

**ARBOR MEMORIAL SERVICES INC.**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**NOTICE IS HEREBY GIVEN** that the annual meeting of shareholders (the "Meeting") of Arbor Memorial Services Inc. (the "Company") will be held in the Brulé Room, The Old Mill, 21 Old Mill Road, Toronto, Ontario, on March 2, 2006 at 10:00 a.m. (Toronto time) for the following purposes:

1. to receive the financial statements for the year ended October 31, 2005 and the auditors' report thereon as well as the annual report;
2. to elect directors;
3. to appoint auditors and to authorize the directors to fix the auditors' remuneration; and
4. to transact such further and other business as may properly come before the Meeting or any adjournments thereof.

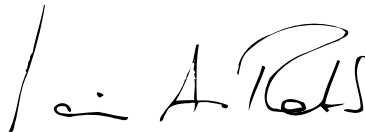
The specific details of the matters proposed to be put before the Meeting are set forth in the Management Information Circular accompanying this notice. Also enclosed are the Company's annual report and a form of proxy.

Holders of Class A Voting Shares are entitled to vote at the Meeting, either in person or by proxy. Those shareholders who are unable to attend the Meeting in person are requested to date, sign and return the enclosed form of proxy in the envelope enclosed for that purpose. Completed proxies must be delivered to either the registered office of the Company which is 2 Jane Street, Toronto, Ontario, M6S 4W8 or to its transfer agent, Computershare Investor Services Inc., 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1 not later than 10:00 a.m. (Toronto time) on the day which is two business days preceding the date of the Meeting or any adjournments thereof.

**Holders of Class B Non-Voting Shares are invited to attend the Meeting. Such shares are not entitled to be voted at the Meeting.**

**DATED** at Toronto, this 20th day of January, 2006.

**BY ORDER OF THE BOARD OF DIRECTORS**



**Iain A. Robb**  
**Secretary**

**ARBOR MEMORIAL SERVICES INC.**  
**MANAGEMENT INFORMATION CIRCULAR**  
**GENERAL VOTING INFORMATION**

**Solicitation of Proxies**

**This management information circular (the “Management Information Circular”) is furnished in connection with the solicitation of proxies by or on behalf of the management of Arbor Memorial Services Inc. (the “Company”) for use at the annual meeting of the shareholders of the Company (the “Meeting”) to be held on March 2, 2006 in the Brulé Room, The Old Mill, 21 Old Mill Road, Toronto, Ontario, at 10:00 a.m. (Toronto time), and any adjournments thereof, for the purposes set forth in the accompanying notice of the meeting.** The cost of the solicitation of proxies by management will be borne by the Company. It is expected that the solicitation will be primarily by mail, but proxies may also be solicited personally or by telephone by regular officers or employees of the Company and by the Company’s registrar and transfer agent. In accordance with National Instrument 54-101, arrangements may be made with brokerage houses, and other intermediaries, clearing agencies, custodians, nominees and fiduciaries to forward solicitation materials to the beneficial owner of shares held of record by such persons, and the Company may reimburse such persons for reasonable fees and disbursements incurred by them in doing so.

Unless otherwise noted herein, all information set forth in this Management Information Circular is as at January 20, 2006. No person is authorized to give any information or to make any representations other than those contained in this Management Information Circular and, if given or made, such information must not be relied upon as having been authorized.

**Appointment and Use of Proxies**

The persons named in the enclosed form of proxy, who are officers or directors of the Company, will vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. In the absence of such direction, such shares shall be voted for the election of directors and the appointment of auditors as stated under those headings in this Management Information Circular. The form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to the matters identified in the notice of meeting and with respect to other matters, which may properly come before the Meeting or any adjournment thereof. If matters which are not now known should properly come before the Meeting, the shares represented by the proxy will be voted or withheld from voting on such matters in accordance with the best judgment of the person voting such shares. **A shareholder desiring to appoint some other person to attend, act and vote on his behalf at the meeting may do so either by inserting the name of such person (who need not be a shareholder) in the blank space provided in the form of proxy and striking out the names of management’s nominees or by completing another form of proxy** and, in either case, delivering the completed form of proxy, not later than 10:00 a.m. (Toronto time) on the day which is two business days preceding the date of the Meeting or any adjournments thereof, to either the registered office of the Company which is 2 Jane Street, Toronto, Ontario, M6S 4W8 or to its transfer agent, Computershare Investor Services Inc., 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1.

## **Revocability of Proxy**

A shareholder may revoke a proxy by: (a) depositing an instrument in writing executed by the shareholder or by an attorney authorized in writing or by electronic signature; (b) by transmitting by telephonic or electronic means, a revocation that is signed by electronic signature (i) at the registered office of the Company at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or (ii) with the chair of the Meeting on the day of the Meeting, or any adjournment thereof; or (c) in any other manner permitted by law.

## **Voting Shares**

The holders of the Class A Voting Shares of the Company are entitled to vote upon all matters voted upon at the meeting. Each Class A Voting Share is entitled to one vote per share. The Company is authorized to issue an unlimited number of Class A Voting Shares of which there are presently 2,525,497 Class A Voting Shares issued and outstanding as at January 20, 2006.

## **Non-Voting Shares**

The articles of the Company provide that the holders of Class B Non-Voting Shares are entitled to receive notice of and to attend any meeting of shareholders of the Company, except a meeting of the holders of another class of shares. While holders of Class B Non-Voting Shares are invited to attend the Meeting, such shares are not entitled to be voted at the Meeting. Subject to the circumstances described below, in the event of an offer by the Company or a third party (an "Offer") being made to purchase, directly or indirectly, Class A Voting Shares from each holder of such shares whose last address on the records of the Company is in Ontario, then each outstanding Class B Non-Voting Share shall be convertible into one Class A Voting Share at the option of the holder.

The conversion right shall not come into effect if: (i) one or more shareholders who did not make the Offer and who, in the aggregate, beneficially own(s), directly or indirectly, or exercise(s) control or direction over, not less than 50% of the outstanding Class A Voting Shares, determine(s) not to accept the Offer or accept the Offer only to the extent that he or they continue(s) to so own or exercise control or direction over 50% or more Class A Voting Shares; (ii) contemporaneously an offer is made to the holders of the Class B Non-Voting Shares upon the same terms and conditions as those contained in the Offer; (iii) the board of directors determines that the Offer is not *bona fide* or is made primarily to cause the conversion right to come into effect and not for the purpose of acquiring Class A Voting Shares; or (iv) the Offer is not completed in accordance with its terms.

## **Record Date**

Each holder of record of Class A Voting Shares at the close of business on January 20, 2006 (the "Record Date"), is entitled to cast one vote for each such share then held of record unless, pursuant to subsection 100(2) of the *Business Corporations Act* (Ontario), a transferee of such shares transferred after the Record Date establishes that the transferee owns shares recorded in the name of a shareholder otherwise entitled to vote and demands not later than ten days before the Meeting that the transferee's name be included in the list of shareholders of the Company (with respect only to the shares transferred), in which case the transferee is entitled to vote those shares at the Meeting.

## Principal Holders of Class A Voting Shares

To the knowledge of the directors and officers of the Company, the only persons or companies beneficially owning, directly or indirectly, or exercising control or direction over voting securities carrying more than 10% of the voting rights attaching to any class of voting securities of the Company are Scanfield Holdings Limited which owns 1,341,899 Class A Voting Shares, or 53.1% of the outstanding voting shares, and J.C. Clark Limited which owns or controls 470,719 Class A Voting Shares, or 18.6% of the outstanding voting shares. Mr. Daniel J. Scanlan, the Chairman of the board of directors of the Company, controls Scanfield Holdings Limited. John C. Clark, a director of the Company until March 10, 2005, is the Chairman, President and Chief Executive Officer of J.C. Clark Limited, an investment management company.

## BUSINESS OF THE MEETING

### Election of Directors

The articles of the Company provide for a minimum of three (3) and maximum of fifteen (15) directors to be elected annually. The board of directors presently consists of nine (9) directors. Proxies received in favour of management nominees will, unless required to be withheld from voting, be voted to elect as directors of the Company the following proposed nominees (or substitute nominees in the event of contingencies not known at present) who will, subject to the by-laws of the Company and to applicable laws, serve until the next annual meeting of shareholders or until their successors are elected or appointed.

### Board of Directors

<u>Name</u>	<u>Principal Occupation</u>	<u>Year Became Director</u>	<u>Class A Voting Shares Beneficially Owned, Controlled or Directed</u>	<u>Class B Non-Voting Shares Beneficially Owned, Controlled or Directed</u>
Daniel J. Scanlan (6)(7)..... Ontario, Canada	Chairman of the Company	1973	1,341,899	1,061,789
Richard D. Innes (2)..... Ontario, Canada	President and Chief Executive Officer of the Company	1997	Nil	Nil
Joseph M. Scanlan (5)..... Ontario, Canada	Vice-Chairman and Senior Vice-President, Sales of the Company	1989	5,000	Nil
Paul F. Scanlan (4) * ..... Ontario, Canada	Branch Sales Manager of the Company	1993	570	Nil
Philip L. Wilson (1)(3)..... Ontario, Canada	Corporate Director	1973	1,000	Nil
Roger A. Hall (2)(3)(5)..... British Columbia, Canada	Corporate Director and Management Consultant	2001	Nil	Nil
Robert E. Rose (1)(3)..... Ontario, Canada	Partner, Clarke Henning LLP (Accounting Firm)	2002	Nil	Nil
Brian L. Zenkovich (1)(2)(4)..... Ontario, Canada	Chief Executive Officer and Secretary of Winzen Properties Inc.(Real Estate Development Company)	2002	Nil	Nil
Kenneth T. Rosenberg (4)(5)..... Ontario, Canada	Partner, Paliare Roland Rosenberg Rothstein LLP (Law Firm)	2003	300	Nil
Michael J. Scanlan **..... Ontario, Canada	Vice-President, Marketing of the Company	n/a	Nil	Nil

Notes:

- (1) Member of the Audit Committee, Philip Wilson is the Chairman.
  - (2) Member of the Human Resources and Compensation Committee, Roger Hall is the Chairman.
  - (3) Member of the Investment Committee, Philip Wilson is the Chairman.
  - (4) Member of the Environmental Committee, Paul Scanlan is the Chairman.
  - (5) Member of the Nominating and Corporate Governance Committee, Kenneth Rosenberg is the Chairman.
  - (6) Mr. Scanlan beneficially owns, directly or indirectly, or controls or directs securities carrying 10 per cent or more of the voting rights attached to all voting securities of the Company and any of its subsidiaries.
  - (7) In addition, Mr. Scanlan's wife, Mrs. Shirley Scanlan, is the registered holder of 10,425 Class A Voting Shares and 10,425 Class B Non-Voting Shares of the Company.
- \* Not standing for re-election.  
\*\* Standing for election as a new nominee.

Information as to the shareholdings of each nominee has been provided by the nominee.

The Company has no Executive Committee of its Board. The Company is required to have an Audit Committee. The Audit Committee members are Philip L. Wilson (Chairman), Robert E. Rose, and Brian L. Zenkovich.

### **Appointment of Auditors**

Deloitte & Touche LLP, Chartered Accountants, have been the auditors of the Company since June 15, 1988. The Company proposes to nominate Deloitte & Touche LLP as auditors of the Company until the next annual meeting of shareholders at remuneration to be fixed by the directors.

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

The Board of Directors of the Company (the “Board”) believes that sound corporate governance practices are essential to the well being of the Company and its shareholders and that these practices should be reviewed regularly to ensure that they are appropriate. A description of the Company’s corporate governance practices follows.

This Statement of Corporate Governance Practices has been prepared by the Nominating and Corporate Governance Committee of the Board (the “NCGC”) and has been approved by the Board.

On April 15, 2005, the Canadian Securities Administrators published in its final form National Policy 58-201 *Corporate Governance Guidelines* (the “Policy”), National Instrument 58-101 *Disclosure of Corporate Governance Practices* and Form 58-101F1 (collectively, the “Disclosure Instrument”).

Issuers listed on the Toronto Stock Exchange (“TSX”) must provide the Form 58-101F1 disclosure in their first information circulars or AIF’s, as the case may be, filed following financial years ending on or after June 30, 2005.

The TSX replaced its governance disclosure requirements and guidelines with those in the Disclosure Instrument. The information set out below addresses the disclosure requirements set out in Form 58-101F1 and other related information.

### **Composition of the Board**

As at October 31, 2005, the Board of Directors was composed of nine members, four of whom are considered independent. Therefore, a majority of directors are non-independent. The Board’s determination as to each director’s independence is made with reference to the definition of independence in the Disclosure Instrument. Details relating to individual director independence as at October 31, 2005 are as follows:

*Richard D. Innes* – non-independent – President & CEO of the Company.

*Daniel J. Scanlan* – non-independent – Chairman of the Company; interacts with management and controls Scanfield Holdings Limited.

*Joseph M. Scanlan* – non-independent – Vice-Chairman & Senior Vice-President of Sales for the Company.

*Paul F. Scanlan* – non-independent – Branch Sales Manager of the Company.

*Kenneth T. Rosenberg* – non-independent – Partner in the law firm of Paliare Roland Rosenberg Rothstein LLP, which provides legal services to the Company. Mr. Rosenberg also provides legal services to Scanfield Holdings Limited, which is controlled by Daniel J. Scanlan, the Chairman of the Company.

*Roger A. Hall, Robert E. Rose, Philip L. Wilson and Brian L. Zenkovich* – independent – None of the foregoing directors have a direct or indirect material relationship with either the Company or Scanfield Holdings Limited.

Paul F. Scanlan is not standing for re-election at the Meeting. Michael J. Scanlan, Vice-President, Marketing of the Company, is standing for election as a new nominee at the Meeting. Michael J. Scanlan is considered non-independent by virtue of his position as an officer of the Company.

Except as set out below, none of the directors of the Company is presently a director of any other public company in Canada or in any other jurisdiction:

<u>Name</u>	<u>Company</u>
Daniel J. Scanlan	Winzen Properties Inc.
Brian L. Zenkovich	Winzen Properties Inc.
Kenneth T. Rosenberg	HealthScreen Solutions Incorporated

As the Chair of the Board is not an independent director, the Board has appointed an independent director, Mr. Roger A. Hall, to serve as Lead Director. The role of the Lead Director is to ensure that the Board functions independently of the management of the Company. The Lead Director's responsibilities include:

- ensuring that independent directors have adequate opportunities to meet to discuss issues without management present;
- chairing separate meetings of the independent directors;
- being available to directors who have concerns that cannot be addressed through the Chairman at meetings of the Board; and
- performing such other functions as may be reasonably requested by the Board or the Chairman at the meetings of the Board.

On December 20, 2005, the independent directors began holding regularly scheduled meetings, chaired by the Lead Director, at which non-independent directors and members of management are not in attendance in order to facilitate the exercise of independent judgment in carrying out the Board's responsibilities. To date, the independent directors have held one such meeting.

During the Company's most recently completed fiscal year, the Board held 5 meetings. All directors, except Mr. Zenkovich, attended all of such Board meetings. Mr. Zenkovich was absent for one meeting.

### **Board Mandate**

The Board has adopted a written mandate, a copy of which is attached as Schedule 'A' hereto. The Board's mandate includes the following responsibilities:

- Ensure that the Company behaves in an ethical manner and complies with all applicable laws, regulations, auditing and accounting principles.
- Enhance shareholder value in a manner that is consistent with good corporate citizenship, including fair treatment of the Company's employees, customers and suppliers.

- Approve the overall strategic direction of the Company, and the annual operating plan.
- Appoint the CEO, monitor the performance of the CEO against corporate objectives, and monitor the performance of the managers reporting to the CEO.
- Ensure that the Company communicates effectively with its shareholders, other stakeholders and the public.
- Monitor the performance of the Board against the Canadian Securities Administrators' Corporate Governance Guidelines.
- Approve major capital expenditures and debt and equity financing.
- Oversee the proper management of business risks, and approve decisions involving significant risks to the Company.
- Ensure proper financial reporting and financial control systems are operating, and approve the quality and sufficiency of information provided to the directors.
- Review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities involved in being an effective director.
- Examine the size of the Board with a view to determining the impact upon effectiveness.
- Establish appropriate structures and/or procedures to ensure that the Board can function independently of management.
- Implement a system which enables an individual director to engage an outside advisor at the expense of the Company in appropriate circumstances.
- Implement a succession planning process for management and the Board.

### **Position Descriptions**

The Board has developed written position descriptions for the Chair of the Board, the Lead Director, the Chair of each Board committee and the CEO.

### **Orientation and Continuing Education**

An orientation and education program is in place for new recruits to the Board, which includes written materials regarding the role of the Board and the nature and operation of the Company's business. Field visits are also provided to both cemetery and funeral home locations.

Continuing education is provided through relevant reading materials, Board meeting presentations and discussion to ensure the directors maintain the knowledge and skill necessary to meet their obligations as directors.

## **Ethical Business Conduct**

To encourage and promote a culture of ethical business conduct, the Board has adopted a written Code of Business Ethics and Conduct (the “Code”). The Code is applicable to directors, officers and employees of the Company.

The Board monitors compliance with the Code by requiring management to advise it of any reports received regarding violations of the Code. Under the Code, directors, officers and employees are required to promptly report any problems or concerns and any actual or potential violation of the Code, including criminal conduct, fraud, failures to comply with legal or regulatory obligations or internal policies, and health and safety violations to their supervisor and ultimately, the Chief Executive Officer. Violations will be investigated by the Board or by persons designated by the Board, and appropriate action will be taken in the event of any violations of the Code. A waiver of the Code may be granted only in exceptional circumstances. Any waivers from the Code that are granted for the benefit of the Company’s directors or executive officers shall be granted by the Board only. Any waiver for employees will be granted only upon approval by the Chief Executive Officer of the Company. To date, no waivers of the Code have been granted.

To ensure that directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest, the Code requires directors, officers and employees to take all reasonable steps to avoid situations involving a conflict or the potential for a conflict between their personal interests and the interests of the Company. The Code further provides that directors and officers of the Company have a statutory obligation to disclose all actual or potential conflicts of interest and directors must refrain from voting on matters in which the director has a conflict of interest. When directors, officers and employees become aware of a conflict, they must notify senior management immediately, and handle in an ethical manner any direct or indirect conflict of interest.

A copy of the Code is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Nominating and Corporate Governance Committee**

The Board has a Nominating and Corporate Governance Committee (the “NCGC”). The NCGC is composed of 3 directors, Messrs. Hall, Rosenberg and Joseph Scanlan. Messrs. Rosenberg and Joseph Scanlan are not considered independent and therefore, the NCGC is not composed entirely of independent directors. In order to encourage an objective nomination process, all Board members are requested to identify Board candidates as discussed further below. In addition, candidate selection may be discussed at the meetings of the independent directors.

The NCGC has a written charter. In addition to responsibility for nominations of directors, the NCGC is responsible for developing the Company’s approach to the corporate governance issues. Principal duties of the NCGC are to:

- Recommend to the full Board, the mandate of the Board, criteria and procedures for selecting directors and procedures for orienting new directors.
- Conduct a bi-annual process of evaluating the performance of the Board and the Board committees.

- Recommend to the full Board suitable nominees for directorship.
- Recommend to the Board the number of committees, size, structure and charter for each.
- Annually, propose to the Board, the chair and members of each committee.
- Periodically, and at least annually, review the committee structure, the committee charters and obtain Board approval when changes are appropriate.

Potential board candidates are identified by current Board members and external advisors. The potential candidates are reviewed by the NCGC and if appropriate, recommended to the Board for approval. In developing its recommendations to the Board, the NCGC assesses what competencies and skills the Board as a whole should possess, what competencies and skills each current director possesses, the size of the Board and what competencies and skills new nominees will provide to the Board.

### **Human Resources and Compensation Committee**

The Board has a Human Resources and Compensation Committee (the “HRCC”). The HRCC is composed of 3 directors, Messrs. Hall, Zenkovich and Innes. Mr. Innes is not considered independent and therefore, the HRCC is not composed entirely of independent directors. In order to ensure an objective process for determining compensation, the Board has final approval of the compensation for the Chairman and the President & CEO. In addition, compensation issues may be discussed at meetings of the independent directors.

The HRCC has a written charter. The primary responsibilities of the HRCC are to: establish, with Board approval, the Company’s executive compensation policies; recommend to the Board a mandate for the President and CEO; oversee succession planning for senior management; oversee the administration of the stock option plan; and monitor the effectiveness of the compensation policies for all employees. Principal duties of the HRCC are to:

- Annually, review the adequacy and form of the compensation of the Chair of the Board and outside directors.
- Annually, review and recommend to the Board the Company’s executive compensation policies.
- Review with the President and CEO, on at least an annual basis, the overall compensation philosophy for all employees, the effectiveness of the policies and the process used to ensure equity exists for both employees and the Company.
- Recommend to the Board a mandate and annual compensation for the CEO.
- Annually, after evaluating the performance of the CEO, recommend to the Board the total compensation to be paid for the preceding fiscal period.

- Annually, after discussions with the CEO, review performance of senior officers against plan, and corporate objectives, and approve compensation and benefits for each of the senior officers reporting to the CEO.
- Oversee the administration of the stock option plan, and recommend to the Board the granting of options when such approval is required.
- Annually, review succession planning for senior management.
- Monitor the administration and condition of the corporate pension plan and report annually to the Board in this respect.
- Review all executive compensation disclosure before public disclosure.

The HRCC has the authority to engage and compensate an outside advisor as necessary to carry out its duties. During fiscal 2005, the Company did not retain any compensation consultants or advisors to assist in determining compensation for any of the Company's directors or officers.

### **Audit Committee**

On January 16, 2004, the Canadian Securities Administrators released National Instrument 52-108 – *Auditor Oversight*, Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* and Multilateral Instrument 52-110 – *Audit Committees*. The following is a summary of the content of each of these instruments and a statement concerning the Company's current compliance.

#### ***Auditor Oversight***

NI 52-108 required, effective March 30, 2004, that every auditor's report filed with financial statements of a reporting issuer be signed by a public accounting firm that has entered into a participation agreement with the Canadian Public Accountability Board ("CPAB") and is in compliance with any restrictions or sanctions imposed by CPAB. The intent of NI 52-108 is to provide better quality audits of reporting issuers. The Company's auditor, Deloitte & Touche LLP, is a participant in CPAB's oversight program.

#### ***Certification of Disclosure in Issuers' Annual and Interim Filings***

MI 52-109 required, effective for all interim and annual periods beginning on or after January 1, 2004, that the Chief Executive Officer and the Chief Financial Officer certify the issuer's annual and interim filings. The goal of requiring certification is to improve the quality and reliability of financial disclosure of reporting issuers by ensuring that the CEO and CFO are aware of information contained in the annual and interim filings and can be held accountable for the fairness and accuracy of that information. The Company began causing the CEO and CFO to execute bare certificates in the second quarter of fiscal 2004, which began on February 1, 2004. The first annual certificate required to be signed by the CEO and CFO, which was not a bare certificate and covered disclosure controls and procedures, was filed for fiscal 2005, which began on November 1, 2004. Transitional rules have been enacted to enable the CEO and CFO to execute certificates not attesting to internal controls until proposed Multilateral Instrument 52-111 – *Reporting on Internal Control Over Financial Reporting* comes into force.

### ***Audit Committees - Composition***

MI 52-110 sets requirements for the composition of an audit committee. An audit committee must have a minimum of three directors, all of whom must be independent and financially literate. An audit committee member is considered to be independent if he or she has no direct or indirect material relationship with the issuer, as determined with reference to the requirements provided in MI 52-110. The Company's audit committee, (the "Audit Committee") is composed of 3 directors, Messrs. Wilson, Rose and Zenkovich, all of whom are considered independent and financially literate.

### ***Audit Committees - Responsibilities***

MI 52-110 establishes numerous responsibilities for audit committees:

- *Directly oversee the work of the external auditor including the pre-approval and oversight of all non-audit services performed by the external auditor* – The Company's external auditor reports directly to the Audit Committee. The Audit Committee approves the audit engagement, and pre-approves all non-audit services provided by the external auditor.
- *Review the issuer's financial statements, MD&A and annual and interim earnings news releases before they are publicly disclosed* – The Audit Committee reviews all of the Company's financial statements, MD&A and annual and interim earnings new releases before they are publicly disclosed.
- *Establish procedures for the receipt, retention and treatment of complaints or concerns regarding accounting, internal accounting controls and auditing matters* – The Company has a Whistleblower Policy under which accounting irregularities are reported directly to the Chair of the Audit Committee.
- *Recommend to the board of directors the external auditor to be nominated to perform audit or non-audit services and the compensation to be paid for such services* – The Audit Committee recommends to the Board the external auditor to be nominated to perform audit or non-audit services, and the compensation of the external auditor.
- *Review and approve the issuer's hiring practices with respect to the former partners and employees of the present and former external auditors* – The Audit Committee must approve any hiring of employees or former employees of the independent auditors.
- *Ensure compliance with the requirements of MI 52-110* – The Audit Committee ensures compliance with MI 52-110 by reviewing the requirements on an annual basis. The Audit Committee's charter, which is included in the Company's Annual Information Form, became effective at the Company's Annual General Meeting on March 10, 2005. A copy of the Company's Annual Information Form, including the Audit Committee Charter, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Other Board Committees**

In addition to the Audit Committee, the NCGC and the HRCC, descriptions of which have been noted above, the Company has an Investment Committee and an Environmental Committee.

The Investment Committee is composed of 3 directors, Messrs. Wilson, Hall and Rose, all of whom are considered independent. The Investment Committee has a written charter. The Investment Committee is responsible for overseeing the management of the Company's trust funds and advising as to their suitability and conformity with applicable laws. This Committee also reviews the Company's investment strategies in effect from time to time and advises as to any modifications of such strategies.

The Environmental Committee is composed of 3 directors and as at October 31, 2005 the members were Messrs. Paul Scanlan, Rosenberg and Zenkovich. Messrs. Paul Scanlan and Rosenberg are not considered independent. Mr. Paul Scanlan is not standing for re-election at the Meeting. The Environmental Committee has a written charter. The Environmental Committee is responsible for reviewing compliance by the Company with all relevant environmental laws and regulations to which the Company and its business are subject.

## **Assessments**

The Board and its committees are regularly assessed utilizing a written questionnaire which is completed by all directors. The completed questionnaires are forwarded by the directors to Deloitte & Touche, the Company's auditors. Deloitte & Touche tabulates and analyzes the results and presents the results to the Board. The Board initiates action as required to address any areas of weakness. The questionnaire does not include individual director assessments. However, the Chairman, Vice-Chairman and the Lead Director review individual director performance on an annual basis.

## **Decision Making**

All decisions which could have a material or significant effect on the Company's activities, performance and results, whether legally requiring Board approval or not, are made by the Board. Matters which may be said to be of an operational nature are routinely developed and undertaken by Management, subject to submission to the Board for approval in due course, if they will impact materially on corporate performance.

## **Meetings of the Board**

During fiscal 2005, the Board met in person five times. Management regularly provides the Board with full briefing papers on the status of the Company, its operations and financial results. In respect of months during which no Board meeting is scheduled, Board members are provided with internally prepared financial statements.

## COMPENSATION

### Executive Compensation

The following table sets forth all compensation earned during the last three fiscal years in respect of the Chief Executive Officer, the Chief Financial Officer, and the other three most highly compensated executive officers of the Company (the “Named Executive Officers” or “NEOs”). Annually, certain Named Executive Officers are provided with a leased automobile or automobile allowance and a club membership for business development purposes. Unless otherwise disclosed, the aggregate value of these items for the three most recently completed financial years does not exceed the lesser of \$50,000 or 10% of the total of such Named Executive Officers’ annual salary and bonus. Under the heading “All Other Compensation”, the amounts include annual contributions to pension plans and premiums paid with respect to life insurance.

### Summary Compensation Table

NEO Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation Awards	All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Securities Under Options/SARs Granted (#)	
Richard D. Innes President and Chief Executive Officer	2005	336,811	217,197	-	Nil	26,894
	2004	327,001	205,322	-	Nil	26,521
	2003	317,655	140,476	-	Nil	30,160
Brian D. Snowdon Vice-President and Chief Financial Officer	2005	172,705	74,381	-	Nil	13,371
	2004	165,762	70,894	-	Nil	11,095
	2003	156,797	45,799	-	Nil	10,788
Daniel J. Scanlan Chairman	2005	302,778	217,197	-	Nil	1,954
	2004	293,939	205,322	-	Nil	119,064 <sup>(1)</sup>
	2003	285,559	140,476	-	Nil	1,281
Joseph M. Scanlan Vice-Chairman & Senior Vice-President, Sales	2005	275,109	135,562	-	Nil	17,983
	2004	267,105	123,153	-	Nil	14,934
	2003	257,801	90,758	-	Nil	14,064
John S. Earle Senior Vice-President, Funeral Service	2005	264,661	126,688	-	Nil	15,741
	2004	256,938	124,290	-	Nil	13,653
	2003	249,532	85,773	41,821 <sup>(2)</sup>	Nil	12,697

Notes:

- (1) In 2004, the Chairman received a lump-sum retroactive pension adjustment of \$117,467.  
(2) Mr. Earle was provided with an automobile allowance and a reimbursement of automobile expenses for a total of \$20,870.

## **Long-Term Incentive Plans**

There were no long-term incentive plan awards made to the Named Executive Officers during the fiscal year ended October 31, 2005.

## **Stock Options / SARs**

The Company has adopted a stock option plan (the "Option Plan"). Under the Option Plan, options to purchase Class B Non-Voting Shares ("Options") may be granted at the discretion of the board of directors to directors, officers, full-time and part-time employees of the Company or its subsidiaries and other persons who either perform services for the Company and/or its subsidiaries in certain circumstances (an "Optionee").

The aggregate number of Class B Non-Voting Shares for which Options may be granted shall not exceed 878,789 Class B Non-Voting Shares less any Class B Non-Voting Shares otherwise reserved for issuance in connection with stock appreciation rights, any other option plans or under options for services. The number of Class B Non-Voting Shares issued and which may be issued under grants made under the Option Plan is 512,200, which represents 6.3% of the outstanding Class B Non-Voting Shares. The remaining number of Class B Non-Voting Shares issuable under the Option Plan is 366,589, which represents 4.5% of the outstanding Class B Non-Voting Shares.

Under the terms of the Option Plan, the aggregate number of Class B Non-Voting Shares reserved for issuance to any one person shall not exceed 5% of the aggregate of the issued Class A Voting Shares and the issued Class B Non-Voting Shares outstanding from time to time (on a non-diluted basis). Class B Non-Voting Shares subject to and not delivered under an Option which expires or terminates shall again be available for option under the Option Plan.

In accordance with the terms of the Option Plan, the exercise price per Class B Non-Voting Share cannot be less than the closing price of the Class B Non-Voting Shares on the Toronto Stock Exchange on the last trading day immediately preceding the granting of the Option, provided that if the Class B Non-Voting Shares did not trade on that date, the exercise price shall not be lower than the closing price per Class B Non-Voting Share on the last day such Class B Non-Voting Shares traded prior to the date on which such Option is granted.

The period during which an Option is exercisable may not, subject to the provisions of the Option Plan, extend beyond ten years. Options may be exercised as determined by the board of directors at the time of the grant of the Option. In the event that, at the option of the holder, the Class B Non-Voting Shares are convertible into Class A Voting Shares as is provided for in the Company's articles, then all Options outstanding shall become immediately exercisable.

At the sole discretion of the board of directors, stock appreciation rights ("SARs") may be included in any Option, either at the time of grant or by amendment or supplemental grant. SARs entitle an Optionee to surrender to the Company all or any part of such Option which such Optionee could then exercise and receive from the Company Class B Non-Voting Shares or cash or a combination thereof as the Optionee may elect equal in value to the excess of the "fair market value" of one Class B Non-Voting Share over the exercise price multiplied by the number of Class B Non-Voting Shares with respect to which the Option is surrendered. The "fair market value" of the Class B Non-Voting Shares at the time of surrender is the weighted average price per share at which the Class B Non-Voting Shares have traded on the Toronto

Stock Exchange during the most recent five days on which the Class B Non-Voting Shares are traded before the Option is surrendered. The weighted average price is determined by dividing the aggregate sale price of all such Class B Non-Voting Shares sold on the Toronto Stock Exchange during the five trading days by the total number of such shares so sold. The board of directors has sole discretion to consent to or to disapprove the election of the Optionee to receive cash in full or partial settlement of the SARs.

An Option (including SARs) may not be transferred. An Option (including SARs) may only be exercised by the Optionee, provided that where the Optionee is an individual, then during the lifetime of such Optionee, the Option (including SARs) may be exercised only by him or her, his or her legal personal representative or a nominee which is a corporation wholly-owned by the Optionee.

Subject to the term of the Option and to the extent the Optionee is entitled to exercise the Option: (i) any Option held by an Optionee upon termination of employment for any reason (other than death, retirement or circumstances equating retirement as determined by the board of directors) is exercisable within thirty days of such termination; (ii) any Option held by an Optionee at death is exercisable by his or her executors, administrators or legal personal representatives within one year after the date of death; and (iii) any Option held by an Optionee upon retirement or termination of his or her employment or office with the consent of the board of directors under circumstances equating retirement is exercisable within three years after the date of such retirement.

Subject to the prior written approval of the Toronto Stock Exchange, the board of directors may, with the consent of the Optionee, cancel an existing Option and regrant the Option at an exercise price determined in accordance with the Option Plan.

The board of directors may alter, suspend or discontinue the Option Plan, without the approval of the shareholders of the Company. Notwithstanding the foregoing, the terms of an existing Option may not be altered, suspended or discontinued without the consent in writing of the Optionee.

There were no Options or SARs granted to the Named Executive Officers during the fiscal year ended October 31, 2005.

The following table sets forth information on all Options by the Named Executive Officers during the most recently completed fiscal year end and the year end value of unexercised Options held by Named Executive Officers on an aggregated basis. No SARs are currently held by any Named Executive Officer.

## Aggregated Option Exercises During the Most Recently Completed Financial Year and Financial Year-End Option Values

NEO Name	Securities, Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options at October 31, 2005 Exercisable/ Unexercisable (#)	Value of Unexercised in-the-money Options at October 31, 2005 Exercisable/ Unexercisable <sup>(1)</sup> (#)
Richard D. Innes	Nil	Nil	67,000 / 0	Nil / Nil
Brian D. Snowdon	Nil	Nil	5,000 / 0	Nil / Nil
Daniel J. Scanlan	Nil	Nil	22,000 / 0	Nil / Nil
Joseph M. Scanlan	Nil	Nil	12,000 / 0	Nil / Nil
John S. Earle	Nil	Nil	12,000 / 0	Nil / Nil

Note:

<sup>(1)</sup> Value of unexercised in-the-money Options calculated using the closing price of the Class B Non-Voting Shares less the exercise price of the in-the-money Options. The closing price of the Class B Non-Voting Shares on October 31, 2005 was \$20.20. An Option is in-the-money if the fair market value of the underlying security exceeds the exercise price.

### Employment Contracts

The Company entered into an employment agreement with the President and Chief Executive Officer of the Company, Richard D. Innes, effective February 10, 1997. The agreement provided that his annual base salary would be \$270,000 (subject to applicable deductions and annual increases as approved by the Board). Pursuant to the agreement, Mr. Innes would be eligible for an annual bonus based on net earnings and on individual performance as evaluated by the Board. In addition, the agreement provided that Mr. Innes would receive certain pension, health, dental and other insurance benefits available to the Company's senior executives, in addition to an automobile allowance and financial counseling. Mr. Innes participates in a non-contributory defined benefit plan; however, the Company does not have, nor will have, an unfunded liability as its contributions are capped at a percentage of Mr. Innes' salary. With respect to Options, the agreement provided for Mr. Innes to acquire 45,000 Class B Non-Voting Shares. These Options vested in three equal portions in each of the third, fourth and fifth year from the date employment commenced and were completely vested as of February 10, 2002. In addition, Mr. Innes was granted 22,000 Options on December 17, 1997, of which 20% vested immediately, and the remainder vested 20% per annum on the anniversary date. These Options were completely vested as of December 17, 2001. The agreement terminated in May of 2004, however, Mr. Innes continues to be employed under similar terms and conditions. The agreement also contained other provisions relating to the termination of employment of Mr. Innes without cause and in the event of a change of control of the Company, which are no longer applicable.

The Company and Mr. John Earle have an arrangement whereby Mr. Earle's employment terminates on October 31, 2006, unless otherwise amended or extended. In the event that Mr. Earle's employment is terminated prior to October 31, 2006, without just cause, the Company is liable for the balance of his compensation to the end of the fiscal year. In addition, upon his resignation, retirement or termination of employment, Mr. Earle is entitled to a \$78,000 pension contribution.

## **Composition of the Human Resources and Compensation Committee**

As at October 31, 2005, Mr. Roger A. Hall, Mr. Richard D. Innes and Mr. Brian L. Zenkovich were the members of the Human Resources and Compensation Committee (“Committee”). Messrs. Hall and Zenkovich, are not now and have not been officers or employees of the Company or any of its subsidiaries. Mr. Innes is currently the President and Chief Executive Officer of the Company.

## **Report on Executive Compensation**

It is the responsibility of the Committee to approve the compensation of the Company’s senior officers reporting to the Chief Executive Officer and to make recommendations to the Board regarding the compensation of the Chief Executive Officer and the Chairman. The guiding philosophy of the Committee in making its determinations is “pay-for-performance” balanced against the need to provide a total compensation package, which will enable the Company to attract and retain qualified and experienced executives. The sources of potential compensation of the Company’s senior officers consists primarily of three elements: salary, annual cash incentives (bonuses) and stock options. Each element of compensation fulfills a different role in the attraction, retention and motivation of the Company’s senior officers.

### ***Base Salary***

The Committee reviews base salaries for senior executives, including the Named Executive Officers, on an annual basis. Base salaries are established with reference to the senior officer’s role, responsibilities, and capabilities, as well as the market pay levels for the position. The Company targets the 50<sup>th</sup> percentile for its senior officers.

### ***Annual Cash Incentive***

Cash incentives are awarded to senior officers, including the Chief Executive Officer, through a combination of financial performance of the total company and business segment (where applicable) and personal objectives. Financial performance is measured against the operating plan as approved by the Board of Directors and refers to net earnings for the Company and earnings from operations for the business segments. The cash incentives are determined as a percent of base salary. Payouts for 100% of plan performance vary by position with a range of 20.0% to 45.0%. Payouts begin at 90% of plan (10% to 22.5% of base salary), and are capped at 110% of plan (30% to 67.5% of base salary). The portion of senior officers’ cash incentives that is dependent on financial objectives ranges from 50% to 75% with personal objectives accounting for the remainder. No cash incentives for personal objectives are awarded if less than 90% of the objectives are successfully met, and maximum cash incentives are awarded at 110% of objectives.

### ***Long-Term Incentive***

In 1994 the Company introduced a stock option plan for directors, officers, full-time and part-time employees to receive options to purchase Class B Non-Voting Shares. The purpose of the plan was to increase the proprietary interest of the Company’s employees in the Company, to encourage them to remain associated with the Company and to furnish them with additional incentive in their efforts on behalf of the Company in the conduct of their affairs. Options granted have a maximum term of 10 years and the Board of Directors determines the vesting

requirements at the time of the grant. The aggregate number of Class B Non-Voting Shares for which options may be granted cannot exceed 878,789 Class B Non-Voting Shares and the aggregate number of shares reserved for issuance to any one person cannot exceed 5% of the aggregate of the issued Class A Voting Shares and the issued Class B Non-Voting Shares outstanding from time to time. No options were granted during the fiscal year ended October 31, 2005.

### ***Employee Stock Ownership Plan (“ESOP”)***

The Company’s senior officers are eligible to participate in the Company’s ESOP. The plan allows members to acquire Class B Non-Voting Shares to the lesser of 10% of their base salary and \$5,000, and the Company will match any contribution at the rate of 10% to a maximum of \$500.

### ***Chief Executive Officer Compensation***

Cash incentives are awarded to the Chief Executive Officer on the same basis as senior officers (see “Annual Cash Incentive”). The annual incentive plan for the Chief Executive Officer is based 75% on the net earnings of the Company versus the annual operating plan as approved by the Board of Directors and 25% for personal objectives as approved by the Committee. The personal objectives may include both financial and non-financial components, such as strategic planning, technology and information infrastructure management, and successful execution of key action plans that will enhance the Company’s performance. The Chief Executive Officer’s compensation is competitive in the marketplace based on independent surveys done from time to time.

In December of 2005, after consideration of the recommendation of the Chief Executive Officer, the Committee approved salary increases and incentive bonuses for all senior managers reporting to the Chief Executive Officer. The Committee also recommended to the Board granting bonuses to the Chairman and the Chief Executive Officer.

Presented by the Committee on December 20, 2005:

Roger A. Hall, Chairman  
Richard D. Innes  
Brian L. Zenkovich

### **Compensation of Directors**

During the fiscal year 2005, the Company’s directors (other than Messrs. Daniel J. Scanlan, Richard D. Innes and Joseph M. Scanlan who are officers of the Company or its affiliates, and Paul F. Scanlan who is an employee of the Company) were entitled to directors’ remuneration as follows: \$15,000 per annum; \$1,000 for each board meeting attended by the director; \$1,000 for each committee meeting attended by the committee member; \$1,500 for each committee meeting attended by the committee chair and \$500 for each teleconference meeting attended by the director.

This remuneration is in addition to out-of-pocket expenses actually incurred. The total amount paid by the Company to its directors by way of fees and out-of-pocket expenses during the most recently completed financial year was \$155,241.

## Securities Authorized for Issuance under Equity Compensation Plans

### Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in (a))
Equity Compensation Plans approved by securityholders – Option Plan	169,500	\$25.06	366,589
Equity Compensation Plans not approved by securityholders	Nil	N/A	Nil
Total	169,500	N/A	366,589

The material features of the Option Plan are described above under the heading “Compensation – Stock Options / SARs”.

### Indebtedness of Directors and Executive Officers

The aggregate indebtedness to the Company of all current and former executive officers, directors and employees of the Company as at January 20, 2006 was \$405,534. None of such indebtedness was entered into in connection with a purchase of securities of the Company or any of its subsidiaries.

### Aggregate Indebtedness

Purpose	To the Company or its Subsidiaries	To Another Entity
Share purchases	Nil	Nil
Other	\$405,534	Nil

The following table sets forth information regarding indebtedness of directors, executive officers, senior officers, proposed nominees for election as directors, and associates thereof, other than under Securities Purchase Programs.

## Indebtedness of Directors and Officers Under Other Programs

Name and Principal Position	Involvement of the Company or Subsidiary	Largest Amount Outstanding During Year Ended October 31, 2005	Amount Outstanding January 20, 2006
John S. Earle <sup>(1)</sup> Toronto, Ontario Senior Vice-President, Funeral Service	Lender	\$300,000	\$300,000

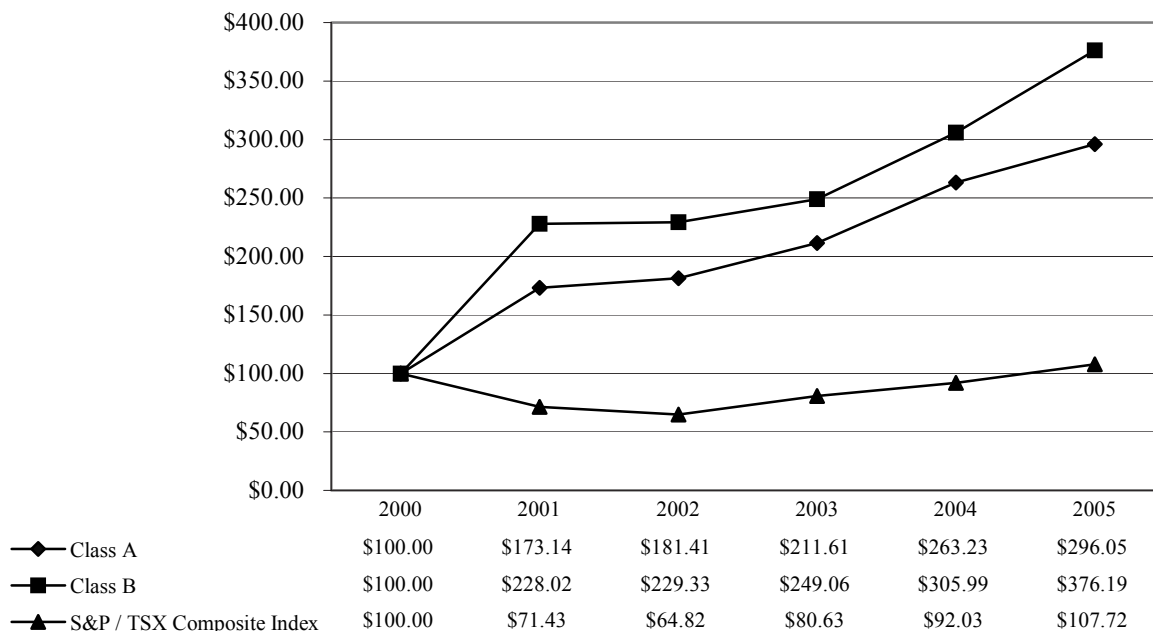
Note:

- (1) Of the \$300,000, \$250,000 was advanced to Mr. Earle to assist him in purchasing a residence upon his assumption of duties in Toronto. This advance is non-interest bearing, due upon the conclusion of Mr. Earle's employment and is secured against the principal residence of Mr. Earle.

### Performance Graph

The following graph compares the total cumulative shareholder return of \$100 invested in the Company's Class A Voting Shares and Class B Non-Voting Shares on October 31, 2000 with the cumulative total return of the S&P/TSX Composite Index for the 5 most recently completed financial years, assuming dividends are reinvested.

#### FIVE YEAR TOTAL RETURN ON \$100 INVESTMENT (ASSUMING REINVESTMENT OF DIVIDENDS)



## **Directors' and Officers' Liability Insurance**

The Company has purchased, at its expense, directors' and officers' liability insurance in the amount of \$40 million for the protection of the directors and officers against liability incurred by them in such capacity. The insurance limit of \$40 million is for each claim and in the aggregate for the financial year ending October 31, 2006. The deductible is \$100,000 except for securities claims where it is \$250,000. The premium paid for fiscal 2006 is \$173,190.

## **Additional Information**

Additional information relating to Arbor Memorial Services Inc., including the Annual Information Form and the Annual Report, may be found on SEDAR at [www.sedar.com](http://www.sedar.com). The Annual Report contains financial information of the Company's comparative financial statements and MD&A for the year ended October 31, 2005.

Additional copies of this Management Information Circular and the materials listed in the preceding paragraphs of this section may be obtained, upon request, from the Assistant Secretary of Arbor Memorial Services Inc. at 2 Jane Street, Toronto, Ontario, M6S 4W8, telephone (416) 763-3230 extension 3044 and fax (416) 763-3989.

## **Other Business**

Management of the Company knows of no amendments, variations or other matters, which are likely to be brought before the Meeting.

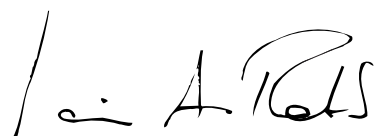
**HOWEVER, IF ANY AMENDMENTS, VARIATIONS, OR OTHER MATTERS OF WHICH THE MANAGEMENT IS NOT NOW AWARE ARE PROPERLY PRESENTED TO THE MEETING FOR ACTION, IT IS THE INTENTION OF THE PERSONS NAMED IN THE ENCLOSED FORM OF PROXY TO VOTE SAID PROXIES IN ACCORDANCE WITH THEIR JUDGMENT ON SUCH MATTERS.**

## **Board Approval**

The undersigned hereby certifies that the contents herein, and the sending hereof, of the Management Information Circular have been approved by the board of directors of the Company for mailing to the shareholders entitled to receive notice of the Meeting, to each director of the Company and to the auditors of the Company.

**DATED** this 20th day of January, 2006.

**BY ORDER OF THE BOARD OF DIRECTORS**



**Iain A. Robb**  
Secretary

**Schedule A**  
**ARBOR MEMORIAL SERVICES INC.**  
**BOARD OF DIRECTORS**  
**MANDATE**

**Purpose:**

The Board of Directors is responsible for overseeing the conduct of the Company's business.

**Structure:**

Composed of nine directors and shall include a number of directors who do not have interests in or relationships with the Company or the significant shareholder, and which fairly reflects the investment in the Company by shareholders other than the significant shareholder.

A quorum consists of six members.

The Board will appoint a Secretary to record major decisions.

**Responsibilities:**

Ensure that the Company behaves in an ethical manner and complies with all applicable laws, regulations, auditing and accounting principles.

Enhance shareholder value in a manner that is consistent with good corporate citizenship, including fair treatment of the Company's employees, customers and suppliers.

Approve the overall strategic direction of the Company, and the annual operating plan.

Appoint the CEO, monitor the performance of the CEO against corporate objectives, and monitor the performance of managers reporting to the CEO.

Ensure that the Company communicates effectively with its shareholders, other stakeholders and the public.

Monitor the performance of the Board against the Canadian Securities Administrators' Corporate Governance Guidelines.

Approve major capital expenditures and debt and equity financing.

Oversee the proper management of business risks, and approve decisions involving significant risks to the Company.

Ensure proper financial reporting and financial control systems are operating, and approve the quality and sufficiency of information provided to the directors.

Review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities involved in being an effective director.

Examine the size of the Board with a view to determining the impact upon effectiveness.

Establish appropriate structures and/or procedures to ensure that the Board can function independently of management.

Implement a system which enables an individual director to engage an outside advisor at the expense of the Company in appropriate circumstances.

Implement a succession planning process for management and the Board.