

MANSFIELD PLUMBING PRODUCTS, LLC
Perrysville, Ohio

FINANCIAL STATEMENTS
December 31, 2015 and 2014

MANSFIELD PLUMBING PRODUCTS, LLC
Perrysville, Ohio

FINANCIAL STATEMENTS
December 31, 2015 and 2014

CONTENTS

| | |
|--|---|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| FINANCIAL STATEMENTS | |
| STATEMENTS OF FINANCIAL POSITION | 3 |
| STATEMENTS OF INCOME | 4 |
| STATEMENTS OF COMPREHENSIVE INCOME | 5 |
| STATEMENTS OF CHANGES IN EQUITY | 6 |
| STATEMENTS OF CASH FLOWS | 7 |
| NOTES TO FINANCIAL STATEMENTS | 8 |

INDEPENDENT AUDITOR'S REPORT

Member
Mansfield Plumbing Products, LLC
Perrysville, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Mansfield Plumbing Products, LLC, which comprise the statements of financial position as of December 31, 2015 and 2014, and the statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mansfield Plumbing Products, LLC as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
February 4, 2016

MANSFIELD PLUMBING PRODUCTS, LLC
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014
(Dollars in Thousands)

| | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 378 | \$ 360 |
| Receivables, net | 8,161 | 9,174 |
| Inventories, net | 13,209 | 12,939 |
| Other current assets | <u>673</u> | <u>223</u> |
| Total current assets | 22,421 | 22,696 |
| Property, plant and equipment, net | 19,399 | 18,394 |
| Other assets | | |
| Goodwill | 33,328 | 33,328 |
| Intangible asset | <u>8,500</u> | <u>8,500</u> |
| | <u>41,828</u> | <u>41,828</u> |
| | <u>\$ 83,648</u> | <u>\$ 82,918</u> |
| LIABILITIES AND MEMBER'S EQUITY | | |
| Current liabilities | | |
| Revolving credit loan, net | \$ 2,361 | \$ 1,560 |
| Current portion of long-term debt | 400 | 400 |
| Accounts payable and accrued liabilities | <u>10,536</u> | <u>13,983</u> |
| Total current liabilities | 13,297 | 15,943 |
| Long-term debt, net of current portion | 200 | 600 |
| Accrued employee benefit obligations | <u>5,728</u> | <u>5,402</u> |
| Total liabilities | 19,225 | 21,945 |
| Member's equity | | |
| Member's investment | 57,136 | 57,263 |
| Accumulated other comprehensive loss | (12,411) | (12,855) |
| Retained earnings | <u>19,698</u> | <u>16,565</u> |
| Total member's equity | <u>64,423</u> | <u>60,973</u> |
| | <u>\$ 83,648</u> | <u>\$ 82,918</u> |

See accompanying notes to financial statements.

MANSFIELD PLUMBING PRODUCTS, LLC
STATEMENTS OF INCOME
Years ended December 31, 2015 and 2014
(Dollars in Thousands)

| | <u>2015</u> | <u>2014</u> |
|--|-----------------|-----------------|
| Net sales | \$ 98,713 | \$ 100,520 |
| Cost of sales | <u>82,677</u> | <u>80,737</u> |
| Gross profit | 16,036 | 19,783 |
| Selling, general and administrative expenses | <u>11,686</u> | <u>12,826</u> |
| Income before other expense | 4,350 | 6,957 |
| Other expense | | |
| Interest expense | 120 | 285 |
| Other expense | <u>94</u> | <u>59</u> |
| | <u>214</u> | <u>344</u> |
| Net income | <u>\$ 4,136</u> | <u>\$ 6,613</u> |

See accompanying notes to financial statements.

MANSFIELD PLUMBING PRODUCTS, LLC
STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2015 and 2014
(Dollars in Thousands)

| | <u>2015</u> | <u>2014</u> |
|---|-----------------|-----------------|
| Net income | \$ 4,136 | \$ 6,613 |
| Other comprehensive income (loss): | | |
| Actuarial losses on defined benefit plans | <u>(559)</u> | <u>(4,831)</u> |
| Comprehensive income | <u>\$ 3,577</u> | <u>\$ 1,782</u> |

See accompanying notes to financial statements.

MANSFIELD PLUMBING PRODUCTS, LLC
STATEMENTS OF CHANGES IN EQUITY
Years ended December 31, 2015 and 2014
(Dollars in Thousands)

| | <u>Member's Investment</u> | <u>Accumulated Other Comprehensive Loss</u> | <u>Retained Earnings</u> | <u>Total Member's Equity</u> |
|---|--------------------------------|---|------------------------------|--------------------------------------|
| Balance at January 1, 2014 | \$ 57,263 | \$ (8,024) | \$ 9,952 | \$ 59,191 |
| Net income | - | - | 6,613 | 6,613 |
| Actuarial losses on defined benefit plans | <u>-</u> | <u>(4,831)</u> | <u>-</u> | <u>(4,831)</u> |
| Balance at December 31, 2014 | <u>57,263</u> | <u>(12,855)</u> | <u>16,565</u> | <u>60,973</u> |
| Net income | - | - | 4,136 | 4,136 |
| Actuarial losses on defined benefit plans | - | (559) | - | (559) |
| Member distributions | (127) | - | - | (127) |
| Reclassification of accumulated other comprehensive loss of terminated defined benefit plan | <u>-</u> | <u>1,003</u> | <u>(1,003)</u> | <u>-</u> |
| Balance at December 31, 2015 | <u>\$ 57,136</u> | <u>\$ (12,411)</u> | <u>\$ 19,698</u> | <u>\$ 64,423</u> |

See accompanying notes to financial statements.

MANSFIELD PLUMBING PRODUCTS, LLC
STATEMENTS OF CASH FLOWS
Years ended December 31, 2015 and 2014
(Dollars in Thousands)

| | <u>2015</u> | <u>2014</u> |
|---|----------------|----------------|
| Cash flows from operating activities | | |
| Net income | \$ 4,136 | \$ 6,613 |
| Adjustments to reconcile net income to net cash provided from operating activities: | | |
| Depreciation | 2,217 | 2,083 |
| Amortization of deferred financing fees | 34 | 49 |
| Changes in operating assets and liabilities | | |
| Receivables | 1,013 | (1,324) |
| Inventories | (270) | (45) |
| Other assets | (450) | (53) |
| Accounts payable | (2,054) | 1,795 |
| Accrued liabilities and accrued employee benefit obligations | <u>(1,626)</u> | <u>(1,223)</u> |
| Net cash provided by operating activities | 3,000 | 7,895 |
| Cash flows from investing activities | | |
| Capital expenditures | <u>(3,222)</u> | <u>(1,805)</u> |
| Net cash used in investing activities | (3,222) | (1,805) |
| Cash flows from financing activities | | |
| Proceeds from revolving credit loans | 100,014 | 95,848 |
| Payments on revolving credit loans | (99,239) | (98,669) |
| Payment of deferred financing fees | (8) | - |
| Payments on long-term debt | (400) | (3,400) |
| Member contributions | - | - |
| Member distributions | <u>(127)</u> | <u>-</u> |
| Net cash provided by (used in) financing activities | <u>240</u> | <u>(6,221)</u> |
| Net change in cash | 18 | (131) |
| Cash at beginning of year | <u>360</u> | <u>491</u> |
| Cash at end of year | <u>\$ 378</u> | <u>\$ 360</u> |
| Supplemental disclosures of cash flow information | | |
| Cash paid for interest | \$ 87 | \$ 276 |

See accompanying notes to financial statements.

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 1 – GENERAL INFORMATION

Mansfield Plumbing Products, LLC (the “Company”) is a manufacturer of high quality vitreous china toilets, lavatories and urinals, plastic plumbing fittings, acrylic whirlpool tubs and shower bases. The Company’s products are sold throughout North America. The Company is a limited liability company organized under the laws of Delaware, incorporated on April 20, 2000, by five investing partners. On December 1, 2000, the Company acquired the assets and assumed the liabilities of Mansfield Plumbing Products, Inc. and SWC Industries, Inc.

On February 9, 2004, 100% of the Company’s membership interests were acquired by Ceramicorp, Inc. (“Ceramicorp”). The purchase price of the membership interests was \$62,500, subject to certain adjustments, and consisted of cash of \$42,481 and debt of \$20,019. The transaction was accounted for as a purchase. Under the purchase method of accounting for business acquisitions, which was pushed down to the Company, the purchase price paid by Ceramicorp was allocated to the assets acquired and liabilities assumed based upon fair values.

NOTE 2 - BASIS OF PRESENTATION

The financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB).

The financial statements were approved and authorized for issue on February 4, 2016.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash: The Company maintains deposit accounts in financial institutions. The Company considers short-term cash investments with a maturity of 90 days or less to be cash equivalents. The Company had no restricted cash representing compensating balances as of December 31, 2015 and 2014.

Revenue recognition: Revenue is measured at the fair value of the consideration received or receivable. Sales are recorded net of returns, price concessions and other discounts.

Sales are recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All of the Company's revenue for the years ended December 31, 2015 and 2014 was derived from the sale of goods.

Receivables: The Company accounts for trade receivables based on amounts billed to customers. Past due receivables are determined based on contractual terms. The Company does not accrue interest on any of its trade receivables. The majority of the Company's accounts receivable is due from companies in the construction and distribution industries. Credit is extended based on evaluation of a customers' financial condition, and generally, collateral is not required. Accounts receivable are generally due within 45 days and are stated at amounts due from customers net of an allowance for doubtful accounts.

Significant Concentrations: Sales to the Company's largest customer amounted to \$19,353 and \$18,233 and comprised approximately 19% and 18% of net sales for the years ended December 31, 2015 and 2014, respectively. Accounts receivable from the same customer was approximately 21% and 24% of net receivables at December 31, 2015 and 2014, respectively.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is determined by management based on the Company's historical losses, specific customer circumstances and general economic conditions. Periodically, management reviews accounts receivable and records an allowance for specific customers based on current circumstances and charges off the receivable against the allowance when all attempts to collect the receivable have failed. The Company additionally determines a general provision based on historical experience of bad debt as a percentage of receivables. The general provision is reviewed on an annual basis for any material change in trend.

Inventories: Inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price less estimated cost of completion and selling cost. Cost includes raw materials, labor and manufacturing overhead. The Company uses the first-in, first-out method of accounting for inventory. Management establishes a reserve for excess and obsolete inventories based on past sales, usage and current customer demand.

Property, Plant and Equipment: Property, plant and equipment acquired after the date of the Company's first-time adoption of IFRS are carried at cost, less accumulated depreciation. Cost includes borrowing costs capitalized, when applicable. Property, plant and equipment owned by the Company at January 1, 2014 are carried at deemed cost based on appraised values as of that date that approximate fair value.

Related cost and accumulated depreciation for an item of property, plant and equipment are removed from the accounts upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss. Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expensed as incurred.

The Company provides for depreciation of property, plant and equipment principally by straight-line methods over the expected useful lives of the assets.

| | |
|------------------------------------|----------|
| Buildings | 39 years |
| Machinery and equipment | 10 years |
| Kiln | 15 years |
| Computers | 3 years |
| Office equipment and miscellaneous | 5 years |
| Autos and trucks | 7 years |

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill and Intangible Asset: Goodwill represents the excess purchase price over the fair value of assets acquired through acquisition. Goodwill has been allocated for impairment testing purposes to Mansfield Plumbing Products, LLC as the cash-generating unit. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified. Based on this assessment, management has determined there is no impairment of goodwill at December 31, 2015 and 2014.

The Company's intangible asset consists of a business trademark acquired through acquisition. Management performs an annual impairment review of its indefinite lived business trademark. Based upon this review, management has determined that no impairment of its business trademark exists at December 31, 2015 and 2014.

The recoverable amount of the cash generating unit is determined based on a value in use calculation utilizing five year management projections of future debt-free distributable cash flows and a three percent long-term assumed annual growth rate of distributable cash flows for periods after the five-year forecast. A weighted average cost of capital, incorporating information from external valuation specialists, is utilized to discount the future estimated distributable cash flows. An appropriate cash flow structure for purposes of determining the weighted average cost of capital incorporates capital structure information for public company industry participants. The reasonableness of the cash generating unit's determined fair value is annually assessed against multiples of enterprise value to both sales and EBITDA for public company industry participants.

A fifteen percent decrease in the estimated fair value of the cash generating unit would not have resulted in an impairment of goodwill at December 31, 2015.

The recoverable amount of the Company's indefinite lived trademark is determined annually utilizing the Relief-From-Royalty Method. The applicable sales base for valuing the trademark is equal to the total sales of the cash generating unit, all of which incorporate the Company's brands. A royalty rate, consistently applied, has been determined with the assistance of external valuation specialists. The required rate of return utilized to capitalize projected royalty income is a weighted average cost of capital determined for the cash generating unit utilizing an assumption, based on input from external valuation specialists, that the strength of the Company's trademark would permit the Company to modestly borrow against the intangible asset.

A fourteen percent decrease in the estimated fair value of the trademark would not have resulted in an impairment of the trademark at December 31, 2015.

Impairment of Long-Lived Assets: The Company continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision. In evaluating whether these long-lived assets are recoverable, the Company estimates the sum of the expected future cash flows, undiscounted and without interest charges derived from such assets over their remaining useful life. The Company has determined that no impairment of long-lived assets exists at December 31, 2015 and 2014.

Environmental Remediation: The Company records liabilities when environmental assessments indicate that remedial efforts are probable and that costs can be reasonably estimated. Costs of future expenditures do not reflect any claims for recoveries. At December 31, 2015 and 2014, the Company had no recorded liability for environmental assessments.

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MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During 2003, the Company signed a Findings and Orders Agreement with the Ohio Environmental Protection Agency (OEPA) requiring the Company to establish and fund a trust to be used for future environmental remediation of an existing Company landfill, and to monitor this landfill for a period of 30 years subsequent to closure. Such trust, in the form of an escrow account, was fully funded by the Company in accordance with the agreement. At December 31, 2015 and 2014, the escrow account had a balance of \$647 and \$943, respectively, as required by the OEPA. The above mentioned escrow account is not reflected in the statements of financial position of the Company.

Provisions: Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Product liability claims for damages associated to product failure are generally recognized upon receipt if such claims are appropriate. An accrual is established based on historical experience of similar claims. The Company periodically assesses the adequacy of the accrual. When an identifiable cause issue establishes a basis for estimate of probable future exposure, a separate accrual is established to monitor these claims incorporating an accrual for future claims.

In addition to this liability, the Company expenses a portion of sales to the majority of its wholesale customers as a defective allowance in lieu of a warranty. For those wholesale and retail customer sales not subject to a defective allowance, the Company accrues a warranty liability for estimated costs in satisfaction of warranty obligations. The Company's estimate of costs to service warranty obligations is based upon historical experience and expectations of future conditions.

Leasing: Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Deferred Financing Fees: Deferred financing fees are amortized over the term of the related debt, or applicable period of such debt term and recorded at amortized cost using a method that approximates the effective interest method. Debt presented net of deferred financing fees under IFRS.

Retirement Benefit Costs: The employee benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Obligations for defined benefit pension plans are recorded based on actuarial techniques. Changes in funded status, based on actuarial estimates, are recorded in other comprehensive income and net periodic benefit costs are recorded through earnings.

Taxation: The Company is a limited liability company formed under state statutes and is taxed for federal and state purposes as a partnership. Therefore, the Company's member reports the Company's taxable income (loss) on its respective income tax return. Accordingly, no income tax expense has been recognized in the statements of income.

The Company recognizes interest and penalties related to unrecognized tax benefits as income tax expense which is included in other expense. Due to its pass-through status, the Company is not subject to U.S. federal income tax or state income tax, but is subject to Canadian income tax, which is reflected as other expense. The Company is no longer subject to income tax examinations by Canadian tax authorities for years ended December 31, 2010 and prior due to the expiration of the statute of limitations. The Company does not expect the total amount of unrecognized tax benefits, of which there were none at December 31, 2014 and 2013, to significantly change in the next 12 months.

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A tax position is recognized as a benefit only if it is more-likely-than-not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit is recorded.

Financial Instruments: Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are to be considered from the perspective of a market participant that holds the asset or owed the liability.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs may be used to measure fair value:

Level 1: Quoted prices in active markets for identical or similar assets and liabilities.

Level 2: Quoted prices for identical or similar assets and liabilities in markets that are not active or observable inputs other than quoted prices in active markets for identical or similar assets and liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

NOTE 4 – CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of these financial statements in compliance with IFRS requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Judgment is commonly used in determining whether a balance or transaction should be recognized in the financial statements and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated.

On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

Information about critical judgments in applying accounting policies that have the most significant effect on amounts recognized in the financial statements and estimates is included in the following areas:

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 4 – CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Pension benefits: The cost of defined benefit pension plans and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuation. The actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in the assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rate of corporate bonds with at least AA rating. The mortality rate is based on publicly available mortality tables.

Reserve for obsolete and slow-moving inventories: Inventory provisions include shrinkage, obsolescence and write-downs which take into account historical information related to sales trends and stock counts and represent the expected write-down between the estimated net realizable value and the original cost.

Allowance for doubtful accounts: The Company monitors its exposure for credit losses on its customer receivable balances and the credit worthiness of its customers on an ongoing basis and records related allowances for doubtful accounts. Allowances are estimated based upon specific customer balances, where a risk of default has been identified. A general provision is made for non-customer specific defaults.

Product liability reserves: The Company provides for expenses associated with product liability claims received. Additionally, when an identifiable cause issues establishes a basis for estimate of probable future exposure, a separate accrual is established to monitor these claims incorporating an accrual for future claims. Product liability reserves are subject to adjustment as new information develops or circumstances change that would affect the estimated liability. Management's reserves for product liability claims are based on past and current claims, the timing of amounts of related payments, the status of any ongoing litigation and the potential impact of defense and settlement initiatives. There are inherent uncertainties involved in estimating the value of claims, settlement costs and the effectiveness of the Company's defense and settlement initiatives.

NOTE 5 - RECEIVABLES

| | <u>2015</u> | <u>2014</u> |
|---------------------------------|---------------------|---------------------|
| Receivables | | |
| Trade receivables | \$ 8,242 | \$ 9,313 |
| Allowance for doubtful accounts | <u>(81)</u> | <u>(139)</u> |
| Total receivables, net | <u>\$ 8,161</u> | <u>\$ 9,174</u> |

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

| | <u>Land</u> | <u>Buildings</u> | <u>Machinery and Equipment</u> | <u>Construction in Process</u> | <u>Total Property and Equipment</u> |
|-------------------------------------|---------------|------------------|--------------------------------|--------------------------------|-------------------------------------|
| Cost | | | | | |
| Balance at January 1, 2014 | \$ 210 | \$ 3,442 | \$ 11,974 | \$ 3,046 | \$ 18,672 |
| Additions/ reclassifications | <u>-</u> | <u>41</u> | <u>2,795</u> | <u>(1,031)</u> | <u>1,805</u> |
| Balance at December 31, 2014 | 210 | 3,483 | 14,769 | 2,015 | 20,477 |
| Additions/ reclassifications | <u>-</u> | <u>155</u> | <u>1,551</u> | <u>1,516</u> | <u>3,222</u> |
| Balance at December 31, 2015 | <u>\$ 210</u> | <u>\$ 3,638</u> | <u>\$ 16,320</u> | <u>\$ 3,531</u> | <u>\$ 23,699</u> |
| Accumulated depreciation | | | | | |
| Depreciation | <u>\$ -</u> | <u>\$ 244</u> | <u>\$ 1,839</u> | <u>\$ -</u> | <u>\$ 2,083</u> |
| Balance at December 31, 2014 | - | 244 | 1,839 | - | 2,083 |
| Depreciation | <u>-</u> | <u>256</u> | <u>1,961</u> | <u>-</u> | <u>2,217</u> |
| Balance at December 31, 2015 | <u>\$ -</u> | <u>\$ 500</u> | <u>\$ 3,800</u> | <u>\$ -</u> | <u>\$ 4,300</u> |
| Net book value | | | | | |
| As of December 31, 2014 | \$ 210 | \$ 3,239 | \$ 12,930 | \$ 2,015 | \$ 18,394 |
| As of December 31, 2015 | 210 | 3,138 | 12,520 | 3,531 | 19,399 |

NOTE 7 – OTHER ASSETS

| | <u>2015</u> | <u>2014</u> |
|----------------------------|---------------|---------------|
| Other current assets | | |
| Prepayments | \$ 275 | \$ 188 |
| Other receivables | <u>398</u> | <u>35</u> |
| Total other current assets | <u>\$ 673</u> | <u>\$ 223</u> |

NOTE 8 - INVENTORIES

| | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|
| Inventories | | |
| Raw materials and supplies | \$ 2,658 | \$ 2,553 |
| Work in process | 1,178 | 929 |
| Finished goods | <u>9,973</u> | <u>9,903</u> |
| | 13,809 | 13,385 |
| Reserve for obsolete and slow-moving inventories | <u>(600)</u> | <u>(446)</u> |
| | <u>\$ 13,209</u> | <u>\$ 12,939</u> |

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 9 - DEBT

Debt consists of the following at December 31, 2015 and 2014:

| | <u>2015</u> | <u>2014</u> |
|--|---------------|---------------|
| Revolving credit loans | \$ 2,423 | \$ 1,649 |
| Deferred financing fees | (62) | (89) |
| PNC Term Loan | <u>600</u> | <u>1,000</u> |
| Total outstanding borrowings | 2,961 | 2,560 |
| Revolving credit loans classified as current, net of deferred financing fees | 2,361 | 1,560 |
| Current portion of long-term debt | <u>400</u> | <u>400</u> |
| Long-term debt, net of current portion | <u>\$ 200</u> | <u>\$ 600</u> |

On October 22, 2010, the Company entered into a \$21,000 promissory note with Banco de Bogota, which was guaranteed by ColCeramica S.A. ("ColCeramica"), an affiliated entity, and required no principal payments until maturity on October 22, 2013. This agreement provided for interest at the variable rate of 3.00% above the six month floating LIBOR rate and interest was first payable on April 22, 2011 and each 180 days thereafter.

On June 22, 2012, the Company entered into a \$15,000 Promissory Note with Banco de Bogota (the "Bank of Bogota Term Loan") in replacement of the \$21,000 promissory note agreement. The Bank of Bogota Term Loan was guaranteed by ColCeramica and required no principal payments until maturity on October 22, 2016. This agreement provided for interest at the variable rate of 3.00% above the six month floating LIBOR rate from June 22, 2012 to April 22, 2013 and at the variable rate of 3.25% above the six month floating LIBOR rate from April 23, 2013 to October 22, 2016. Interest on the Bank of Bogota Term Loan was first payable on October 22, 2012 and each 180 days thereafter.

The Company repaid the remaining principal outstanding of \$3,000 to Bank of Bogota on November 5, 2014. There was no prepayment penalty. The final interest payment of \$4 was paid to Bank of Bogota on November 5, 2014.

The Company and PNC Bank, National Association are party to a Revolving Credit, Term Loan and Security Agreement, as most recently amended on July 9, 2015 (the "Agreement"). The Agreement provides for \$15,000 of revolving credit loans (the "Revolver") and a term loan in the amount of \$2,000 ("PNC Term Loan"), with a maturity date of the Agreement of July 9, 2020.

The Revolver allows for the Company to borrow up to \$15,000 subject to certain restrictions based upon the level of secured assets, as defined in the Agreement, less any outstanding letters of credit not to exceed \$1,500. At December 31, 2015, the Company had \$9,120 of available borrowings under the Revolver; \$9,165 based upon the level of secured assets as defined in the Agreement less \$45 in outstanding letters of credit.

The Agreement contains both a subjective acceleration clause and a requirement that the Company maintain a lockbox arrangement whereby collections are forwarded to the lender for repayment of revolving credit loans. Accordingly, at December 31, 2015 and 2014, borrowings outstanding on the Revolver are classified as current in the accompanying statements of financial position.

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 9 – DEBT (Continued)

The PNC Term Loan requires monthly principal payments of approximately \$33.

Interest for both the Revolver and the PNC Term Loan is based upon a LIBOR rate plus an applicable margin corresponding to the leverage ratio for the trailing four quarter period ending on the last day of the most recently completed fiscal quarter as follows:

| LEVERAGE RATIO | Applicable Margin |
|--|-------------------|
| Less than or equal to 0.50 to 1.00 | 1.25% |
| Greater than 0.50 to 1.00 but less than or equal to 1.50 to 1.00 | 1.50% |
| Greater than 1.50 to 1.00 but less than or equal to 2.50 to 1.00 | 1.75% |
| Greater than 2.50 to 1.00 | 2.00% |

At December 31, 2015, the Company's effective interest rate for outstanding borrowings under the Revolver and PNC Term Loan was 1.68%. At December 31, 2014 the Company's effective interest rate was 2.53% for outstanding borrowings under the Revolver and 2.50% for amounts due under the PNC Term Loan. Interest on the Revolver and PNC Term Loan is payable in arrears on the first day of each month.

The Agreement requires the Company to comply with various financial, affirmative and restrictive covenants, including a minimum fixed charge coverage ratio. At December 31, 2015 and 2014, the company was in compliance with these covenants.

Approximate aggregate maturities of debt are as follows:

| | | |
|------|----|-------|
| 2015 | \$ | 400 |
| 2016 | | 2,623 |

NOTE 10 – PROVISIONS

Product Liability: The Company has a deductible of \$150 per occurrence under its product liability insurance, which covers product liability claims up to \$1,000 per occurrence. The Company also has excess insurance to cover product liability losses beyond the \$150 deductible and the \$1,000 coverage per occurrence.

| | 2015 | 2014 |
|--------------------------------|-----------------|-----------------|
| Liability at beginning of year | \$ 1,916 | \$ 1,782 |
| Provision | 780 | 1,145 |
| Claims paid | (1,380) | (1,011) |
| Liability at end of year | <u>\$ 1,316</u> | <u>\$ 1,916</u> |

Warranty: The Company's accrued warranty liability was \$363 and \$185 at December 31, 2015 and 2014, respectively.

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 11 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|
| Accounts payable and accrued liabilities | | |
| Trade payables | \$ 5,301 | \$ 7,355 |
| Accrued compensation and benefits | 1,538 | 1,703 |
| Other accrued liabilities | <u>3,697</u> | <u>4,925</u> |
| | <u>\$ 10,536</u> | <u>\$ 13,983</u> |

NOTE 12 - EMPLOYEE RETIREMENT BENEFIT PLANS

The Mansfield Plumbing Products, LLC Cash Balance Pension Plan ("Cash Balance Pension Plan") covers eligible salaried employees and eligible non-bargaining hourly employees of the Company. Benefits for this plan are provided based on defined contributions, a stated amount for each year of service. Effective July 31, 2007, the Company elected to freeze the Mansfield Plumbing Products, LLC Cash Balance Pension Plan. As of December 31, 2015, IRS and the Pension Benefit Guaranty Corporation (PBGC) approval was granted for termination of the plan and remaining liabilities have been transferred to an annuity provider.

The Mansfield Plumbing Products, LLC Retirement Plan for Hourly Employees ("Hourly Pension Plan") covers eligible hourly employees of the Company. Benefits for this plan are provided based on a stated amount for each year of service. Effective July 31, 2008, the Company elected to freeze the Mansfield Plumbing Products, LLC Retirement Plan for Hourly Employees.

The Company's funding policy for its plans is to make no less than the minimum annual contributions required by applicable governmental regulations.

Other benefits consist of post-retirement life and health-care benefits provided by the Company to certain of its former employees. The Company has two plans that provide these benefits to retirees. Benefits are determined on varying formulas based on age at retirement and years of active service. Health care benefits are contributory and the life insurance plans are noncontributory. The Company has not funded any of the post-retirement health care benefit liabilities. Contributions to the post-retirement health care plans are made by the Company as claims are incurred.

The Company recognizes the overfunded or underfunded status of its defined benefit post-retirement plans as an asset or liability in its statement of financial position and recognises changes in the funded status in the year in which the changes occur as other comprehensive income (loss). The Company is required to measure defined benefit plan assets and obligations as of December 31, the date of the Company's fiscal year-end.

Termination of Cash Balance Pension Plan: On March 26, 2015 the PBGC accepted the Company's Form 500 Filing for a Standard Plan Termination for the Mansfield Plumbing Products, LLC Cash Balance Pension Plan. In accordance with 29 Code of Federal Regulations (CFR) § 4041.26, the PBGC's 60-day review period ended on May 25, 2015 and in accordance with 29 CFR § 4041.28, distribution of plan assets through either lump sum payments or annuity purchases occurred by 180 days after the end of the PBGC review period. On November 5, 2015 a Sales Agreement between Mansfield Plumbing Products LLC and United of Omaha was signed and the transfer of the liability occurred on November 16, 2015.

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 12 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

Hourly Pension Plan Partial Settlement: In June 2014, the Company announced a special election window to offer voluntary lump sum payments to terminated vested participants of the Hourly Pension Plan who were not currently receiving benefits. The special election window was from August 1, 2014 to October 31, 2014 and provided participants with a one-time election within this period to receive a lump sum settlement of their pension benefits or not make the election and continue to be entitled to their pension benefits upon retirement. Participants with an aggregate pension benefit obligation of \$2,151 elected to receive a lump sum settlement and payments of this amount were made from existing plan assets during the fourth quarter of 2014.

Obligations and Funded Status:

| | <u>2015</u> | | <u>2014</u> | |
|--|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | <u>Pension</u> <u>Benefits</u> | <u>Other</u> <u>Benefits</u> | <u>Pension</u> <u>Benefits</u> | <u>Other</u> <u>Benefits</u> |
| Change in benefit obligation | | | | |
| Benefit obligation at beginning of year | \$ 32,994 | \$ 213 | \$ 30,445 | \$ 177 |
| Interest cost | 1,231 | 6 | 1,364 | 6 |
| Expected expenses | 496 | - | 235 | - |
| Settlement gain (loss) | 10 | - | (627) | - |
| Participant contributions | - | 1 | - | 1 |
| Actuarial (gain) loss | (1,467) | (19) | 5,079 | 43 |
| Settlement payments | (2,911) | - | (2,151) | - |
| Benefits paid | <u>(1,388)</u> | <u>(6)</u> | <u>(1,351)</u> | <u>(14)</u> |
| Benefit obligation at end of year | 28,965 | 195 | 32,994 | 213 |
| Change in plan assets | | | | |
| Fair value of plan assets at beginning of year | 27,780 | - | 28,974 | - |
| Actual gain on plan assets | (1,031) | - | 1,609 | - |
| Company contribution | 956 | 5 | 698 | 13 |
| Participant contributions | - | 1 | - | 1 |
| Settlement payments | (2,911) | - | (2,151) | - |
| Benefits paid | <u>(1,388)</u> | <u>(6)</u> | <u>(1,351)</u> | <u>(14)</u> |
| Fair value of plan assets at end of year | <u>23,406</u> | <u>-</u> | <u>27,779</u> | <u>-</u> |
| Funded status at end of year | <u>\$ (5,559)</u> | <u>\$ (195)</u> | <u>\$ (5,215)</u> | <u>\$ (213)</u> |

Amounts recognized in the statements of financial position consist of:

| | <u>2015</u> | | <u>2014</u> | |
|------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | <u>Pension</u> <u>Benefits</u> | <u>Other</u> <u>Benefits</u> | <u>Pension</u> <u>Benefits</u> | <u>Other</u> <u>Benefits</u> |
| Current liabilities | \$ - | \$ 26 | \$ - | \$ 26 |
| Noncurrent liabilities | <u>5,559</u> | <u>169</u> | <u>5,215</u> | <u>187</u> |
| | <u>\$ 5,559</u> | <u>\$ 195</u> | <u>\$ 5,215</u> | <u>\$ 213</u> |

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 12 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

Components of net periodic benefit cost for the years ended December 31, 2015 and 2014 are as follows:

| | <u>2015</u> | | <u>2014</u> | |
|--------------------------------|-------------------------|-----------------------|-------------------------|-----------------------|
| | <u>Pension Benefits</u> | <u>Other Benefits</u> | <u>Pension Benefits</u> | <u>Other Benefits</u> |
| Interest cost | \$ 1,231 | \$ 6 | \$ 1,364 | \$ 6 |
| Expected expenses | 496 | - | 235 | - |
| Expected return on plan assets | (1,016) | - | (1,316) | - |
| Pension settlement gain (loss) | 10 | - | (627) | - |
| Net periodic benefit cost | <u>\$ 721</u> | <u>\$ 6</u> | <u>\$ (344)</u> | <u>\$ 6</u> |

Amounts that have not been recognized as components of net periodic benefit cost and are included in accumulated other comprehensive loss at December 31, 2015 and 2014 are net actuarial loss of \$12,411 and \$12,855, respectively.

Assumptions: The weighted-average assumptions used at December 31 are as follows:

| | <u>2015</u> | | <u>2014</u> | |
|-----------------------------|-------------------------|-----------------------|-------------------------|-----------------------|
| | <u>Pension Benefits</u> | <u>Other Benefits</u> | <u>Pension Benefits</u> | <u>Other Benefits</u> |
| Discount rate | 2.90% and 4.10% | 3.00% | 3.45% and 3.80% | 2.85% |
| Health care cost trend rate | - | * | - | ** |

* 7.0% for 2015, decreasing to 5.0% for 2019

** 7.5% for 2014, decreasing to 5.0% for 2019

As of December 31, 2015 and 2014, the accumulated benefit obligation for the Company's pension plans was \$28,965 and \$32,994 respectively. As of December 31, 2015 and 2014, both of the Company's pension plans had accumulated benefit obligations in excess of plan assets. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for these pension plans were \$28,965, \$28,965, and \$23,406, respectively, as of December 31, 2015.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for these pension plans were \$32,994, \$32,994, and \$27,779, respectively, as of December 31, 2014. A one-percentage-point change in the assumed health care cost trend rate would have the following effects.

| | <u>2015</u> | | <u>2014</u> | |
|---|-----------------|-----------------|-----------------|-----------------|
| | <u>Increase</u> | <u>Decrease</u> | <u>Increase</u> | <u>Decrease</u> |
| Effect on total of service and interest cost components | \$ - | \$ - | \$ - | \$ - |
| Effect on post-retirement benefit obligation | 11 | (10) | 13 | (12) |

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 12 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

Plan Assets: The fair value of the Company's pension plan assets at December 31 by asset category are as follows:

Quoted Prices in Active Markets for Identical Assets

| <u>Level 1</u> | <u>2015</u> | <u>2014</u> |
|------------------------------------|-------------|-------------|
| Domestic Equity Large Value | \$ 893 | \$ 1,190 |
| Domestic Equity Small / Mid Growth | 713 | 1,117 |
| Domestic Equity Small / Mid Value | 733 | 1,150 |
| Mutual Funds | | |
| Money Market | 437 | 704 |
| Domestic Equity Large Growth | 942 | 1,404 |
| Domestic Equity Large Value | - | 30 |
| Domestic Equity Small / Mid Growth | - | 30 |
| Domestic Equity Small / Mid Value | - | 30 |
| Domestic Fixed Income | - | 1,467 |
| International Growth | 857 | 671 |
| International Fixed Income | - | 361 |
| Global Equity | 373 | - |
| Blended Mid Growth | - | 727 |
| Long / Short | - | 52 |
| Tactical Allocation | - | 119 |
| Exchange Traded Funds | | |
| Domestic Equity Fund Large Core | 1,851 | 2,471 |
| International Equity Core | 1,359 | 1,402 |
| Emerging Markets | 959 | 1,831 |

Significant Other Observable Inputs

| <u>Level 2</u> | | |
|----------------------|------------------|------------------|
| Fixed Income | | |
| Corporate | 7,233 | 7,197 |
| Governmental | 2,697 | 1,004 |
| International | 282 | 257 |
| Hedge Funds of Funds | 3,946 | 4,445 |
| Cash | <u>131</u> | <u>120</u> |
| Total | <u>\$ 23,406</u> | <u>\$ 27,779</u> |

Level 1 assets consist of the plans' investments in common equity, mutual funds, and exchange traded funds. Fair values for these securities are based on unadjusted, quoted prices for identical assets in an active market.

Level 2 assets consist of the plans' investments in fixed income securities and hedge funds of funds. Fair value of corporate, governmental, and international fixed income securities is based on most recent bid prices in the principal market in which such securities are traded, or are valued based on information provided by a pricing service. Fair value of shares of hedge funds of funds is based on the net asset values of the shares as reported by the fund managers at year end.

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 12 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

The investment objectives of the hedge funds of funds include capital appreciation through the use of leverage and short positions, as well broad diversification with positions in global currency, financial and commodity markets. A portion of the plans' investment in hedge funds of funds allow for quarterly redemptions, with 65 days advance notice. Otherwise, there are no restrictions on redemptions or advance notice requirements.

The Company, or its agents, exercise reasonable skill and caution in making investment decisions. A number of factors are evaluated in determining if an investment strategy will be employed by the Company's master pension trusts. These factors include, but are not limited to, investment style, investment risk, investment manager performance and costs.

The primary investment objective of the Company's master pension trust for the Hourly Pension Plan is to maximize the value of plan assets focusing on capital preservation, current income and long-term growth of capital and income. The plans' assets are typically invested in a broad range of equities, debt, hedge funds and cash instruments. The Company's investment strategies for the Hourly Pension Plan resulted in a targeted investment allocation of 1% short term investments, 44% debt securities, 38% equity securities, and 17% non-traditional investments, principally hedge funds.

Contributions: The Company expects to contribute \$26 to its other post-retirement benefit plan and \$964 to its Hourly Pension Plan in 2016.

Estimated Future Benefit Payments: The following benefit payments are expected to be paid:

| | <u>Pension Benefits</u> | <u>Other Benefits</u> |
|-----------------|-----------------------------|---------------------------|
| 2016 | \$ 1,369 | \$ 26 |
| 2017 | 1,407 | 24 |
| 2018 | 1,460 | 22 |
| 2019 | 1,500 | 20 |
| Years 2020-2024 | 9,777 | 69 |

Other: The Company also has two defined contribution plans for eligible employees, the Mansfield Plumbing Products LLC Employee Savings Plan for Ohio Hourly Employees and the Ceramicorp, Inc. Employee Savings Plan. Contributions to these plans by the Company are determined based on a percentage of the contributions made by the employee. Company contributions to these plans were \$247 and \$223 for the years ended December 31, 2015 and 2014, respectively.

NOTE 13 – DEFERRED COMPENSATION

On November 28, 2012, the Company entered into deferred compensation arrangements with certain key employees. Employees have the opportunity to earn phantom shares for each of the years ended December 31, 2013 through 2017, contingent upon the Company achieving share price goals as defined in the agreements. Earned phantom shares cumulatively vest over five years, with 33% of then outstanding shares vested at December 31, 2015, 67% of then outstanding shares vested at December 31, 2016 and 100% of then outstanding shares vested at December 31, 2017. Vested phantom shares outstanding are exercisable each year at the share price as defined in the agreements and are paid in cash.

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 13 – DEFERRED COMPENSATION (Continued)

For the years ended December 31, 2015 and 2014, phantom shares earned totaled -0- and 6,174, respectively. Total earned phantom shares outstanding were 11,565 and 13,717 at December 31, 2015 and 2014, respectively.

A participant in the plan transferred services to an affiliated entity on January 1, 2015. In accordance with the plan agreement, the participant's 2,152 earned shares as of December 31, 2014 became immediately vested as of January 1, 2015. Payment of the value of these earned shares in the amount of \$111 was made as of December 31, 2015. No other phantom shares were exercised, expired or forfeited. Remaining phantom shares vested were 3,855 and -0- as of December 31, 2015 and 2014.

The Company recognized expense of \$56 and \$304 in 2015 and 2014, respectively, based on the phantom shares earned, the applicable vesting period for the earned shares for continuing participants, the provision recognized in 2014 for the transferring employee and the December 31, 2015 and 2014 share prices as defined. Corresponding liabilities of \$325 and \$381 at December 31, 2014 and 2013, respectively, are included in accounts payable and accrued liabilities on the statement of financial position. Unrecognized expense is recorded over the remaining years of the phantom share program in accordance with the defined vesting period of the earned phantom shares. Total unrecognized expense related to all phantom shares earned and valued at the December 31, 2015 and 2014 share prices are approximately \$105 and \$330, respectively.

NOTE 14 – CAPITAL MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the Company's capital structure.

The capital structure of the Company consists of net debt (borrowings as detailed in Note 9 offset by cash balances) and equity of the Company.

The Company is subject to external borrowing restrictions.

| | <u>2015</u> | <u>2014</u> |
|--------------------------|---------------|---------------|
| Outstanding borrowings | \$ 2,961 | \$ 2,560 |
| Cash balances | <u>(378)</u> | <u>(360)</u> |
| Net debt | 2,583 | 2,200 |
| Equity | <u>64,423</u> | <u>60,973</u> |
| Net debt to equity ratio | 4.01% | 3.61% |

NOTE 15 - RELATED PARTY TRANSACTIONS

The Company purchased approximately \$4,461 and \$4,904 of finished goods from ColCeramica, a 100% owner of Ceramicorp, during the years ended December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, the Company had accounts payable to ColCeramica related to these purchases of \$1,853 and \$1,369, respectively, which is included in accounts payable and accrued liabilities on the accompanying statements of financial position. Additionally, at December 31, 2015 and 2014, the Company had in-transit purchases from ColCeramica of \$212 and \$188, respectively, which is also included in accounts payable and accrued liabilities on the accompanying statements of financial position.

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 15 - RELATED PARTY TRANSACTIONS (Continued)

In November of 2014, the Company purchased a bowl casting machine from ColCeramica for \$463.

The Company is party to an Intercompany Service Agreement with Ceramicorp (the "Management Agreement"). The Management Agreement calls for the Company to pay Ceramicorp a \$50 monthly fee for executive, management, financial, tax, legal, risk management, technical, consulting, administrative and other services described in the Management Agreement. Effective January 1, 2009, Ceramicorp ceased charging the Company the \$50 monthly fee, although the Company continues to receive these services. Accordingly, the Company did not recognize any management fee expense during the years ended December 31, 2015 and 2014.

NOTE 16 – COMPENSATION OF KEY MANAGEMENT PERSONNEL

The Company's key management personnel are members of the executive team of the Company. Wages, salaries and other employee benefits for key management personnel are included in expense for their respective functions. Variable compensation for key management personnel is included in general and administrative expenses.

Compensation awarded to key management personnel is comprised of the following:

| | <u>2015</u> | <u>2014</u> |
|--|-----------------|-----------------|
| Wages, salaries and other employee benefits | \$ 1,436 | \$ 1,342 |
| Short term and long term variable compensation | <u>56</u> | <u>692</u> |
| Total | <u>\$ 1,492</u> | <u>\$ 2,034</u> |

NOTE 17 – LEASING ARRANGEMENTS

The Company is obligated under operating leases for certain warehouse space, manufacturing equipment, computers and office equipment. Future minimum lease obligations under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) at December 31, 2015 are as follows:

| | |
|------|---------------|
| 2016 | \$ 483 |
| 2017 | 203 |
| 2018 | 7 |
| 2019 | 2 |
| 2020 | <u>2</u> |
| | <u>\$ 697</u> |

Lease expense amounted to approximately \$659 and \$699 during the years ended December 31, 2015 and 2014, respectively.

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 18 - EXPENSE BY NATURE

| | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|
| Changes in inventories of finish goods and work in process | \$ 31,319 | \$ 26,559 |
| Raw materials | 23,096 | 25,879 |
| Salaries and benefits | 16,656 | 17,320 |
| Freight | 5,223 | 5,406 |
| Commissions | 4,196 | 4,250 |
| Product liability and warranty | 4,026 | 3,965 |
| Warehouse and other | 2,350 | 2,457 |
| Depreciation and amortization | 2,251 | 2,133 |
| Advertising | 1,914 | 1,834 |
| Other | 1,043 | 1,114 |
| Consulting expenses | 573 | 706 |
| Insurance | 520 | 583 |
| Contract services | 515 | 436 |
| Travel | 411 | 482 |
| Taxes and licenses | 228 | 517 |
| Bank fees | 134 | 128 |
| Maintenance | <u>122</u> | <u>138</u> |
| | <u>\$ 94,577</u> | <u>\$ 93,907</u> |

NOTE 19 – TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

These financial statements for the years ended December 31, 2015 and December 31, 2014 are the first that the Company has prepared in accordance with IFRS. The Company's financial statements were previously prepared in accordance with United States generally accepted accounting principles (US GAAP). Adjustments have been made by the Company to restate financial information as previously presented in accordance with US GAAP to an IFRS basis as of January 1, 2014 and December 31, 2014. The accounting policies set out in Note 3 and the application of IFRS 1 have been applied in preparing the financial statements for the years ended December 31, 2015 and 2014.

Exemptions applied: IFRS 1 First-Time adoption of International Financial Reporting Standards allows first-time adopters certain exceptions from the retrospective application of certain IFRS.

The Company has applied the following exemptions:

Goodwill: No adjustment resulted from the conversion to IFRS. The Company has elected an exemption from the application of IFRS related to business combinations prior to January 1, 2014. Accordingly, IFRS 3 has not been retrospectively applied to business combinations that occurred before January 1, 2014.

Property, plant and equipment: Fair value at the opening statement of financial position date was used as deemed cost, with subsequent measurements under the cost model for all types of assets. Depreciation is calculated using the straight line method, based on useful lives as estimated by the appraiser.

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 19 – TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
(Continued)

Reconciliation of Previously Reported Statements of Financial Position under US GAAP to IFRS

| | US GAAP Balance 1/1/2014 | PP&E | IFRS Adjustments Deferred Fin. Fees | IFRS Balance 1/1/2014 | US GAAP Balance 12/31/2014 | Pension | PP&E | IFRS Adjustments Deferred Fin. Fees | IFRS Balance 12/31/2014 |
|----------------------------------|--------------------------------|-----------------|---|-----------------------------|----------------------------------|-----------------|-----------------|---|-------------------------------|
| ASSETS | | | | | | | | | |
| Current Assets | | | | | | | | | |
| Cash | \$ 491 | \$ - | \$ - | \$ 491 | \$ 360 | \$ - | \$ - | \$ - | \$ 360 |
| Receivables | 7,850 | - | - | 7,850 | 9,174 | - | - | - | 9,174 |
| Inventories | 12,894 | - | - | 12,894 | 12,939 | - | - | - | 12,939 |
| Other current assets | 170 | - | - | 170 | 223 | - | - | - | 223 |
| Total current assets | 21,405 | - | - | 21,405 | 22,696 | - | - | - | 22,696 |
| Property, plant and equipment | 15,000 | 3,672 | - | 18,672 | 15,111 | - | 3,283 | - | 18,394 |
| Goodwill | 33,328 | - | - | 33,328 | 33,328 | - | - | - | 33,328 |
| Intangible assets | 8,500 | - | - | 8,500 | 8,500 | - | - | - | 8,500 |
| Deferred financing fees | 138 | - | (138) | - | 89 | - | - | (89) | - |
| | \$ 78,731 | \$ 3,672 | \$ (138) | \$ 81,905 | \$ 79,724 | \$ - | \$ 3,283 | \$ (89) | \$ 82,918 |
| LIABILITIES AND EQUITY | | | | | | | | | |
| Current liabilities | | | | | | | | | |
| Revolving credit loan | \$ 4,470 | \$ - | \$ (138) | \$ 4,332 | \$ 1,649 | \$ - | \$ - | \$ (89) | \$ 1,560 |
| Current portion of LTD | 400 | - | - | 400 | 400 | - | - | - | 400 |
| Accounts payable | 5,560 | - | - | 5,560 | 7,355 | - | - | - | 7,355 |
| Accrued liabilities | 6,798 | - | - | 6,798 | 6,628 | - | - | - | 6,628 |
| Total current liabilities | 17,228 | - | (138) | 17,090 | 16,032 | - | - | (89) | 15,943 |
| LTD, net of current portion | 4,000 | - | - | 4,000 | 600 | - | - | - | 600 |
| Accr. EE benefit obligations | 1,624 | - | - | 1,624 | 5,402 | - | - | - | 5,402 |
| Total liabilities | 22,852 | - | (138) | 22,714 | 22,034 | - | - | (89) | 21,945 |
| Member's Equity | | | | | | | | | |
| Member's investment | 57,263 | - | - | 57,263 | 57,263 | - | - | - | 57,263 |
| Accum. other comp. loss | (8,024) | - | - | (8,024) | (11,853) | (1,002) | - | - | (12,855) |
| Retained earnings | 6,280 | 3,672 | - | 9,952 | 12,280 | 1,002 | 3,283 | - | 16,565 |
| Total member's equity | 55,519 | 3,672 | - | 59,191 | 57,690 | - | 3,283 | - | 60,973 |
| | \$ 78,731 | \$ 3,672 | \$ (138) | \$ 81,905 | \$ 79,724 | \$ - | \$ 3,283 | \$ (89) | \$ 82,918 |
| Net Sales | | | | | \$ 100,520 | \$ - | \$ - | \$ - | \$ 100,520 |
| Cost of sales | | | | | 80,568 | (220) | 389 | - | 80,737 |
| Gross profit | | | | | 19,952 | 220 | (389) | - | 19,783 |
| Selling, general and adm. | | | | | 12,826 | - | - | - | 12,826 |
| Pension settlement cost | | | | | 782 | (782) | - | - | - |
| Income before other expense | | | | | 6,344 | 1,002 | (389) | - | 6,957 |
| Other expense | | | | | | | | | |
| Interest expense | | | | | 285 | - | - | - | 285 |
| Other expense | | | | | 59 | - | - | - | 59 |
| | | | | | 344 | - | - | - | 344 |
| Net income | | | | | \$ 6,000 | \$ 1,002 | \$ (389) | \$ - | \$ 6,613 |

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 19 – TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
(Continued)

Summary and Description of IFRS Adjustments

Property, plant and equipment: The fair value of property, plant and equipment at January 1, 2014 was determined by an appraiser to be \$15,626. The recorded value under US GAAP at January 1, 2014 was \$11,954. The fair value was elected as deemed cost and recognized at the date of transition to IFRS with an increase to property, plant and equipment of \$3,672 and a corresponding increase to retained earnings for the same amount at January 1, 2014. Depreciation expense of \$389 was recognized for the year ended December 31, 2014 related to the increased value of property, plant and equipment that was recognized at January 1, 2014.

Pensions: There are no adjustments for pensions at January 1, 2014 as the reported amounts in other comprehensive income and retained earnings at January 1, 2014 are the same under US GAAP and IFRS in accordance with IAS 19, paragraphs 120 – 122. An adjustment of \$1,002 to reduce pension expense with a corresponding reduction to accumulated other comprehensive loss was recognized for the year ended December 31, 2014. The adjustment includes a \$1,409 reduction to pension settlement costs. \$782 was recorded to pension settlement expense in 2014 under US GAAP for settlement of obligations under a lump sum window offered to participants in the Mansfield Plumbing Products, LLC Retirement Plan for Hourly Employees. The expense reflected recognition of unrecorded expense related to the settlement obligations under US GAAP settlement accounting. A credit of \$627 is reflected under IFRS reflecting the lesser value of the settlement amounts versus the actuarially determined obligations.

2014 pension expense, unrelated to settlement costs, is \$407 greater under IFRS principally reflecting the explicit inclusion in pension expense of plan administrative costs and the use of the same discount rate as used in the valuation of plan obligations to determine the expected return on assets. Under US GAAP an expected long term return on assets was used to determine the expected return on assets.

Deferred financing fees: Under IFRS, deferred financing fees are deducted from the carrying value of the related liability and not recorded as a separate asset as allowed under US GAAP. The carrying value of deferred financing fees of \$138 at January 1, 2014 and \$89 at December 31, 2014 have been reclassified from a separate asset to an off-set of the recorded debt balance. There is no adjustment to the recognized expense for the year ended December 31, 2014 as the expense recognized under US GAAP approximated the effective interest method over the term of the debt as required by IFRS.

NOTE 20 - CONTINGENT LIABILITIES

Litigation: The Company is involved in several lawsuits arising in the ordinary course of business, however, it is the opinion of the Company's management that these lawsuits are either without merit, are covered by insurance or are adequately reserved for in the accompanying statements of financial position, and the ultimate disposition of pending litigation will not be material in relation to the Company's financial position or results of operations.

Self-Insurance: The Company is self-insured for workers' compensation in Ohio and was self-insured for workers' compensation at its Kilgore, Texas facility. A liability of \$121 and \$166 was recorded at December 31, 2015 and 2014, respectively, to estimate payment of claims pending on those dates.

(Continued)

MANSFIELD PLUMBING PRODUCTS, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014
(Dollars in Thousands, Except Share Amounts)

NOTE 20 - CONTINGENT LIABILITIES (Continued)

The Company is also self-insured for employee health benefits. Self-insured losses are based on management's estimates of the aggregate liability for uninsured claims based on the Company's historical claims experience. The self-insured plan includes \$175 specific stop loss insurance per individual per year with an aggregate limit of \$1,000. A liability of \$616 and \$485 was recorded at December 31, 2015 and 2014, respectively, to estimate payment of claims pending on those dates.

Indemnification and Hold Harmless Agreement: The Company is party to an indemnification and hold harmless agreement with an insurer for one of the Company's insurance programs. In exchange for the return of \$424 in escrow monies held by the insurer in excess of required loss reserves received September 2014, the Company has agreed to indemnify the insurer for any costs incurred should a claim be made for the monies by a third party. The Company warrants that it is the only insured entitled to the return of the funds. At December 31, 2015 and 2014, no amount has been accrued for any estimated cost under the obligation as it is the opinion of the Company's management that such claims would be unlikely to occur and would be without merit.

NOTE 21 – EVENTS AFTER THE REPORTING PERIOD

The Company has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2015, for items that should be recognized or disclosed in these financial statements. This evaluation was conducted through February 4, 2016, the date these financial statements were available to be issued.