled repayments are made over its duration. As a result of this transaction, the Company's interest rate for the committed term loan is fixed at 3.69%.

The Company has not applied hedge accounting. The change in fair value of the interest rate swap recognized in 'Finance expense' on the Condensed Interim Consolidated Statement of Comprehensive Income (Loss) for the three and six month periods ended June 30, 2016 amounted to unrealized losses of $129 (2015 – gain of $352) and $524 (2015 – loss of $132), respectively. The fair value of the interest rate swap derivative in the amounts of $217 (December 31, 2015 – $248) and $811 (December 31, 2015 – $256) were classified as current and non-current derivative financial liabilities, respectively.

9. SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of Preference shares, Class A Subordinate Voting shares and Class B Multiple Voting shares. The Class B Multiple

Voting shares are convertible into Class A Subordinate Voting shares on a share-for-share basis at any time. Class A Subordinate Voting shares may be converted into Class B Multiple Voting shares in certain circumstances in connection with a takeover bid. Class A Subordinate Voting shareholders are entitled to one vote per share and Class B Multiple Voting shareholders are entitled to ten votes per share at any meeting of shareholders. The shares issued do not have a specified par value.

As at June 30, 2016, issued and outstanding share capital consisted of 9,208,623 Class A Subordinate Voting shares (December 31, 2015 – 9,208,623) and 1,738,631 Class B Multiple Voting shares (December 31, 2015 – 1,738,631).

There were no Class A Subordinate Voting shares purchased under the Company's Normal Course Issuer Bid, which commenced May 16, 2016 and ends on May 15, 2017.

There were no changes in the Class A Subordinate Voting shares and Class B Multiple Voting shares during the six months ended June 30, 2016. During the second quarter ended June 30, 2015, 6,900 stock options were exercised at an average price of $5.16. Proceeds from the issue of an equal number of Class A Subordinate Voting shares amounted to $36.

10. SHARE-BASED COMPENSATION

Under the Brampton Brick Limited Stock Option Incentive Plan ("the Plan"), the Company may grant stock options to the directors, officers and full-time employees of the Company and its subsidiaries up to an aggregate of 1,680,965 (December 31, 2015 – 1,680,965) Class A Subordinate Voting shares. The exercise price of each stock option is equal to the volume weighted average trading price of the Company's Class A Subordinate Voting shares for the five trading days immediately preceding the date of the grant and the maximum term of each option is ten years. As at June 30, 2016, a total of 62,265 (December 31, 2015 – 225,365) stock options were available for grant under the Plan.

The Company granted stock options to all executive officers, two employees and to all non-management members of the Board of directors of the Company on April 4, 2016. Options vest as follows: 20% on the date immediately following the date of the grant; and an additional 20% on each anniversary of the grant date thereof until fully vested.

Date of grant	**April 4, 2016**
Number of options granted	**195,500**
Market price	**$ 7.90**
Fair value of each stock option granted	**$ 2.87**
Assumptions:	
Risk-free interest rate	**1.1%**
Expected life	**8.0 years**
Volatility (determined by reference to historically observed prices of the Class A Subordinate Voting shares)	**30.6%**
Expected dividend yield	**0.0%**
Expected forfeitures	**Nil**

For the three and six month periods ended June 30, 2016, the total compensation cost charged against income with respect to all stock options granted was $206 (2015 – $172) and $278 (2015 – $214), respectively.

As at June 30, 2016, an aggregate of 1,381,300 (December 31, 2015 – 1,218,200) stock options were outstanding, of which 1,013,300 (December 31, 2015 – 866,000) were fully vested and exercisable by the holders thereof at a weighted average exercise price of $6.42 (December 31, 2015 – $6.70) per share.

11. INCOME TAX

The Company computes an income tax (provision) recovery in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. The operations in Canada and the United States are subject to income tax at the following rates 26.5% (2015 – 26.5%) in the Canadian jurisdictions and from 34.0% to 38.2% (2015 – 34.0% to 38.7%) in the U.S. jurisdictions.

In interim periods, the income tax (provision) recovery is based on actual earnings by jurisdiction. The Company has not recorded a deferred tax asset with respect to the potential future income tax benefit pertaining to the losses incurred by its U.S. operations.

12. NET INCOME PER SHARE

Net income per share is calculated on net income attributable to the shareholders of Brampton Brick Limited using the weighted average number of shares outstanding for the period. The diluted net income per share is calculated to reflect the dilutive effect of the exercise of the outstanding stock options on net income per share.

The weighted average number of Class A Subordinate Voting shares and Class B Multiple Voting shares outstanding utilized in the calculations of net income per share is as follows:

	Three months ended June 30					
	2016			2015		
Earnings per share attributable to shareholders of Brampton Brick Limited	**Net Income $**	**Shares (thousands)**	**Per share amount $**	**Net Income $**	**Shares (thousands)**	**Per share amount $**
Basic	**5,272**	**10,947**	**0.48**	5,507	10,941	0.50
Dilutive effect of stock options		**341**	**(0.01)**		227	(0.01)
Diluted		**11,288**	**0.47**		11,168	0.49

	Six months ended June 30					
	2016			2015		
Earnings per share attributable to shareholders of Brampton Brick Limited	**Net Income $**	**Shares (thousands)**	**Per share amount $**	**Net Income $**	**Shares (thousands)**	**Per share amount $**
Basic	**1,534**	**10,947**	**0.14**	870	10,941	0.08
Dilutive effect of stock options		**324**	**–**		228	–
Diluted		**11,271**	**0.14**		11,169	0.08

In determining the diluted earnings per share, 179,500 and 191,784 options to purchase Class A Subordinate Voting shares were considered anti-dilutive for the three and six month periods ended June 30, 2016, respectively (2015 – 211,900 for the three and six month periods).

13. COMMITMENTS AND CONTINGENCIES

As at June 30, 2016, the Company had capital expenditure commitments with suppliers totaling $2,514.

The Company normally enters into supply and transportation contracts for natural gas to satisfy its future requirements. As at June 30, 2016, the Company has contracted for its estimated remaining 2016 Canadian natural gas supply requirements at an aggregate estimated cost of $804, none of which was at fixed prices, and for its estimated remaining 2016 Canadian transportation requirements at an aggregate estimated cost of $580, of which 66% was at fixed prices. As at June 30, 2016, the Company's U.S. operations, have contracted for its July 2016 estimated natural gas transportation requirements at an estimated cost of $9 at fixed prices. The potential unrealized gain on the fixed price contracts was approximately $27 (2015 – unrealized gain of approximately $16), which was not taken to income since these are supply contracts that will be charged to operations in the period the gas is consumed.

Letters of credit are issued by the Company's banker to provide security to certain service providers and in connection with certain governmental operating permits. The aggregate amount of letters of credit outstanding as at June 30, 2016 is $320 (December 31, 2015 - $343).

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position or liquidity.

14. RELATED PARTY TRANSACTIONS

The Company has determined which of its customers are related to the Company via common directors or shareholders. Sales to these customers are made under competitive terms and conditions. These customers accounted for 4.2% (2015 – 2.7%) of revenues in aggregate for the three month period and 4.9% (2015 – 3.1%) for the six month period ended June 30, 2016.

Purchases from related parties amounted to $3 (2015 – $11) for the three month period and $13 (2015 – $50) for the six month period ended June 30, 2016. Trade payables to related parties was $70 as at June 30, 2016 (December 31, 2015 – $125).

During the second quarter ended June 30, 2016, dividends amounting to $35 were paid to non-controlling shareholders of a subsidiary company (2015 – $140).

All related party transactions are accounted for at the exchange amount which is the amount of consideration established and agreed to by the related parties.

15. OPERATING SEGMENTS

The Company considers that for purposes of operating decision making and assessing performance it operates within two dominant business segments: Masonry Products and Landscape Products. Although the Company operates several plants, the nature of products, production methods and type of customers for their products and services share similar economic characteristics within each segment.

MASONRY PRODUCTS

Manufacture of clay brick and a range of concrete masonry products including stone veneer, concrete brick and block for use in residential construction and institutional, commercial and industrial building projects.

LANDSCAPE PRODUCTS

Manufacture of concrete paving stones, retaining walls, garden walls and sales of accessory products for use in residential construction and institutional, commercial and industrial building projects.

OTHER

Other business operations and assets consist of a loan receivable from Universal and a bank balance pertaining to 1813435 Ontario Limited.

Segmented information, with comparative information for 2015, is as follows:

	Three months ended June 30		Six months ended June 30	
i) Revenues	**2016 $**	2015 $	**2016 $**	2015 $
Masonry Products	**28,943**	26,338	**45,798**	39,941
Landscape Products	**14,875**	12,800	**16,678**	14,260
Revenues	**43,818**	39,138	**62,476**	54,201
ii) Operating income (loss)				
Masonry Products	**4,382**	4,788	**2,655**	1,120
Landscape Products	**3,406**	2,556	**1,398**	1,602
Other	**–**	(1)	**–**	(2)
Operating income	**7,788**	7,343	**4,053**	2,720
Finance expense	**(578)**	(161)	**(1,351)**	(1,070)
Income taxes	**(1,938)**	(1,515)	**(1,168)**	(620)
Net income for the period	**5,272**	5,667	**1,534**	1,030

iii) Total assets	**June 30, 2016 $**	December 31, 2015 $
Masonry and Landscape Products	**231,504**	224,156
Other	**4,706**	4,973
Total assets	**236,210**	229,129

Certain long-term assets are used for both the Masonry Products and Landscape Products business segments. Assets do not form part of management's evaluation of performance of individual business units and therefore are not reported on a segmented basis.

Geographical information is as follows:

	Three months ended June 30		Six months ended June 30	
	2016 Revenues $	**2015 Revenues $**	**2016 Revenues $**	**2015 Revenues $**
Canada	**38,435**	34,356	**55,161**	48,034
United States	**5,383**	4,782	**7,315**	6,167
	43,818	39,138	**62,476**	54,201

	June 30, 2016 Property, plant and equipment $	**December 31, 2015 Property, plant and equipment $**
Canada	**128,651**	125,619
United States	**40,537**	42,472
	169,188	168,091

16. SEASONAL FLUCTUATIONS

The Company's business is seasonal. Historically, sales and results are greater in the second and third quarters of each year than in the first and fourth quarters. The Landscape Products business segment is affected by seasonality to a greater degree than the Masonry Products business. Consequently, the results of operations and cash flows for the three and six month periods ended June 30, 2016 are not necessarily indicative of the results to be expected for the full year.

BRAMPTON BRICK Limited
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