



ANNUAL REPORT 2008

**BRAMPTON
BRICK
Limited**

CORPORATE PROFILE

Brampton Brick is Canada's second largest manufacturer of clay brick, serving markets in Ontario, Quebec and the Northeast and Midwestern United States. To complement the clay brick product line, the Company also manufactures a range of concrete masonry products, including stone veneer products marketed under the Stoneworks™ trade name and concrete window sills.

Construction of a second clay brick plant in Terre Haute, Indiana is substantially complete. Brick production is expected to commence in the first quarter of 2009.

Concrete interlocking paving stones, retaining walls, garden walls and enviro products are manufactured in Canada and the U.S. and sold to markets in Ontario, Quebec, Michigan, New York, Pennsylvania, Ohio, Kentucky, Illinois and Indiana under the Oaks™ trade name.

The Company's products are used for residential construction and for industrial, commercial and institutional building projects.

Da Vinci Stone Craft is a manufacturer of high quality, limestone cast fireplace surrounds, wall tiles and other decorative products, primarily for residential applications.

Universal Resource Recovery operates a waste composting and material recycling facility in Welland, Ontario. Operations commenced in October 2008.



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(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	2008	2007*
OPERATIONS		
Net sales	\$ 81,476	\$ 82,352
Operating income	3,413	10,643
Net income (loss) – continuing operations	(6,339)	(4,675)
– total	(6,694)	3,519
Cash provided by operations	15,823	13,638
Purchase of property, plant and equipment	48,266	21,144
Dividends	2,189	2,170
SHARE DATA		
Net income (loss) per share – continuing operations	\$ (0.58)	\$ (0.43)
– total	(0.61)	0.32
Dividends per share	0.20	0.20
Book value per share	12.01	12.71
Weighted average number of shares outstanding (thousands)	10,928	10,836
FINANCIAL POSITION		
Working capital	\$ 4,715	\$ 25,424
Total assets	194,142	181,240
Total liabilities (excluding non-controlling interests)	60,358	39,143
Shareholders' equity	131,258	137,731
Total liabilities (excluding non-controlling interests) to shareholders' equity	0.46:1	0.28:1

* Certain comparative amounts for 2007 have been restated to conform with the current year presentation.

SHARES OUTSTANDING

The Company has 10,936,554 common shares outstanding as at December 31, 2008 comprised of 8,507,554 Class A Subordinate Voting Shares and 2,429,000 Class B Multiple Voting Shares. The Class A shares trade on the Toronto Stock Exchange under the ticker symbol "BBL.A".

DIVIDENDS

The dividends paid by the Company on June 30, 2008 and December 31, 2008 are designated as eligible dividends pursuant to Subsection 89 (14) of the Income Tax Act (Canada).

ANNUAL MEETING

The Annual General Meeting of the Shareholders of the Company will be held on May 13, 2009, at 9:30 a.m. in the Caledon Ballroom of the Holiday Inn, 30 Peel Centre Drive, Brampton, Ontario.

ANNUAL REPORT

Additional copies of the 2008 Annual Report may be obtained from the Vice-President, Finance, Brampton Brick Limited, 225 Wanless Drive, Brampton, Ontario L7A 1E9.

Brampton Brick's primary operating segments are cyclical in nature and, for the most part, tied to construction cycles. As a result, our operating results for 2008 reflected the myriad of economic factors that have so dramatically impacted construction activity over the last number of months. While net sales in both the Masonry Products and Landscape Products businesses were down only marginally from 2007, the Company reported a loss of \$6,694, or \$0.61 per share. The loss included a write-off of the remaining balance of goodwill in the after-tax amount of \$5,991, or \$0.55 per share, and a loss from the discontinued medical waste operations of \$355, or \$0.03 per share. Importantly, cash flow from continuing operations amounted to \$15,823 in 2008, an increase of \$2,185 over 2007.

Given the environment of 2008, the Company focused its attention on improving its cost structure and on managing inventories, cash flows and debt levels to best position itself during this downturn. At the same time, we continued with a number of key growth initiatives that will make Brampton Brick a much stronger and more diversified company for the future.

In 2008, production at all manufacturing facilities was reduced in order to adjust inventories to better reflect current and anticipated sales levels which unfavourably impacted on cost of goods sold. Systems and other changes were implemented to enhance the level of customer service with respect to sales order processing, inventory management and product distribution matters, which also resulted in higher costs for 2008. However, these latter actions will allow the Company to reduce costs and manpower requirements in these areas going forward. During the year, the Company also began testing and subsequently producing a number of new products which, in the short term, resulted in higher manufacturing costs and selling and marketing expenses related to the introduction of these products into the market place.

The Company introduced its new Finesse architectural stone and secured a licence to manufacture and distribute Keystone retaining wall systems. These new products allow Brampton Brick to better service the industrial, commercial and institutional sector of the masonry market and the structural retaining wall market. In addition, new colors were developed to expand both the Artiste

Stone and Symphony Stone series. The Company experienced strong growth of concrete masonry products in 2008 and expects continued growth of these products in 2009.

In 2008, the Company also achieved a key strategic objective by completing the disposition of the medical waste business. The sale of its interest in SharpSmart Canada Limited was finalized in April and the disposal of its remaining interest in certain small quantity generator accounts occurred in September.

Construction of the new clay brick plant near Terre Haute, Indiana is substantially complete. Testing and commissioning commenced in the first quarter of 2009. Bricks manufactured at this low-cost, state-of-the-art facility will serve both the residential and commercial markets through an extensive dealer network covering 16 states throughout the northeast and midwestern United States.

In 2007, Universal Resource Recovery Inc. sought and obtained from the Ministry of Environment (Ontario) the required Certificates of Approval to construct and operate a waste composting and material recycling facility in Welland, Ontario.

Construction activities began in late 2007 and carried on throughout most of 2008. Operations commenced in the fourth quarter of 2008. The Company holds a 50% joint venture interest in this business.

For 2009, operating plans, manpower levels and discretionary spending have all been significantly adjusted to reflect the current economic environment. The Company's existing manufacturing facilities are well maintained and very little capital is expected to be required over the near term to sustain capacity. With the introduction of new products and the start-up of the new brick plant and waste composting operation, the Company believes that it has positioned itself appropriately and that it can generate positive cash flow from operations in 2009.

/s/ Jeffrey G. Kerbel

Jeffrey G. Kerbel
President and Chief Executive Officer

FOR THE YEAR ENDED DECEMBER 31, 2008

The following management's discussion and analysis of financial condition and results of operations ("MD&A") for the year ended December 31, 2008 should be read in conjunction with the Company's accompanying consolidated financial statements, including the summary of significant accounting policies, and the Annual Information Form dated March 24, 2009 which may be found on SEDAR at www.sedar.com. This MD&A is dated as of March 24, 2009. All amounts are stated in thousands of Canadian dollars, except per share amounts, unless otherwise indicated.

Effective October 2, 2007, the Company's 65% owned subsidiary, 1312082 Ontario Limited (formerly Medical Waste Management Inc.) completed the sale of substantially all of its business operations and assets, excluding its 50% joint venture interest in Sharpsmart Canada Limited ("Sharpsmart") which was sold on April 21, 2008 and its interest in certain small quantity generator accounts which were disposed of effective September 1, 2008. Accordingly, related assets and liabilities have been classified as held for sale and operating results and cash flows of these components of the business have been classified as discontinued operations. Comparative amounts have been reclassified to conform with the current period financial statement presentation.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31

For the year ended December 31, 2008, the Company incurred a loss of \$6,694, or \$0.61 per Class A Subordinate Voting Share ("Class A share") and Class B Multiple Voting Share ("Class B share") outstanding, compared to net income of \$3,519, or \$0.32 per Class A share and Class B share outstanding, in 2007. The aggregate weighted average number of Class A shares and Class B shares outstanding was 10,928,000 in 2008 and 10,836,000 in 2007.

The loss for the year is comprised of a loss from continuing operations of \$6,339, or \$0.58 per share, and a loss from discontinued operations of \$355, or \$0.03 per share. The major factors which impacted operating results from continuing operations in 2008 were:

- i) a non-cash charge of \$6,711 to write off the remaining carrying value of goodwill which, net of the related tax benefit recorded of \$720, resulted in a net charge of \$5,991, or \$0.55 per share;
- ii) a valuation allowance of \$1,903, or \$0.17 per share, recorded against future tax assets related to U.S. operations, and;
- iii) significantly lower production volumes in both the Masonry Products and Landscape Products business segments which resulted in unabsorbed manufacturing expenses being charged against current period operations.

Net sales from continuing operations were \$81,476 in 2008 compared to \$82,352 in 2007. Net sales declined in the Masonry Products business segment by \$966, or 1.6%, due to lower clay brick volumes and a small decrease in average net selling prices. In the Landscape Products business segment net sales declined by \$773, or 3.6%, primarily due to lower sales volumes. Net sales from the new waste composting operations of Universal Resource Recovery Inc. ("Universal"), which commenced operations in October 2008, amounted to \$863.

The increase in cost of goods sold from \$50,706 in 2007 to \$55,787 in 2008 reflected an increase in unabsorbed manufacturing expenses charged against operations as noted above, additional costs incurred in connection with the introduction of new concrete masonry products and costs of the new waste composting operations which accounted for \$1,198 of the increase. These items are discussed in greater detail under the business segment results which follow.

The increase in selling, general and administrative expenses over 2007 was primarily due to higher selling expenses incurred in relation to new products in the Masonry Products business segment. Costs were also incurred in streamlining the sales order processing procedures and reorganizing the sales administration departmental structure. Higher expenses incurred in the new waste composting operations also accounted for some of the increase.

As a result of the above factors, operating income from continuing operations, before interest and other items, decreased from \$10,643 in 2007 to \$3,413 in 2008.

Interest on long-term debt increased by \$584 to \$1,322 primarily due to the new term bank loan of \$17,000 to finance a portion of the construction costs of the new clay brick plant in Indiana and the Company's proportionate share, amounting to \$7,500, of loans incurred by Universal to finance a portion of the construction costs of its waste composting plant in Welland.

Interest income in 2008 was primarily due to interest on the promissory note taken back on the sale of the medical waste assets and business operations in October 2007. Interest income in 2007 was primarily the result of interest earned on cash balances held to finance a portion of the Indiana clay brick plant construction costs.

The Company incurred a foreign currency exchange loss of \$128 for the year compared to a loss of \$1,515 in 2007. The exchange loss reported in 2007 related primarily to the impact of the strengthening in the relative value of the Canadian dollar versus the U.S. dollar on U.S. cash balances held during that period.

In 2007, other income included a gain of \$533 on the disposal of certain equipment in connection with the outsourcing of the clay brick quarry operations in Brampton.

The Company performed its annual test for impairment of goodwill as at December 31, 2008. As a result of this test, management determined there was a decline in the estimated fair value of goodwill related to the Landscape Products business segment and, accordingly, the Company wrote off the remaining carrying value of \$6,711. Net of the related income tax benefit of \$720, this resulted in a net charge to the Consolidated Statement of Loss for 2008 of \$5,991, or \$0.55 per share. In 2007, the Company wrote down the carrying value of goodwill by \$13,500, which net of income taxes resulted in a net charge to the Consolidated Statement of Income of \$13,068, or \$1.21 per share. Excluding these non-cash charges, the loss from continuing operations would have been \$348, or \$0.03 per share, in 2008, compared to income of \$8,393, or \$0.77 per share in 2007.

The Company owns properties in Quebec which are surplus to its requirements. Certain of these properties were sold during the year resulting in a gain of \$267. Properties sold in 2007 generated a gain of \$898.

In 2007 the Company disposed of its investment in common shares of Futureway Communications Inc. ("FCI") for cash proceeds of \$688, which resulted in a gain in the same amount. The transaction is more fully described in Note 6 to the Consolidated Financial Statements.

Operating results for 2008 reflect an income tax expense of \$2,246 on a loss before income taxes of \$3,992. In 2008, the Company has recorded a valuation allowance in the amount of \$1,903 against the future tax asset related to U.S. operations. In addition, a future tax benefit of only \$720 was recorded with respect to the \$6,711 write off of goodwill. Similarly in 2007, operating results reflected an income tax expense of \$2,524 on a loss before income taxes of \$2,092 due, primarily, to a future tax benefit of only \$432 being recorded with respect to the \$13,500 write-down of goodwill.

The 2007 income tax provision reflected the benefit of a reduction in future income tax liabilities in the amount of \$1,039 resulting from changes in future income tax rates which were substantively enacted.

Effective October 2, 2007, a 65% owned subsidiary of the Company completed the sale of substantially all of its medical waste business operations and assets. The sale of the remaining portion of this business was completed in 2008 through the sale of the 50% joint venture interest in SharpSmart on April 21, 2008 and the disposal of the remaining interest in certain small quantity generator accounts effective September 1, 2008. These transactions are more fully described in Note 7 to the Consolidated Financial Statements.

Operating results of these components of the business have been classified as discontinued operations and the prior year comparative amounts have been reclassified to conform with the current period financial statement presentation.

The loss from discontinued operations in 2008 included a reduction of \$375 to the principal amount of the promissory note taken back on the sale in 2007 to settle a dispute with the purchaser, a provision of

\$625 with respect to certain other expenditures which are expected to be incurred and a pre-tax gain of \$255 on the sale of the Sharpsmart operations.

In total, the loss from discontinued operations in 2008 amounted to \$355, or \$0.03 per share, compared to net income from discontinued operations of \$8,194, or \$0.75 per share, in 2007. In 2007, the Company recorded a pre-tax gain for accounting purposes of \$15,709 on the sale of the medical waste business operations. After deducting estimated income taxes and the non-controlling interests' 35% share of the net after-tax gain, the Company's share was \$7,942, or \$0.73 per share.

FOURTH QUARTER ENDED DECEMBER 31, 2008

For the fourth quarter ended December 31, 2008, the Company recorded a loss from continuing operations of \$8,716, or \$0.80 per share, on a weighted average 10,937,000 Class A shares and Class B shares outstanding, compared to a loss from continuing operations of \$12,833, or \$1.18 per share, on a weighted average 10,841,000 Class A shares and Class B shares outstanding, for the fourth quarter in 2007.

These losses reflect net goodwill impairment charges, net of income taxes, of \$5,991, or \$0.55 per share, in 2008 and \$13,068, or \$1.21 per share, of 2007.

The loss for 2008 also reflects a valuation allowance of \$1,903 recorded against the future tax asset pertaining to the U.S. operations.

Net sales from continuing operations were \$14,268, a decrease of \$1,740 from net sales of \$16,008 in the fourth quarter of 2007. Sales volumes were lower in both the Masonry Products and Landscape Products business segments. Net sales of the new waste composting operations amounted to \$706 in the fourth quarter of 2008.

The operating loss from continuing operations, before interest and other items, was \$2,071 for the fourth quarter of 2008 compared to operating income of \$22 for the fourth quarter of 2007.

Foreign currency exchange fluctuations resulted in a gain of \$246 for the quarter compared to a gain of \$183 for the corresponding period in 2007.

The sale of property in Quebec resulted in a gain of \$131 in the fourth quarter of 2008 compared to \$645 in 2007.

The sale of the medical waste business operations and assets on October 2, 2007 was reflected in last year's fourth quarter results.

In total, the loss for the quarter was \$8,716, or \$0.80 per share, compared to \$5,048, or \$0.47 per share, in 2007.

More detailed discussion of the results of operations of each business segment follows:

MASONRY PRODUCTS

For the year ended December 31, 2008, net sales were \$59,977 compared to \$60,943 in 2007, representing a decline of \$966, or 1.6%.

Lower clay brick shipments and a small decrease in average net selling prices caused the decrease in net sales. Sales volumes have been affected by the downturn in residential construction activity in both the Canadian and U.S. markets.

Operating income was \$9,353 in 2008 compared to \$15,278 in 2007. The negative impact of a 24% reduction in clay brick production volumes for the year ended December 31, 2008 compared to 2007 was the primary cause of the reduction in operating income. Lower production volumes resulted in a higher proportion of total manufacturing costs being charged against current period operations. Production volumes were lowered in 2008 to reduce inventories in anticipation of lower demand due to current economic conditions. The Company also incurred higher manufacturing costs in 2008 related to testing and initial production of new concrete masonry products.

Higher distribution costs, due to an increase in trucking expenses and higher yard costs, also contributed to the decrease in operating income.

Selling, general and administrative expenses increased over 2007 as a result of expenditures incurred in connection with the introduction of new concrete masonry products, such as stone veneer, window sills and concrete brick.

Net sales for the fourth quarter decreased by \$2,093, or 17.6%, from \$11,872 in 2007 to \$9,779 in 2008 primarily due to lower clay brick shipments.

For the fourth quarter of 2008, the Masonry Products business segment incurred an operating loss of \$901 compared to operating income of \$2,339 in

2007. The reasons for the decline are substantially the same as outlined above for the results for the year.

LANDSCAPE PRODUCTS

Net sales of the Landscape Products business segment were \$20,636 for the year ended December 31, 2008 compared to \$21,409 in 2007. The decline of \$773 was due to lower sales in the U.S. caused by economic factors affecting the Company's U.S. market, primarily Michigan.

Significantly lower production volumes in 2008, to reduce inventories, and higher distribution costs resulted in an increase in cost of goods sold which in turn resulted in a higher operating loss in the current period.

A decrease in selling, general and administrative expenses partially offset the increase in cost of goods sold.

For the year ended December 31, 2008, the Landscape Products business segment incurred an operating loss of \$5,271 compared to \$4,249 in 2007.

Net sales for the fourth quarter of 2008 were \$3,783 compared to \$4,136 for the corresponding period in 2007 and the operating loss for the quarter was \$965 compared to \$2,194 in 2007.

Sales declined in both the Canadian and U.S. markets in the fourth quarter of 2008. Operating results for the quarter improved over the comparable prior year period due, in part, to improved production scheduling and other efficiencies which reduced manufacturing expenses. Almost all of the reduction in production volumes in this business segment occurred during the first three quarters of the year. Lower distribution costs and lower selling, general and administrative expenses also contributed to the improvement for the quarter.

OTHER OPERATIONS

Other operations include, among other things, the Company's 50% joint venture interest in Universal. This investment is accounted for using the proportionate consolidation method.

For the period of operation to December 31, 2008 the Company's proportionate share of net sales were \$863 and the share of the operating loss was \$666.

This operation had no sales in 2007. The Company's proportionate share of the loss incurred in 2007 totaled \$386.

DISCONTINUED OPERATIONS

Discontinued operations represents the Company's former medical waste business operations previously operated by a 65% owned subsidiary, substantially all of which were sold on October 2, 2007. This subsidiary's 50% joint venture interest in Sharpsmart was sold on April 21, 2008 and its remaining interest in certain small quantity generator accounts was disposed of effective September 1, 2008.

Net sales of discontinued operations to the date of sale in 2008 were \$632 compared to \$9,866 for the year ended December 31, 2007. The operating loss for the period of operations in 2008 was \$119 compared to operating income of \$534 for the year in 2007.

The sale of the medical waste business operations and assets in 2007 resulted in a pre-tax gain of \$15,709. After deducting estimated income taxes of \$3,490 and the 35% non-controlling interest in the after tax gain, the contribution to consolidated net income was \$7,942, or \$0.73 per share.

The loss from discontinued operations in 2008 includes a reduction of \$375 in the principal amount of the promissory note taken back on the sale of the medical waste business operations and assets in October 2007 to settle a dispute with the purchaser in such transaction and a provision of \$625 with respect to certain other expenditures which are expected to be incurred. These adjustments resulted in a net charge of approximately \$473, or \$0.04 per share, after deducting income taxes and the 35% non-controlling interest therein. As part of the settlement, the interest in certain small quantity generator accounts which had been retained as part of the sale of the interest in Sharpsmart were also transferred to the purchaser.

This matter is more fully described in Note 7 to the Consolidated Financial Statements.

CASH FLOWS

Cash flow provided by operating activities of continuing operations totaled \$15,823 for the year ended December 31, 2008, an increase of \$2,185 from

cash flow of \$13,638 provided for the year ended December 31, 2007. Cash from operations prior to working capital changes was down \$9,216, reflecting lower operating income in 2008 compared to 2007. A reduction in working capital items, including inventories (\$4,547), accounts receivable (\$1,743) and income taxes (\$1,173) generated additional cash from operations in 2008 totaling \$7,340, compared to an overall use of cash in 2007 of \$4,954 to build working capital.

Cash utilized for purchases of property, plant and equipment totaled \$48,266 in 2008 compared to \$21,144 in 2007. Expenditures in 2008 included \$34,521 pertaining to the Company's new clay brick plant under construction in Indiana compared to \$15,748 in 2007. Expenditures in 2008 also included an amount of \$9,341, being the Company's 50% share of expenditures incurred by Universal to construct its waste composting facility. In 2007, this amount was \$748.

Other deferred costs incurred in 2008 included approximately \$1,832 in connection with pre-operating costs for the Indiana clay brick plant during construction and in the testing and commissioning phase and \$691 in relation to the Company's proposed new quarry site in Brampton.

Proceeds of \$2,958 from the first instalment on the promissory note taken back on the sale of medical waste business operations and assets were received in October 2008.

Proceeds from the sale of land held for sale totaled \$428 compared to \$1,304 in the prior year. In 2007, proceeds from the disposal of equipment totaled \$652 including the disposal of equipment in connection with the outsourcing of the clay brick quarry operations in Brampton. Proceeds from the sale of the investment in FCI in 2007 were \$688.

During 2008, discontinued operations repaid advances totaling \$715 to the parent company compared to \$1,099 in 2007.

Term bank loans increased by \$24,500. Of this amount, \$17,000 represented financing of a portion of the costs of construction of the Indiana clay brick plant and \$7,500 represented the Company's proportionate share of the term bank loan incurred by Universal for the construction of its waste composting facility.

Debt repayments, including the promissory note and other term loans, totaled \$4,451 in 2008 compared to \$4,580 in 2007.

A portion of the cash proceeds received from the sale of the medical waste business operations and assets, including the promissory note instalment received in the fourth quarter of 2008, was distributed by way of a cash dividend. The non-controlling interests' share of these distributions totaled \$1,750 in 2008 and \$350 in 2007.

Cash dividends of \$0.10 per Class A share and \$0.10 per Class B share were paid to shareholders on June 30 and December 31 in both 2008 and 2007.

In 2008, the Company purchased and cancelled 37,800 Class A shares for aggregate consideration of \$365 under a Normal Course Issuer Bid. In 2007, 1,300 Class A shares were purchased and cancelled for aggregate consideration of \$14.

Net cash provided by discontinued operations in 2007 included \$9,832 cash proceeds on closing, less a \$1,835 term loan repayment, advance repayments of \$1,099 and other cash outflows of \$465.

FINANCIAL CONDITION

The nature of the Company's products and primary markets dictates that its Masonry Products and Landscape Products business segments are seasonal. The Landscape Products business is affected to a greater degree than the Masonry Products business. As a result of this seasonality, bank operating advances are generally expected to increase through the first half of the year and decline through the second half of the year.

As at December 31, 2008, bank operating advances were \$2,581. This represented an increase of \$1,931 from the amount outstanding at December 31, 2007. Accounts payable and accrued liabilities totaled \$14,478 at December 31, 2008 compared to \$14,000 at December 31, 2007, including amounts related to capital expenditures of approximately \$4,495 and \$4,102, respectively.

Working capital at December 31, 2008 was \$4,715, including cash and cash equivalents totaling \$2,088, representing a working capital ratio of 1.18:1. Comparable figures for working capital and the working capital ratio at December 31, 2007 were

\$25,424, including cash and cash equivalents of \$13,860, and 1.96:1, respectively. The ratio of total liabilities to shareholders' equity at December 31, 2008 was 0.46:1 compared to 0.28:1 at December 31, 2007.

At December 31, 2008 the Company had operating credit facilities totaling up to \$17,450, of which \$3,209 had been utilized, including \$628 for outstanding letters of credit, and a term loan facility of \$50,000, of which \$17,000 had been utilized.

Due to the anticipated decline in construction activity affecting the Company's primary business segments and the costs to be incurred with respect to the start-up of the Indiana clay brick plant, operating results in 2009 are expected to be negatively impacted, accordingly.

As at December 31, 2008 and throughout the year, the Company was in compliance with the financial covenants under its credit facilities. However, based on the current economic environment, the Company recognized that it would be unable to comply with the existing covenants throughout the fiscal year 2009 and is currently in discussions with its lender to amend the financial covenants to levels which are appropriate under the current economic circumstances. In the event the Company is unable to come to a satisfactory arrangement with the bank, the term loan, which is classified as a long-term obligation, would be subject to demand. The Company expects that it will be able to conclude on favourable arrangements that will allow it to maintain compliance with the proposed amended financial covenants throughout the coming year.

During the course of these discussions the lender has indicated that it will seek a reduction in the maximum availability under both the term loan and operating loan facilities. The Company may incur additional costs, higher interest rates or be subject to different terms as a result of the renegotiation of its credit facilities.

Total capital expenditures to be incurred in connection with the construction of a new brick plant in Indiana are estimated at approximately U.S. \$53,000. A total of U.S. \$46,125 had been expended to December 31, 2008. The balance is expected to be funded from future cash flows from operations and the unutilized portion of the Company's credit facilities.

During the second quarter of 2008, Universal finalized credit arrangements in an aggregate amount of \$20,000, including term, operating and letter of credit facilities, to fund its capital expenditure and operating requirements. As at December 31, 2008, Universal had drawn the entire amount of the \$15,000 term loan facility and letters of credit in the amount of \$1,123 had been issued. There were no borrowings outstanding under the operating facility. The Company's proportionate shares were \$7,500 and \$562, respectively. The Company and the joint venture partner have each provided a guarantee of \$6,500 as security for Universal's borrowing under this credit agreement.

As at December 31, 2008 and throughout the year Universal was in compliance with the financial covenants under its credit agreement and is expected to maintain compliance throughout the coming year.

Universal anticipates that it will require approximately \$3,200 in 2009 to fund capital expenditures incurred to December 31, 2008 and additional expenditures in 2009 to complete the construction. This amount is expected to be funded by Universal from cash on hand, future cash flows from operations and the unutilized balance of its operating credit facility.

The Company holds an interest rate swap contract to fix the rate of interest on an aggregate of \$20,000 of current and anticipated future borrowings. The contract commenced in January 2008 with a notional principal amount of \$3,000, increasing at various intervals and amounts to a total of \$20,000 by September 2008. The notional principal amount reduces by \$3,000 per year from December 2010 to December 2013 and by \$8,000 in December 2014. The fixed rate of interest under the swap contract is 5.16%. The total cost of borrowing includes the Company's credit spread, which may vary based on the ratio of Net Funded Debt to EBITDA, as those terms are defined under the Company's credit agreement. Currently the credit spread is 1.75%. The contract has been designated as an effective cash flow hedge and is more fully described in Note 13 to the Consolidated Financial Statements.

A summary of the Company's contractual obligations over the next five years and thereafter, determined as at December 31, 2008, is as follows:

	2009	2010 - 2011	2012 - 2013	Thereafter	Total
Long-term debt ⁽¹⁾	\$ 3,802	\$ 2,049	\$ 19,113	\$ 3,439	\$ 28,403
Capital lease obligations ⁽²⁾	\$ 390	\$ 624	\$ 425	\$ -	\$ 1,439
Operating leases	\$ 339	\$ 402	\$ 182	\$ -	\$ 923
Purchase obligations ⁽³⁾	\$ 9,998	\$ -	\$ -	\$ -	\$ 9,998
Other long-term obligations ⁽⁴⁾	\$ 272	\$ -	\$ -	\$ 722	\$ 994
Total	\$ 14,801	\$ 3,075	\$ 19,720	\$ 4,161	\$ 41,757

- (1) Long-term debt reflecting the aggregate amount of future payments including interest includes all debt items listed in Note 14 to the Consolidated Financial Statements, except capital lease obligations.
- (2) Capital lease obligations disclosed above reflect the aggregate amount of future payments including interest.
- (3) Purchase obligations include natural gas supply and transportation contracts totaling \$4,305 and capital expenditure commitments of \$5,693, including \$5,031 relating to the construction of the Indiana clay brick plant and \$461 relating to the purchase of equipment by Universal for its waste composting facility.
- (4) Other long-term obligations represent the undiscounted estimated future costs for the asset retirement obligation with respect to the shale quarry.

SELECTED ANNUAL FINANCIAL INFORMATION

The following is a summary of selected annual financial information of the Company for each of the three most recently completed financial years:

	2006	2007	2008
Net sales from continuing operations	\$ 93,986	\$ 82,352	\$ 81,476
Total assets	\$ 185,403	\$ 181,240	\$ 194,142
Total long-term financial liabilities	\$ 8,107	\$ 3,744	\$ 25,521
Cash dividends declared per share	\$ 0.20	\$ 0.20	\$ 0.20
CONTINUING OPERATIONS			
Net income (loss)	\$ 13,572	\$ (4,675)	\$ (6,339)
Net income (loss) per share			
Basic	\$ 1.25	\$ (0.43)	\$ (0.58)
Diluted	\$ 1.24	\$ (0.43)	\$ (0.58)
TOTAL			
Net income (loss)	\$ 13,971	\$ 3,519	\$ (6,694)
Net income (loss) per share			
Basic	\$ 1.29	\$ 0.32	\$ (0.61)
Diluted	\$ 1.28	\$ 0.32	\$ (0.61)

The comparative amounts for 2006 and 2007 have been reclassified to conform with the current year financial statement presentation.

The major factors which affect the comparability of the above data are as follows:

NET SALES

- (1) Net sales decreased from 2006 to 2007 and from 2007 to 2008 as a result of lower sales volumes in the Masonry Products and Landscape Products business segments. Net sales of the waste composting operations in 2008 were \$863 (2007 and 2006 – Nil).

TOTAL ASSETS

- (1) The net decrease in total assets from 2006 to 2007 was the result of the write-down of goodwill and the disposal of the medical waste assets which were offset, in part, by capital expenditures, including amounts pertaining to the Indiana clay brick plant, and the proceeds from the sale of the medical waste assets, including the promissory note taken back.
- (2) The net increase in total assets from 2007 to 2008 was the result of capital expenditures pertaining to the Indiana clay brick plant and Universal's waste composting facility which were partially offset by the write-off of goodwill.

TOTAL LONG-TERM FINANCIAL LIABILITIES

- (1) In 2007, total long-term financial liabilities decreased as a result of the disposal of the medical waste business and a \$4,000 payment on the promissory note.
- (2) The increase in 2008 resulted primarily from a term loan of \$17,000 to finance the construction of the new clay brick plant in Indiana and \$7,500 for the Company's proportionate share of financing provided to Universal less a \$4,000 payment on the promissory note.

CASH DIVIDENDS DECLARED PER SHARE

- (1) Cash dividends of \$0.10 per Class A share and \$0.10 per Class B share were paid on June 30 and December 31 for each year.

NET INCOME (LOSS) AND NET INCOME (LOSS) PER SHARE

- (1) The results for 2006 reflect lower shipments in both the former clay brick and concrete products business segments, the write-off of the excess cost of \$484 paid on the acquisition of the 20% non-controlling interest in Roxy in connection with the outsourcing of the Company's trucking operations, the reduction in equity income as a result of the sale of the Company's 38.2% investment in Richvale, all of which were partially offset by the gain of \$462 recorded on the sale of the investment in Richvale and the reduction in future income tax liabilities.
- (2) The gain on sale of medical waste operations and assets amounting to \$7,942, net of income taxes and non-controlling interests, and the goodwill impairment charge amounting to \$13,068, net of taxes, are reflected in the results for 2007. Lower sales volumes in both the Masonry Products and Landscape Products business segments negatively impacted operating results for the year.
- (3) The increase in loss in 2008 compared to 2007 was a result of the goodwill impairment charge of \$5,991, net of taxes, lower sales volumes and a decrease in production volumes to more closely align inventories to anticipated demand which resulted in an increase in unabsorbed manufacturing expenses charged against operations.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following is a summary of selected quarterly financial information for each of the eight most recently completed quarters:

2008

CONTINUING OPERATIONS	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
Net sales	\$ 9,986	\$ 29,795	\$ 27,427	\$ 14,268	\$ 81,476
Net income (loss)	\$ (4,040)	\$ 3,607	\$ 2,810	\$ (8,716)	\$ (6,339)
Net income (loss) per share					
Basic	\$ (0.37)	\$ 0.33	\$ 0.26	\$ (0.80)	\$ (0.58)
Diluted	\$ (0.37)	\$ 0.33	\$ 0.26	\$ (0.80)	\$ (0.58)
TOTAL	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
Net income (loss)	\$ (4,077)	\$ 3,248	\$ 2,851	\$ (8,716)	\$ (6,694)
Net income (loss) per share					
Basic	\$ (0.37)	\$ 0.30	\$ 0.26	\$ (0.80)	\$ (0.61)
Diluted	\$ (0.37)	\$ 0.30	\$ 0.26	\$ (0.80)	\$ (0.61)

2007

CONTINUING OPERATIONS	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
Net sales	\$ 10,817	\$ 29,250	\$ 26,277	\$ 16,008	\$ 82,352
Net income (loss)	\$ (2,624)	\$ 6,269	\$ 4,513	\$ (12,833)	\$ (4,675)
Net income (loss) per share					
Basic	\$ (0.24)	\$ 0.58	\$ 0.42	\$ (1.18)	\$ (0.43)
Diluted	\$ (0.24)	\$ 0.58	\$ 0.41	\$ (1.18)	\$ (0.43)
TOTAL	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
Net income (loss)	\$ (2,542)	\$ 6,512	\$ 4,597	\$ (5,048)	\$ 3,519
Net income (loss) per share					
Basic	\$ (0.23)	\$ 0.60	\$ 0.42	\$ (0.47)	\$ 0.32
Diluted	\$ (0.23)	\$ 0.60	\$ 0.42	\$ (0.47)	\$ 0.32

Comparative amounts for 2007 have been reclassified to conform with the current year financial statement presentation.

Basic net income (loss) per share by quarter may not add to the total for the year due to changes in the weighted average number of shares outstanding during the year or rounding. Diluted net income (loss) per share may not add due to rounding and changes in the number of dilutive shares for each period based on the average market price for the period.

The Company's Masonry Products and Landscape Products business segments which, combined, accounted for approximately 98.9% (2007 – 100.0%) of net sales from continuing operations, are seasonal. Historically, sales in these business segments are greater in the second and third quarters of each year than in the first and fourth quarters. Consequently, net sales, net income and net income per share reported each quarter reflect these seasonal fluctuations.

Major factors which affect the comparability of the quarterly results are as follows:

FIRST QUARTER

Results for the first quarter ended March 31, 2008 were negatively affected by lower sales volumes in the Masonry Products business segment, an increase in unabsorbed manufacturing expenses as a result of lower production volumes and higher distribution, selling, general and administrative expenses.

SECOND QUARTER

Net income from continuing operations for the second quarter of 2008 compared to the second quarter of 2007 was impacted by lower production volumes, increased distribution costs and selling expenses and a valuation allowance recorded in respect of the income tax benefit on losses incurred in the Company's U.S. operations.

The loss from discontinued operations for the second quarter of 2008 included a \$375 reduction in the principal amount of the promissory note taken back on the sale of the medical waste business in October 2007 and a \$625 provision for other anticipated costs. These adjustments resulted in a net charge of approximately \$473, after deducting income taxes and the 35% non-controlling interest therein.

THIRD QUARTER

For the third quarter of 2008 net income from continuing operations was impacted primarily by lower production volumes and increased distribution costs.

FOURTH QUARTER

Net sales for 2008 declined due to lower sales volumes in both the Masonry Products and Landscape Products business segments, offset, in part, by net sales generated by the new waste composting business. The loss from continuing operations for the fourth quarter of 2008 included the write-off of goodwill in the amount of \$5,991, net of the income tax recovery of \$720, and an additional valuation allowance of \$1,903 against the future tax asset related to U.S. operations. Excluding these items, the loss from continuing operations would have been \$822, or \$0.08 per share.

The loss for the fourth quarter in 2007 included the goodwill impairment charge of \$13,068, net of the income tax recovery of \$432. This charge was partially offset by a reduction of future income tax liabilities in the amount of \$1,039 resulting from changes in future income tax rates which were substantively enacted. Excluding these items, the loss from continuing operations should have been \$804, or \$0.08 per share. Net income for the quarter included a gain of \$7,942, net of income taxes and after deducting the non-controlling interest therein, on the sale of the medical business operations and waste assets.

CRITICAL ACCOUNTING ESTIMATES

LONG-LIVED ASSETS

As at December 31, 2008 the Company conducted an impairment test, based on undiscounted estimated future cash flows, of the carrying value of certain long-lived assets as required under Canadian generally accepted accounting principles and determined that there had been no impairment in property, plant and equipment or other long-lived assets at each of its major locations.

GOODWILL

Goodwill reflected in the Consolidated Balance Sheets represents the excess of the purchase price over the fair value of the identifiable assets acquired.

As at December 31, 2008 the Company conducted an annual impairment test of the carrying value of goodwill as required under Canadian generally accepted accounting principles. The test determined that the carrying amount of goodwill exceeded its fair value. Consequently, a non-cash charge of \$6,711 was recorded to write off the remaining carrying amount of goodwill.

Operating results of the Landscape Products operating segment, to which the goodwill relates, declined in 2008 compared to 2007. The outlook for economic conditions in 2009 remains uncertain, and the Company's cash flow forecasts for these operations have been adjusted accordingly.

The estimated fair value of the net assets, including goodwill, was determined by calculating the present value of estimated future cash flows which requires the Company to make various

assumptions regarding, among other things, future sales volumes, selling prices, costs of manufacturing and operations including raw materials, labour, overhead, selling, general and administrative expenses and capital expenditures, as well as estimated future growth rates and the discount rate utilized to calculate the present value. Changes in these assumptions may have a material impact on the determination of fair value.

ASSET RETIREMENT OBLIGATION

As a condition of its license to mine shale from its quarry in Cheltenham, Ontario, the Company is obligated to rehabilitate the property. Generally, rehabilitation work is to commence on each depleted phase prior to commencing shale extraction in the subsequent phase. The Company has recorded a liability and corresponding asset for the fair value of the legal obligations for these rehabilitation costs. Implicit in these amounts are estimates of the future costs, which may change subject to changes in laws and regulations, the estimated timing of the expenditure and changes in the estimated discount rate. These estimates are reviewed annually. All significant estimates are disclosed in Note 1 to the Consolidated Financial Statements.

INCOME TAXES

The current and future income tax assets and liabilities are recorded based on interpretation of tax legislation and assumptions about the realization and timing of future benefits and costs. Changes in rates of taxation, changes in the estimated timing or realization of reversals and differences in interpretation by tax authorities could result in higher or lower income tax provisions. The effect of changes in future tax rates, as substantively enacted in 2007, were recorded as at December 31, 2007 totaling \$1,039.

As a result of the continuing losses in the U.S. operations, management recorded an additional valuation allowance of approximately \$1,903 in 2008 against the future income tax benefit that had previously been recorded with respect to the tax losses carried forward. In 2007, a valuation allowance of approximately of \$2,022 had been recorded.

RISKS AND UNCERTAINTIES

The Masonry Products business is cyclical in that it fluctuates in accordance with the level of new residential and commercial construction within the Company's primary market areas. Sales of new homes are influenced by many factors, including general economic conditions, interest rates and the availability of serviced land in urban areas, with the level of interest rates historically considered to be one of the most significant. This business segment is also seasonal. Sales are greatest in the second and third quarters of each year and less in the first and fourth quarters.

The principal raw material in the manufacture of clay bricks is clay. The Company owns its own quarry which it believes contains sufficient reserves to supply its requirements for its manufacturing plant in Brampton in excess of 25 years. In 2006, the Company acquired an additional 86 acre property in Brampton, Ontario which it believes has the potential to be developed as a future quarry site.

Major production costs include natural gas, labour, electricity and depreciation of plant and equipment. The Company's estimated natural gas requirements for 2009, excluding its requirements for the new clay brick plant in Indiana, have been secured under contracts, approximately 20% of which are at fixed prices as at December 31, 2008.

From time to time the Company may enter into swap contracts to fix the price of its electricity requirements. No such contracts were in effect as at December 31, 2008. The Company may enter into such contracts in the future if it deems it appropriate to do so.

The Masonry Products business requires significant capital investment in property, plant and equipment. In addition, due to the nature of the operation of its kilns, the clay brick business can be characterized as a relatively high fixed cost business. Consequently, large fluctuations in production levels may have a material impact on per unit manufacturing costs and gross margins.

The Landscape Products business is cyclical in that it fluctuates in accordance with the level of industrial, commercial and institutional construction and consumer spending. This business segment is highly seasonal.

The principal raw materials utilized in the manufacture of concrete paving stone and retaining wall products are cement, aggregates (including sand and stone of various sizes) and pigments. The majority of the cement and aggregate requirements are purchased under long-term supply contracts. However, there are no minimum purchase requirements under these contracts. Prices are negotiated annually and the Company retains the right to solicit tenders from alternative suppliers. Pigments are usually purchased under blanket purchase orders covering estimated annual usage.

The Landscape Products business also requires significant capital investment in property, plant and equipment. Consequently, large fluctuations in production levels may have a material impact on per unit manufacturing costs and gross margins.

The Company has exposure to exchange rate fluctuations as a result of its net investment in U.S. businesses and from holding monetary assets and liabilities denominated in foreign currencies.

The U.S. operations are considered integrated foreign operations; consequently, gains or losses on translation of the Company's net monetary assets in U.S. subsidiaries are included in income. A strengthening in the value of the U.S. dollar against the Canadian dollar results in higher net sales and earnings when translated into Canadian dollars.

Exchange fluctuations affecting monetary assets and liabilities denominated in foreign currencies are recorded against operations.

Currently, approximately 9.0% of the Company's sales are made in the U.S. or through exports to the U.S. This percentage is expected to grow once the Indiana clay brick plant commences operation.

Foreign currency forward purchase contracts are occasionally utilized to manage the foreign currency exchange exposure resulting from significant, anticipated future cash inflows and/or outflows denominated in a foreign currency. There were no such contracts outstanding at December 31, 2008.

Interest rate swap agreements are occasionally utilized to reduce interest rate risk arising from fluctuations in interest rates and to manage the fixed and floating interest rate mix of the Company's total debt portfolio and the related overall cost of

borrowing. As at December 31, 2008, the Company holds an interest rate swap agreement, to fix the rate of interest on an aggregate of \$20,000 of outstanding and anticipated future borrowings. The transaction is described in more detail in Note 13 to the Consolidated Financial Statements.

In February 2006 the Company entered into a transportation contract with a third party to outsource shale transportation from the quarry to the Brampton clay brick plant and delivery of finished products from all its plants in Ontario which, prior to that date, were carried on by a subsidiary.

The Company has not experienced any disruption in deliveries of either shale or finished products as a result of the outsourcing arrangement and does not anticipate any disruption in its future transportation requirements.

Due to the nature of the Company's masonry and landscape products manufacturing operations, environmental laws and regulations have not had, and are not expected to have, a significant impact on such operations.

The Company is subject to ongoing monitoring and testing and must remain in compliance as a condition of retaining its Certificates of Approval to operate. In an effort to ensure environmental compliance, the Company conducts ongoing reviews of its operations, including testing and measurement, by its own staff and on a selective basis by external environmental consultants. The Company does not anticipate any material costs, or any significant impact on its operations, to remain in compliance with environmental regulations. To the date of this MD&A there are no pending environmental audit assessments.

The operations of Universal are not generally expected to be significantly influenced by seasonal or cyclical factors.

The primary inputs for the waste composting operations are source-separated organics ("SSO") material, primarily organic kitchen waste, and wood. SSO material is currently secured under contract with two municipalities in the Greater Toronto Area.

The primary source of wood is construction and demolition ("C&D") material. Receipt of C&D material is not normally subject to contract and is

generally expected to fluctuate with the overall level of construction and demolition activity in the area.

Universal's business is subject to various risks associated with the waste composting and material recycling industry, primarily with respect to environmental matters. Virtually all aspects of the operation of this business segment are subject to environmental protection regulations.

OTHER

Construction of the Company's new clay brick manufacturing plant in Indiana, which commenced in 2007 and was originally anticipated to be completed in the fourth quarter of 2008, has been delayed and is now expected to be completed in the first quarter of 2009.

Construction of Universal's waste composting facility in Welland, Ontario has been substantially completed and operations commenced in October 2008. Universal has identified and is addressing various issues which arose during the commissioning of the equipment and in the start-up phase of this new operation.

As a result, the plant has not operated at capacity to date. Full operation is expected to be achieved in the third quarter of 2009.

Information with respect to transactions with related parties is disclosed in Note 23 to the Consolidated Financial Statements.

The aggregate number of issued and outstanding Class A shares and Class B shares as at December 31, 2008 is disclosed in Note 15 to the Consolidated Financial Statements. In 2008, the Company purchased and cancelled 37,800 Class A shares under a Normal Course Issuer Bid and 120,500 Class A shares were issued upon stock options being exercised. There were no further changes to share capital to the date of this MD&A.

Pursuant to National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", the Company's certifying officers have evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2008 and have concluded that such disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the

Company, including its consolidated subsidiaries, is made known to the Company's certifying officers on a timely basis.

The Company's certifying officers have assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2008 based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, the Company's certifying officers have concluded that as at December 31, 2008, the Company's internal control over financial reporting was effective.

There have been no changes in the Company's internal control over financial reporting that occurred during the period ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Under Bill 174 Ontario's corporate income tax and minimum tax will be administered by the Canada Revenue Agency ("CRA") starting with taxation years ending after December 31, 2008. Each entity will file a single combined tax return, and may benefit from a streamlined tax system that includes a harmonized corporate income tax base. Under the transitional provisions, over a five year period, the Company will have a tax liability or receive tax relief that accounts for the difference between the Federal and Ontario tax attribute balances. The Company is presently evaluating the impact of these provisions on its consolidated financial statements.

Effective January 1, 2008, the Company adopted the accounting standards of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031, *Inventories*, Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation* (which replaces Section 3861, *Financial Instruments – Disclosures and Presentation*). The impacts of these standards have been more fully described in Notes 2 and 4 to the Consolidated Financial Statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

The following are the new accounting standards the Company will be required to adopt in future years.

GOODWILL AND INTANGIBLE ASSETS

Effective January 1, 2009, the company will adopt the new CICA Handbook Section 3064, *Goodwill and Intangible Assets* which replaces CICA Handbook Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development*. The Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets are equivalent to the corresponding provisions of International Financial Reporting Standards, IAS 38, *Intangible Assets*. CICA Handbook Section 1000, *Financial Statement Concepts* is amended to clarify criteria for recognition of an asset while the Emerging Issues Committee Abstract (EIC), EIC 27 *Revenues and Expenditures During the Pre-operating period* is no longer applicable for entities that have adopted CICA 3064. The CICA Handbook Accounting Guideline (AcG) 11 *Enterprises in the Development Stage* is also amended to delete references to deferred costs and to provide guidance on development costs as intangible assets under CICA 3064.

Operating costs pertaining to the pre-production period of the Indiana plant amounted to \$1,832 to December 31, 2008 and are included in Other assets. Similarly, the Company's share of the unamortized balance of start-up costs related to Universal totaled \$179 as at December 31, 2008 and are also included in Other assets.

Effective with the adoption of the new CICA guidelines on January 1, 2009, the balance of the deferred pre-operating costs will be adjusted to opening retained earnings and this change will be applied retroactively. Any such costs to be incurred in 2009 and future years will be charged to operations as incurred.

BUSINESS COMBINATIONS

Effective January 1, 2011, the Company will adopt the new accounting standards of the CICA Handbook Section 1582, *Business Combinations*, Section 1601,

Consolidated Financial Statements and Section 1602, *Non-Controlling Interests*. These sections replace the former Section 1581, *Business Combinations* and Section 1600, *Consolidated Financial Statements* and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to IFRS 3, *Business Combinations* (January 2008) and IAS 27, *Consolidated and Separate Financial Statements* (January 2008). CICA 1582 is effective for business combinations for which the acquisition date is on/after the beginning of the first annual reporting period beginning on/after January 1, 2011. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

The Company is evaluating these standards and has not fully assessed their impact on its consolidated financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards (IFRS) will be required effective January 1, 2011 for publicly accountable profit-oriented enterprises. IFRS will require increased financial statement disclosure. Although IFRS uses a conceptual framework similar to Canadian GAAP, differences in accounting policies will need to be addressed. The Company is currently assessing the impact that IFRS will have on its consolidated financial statements.

The Company has conducted a diagnostic analysis to identify the potential differences between IFRS and Canadian GAAP as they relate to the company and its subsidiaries including;

- i) an assessment of the potential financial statement impact and level of implementation effort;
- ii) assessment of the IFRS 1 exemptions available;
- iii) high level identification of system and process change requirements; and
- iv) identification of high level financial statement disclosure differences.

Commencing in the second quarter of 2009 the Company will undertake more detailed analysis and development of its implementation plan and timetable.

Additional information about the Company, including the Company's Annual Report for the year ended December 31, 2007 and Annual Information Form for the year ended December 31, 2008 may be found on SEDAR at www.sedar.com. The Company's Annual Report for the year ended December 31, 2008 and the Management Information Circular to be issued in connection with the Annual General Meeting of Shareholders to be held on May 13, 2009 will later be found on SEDAR at www.sedar.com.

OUTLOOK FOR 2009

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 and commercial construction. Demand for landscape products fluctuates in accordance with the level of industrial, commercial and institutional construction as well as consumer spending.

Current economic conditions are expected to result in lower overall level of construction activity and reduced consumer spending in 2009 and the Company anticipates that demand for its products will be impacted accordingly. Consequently, production plans, manpower requirements and discretionary spending have been significantly reduced in order to minimize the impact on operating results and cash flows.

Operating plans will continue to be evaluated in light of economic conditions as these business segments move into the historical seasonal upswing in the second quarter of the year and will be further adjusted as circumstances dictate. This may include temporary plant shutdowns and further reductions in manpower.

As noted under Financial Condition, the Company is currently in discussions with its lender to amend the financial covenants under its credit agreement to levels which are appropriate under current economic circumstances. The Company expects that it will be able to conclude on favourable

arrangements that will allow it to maintain compliance with the proposed amended financial covenants.

The waste composting operations of Universal are not expected to be affected to the same degree. However, lower construction activity may result in lower receipts of construction and demolition material which serves as a source of wood for its waste composting operations.

Certain statements contained herein constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors including, but not limited to, those identified under "Risks and Uncertainties", which may cause the 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.

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	December 31, 2008	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents (note 9)	\$ 2,088	\$ 13,860
Accounts receivable (note 4(a))	5,691	7,433
Inventories (note 1)	18,062	22,609
Income taxes recoverable	10	2,919
Future income taxes (note 18)	40	85
Other current assets	988	988
Promissory note receivable, current (notes 4(a) and 7)	3,358	3,382
Assets of discontinued operations held for sale (note 7)	-	538
	30,237	51,814
Property, plant and equipment, at cost (note 10)	193,466	175,478
Construction in progress (note 10)	49,149	14,851
Less: Accumulated amortization	(86,308)	(77,722)
	156,307	112,607
Other assets		
Goodwill (note 11)	-	6,711
Promissory note receivable, long-term (notes 4(a) and 7)	3,244	6,449
Property held for sale (note 8)	1,047	1,208
Future income taxes (note 18)	605	1,270
Other	2,702	264
Assets of discontinued operations held for sale (note 7)	-	917
	7,598	16,819
	\$ 194,142	\$ 181,240
LIABILITIES		
Current liabilities		
Bank operating advances (notes 4(b) and 12)	\$ 2,581	\$ 650
Accounts payable and accrued liabilities	14,478	14,000
Income taxes payable	2,517	4,253
Long-term debt, current portion (notes 4(b), 12 and 14)	4,137	4,684
Derivative financial instruments, current (note 13)	834	1,606
Asset retirement obligation (note 1)	245	375
Liabilities related to discontinued operations (note 7)	730	822
	25,522	26,390
Long-term debt, less current portion (notes 4(b), 12 and 14)	25,521	3,744
Derivative financial instruments, non-current (note 13)	2,267	809
Future income taxes (note 18)	6,552	7,513
Asset retirement obligation (note 1)	496	673
Liabilities of discontinued operations held for sale (note 7)	-	14
	60,358	39,143
Non-controlling interests	2,526	4,366
SHAREHOLDERS' EQUITY		
Capital stock (note 15)	33,689	33,205
Contributed surplus (note 16)	1,173	944
Retained earnings	102,489	111,587
Accumulated other comprehensive loss	(6,093)	(8,005)
	131,258	137,731
	\$ 194,142	\$ 181,240

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

Approved by the Board of Directors

/s/ Jeffrey G. Kerbel
Jeffrey G. Kerbel,
Director

/s/ John M. Piecuch
John M. Piecuch,
Director

CONSOLIDATED STATEMENTS OF NET INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 (IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	2008	2007
Net sales from continuing operations	\$ 81,476	\$ 82,352
Cost of goods sold	55,787	50,706
Selling, general and administrative expenses	13,446	12,480
Amortization	8,830	8,523
	78,063	71,709
Operating income from continuing operations before the undernoted items	3,413	10,643
Other income (expense)		
Interest on long-term debt	(1,322)	(738)
Interest income (net)	415	558
Foreign currency exchange loss	(128)	(1,515)
Foreign currency exchange gain on cash flow hedges (note 13)	5	209
Other income	69	665
	(961)	(821)
Income from continuing operations before the following items	2,452	9,822
Goodwill impairment (note 11)	(6,711)	(13,500)
Gain on sale of property held for sale (note 8)	267	898
Gain on sale of investment in Futureway Communications Inc. (note 6)	–	688
Loss from continuing operations before income taxes and non-controlling interests	(3,992)	(2,092)
Provision for income taxes (note 18)		
Current	(1,871)	(905)
Future	(375)	(1,619)
	(2,246)	(2,524)
Loss from continuing operations before non-controlling interests	(6,238)	(4,616)
Non-controlling interests	(101)	(59)
Loss from continuing operations	(6,339)	(4,675)
Net income (loss) from discontinued operations (note 7)	(355)	8,194
Net income (loss) for the year	\$ (6,694)	\$ 3,519
Net income (loss) per Class A and Class B share (note 17)		
Basic Loss from continuing operations	\$ (0.58)	\$ (0.43)
Net income (loss) for the year	\$ (0.61)	\$ 0.32
Diluted Loss from continuing operations	\$ (0.58)	\$ (0.43)
Net income (loss) for the year	\$ (0.61)	\$ 0.32

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	2008	2007
Cash provided by (used for) activities of continuing operations		
Operating activities		
Loss from continuing operations for the year	\$ (6,339)	\$ (4,675)
Items not affecting cash and cash equivalents		
Amortization and accretion	8,879	8,569
Future income taxes	375	1,619
Non-controlling interests	101	59
Unrealized foreign currency exchange (gain) loss	(313)	1,364
Gain on sale of property held for sale	(267)	(898)
Gain on sale of property, plant and equipment	-	(492)
Goodwill impairment	6,711	13,500
Gain on sale of investment in Futureway Communications Inc.	-	(688)
Other	229	234
	9,376	18,592
Changes in non-cash operating items		
Accounts receivable	1,743	3,190
Inventories	4,547	(4,365)
Accounts payable and accrued liabilities	86	(739)
Income taxes payable (net)	1,173	(3,155)
Other	(209)	115
	7,340	(4,954)
Payments of asset retirement obligation	(893)	-
Cash provided by operating activities of continuing operations	15,823	13,638
Investing activities		
Purchase of property, plant and equipment	(48,266)	(21,144)
Other deferred costs	(2,523)	(62)
Proceeds from promissory note	2,958	-
Proceeds from disposal of property, plant and equipment	13	652
Proceeds from sale of property held for sale	428	1,304
Proceeds from mortgage receivable	150	-
Proceeds from sale of investment in Futureway Communications Inc.	-	688
Inter-company advances repaid by discontinued operations (note 7)	715	1,099
Cash used for investment activities of continuing operations	(46,525)	(17,463)
Financing activities		
Increase (decrease) in bank operating advances	1,931	(2,555)
Increase in term bank loans	24,500	-
Repayment of promissory note and term loans	(4,451)	(4,580)
Repayment of mortgage	-	(1,781)
Payments on obligations under capital leases	(277)	(284)
Payment of dividends by subsidiary to non-controlling interests	(1,750)	(350)
Payment of dividends to shareholders	(2,189)	(2,170)
Proceeds from exercise of stock options	634	127
Class A shares repurchased	(365)	(14)
Cash provided by (used for) financing activities of continuing operations	18,033	(11,607)
Net cash provided by discontinued operations	490	6,433
Foreign exchange on cash held in foreign currency	407	(1,587)
Decrease in cash and cash equivalents	(11,772)	(10,586)
Cash and cash equivalents at the beginning of the year (note 9)	13,860	24,446
Cash and cash equivalents at the end of the year (note 9)	\$ 2,088	\$ 13,860
Supplementary information		
Interest paid	\$ 1,505	\$ 958
Income taxes paid	\$ 3,241	\$ 4,461

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

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	2008	2007
Balance at the beginning of the year	\$ 111,587	\$ 110,246
Net income (loss) for the year	(6,694)	3,519
Premiums paid on repurchase of capital stock (note 15)	(215)	(8)
Dividends	(2,189)	(2,170)
Balance at the end of the year	\$ 102,489	\$ 111,587

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	2008	2007
Net income (loss) for the year	\$ (6,694)	\$ 3,519
Other comprehensive loss		
Loss on cash flow hedges net of taxes (note 13)	(878)	(4,177)
Total comprehensive loss for the year	\$ (7,572)	\$ (658)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007 (in thousands of dollars, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

These consolidated financial statements include the accounts of Brampton Brick Limited and its operating subsidiaries, Brampton Brick Inc., Oaks Concrete Products Inc., Da Vinci Stone Craft Ltd., 1329171 Ontario Limited and 1312082 Ontario Limited (65% owned – formerly Medical Waste Management Inc.). The Company's interest in Universal Resource Recovery Inc. (a 50-50 joint venture of the Company) ("Universal") is accounted for using the proportionate consolidation method. All significant intercompany transactions and balances have been eliminated.

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

The assets and liabilities, operating results and cash flows relating to the medical waste operations and Sharpsmart business have been classified as discontinued operations.

REVENUE RECOGNITION

For masonry and landscape product sales, revenue is recognized when goods are shipped to customers. Sales discounts, including prompt payment discounts, sales incentives and volume rebates to customers, are classified under net sales.

Revenue from waste recycling comprises tipping fees received for receipt, mixing and composting of source separated organics (SSO) and for sorting and disposal of construction and demolition (C&D) waste. Revenue is recognized upon performance of the service.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are defined as cash and short-term deposits with original maturities of three months or less.

INVESTMENTS

Other investments are recorded using the cost basis of accounting.

The carrying values of investments are reduced to the estimated fair value if there is a decline in the value of the investment that is considered other than temporary.

INVENTORIES

Inventories of manufactured items and work-in-process are recorded at the lower of cost, determined on an average production cost basis, and net realizable value.

Raw materials and resale inventories are recorded at the lower of cost, determined on a first-in, first-out basis, and replacement cost for raw materials and net realizable value for resale inventory.

Inventories are classified as follows:

	2008	2007
	\$	\$
Merchandise	14,207	18,830
Raw materials and production supplies	3,855	3,779
	18,062	22,609

PROPERTY, PLANT AND EQUIPMENT

Amortization is provided on a straight-line basis at rates designed to write off the property, plant and equipment over their estimated useful lives, as follows:

Land improvements	10% to 20%
Buildings	2.5% to 10%
Machinery and equipment	5% to 33%
Mobile equipment	10% to 25%

Quarries are amortized on the unit of production method based on shale extraction and estimated remaining shale reserves.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An estimate of undiscounted future cash flows produced by the assets, or the appropriate grouping of assets, is compared with the carrying value to determine whether an impairment exists. If an impairment is determined to exist, the assets are written down to fair value.

ASSET RETIREMENT OBLIGATION

The cost of the Company's obligation to rehabilitate its shale quarry is estimated based on the present value of expected future rehabilitation costs and is recognized in the period in which the obligation is incurred. The present value of these costs is added to the cost of the associated asset and amortized over its useful life, while the corresponding liability will accrete to its future value over the same period.

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In determining the present value of the Asset Retirement Obligations, the estimated cash flows have been discounted using credit-adjusted risk free interest rates ranging from 4% to 5.5%. The total undiscounted amount of the estimated cash flows required to settle the obligation is \$994. The obligation will be settled over a 1 to 7 year period and will be funded from general Company resources.

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the asset retirement obligation:

	2008	2007
	\$	\$
Balance at the beginning of the year	1,048	1,001
Increase in obligation	537	-
Payments during the year	(893)	-
Accretion expense	49	47
Balance at the end of the year	741	1,048
Less: Payments due within one year – current portion	245	375
	496	673

GOODWILL

Goodwill represents the excess of the purchase price over the estimated fair value of the assets acquired of the Company's subsidiaries. Goodwill is not amortized but is reviewed for impairment annually, or more frequently if impairment indicators arise, based on an assessment of the fair value of the related business unit.

The Company uses discounted expected future cash flows to determine the fair value of the related business unit. Goodwill impairment is then assessed based upon a comparison of the fair value of the Company's related business unit to the fair values of the business unit's net assets, including goodwill. A goodwill impairment loss is recognized in net income if the fair value of the goodwill is less than its carrying amount.

INCOME TAXES

Future income taxes are provided on an asset and liability method whereby future income tax assets are recognized for deductible temporary differences and operating loss or tax credit carry-forwards, and future income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. The income tax expense or benefit is the income tax payable or refundable for the year plus or minus the change in future income tax assets and liabilities during the year. These are measured using the substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets and liabilities are expected to be settled or realized. Valuation allowances are provided to the extent that it is more likely than not that the future income tax assets may not be realized.

FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheets dates. Non-monetary assets and liabilities and revenue and expenses arising from foreign currency transactions are translated at the exchange rate in effect at the date of the transaction. Foreign exchange gains or losses arising from the translation are included in operations.

Integrated subsidiaries are accounted for under the temporal method. Under this method, monetary assets and liabilities of subsidiaries are translated into Canadian dollars at the exchange rate in effect at the balance sheets dates. Non-monetary assets and liabilities are translated at the exchange rate in effect at the date of the transaction. Revenues and expenses are translated at average exchange rates prevailing during the period. Resulting unrealized gains or losses are recorded through the income statement.

LEASES

Leases are classified as capital or operating depending upon the terms and conditions of the contracts. Leases that transfer substantially all of the risks and benefits of ownership to the Company and meet the criteria for capital leases set out in the Canadian Institute of Chartered Accountants Handbook Section 3065, "Leases," are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured at the present value of minimum lease payments. Asset values recorded under capital leases are amortized on a straight-line basis over the period of expected use. Obligations recorded under capital leases are reduced by lease payments net of imputed interest. Lease rentals under operating leases are expensed over the lease term on a straight-line basis.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments recorded in the consolidated balance sheets include cash and cash equivalents, accounts receivable, promissory note receivable, bank operating advances, accounts payable and accrued liabilities, promissory note payable and long-term debt. The book value of the Company's financial

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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instruments is considered to be representative of fair value due to the short-term maturity of these financial instruments or, in the case of long-term debt, the rate of interest applicable to the corresponding item. The promissory note receivable has been discounted to its estimated fair value. Derivative financial instruments are marked to market each reporting period and accounted for as described in Note 13.

B) CREDIT RISK

The Company grants credit to its customers in the normal course of business. Credit evaluations are performed on a regular basis and the financial statements take into account an allowance for bad debts. Two customers represented approximately 37.6%, in total, (2007 – 38.3%) of the Company's accounts receivable at year-end. Sales to these customers represented 19.5% (2007 – 17.8%) of the Company's net sales.

C) INTEREST RATE RISK

Interest rate swap agreements are occasionally utilized to reduce interest rate risk arising from fluctuations in interest rates and to manage the fixed and floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based, and are recorded as an adjustment of interest expense on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest. As at December 31, 2008, the Company holds an interest rate swap contract with a notional principal amount of \$20,000 as described in Note 13.

D) FOREIGN CURRENCY RISK

Foreign currency risk is the risk that future cash flows arising from amounts receivable and/or payable in a foreign currency will fluctuate because of changes in foreign exchange rates. Foreign currency forward purchase contracts are occasionally utilized to manage the foreign currency exchange exposure resulting from these future cash flows. There were no such contracts outstanding as at December 31, 2008.

E) ENERGY CONTRACTS

The Company occasionally enters into fixed price swap contracts to fix the price of its electricity requirements at its clay brick manufacturing plant. Settlements on the swap contracts are made monthly and taken into income. There were no contracts outstanding as at December 31, 2008.

DILUTED EARNINGS PER SHARE

The Company uses the treasury stock method for purposes of calculating the dilutive effect of outstanding stock options. Under the treasury stock method, the number of shares outstanding is increased by the number of additional shares that would be issued upon the exercise of "in-the-money" stock options, if dilutive, and is reduced by the number of shares that could be repurchased, at the average market price, with the cash proceeds therefrom.

STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

Stock options granted after January 1, 2002 are accounted for under the fair value method. Under this method, compensation expense is measured at the estimated fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period with a corresponding credit to contributed surplus. Stock options granted prior to January 1, 2002 continue to be accounted for using the intrinsic value method, which does not give rise to compensation expense.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of the contingent assets and liabilities at the date of the consolidated financial statements and revenue and expenses for the period reported. The most significant assumptions made by management in the preparation of the financial statements relate to the annual test for impairment of goodwill to assess if there is other than a temporary decline; the valuation of future income tax assets; and, the determination of the asset retirement obligation. Actual results could differ from those estimates.

FINANCIAL INSTRUMENTS

Under the standards adopted in 2007, all financial assets are classified as held for trading, held-to-maturity investments, loans and receivables or available-for-sale categories. Also, all financial liabilities must be classified as held for trading or other financial liabilities. All financial instruments are recorded on the consolidated balance sheet at fair value on inception. After initial recognition, the financial instruments should be measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which should be measured at amortized cost. The effective interest related to the financial liabilities and the gain or loss arising from a change in the fair value of a financial asset or financial liability classified as held for trading is included in net income for the period in which it arises. If a financial asset is classified as available-for-sale, the gain or loss should be recognized in other comprehensive income until the financial asset is derecognized and the cumulative gain or loss is then recognized in net income.

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All derivatives, including embedded derivatives that must be separately accounted for, must be recorded at fair value in the consolidated balance sheets and the changes in fair value must be recorded in the consolidated statements of income, except as described in the next paragraph for certain hedging derivatives.

Derivative instruments specifically designated as a hedge and meeting the criteria for hedge effectiveness may offset changes in fair values or cash flows of hedged items. A hedge must be designated as a cash flow hedge, fair value hedge, or a hedge of net investments in self-sustaining foreign operations. A fair value hedge requires the change in fair value of the hedging derivative and the change in fair value of the hedged item relating to the hedged risk to both be recorded in the consolidated statements of income. A cash flow hedge requires the change in fair value of the derivative, to the extent effective, to be recorded in other comprehensive income, which is reclassified to the consolidated statements of income when the hedged transaction impacts earnings. The ineffective portion of the derivative must be recorded in net income. The notional amounts of the derivatives represent the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract. Notional amounts do not represent assets or liabilities and therefore are not recorded in the consolidated balance sheets. When the hedge accounting relationship is discontinued because the hedging item ceases to exist due to its maturity, expiry, sale, termination, cancellation or exercise for a cash flow hedge of an anticipated transaction, any gains, losses, revenues or expenses associated with the hedging item continue to be reported in accumulated other comprehensive income until the related hedged item is settled.

The accumulated gains and losses recognized in other comprehensive income are included in the initial carrying amount of the asset acquired or liability incurred where the hedged transaction results in the recognition of a non-financial asset or non-financial liability or recognized in net income where the hedged transaction results in the recognition of a financial asset or financial liability.

2. CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Company also adopted the new accounting standards of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation* (which replaces Section 3861, *Financial Instruments – Disclosures and Presentation*). These sections apply to fiscal years beginning on or after October 1, 2007 and provide standards concerning the disclosure of the significance of financial instruments for an entity's financial position and performance and the nature and extent of risk exposures arising from financial instruments and the approach used by the entity in managing those risks. These standards also provide guidance for the presentation of recognized financial instruments and identify the information to be disclosed. These disclosures are presented in Note 4.

On January 1, 2008, the Company also adopted the new accounting standard of the CICA Handbook Section 3031, *Inventories*. The adoption of this standard had no impact on the Company's method of accounting for inventory cost but has resulted in changes in certain disclosure in these consolidated financial statements.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

The following are the new accounting standards the Company will be required to adopt in future years.

GOODWILL AND INTANGIBLE ASSETS:

Effective January 1, 2009, the company will adopt the new CICA Handbook Section 3064, *Goodwill and Intangible Assets* which replaces CICA Handbook Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development*. The Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets are equivalent to the corresponding provisions of International Financial Reporting Standards, IAS 38, *Intangible Assets*. CICA Handbook Section 1000, *Financial Statement Concepts* is amended to clarify criteria for recognition of an asset while the Emerging Issues Committee Abstract (EIC), EIC 27 *Revenues and Expenditures During the Pre-operating period* is no longer applicable for entities that have adopted CICA 3064. The CICA Handbook Accounting Guideline (AcG) 11 *Enterprises in the Development Stage* is also amended to delete references to deferred costs and to provide guidance on development costs as intangible assets under CICA 3064.

Operating costs pertaining to the pre-production period of the Indiana plant amounted to \$1,832 to December 31, 2008, and are included in Other assets. Similarly, the Company's share of the unamortized balance of start-up costs related to Universal totaled \$179 as at December 31, 2008, and are also included in Other assets.

Effective with the adoption of the new CICA guidelines on January 1, 2009, balance of the deferred pre-operating costs will be adjusted to opening retained earnings and this change will be applied retroactively. Any such costs to be incurred in 2009 and future years will be charged to operations as incurred.

BUSINESS COMBINATIONS:

Effective January 1, 2011, the Company will adopt the new accounting standards of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements* and

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Section 1602, *Non-Controlling Interests*. These sections replace the former Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to IFRS 3, Business Combinations (January 2008) and IAS 27, Consolidated and Separate Financial Statements (January 2008). CICA 1582 is effective for business combinations for which the acquisition date is on/after the beginning of the first annual reporting period beginning on/after January 1, 2011. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

Management is evaluating these standards and has not fully assessed their impact on its consolidated financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS:

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards (IFRS) will be required effective January 1, 2011, for publicly accountable profit-oriented enterprises. IFRS will require increased financial statement disclosure. Although IFRS uses a conceptual framework similar to Canadian GAAP, differences in accounting policies will need to be addressed. The Company is currently assessing the impact IFRS will have on its consolidated financial statements.

4. FINANCIAL INSTRUMENT DISCLOSURES

The Company has classified its cash and cash equivalents as held for trading. The accounts receivable and promissory note receivable were classified as loans and receivables, the accounts payable and accrued liabilities, bank operating advances, promissory note payable and long-term debt were classified as other financial liabilities. For all of these, the carrying values approximate their fair values at both December 31, 2008 and December 31, 2007.

In addition, the Company has derivative financial instruments and their carrying values approximate their fair values at both December 31, 2008 and December 31, 2007.

A) CREDIT RISK

The Company has credit risk exposure with respect to accounts receivable and the promissory note receivable. The Company also has credit risk with respect to its cash and cash equivalents and the counterparties to its financial instruments.

I) ACCOUNTS RECEIVABLE

The Company grants credit to its customers in the normal course of business on terms that are consistent with the industries in which it operates. Credit evaluations are performed prior to granting credit and on a regular basis thereafter. The financial statements take into account an allowance for bad debts.

The Masonry Products business segment is characterized by a relatively small number of customers with higher average balances outstanding. Accounts receivable attributable to this business segment represented approximately 63.8% of consolidated accounts receivable outstanding as at December 31, 2008.

The Landscape Products business segment is characterized by a larger number of customers with lower average balances outstanding. This business segment represented approximately 28.6% of consolidated accounts receivable outstanding as at December 31, 2008.

Other accounts receivable accounted for the remaining 7.6%.

In aggregate, approximately 87.3% was due in Canadian dollars from Canadian based customers and 12.7% was due in U.S. dollars from U.S. based customers.

Accounts receivable that were past due as at December 31, 2008, totaled \$2,257, of which \$1,722 was less than three months past due, \$112 was more than three months but less than six months past due and \$423 was more than six months but less than one year past due.

Of the past due amount, accounts totaling \$606 were considered to be impaired and were provided for in the allowance for doubtful accounts. Changes in the allowance for doubtful accounts for the year ended December 31, 2008, were as follows:

	Year ended December 31, 2008
	\$
Balance at the beginning of the year	417
Accounts added	600
Accounts removed	(347)
Accounts written off	(105)
Exchange rate change on opening balance	41
Balance at the end of the year	606

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II) PROMISSORY NOTE RECEIVABLE

The promissory note receivable arose on the sale of the medical waste assets and business operations in October 2007. The adjusted principal amount of \$9,625 bears interest at a fixed rate of 3.5% per annum and has been discounted for accounting purposes at an effective rate of 5.0% per annum. The first instalment of the promissory note amounting to \$2,958 was received in October 2008 and the remaining balance is to be paid in annual principal instalments of \$3,333 each, plus interest, in October 2009 and 2010. The principal and interest are secured by a letter of credit from a major financial institution. The original principal amount of \$10,000 was reduced by \$375 as discussed in note 7.

III) CASH AND COUNTERPARTIES

The Company's credit risk with respect to its cash and cash equivalents and counterparties to its financial instruments is minimized substantially by seeking to ensure that these financial instruments are placed with well capitalized financial institutions and other credit worthy counterparties.

B) LIQUIDITY RISK

Liquidity risk is the risk that the Company will encounter difficulty in discharging its financial liabilities as they become due. The Company manages liquidity risk by maintaining cash balances, adequate borrowing facilities and monitoring forecast and actual cash flows.

The summary of financial obligations and contractual maturities relating to undiscounted non-derivative financial liabilities outstanding as at December 31, 2008 was as follows:

	\$
Due within 3 months	17,451
Due within 4 to 6 months	812
Due within 7 to 12 months	3,671
Due within 1 to 5 years	24,320
Due over 5 years	1,320
	47,574

Non-derivative financial liabilities include bank operating advances, accounts payable and accrued liabilities, promissory note payable and long-term debt.

The summary of contractual maturities applicable to undiscounted derivative financial liabilities outstanding as at December 31, 2008 was as follows:

	\$
Interest rate swap (net floating to fixed)	
Due within 3 months	177
Due within 4 to 6 months	221
Due within 7 to 12 months	439
Due within 1 to 6 years	2,276
Net cash outflows on interest rate swap	3,113

At December 31, 2008, the Company had operating credit facilities totaling up to \$17,450, of which \$3,209 (including letters of credit of \$628) had been utilized, and a term loan facility of \$50,000, of which \$17,000 had been utilized. In addition, the Company's proportionate share of operating and term credit facilities of Universal were \$2,500 and \$7,500, respectively, of which \$562 (including letters of credit of \$562) and \$7,500, respectively, had been utilized.

In conjunction with the Company's discussions with its lender to amend various financial covenants under its credit agreement in light of current economic circumstances (see Note 12), the lender has indicated it will seek to reduce the maximum availability under both the term loan and operating loan facilities.

The Company expects that future cash flows from operations, cash and cash equivalents on hand, the proceeds from the promissory note receivable, the unutilized balances of its credit facilities will be sufficient to satisfy these obligations as they become due. In addition, the Company expects some of its liabilities to be paid later than the earliest date on which they may be required to be paid.

C) MARKET RISK

I) FOREIGN EXCHANGE RATES

The Company has exposure to exchange rate fluctuations as a result of holding monetary assets and liabilities denominated in foreign currencies.

Foreign exchange conversion rates utilized in the preparation of the consolidated financial statements were U.S. \$1.00 = CDN \$0.9881 at December 31, 2007 and U.S. \$1.00 = CDN \$1.2246 at December 31, 2008. The average rate of exchange from January 1, 2008 to December 31, 2008 was U.S. \$1.00 = CDN \$1.066 and the high and the low during the year was U.S. \$1.00 = CDN \$1.2969 and U.S. \$1.00 = CDN \$0.9719, respectively.

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A variance in the rate of exchange of CDN \$0.16 is considered reasonably possible.

At December 31, 2008, the Company had net monetary liabilities denominated in U.S. dollars totaling U.S. \$3,527. A variance of CDN \$0.16 in the December 31, 2008 rate of exchange would result in income before income taxes being approximately \$564 higher or lower, as the case may be.

II) INTEREST RATES

The Company has exposure to interest rate fluctuations as a result of having variable interest rate bearing financial liabilities and a floating-to-fixed interest rate swap contract.

Canadian bank prime interest rate was 6.00% on January 1, 2008 and was 3.50% on December 31, 2008 and averaged 4.80% for the year. A variance in interest rates of 1.00% is considered reasonably possible.

At December 31, 2008, the Company had a total of \$10,081 of variable interest rate bearing debt outstanding. A variance of 1.00% in the rate of interest would result in an income before income taxes being approximately \$101 higher or lower, as the case may be, on an annualized basis.

The \$20,000 interest rate swap contract outstanding at December 31, 2008 is designated as a cash flow hedge. The fixed rate of interest under the Company's \$20,000 floating-to-fixed interest rate swap contract is 5.16%. At December 31, 2008 the fixed rate of interest on similar contracts with the same remaining term was approximately 1.60%. Changes in the underlying rate of interest will result in an unrealized gain or loss being reflected in Other comprehensive loss. A variance of 1.00% in the underlying rate of interest as at December 31, 2008 would result in Other comprehensive loss being approximately \$490 (net of income taxes) higher or lower, as the case may be.

5. CAPITAL DISCLOSURES

The Company's primary business segments are both seasonal and cyclical. The Company manages its capital structure to reflect the underlying risk characteristics of the industries in which it operates. Its strategy is to maintain a conservatively structured balance sheet in order to secure access to financing at a reasonable cost.

The Company monitors capital on the basis of net funded debt-to-adjusted capital ratio. This ratio is calculated as net funded debt divided by adjusted capital. Net funded debt is calculated as total interest bearing debt as shown in the balance sheet less cash and cash equivalents. Adjusted capital comprises all components of equity other than amounts included in accumulated other comprehensive loss.

The Company's objective is to maintain the net funded debt to adjusted capital ratio at less than 0.4:1. The net funded debt to adjusted capital ratios at December 31, 2008 and December 31, 2007 were as follows:

	2008 \$	2007 \$
Bank operating advances	2,581	650
Long-term debt	29,658	8,428
Less: Cash and cash equivalents	(2,088)	(13,860)
Net funded debt	30,151	(4,782)
Share capital	33,689	33,205
Retained earnings	102,489	111,587
Contributed surplus	1,173	944
Adjusted capital	137,351	145,736
Net funded debt-to-adjusted capital ratio	0.22:1	(0.03):1

As at December 31, 2008 and December 31, 2007 the Company's objective with respect to the net funded debt to adjusted capital ratio was achieved.

6. DISPOSAL OF INVESTMENT IN FUTUREWAY COMMUNICATIONS INC.

In June 2007, the shareholders of Futureway Communications Inc. ("FCI") voted to approve an amalgamation of FCI with a subsidiary of a Canadian communications company. The amalgamation was completed on June 22, 2007 pursuant to which the Company's 517,660 shares in FCI were redeemed for cash proceeds of \$688. This produced a gain for accounting purposes in the same amount as the Company's original investment of \$2,000 had been written down to a nominal value of one dollar as at December 31, 2005.

7. DISPOSAL OF MEDICAL WASTE ASSETS AND DISCONTINUED OPERATIONS

Effective October 2, 2007, the medical waste business operations ("MWM") and assets were sold, excluding the 50% joint venture interest in Sharpsmart Canada Limited. On April 21, 2008, the Company sold its 50% joint venture interest in Sharpsmart, excluding the Company's interest in certain small quantity generator accounts which were disposed of

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effective September 1, 2008 as noted below. In accordance with the CICA Handbook Section 3475, "Disposal of Long-Term Assets and Discontinued Operations", the assets and liabilities, operating results and cash flows of these businesses have been classified as discontinued operations. The prior period comparative financial information has also been restated.

The aggregate sale price of \$20,500 on the sale of the medical waste business in October, 2007 was satisfied by a cash payment on closing of \$9,832, the assumption by the purchaser of net working capital liabilities in the estimated amount of \$668 and receipt of a promissory note in the principal amount of \$10,000 bearing interest at 3.5% per annum which has been discounted for accounting purposes at an effective rate of 5.0% per annum. The promissory note was to be paid in three equal, annual principal instalments (see below) and is secured by a letter of credit issued by a major financial institution. The final determination of the actual net working capital liabilities as at the date of closing resulted in an additional cash payment to the Company in February 2008 in the amount of \$513 and a corresponding reduction in the amount of net working capital liabilities assumed.

A portion of the cash proceeds was utilized to repay a term bank loan in the amount of \$1,835.

In 2007, the Company reported a pre-tax gain for accounting purposes of \$15,709 from the sale of this business. After deducting estimated income taxes of \$3,490 and the non-controlling interests' 35% share of the net after-tax gain of \$4,277, the Company's 65% share for accounting purposes was \$7,942, or \$0.73 per Class A Subordinate Voting share and Class B Multiple Voting share outstanding.

The Company recorded an accounting gain of \$127, or \$0.01 per share, on the sale of its joint venture interest in Sharpsmart during the year ended December 31, 2008, after deducting income taxes of \$60 and the non-controlling interests' 35% share of the net after-tax gain.

During the second quarter of 2008 the Company agreed to settle a dispute with the purchaser by reducing the principal amount of the \$10,000 promissory note by \$375 and by transferring to the purchaser, effective September 1, 2008, the Company's interest in certain small quantity generator accounts which it had retained as part of the sale of its interest in Sharpsmart. The company also recorded a provision of \$625 with respect to certain other expenditures which are expected to be incurred.

The aggregate sale proceeds of \$1,180 from the sale of the 50% joint venture in Sharpsmart in April 2008 included the repayment of shareholder advances of \$715, proceeds from the sale of shares of \$385 and proceeds from the sale of certain other assets of \$80.

The loss from discontinued operations, after income taxes and non-controlling interests, for the year ended December 31, 2008 amounted to \$355 compared to net income of \$8,194 in 2007. Basic loss per share was \$0.03 (2007 – \$0.75 earnings per share) and diluted loss per share was \$0.03 (2007 – \$0.75 earnings per share). Prior year's information has been restated to include operations that were discontinued during the year.

Discontinued operations	2008	2007
	\$	\$
Net sales	632	9,866
Amortization of property, plant and equipment	49	734
Operating income (loss)	(119)	534
Other expense	(619)	(115)
Income tax recovery (provision)	310	(32)
Non-controlling interests	150	(135)
Net income (loss) from discontinued operations	(278)	252
(Loss) gain on sale of medical waste assets	(375)	15,709
Gain on sale of Sharpsmart operations	255	–
Income tax recovery (provision)	2	(3,490)
Non-controlling interests	41	(4,277)
Net (loss) gain on sale of medical waste assets	(77)	7,942
Total net income (loss) from discontinued operations	(355)	8,194

8. SALE OF PROPERTY HELD FOR SALE

Properties located in Quebec are surplus to the Company's requirements and are available for sale. For the year ended December 31, 2008, certain properties were sold for net proceeds of \$428 (2007 – \$1,304), after deducting costs of disposition of \$125 (2007 – \$671), resulting in a gain of \$267 (2007 – \$898).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007 (in thousands of dollars, except per share amounts)

9. CASH AND CASH EQUIVALENTS

	2008 \$	2007 \$
Cash on-hand and balances with banks	2,088	894
Short term investments	–	12,966
Cash and cash equivalents	2,088	13,860

10. PROPERTY, PLANT AND EQUIPMENT

	2008		
	Cost \$	Accumulated amortization \$	Net \$
Land, land improvements and quarries	33,898	9,329	24,569
Buildings	25,826	6,736	19,090
Machinery and equipment	129,528	66,989	62,539
Mobile equipment – Purchased	321	277	44
– Leased	3,893	2,977	916
Total property, plant and equipment	193,466	86,308	107,158
Construction in progress	49,149	–	49,149
Total	242,615	86,308	156,307

	2007		
	Cost \$	Accumulated amortization \$	Net \$
Land, land improvements and quarries	34,280	8,591	25,689
Buildings	24,389	5,992	18,397
Machinery and equipment	113,202	60,344	52,858
Mobile equipment – Purchased	339	240	99
– Leased	3,268	2,555	713
Total property, plant and equipment	175,478	77,722	97,756
Construction in progress	14,851	–	14,851
Total	190,329	77,722	112,607

During the year, property, plant and equipment were acquired at an aggregate cost of \$50,530 (2007 – \$23,527) of which \$1,213 (2007 – \$200) was acquired by means of capital leases. Other assets acquired through vendor financing during the year totaled \$118 (2007 – \$317).

11. GOODWILL

Changes in the carrying amount of goodwill are as follows:

	2008 \$	2007 \$
Balance at the beginning of the year	6,711	20,212
Foreign currency translation and other adjustments	–	(1)
Goodwill impairment	(6,711)	(13,500)
Balance at the end of the year	–	6,711

The Company performed its annual test for impairment of goodwill as at December 31, 2008 in accordance with the recommendation of the Canadian Institute of Chartered Accountants Handbook Section 3062, “*Goodwill and Other Intangible Assets*”. As a result of this test, management determined that there had been an impairment in the carrying value of goodwill and, accordingly, wrote off the remaining amount of \$6,711 (2007 – \$13,500).

Operating results of the Landscape Products business segment for 2008 to which the goodwill relates have been significantly impacted by negative economic conditions in its primary market areas. The outlook for economic conditions in 2009 remains uncertain and the Company’s cash flow forecasts for these operations have been impacted accordingly.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007 (in thousands of dollars, except per share amounts)

12. BANK OPERATING ADVANCES AND TERM BANK LOANS

Pursuant to bank credit agreements, bank operating advances and term bank loans are secured by general security agreements covering substantially all of the assets of the Company and its subsidiaries, other than real property, and hypothecation of a \$40,000 fixed charge debenture constituting a first fixed charge on land and improvements located in Brampton, Ontario and on the Company's quarry in Cheltenham, Ontario.

The credit agreements contain various financial covenants. As at December 31, 2008 and throughout the year the Company was in compliance with all financial covenants under these agreements. However, based on the current economic environment, the Company recognized that it would be unable to comply with the existing covenants throughout the fiscal year 2009 and is currently in discussions with its lender to amend the financial covenants to levels which are appropriate under the current economic circumstances. In the event the Company is unable to come to a satisfactory arrangement with the bank, the term loan, which is classified as a long-term obligation, would be subject to demand. The Company expects that it will be able to conclude on favourable arrangements that will allow it to maintain compliance with the proposed amended financial covenants throughout the coming year.

Pursuant to the bank credit agreement of Universal, its bank operating advances and term loans are secured by a general security agreement covering its assets, other than real property, a \$5,000 first collateral mortgage constituting a first fixed charge over its land and improvements and a guarantee in the amount of \$6,500 from each of the joint venture partners.

Universal's credit agreement contains various financial covenants. Since inception of this financing in 2008, Universal has maintained compliance with the financial covenants and is expected to maintain compliance throughout the coming year.

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Company holds an interest rate swap contract to hedge the risk arising from variability of cash flows relating to currently outstanding and anticipated future borrowings. The contract was designated as an effective cash flow hedge. The swap commenced in January 2008 with a notional principal amount of \$3,000 increasing at various intervals and amounts to a total of \$20,000 in September 2008. The notional principal amount reduces by \$3,000 per year from December 2010 to December 2013 and by \$8,000 in December 2014. The fixed rate of interest under the swap contract is 5.16%. The total cost of borrowing includes the Company's credit spread, which may vary based on the ratio of Net Funded Debt to EBITDA, as those terms are defined under the Company's credit agreement. Currently the credit spread is 1.75%.

During the year, the Company recorded an unrealized loss of \$1,791 (2007 – \$474) net of income taxes of \$627 (2007 – \$210), not affecting current period earnings, in other comprehensive loss, in connection with the interest rate swap.

The fair value of the interest rate swap derivatives in the amounts of \$834 (2007 – \$1,606) and \$2,267 (2007 – \$809) have been classified as current and non-current derivative financial liabilities, respectively.

In May 2007, the Company entered into certain U.S. dollar foreign exchange forward contracts totaling U.S. \$30,000 to hedge the underlying exposure on a portion of its anticipated future cash outflows. These contracts were designated as effective cash flow hedges.

In October 2007, the Company executed two of the foreign exchange forward contracts totaling \$13,900 prior to their contracted maturity dates, thereby effectively terminating these two contracts. These transactions resulted in the settlement of the related derivative financial instrument liability at a cost of \$1,747, which amount was recognized in accumulated other comprehensive loss based on the Company's hedge designation until the related non-financial asset was acquired.

At December 31, 2007, the remaining contracts have maturities from five to twelve months. The weighted average remaining maturity of these derivative instruments was 176 days at a weighted average exchange rate of U.S. \$1.00 = CDN \$1.10.

In connection with these cash flow hedges, the Company recorded a loss of \$3,703 for the year ended December 31, 2007 in other comprehensive loss, not affecting current period earnings. During 2008, a gain of \$913 was recorded in other comprehensive loss, not affecting current period earnings. Exchange gains \$5 (2007 – \$209) for the year ended December 31, 2008 were recorded on the ineffective portion of these derivative financial instruments.

As at December 31, 2008, the Company did not have any U.S. dollar foreign exchange forward contracts outstanding.

In 2008, the Company reclassified \$2,790 from Accumulated other comprehensive loss. This amount has been added to the carrying value of the non-financial asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007 (in thousands of dollars, except per share amounts)

14. LONG-TERM DEBT

Long-term debt consists of the following:

	2008	2007
	\$	\$
Term loan – €152 (2007 – €457) due May 2009	260	659
Promissory note due December 2009	3,000	7,000
Term bank loan due June 2012	17,000	–
Term bank loan due June 2014	5,000	–
Term bank loan due April 2019	2,500	–
Other term loans	602	410
Obligations under capital leases	1,296	359
	29,658	8,428
Less: Payments due within one year – current portion	4,137	4,684
	25,521	3,744

All amounts are Canadian unless otherwise stated.

The term loan denominated in Euros is due in May 2009 plus interest at 4.55%. The principal and interest are secured by a letter of credit issued by the Company's banker.

The \$3,000 promissory note is unsecured and bears interest at 5.00% and is due in December 2009.

The term bank loan due June 2012 is repayable in a lump-sum amount and bears interest at a rate of 5.16% plus a credit spread depending on the Company's ratio of Net Funded Debt to EBITDA as those terms are defined in the bank credit agreement. As at December 31, 2008 the credit spread was 1.75% and the aggregate rate of interest was 6.91%. The 5.16% rate of interest is based on a floating-to-fixed interest rate swap contract as more fully described in Note 13.

The term bank loans due June 2014 and April 2019 represent the Company's proportionate share of term bank loans of Universal. These loans bear interest on a floating rate basis of bank prime plus a credit spread of 0.50% to 1.00% depending on Universal's ratio of Total Debt to Tangible Net Worth as those terms are defined in the bank credit agreement. As at December 31, 2008, the credit spread was 1.00% and the aggregate rate of interest was 4.50%.

Payments under the \$5,000 term bank loan due June 2014 are due in monthly instalments of \$59.3, plus interest, from July 2009 to May 2014 and a balloon payment of \$1,500 plus interest in June 2014.

Payments under the \$2,500 term bank loan due April 2019 are due in monthly instalments of \$21.8, plus interest, from May 2009 to April 2019.

Other term loans represent vendor financing to acquire certain production assets.

Repayments on long-term debt (excluding capital leases) include the following:

	\$
2009	3,802
2010	1,007
2011	1,042
2012	18,054
2013	1,059
Thereafter	3,439
Total long-term debt repayments	28,403
Less: Amount representing interest	41
Present value of long-term debt repayments including \$3,799 classified as current	28,362

Obligations under capital leases include the following:

	\$
Future minimum lease payments	
2009	390
2010	326
2011	298
2012	398
2013	27
Total minimum lease payments	1,439
Less: Amount representing interest	143
Present value of minimum lease payments including \$338 classified as current	1,296

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007 (in thousands of dollars, except per share amounts)

The weighted average effective interest rate for obligations under capital leases during 2008 was approximately 5.12% (2007 – 5.54%).

15. CAPITAL STOCK

The authorized capital of the Company consists of an unlimited number of Preference shares, Class A Subordinate Voting shares (“Class A shares”) and Class B Multiple Voting shares (“Class B shares”). The Class B shares are convertible into Class A shares on a share-for-share basis at any time. Class A shares may be converted to Class B shares in certain circumstances in connection with a takeover bid. Class A shareholders are entitled to one vote per share and Class B shareholders are entitled to ten votes per share at any meeting of shareholders.

Dividends on Class A shares and Class B shares were paid at the rate of \$0.10 per share on June 30, 2008 to shareholders of record on June 15, 2008 and at the rate of \$0.10 per share on December 31, 2008 to shareholders of record on December 15, 2008.

At December 31, 2008, the issued and outstanding shares consisted of 8,507,554 Class A shares (December 31, 2007 – 8,424,854) and 2,429,000 Class B shares (December 31, 2007 – 2,429,000).

Changes in the Class A shares during the year were as follows:

	2008		2007	
	Number of shares (thousands)	Stated capital \$	Number of shares (thousands)	Stated capital \$
Beginning of year	8,425	33,203	8,404	33,081
Options exercised	121	634	22	127
Class A shares repurchased and cancelled	(38)	(150)	(1)	(5)
End of year	8,508	33,687	8,425	33,203

With respect to the Class B shares, there were no changes in the number of shares outstanding of 2,429,000 and the stated capital of \$2 during 2008 or 2007.

During the year, a total of 37,800 (2007 – 1,300) Class A shares were purchased under the Company’s Normal Course Issuer Bid, at a weighted average price of \$9.66. This resulted in a premium paid of \$215. All of the repurchased Class A shares were cancelled.

16. STOCK-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 1,080,965 (2007 – 1,080,965) Class A shares. The exercise price of each stock option is equal to the volume weighted average trading price of the Company’s Class A shares for the five trading days immediately preceding the date of the grant and the maximum term of each option is 10 years. As at December 31, 2008, a total of 487,365 (2007 – 587,865) stock options were available for grant under the Plan.

On March 14, 2008, the Company granted stock options to eight senior officers and to all non-management members of the Board of Directors of the Company to acquire an aggregate of 105,500 Class A shares at the market price of \$10.51 per share. Each option vested 20% on the date immediately following the date of grant and an additional 20% shall vest on each anniversary thereof until fully vested.

As of the date of the grant, the fair value of each stock option granted was estimated to be \$2.78, using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	3.12%
Expected life	7.7 years
Volatility	25%
Expected dividend yield	1.9%

The total stock-based compensation cost for the year ended December 31, 2008 with respect to all stock options granted after January 1, 2002 was \$265 (2007 – \$266). The Company did not record a compensation cost with respect to stock options granted prior to January 1, 2002, of which 7,500 options remain outstanding as at December 31, 2008. Stock options to acquire an aggregate of 5,000 Class A shares were cancelled during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007 (in thousands of dollars, except per share amounts)

Information with respect to stock option transactions in each of the past two years and stock options outstanding at the end of the year is as follows:

	2008		2007	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance at the beginning of the year	386,900	10.66	334,900	9.82
Granted during the year	105,500	10.51	74,000	13.00
Exercised during the year	(120,500)	5.26	(22,000)	5.75
Forfeited during the year	(5,000)	14.13	–	–
Balance at the end of the year	366,900	12.34	386,900	10.66

At December 31, 2008, outstanding stock options were as follows:

Number of shares	Option price \$	Expiry
7,500	6.75	2011
17,500	13.75	2012
44,000	14.60	2014
17,500	14.50	2014
43,500	14.00	2015
25,000	11.55	2015
32,400	11.50	2016
74,000	13.00	2017
105,500	10.51	2018
366,900		

As at December 31, 2008, a total of 211,440 (2007 – 268,560) options were fully vested and exercisable by the holders thereof at a weighted average exercise price of \$12.94 (2007 – \$8.94).

17. NET INCOME (LOSS) PER SHARE

Basic income (loss) per share is calculated using the weighted average number of shares outstanding during the year. As referred to in note 1, diluted income (loss) per share is calculated to reflect the dilutive effect of the exercise of the outstanding stock options.

The weighted average number of Class A and Class B shares outstanding utilized in the calculations of income (loss) per share is as follows:

Continuing operations	2008			2007		
	Loss \$	Shares (thousands)	Per share Amount \$	Loss \$	Shares (thousands)	Per share Amount \$
Basic loss per share	(6,339)	10,928	(0.58)	(4,675)	10,836	(0.43)
Dilutive effect of options ⁽¹⁾		28	–		92	–
Diluted loss per share		10,956	(0.58)		10,928	(0.43)

Total	2008			2007		
	Loss \$	Shares (thousands)	Per share Amount \$	Net Income \$	Shares (thousands)	Per share Amount \$
Basic income (loss) per share	(6,694)	10,928	(0.61)	3,519	10,836	0.32
Dilutive effect of options ⁽¹⁾		28	–		92	–
Diluted income (loss) per share		10,956	(0.61)		10,928	0.32

(1) Excludes the effect of 359,400 options (2007 – 201,500) to purchase Class A Subordinate Voting shares that are anti-dilutive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007 (in thousands of dollars, except per share amounts)

18. INCOME TAXES

The provision for income tax recorded in the consolidated statements of income and retained earnings differs from the statutory federal and provincial income tax, as follows:

	2008 \$	2007 \$
Income taxes calculated at statutory federal and provincial income tax rates – 33.5% (2007 – 36.1%)	(1,338)	(756)
Increases and decreases in rate resulting from:		
Manufacturing and processing profits deduction	(58)	(66)
Tax rate difference in foreign subsidiary	(211)	62
Difference in future income tax rates	–	(1,039)
Change in valuation allowance	2,352	4,008
Non-deductible portion of goodwill	994	829
Other non-taxable and non-deductible items	507	(514)
Effective provision for income taxes	2,246	2,524

Future income taxes applicable to temporary differences are as follows:

	2008 \$	2007 \$
Depreciable property, plant and equipment	(9,882)	(9,299)
Losses and investment tax credits available for carry-forward	7,587	3,981
Cumulative eligible capital	4,382	4,258
Other	721	1,573
	2,808	513
Less: Valuation allowances	(8,715)	(6,671)
	(5,907)	(6,158)
Future tax asset – current	40	85
Future tax asset – long-term	605	1,270
Future tax liability	(6,552)	(7,513)
	(5,907)	(6,158)

Valuation allowances were recorded on the following non-capital losses carried forward:

Year of expiry	\$
2024	3,206
2025	4,029
2026	3,974
2027	2,620
2028	8,010
	21,839

Non-capital losses on which a future tax asset was recorded were as follows:

Year of expiry	\$
2010	98
2011	550
2015	480
2026	373
2027	285
2028	114
	1,900

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007 (in thousands of dollars, except per share amounts)

19. PENSION PLAN EXPENSE

The Company has a defined contribution pension plan covering all participating Canadian employees and a 401(k) plan covering all participating U.S employees. The Company's pension plan expense totaled \$450 (2007 – \$476).

20. OPERATING SEGMENT DISCLOSURES

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.

Other business operations and assets consist primarily of the Company's 50% joint venture interest in Universal, the promissory note receivable and the property held for sale.

MASONRY PRODUCTS

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

LANDSCAPE PRODUCTS

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

Accounting policies for the operating segments are the same as those described in note 1.

Segmented information, with comparative information for 2007, is as follows:

	Year ended December 31, 2008			
	Masonry \$	Landscape \$	Other \$	Total \$
Net sales to external customers	59,977	20,636	863	81,476
Amortization of property, plant and equipment	6,195	2,456	179	8,830
Consolidated operating income (loss)	9,353	(5,271)	(669)	3,413
Other expense (net)				(961)
Goodwill impairment		(6,711)		(6,711)
Gain on sale of property held for sale				267
Income tax provision				(2,246)
Non-controlling interests				(101)
Loss from continuing operations				(6,339)
	Year ended December 31, 2007			
	Masonry \$	Landscape \$	Other \$	Total \$
Net sales to external customers	60,943	21,409	–	82,352
Amortization of property, plant and equipment	5,353	3,162	8	8,523
Consolidated operating income (loss)	15,278	(4,249)	(386)	10,643
Other expense (net)				(821)
Goodwill impairment		(13,500)		(13,500)
Gain on sale of property held for sale				898
Gain on sale of investment in Futureway Communications Inc.				688
Income tax provision				(2,524)
Non-controlling interests				(59)
Loss from continuing operations				(4,675)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007 (in thousands of dollars, except per share amounts)

	Year ended December 31, 2008		
	Masonry and Landscape \$	Other \$	Total \$
Additions to property, plant and equipment	40,319	10,211	50,530
Total segment assets	171,753	21,342	193,095
Property held for sale			1,047
Consolidated total assets			194,142

	Year ended December 31, 2007		
	Masonry and Landscape \$	Other \$	Total \$
Additions to property, plant and equipment	22,835	692	23,527
Goodwill	6,711		6,711
Total segment assets	161,160	17,417	178,577
Property held for sale			1,208
Assets held for sale relating to discontinued operations			1,455
Consolidated total assets			181,240

Goodwill arose on acquisition of the Landscape Products business segment and was considered related thereto. However, since the acquisition of the minority interest in Oaks in December 2006 and the amalgamation on January 1, 2007 of its operations with another subsidiary and the parent company, certain long-term assets of the Company are used for both the Masonry Products and Landscape Products business segments. Assets do not form a part of management's evaluation of performance of individual business segments and therefore are not reported on a segmented basis.

Geographical information is as follows:

	2008		2007	
	Net sales \$	Property, plant and equipment \$	Net sales \$	Property, plant and equipment and goodwill \$
Canada	74,250	96,956	73,256	93,624
United States	7,226	59,351	9,096	25,694
	81,476	156,307	82,352	119,318

21. INVESTMENT IN JOINT VENTURE

The Company's share of the assets, liabilities, revenues and expenses and cash flows for its joint venture investment in Universal for the year ended December 31, 2008, with comparative information for 2007, is as follows. Prior year comparative information excludes Sharpsmart which was disposed of during the year as described in Note 7.

	2008 \$	2007 \$
Current assets	541	181
Long-term assets	12,595	2,610
Current liabilities	1,653	166
Long-term liabilities	12,776	3,156
Revenues	863	-
Net loss	(761)	(371)
Cash flow generated from (used in)		
Operating activities	(702)	(386)
Financing activities	10,165	1,250
Investing activities	(9,493)	(810)
	(30)	54

Construction of Universal's waste composting facility in Welland, Ontario has been substantially completed and operations commenced in October 2008. The Company's proportionate share of purchase commitments as at December 31, 2008 amounted to \$461.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007 (in thousands of dollars, except per share amounts)

Universal has provided security for performance guarantees with certain regulatory and municipal government bodies in the form of letters of credit. The Company's proportionate share is \$562.

There are no other known contingencies and commitments of the joint venture and the Company is not responsible for any contingencies or commitments pertaining to the other venturers of Universal.

22. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments due under building, storage yard and vehicle operating leases are as follows:

	\$
2009	339
2010	230
2011	172
2012	153
2013	29
	923

As at December 31, 2008, the Company (excluding Universal) had commitments with suppliers to purchase production equipment totaling \$201.

To December 31, 2008, capital expenditures in the amount of U.S. \$32,715 had been incurred with respect to the U.S. \$37,989 contract including approved change orders for the design, supply and assembly of equipment and building for the Company's new clay brick manufacturing plant in Indiana.

The Company normally enters into supply and transportation contracts for natural gas to cover future requirements. As at December 31, 2008, the Company had contracted for its estimated 2009 natural gas supply requirements at an aggregate estimated cost of \$3,496, of which approximately 20% was at fixed prices, and for its estimated 2009 transportation requirements at an aggregate estimated cost of \$809, of which approximately 22% was at fixed prices. The potential unrealized loss on the fixed price contracts was approximately \$156 (2007 – \$75), which was not taken to income since these are supply contracts that will be charged to operations in the period the gas is consumed.

Under the contract for trucking services entered into in 2006, the Company retains the right to acquire the transportation equipment if the contract is cancelled by the service provider before the end of the term in February 2011. Similarly, the Company may be obligated to acquire the transportation equipment if the Company cancels the contract before the end of the term.

Letters of credit are issued by the Company's banker to provide security to certain service providers. The principal and interest on the term loan due in May 2009 is also secured by a letter of credit issued by the Company's banker. The aggregate amount of letters of credit outstanding as at December 31, 2008 was \$1,190 (2007 – \$1,289). This amount includes \$562 (December 31, 2007 – Nil) representing the Company's proportionate share of letters of credit issued by Universal's banker with respect to its operations.

23. 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 5.7% (2007 – 6.4%) of net sales from continuing operations in aggregate for the year ended December 31, 2008. Accounts receivable from these parties as at December 31, 2008 represented \$54 (2007 – \$74). Purchases from related parties amounted to \$315 for the year ended December 31, 2008 (2007 – \$229).

A director of the Company is a senior partner in the law firm which acts as general counsel to the Company. Fees for services rendered by that firm in 2008 amounted to \$219 (2007 – \$262). Accounts payable to this firm as at December 31, 2008 was \$34 (2007 – \$172).

The 30% non-controlling interest in Oaks Concrete Products Ltd. acquired by the Company on December 7, 2006 was held by a consortium of developers, builders and contractors active in the Greater Toronto Area, including two directors of the Company. In connection with this transaction a \$3,000 promissory note payable plus interest remains outstanding as at December 31, 2008.

24. COMPARATIVE AMOUNTS

Certain comparative amounts in the financial statements have been reclassified to conform with the current year financial statement presentation.

AUDITORS' REPORT TO THE SHAREHOLDERS OF BRAMPTON BRICK LIMITED

We have audited the consolidated balance sheets of **Brampton Brick Limited** as at December 31, 2008 and 2007 and the consolidated statements of net income (loss), comprehensive loss, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

/s/PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

March 24, 2009

FIVE YEAR FINANCIAL REVIEW

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	2008	2007*	2006*	2005*	2004*
Operations					
Net sales	\$ 81,476	\$ 82,352	\$ 93,986	\$ 112,045	\$ 105,920
Net income (loss) – continuing operations	(6,339)	(4,675)	13,572	N/A	N/A
– total	(6,694)	3,519	13,971	5,734	15,707
Amortization	8,830	8,523	9,015	10,398	10,696
Cash provided by operations	15,823	13,638	16,557	25,139	22,560
Purchase of property, plant and equipment	48,266	21,144	13,215	7,343	3,588
Dividends	2,189	2,170	2,165	2,165	1,085
Financial Position					
Current assets	\$ 30,237	\$ 51,814	\$ 56,310	\$ 47,084	\$ 39,935
Working capital	4,715	25,424	32,935	26,494	26,037
Property, plant and equipment (net)	156,307	112,607	98,504	101,063	101,343
Total assets	194,142	181,240	185,403	175,949	181,715
Long-term debt	25,521	3,744	8,106	5,136	16,442
Shareholders' equity	131,258	137,731	140,179	128,024	125,171
Financial Ratios					
Current ratio	1.18:1	1.96:1	2.41:1	2.29:1	2.87:1
Total liabilities (excluding non-controlling interests) to shareholders' equity	0.46:1	0.28:1	0.32:1	0.29:1	0.34:1
Return on average shareholders' equity (%)	(5.0)	2.5	10.4	4.5	13.3
Share Data					
Net income (loss) per share – continuing operations	\$ (0.58)	\$ (0.43)	\$ 1.25	N/A	N/A
– total	(0.61)	0.32	1.29	0.53	1.45
Book value per share	12.01	12.71	12.95	11.80	11.54
Dividends per share	0.20	0.20	0.20	0.20	0.10
Weighted average number of shares outstanding (thousands)	10,928	10,836	10,823	10,845	10,847

*Certain information for 2006 and 2007 has been restated to conform with the current year presentation with respect to the sale of the medical waste assets and business operations which were sold on October 2, 2007 and the Sharpsmart operations which were sold on April 21, 2008. Information for the years 2004 and 2005 has not been restated.

Directors

Rudolph P. Bratty, Q.C.*†

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Lloyd S.D. Fogler, Q.C.†

P. David Grant, C.A.*

Howard C. Kerbel

Jeffrey G. Kerbel

Barry Kornhaber

John M. Piecuch*†

Peter R. Smith

*Member of Audit Committee

†Member of Compensation Committee

Senior Officers

Jeffrey G. Kerbel

President and Chief Executive Officer

Kenneth J. Mondor

Vice-President, Finance and Chief Financial Officer

David R. Carter

Executive Vice-President

J. Bradley Duke

Vice-President, Manufacturing, Clay Brick

Judy H. Pryma

Vice-President, Sales and Marketing, Masonry Products

Antonio M. Neves

Vice-President, Sales and Marketing, Landscape Products

George S. Housh

Vice-President, Manufacturing, Concrete Products

Marilia Macias

Controller

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Stock Listing

Toronto Stock Exchange

Share Symbol

"BBL.A"

Registrar and Transfer Agent

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General Counsel

Fogler, Rubinoff LLP

Auditors

PricewaterhouseCoopers LLP

Operations

Brampton Brick Limited

225 Wanless Drive, Brampton, Ontario

475 Harrop Drive, Milton, Ontario

455 Rodick Road, Markham, Ontario

Oaks Concrete Products Inc.

51744 Pontiac Trail, Wixom, Michigan

Brampton Brick Inc.

1256 East County Road 950 North, Farmersburg, Indiana

Da Vinci Stone Craft Ltd.

Unit 1, 56 Bramsteele Road, Brampton, Ontario

Universal Resource Recovery Inc.

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