

**ARBOR MEMORIAL SERVICES INC.**  
2 Jane Street  
Toronto, Ontario  
M6S 4W8

**ANNUAL INFORMATION FORM**  
for the year ended October 31, 2006

*Dated: January 19, 2007*

## TABLE OF CONTENTS

	Page
<b>INTRODUCTION</b> .....	1
General .....	1
Forward-Looking Statements .....	1
<b>CORPORATE STRUCTURE</b> .....	1
Name, Address and Incorporation .....	1
Intercorporate Relationships .....	2
<b>GENERAL DEVELOPMENT OF THE BUSINESS</b> .....	3
Three Year History .....	3
<b>DESCRIPTION OF THE BUSINESS</b> .....	6
General .....	6
Principal Products and Services .....	7
Sources, Pricing and Availability of Raw Materials, Component Parts and Finished Products.....	8
Intangible Properties .....	9
Revenue from Principal Products and Services.....	9
Competitive Conditions in the Principal Markets and Geographic Areas.....	10
Seasonality.....	12
Employees .....	12
Environmental and Human Rights Policies .....	12
Regulatory Environment.....	13
Trust Funding.....	13
Trustees and Third-Party Insurers .....	15
Consumer Protection .....	15
Environmental Protection .....	15
Risk Factors .....	16
<b>DIVIDENDS</b> .....	19
<b>DESCRIPTION OF CAPITAL STRUCTURE</b> .....	19
General Description of Capital Structure.....	19
Equity Plans .....	21
<b>MARKET FOR SECURITIES</b> .....	22
Trading Price and Volume.....	22
<b>DIRECTORS AND OFFICERS</b> .....	23
Name, Occupation and Security Holding .....	23
<b>LEGAL PROCEEDINGS</b> .....	27
<b>TRANSFER AGENT AND REGISTRAR</b> .....	27
<b>INTERESTS OF EXPERTS</b> .....	27
<b>AUDIT COMMITTEE INFORMATION</b> .....	27
Audit Committee Charter.....	27
Audit Committee Report.....	27
Composition and Relevant Education and Experience of the Audit Committee.....	28
Pre-Approval Policy.....	28
External Auditor Service Fees.....	28
<b>ADDITIONAL INFORMATION</b> .....	28
<b>APPENDIX “A” - AUDIT COMMITTEE CHARTER</b>	
<b>APPENDIX “B” - SUMMARY OF OPERATING LOCATIONS</b>	

## ANNUAL INFORMATION FORM 2006

### INTRODUCTION

#### General

In this Annual Information Form, unless the context otherwise requires, “Arbor” or the “Company” refers to Arbor Memorial Services Inc., its subsidiaries and divisions and their respective predecessors. Unless otherwise indicated, references to “dollars” and “\$” are to Canadian dollars. Unless otherwise indicated, the information contained herein is given as at October 31, 2006. References to “fiscal 2006” and “fiscal 2005” refer to Arbor’s fiscal years ended October 31, 2006 and October 31, 2005, respectively.

#### Forward-Looking Statements

Certain statements contained in this Annual Information Form, including but not limited to, information regarding the status and progress of the Company’s operating and capital activities, the plans and objectives of the Company and assumptions regarding the Company’s future performance are forward-looking statements. Forward-looking statements may include words such as “plans”, “believes”, “may”, “should”, “estimates”, “continues”, “indicates”, “suggests”, “anticipates”, “intends”, “expects” and similar expressions. These forward-looking statements are based on current expectations and various factors and assumptions. Accordingly, these forward-looking statements are subject to certain risks and uncertainties. The Company cautions readers not to place undue reliance on forward-looking statements as the Company’s actual results may differ materially from its expectations if known and unknown risks or uncertainties affect its business, or if its estimates or assumptions prove inaccurate. Risks and uncertainties that could cause or contribute to such differences include, but are not limited to, those discussed in this Annual Information Form under “Description of the Business – Risk Factors” at page 16 and those discussed in the Company’s 2006 Annual Report and particularly under “Management’s Discussion and Analysis – Risks, Events and Uncertainties”. The material factors and assumptions that were applied in making the forward-looking statements in this Annual Information Form include, but are not limited to: reliance on third-party reports from government bodies and industry associations, the use of economic forecasts prepared by various financial institutions, historical experience and financial reporting of competitors and suppliers. The Company cannot provide any assurance that forward-looking statements will materialize. The Company assumes no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Unless otherwise indicated, forward-looking statements in this Annual Information Form describe the Company’s expectations as of January 19, 2007.

### CORPORATE STRUCTURE

#### Name, Address and Incorporation

Arbor Memorial Services Inc. is an Ontario corporation subject to the provisions of the *Business Corporations Act* (Ontario). On March 14, 1994, the Company filed articles of amendment to change its name to “Arbor Memorial Services Inc.” and to delete the provisions contained in the Company’s articles entitling the holders of Class B Non-Voting Shares to receive a minimum preferential payment of \$0.10 per share on the liquidation or dissolution of the Company. On March 15, 1994 the Company filed articles of amendment to effectively restate its articles of

amalgamation dated November 1, 1978. A copy of the Company's articles of amendment and By-law A relating generally to the transaction of the business and affairs of the Company are available on SEDAR at [www.sedar.com](http://www.sedar.com). At the upcoming annual and special meeting of shareholders, management is proposing amendments to By-law A. For further information, please see the Company's 2006 Management Information Circular.

Arbor's head office and registered office is located at 2 Jane Street, Toronto, Ontario M6S 4W8. The telephone number for the Company at its head office is (416) 763-4531 and the fax number is (416) 763-3989.

### Intercorporate Relationships

Most of Arbor's operations are carried on through its subsidiaries. The following table lists Arbor's subsidiary companies as at October 31, 2006. The table also shows the respective jurisdictions of incorporation of such companies. Arbor owns, directly or indirectly, all of the issued and outstanding shares of each listed subsidiary.

	<u>Jurisdiction of Incorporation</u>
(a) Companies wholly owned by Arbor Memorial Services Inc.:	
Arbor Jane Property Ltd.	Ontario
Arbor Memorial Services, Inc. (inactive)	Delaware
Lakeview Memorial Gardens (non-profit company - no share capital)	Quebec
Memorial Gardens Canada Limited	Canada
Trillium Funeral Service Corporation	Ontario
1053396 Ontario Limited (land holding company)	Ontario
Quebec Memorial Services Inc. (financing company)	Canada
(b) Companies wholly owned by Memorial Gardens Canada Limited:	
Rideau Memorial Gardens Limited	Quebec
Memorial Gardens (Oakville) Limited (land holding company)	Ontario
(c) Companies wholly owned by Trillium Funeral Service Corporation:	
Remembrance Services Inc.	Ontario
Kelly Funeral Homes Limited	Ontario
Kellco Holdings Ltd.	Ontario
1062493 Ontario Limited	Ontario
6329993 Canada Inc.	Canada

Subsequent to the amalgamation of certain subsidiaries with Memorial Gardens Canada Limited on November 1, 2002, funeral and cemetery operations have been carried on through Memorial Gardens Canada Limited, except in Ontario, where funeral operations were carried on through Trillium Funeral Service Corporation and its subsidiaries; and in Quebec, where certain of the Quebec cemeteries' operations were carried on through Lakeview Memorial Gardens and Rideau Memorial Gardens Limited.

Arbor Jane Property Ltd. owns an office building located at the intersection of Bloor Street West and Jane Street in Toronto, Ontario. Approximately 51% of this building was occupied by Arbor

as its head office at October 31, 2006. The remainder of the building is held for lease as office or retail space and the current occupancy rate is 100%.

On November 8, 2005, the Company acquired Kelly Funeral Homes Limited by purchasing all of the shares of this Company's three holding companies: Kellco Holdings Ltd., 1062493 Ontario Limited and 6329993 Canada Inc. Kelly Funeral Homes Limited operates six funeral homes in Ottawa, Ontario and one funeral home in Quyon, Quebec. On November 1, 2006, the four companies were amalgamated with Trillium Funeral Service Corporation.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

### **Three Year History**

The following may contain forward-looking statements. Reference should be made to "Forward-Looking Statements" on page 1 and for a description of material factors that could cause the Company's actual results to differ materially from its forward-looking statements, please see "Description of the Business – Risk Factors" at page 16.

The Company is engaged in providing interment rights, cremations and funerals, together with associated merchandise and services, in eight provinces across Canada. Interment rights are sold for traditional ground burial, cremation ground burial, mausolea, columbaria and other cremation products including benches and pedestals. Associated merchandise and services include, but are not limited to, bronze memorials, upright monuments, caskets, burial vaults, cremation urns, candles, vases, interment services and cremation services. The Company offers a complete range of options for personalized memorialization and prides itself on providing the best quality products and services to its customers.

Funeral homes provide a range of services that includes preparation of deceased, registration of death, the use of funeral home facilities for visitation, memorial services, funeral receptions and catering, transportation services, cremation and the sale of caskets, urns, flowers and other related merchandise and services. Most Arbor funeral homes have comfortable reception lounges with fully equipped kitchens and extensive seating. In recent years, the Company has been able to increase its average sale per funeral service by providing customers with value-added merchandise and services such as receptions including the provision of food and alcohol (where licensed), flower packages and ancillary merchandise.

In recent years, there has been a growing trend towards cremation as an alternative to traditional burial. In 2006, the Cremation Association of North America ("CANA") reported that the number of cremations in 1996 represented 40% of total Canadian deaths and that this percentage grew to 56% in 2004. The CANA projections that were provided for five of the provinces also indicated that the percentages for three of these five provinces would grow further by 2010.

The increase (decrease) in cremations and interments performed by Arbor were as follows over the last three years.

<i>(On a 52-week basis)</i>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>Average</u></b>
Cremations	<b>1.4%</b>	0.2%	1.7%	1.1%
Interments	<b>(0.2%)</b>	0.2%	2.4%	0.8%

The Company estimates that cremation services in the funeral division represented 60% of total services in fiscal 2006 (2005 – 58%). While cremation was originally seen as a less costly alternative to burial, it is increasingly accompanied by traditional funeral services and memorialization, which offsets the potential revenue decline.

Due to the trend towards cremation, the Company has been developing cremation gardens in a number of its cemeteries. These gardens are landscaped with flowers, trees, shrubs, walkways, waterfalls and ponds and provide the Company's customers with alternatives for burial, memorialization or scattering, and can be accompanied by various other memorial products such as benches, pedestals, rocks, trees and memorial walls. Memorial product contracts written by Arbor have increased annually on average by 17.7% from fiscal 2003 to fiscal 2006 and increased in 2006 over 2005 by 28.5%.

The Company sells its pre-need funeral arrangements and either deposits the funds in trust or sets aside the funds under a group annuity insurance policy under which the customer is the policyholder. Over the last 3 years, the Company has been selling more pre-need funeral arrangements financed under the group annuity program. In fiscal 2004, group annuity sales made up 38.7% of total pre-need funeral sales. This grew to 60.7% of total pre-need funeral sales in fiscal 2006. The increase in annuity sales translated to higher annuity fees received under the program. Annuity fees increased in 2006 over 2005 by 6.2% excluding fees related to new operations and the comparative growth for 2005 over 2004 was 10.1%. Near the end of fiscal 2006, the Company began to sell certain pre-need cemetery merchandise under the group annuity program.

Interest and dividend income on trust and cemetery care funds have been decreasing over the last three years due to reinvestment at lower prevailing rates. Returns over the last three years were as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cemetery trust funds	<b>4.2%</b>	4.3%	4.4%
Cemetery care funds	<b>5.3%</b>	5.5%	5.8%
Funeral trust funds	<b>3.4%</b>	3.6%	3.7%

According to Statistics Canada:

- Canada's population has been growing at an average annual rate of 1%;
- the percentage increase in the number of deaths in Canada over the last three years ended June 30 is as follows: 2004 – 2.9%; 2005 - 1.5%; and 2006 – 0.5%;
- indicators such as the median age of the population indicate that the nation's population is aging;
- between 2006 and 2011, the population aged 80 and over is expected to increase by 15.1%, or 3.0% annually, to 1.3 million and is expected to increase by an additional 84.3% or 4.2% annually from 2012 to 2031;
- similarly, the population aged 65 to 79 is expected to increase by 12.8%, or 2.6% annually, to 3.6 million and is expected to increase by an additional 88.1% or 4.4% annually from 2012 to 2031; and
- the number of seniors aged 65 and older is expected to grow by 112.2% over the 25-year period from 2006 to 2031.

The Company's average statutory federal and provincial rate of income tax has been declining over the last three fiscal years. This has partially been due to reductions in rates at both the federal and provincial level. In addition, a corporate reorganization completed at the end of the first quarter of fiscal 2004 had an impact on all years 2004 through 2006. From fiscal 2003 to fiscal 2006, the average statutory rate of income tax declined from 37.8% to 33.9%, a reduction of 3.9% percentage points.

In November 2002, the results of the Ontario Ministry of Consumer and Business Services ("MCBS") Bereavement Sector Advisory Committee ("BSAC") were presented to the Ontario legislature as Bill 209. On December 13, 2002, the Bill received Royal Assent. The Company has played an active role on BSAC since its formation in April 2001. The legislation provides increased consumer protection as well as fostering a level playing field between participants and suggesting options for a single regulatory regime. The legislation also sets out rules for how "combinations" (funeral homes located on cemetery properties) would be permitted. The impact of combinations for the Company should be positive, as currently, Ontario and Prince Edward Island are the only provinces that do not allow funeral homes on cemetery property. When the Ontario Government proclaims the legislation, the Company will further enhance its ability to serve its customers, since 21 of the Company's 41 cemeteries are located in that province. At October 31, 2006, five of the seven regulation segments had been released. According to the MGS timetable, they intend to circulate a revised draft of the five regulation segments to interested stakeholders in early calendar 2007. However, based on the Company's experience, it is uncertain when the regulations will be finalized and the legislation will be proclaimed.

The Company's present priorities for future investment follow:

- to establish funeral homes and reception centres within its cemeteries or as stand-alone facilities in communities where there is market justification;
- to acquire or construct funeral homes that, in connection with the Company's cemeteries, will achieve the goal of seamless service to its customers; and
- to acquire property to expand existing or develop new cemeteries and to establish or expand facilities to service the growing cremation market.

In fiscal 2006, the Company acquired 7 funeral homes, opened a new reception centre at a cemetery in Whitby, Ontario and acquired two parcels of cemetery land for future development. In fiscal 2005, the Company opened a new funeral home in Markham, Ontario and purchased the land and building of an existing funeral operation in Toronto, Ontario, two parcels of cemetery land for future development and a small parcel of land adjacent to the premises of an existing funeral operation. In fiscal 2004, the Company opened a new reception centre in Oakville, Ontario.

The acquisition of 7 funeral homes in the Ottawa area occurred on November 8, 2005 for \$24.0 million, including closing costs, with \$19.9 million in floating rate bank debt and \$4.1 million in cash. This acquisition is the largest in the history of the Company, both in terms of the purchase price and the number of funeral homes acquired.

In 2007, the Company expects to mostly complete the construction of a new reception centre in Windsor, Ontario that will service both Victoria Memorial Gardens and Greenlawn Memorial Gardens. In addition, the Company expects to begin construction of three additional reception centres in Ottawa, Brampton and St. Catharines, Ontario.

In fiscal 2006, the Company disposed of one funeral home in London, Ontario. In fiscal 2005, the Company disposed of one funeral home in Toronto, Ontario as well as three small ancillary properties held in the funeral division. In fiscal 2004, the Company sold its equity investment in four funeral homes in Ottawa, Ontario.

The Company continues to monitor its cemetery land holdings to identify surplus parcels that can be sold and to identify branch locations that require additional land. The following is a summary of the activity in this regard over the last 3 fiscal years:

- In the first quarter of fiscal 2007, the Company agreed to sell a parcel of land for \$0.3 million.
- In fiscal 2006, the Company purchased two parcels of cemetery land for future development in Milton, Ontario and Calgary, Alberta for \$2.9 million and \$2.0 million respectively.
- In fiscal 2005, the Company purchased two parcels of cemetery land for future development in Langley, British Columbia and Calgary, Alberta for \$2.5 million and \$0.7 million respectively and sold a parcel of land held for future development for \$0.2 million.
- In fiscal 2004, the Company sold two small parcels of surplus cemetery land for \$0.4 million.

## **DESCRIPTION OF THE BUSINESS**

### **General**

Arbor is the successor to a business formed in 1947 in Canada to establish a national system of park-like cemeteries with memorials set flush to the ground and to develop the pre-need concept which enables consumers to make their cemetery arrangements in advance, avoiding additional emotional and financial stress during a time of bereavement. Sales were initially comprised of only interment rights for ground burials. Over the years, other related products such as bronze memorials, upright monuments, vases, candles, pictures, vaults, cremation services and interment services were made available. Mausolea and columbaria were introduced to satisfy public demand for alternatives to ground burials. In the late 1970s, Arbor commenced the construction of crematoria at several cemetery locations to address the public's growing preference for cremation. The Company currently operates 27 crematoria. All Arbor cemeteries and funeral homes are non-denominational. Arbor has created special gardens, features and services to respectfully appeal to the traditions of many ethnic and religious groups in Canada.

A basic goal of Arbor is to provide consumers with a complete selection of cemetery and funeral products and services. Consistent with this goal, Arbor began to provide funeral products and services and commenced sales of pre-need funeral arrangements in the 1980's. A substantial increase by Arbor in the rate of acquisition and construction of funeral homes occurred from the middle of the 1980's to the late 1990's.

In 1983, Arbor built its first funeral home on a cemetery property at Chapel Lawn Memorial Gardens in Winnipeg, Manitoba. In total, the Company has built 13 funeral homes and three reception centres on cemetery properties and has established this practice as one of its strategic priorities. Today, Arbor is the second largest combined funeral home, cemetery and crematoria operator in Canada in terms of consolidated revenues from Canadian operations. As of October 31, 2006, it wholly owned 41 cemeteries, 27 crematoria, three reception centres and 93 funeral homes. Arbor operates in all but two provinces of Canada, which are Prince

Edward Island and Newfoundland. Of the Company's total cemeteries, crematoria, reception centres and funeral homes, 50% are located in Ontario.

The following table shows the number of the Company's operating facilities at October 31 of the years indicated:

	<u>2006</u> <sup>(1)</sup>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cemeteries	41	41	41	41	41
Crematoria	27	27	27	27	27
Reception Centres	3	2	2	1	1
Funeral homes <sup>(2)</sup>	93	87	87	91	93

(1) The Company's operating locations as at October 31, 2006 are listed in Appendix "B".

(2) In 2003, the Company wholly owned 87 of the 91 funeral homes and had a 48% interest in the remainder. In 2002, the Company had an equity interest in 5 funeral homes.

In fiscal 2006, Arbor performed 17,177 (2005 – 17,208) cemetery interment services, 14,252 (2005 – 14,060) cremation services and 20,555 (2005 – 18,957) funeral services (including those performed at discontinued operations).

### Principal Products and Services

Arbor's cemeteries and crematoria offer a variety of services and products that include interment rights, bronze memorials, upright monuments, vaults, urns, interment services and cremation services. Funeral homes provide a range of services that include preparation of the deceased, registration of death, the use of funeral home facilities for visitation, memorial services and funeral receptions, and the sale of caskets, urns and related merchandise.

Products and services may be sold at the time of death ("at-need sales") or may be pre-arranged in advance of need ("pre-need sales"). Commissioned, licensed sales staff at the cemeteries arrange at-need and pre-need cemetery sales. Commissioned cemetery sales staff also arrange pre-need funeral sales across Canada, excluding Ontario and New Brunswick. At October 31, 2006, the Company had 426 commissioned cemetery sales staff. A group of 25 licensed funeral directors arrange pre-need funeral sales in Ontario, New Brunswick and Quebec. Licensed funeral directors at the individual funeral homes arrange at-need funeral sales.

Cemetery gardens, mausolea and columbaria are developed for the sale of interment rights and are generally developed well in advance of the time of pre-need sales. An exception to this occurs in certain provinces that allow the sale of interment rights prior to construction. Development of cemetery gardens involves zoning the land appropriately if required, filling and preparing raw land, landscaping and numbering of the burial lots. Development of interior mausolea and columbaria involves planning and design, obtaining municipal permits, development of the land and construction of the structure. Development of small-scale exterior mausolea and columbaria is a much simpler process and sometimes solely involves placing a pre-constructed structure on previously developed land along with appropriate landscaping.

Cemetery interment and cremation services are performed by grounds staff utilizing appropriate, and in some instances specialized, equipment. Funeral services, including arrangement of the services, registration of the death, preparation of the deceased and direction of the services and receptions, must be provided by licensed funeral directors according to funeral regulation. The Company has not experienced difficulty in hiring appropriately licensed funeral staff.

## **Sources, Pricing and Availability of Raw Materials, Component Parts and Finished Products**

**Cemetery gardens:** The most significant raw material used for the development of cemetery gardens is land “fill”. Fill is used to create a finished appearance to the garden, to allow easier maintenance of the land and to allow appropriate depth for burial. Fill may be obtained from many different sources. Quality fill can be difficult to locate at the time of development and price is commensurate with market supply and demand.

**Mausolea and columbaria:** The significant raw materials used for the development of mausolea and columbaria are concrete, steel, granite and marble. All of these materials are readily available but their pricing is subject to market supply and demand. The most significant finished product used in the construction of mausolea and columbaria are the crypt and niche units. There are few sources for crypt and niche units. The main raw material used in the construction of crypt and niche units is generally concrete. However, recently the Company has been exploring the use of aluminum and granite niche units. The pricing of mausolea and columbaria construction in recent years has increased significantly due to price increases in concrete and steel. Labour costs have also increased significantly due to the high volume of construction in the market. The price increases for marble have been relatively consistent over the years.

**Bronze memorials:** There are few national providers of bronze memorials for cemetery purposes in Canada. The Company has been purchasing almost all of its bronze memorials from one supplier for many years, mainly due to their storage program for memorials sold on a pre-need basis. This supplier stores pre-need bronze memorials, once purchased and inscribed, until the time of death. The pricing of bronze memorials is subject to market supply and demand for copper, the main raw material used in the production of bronze memorials. For the last few years, the Company’s bronze memorial supplier has been including a copper surcharge in its pricing to the Company. This increase in cost has been passed on to the customer where possible. The Company was advised in early fiscal 2007 that the copper surcharge would be incorporated into the base price of bronze memorials, however, the effective date of this change is not yet known.

**Granite bases for bronze memorials:** There are five to six national suppliers of granite bases in Canada. The Company purchases most of its granite bases from two suppliers. Granite bases sold on a pre-need basis are purchased on behalf of the Company’s customers after the customer has completed payment of the granite. Once purchased, pre-need granite bases obtained from one of the Company’s suppliers are stored at that supplier’s location in Manitoba until death of the customer. Pre-need granite bases obtained from other suppliers are stored at the cemeteries. Granite base pricing is subject to market factors, including the Canada/United States exchange rate in the case of the supplier that provides storage facilities. However, the Company has not experienced any significant changes in granite base pricing.

**Upright monuments:** Upright monuments are constructed of granite. There are many local suppliers of upright monuments across Canada; however, there may be only a few suppliers in any given market that can provide quality inscription services. The Company purchases most of its monuments from five sources. The Company has not experienced any significant changes in upright monument pricing.

**Cremation urns:** There are many suppliers of cremation urns across Canada and many different types of urns. The Company sells mainly bronze and marble urns and purchases most

of its bronze urns from its supplier of bronze memorials and most of its marble urns from one of its monument suppliers. Other than a copper surcharge on the bronze urns in the last two years due to market factors, the Company has not experienced significant changes in cremation urn pricing.

**Candles and vases:** Candles and vases are made of bronze and are affixed to bronze memorials sold mainly for the memorialization of crypts and niches. There are only two national suppliers of candles and vases. The Company has not experienced significant changes in the pricing of these products.

**Caskets:** There are only two national suppliers of caskets in Canada. The Company negotiates contracts with these suppliers that outline pricing and other terms and conditions. The Company has not experienced significant changes in the pricing of caskets.

**Burial vaults:** The Company sources burial vaults from local suppliers and there are generally one to two suppliers in each market. The Company's burial vaults are constructed of concrete and as such the pricing is subject to market factors. The Company has experienced considerable price increases in burial vaults over the last few years. This increase in cost has been passed on to the customer where possible.

### **Intangible Properties**

Each of the Company's locations has its own trade name. Trade names are particularly important to maintaining relationships with the community and families that the funeral homes and cemeteries have previously served. Where the Company has acquired a funeral home, it has mostly maintained the trade name of the previous owner. In addition, the "Arbor" logo and consistent signage is used at all locations.

In the purchase price allocation of the acquisition described on page 5, the Company recognized a future benefit related to the value of the trade name. The value of the trade name acquired was calculated using the Capitalized Royalty Income Method, whereby the trade name was valued by reference to the amount of royalty income it could generate if it was licensed, in an arm's-length transaction, to a third party. The value of the trade name is not subject to amortization as the trade name has an indefinite life. The value of the trade name was \$1.1 million at October 31, 2006 (2005 – nil).

In 2005, the Company completed the development and implementation of a new computer system for cemetery and funeral operations. The new system is a proprietary solution called "Focus" that integrates all of the Company's operating systems. The total cost of the project was \$5.5 million. "Focus" is integral to ensuring the Company is able to track and account for its pre-need revenues and costs and regulatory obligations.

### **Revenue from Principal Products and Services**

A breakdown of revenue for the latest two fiscal years is provided below (in \$millions):

	2006		2005 <sup>(1)</sup>	
	\$	%	\$	%
Cemeteries and crematoria	94.7	43.9%	91.0	45.8%
Funeral homes	104.9	48.7%	92.1	46.4%
Other sales	0.6	0.3%	0.6	0.3%
Investment and other income	15.3	7.1%	14.8	7.5%
Total	215.5	100.0%	198.5	100.0%

<sup>(1)</sup> Amounts for 2005 were restated to conform to the current year's presentation (see note 19 to the consolidated 2006 financial statements in the Company's 2006 Annual Report).

Sales generated by Arbor result from sales to numerous consumers, including groups, and no one consumer or group accounts for a significant percentage thereof. In addition, sales from no one operating location contributed more than 10% of Arbor's total revenues.

### **Competitive Conditions in the Principal Markets and Geographic Areas**

#### ***Cemetery Operations:***

In Canada, cemetery operations are owned by a large number of religious organizations, municipal governments and other "not-for-profit" organizations in addition to commercial owners. One large multi-national firm owns a small number of cemeteries in Canada; however, its presence in the cemetery business is significantly less than in the funeral business. In addition, the Company competes with monument dealers and other providers of cemetery products and services in certain of its markets. Cemeteries range in size from 19 acres to over 200 acres. The Company estimates that its interments represented 7.2% of total Canadian deaths for the period from July 1, 2005 to June 30, 2006.

Only a small number of organizations have developed large modern cemeteries and even fewer provide a full range of services due to the significant barriers to entry. Specifically, entry into the cemetery industry can be difficult due to:

- complex cemetery regulations and zoning restrictions;
- the significant capital investment required and high land values particularly in metropolitan areas;
- land for new cemetery development being difficult to locate; and
- the desire for families to return to the same cemetery for generations.

Arbor competes in the cemetery segment by presenting well-maintained premises and a wide variety of burial space selection. In addition, the Company strives to provide products and services that appeal to the different cultural backgrounds of its customers. There is active competition in every major community in which Arbor operates cemeteries.

#### ***Funeral Operations:***

Although Arbor competes with one large multi-national firm that operates funeral homes in Canada, small independently owned firms, controlling one or two funeral homes, account for the largest number of funeral home operators in Canada. The Company also competes with casket stores, discount funeral providers and other providers of funerary products and services in

certain of its markets. The Company estimates that it performed approximately 8.5% of all funeral services provided in Canada for the period from July 1, 2005 to June 30, 2006.

Barriers to entry are high due to the significant capital investment required, increasing regulatory complexity and the importance of an established reputation in competing for market share.

Throughout most of the 1980's and 1990's, the Company and its competitors engaged in the acquisition of independently owned firms. However, this trend slowed in early 1999 when the Company and its competitors generally applied lower valuation criteria and many potential sellers withdrew their businesses from the market rather than pursuing transactions at lower prices. Until its acquisition of 7 funeral homes in early fiscal 2006, the Company had not made a funeral home acquisition since 1999.

Arbor competes in the funeral segment by providing unique, personalized funeral services and by offering well-maintained, attractive facilities that cater to its customers' requirements. The Company's objective is to be first or second in terms of market share in every market in which it competes.

***Industry Trends:***

The following may contain forward-looking statements. Reference should be made to "Forward-Looking Statements" on page 1 and for a description of material factors that could cause the Company's actual results to differ materially from its forward-looking statements, please see "Description of the Business – Risk Factors" at page 16.

***Establishment of new cemeteries:*** The establishment of individual cemeteries by religious organizations, municipal governments and other "not-for-profit" organizations has declined. Many existing religious cemeteries are nearing full capacity and few religious organizations have the funds to acquire new cemetery facilities. In general, the interest of municipal governments in fulfilling the requirement for cemetery facilities has been declining.

***Cremation:*** There has been a growing acceptance of cremation as an alternative to traditional burial in Canada and internationally. The Cremation Association of North America reported that the percentage of deaths where cremation was provided has steadily increased from 40% in 1996 to 56% in 2004. They also reported that the percentage is expected to continue to grow in the future.

While cremation was originally seen as a less costly alternative to traditional burial, it is increasingly accompanied by traditional funeral services and memorialization. Cremation also provides the Company with an opportunity to better serve its families by offering unique products and services. Arbor has been developing cremation gardens in a number of its cemeteries. These gardens are landscaped with flowers, trees, shrubs, walkways, waterfalls and ponds and provide the Company's customers with alternatives for burial or scattering, and can be accompanied by various other memorial products such as benches, pedestals, rocks, trees and memorial walls.

***Need for products and services:*** There is an inevitable need for the products and services the industry offers. In addition, the number of deaths in Canada is expected to increase at a steady, moderate pace. However, longer lifespan could reduce the rate of deaths. Annual population estimates by Statistics Canada indicate that Canada's population is growing by approximately 1% annually. More specifically, Statistics Canada indicates that the number of

seniors aged 65 and older is expected to grow by 112.2% over the 25-year period from 2006 to 2031.

### **Seasonality**

While the death care industry is fairly stable and predictable, the Company's at-need business and pre-need deliveries of some merchandise and services can be affected by seasonal fluctuations in the death rate. Death rates are generally higher in the winter months. The Company's pre-need cemetery sales of burial spaces can also have seasonal fluctuations, whereby sales are generally lower in the winter and summer months.

### **Employees**

As at October 31, 2006, the Company employed 1,927 people, including 643 part-time employees. A total of 73 employees at nine of the Company's locations are unionized and there are six collective agreements. Three of the collective agreements expire as follows: one in 2008, one in 2009 and one in 2010. The remaining collective agreements were under negotiation at October 31, 2006.

### **Environmental and Human Rights Policies**

The Company has an Environmental Policy (the "Policy") that outlines the Company's commitment to protection and preservation of the natural environment. The Policy was adopted in 1997 and outlines the Company's commitment as follows:

- being a member of the Cremation Association of North America and the provincial cemetery and funeral associations to ensure the Company is aware of the latest technology, industry trends and relevant legislation.
- having an Environmental Committee of the Board; and
- ensuring employees are familiar with the regulations concerning the environment and the Policy.

The Policy was distributed to all employees upon implementation and is maintained in the Environmental Program Manual (the "Manual"). The Manual has been distributed to all Property Management employees and contains detailed policies and procedures for potential environmental liabilities including waste, chemicals, water, land and air.

The Company has a Code of Business Ethics and Conduct Policy that applies to its directors, officers and employees. The Code of Business Ethics and Conduct Policy is available on SEDAR at [www.sedar.com](http://www.sedar.com). The Code of Business Ethics and Conduct Policy has been distributed to all employees and a copy is maintained in the Human Resources Policy Manual. The Policy references other human rights policies including the:

- Alcohol and Drug Policy (distributed to all employees after initial development and located in the Company's Human Resources Policy Manual);
- Social Gatherings Policy (distributed to all employees annually and located in the Company's Human Resources Policy Manual);
- Harassment and Discrimination Policy (distributed to all employees after initial development and located in the Company's Human Resources Policy Manual);
- Wrongful Conduct Reporting Policy (distributed to all employees after initial development and located in the Company's Human Resources Policy Manual); and

- Whistle-Blower Policy (distributed to all employees after initial development and located in the Company's Human Resources Policy Manual).

The Company has two other fundamental human rights policies: Prohibited Grounds of Discrimination Policy and Employee Personal Information Privacy Policy. Both policies were distributed to all employees after initial development and are located in the Company's Human Resources Policy Manual.

## **Regulatory Environment**

Cemetery and funeral operations of the Company are required to comply with municipal zoning and public health, as well as provincial and federal environmental, trust and consumer laws and regulations. In the Province of Ontario, cemeteries are regulated under the Cemeteries Act (Ontario) by the Cemeteries Regulation Section of the Ministry of Government Services ("MGS" – formerly the Ontario Ministry of Consumer and Business Services), and funeral services are regulated under the Funeral Directors and Establishments Act (Ontario) by the Board of Funeral Services. These two Acts provide the most stringent set of Canadian rules dealing with cemetery and funeral operations. The Company, along with the Ontario Association of Cemetery and Funeral Professionals and other industry stakeholders, has been active in the Bereavement Sector Advisory Committee, which was convened by the MGS. See "General Development of the Business – Three Year History".

## **Trust Funding**

The major regulatory controls on funeral home and cemetery operations are the requirements of various provinces relating to the establishment of trust funds. The three types of trust funds that are required in order to comply with provincial laws are cemetery care funds, cemetery pre-need funds and funeral pre-need funds.

### ***Cemetery Care Funds:***

Arbor is required to place a certain percentage of sale proceeds from interment rights, and a certain portion of sales of bronze memorials and upright monuments, in irrevocable trusts in order to ensure income for the care and maintenance of its cemeteries. This practice has been legislated by most provinces. The level of care and maintenance funding for interment rights required by Arbor ranges from a low of 0% in Quebec and New Brunswick to a high of 40% in Ontario. In the provinces with 0% statutory funding requirements, the Company has elected to fund 5% of the sales of interment rights.

The book value of the investments in the care fund trusts of the Company at October 31, 2006 was \$154.6 million (2005 - \$143.5 million), while the market value was approximately \$160.7 million (2005 - \$149.4 million). The book value of the bronze memorial and upright monument funds at October 31, 2006 was \$1.7 million (2005 - \$1.6 million), while the market value was approximately \$1.8 million (2005 - \$1.7 million).

### ***Cemetery Pre-Need Funds:***

The Company is required to set aside with a corporate trustee a certain percentage of the receipts from pre-need cemetery sales. This percentage ranges from 0% in Manitoba and New Brunswick to 100% in Ontario of the receipts from pre-need sales of products and services (excluding interment rights) and is set aside in trust in order to ensure the availability of funds to

deliver the merchandise and services when they are required at the time of need. In the provinces with 0% statutory funding requirements, the Company has elected to fund 50% of the sales of merchandise and services until delivery. The pre-need funds and merchandise set-aside with trustees and suppliers are assets of the Company. The pre-need funds are included under "pre-need receivables and funds" on the balance sheet. The Company also undertakes a merchandise storage program for pre-need cemetery merchandise, whereby certain merchandise is purchased after it has been fully paid by the customer and stored for the customer until required for use. Once the merchandise has been purchased, the Company is allowed to withdraw the related funds from trust in accordance with provincial legislation. Stored merchandise, where the associated revenue has not been recorded, is recorded as an asset of the Company.

As at October 31, 2006, the Company had acquired and stored merchandise with a book value of approximately \$12.8 million (2005 - \$12.0 million) and had set aside or paid into trust approximately \$184.3 million (2005 - \$173.7 million) to meet future pre-need cemetery obligations. Investment income on the trust funds is distributed to the Company and/or to the customer in accordance with legislative requirements. In Ontario, for example, the income remains in trust until the time of delivery and any excess of the funds over the current selling price at the time of delivery must be refunded to the customer.

#### ***Funeral Pre-Need Funds:***

The Company is required to set aside with a corporate trustee a certain percentage of the receipts from pre-need funeral sales. This percentage ranges from 80% in British Columbia to 100% in Ontario and New Brunswick. The pre-need funds are assets of Arbor and the funds are recorded under the balance sheet category "pre-need receivables and funds". To date, the Company has set aside or paid into trust approximately \$201.8 million (2005 - \$182.5 million) for continuing operations to meet future pre-need funeral obligations. Investment income on the trust funds is distributed to the Company and/or customer in accordance with legislative requirements. In Ontario, for example, the income remains in trust until the time of delivery and any excess of the funds over the current selling price at the time of delivery must be refunded to the customer.

The Company also has agreements with various insurance companies whereby the funds collected from pre-need funeral customers are set aside under group annuity policies administered by the insurance companies. The Company receives a marketing allowance from one of the insurance companies on sales of pre-need contracts. As at October 31, 2006, the Company had \$116.0 million (2005 - \$95.0 million) in pre-need funeral contracts receivable from insurance companies for continuing operations. Of this amount, \$26.4 million (2005 - \$28.0 million) was recorded as an asset of the Company since the Company is the policyholder of the funds, while \$89.6 million (2005 - \$67.0 million) was excluded from the assets of the Company and disclosed in a note to the financial statements since the Company is not the policyholder of these funds.

The Funeral and Cremation Services Council of Saskatchewan ("the Council") has implemented a new levy on pre-need funeral contracts in the province. At this time, the Company is absorbing the levy, which is currently less than \$0.1 million annually.

## **Trustees and Third-Party Insurers**

The Company has trust agreements with TD Canada Trust Company and The Bank of Nova Scotia Trust Company. The capital of each fund in most cases may be invested only in securities qualified for investment by the applicable Trustee Acts. The Company also has an Investment Committee of the Board of Directors that monitors and approves the Company's investment strategy and ensures investments are directed in accordance with the Trustee Acts. The Company receives fees from one of the trustees on the monthly balance of the pre-need cemetery and funeral funds.

The Company has third-party insurance agreements with Assurant Life of Canada, Forethought Life Insurance Company and AIG Life of Canada. However, since December 2001, the Company has only sold new pre-need contracts with Assurant Life of Canada.

## **Consumer Protection**

In Ontario and certain other jurisdictions, the purchaser may cancel pre-need cemetery and funeral contracts at any time up to the provision of services and the delivery of merchandise. Upon cancellation, the Company may be required to repurchase unused interment rights and to pay the consumer the funds held in trust for undelivered supplies and services in the prescribed manner. Under proposed legislation in Ontario (Bill 209), the Company would no longer be required to repurchase unused interment rights and customers would be allowed to re-sell interment rights on the open market. Consumers may also cancel pre-need cemetery and funeral contracts in the remaining jurisdictions, however, the amount that the Company must refund is not regulated.

The Funeral and Cremation Services Council of Saskatchewan ("the Council") has implemented a new levy on pre-need funeral contracts in the province. At this time, the Company is absorbing the levy.

In Ontario and certain other provinces, some of the Company's prices for cemetery products and services, particularly interment rights and fees, are subject to regulatory approval. To date, this requirement has not had a significant impact on the Company's operations or significantly affected its ability to adjust prices promptly to match changes in costs.

## **Environmental Protection**

Several Canadian cities in Eastern Canada have enacted and are enforcing pesticide by-laws that ban or severely restrict pesticide use in all areas, including cemeteries. The Company and its competitors continue to lobby to obtain exemptions from current and future pesticide by-laws based on the expectations of their customers. Pesticide by-laws increase the cost of maintaining the Company's cemetery land, however, the increase in cost has not currently been significant.

The Company continues to monitor changes in regulatory standards for air emissions from crematoria. Environmental advocates are encouraging significantly higher emission standards. However, at this time, as defined by the National Pollutant Release Inventory, crematoria are classified as "other" and are not considered "large final emitters". We do not foresee a requirement for costly retrofitting of our existing equipment in any jurisdiction in the immediate future.

## **Risk Factors**

The Company's operations and financial results are subject to various risks and uncertainties which are outlined below and elsewhere in this Annual Information Form and in the Company's filings with securities regulatory authorities, including Management's Discussion and Analysis contained in the 2006 Annual Report.

### ***Risks Related to the Company's Business:***

***Competition:*** In Canada, the funeral and cemetery industry is characterized by a large number of locally-owned, independent operations. To compete successfully, the Company's funeral service locations and cemeteries must maintain good reputations and high professional standards in the industry, as well as offer attractive products and services at competitive prices.

In addition, the Company must market itself in such a manner as to distinguish it from its competitors. The Company has historically experienced price competition from independent funeral home and cemetery operators, monument dealers, casket retailers, low-cost funeral providers and other non-traditional providers of services and merchandise. If the Company is unable to successfully compete, the Company's financial condition, results of operations and cash flows could be materially adversely affected.

Price competition, increased advertising, better marketing or improvements in products and services offered by competitors in any market in which Arbor competes, could reduce the Company's market share or cause the Company to reduce prices or incur increased costs in order to retain or recapture market share, either of which could reduce revenues and margins. See "Description of the Business – Competitive Conditions in the Principal Markets and Geographic Areas".

If the Company is not able to respond effectively to changing consumer preferences, its market share, revenue and profitability could decrease. Future market share, revenue and profit will depend in part on the Company's ability to anticipate, identify and respond to changing consumer preferences. The Company may not correctly anticipate or identify trends in consumer preferences or may identify them later than its competitors do. Any strategies implemented to address these trends could prove incorrect or ineffective, which could have a material adverse effect on the Company's financial condition, results of operations or cash flows.

The Company's ability to grow at an accelerated pace is dependent on its ability to construct reception centres on its cemeteries in Ontario on a timely and affordable basis. To the extent that approvals for zoning, site plans and building permits take longer than expected, this will affect the Company's growth. In addition, new business initiatives are more difficult to forecast which could result in a difference between actual and expected financial performance. Construction costs are currently at very high levels and to the extent that they continue to increase, this could have a negative impact on the Company's return on investment. The Company's growth is also dependent on the development of new cemeteries and expansion of existing locations where warranted. To the extent that the Company is unsuccessful in acquiring land in the right location at affordable prices this could have an adverse impact on its growth strategy.

***Market factors:*** The Company's ability to generate pre-need sales depends on a number of factors, including local and general economic conditions and sales incentives. A weakening

economy could cause the Company to experience a decline in pre-need arrangements. A decline in pre-need cemetery arrangements would reduce the amount of revenue and net earnings the Company recognizes each year as a result of a decrease in interment right sales. In addition, a decrease in pre-need arrangements of cemetery and funeral products and services would reduce the Company's accumulation of deferred revenue to be recognized in future years. On the other hand, an increase in pre-need arrangements could have a negative impact on cash flow as a result of commissions and other costs incurred. The Company receives fees on the balance of pre-need cemetery and funeral funds under the trust program and receives fees on the deposit of funeral funds under the group annuity program. These fees partially offset the commissions and other costs incurred for pre-need arrangements.

Funeral homes and cemeteries are high fixed-cost businesses, which incur costs such as salaries and other employee costs, utilities, property taxes, insurance, motor vehicle expenses, facilities and maintenance costs and regional management costs, regardless of the number of funeral services or interment services performed in any given period. Because the Company cannot decrease these costs significantly or rapidly when it experiences lower sales volumes, the Company is vulnerable to declines in margins, profits and cash flow if it experiences declines in sales and a sales decline may cause margin percentages to decline at a greater rate than the decline in revenues. In addition, costs increases could impair the Company's ability to achieve revenue growth that exceeds its costs increases, thus having a negative impact on earnings and cash flows. An increase in construction and development activity or the cost of construction materials could cause an increase in the cost of capital investments and cemetery burial space inventory projects.

In addition, unexpected increases in the cost of raw materials, such as bronze and granite, could materially adversely affect the Company's future cash flows, revenues and operating margins as there is no guarantee that earnings from pre-need funeral and cemetery funds, cemetery care funds or pre-need funeral and cemetery contracts funded through third-party annuity contracts would cover future unexpected increases in such costs.

***Pre-Need Trust Funds and Cemetery Care Funds:*** Earnings from pre-need funeral and cemetery funds and cemetery care funds could be reduced by changes in stock and bond prices, and interest and dividend rates. Investment earnings and gains/losses on pre-need trust and cemetery care funds are affected by financial market conditions that are not within the Company's control. Earnings are also affected by the mix of fixed-income and equity securities that the Company has in the funds, and it may not choose the optimal mix for a particular market condition. A decline in earnings from pre-need trust funds would cause a decrease in future revenues. A decline in earnings from cemetery care funds would cause a decrease in current revenues. In addition, for pre-need arrangements funded through group annuity contracts, there is no guarantee that increasing insurance benefits will cover future increases in the cost of providing a price guaranteed funeral service, which could affect the Company's financial condition. See "Description of the Business – Trust Funding".

***Pre-need funeral and cemetery contracts funded through third-party annuity contracts:*** The Company sells price guaranteed pre-need funeral contracts through various programs providing for future funeral services at prices prevailing when the agreements are signed. For pre-need funeral contracts funded through annuity contracts, there is an increasing death benefit associated with the contract of approximately 2% per year to be received in cash by the Company at the time the funeral is performed. There is no guarantee that the increasing death benefit will cover future increases in the cost of providing a price guaranteed funeral service, which could materially adversely affect our future cash flows, revenues and operating margins.

**Environmental:** Various jurisdictions develop new environmental legislation from time to time. Compliance with such legislation can increase the Company's cost of operations. See "Description of the Business – Environmental Protection".

**Interest rates:** Increases in interest rates would increase the interest cost of the Company's variable rate long-term debt and have an adverse effect on the Company's net income and earnings per share. As at October 31, 2006, the Company had \$47.2 million (2005 - \$25.9 million), or 51% (2005 – 34%), in variable rate long-term debt, after deducting variable term debt under fixed interest rate swap contracts. Therefore, a 1% increase or decrease in the market interest rate could impact the Company's annual interest expense by approximately \$0.5 million (2005 - \$0.3 million).

**Key Personnel:** The Company's success and ability to manage future growth depends in part upon the continued services of senior management and the ability to attract and retain key officers and other highly qualified personnel. There can be no assurance that we will continue to be successful in attracting and retaining qualified personnel, and the loss of the services of any of these individuals could have an adverse effect on the Company's revenue, financial performance and results of operations.

**Risks Related to the Company's Industry:**

**Decline in number of deaths:** A decline in the number of deaths in any of the Company's markets could cause a decrease in revenues. Changes in the number of deaths are not predictable over the short-term or from market to market. See "General Development of the Business – Three Year History" and "Description of the Business – Industry Trends – Need for products and services".

**Cremation:** The increasing number of cremations in Canada could cause revenues to decline since the average revenue received from a cremation arrangement is generally lower than that received from a traditional arrangement. A substantial increase in the rate of cremations without services that the Company performs could have a material adverse effect on the Company's financial condition, results of operations and cash flows. See "General Development of the Business – Three Year History" and "Description of the Business – Industry Trends – Cremation".

**Regulations:** Changes in, or failure to comply with, regulations applicable to the Company's business could increase costs, or require changes to business administration or operational practices. The death care industry is subject to extensive regulation and licensing requirements under federal, provincial and local laws. From time to time, various governments and agencies amend or add regulations, which could increase the Company's cost of operations. See "General Development of the Business – Three Year History" and "Description of the Business – Regulatory Environment" and "Description of the Business – Consumer Protection".

**Seasonality:** The Company's at-need business and pre-need deliveries of some merchandise and services can be affected by seasonal fluctuations in the death rate. The Company's pre-need cemetery sales of burial spaces can also have seasonal fluctuations. See "Description of the Business – Seasonality".

## DIVIDENDS

Cash dividends declared per Class A Voting Share and Class B Non-Voting Share for each of the three most recently completed financial years are as follows:

		<u>Cash Dividend Per Share <sup>(1)</sup></u>	<u>Date Declared Payable</u>	<u>Date Paid</u>	<u>Date of Record of Shareholders</u>
Fiscal	2006	7 cents	Aug. 31, 2006	Nov. 1, 2006	Oct. 13, 2006
	2005	7 cents	Sept. 1, 2005	Nov. 2, 2005	Oct. 14, 2005
	2004	7 cents	Aug. 26, 2004	Nov. 3, 2004	Oct. 15, 2004

(1) The cash dividend per share is for each Class A Voting Share and Class B Non-Voting Share.

Arbor's banking arrangements require the Company to obtain the consent of its bankers before dividends may be declared in excess of 30% of the Company's net earnings for the year. All decisions by the Company's Board of Directors regarding the payment of dividends are subject to the foregoing consideration as well as factors such as earnings, the financial position of the Company, future capital requirements and general business conditions.

## DESCRIPTION OF CAPITAL STRUCTURE

### General Description of Capital Structure

Authorized shares include an unlimited number of common shares designated as "Class A Voting Shares", an unlimited number of special shares designated as "Class B Non-Voting Shares" and an unlimited number of a class of preferred shares, issuable in series ("Preferred Shares"). The Company had 2,525,497 Class A Voting Shares, 8,069,746 Class B Non-Voting Shares and no Preferred Shares issued and outstanding at October 31, 2006. The Class A Voting Shares and the Class B Non-Voting Shares have identical rights and privileges, except that the Class A Voting Shares are voting. In certain circumstances, if an offer is made by the Company or a third party to purchase Class A Voting Shares from each holder in Ontario, each Class B Non-Voting Share is convertible into one Class A Voting Share. The material characteristics of each class of authorized share are set out below.

### ***Class A Voting Shares and Class B Non-Voting Shares:***

The holders of Class A Voting Shares are entitled to receive notice of and to attend any meeting of shareholders of the Company and to vote thereat, except a meeting of the holders of shares of another class. The holders of Class A Voting Shares have one vote for each Class A Voting Share held.

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 shares of another class. If the Company proposes to amend its articles to delete or vary a preference, right, condition, restriction, limitation or prohibition attaching to the Class B Non-Voting Shares or to create shares ranking in any respect in priority to or on a parity with the Class B Non-Voting Shares, the holders of Class B Non-Voting Shares will be entitled to vote separately as a class and such proposal will not be effective until, in addition to any other approval required by law, it has been confirmed by at least two-thirds of the votes cast by the holders of Class B Non-Voting Shares at a meeting of such holders called for that purpose.

The holders of Class A Voting Shares and Class B Non-Voting Shares will rank pari passu with each other with respect to the payment of dividends and with respect to the distribution of assets in the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of its assets among its shareholders for the purposes of winding-up its affairs.

Neither the Class A Voting Shares nor the Class B Non-Voting Shares will be increased in number by reason of being subdivided, or decreased in number by reason of being consolidated, unless at the same time, the shares of the other class are subdivided or consolidated in the same proportion.

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 will 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.

***Preferred Shares:***

Preferred Shares may be issued in one or more series, with each series (a) carrying dividends (if any) at such rate, in such amount, determined in such manner and with such dates of payment; (b) to be redeemable (if at all) at such time, at such price and on such terms and conditions; (c) to carry such sinking or other retirement fund (if any); (d) to be subject to such purchase provision (if any) by the Company; (e) to have such designation; (f) to carry such voting rights (if any); (g) to have such conversion rights (if any); and (h) to carry such other rights, privileges, restrictions and conditions and to be authorized in such number and as will be determined and fixed by resolution of the directors. If any amount of cumulative dividends, whether or not declared non-cumulative dividends, or if any amount payable on return of capital in the event of the liquidation, dissolution or winding up of the Company, in respect of a series of Preferred Shares is not paid in full, the shares of the series will participate rateably with the shares of all other series of Preferred Shares in respect of all accumulated cumulative dividends, whether or not declared, and all declared non-cumulative dividends and all amounts payable on return of capital in the event of the liquidation, dissolution or winding up of the Company as the case may be. The Preferred Shares will be entitled to preference over the Class A Voting Shares, the Class B Non-Voting Shares and over any other shares of the Company ranking junior to the Preferred Shares with respect to any payment of dividends and return of capital.

Any amendment to the articles of the Company to delete or vary any right, privilege, restriction or condition attaching to the Preferred Shares or to create other Preferred Shares ranking in priority to or on a parity with the Preferred Shares, shall be authorized by special resolution of the holders of the Preferred Shares voting separately as a class.

## Equity Plans

### ***Amended and Restated 1994 Stock Option Plan:***

The Company has adopted a stock option plan (the "Option Plan"). Under the Option Plan, options to purchase common 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), which represents 8.3% of the Company's total issued and outstanding securities (i.e. all Class A Voting Shares and Class B Non-Voting Shares). The number of Class B Non-Voting Shares issued and which may be issued under grants made under the Option Plan is 510,700, which represents 4.8% of the Company's total issued and outstanding securities. The remaining number of Class B Non-Voting Shares issuable under the Option Plan is 368,089, which represents 3.5% of the Company's total issued and outstanding securities.

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 re-grant 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.

At the upcoming annual and special meeting of shareholders, management is proposing amendments to the Option Plan. For further information, please see the Company's 2006 Management Information Circular.

### ***Employee Stock Ownership Plan:***

The Company's senior officers are eligible to participate in the Company's employee stock ownership plan (the "ESOP"). The ESOP 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.

## **MARKET FOR SECURITIES**

### **Trading Price and Volume**

Arbor's Class A Voting Shares (trading symbol ABO.A) and the Class B Non-Voting Shares (trading symbol ABO.B) have been listed for trading on the Toronto Stock Exchange since 1973. The trading symbol for the Class B Non-Voting Shares was changed to ABO.B in May of 2006 from ABO.NV.B. The price ranges and volume traded on the Toronto Stock Exchange in fiscal 2006 (in \$ other than volume traded) are as follows.

Stock Price – Class A Voting

	Open	High	Low	Close	Volume Traded
November 2005	20.50	21.98	20.50	20.70	118,036
December 2005	20.75	20.80	20.50	20.50	31,965
January 2006	22.25	22.25	20.50	21.00	951,206
February 2006	21.00	21.00	20.50	20.50	55,605
March 2006	21.50	21.50	20.10	20.32	118,954
April 2006	21.00	21.00	20.00	20.79	154,503
May 2006	20.00	21.20	19.75	21.00	148,867
June 2006	20.10	22.25	19.75	21.00	71,819
July 2006	20.69	22.26	20.69	22.25	108,310
August 2006	21.75	22.39	21.75	22.39	102,409
September 2006	22.95	24.44	22.95	23.50	1,477,394
October 2006	23.68	24.99	23.00	24.10	826,758

Stock Price – Class B Non-Voting

	Open	High	Low	Close	Volume Traded
November 2005	21.00	22.00	20.70	21.95	352,814
December 2005	22.00	22.10	20.01	20.50	266,818
January 2006	20.50	21.44	20.00	20.10	580,221
February 2006	20.10	21.10	20.00	20.25	460,106
March 2006	19.70	20.50	19.70	20.00	495,361
April 2006	20.00	20.98	19.75	19.75	621,398
May 2006	20.00	20.50	19.75	20.50	487,794
June 2006	20.35	22.00	20.00	21.00	765,532
July 2006	20.75	22.49	20.69	22.25	628,207
August 2006	22.20	22.70	21.50	22.70	212,689
September 2006	22.71	23.75	22.56	23.66	595,520
October 2006	23.50	24.65	23.00	24.50	820,488

## DIRECTORS AND OFFICERS

### Name, Occupation and Security Holding

The following table sets forth information with respect to each of the current directors and executive officers of the Company. The following information is given as of January 19, 2007 and is based on 2,525,497 Class A Voting Shares issued and outstanding. The directors are elected annually by the shareholders at the Annual Meeting. The next annual meeting of shareholders will be held on March 1, 2007.

<b>Name and Municipality of Residence</b>	<b>Office Held</b>	<b>Principal Occupation</b>	<b>Year Elected <sup>(7)</sup></b>	<b>Number and Percentage of Class A Voting Shares Owned or Controlled</b>
Daniel J. Scanlan Toronto, Ontario, Canada	Chairman and Director	Chairman of the Company	1973	1,341,899 <sup>(6)</sup> 53.1%
Richard D. Innes <sup>(2)</sup> Toronto, Ontario, Canada	President, Chief Executive Officer and Director	President and Chief Executive Officer of the Company	1997	Nil Nil%
Joseph M. Scanlan <sup>(5)</sup> Burlington, Ontario, Canada	Vice-Chairman, Senior Vice-President, Sales and Director	Vice-Chairman and Senior Vice-President, Sales of the Company	1989	5,000 <1%
Michael J. Scanlan <sup>(4)</sup> Scarborough, Ontario, Canada	Vice-President, Marketing and Director	Vice-President, Marketing of the Company	2006	Nil Nil%
Philip L. Wilson <sup>(1)(3)</sup> Toronto, Ontario, Canada	Director	Corporate Director	1973	1,000 <1%
Roger A. Hall <sup>(2)(3)(5)</sup> Oliver, British Columbia, Canada	Director	Corporate Director and Management Consultant	2001	Nil Nil%
Robert E. Rose <sup>(1)(3)</sup> Toronto, Ontario, Canada	Director	Partner, Clarke Henning LLP (Accounting Firm)	2002	Nil Nil%
Brian L. Zenkovich <sup>(1)(2)(4)</sup> Toronto, Ontario, Canada	Director	Chief Executive Officer and Secretary of Winzen Properties Inc. (Real Estate Company)	2002	Nil Nil%
Kenneth T. Rosenberg <sup>(4)(5)</sup> Toronto, Ontario, Canada	Director	Partner, Paliare Roland Rosenberg Rothstein LLP (Law Firm)	2003	300 <1%
Iain A. Robb Toronto, Ontario, Canada	Corporate Secretary	Partner, Gowling Lafleur Henderson LLP (Law Firm)	N/A	Nil Nil%
Mike Ayres Mississauga, Ontario, Canada	Vice-President, Information Services	Vice-President, Information Services of the Company	N/A	Nil Nil%
Rita Burman Toronto, Ontario, Canada	Assistant Secretary	Executive Assistant of the Company	N/A	Nil Nil%
Gary R. Carmichael Markham, Ontario, Canada	Vice-President, Government and Corporate Affairs and Chief Privacy Officer	Vice-President, Government and Corporate Affairs and Chief Privacy Officer of the Company	N/A	Nil Nil%
Gary D. Rogerson Hamilton, Ontario, Canada	Vice-President, Operations	Vice-President, Operations of the Company	N/A	Nil Nil%
Stephen J. Rupert Toronto, Ontario, Canada	Vice-President, Construction and Development	Vice-President, Construction and Development of the Company	N/A	Nil Nil%

Name and Municipality of Residence	Office Held	Principal Occupation	Year Elected <sup>(7)</sup>	Number and Percentage of Class A Voting Shares Owned or Controlled
Jeffrey S. Scott Toronto, Ontario, Canada	Vice-President, Funeral Service	Vice-President, Funeral Service of the Company	N/A	Nil Nil %
Brian D. Snowdon Toronto, Ontario, Canada	Vice-President and Chief Financial Officer	Vice-President and Chief Financial Officer of the Company	N/A	Nil Nil%
Maureen A. Carey Toronto, Ontario, Canada	Vice-President, Human Resources	Vice-President, Human Resources 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. Brian Zenkovich is the Chairman.
- (5) Member of the Nominating and Corporate Governance Committee. Kenneth Rosenberg is the Chairman.
- (6) 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.
- (7) All directors are elected for a term expiring immediately prior to the next annual meeting of shareholders or until their successors are elected or appointed.

The Company does not have an Executive Committee. The Company has an Audit Committee, Human Resources and Compensation Committee, Investment Committee, Environmental Committee and a Nominating and Corporate Governance Committee. The membership of each committee is noted above.

The directors and executive officers of Arbor as a group beneficially own directly or indirectly, or exercise control or direction over 1,358,624 Class A Voting Shares of Arbor, being approximately 53.8% of the issued and outstanding Class A Voting Shares.

The principal occupation, business or employment during the preceding five years of each of the directors and executive officers of the Company is summarized below.

**Daniel J. Scanlan** – Chairman and Director. Mr. Scanlan has been a Director of the company since 1973 and Chairman of the Company since 1975.

**Richard D. Innes** – President, Chief Executive Officer and Director. Mr. Innes has been President and Chief Executive Officer of the Company since 1997.

**Joseph M. Scanlan** – Vice-Chairman, Senior Vice-President, Sales and Director. Mr. Scanlan has been Vice-Chairman throughout the last six years. Mr. Scanlan has been Senior Vice-President, Sales of the Company since 1997.

**Michael J. Scanlan** – Vice-President Marketing and Director. Mr. Scanlan has been Vice-President Marketing of the Company since 1995.

**Philip L. Wilson** – Director. Mr. Wilson has been a Corporate Director since 1973 and has been a retired businessman since 1992.

**Roger A. Hall** – Director. Mr. Hall has been a self-employed management consultant since 2000. Prior to that he spent 13 years with the General Electric Corporation in various senior management roles including, Vice-President Enterprise, Financial & Business Continuity Services for GE Capital Information Technology Solutions.

**Robert E. Rose** – Director. Mr. Rose has been a partner with the accounting firm of Clarke Henning LLP since 1990.

**Brian L. Zenkovich** – Director. Mr. Zenkovich is Chief Executive Officer and Secretary of Winzen Properties Inc., a diversified real estate company, and has held that position since 2000. From 1984 to 1999, Mr. Zenkovich was Vice-President Finance of Winzen Properties Inc.

**Kenneth T. Rosenberg** - Director. Mr. Rosenberg is a founding Partner of the law firm Paliare Roland Rosenberg Rothstein LLP since its formation in 2001. Prior to that Mr. Rosenberg practiced law since 1981 at a law firm, which subsequent to various mergers, is now known as Gowling Lafleur Henderson LLP.

**Iain A. Robb** – Secretary. Mr. Robb has been a partner of the law firm of Gowling Lafleur Henderson LLP since 1996.

**Mike Ayres** – Vice-President, Information Services. Mr. Ayres has been Vice-President, Information Services of the Company since 2004. From 1993 to 2004, Mr. Ayres was Director, Information Services.

**Rita Burman** – Assistant Secretary. Ms. Burman has been Assistant Secretary of the Company since May 2005. From May 2001 to May 2005, Ms. Burman was a Real Estate Sales Representative at Realtysellers (Ontario) Limited.

**Maureen A. Carey** – Vice-President, Human Resources. Ms. Carey has been Vice-President, Human Resources of the Company since June 2006. From 2003 to May 2006, Ms. Carey was Unit Commander, Human Resources of the Toronto Police Service Employment Unit and from 2001 to 2003, Ms. Carey was Assistant Vice-President, Employee Relations of Canada Life Assurance Company.

**Gary R. Carmichael** – Vice-President, Government and Corporate Affairs and Chief Privacy Officer. Mr. Carmichael has been Vice-President, Government and Corporate Affairs of the Company since 1997 and Chief Privacy Officer since 2004.

**Gary D. Rogerson** – Vice-President, Operations. Mr. Rogerson has been Vice-President, Operations of the Company since 1996.

**Stephen J. Rupert** – Vice-President, Construction and Development. Mr. Rupert has been Vice-President, Construction and Development of the Company since 1997.

**Jeffrey S. Scott** – Vice-President, Funeral Service. Mr. Scott has been Vice-President, Funeral Service of the Company since November 1, 2006. From 1998 to 2006, Mr. Scott was President of Trillium Funeral Service Corporation, a subsidiary of the Company.

**Brian D. Snowdon** – Vice-President and Chief Financial Officer. Mr. Snowdon has been Vice-President and Chief Financial Officer of the Company since 1999.

## **LEGAL PROCEEDINGS**

In the course of its business, the Company from time to time becomes involved in various claims and legal proceedings. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. A provision for these claims has been recorded in the financial statements based on management's best estimate of the likely outcome. However, should claims be settled for amounts over and above established accruals, the excess expense will be charged to operations as incurred.

## **TRANSFER AGENT AND REGISTRAR**

The Company's transfer agent and registrar for Class A Voting Shares and Class B Non-Voting Shares is Computershare Investor Services Inc. of Toronto, Ontario ("Computershare"). The Company's share register is maintained in Toronto, Ontario. Contact details for Computershare are:

Telephone: 514-982-7555 or 1-800-564-6253  
Email: [service@computershare.com](mailto:service@computershare.com)

## **INTERESTS OF EXPERTS**

The Company's auditors are Deloitte & Touche LLP, Chartered Accountants.

## **AUDIT COMMITTEE INFORMATION**

The following information is being provided in accordance with Form 52-110F1 under the Canadian Securities Administrators (CSA) Multilateral Instrument 52-110 – *Audit Committees*.

### **Audit Committee Charter**

A copy of Arbor's audit committee charter is attached as Appendix "A" of this Annual Information Form.

### **Audit Committee Report**

The Audit Committee reports to and assists the board of directors by providing oversight of the financial management, external auditors and financial reporting procedures of the Company. The Audit Committee operates under a written charter approved by the board of directors.

In fulfilling its obligations, the Audit Committee has reviewed and discussed the audited financial statements of the Company for the fiscal year ended October 31, 2006 with management and the Company's external auditors. In addition, the Audit Committee has discussed with the external auditors the auditors' independence from the Company and management. Based on the review and discussions held, the Audit Committee recommended to the board of directors, and the board of directors has approved, that the audited financial statements be included in the Company's Annual Report and filed with securities regulatory authorities on SEDAR at [www.sedar.com](http://www.sedar.com).

December 19, 2006

*Audit Committee:* Philip L. Wilson  
Robert E. Rose  
Brian L. Zenkovich

## **Composition and Relevant Education and Experience of the Audit Committee**

The members of the Audit Committee are Philip L. Wilson, Chairman, Robert E. Rose and Brian L. Zenkovich. All members of the Audit Committee are considered independent and financially literate as determined with reference to the requirements provided in Multilateral Instrument 52-110.

Philip L. Wilson is a lawyer and a Certified Management Consultant and was the President of Arbor Memorial Services from 1973 to 1992. Mr. Wilson has served as a member of the Audit Committee since his retirement in 1992.

Robert E. Rose is a Chartered Accountant and a Partner of Clarke Henning, LLP, an accounting and audit firm.

Brian L. Zenkovich is a Chartered Accountant and Chief Executive Officer and Secretary of Winzen Properties Inc., a real estate company.

## **Pre-Approval Policy**

The Audit Committee has adopted a policy that requires pre-approval of all audit services, audit-related services, tax services and other permitted non-audit services performed by the independent auditors. In approving the annual audit plan and related fees, the Audit Committee grants pre-approval for permitted services, to be provided by the independent auditors, without obtaining specific pre-approval from the Audit Committee.

## **External Auditor Service Fees**

**Audit Fees:** The fees billed for auditing the Company's financial statements for fiscal 2006, and reviewing the Company's interim financial statements for the first, second and third quarters of fiscal 2006 were \$619,000. The fees billed for auditing the Company's financial statements for fiscal 2005, and reviewing the Company's interim financial statements for the third quarter of fiscal 2005 were \$510,350.

**Audit Related Fees:** The audit-related fees billed during fiscal 2006 and fiscal 2005 were \$262,000 and \$256,390, respectively. These fees were primarily for the audit of trust funds and pension plans.

**Tax Fees:** Fees billed for tax services, including tax compliance, tax advice and tax planning, totalled \$97,804 in fiscal 2006 and \$67,300 in fiscal 2005. Fees for tax services in fiscal 2006 and fiscal 2005 included advice regarding commodity tax issues for \$85,200 and \$59,000 respectively.

**All Other Fees:** Fees for all other services in fiscal 2006 were \$32,749 and nil for fiscal 2005. The fees for fiscal 2006 related to property tax appeal consulting services.

## **ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans is contained in the Company's 2006 Management Information Circular for its upcoming annual and special meeting of shareholders. Additional financial

information, including audited consolidated financial statements for the years ended October 31, 2006 and 2005 and Management's Discussion and Analysis, is contained in the Company's 2006 Annual Report. Additional information relating to Arbor Memorial Services Inc., including the Management Information Circular and the Annual Report, may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional copies of this Annual Information Form 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.

## APPENDIX “A” - AUDIT COMMITTEE CHARTER

### CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee (the “Committee”) shall report to and assist the Board of Directors (the “Board”) by providing oversight of the financial management, external auditors and financial reporting procedures of the Company, as well as such other matters as directed by the Board or this Charter.

#### Membership of the Committee

1. The Committee shall be comprised of three members of the Board.
2. All Committee members shall be “independent” as defined by the Canadian Securities Administrators (the “CSA”).
3. Each Committee member shall be “financially literate” as defined by the CSA.

#### Meetings of the Committee

1. The Committee will meet formally four times each fiscal year, and call special meetings as required.
2. A quorum at meetings shall be a majority of the members.
3. The Committee will appoint a Secretary to record the major decisions. Meeting minutes will be prepared and filed in the Corporate Minute Book.

#### Key Responsibilities

The Company’s management is responsible for preparing the Company’s financial statements and the external auditors are responsible for auditing those financial statements. The Committee is directly responsible for overseeing the conduct of these activities by the Company’s management and the external auditors. The Audit Committee shall have unrestricted access to Company personnel and documents and will be provided with the resources necessary to carry out its responsibilities.

In carrying out its oversight responsibilities, the Committee shall perform the following functions:

#### A. *Oversight of External Auditors*

The Committee shall be responsible for:

1. Recommending to the board of directors the external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services, as well as the compensation to be paid to such auditors;
2. Reviewing and approving the original proposed scope of the annual external audit of the Company’s financial statements and trust funds and the associated engagement fees, as well as any significant variations in the actual scope of the external audit and the associated engagement fees;
3. Overseeing the work of external auditors engaged for the purpose of preparing or issuing an audit report, or performing other audit, review or attest services, including the resolution of disagreements between management and the external auditors regarding financial reporting. The Audit Committee will also ensure that the external auditor is in good standing with the Canadian

Public Accountability Board and will enquire if there are any sanctions imposed by the CPAB on the external auditor;

4. Pre-approving all non-audit services to be provided by the external auditors, subject to a de minimis provision as set out in the Pre-Approval policy in accordance with Multilateral Instrument 52-110; and
5. Approving the hiring of partners, employees or former partners or employees, of the external auditors.
6. Ensuring that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements and periodically assessing the adequacy of those procedures.

**B. *Oversight of Internal Controls***

1. The Committee shall obtain annually reasonable assurance from management and the external auditors that the Company's accounting systems are reliable and internal controls are adequate.
2. The Committee shall review and discuss, annually, with management and the internal auditor the planned internal audit-type activities of the Company. The findings shall be reviewed and a determination made that they are being dealt with appropriately.

**C. *Oversight of Management's Conduct of the Company's Financial Reporting Process***

1. *Audited Financial Statements:* The Committee shall review and discuss with management and the external auditors the audited financial statements, Management's Discussion & Analysis (MD&A) to be included in the Company's Annual Report, Annual Information Form (AIF), CEO/CFO certification and the earnings press release before this information is disclosed. The Committee will also review and discuss the Company's disclosure controls and procedures. Based on these discussions, the Committee will advise the Board of Directors whether it recommends approval of the audited financial statements, MD&A, AIF, and earnings press release. This shall occur prior to public disclosure of such information.
2. *Interim Financial Statements:* The Committee shall review and discuss with management and the external auditors the Company's interim financial statements and MD&A to be included in the Company's quarterly reports, CEO/CFO certification and the related earnings press releases. Based on these discussions, the Committee will advise the Board of Directors whether it recommends approval of the interim financial statements and press releases. This shall occur prior to public disclosure of such information.
3. *Financial Reporting Practices:* The Committee shall review:
  - (i) Changes in the Company's accounting policies and practices and significant judgments that may affect the financial results.
  - (ii) The nature of any unusual or significant commitments or contingent liabilities together with the underlying assumptions and estimates of management.
  - (iii) The effect of changes in accounting standards that may materially affect the Company's financial reporting practices.

- D. *Assist the Board in Oversight of the Company's Compliance with Policies and Procedures Addressing Legal and Ethical Concerns.*
1. The Committee shall establish procedures for:
    - (i) The receipt, retention and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters; and
    - (ii) The confidential, anonymous submission to the issuer of concerns regarding questionable accounting or auditing matters from employees to the Chairman of the Audit Committee.
  2. The Committee shall review and monitor, as appropriate:
    - (i) Litigation or other legal matters that could have a significant impact on the Company's financial results.
    - (ii) Significant findings of any examination by regulatory authorities or agencies, in the areas of securities, accounting or tax, such as the Ontario Securities Commission or the Canada Revenue Agency.
  3. The Committee shall report regularly to the Board on its meetings and discussions and review with the Board significant issues or concerns that arise at Committee meetings.
  4. The Committee shall have authority to retain and consult with outside legal, accounting or other advisors, as the Committee may deem appropriate and to set and pay the compensation for any advisors retained and consulted with and to communicate directly with the internal and external auditors.
  5. The adequacy of this Charter shall be reviewed by the Committee on an annual basis. The Committee will recommend to the Board any modifications to this Charter, which the Committee deems appropriate, for approval by the Board.

## APPENDIX “B” - SUMMARY OF OPERATING LOCATIONS

The following table shows, by jurisdiction, Arbor’s operating locations as at October 31, 2006.

	Cemeteries	Crematoria	Reception Centres	Funeral Homes
New Brunswick	1	1	-	8
Nova Scotia	3	1	-	7
Quebec	2	2	-	8
Ontario	21	12	3	46
Manitoba	3	1	-	4
Saskatchewan	3	3	-	4
Alberta	5	4	-	8
British Columbia	3	3	-	8
	<b>41</b>	<b>27</b>	<b>3</b>	<b>93</b>

### CEMETERIES

Location	Name	Date of Establishment or Acquisition
<b><u>New Brunswick</u></b>		
Moncton	Fair Haven Memorial Gardens (i) (ii)	1955
<b><u>Nova Scotia</u></b>		
Dartmouth	Dartmouth Memorial Gardens (ii)	1983
Halifax (Lower Sackville)	Oakridge Memory Gardens (i) (iii)	1981
Halifax (Lower Sackville)	Linwood Cemetery	1983
<b><u>Quebec</u></b>		
Point Claire	Lakeview Memorial Gardens	1985
Dollard des Ormeaux	Rideau Memorial Gardens (i) (ii)	1954
<b><u>Ontario</u></b>		
Ajax/Pickering	Pine Ridge Memorial Gardens	1986
Brampton	Brampton Memorial Gardens	1986
Burlington	Burlington Memorial Gardens	1978
Gormley	Highland Hills Memorial Gardens	1999
Stoney Creek (Smithville)	Chapel Hill Memorial Gardens	1951
Hamilton	White Chapel Memorial Gardens (i)	1949
Kingston (Glenburnie)	Glenhaven Memorial Gardens (i)	1955
Kitchener (Breslau)	Memory Gardens	1950
London	Forest Lawn Memorial Gardens (i) (ii)	1948
Oakville	Glen Oaks Memorial Gardens (i) (ii)	1980
Ottawa (Nepean)	Capital Memorial Gardens (i)	1952
Peterborough	Rosemount Memorial Gardens (i)	1957
St. Catharines (Fonthill)	Pleasantview Memorial Gardens (i)	1952
Thunder Bay	Sunset Memorial Gardens (i) (iii)	1955
Toronto (Etobicoke)	Glendale Memorial Gardens (i)	1952
Toronto (North York)	Highland Memory Gardens (i)	1953

<b>Location</b>	<b>Name</b>	<b>Date of Establishment or Acquisition</b>
Toronto (Scarborough)	Resthaven Memorial Gardens	1951
Vaughan	Glenview Memorial Gardens	2002
Whitby	Mount Lawn Memorial Gardens (i) (ii)	1981
Windsor (Oldcastle)	Greenlawn Memorial Gardens (i)	1954
Windsor (Oldcastle)	Victoria Memorial Gardens	1983
<b><u>Manitoba</u></b>		
Winnipeg	Chapel Lawn Memorial Gardens (i) (ii)	1949
Winnipeg	Glen Lawn Memorial Gardens (ii)	1961
Winnipeg (West St. Paul)	Glen Eden Memorial Gardens (ii)	1955
<b><u>Saskatchewan</u></b>		
Prince Albert	Prince Albert Memorial Gardens (i)	1954
Regina	Regina Memorial Gardens (i) (ii)	1954
Saskatoon	Hillcrest Memorial Gardens (i) (ii)	1952
<b><u>Alberta</u></b>		
Calgary	Mountain View Memorial Gardens (i) (ii)	1953
Calgary	Eden Brook Memorial Gardens	1985
Edmonton	Westlawn Memorial Gardens (i) (ii)	1983
Edmonton	Evergreen Memorial Gardens (ii)	1953
Edmonton (Sherwood Park)	Glenwood Memorial Gardens (ii)	1962
<b><u>British Columbia</u></b>		
Nanaimo (Cedar)	Cedar Valley Memorial Gardens (i)	1982
Vancouver (Surrey)	Valley View Memorial Gardens (i) (ii)	1955
Victoria	Hatley Memorial Gardens (i)	1978

- (i) Crematorium on site.  
(ii) Funeral home or reception centre on site.  
(iii) Cemetery sales office leased.

## **FUNERAL HOMES**

<b>Location</b>	<b>Name</b>	<b>Date of Establishment or Acquisition</b>
<b><u>New Brunswick</u></b>		
Allardville	Robichaud Funeral Home	1996
Fairvale	Castle Funeral Home (Kings Chapel)	1986
Lameque	Bulger Funeral Home	1996
Moncton	Fair Haven Funeral Home (ii)	1995
Neguac	Robichaud Funeral Home	1996
Saint John	Castle Funeral Home (Fallsview Chapel)	1986
Shippagan	Bulger Funeral Home	1996
Tracadie	Robichaud Funeral Home	1996
<b><u>Nova Scotia</u></b>		
Amherst	Campbell's Funeral Home	1996
Dartmouth	Atlantic Funeral Home (ii)	1987
Glace Bay	McGillivray Funeral Home	1996

<b>Location</b>	<b>Name</b>	<b>Date of Establishment or Acquisition</b>
Halifax	Atlantic Funeral Home	1984
New Waterford	McGillivray Funeral Home	1996
Sackville	Atlantic Funeral Home	1985
Windsor	Lindsay Funeral Home	1997
<b><u>Quebec</u></b>		
Cap-de-la-Madeleine	Garneau Funeral Home	1997
Cap-de-la-Madeleine	Garneau Funeral Home	1997
Dollard des Ormeaux	Armstrong Funeral Home (Rideau Chapel) (ii)	1987
Grand-Mere	Pellerin Funeral Home (i)	1996
Quyong	Kelly Funeral Home (Quyong Chapel) (iv)	2005
Shawinigan	Pellerin Funeral Home	1996
Trois Rivieres	Garneau Funeral Home	1997
Ville St. Laurent	Armstrong Funeral Home	1985
<b><u>Ontario</u></b>		
Ajax	McEachnie Funeral Home	1994
Amherstburg	James H. Sutton Funeral Home	1984
Ancaster	Dodsworth & Brown Funeral Home (Ancaster Chapel)	1981
Barrhaven	Kelly Funeral Home (Barrhaven Chapel) (iv)	2005
Barrie	Scott Funeral Home (Georgian Chapel) (iii)	1995
Belle River	Melady Funeral Home & Chapel	1998
Belleville	Burke Funeral Home	1998
Brampton	Scott Funeral Home (Brampton Chapel)	1985
Burlington	Dodsworth & Brown Funeral Home (Burlington Chapel)	1981
Chatham	Bowman Funeral Home	1998
Goderich	McCallum & Palla Funeral Home	1996
Hamilton	Dodsworth & Brown Funeral Home (Robinson Chapel)	1981
Hamilton	L.G. Wallace Funeral Home	1981
Kanata	Kelly Funeral Home (Kanata Chapel) (iv)	2005
Kingston	Robert J. Reid & Sons Funeral Home	1999
Kingston	Kingston Cremation Services (iii)	1999
Kingston	Tompkins Funeral Home (Central Chapel)	1993
Kingston	Tompkins Funeral Home (Township Chapel)	1993
London	Memorial Funeral Home & Chapel	1998
Markham	Highland Funeral Home "Markham Chapel"	2005
Midland	Nicholls Funeral Home	1997
Mississauga	Scott Funeral Home (Mississauga Chapel)	1993
Newmarket	Taylor Funeral Home	1995
Oakville	Oakview Funeral Home	1987
Orleans	Kelly Funeral Home (Orleans Chapel) (iv)	2005
Ottawa	Kelly Funeral Home (Somerset Chapel) (iv)	2005
Ottawa	Kelly Funeral Home (Carling Chapel) (iv)	2005

<b>Location</b>	<b>Name</b>	<b>Date of Establishment or Acquisition</b>
Ottawa	Kelly Funeral Home (Walkley Chapel) (iv)	2005
Penetanguishene	Penetanguishene Funeral Home	1997
Peterborough	Nisbett Funeral Home	1997
St. Catharines	Butler Funeral Home (Duke St. Chapel)	1991
St. Catharines	Butler Funeral Home (Niagara St. Chapel)	1991
St. Catharines	Patrick J. Darte Funeral Chapel (iii)	1998
Stouffville	O'Neill Funeral Home	1996
Tecumseh	Marcotte Funeral Home & Chapel	1998
Thunder Bay	Jenkens Funeral Home	1995
Toronto (Scarborough)	Highland Funeral Home & Cremation Centre	2000
Toronto	Lynett Funeral Home	1998
Toronto	McDougall & Brown Funeral Home (Eglinton Chapel)	1993
Toronto (Scarborough)	McDougall & Brown Funeral Home (Scarborough Chapel)	1987
Toronto	Scott Funeral Home (West Toronto Chapel)	1985
Toronto	Sherrin Funeral Home	1994
Toronto	Washington & Johnston Chapel	1993
Windsor	Janisse Bros. - Marcotte Funeral Home	1998
Windsor	Morris Sutton Funeral Home	1983
Woodbridge	Scott Funeral Home (Woodbridge Chapel) (iii)	1985
<b><u>Manitoba</u></b>		
Winnipeg	Chapel Lawn Funeral Home (ii)	1983
Winnipeg	Desjardins Funeral Chapel	1984
Winnipeg (West St. Paul)	Glen Eden Funeral Home (ii)	1994
Winnipeg	Glen Lawn Funeral Home (ii)	2000
<b><u>Saskatchewan</u></b>		
Prince Albert	River Park Memorial Chapel	1986
Regina	Regina Funeral Home (ii)	1993
Saskatoon	Park Funeral Chapel	1986
Saskatoon	Hillcrest Funeral Home (ii)	2002
<b><u>Alberta</u></b>		
Calgary	Mountain View Funeral Home (ii)	1985
Calgary	Leyden's Funeral Home (i)	1999
Claresholm	Leyden's Funeral Home	1999
Edmonton	Evergreen Funeral Chapel (ii)	1983
Edmonton	Howard & McBride – Chapel of Chimes (i)	1985
Edmonton	Howard & McBride Funeral Home (Westlawn) (ii)	1985
Edmonton	South Side Memorial Chapel	1984
Edmonton (Sherwood Park)	Glenwood Funeral Home (ii)	1999
<b><u>British Columbia</u></b>		
Colwood	Sands Funeral Chapel	1985
Delta	Delta Funeral Home	1995

<b>Location</b>	<b>Name</b>	<b>Date of Establishment or Acquisition</b>
Duncan	Sands Funeral Chapel	1985
Nanaimo	Sands Funeral Chapel	1985
Richmond	Richmond Funeral Home	1984
Vancouver (Surrey)	Avalon & Surrey Funeral Home	1984
Vancouver (Surrey)	Valley View Funeral Home (ii)	1984
Victoria	Sands Funeral Chapel	1985

- (i) Crematorium on site.
- (ii) Funeral home located at cemetery.
- (iii) Funeral home located on leased premises.
- (iv) Funeral home acquired on November 8, 2005.