

SECOND QUARTER REPORT

***13 and 26 Weeks Ended
April 25, 2010***



ARBOR MEMORIAL SERVICES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis for Arbor Memorial Services Inc. ("Arbor" or the "Company") has been prepared for the 13 and 26 weeks ended April 25, 2010 and includes material information available up to June 3, 2010. The financial data provided has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and all figures provided are in Canadian dollars. Management's Discussion and Analysis herewith provided is the responsibility of the Company's management. The Board of Directors is responsible for reviewing and approving Management's Discussion and Analysis. Additional information relating to Arbor, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

Information Regarding Forward-Looking Statements

Certain statements contained in this Management's Discussion and Analysis 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 "believes", "may", "should", "estimates", "continues", "indicates", "suggests", "anticipates", "intends", "plans", "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 material factors and assumptions that were applied in making the forward-looking statements in this Management's Discussion and Analysis 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. Risks and uncertainties that could cause or contribute to actual results differing from such statements include, but are not limited to, those discussed elsewhere in this Management's Discussion and Analysis, particularly under "Events and Uncertainties", and in the Company's 2009 Annual Information Form under "Description of the Business – Risk Factors" and 2009 Annual Report under "Risks, Events and Uncertainties". 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, except in accordance with applicable securities laws.

Non-GAAP Financial Measures

In addition to the GAAP results provided in this Management's Discussion and Analysis, some of the discussion of operating performance is based on earnings before interest expense and income taxes ("EBIT"). EBIT excludes the impact of interest expense and income taxes as disclosed in the statements of earnings. EBIT is a non-GAAP financial measure that does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. This non-GAAP financial measure is provided as a supplement, and should not be considered an alternative to measurements required by GAAP. Management uses EBIT to assess its operating results, as it believes it is important to assess the cemetery, funeral, and corporate activities without these non-operating components. Management believes that this measure provides useful additional information to management and investors regarding the Company's performance as it provides a basis for analyzing the ongoing operating results, which may vary due to different market and economic factors than those that affect interest expense and income taxes. A reconciliation between EBIT and net earnings from continuing operations follows:

	13 Weeks Ended		26 Weeks Ended	
	April 25, 2010	<i>April 26, 2009</i>	April 25, 2010	<i>April 26, 2009</i>
	(\$000)		(\$000)	
EBIT	8,741	7,488	17,296	15,063
Less:				
Interest expense	343	477	729	1,049
Income taxes	2,560	2,167	5,451	4,466
Net earnings from continuing operations	5,838	4,844	11,116	9,548

Future Accounting Policy Changes

International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") confirmed in 2008 that for fiscal years commencing on or after January 1, 2011, all publicly accountable enterprises are required to report their financial results using

International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Company is required to prepare its first financial statements using accounting policies that are compliant with IFRS for the interim period ended January 2012 with comparative figures for the prior period also prepared using IFRS.

IFRS conversion plan

The Company continues to execute its IFRS conversion plan, which addresses education and training sessions for management and the audit committee, changes in accounting policies, and required changes to business processes and internal controls. While changes to accounting and disclosure requirements are expected, at this time the Company does not anticipate comprehensive changes to its current accounting systems, its internal controls or its disclosure control process as a result of the conversion to IFRS. The majority of the project work is scheduled for fiscal 2010. However, the project will be an ongoing process as the IASB and the AcSB issue new standards and recommendations.

Impact of adoption of IFRS

IFRS uses a conceptual framework similar to Canadian Generally Accepted Accounting Principles (“Canadian GAAP”), but there are some differences in recognition, measurement and disclosures. Adoption of IFRS will initially require retrospective application as of the transition date, as if the Company has prepared its financial statements in accordance with IFRS since its formation. The standard specifies that adjustments arising on the conversion of IFRS from Canadian GAAP should be recognized in opening retained earnings in the year of transition. The effect of adopting IFRS on the Company’s consolidated financial statements has not yet been quantified.

IFRS 1: First-time adoption of International Financial Reporting Standards (“IFRS 1”)

The Company’s adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity’s initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 provides certain mandatory exceptions and permits limited optional exemptions. This relief mechanism is to allow for prospective, rather than retrospective treatment, under certain conditions. The Company intends to elect to apply the business combinations standard prospectively to new business combinations consummated following adoption of IFRS. IFRS 1 generally provides for the business combinations standard to be applied either retrospectively or prospectively from the date of transition to IFRS (or to restate all business combinations after a selected date). Retrospective application would require an entity to restate all prior transactions that meet the definition of a business combination under IFRS. Other election options are still under consideration.

Impact of IFRS on financial position

The following paragraphs describe the impact of significant differences identified to date between the Company’s balance sheet under Canadian GAAP and its opening balance sheet under IFRS. This discussion has been prepared using the standards and interpretations currently issued and expected to be effective at the end of the Company’s first annual IFRS reporting period. Certain accounting policies expected to be adopted under IFRS may not be adopted and the application of such policies to certain transactions or circumstances may be modified and, as a result, the impact of the Company’s conversion to IFRS may be different from its current expectation. Additional differences may also be identified as the Company completes its assessment.

Impairment

Under Canadian GAAP, impairment is recognized for long-lived non-financial assets based on the excess of carrying value over estimated fair value when the undiscounted future cash flows from an asset, or group of assets, is less than the carrying value. Under IFRS, an entity is required to recognize an impairment charge if the recoverable amount, determined as the higher of the estimated fair value less costs to sell or value-in-use, is less than its carrying value. Value in use is the discounted present value of estimated future cash flows expected to arise from the planned use and disposal of an asset at the end of its useful life. The Company anticipates that the IFRS standard could result in more frequent impairment charges. IFRS also requires the reversal of a previously recognized impairment loss when the recoverable amount is higher than the carrying value (by no more than what the depreciated amount of the asset would have been had the impairment not occurred) unlike Canadian GAAP, which does not permit such reversals of previously recognized impairment charges.

Property, Plant and Equipment

The Company expects to elect to use the cost model to measure property, plant and equipment subsequent to initial recognition, as opposed to a market based revaluation method, which is also permitted under IFRS. However, under IFRS, significant changes to the measurement, classification and presentation of these assets will be required since items must be depreciated by component and each component must be depreciated over its useful life on a retrospective basis. This is also expected to result in increased depreciation charges.

RESULTS OF OPERATIONS

The data set forth herein should be read in conjunction with the Company's consolidated financial statements and accompanying notes included in the Company's 2009 Annual Report. Historical information provided is not necessarily indicative of the results to be expected in the future.

RESULTS OF OPERATIONS FOR THE 13 WEEKS ENDED APRIL 25, 2010 COMPARED TO THE 13 WEEKS ENDED APRIL 26, 2009

TOTAL COMPANY RESULTS

Revenue for the 13 weeks ended April 25, 2010 was \$68.0 million compared to \$60.2 million for the 13 weeks ended April 26, 2009. This represented an increase of \$7.8 million or 12.9%. Following is a breakdown of total revenue:

	2010		2009	
	\$Millions	% of Total	\$Millions	% of Total
Sales				
Cemetery	30.4	44.7	25.2	41.9
Funeral	31.6	46.5	30.0	49.8
	62.0	91.2	55.2	91.7
Investment and other income	6.0	8.8	5.0	8.3
	68.0	100.0	60.2	100.0

Sales increased by \$6.8 million or 12.2% in 2010 compared to 2009. Sales in the cemetery division increased by \$5.2 million or 20.5% due primarily to higher sales of pre-need burial spaces and delivery of pre-need upright monuments and bronze memorials ("markers"). Sales in the funeral division increased by \$1.6 million or 5.3% due to a higher average sale per funeral service and a higher number of services performed at both existing and new operations.

Investment and other income increased by \$1.0 million or 20.5% over 2009 due primarily to higher annuity fee income in the funeral division.

Operating expenses increased by \$5.3 million or 10.8% over 2009 due mainly to an increase in the cost of sales of \$2.6 million or 19.9% and obtaining costs of \$1.6 million or 22.1%. The increase in cost of sales was primarily in the cemetery division and was due to higher sales and mix of products sold. The increase in obtaining costs was related to a 32.8% increase in pre-need contracts written. Excluding cost of sales and obtaining costs, operating expenses increased by \$1.0 million or 3.7%.

Corporate expenses increased by \$0.9 million or 23.6% from 2009, which was primarily attributable to an increase in expected bonus payments of \$0.3 million, a non-recurring adjustment to the tax contingency provision of \$0.2 million and higher employee salaries and wages of \$0.2 million.

Provision for goodwill impairment increased by \$0.4 million due to a goodwill impairment charge related to one funeral branch operation recorded in the second quarter of 2010.

Earnings before interest expense and income taxes ("EBIT") increased by \$1.3 million or 16.7% over 2009 to \$8.7 million. The increase in EBIT was the result of higher earnings in the cemetery division of \$1.7 million or 70.4%, due to higher sales, and higher earnings of the funeral division of \$0.5 million or 5.3%. The favourable variances in the cemetery and funeral divisions were partially offset by an increase in the loss of the corporate division of \$0.9 million or 24.6%.

Interest expense included interest on floating-rate bank term debt and the cost of the Company's interest rate swap contracts. Interest expense decreased by \$0.1 million or 28.1% to \$0.3 million in 2010 due to a decrease in the weighted average balance of long-term debt outstanding of \$3.7 million or 7.7% and a lower average floating rate of interest of 1.5% compared to 2.0% in 2009. Swap costs decreased by less than \$0.1 million compared to last year. The weighted average long-term debt balance decreased due to repayments on the bank term loans in the fourth quarter of 2009. The proportion of fixed rate debt to total debt at April 25, 2010 and October 25, 2009 was 44% compared to 62% at April 26, 2009.

Income taxes for the second quarter of 2010 reflected an effective tax rate of 30.5% compared to 30.9% in the second quarter of 2009. The more significant changes in the quarter that affected the effective rate included:

- the favourable impact of capital gains, which reduced the effective tax rate by 1.1 percentage points;
- the favourable impact of future tax changes, which increased the effective rate by 0.5 percentage points compared to an increase in the effective rate of 1.3 percentage points in 2009;
- an increase of 1.3 percentage points due to the non-deductible portion of a goodwill impairment charge in 2010; and
- the unfavourable impact of an adjustment to the prior year provision in 2010, which increased the effective rate by 0.3 of a percentage point compared to a decrease to the effective rate of 0.4 of a percentage point in 2009.

Net earnings from continuing operations increased by \$1.0 million or 20.5% from 2009 to \$5.8 million. The improvement was the result of an increase in EBIT of \$1.3 million or 16.7%, which was driven by higher sales in the cemetery division, and lower interest expense of \$0.1 million or 28.1%, which were partially offset by higher income taxes of \$0.4 million or 18.1%.

Net earnings and earnings per share increased by \$0.9 million or 17.8% to \$5.8 million and \$0.09 to \$0.55 per share, respectively. The improvement was primarily due to an increase in EBIT of \$1.3 million, which was partially offset by higher income taxes of \$0.4 million. In addition, the average number of shares decreased due to a share repurchase and cancellation of 100,000 Class A shares and 95,700 Class B shares in the current period, which increased earnings per share by \$0.01.

SEGMENT RESULTS

The Company has two reportable segments: cemetery and funeral, which are strategic business units that offer different products and services. The nature of these products and services overlaps in some instances. However, these segments are managed separately and have different regulatory requirements. Management evaluates performance of the segments against the Company's strategic objectives and annual financial plans, and benchmarks performance of the segments against its large corporate competitors. For additional information regarding the Company's reportable segments, see Note 16 to the unaudited consolidated financial statements.

CEMETERY DIVISION

As at April 25, 2010, the Company wholly owned 41 cemeteries, 26 crematoria and 5 reception centres.

Cemetery sales in the second quarter of 2010 increased by \$5.2 million or 20.5% from 2009 to \$30.4 million. The increase in sales in the cemetery division was higher than historical increases. The average annual increase in cemetery sales from 2004 to 2009 was 4.7%.

Sales in the quarter, including finance charges and net of cancellation allowances, consisted of:

- \$9.3 million (2009 – \$8.8 million) of at-need sales of interment rights and deliveries of at-need merchandise and services;
- \$12.5 million (2009 – \$9.6 million) of pre-need sales of interment rights; and
- \$8.6 million (2009 – \$6.8 million) of pre-need sales of merchandise and services, recognized when merchandise was delivered or services were performed, including income earned on related pre-need trust funds.

The following is a breakdown of the \$5.2 million increase in cemetery sales (in \$millions):

<u>At-Need</u>	
Interment rights	-
Merchandise	0.3
Services	<u>0.2</u>
	<u>0.5</u>
 <u>Pre-Need</u>	
Interment rights	3.0
Merchandise	1.6
Services	<u>0.1</u>
	<u>4.7</u>
	<u>5.2</u>

Sales of pre-need interment rights increased by \$3.0 million or 30.8% as follows:

Lots	1.3
Crypts	1.5
Niches	<u>0.2</u>
	<u>3.0</u>

The Company believes that the \$1.3 million or 30.7% increase in the sale of pre-need lots was mainly due to the following factors:

- improved prevailing economic conditions in the second quarter of 2010 compared to 2009;
- the forthcoming implementation of a harmonized sales tax in Ontario and British Columbia that has caused some cemetery customers to make their pre-need arrangements in advance of the transition date;
- an increase of \$0.5 million or 48.5% at one branch in Western Canada due primarily to a successful promotional campaign and the availability of new inventory;
- an increase in the average selling price of lots sold; and
- the impact of new managers at certain branch locations.

The \$1.5 million or 43.5% increase in crypt sales was due to the availability of new inventory at one cemetery branch operation as well as some of the factors noted above for the sale of lots.

The increase in pre-need merchandise of \$1.6 million or 29.2% was primarily due to an increase in the delivery of markers as a result of concerted efforts undertaken in the last two quarters of 2009 and in 2010 to contact customers and secure approval for manufacture of fully-paid markers. Timing of delivery, an increase in contracts written in prior years and higher income earned in the pre-need trust funds also had an impact.

Deliveries of markers can vary significantly from quarter to quarter since delivery is dependent on many factors, including, but not limited to:

- the timing of full payment by the customer;
- the amount of time it takes for customers to approve the manufacture and delivery of their marker;
- the amount of time it takes for orders to be submitted to the manufacturers;
- the amount of time it takes to manufacture the markers; and
- projects undertaken to contact customers and get markers manufactured and stored or installed.

In the second quarter of 2010, the number of interments performed by the Company decreased by 3.8% to 3,902 and the number of cremations increased by 1.4% to 3,723 compared to the second quarter of 2009. For comparative purposes, interments increased by 1.0% and cremations decreased by 3.4% in fiscal 2009 as compared to fiscal 2008. The average growth in interments and cremations over the five-year period from 2004 to 2009 was 0.7% and 0.1%, respectively.

Cemetery investment income for the second quarter of 2010 increased by \$0.2 million or 6.8% over 2009 to \$3.1 million due to an increase in referral and annuity fees of \$0.1 million or 13.3% and an increase in care fund income of \$0.1 million or 6.2%. Interest and dividend income on the care funds is recognized as earned and used to defray cemetery care and maintenance costs.

Interest and dividend income earned on pre-need cemetery merchandise and services trust funds increased by \$0.1 million or 7.1% to \$1.9 million in the second quarter of 2010 due to a higher average balance in the funds of \$16.2 million or 7.6%, while the average rate of return was 3.3% for both periods. Interest and dividend income earned on the pre-need trust funds is deferred and recognized as sales revenue when the underlying merchandise is delivered or the service is performed.

Cemetery expenses for the second quarter of 2010 increased by \$3.7 million or 14.3% from 2009 as follows (in \$millions):

Cost of sales	2.2
Selling	0.9
Care and maintenance	0.2
Other	0.4
	<u>3.7</u>

Of the \$2.2 million or 24.8% increase in the cost of sales expense, \$1.8 million was due to the increase in sales and \$0.4 million was due to an increase in the cost of sales percentage of 1.3 percentage points. The increase in the cost of sales percentage was due to a significant increase in the cost of concrete vaults in Western Canada and the mix of products and services sold. In particular, sales of crypts increased by \$1.5 million or 43.5% and crypts carry one of the highest cost percentages of all product categories.

Selling expenses increased by \$0.9 million or 10.3% due to higher obtaining costs of \$1.1 million or 17.5% as a result of an increase of 25.8% in contracts written in the second quarter of 2010 compared to 2009. The higher obtaining costs were partially offset by a favourable variance of \$0.2 million related to an interdivisional credit for pre-need funeral processing costs.

EBIT in the cemetery division for the second quarter of 2010 increased by \$1.7 million or 70.4% due mainly to higher sales, which were partially offset by an increase in the cost of sales and obtaining costs.

FUNERAL DIVISION

As at April 25, 2010, the Company wholly owned 82 funeral homes.

Funeral sales in the second quarter of 2010 increased by \$1.6 million or 5.3% from the second quarter of 2009 to \$31.6 million. Of the \$1.6 million increase, \$1.2 million occurred in existing operations and \$0.4 million was due to an increase in sales from new operations. The sales from new operations were comprised of additional services performed at a funeral home in Brampton, Ontario as a result of the availability of a reception centre completed at a nearby cemetery in the third quarter of 2009. The increase in sales of existing operations of \$1.2 million or 4.0% occurred due to a higher average sale per funeral service of 3.1% and a higher number of services performed of 0.9%. For comparative purposes, the average annual increase in the number of existing services performed from fiscal 2004 to 2009 was 1.5%. The increase in the average sale per funeral service was the result of price increases and an increase in the sale of floral arrangements, catering and ancillary merchandise. For comparative purposes, the average annual increase in the sale per funeral service from fiscal 2004 to 2009 was 3.0%. The percentage of cremation sales for the quarter was 62.5% compared to 62.0% for fiscal 2009. The average sale per traditional funeral service and cremation service increased by 3.0% and 5.8%, respectively, compared to fiscal 2009.

Sales in the period consisted of:

- \$20.8 million (2009 - \$19.7 million) of at-need sales of funeral merchandise and services; and
- \$10.8 million (2009 - \$10.3 million) from the fulfilment of funeral merchandise and services sales that were arranged on a pre-need basis.

Pre-need funeral contracts written in the second quarter of 2010 increased by \$6.4 million or 42.9% compared to an increase of \$1.0 million or 7.1% in the second quarter of 2009. The increase was due to many factors including the one-Arbor initiative, which provides seamless service to our external customers and creates better collaboration internally, incremental sales counsellors, new on-site locations and new management at certain branch locations. The Company also believes that improved prevailing economic conditions as well as the forthcoming implementation of a harmonized sales tax in Ontario and British Columbia have had a positive impact. For comparative purposes, the average annual increase in pre-need funeral contracts written from 2004 to 2009 was 5.7%.

Pre-need funeral contracts written under the group annuity program represented 69.9% (2009 – 64.9%), while contracts written under the trust program represented 30.1% (2009 – 35.1%) of total contracts written.

Investment and other income in the funeral division increased by \$0.8 million in 2010 due primarily to higher annuity fees of \$0.8 million or 62.4%. The higher annuity fees resulted from an increase in contracts written under the annuity program in the second quarter of 2010 compared to 2009 of \$5.2 million or 53.8% and an increase in the average payout percentage.

Interest and dividend income earned on the pre-need funeral funds in the second quarter of 2010 decreased by less than \$0.1 million or 2.5% to \$1.9 million compared to the second quarter of 2009. The decrease was due to a reduction in the average balance in the funds of \$0.8 million or 0.4% as well as a lower annualized rate of return on the funds of 3.5% compared to 3.6%. The decrease in the average balance in the funds was due mainly to deliveries that exceeded new pre-need contracts written under the trust program. Interest and dividend income on the pre-need funeral funds is deferred and recognized as sales revenue when the underlying merchandise is delivered or the service is performed.

Funeral operating expenses in the second quarter of 2010 increased by \$1.6 million or 6.9%. A breakdown of the \$1.6 million increase in expenses by type of expenditure follows (in \$millions):

Cost of sales	0.4
Services	0.5
Pre-need	0.8
Other	<u>(0.1)</u>
	<u>1.6</u>

The \$0.4 million increase in cost of sales was mainly due to the increase in sales. The cost of sales percentage was higher than in 2009 by 0.7 of a percentage point, which was mainly due to higher sales of products and services that have lower margins.

The increase in services expenses of \$0.5 million or 4.3% was mainly due to higher employee costs as a result of annual salary and wage increases and incremental employees.

The increase in pre-need expenses of \$0.8 million or 32.3% was mainly due to higher obtaining and processing costs of \$0.7 million or 37.3% related to an increase in pre-need funeral contracts written in the second quarter of 2010 compared to 2009 of 42.9%.

Provision for goodwill impairment increased by \$0.4 million due to a goodwill impairment charge related to one branch operation that was recorded in the second quarter of 2010. The charge resulted from continued under-performance despite measures undertaken to improve results.

EBIT in the funeral division in the second quarter of 2010 increased by \$0.5 million or 5.3% to \$9.2 million due to an increase in revenue of \$2.4 million, which exceeded an increase in operating expenses of \$1.6 million and a goodwill impairment charge of \$0.4 million. The increase in expenses was driven by a 37.3% increase in pre-need funeral obtaining and processing costs due to higher contracts written in the period.

CORPORATE DIVISION

Corporate revenue, consisting of rental income from leasing a portion of the Company's head office building and interest income on the Company's bank accounts and notes receivable, decreased by less than \$0.1 million or 3.7% compared to the second quarter of 2009 due to lower interest income on the Company's bank accounts.

Corporate expenses increased by \$0.9 million or 23.6% in the second quarter of 2010 to \$4.6 million, which was mainly attributable to an increase in expected bonus payments of \$0.3 million, a non-recurring adjustment to the tax contingency provision of \$0.2 million and higher employee salaries and wages of \$0.2 million.

The loss in the corporate division increased by \$0.9 million or 24.6% to a loss of \$4.5 million due to higher corporate expenses of \$0.9 million.

As a percentage of total Company revenue, corporate expenses increased to 6.8% in the second quarter of 2010 from 6.2% for the same period of 2009. For comparative purposes, corporate expenses as a percentage of revenue averaged 6.4% from 2005 to 2009 on an annual basis.

RESULTS OF OPERATIONS FOR THE 26 WEEKS ENDED APRIL 25, 2010 COMPARED TO THE 26 WEEKS ENDED APRIL 26, 2009

TOTAL COMPANY RESULTS

Revenue for the 26 weeks ended April 25, 2010 was \$132.3 million compared to \$118.8 million for the 26 weeks ended April 26, 2009. This represented an increase of \$13.5 million or 11.4%. Following is a breakdown of total revenue:

	2010		2009	
	\$Millions	% of Total	\$Millions	% of Total
Sales				
Cemetery	58.2	44.0	48.6	40.9
Funeral	63.2	47.8	61.0	51.3
	121.4	91.8	109.6	92.2
Investment and other income	10.9	8.2	9.2	7.8
	132.3	100.0	118.8	100.0

Sales increased by \$11.8 million or 10.8% in 2010 compared to 2009. Sales in the cemetery division increased by \$9.6 million or 19.8% due primarily to higher sales of pre-need burial spaces and delivery of pre-need and at-need markers. Sales in the funeral division increased by \$2.2 million or 3.6% due to a higher average sale per service.

Investment and other income increased by \$1.7 million or 18.3% over 2009 due primarily to higher annuity fee income in the funeral division.

Operating expenses increased by \$9.8 million or 10.2% over 2009 due primarily to an increase in the cost of sales of \$5.0 million or 19.6% and obtaining costs of \$2.9 million or 22.1%. The increase in cost of sales was mainly in the cemetery division and was due to higher sales and the mix of products sold. The increase in obtaining costs was related to a 32.1% increase in pre-need contracts written. Excluding cost of sales and obtaining costs, operating expenses increased by \$1.9 million or 3.3%.

Corporate expenses increased by \$1.1 million or 14.4% from 2009. The increase was primarily attributable to a \$0.4 million increase in employee salaries and wages, an increase in expected bonus payments of \$0.3 million, a non-recurring adjustment to the tax contingency provision of \$0.2 million and a non-recurring provincial sales tax expense of \$0.1 million that resulted from a provincial sales tax review in the period.

Provision for goodwill impairment increased by \$0.4 million due to a goodwill impairment charge related to one funeral branch operation recorded in the second quarter of 2010.

Earnings before interest expense and income taxes ("EBIT") increased by \$2.2 million or 14.8% over 2009 to \$17.3 million. The increase in EBIT was the result of higher earnings in the cemetery division of \$3.0 million or 68.8% due to higher sales and higher earnings of the funeral division of \$0.4 million. The favourable variances in the cemetery and funeral divisions were partially offset by an increase in the loss of the corporate division of \$1.2 million or 15.7%.

Interest expense included interest on floating-rate bank term debt and the cost of the Company's interest rate swap contracts. Interest expense decreased by \$0.3 million or 30.5% to \$0.7 million in 2010 due to a decrease in the weighted average balance of long-term debt outstanding of \$3.7 million or 7.7% and a lower average floating rate of interest of 1.3% compared to 2.8% in 2009, the impact of which was partially offset by higher swap costs of \$0.1 million. The weighted average long-term debt balance decreased due to repayments on the bank term loans in the fourth quarter of 2009. The proportion of fixed rate debt to total debt at April 25, 2010 and October 25, 2009 was 44% compared to 62% at April 26, 2009.

Income taxes for the first 26 weeks of 2010 reflected an effective tax rate of 32.9% compared to 31.9% in the first 26 weeks of 2009. The more significant changes in the period that affected the effective rate included:

- the unfavourable impact of future tax changes of \$0.4 million or 1.7 percentage points, which occurred mainly due to a decrease in federal and provincial substantively enacted rates applied to the Company's net future tax assets;
- an increase of 0.7 of a percentage point due to the non-deductible portion of a goodwill impairment charge in 2010;
- a lower combined basic rate of 0.6 of a percentage point;
- the favourable impact of dividends of 0.5 of a percentage point; and
- the favourable impact of capital gains, which reduced the effective tax rate by 0.4 percentage points.

Net earnings from continuing operations increased by \$1.6 million or 16.4% from 2009 to \$11.1 million. The improvement was the result of an increase in EBIT of \$2.2 million or 14.8%, which was driven by higher sales in the cemetery division, and lower interest expense of \$0.3 million or 30.5%, which were partially offset by higher income taxes of \$1.0 million or 22.1%.

Net (loss) earnings from discontinued operations changed from \$0.3 million in earnings in 2009 to a loss of less than \$0.1 million in 2010 due primarily to a gain on the sale of one discontinued funeral branch operation of \$0.2 million in 2009.

Net earnings and earnings per share increased by \$1.2 million or 12.5% to \$11.1 million and \$0.12 to \$1.04 per share, respectively. The improvement was primarily due to an increase in EBIT of \$2.2 million, which was partially offset by higher income taxes of \$1.0 million. In addition, the average number of shares decreased due to a share repurchase and cancellation of 100,000 Class A shares and 95,700 Class B shares in the current period, which increased the earnings per share by \$0.01.

SEGMENT RESULTS

The Company has two reportable segments: cemetery and funeral, which are strategic business units that offer different products and services. The nature of these products and services overlaps in some instances. However, these segments are managed separately and have different regulatory requirements. Management evaluates performance of the segments against the Company's strategic objectives and annual financial plans, and benchmarks performance of the segments against its large corporate competitors. For additional information regarding the Company's reportable segments, see Note 16 to the unaudited consolidated financial statements.

CEMETERY DIVISION

As at April 25, 2010, the Company wholly owned 41 cemeteries, 26 crematoria and 5 reception centres.

Cemetery sales in the first 26 weeks of 2010 increased by \$9.6 million or 19.8% from 2009 to \$58.2 million. The increase in sales in the cemetery division was higher than historical increases. The average annual increase in cemetery sales from 2004 to 2009 was 4.7%.

Sales in the quarter, including finance charges and net of cancellation allowances, consisted of:

- \$18.8 million (2009 – \$17.4 million) of at-need sales of interment rights and deliveries of at-need merchandise and services;
- \$22.9 million (2009 – \$17.5 million) of pre-need sales of interment rights; and
- \$16.5 million (2009 – \$13.7 million) of pre-need sales of merchandise and services, recognized when merchandise was delivered or services were performed, including income earned on related pre-need trust funds.

The following is a breakdown of the \$9.6 million increase in cemetery sales (in \$millions):

<u>At-Need</u>	
Interment rights	0.1
Merchandise	1.0
Services	<u>0.3</u>
	<u>1.4</u>

<u>Pre-Need</u>	
Interment rights	5.4
Merchandise	2.8
Services	-
	<u>8.2</u>
	<u>9.6</u>

The increase in at-need merchandise of \$1.0 million or 13.4% was due primarily to higher deliveries of upright monuments of \$0.5 million or 25.5% and higher deliveries of bronze memorials of \$0.3 million or 8.3%. The increase in monument deliveries was due to timing of delivery and an increase of 7.8% in contracts written in 2009 compared to 2008, which resulted in higher deliveries in the period. The increase in memorial deliveries was due to the timing of deliveries.

Sales of pre-need interment rights increased by \$5.4 million or 30.8% as follows:

Lots	1.9
Crypts	2.9
Niches	0.6
	<u>5.4</u>

The Company believes that the \$1.9 million or 23.9% increase in the sale of lots was mainly due to the following factors:

- improved prevailing economic conditions in the first 26 weeks of 2010 compared to 2009;
- the forthcoming implementation of a harmonized sales tax in Ontario and British Columbia that has caused some cemetery customers to make their pre-need arrangements in advance of the transition date;
- an increase of \$0.6 million or 35.4% at one branch in Western Canada due to a successful promotional campaign and the availability of new inventory;
- an increase in the average selling price of lots sold;
- the impact of new managers at certain branch locations; and
- incremental sales counsellors.

The \$2.9 million or 46.4% increase in crypt sales was due to a group sale of \$0.7 million in the first quarter of 2010, the availability of new inventory at one cemetery branch operation as well as some of the factors noted above for the sale of lots. The \$0.6 million or 18.3% increase in niche sales was mainly due to the availability of new inventory in addition to some of the factors noted above for the sale of lots.

The increase in pre-need merchandise of \$2.8 million or 25.2% was primarily due to an increase in the delivery of markers as a result of concerted efforts undertaken in the last two quarters of 2009 and in 2010 to contact customers and secure approval for manufacture of fully-paid markers. Timing of delivery, an increase in contracts written in prior years and higher income earned in the pre-need trust funds also had an impact.

Deliveries of markers can vary significantly from quarter to quarter since delivery is dependent on many factors, including, but not limited to:

- the timing of full payment by the customer;
- the amount of time it takes for customers to approve the manufacture and delivery of their marker;
- the amount of time it takes for orders to be submitted to the manufacturers;
- the amount of time it takes to manufacture the markers; and
- projects undertaken to contact customers and get markers manufactured and stored or installed.

In the first 26 weeks of 2010, the number of interments performed by the Company decreased by 0.2% to 8,161 and the number of cremations increased by 0.4% to 7,449 compared to the first 26 weeks of 2009. For comparative purposes, interments increased by 1.0% and cremations decreased by 3.4% in fiscal 2009 as compared to fiscal 2008. The average growth in interments and cremations over the five-year period from 2004 to 2009 was 0.7% and 0.1%, respectively.

Cemetery investment income for the first 26 weeks of 2010 increased by \$0.3 million or 6.2% over 2009 to \$6.0 million due primarily to higher care fund income. Interest and dividend income on the care funds is recognized as earned and used to defray cemetery care and maintenance costs.

Interest and dividend income earned on pre-need cemetery merchandise and services trust funds increased by \$0.2 million or 5.6% to \$3.7 million in the first 26 weeks of 2010 due to a higher average balance in the funds of \$16.5 million or 7.8%, while the average rate of return was 3.3% for both periods. Interest and dividend income earned on the pre-need trust funds is deferred and recognized as sales revenue when the underlying merchandise is delivered or the service is performed.

Cemetery expenses for the first 26 weeks of 2010 increased by \$7.0 million or 14.0% from 2009 as follows (in \$millions):

Cost of sales	4.4
Selling	1.7
Care and maintenance	0.2
Reception centre	0.4
Other	0.3
	<u>7.0</u>

Of the \$4.4 million or 25.6% increase in the cost of sales expense, \$3.3 million was due to the increase in sales and \$1.1 million was due to an increase in the cost of sales percentage. The cost of sales percentage for 2010 was 1.7 percentage points higher than the cost of sales percentage for 2009 due to a significant increase in the cost of concrete vaults in Western Canada and the mix of products and services sold. In particular, sales of pre-need crypts increased by \$2.9 million or 46.4% and crypts carry one of the highest cost percentages of all product categories. Monument sales also increased by \$1.1 million or 30.3% and monuments carry a higher than average cost of sales percentage.

Selling expenses increased by \$1.7 million or 10.2% due to higher obtaining costs of \$2.0 million or 18.8% as a result of an increase of 28.3% in contracts written and an increase in other selling expenses of \$0.1 million. These increases were partially offset by a favourable variance of \$0.4 million related to an interdivisional credit for pre-need funeral processing costs.

EBIT in the cemetery division for the first 26 weeks of 2010 increased by \$3.0 million or 68.8% due mainly to higher sales, which were partially offset by an increase in the cost of sales and obtaining costs.

FUNERAL DIVISION

As at April 25, 2010, the Company wholly owned 82 funeral homes.

Funeral sales in the first 26 weeks of 2010 increased by \$2.2 million or 3.6% from the first 26 weeks of 2009 to \$63.2 million. Of the \$2.2 million increase, \$1.4 million occurred in existing operations and \$0.8 million was due to an increase in sales from new operations. The sales from new operations were comprised of additional services performed at a funeral home in Brampton, Ontario as a result of the availability of a reception centre completed at a nearby cemetery in the third quarter of 2009. The increase in sales of existing operations of \$1.4 million or 2.3% occurred due to a higher average sale per funeral service of 3.6%, which was partially offset by a decrease in the number of services performed of 1.2%. The Company believes that the decrease in the number of services performed at existing operations is primarily due to a decrease in the death rate in certain markets. For comparative purposes, the average annual increase in the number of existing services performed from fiscal 2004 to 2009 was 1.5%. The increase in the average sale per funeral service was the result of price increases and an increase in the sale of floral arrangements, catering and ancillary merchandise. For comparative purposes, the average annual increase in the sale per funeral service from fiscal 2004 to 2009 was 3.0%. The percentage of cremation sales for the period was 62.6% compared to 62.0% for fiscal 2009. The average sale per traditional funeral service and cremation service increased by 3.7% and 5.5%, respectively, compared to fiscal 2009.

Sales in the period consisted of:

- \$41.9 million (2009 - \$40.7 million) of at-need sales of funeral merchandise and services; and
- \$21.3 million (2009 - \$20.3 million) from the fulfilment of funeral merchandise and services sales that were arranged on a pre-need basis.

Pre-need funeral contracts written in the first 26 weeks of 2010 increased by \$10.1 million or 37.4% compared to an increase of \$0.8 million or 2.9% in the first 26 weeks of 2009. For comparative purposes, the average annual increase in pre-need funeral contracts written from 2004 to 2009 was 5.7%. The increase was due to many factors including the one-Arbor initiative, which provides seamless service to our external customers and creates better collaboration internally, incremental sales counsellors, new on-site locations and new management at certain branch locations. The Company also believes that improved prevailing economic conditions as well as the forthcoming implementation of a harmonized sales tax in Ontario and British Columbia has also had a positive impact on pre-need funeral contracts being written.

Pre-need funeral contracts written under the group annuity program represented 69.4% (2009 – 63.1%) of total contracts written, while contracts written under the trust program represented 30.6% (2009 – 36.9%).

Investment and other income in the funeral division in the first 26 weeks of 2010 compared to 2009 increased by \$1.4 million in 2010 due to higher annuity fees of \$1.4 million or 63.9%. The higher annuity fees resulted from an increase in contracts written under the annuity program of \$8.7 million or 51.0%, a lower percentage used for future chargebacks based on improved experience and an increase in the average payout percentage.

Interest and dividend income earned on the pre-need funeral funds decreased by \$0.1 million or 3.8% to \$3.7 million. The decrease was due to a reduction in the average balance in the funds of \$0.9 million or 0.4% as well as a lower annualized rate of return on the funds of 3.4% compared to 3.6%. The decrease in the average balance in the funds was due mainly to deliveries that exceeded new pre-need contracts written under the trust program. Interest and dividend income on the pre-need funeral funds is deferred and recognized as sales revenue when the underlying merchandise is delivered or the service is performed.

Funeral operating expenses in the first 26 weeks of 2010 increased by \$2.9 million or 6.2%. A breakdown of the \$2.9 million increase in expenses by type of expenditure follows (in \$millions):

Cost of sales	0.7
Services	0.9
Facilities	(0.3)
Pre-need	1.3
Other	<u>0.3</u>
	<u>2.9</u>

The \$0.7 million increase in cost of sales was mainly due to the increase in sales. The cost of sales percentage was higher than in 2009 by 0.6 of a percentage point, which was mainly due to higher sales of products and services that have lower margins.

The increase in services expenses of \$0.9 million or 4.2% was mainly due to higher employee costs as a result of annual salary and wage increases and incremental employees.

The increase in pre-need expenses of \$1.3 million or 29.9% was mainly due to higher pre-need funeral obtaining and processing costs of \$1.2 million or 34.0% related to an increase in contracts written of 37.4%.

Provision for goodwill impairment increased by \$0.4 million due to a goodwill impairment charge related to one branch operation that was recorded in the second quarter of 2010. The charge resulted from continued under-performance despite measures undertaken to improve results.

EBIT in the funeral division increased by \$0.4 million or 2.1% to \$18.6 million due to an increase in revenue of \$3.6 million, which exceeded a \$2.9 million increase in operating expenses and a goodwill impairment charge of \$0.4 million in the second quarter of 2010. The increase in operating expenses was driven by a 34.0% increase in obtaining and processing costs due to higher pre-need funeral contracts written in the period.

CORPORATE DIVISION

Corporate revenue, consisting of rental income from leasing a portion of the Company's head office building and interest income on the Company's bank accounts and notes receivable, decreased by \$0.1 million or 17.1% compared to the first 26 weeks of 2009 due to lower interest income on the Company's bank accounts.

Corporate expenses increased by \$1.1 million or 14.4% in the first 26 weeks of 2010 to \$9.0 million. The increase was primarily attributable to a \$0.4 million increase in employee salaries and wages, an increase in

expected bonus payments of \$0.3 million, a non-recurring adjustment to the tax contingency provision of \$0.2 million and a non-recurring provincial sales tax expense of \$0.1 million that resulted from a provincial sales tax review in the period. The increase in salaries and wages was primarily the result of annual increases and incremental employees, including positions that were unfilled for a portion of 2009.

The loss in the corporate division increased by \$1.2 million or 15.7% to a loss of \$8.7 million mainly due to higher corporate expenses of \$1.1 million.

As a percentage of total Company revenue, corporate expenses increased to 6.8% in the first 26 weeks of 2010 from 6.6% for the same period of 2009. For comparative purposes, corporate expenses as a percentage of revenue averaged 6.4% from 2005 to 2009 on an annual basis.

CONSOLIDATED BALANCE SHEETS

Key financial indicators for the balance sheets as at April 25, 2010, and October 25, 2009, were as follows:

	April 25, 2010	October 25, 2009
Current ratio	3.28:1	2.60:1
Working capital (in \$millions)	63.1	57.6
Debt to equity ratio	0.22:1	0.22:1
Long-term debt to EBITDA ⁽¹⁾	1.01:1	1.08:1
Interest coverage ratio ⁽¹⁾	8.64:1	8.20:1

⁽¹⁾ Bank covenant: long-term debt to EBITDA must be less than or equal to 3.50 and interest coverage ratio must equal or exceed 3.25.

The improvements in the current ratio and working capital were mainly due to a reduction in accounts payable and accrued liabilities of \$7.6 million that exceeded a reduction in cash of \$3.0 million.

Cash decreased by \$3.0 million mainly due to fixed asset additions of \$13.3 million, the repurchase of Class A and Class B shares of \$4.6 million and the payment of dividends of \$2.3 million that together exceeded the increase in cash provided by operating activities of \$17.9 million.

Pre-need receivables and funds, including the current portion thereof, increased by \$8.6 million or 1.6% to \$544.5 million at April 25, 2010. The \$8.6 million increase included a fair value loss of \$2.9 million and a realized capital gain of \$0.3 million. Excluding these items, pre-need receivables and funds increased by \$11.2 million or 2.2%. This compared to an increase of \$4.9 million or 1.0% in the first 26 weeks of 2009, excluding fair value adjustments and realized capital gains. The higher increase of \$6.3 million in 2010 was primarily due to higher deposits to the trust funds of \$4.2 million or 20.1% that exceeded the increase of \$2.2 million or 10.6% in withdrawals from the funds. In addition, the increase in instalment accounts receivable was higher than 2009 by \$2.9 million due to strong sales in the period and interest earned in the funds was higher than 2009 by \$1.0 million due to a higher average balance in the funds and timing of receipt. The fair value loss of \$2.9 million was mainly related to rising yields in the bond market, which decreased the fair value of the corporate and government bonds portfolio, and an increase in the short-term Guaranteed Investment Certificate rates from October 25, 2009 to April 25, 2010, which decreased the fair value of term deposits.

Crypts and niches decreased by \$2.0 million or 5.3% to \$36.2 million due to the cost of inventory sold of \$5.2 million, which was partially offset by additions of \$3.2 million.

Fixed assets increased by \$4.7 million or 2.3% in the first 26 weeks of 2010 to \$207.0 million due to additions of \$10.5 million (2009 - \$7.2 million), that were partially offset by depreciation of \$5.8 million (2009 - \$5.3 million). Of the \$10.5 million in additions, \$3.7 million was spent on maintenance capital and \$6.8 million was spent on new initiatives (2009 - \$4.4 million and \$2.8 million, respectively). The significant projects in the period included \$5.0 million for the partial construction of two new reception centres in Ottawa and Toronto, Ontario.

Cemetery care funds and non-controlling interests in cemetery care funds increased by \$7.5 million or 3.9% in the first 26 weeks of 2010, including a fair value gain in the period of \$1.1 million and a realized net capital gain of \$0.1 million. Excluding these items, cemetery care funds increased by \$6.3 million or 3.3% due to

deposits made to the funds as a result of at-need and pre-need cemetery interment right sales. This compared to an increase of \$5.5 million or 3.1% in 2009, excluding fair value adjustments and realized net capital gains.

Accounts payable and accrued liabilities decreased by \$7.6 million or 22.7% as follows (in \$millions):

Trade accounts payables	7.0
Accrued liabilities	1.0
Other accounts payable	<u>(0.4)</u>
	<u>7.6</u>

The decrease in trade accounts payable was mainly related to lower payables for construction and development and other fixed assets. The decrease in accrued liabilities was largely related to a reduction in accrued bonuses of \$1.4 million, vacation pay of \$0.6 million and audit fees of \$0.2 million, which were partially offset by a higher payroll accrual of \$1.4 million.

Deferred revenue and non-controlling interests in pre-need funds, plus the accumulated benefit of the pre-need funeral group annuity funds excluded from the balance sheet, was \$836.5 million compared to \$807.0 million at October 25, 2009, an increase of \$29.6 million or 3.7%. The \$29.6 million increase included a fair value loss of \$2.9 million on the pre-need trust funds and a realized net capital gain of \$0.3 million. The remaining increase was \$32.2 million or 4.0% (2009 – \$18.5 million or 2.5%) and represented deferral of revenue in the period in excess of amounts recognized upon delivery of merchandise and services.

CONSOLIDATED STATEMENTS OF CASH FLOWS

13 WEEKS ENDED APRIL 25, 2010

Cash flow provided by operating activities of continuing operations increased by \$7.0 million or 71.8% in the second quarter of 2010. The increase was due mainly to an improvement in the net change in other operating balance sheet items (“net change”) of \$5.3 million as well as higher net earnings of \$1.0 million.

The most significant items in the net change of \$5.3 million included:

- lower additions to developed land, crypts and niches of \$2.4 million;
- a net decrease in cash used for accounts payable and accrued liabilities of \$2.3 million;
- higher developed land, crypt and niche cost of sales of \$0.8 million;
- a net decrease in cash used for income taxes of \$0.9 million; and
- a net increase in cash used for instalment accounts receivable of \$1.4 million.

Net cash used for investing activities of continuing operations increased by \$4.9 million or 50.9% in the second quarter of 2010. The increase was mainly due to higher deposits to pre-need funds in excess of withdrawals of \$3.5 million and higher additions to fixed assets of \$1.0 million.

Net cash provided by financing activities of continuing operations was consistent with prior year. Cash used to repurchase shares under a normal course issuer bid for \$4.6 million was offset by a decrease of \$1.2 million in dividend payments, which was timing related, and a change in non-controlling interests in pre-need funds and care funds of \$3.4 million.

26 WEEKS ENDED APRIL 25, 2010

Cash flow provided by operating activities of continuing operations increased by \$11.5 million or 181.0% in the first 26 weeks of 2010. The increase was due mainly to an improvement in the net change in other operating balance sheet items (“net change”) of \$8.9 million as well as higher net earnings of \$1.6 million.

The most significant items in the net change of \$8.9 million included:

- lower additions to developed land, crypts and niches of \$6.4 million;
- higher developed land, crypts and niches cost of sales of \$1.5 million;
- a net decrease in deferred revenue of \$1.0 million;
- a net decrease in cash used for income taxes of \$1.5 million;
- a decrease in cash used for inventory purchases of \$0.7 million; and
- a net increase in cash used for instalment accounts receivable of \$2.9 million.

Net cash used for investing activities of continuing operations increased by \$6.8 million or 31.4% in the first 26 weeks of 2010. The increase was mainly due to higher additions to fixed assets of \$3.5 million and higher deposits to pre-need funds in excess of withdrawals of \$3.4 million, which were partially offset by \$1.0 million to acquire the land and building of an existing funeral home branch in the first quarter of 2009.

Net cash provided by financing activities of continuing operations decreased by \$0.7 million or 8.6% mainly due to the repurchase of shares under a normal course issuer bid for \$4.6 million, which was partially offset by a change in the non-controlling interest in pre-need funds and care funds of \$3.9 million.

LIQUIDITY

The primary source of liquidity for the Company is cash flow from operations. In addition, the Company has revolving term loans with two financial institutions under similar terms and conditions. The total credit limit under the two facilities is \$125.0 million. The Company also has access to operating lines of credit of \$14.0 million. At April 25, 2010, the Company had access to unused operating lines of credit of \$12.6 million (October 25, 2009 – \$12.5 million) and unused floating rate debt facilities of \$80.1 million (October 25, 2009 – \$80.0 million). Total unused credit facilities as of April 25, 2010 were \$92.7 million (October 25, 2009 – \$92.5 million). The balance of unused term loans is subject to a standby fee, calculated daily. At April 25, 2010, there was \$1.4 million in letters of credit recorded against the operating facility (October 25, 2009 – \$1.5 million). The Company's debt to equity ratio at April 25, 2010 was 0.22:1 (October 25, 2009 – 0.22:1).

The principal liquidity requirements are to fund working capital, expenses, dividend payments, capital expenditures and cemetery burial space development costs. Working capital includes cash, accounts receivable, which includes extended payment terms particularly related to pre-need contracts in the cemetery division, and merchandise inventory for resale, which are partially offset by accounts payable and accrued liabilities.

Based on historical cash inflows and outflows, management believes that cash on hand and future cash flow from operating activities are sufficient to sustain ongoing operations as well as the routine maintenance and orderly replacement of the Company's fixed assets. For fiscal 2010, the Company has no plans to borrow additional debt on its bank term loans to fund ongoing operations or the orderly replacement of fixed assets based on its current cash position, expected cash from operations and projected capital and burial space inventory expenditures. However, the Company may borrow additional debt in fiscal 2010 to fund new initiatives, such as acquisitions, new reception centres and funeral homes, new cemetery land and significant additions and renovations to funeral homes. The requirement for new debt will depend on the timing of construction and development for internally generated projects and the availability of properties that can be acquired with attractive returns for acquisitions.

CAPITAL EXPENDITURES, CEMETERY BURIAL SPACE INVENTORY AND CONTRACTUAL COMMITMENTS

Following are the projects on which the Company had expended significant funds prior to April 25, 2010 that had not yet generated operating revenue.

- **Capital Memorial Gardens Chapel and Reception Centre:** As at April 25, 2010, the Company had spent \$5.4 million on this project. The Company estimates that another \$2.8 million will be spent to complete this project in 2010.
- **Glendale Memorial Gardens Chapel and Reception Centre:** As at April 25, 2010, the Company had spent \$3.6 million on this project. The Company estimates that an additional \$4.2 million will be spent to complete this project and that the project will be complete in the first quarter of 2011.
- **Pleasantview Memorial Gardens Chapel and Reception Centre:** As at April 25, 2010, the Company had spent \$0.6 million on this project. The Company estimates that an additional \$6.8 million will be spent to complete this project and that the project will be complete in 2011.

The Company had committed to the following expenditures for capital and cemetery burial space inventory at April 25, 2010 (in \$millions), which the Company expects to spend within the next two years:

Cemetery burial space inventory	4.2
Maintenance capital expenditures	2.2
New reception centres	6.2
New funeral home initiatives	0.7
	<u>13.3</u>

The Company is also contractually committed to funeral inventory purchases of \$39.2 million during the period from February 1, 2008 to January 31, 2013. From February 1, 2008 to April 25, 2010, the Company had purchased \$19.7 million under this commitment. The Company anticipates funding these expenditures from existing cash and cash from operations generated in 2010.

Following is the Company's planned capital and cemetery burial space inventory spending for the remainder of fiscal 2010 (in \$millions):

New initiatives	18.5
Cemetery burial space inventory	14.1
Maintenance capital expenditures	11.6
	<u>44.2</u>

Estimates of future capital and cemetery burial space spending may change positively or negatively depending on factors including, but not limited to, the availability of labour and materials, delays in the construction planning and approval process and future changes in the nature or details of the projects.

UNAUDITED SUMMARY OF QUARTERLY RESULTS

	<i>For the 13 weeks ended</i>							
	<i>Second Quarter</i>		<i>First Quarter</i>		<i>Fourth Quarter</i>		<i>Third Quarter</i>	
	<i>Apr-25</i>	<i>Apr-26</i>	<i>Jan-24</i>	<i>Jan-25</i>	<i>Oct-25</i>	<i>Oct-26</i>	<i>Jul-26</i>	<i>Jul-27</i>
<i>(\$millions, except per share amounts)</i>	2010	2009	2010	2009	2009	2008	2009	2008
Revenue	68.0	60.2	64.3	58.6	64.9	59.4	61.8	61.8
Net earnings from continuing operations	5.8	4.8	5.3	4.7	4.6	5.7	5.9	5.4
Net earnings	5.8	4.9	5.3	4.9	4.5	5.8	5.6	5.3
Basic and diluted earnings per share from continuing operations ⁽¹⁾	\$0.55	\$0.45	\$0.49	\$0.44	\$0.43	\$0.53	\$0.55	\$0.50
Basic and diluted earnings per share ⁽¹⁾	\$0.55	\$0.46	\$0.49	\$0.46	\$0.42	\$0.54	\$0.52	\$0.49

⁽¹⁾ All earnings per share figures presented are applicable to both Class A and Class B shares.

Revenue

Revenue in the second quarter of 2010 was affected by an improvement of \$5.2 million or 20.5% in cemetery sales and an improvement of \$1.6 million or 5.3% in funeral sales. The increase in cemetery sales was due primarily to higher sales of pre-need burial spaces and delivery of markers, a trend that continued from the first quarter of 2010.

Revenue in the first quarter of 2010 was affected by an improvement of \$4.5 million or 19.1% in cemetery sales and an improvement of \$0.6 million or 2.0% in funeral sales. The increase in cemetery sales was mainly due to higher pre-need crypt sales and higher deliveries of markers. The increase in crypts sales was primarily due to a group sale of \$0.7 million and the availability of new inventory at one cemetery branch operation. The higher deliveries of markers were mainly due to administrative projects undertaken in 2009 to contact customers and secure approval for manufacture of markers, an increase in contracts written in prior years and timing of delivery. The Company also believes that the increase in sales was due to improved prevailing economic conditions, the

forthcoming implementation of a harmonized sales tax in Ontario and British Columbia, the impact of new managers at certain branch locations and incremental sales counsellors.

Revenue in the fourth quarter of 2009 was affected by an improvement of \$3.2 million or 11.9% in cemetery sales and an improvement of \$1.9 million or 6.8% in funeral sales. The increase in cemetery sales was mainly due to higher deliveries of pre-need markers and higher crypt sales that occurred primarily due to the availability of new inventory at one cemetery branch operation. The higher deliveries of markers was mainly a result of administrative projects undertaken to contact customers and secure approval for manufacture of markers that were fully-paid in prior years. The increase in funeral sales was mainly due to an increase of \$0.4 million in new operations and an increase of 4.6% in the average sale per funeral service of existing funeral operations.

Net Earnings from Continuing Operations and Earnings Per Share from Continuing Operations

Net earnings from continuing operations and earnings per share from continuing operations were higher in the second quarter of 2010 compared to the second quarter of 2009 primarily due to higher cemetery sales of \$5.2 million or 20.5%, which were partially offset by an increase in cemetery expenses of \$3.7 million or 14.3% and higher income taxes of \$0.4 million.

Net earnings from continuing operations and earnings per share from continuing operations were higher in the first quarter of 2010 compared to the first quarter of 2009 primarily due to higher cemetery sales of \$4.5 million or 19.1%, which were partially offset by an increase in cemetery expenses of \$3.2 million or 13.5% and higher income taxes of \$0.6 million.

Net earnings from continuing operations and earnings per share from continuing operations were higher in the fourth quarter of 2008 compared to the fourth quarter of 2009 as a result of a \$1.5 million recovery of refundable dividend taxes in 2008 that were previously expensed, due to an increase in the annual dividend.

Net Earnings and Earnings Per Share

Net earnings and earnings per share did not vary significantly from net earnings from continuing operations and earnings per share from continuing operations.

OUTSTANDING SHARES

The Company has an unlimited number of Preferred Shares, Class A Voting Shares and Class B Non-Voting Shares authorized for issue. The Class A and Class B shares have identical rights and privileges, except that the Class A shares are voting. In certain circumstances, if an offer is made by the Company or a third party to purchase Class A shares from each holder in Ontario, each Class B share is convertible into one Class A share. As of April 25, 2010, the Company has repurchased and cancelled 100,000 Class A shares at \$23.25 per share and 95,700 Class B shares at \$23.50 per share for a total consideration of \$4.6 million under the normal course issuer bid that was announced on September 3, 2009. At June 4, 2010, the Company had issued 2,425,497 Class A shares and 8,092,546 Class B shares for \$1.7 million and \$72.8 million respectively.

EVENTS AND UNCERTAINTIES

Current economic market conditions

The Company has considered how the current economic and financial market uncertainty has affected or will affect the Company's performance, resources, estimates, liquidity and other areas. Due to the nature of the Company's products and services, in particular the inevitable need for them and the cumulative impact on current period results from pre-need contracts written in prior years, the Company has not experienced a decline in sales or pre-need contracts written. For the 26 weeks ended April 25, 2010, cemetery sales and pre-need cemetery contracts written increased by 19.8% and 28.3%, respectively, and pre-need funeral contracts written increased by 37.4%. Additionally, the average sale per service in the funeral division increased by 3.6%. A reduction in contracts written could affect revenue recognized in the future and a prolonged negative economic environment could result in price sensitivity and/or a reduction in the products and services purchased.

Management has been monitoring various factors that could indicate negative trends resulting from general economic conditions including the following:

- ***Potential for Increasing Receivables/Uncollectible Accounts:*** The Company noted that at-need cemetery contracts with less than 25% of the contract amount paid and at least one overdue payment

cycle represented 7.2% of the receivable balance or \$0.3 million at April 25, 2010 (October 25, 2009- 8.5% and \$0.4 million). The Company has considered this change in its estimate of the provision for uncollectible accounts, which represents 28.9% of the balance of at-need cemetery contracts with less than 25% of the contract amount paid and at least one overdue payment cycle at April 25, 2010 (October 25, 2009- 24.2%).

- **Potential Goodwill Impairment:** A goodwill impairment provision of \$0.4 million was identified in the period for one funeral branch operation. The provision was recognized in consideration of a sustained period of under-performance despite measures undertaken to improve results. The Company will continue to monitor its under-performing reporting units.
- **Potential Decreases in Values of Funds:** At April 25, 2010, the pre-need trust funds had \$0.3 million in unrealized losses in the U.S. equity funds while the care funds had \$0.8 million in net unrealized losses in its foreign corporate bond holdings. The Company reviews the investments within its trust funds on an ongoing basis and, based on consultation with its investment managers, does not believe there are any going concern issues. However, the Company continues to monitor the performance of individual investments. To date, there have been no changes made to valuation techniques with respect to the fair market values of the pre-need trust and care funds.
- **Potential supply constraints:** The Company experienced a significant increase in the cost of concrete vaults in Western Canada during the period, which has been recovered through higher selling prices on new contracts. However, in the period, \$0.4 million was recognized for the higher cost to deliver previously written contracts. The Company does not anticipate a material impact on costs or any constraints on the supply of other products or services required to support the operation of the business at this time.

Based on outcomes to date, the Company has not made changes to either its overall strategy or strategic objectives as a result of prevailing conditions. A substantial unfavourable change in the factors above, either individually or in the aggregate, could have a material adverse effect on the Company's financial condition, results of operations and cash flows.

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 interment rights can also have seasonal fluctuations, whereby sales are generally lower in the winter and summer months.

Regulation

During the third quarter of 2009, the Ontario Ministry of Consumer Services released revised draft regulations pertaining to the Funeral, Burial and Cremation Services Act, 2002 (formerly Bill 209), to be reviewed for comment. The Company has been informed that the regulations are in their final stages of development and Ministry officials have signalled their intent to proclaim the legislation in fiscal 2010. The Company anticipates that full implementation of the regulations will occur within twelve months of proclamation and does not anticipate that the cost of compliance will be significant.

Environmental

Over the last several years, various federal, provincial and municipal government agencies have released environmental legislation that has caused the Company to incur extra costs in order to comply with the legislation. Specifically, the ban on pesticides has increased the labour costs to maintain properties and in the case of new crematorium buildings, additional monitoring equipment and stack testing is required. To date, however, the increase in costs incurred has not been significant. The Company continues to monitor its compliance and programs with respect to other existing environmental standards and regulations as well as potential new standards and regulations across Canada, and believes that costs will be incurred to comply with these regulations. However, the Company estimates that the one-time cost of compliance with known regulations will be approximately \$0.6 million and that the incremental annual cost of compliance will not be significant. The Company believes that environmental legislation will continue to evolve.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

With respect to internal control over financial reporting, during the Company's most recent interim period, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

June 3, 2010

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS

<i>In thousands of dollars, except per share amounts</i>	13 weeks ended		26 weeks ended	
	April 25, 2010	April 26, 2009 ⁽¹⁾	April 25, 2010	April 26, 2009 ⁽¹⁾
Revenue				
Sales	62,045	55,275	121,408	109,572
Investment and other income (note 7)	5,990	4,971	10,914	9,225
	68,035	60,246	132,322	118,797
Expenses				
Operating (note 5)	54,313	49,029	105,728	95,915
Corporate	4,631	3,748	8,973	7,843
Provision for goodwill impairment (note 9)	352	-	352	-
Other	(2)	(19)	(27)	(24)
	59,294	52,758	115,026	103,734
Earnings before interest expense and income taxes	8,741	7,488	17,296	15,063
Interest expense	343	477	729	1,049
Earnings before income taxes	8,398	7,011	16,567	14,014
Income taxes (note 10)	2,560	2,167	5,451	4,466
Net earnings from continuing operations	5,838	4,844	11,116	9,548
Net (loss) earnings from discontinued operations (note 11)	(37)	82	(35)	299
Net earnings	5,801	4,926	11,081	9,847
Basic and diluted earnings per share (note 8)				
Continuing operations	\$0.55	\$0.45	\$1.04	\$0.89
Discontinued operations	-	0.01	-	0.03
Basic and diluted earnings per share	\$0.55	\$0.46	\$1.04	\$0.92

⁽¹⁾ Certain figures provided for 2009 have been restated to conform with the current period's presentation - see note 11. In addition, miscellaneous income was reclassified from operating expenses to investment and other income.

UNAUDITED CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>In thousands of dollars</i>	13 weeks ended		26 weeks ended	
	April 25, 2010	April 26, 2009	April 25, 2010	April 26, 2009
Retained earnings, beginning of period	131,889	116,505	127,546	112,853
Net earnings for the period	5,801	4,926	11,081	9,847
Shares repurchased under normal course issuer bid (note 8)	(3,647)	-	(3,647)	-
Refundable dividend taxes received	140	-	533	-
Dividends	(1,167)	(1,178)	(2,346)	(2,357)
Refundable dividend taxes paid	(181)	(112)	(332)	(202)
Retained earnings, end of period	132,835	120,141	132,835	120,141

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>In thousands of dollars</i>	13 weeks ended		26 weeks ended	
	April 25, 2010	<i>April 26, 2009</i>	April 25, 2010	<i>April 26, 2009</i>
Net earnings	5,801	4,926	11,081	9,847
Other comprehensive income (loss):				
Net change in gains and losses on effective portion of derivatives designated as cash flow hedges net of income taxes of (\$180) and (\$144) (2009 - (\$42) and \$339) (note 6).	392	122	313	(684)
Net change in unrealized gains and losses associated with available for sale securities of the pre-need trust funds:				
Change in unrealized gains and losses associated with available for sale securities of the pre-need trust funds, net of income taxes of \$1,736 and \$881 (2009 - (\$2,531) and (\$4,257)).	(3,950)	5,442	(2,003)	9,203
Change in unrealized gains and losses associated with available for sale securities of the pre-need trust funds attributable to non-controlling interests and deferred revenue, net of income taxes of (\$1,736) and (\$881) (2009 - \$2,531 and \$4,257).	3,950	(5,442)	2,003	(9,203)
	-	-	-	-
Net change in unrealized gains and losses associated with available for sale securities of the cemetery care funds:				
Change in unrealized gains and losses associated with available for sale securities of the cemetery care funds, net of income taxes of \$493 and (\$326) (2009 - (\$1,125) and (\$1,006)).	(1,122)	2,432	742	2,174
Change in unrealized gains and losses associated with available for sale securities of the cemetery care funds attributable to non-controlling interests, net of income taxes of (\$493) and \$326 (2009 - \$1,125 and \$1006).	1,122	(2,432)	(742)	(2,174)
	-	-	-	-
Other comprehensive income (loss)	392	122	313	(684)
Comprehensive income	6,193	5,048	11,394	9,163

UNAUDITED CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

<i>In thousands of dollars</i>	13 weeks ended		26 weeks ended	
	April 25, 2010	<i>April 26, 2009</i>	April 25, 2010	<i>April 26, 2009</i>
Accumulated other comprehensive loss, beginning of period	(1,287)	(2,074)	(1,208)	(1,268)
Other comprehensive income (loss) for the period	392	122	313	(684)
Accumulated other comprehensive loss, end of period	(895)	(1,952)	(895)	(1,952)

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.
UNAUDITED CONSOLIDATED BALANCE SHEETS

<i>In thousands of dollars</i>	As at	
	April 25, 2010	October 25, 2009 ⁽¹⁾
Assets		
Current assets		
Cash	13,789	16,811
Accounts receivable	20,491	20,037
Pre-need receivables, current portion (note 3)	42,163	41,230
Merchandise inventories (note 5)	12,833	12,794
Income taxes receivable	503	964
Prepaid expenses	469	1,299
Future income taxes, current portion	347	368
	90,595	93,503
Notes receivable	700	700
Crypts and niches (note 5)	36,158	38,173
Cemetery land (note 5)	31,987	32,300
Fixed assets	207,047	202,366
Pre-need receivables and funds (note 3)	502,379	494,711
Stored merchandise	14,423	14,089
Other assets	132	131
Goodwill	50,115	50,467
Intangible assets	1,875	1,911
Future income taxes	14,912	16,323
Cemetery care funds (note 4)	201,724	194,229
	1,152,047	1,138,903
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	25,880	33,490
Long-term debt, current portion	-	750
Future income taxes, current portion	1,725	1,708
	27,605	35,948
Long-term debt	44,938	44,205
Other liabilities	19,148	18,265
Deferred revenue	211,103	208,280
Non-controlling interests in pre-need funds	438,146	432,876
Future income taxes	2,986	3,374
	743,926	742,948
Non-controlling interests in cemetery care funds	201,724	194,229
Shareholders' equity		
Share capital (note 8)	74,457	75,388
Retained earnings	132,835	127,546
Accumulated other comprehensive loss	(895)	(1,208)
	131,940	126,338
	206,397	201,726
	1,152,047	1,138,903

⁽¹⁾ Certain figures provided for 2009 have been restated to conform with the current period's presentation - see note 14.

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>In thousands of dollars</i>	13 weeks ended		26 weeks ended	
	April 25, 2010	April 26, 2009 ⁽¹⁾	April 25, 2010	April 26, 2009 ⁽¹⁾
Cash provided by (used for)				
Operating activities				
Net earnings from continuing operations	5,838	4,844	11,116	9,548
Add (deduct) items not affecting cash:				
Depreciation and amortization	3,046	2,857	5,852	5,376
Gain on disposal of assets	(2)	(19)	(27)	(24)
Provision for asset impairment (note 9)	352	-	352	-
Future income taxes (note 10)	541	468	1,327	1,049
Net change in other operating balance sheet items (note 12)	6,892	1,552	(715)	(9,577)
Net cash provided by continuing operations	16,667	9,702	17,905	6,372
Net cash (used for) provided by discontinued operations	(37)	94	(35)	144
Investing activities				
Additions to fixed assets	(6,187)	(5,174)	(13,269)	(9,738)
Acquisition (note 2)	-	-	-	(1,014)
Additions to cemetery land held for future development	(18)	(42)	(27)	(58)
Proceeds on disposal of assets	35	19	60	38
Change in pre-need funds	(5,262)	(1,728)	(8,708)	(5,272)
Change in cemetery care funds	(3,117)	(2,716)	(6,319)	(5,467)
Net cash used for continuing operations	(14,549)	(9,641)	(28,263)	(21,511)
Proceeds on disposal of assets	-	81	-	1,746
Other cash used by discontinued operations	-	(87)	-	(42)
Net cash (used for) provided by discontinued operations	-	(6)	-	1,704
Financing activities				
Proceeds from new long-term debt	-	13	-	13
Repayment of long-term debt	(13)	-	(17)	(23)
Dividends paid	(1,167)	(2,357)	(2,346)	(2,357)
Shares repurchased under normal course issuer bid (note 8)	(4,578)	-	(4,578)	-
Change in non-controlling interests in pre-need funds	4,353	1,334	7,993	4,966
Change in non-controlling interests in cemetery care funds	3,117	2,716	6,319	5,467
Net cash provided by continuing operations	1,712	1,706	7,371	8,066
Net cash provided by (used for) discontinued operations	-	14	-	(33)
Increase (decrease) in cash	3,793	1,869	(3,022)	(5,258)
Cash, beginning of period	9,996	7,641	16,811	14,768
Cash, end of period	13,789	9,510	13,789	9,510
Supplementary information				
Income taxes paid	1,826	1,746	3,843	4,311
Interest paid	346	483	692	1,090

⁽¹⁾ Certain figures provided for 2009 have been restated to conform with the current period's presentation - see notes 11 and 14.

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the 26 weeks ended April 25, 2010 and April 26, 2009

1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are consistent with the accounting policies used to prepare the 2009 annual consolidated financial statements, except as otherwise noted herein. While management considers the interim disclosures presented to be adequate, these consolidated financial statements do not include all of the disclosures required for annual financial statements and should be read in conjunction with the Company's 2009 annual consolidated financial statements.

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 interment rights can also have seasonal fluctuations, whereby sales are generally lower in the winter and summer months.

2. ACQUISITION

In the first quarter of 2009, the Company purchased the land and building of an existing funeral branch operation, which were previously leased, for \$1.0 million.

3. PRE-NEED RECEIVABLES AND FUNDS

	April 25, 2010	<i>October 25, 2009</i>
	<i>(\$000)</i>	
Pre-need cemetery trust funds	243,785	236,918
Pre-need funeral trust funds	204,436	204,560
	448,221	441,478
Instalment accounts receivable	74,907	72,389
Pre-need group annuity funds	21,414	22,074
	544,542	535,941
Less: current portion of instalment accounts receivable	42,163	41,230
	502,379	494,711

The consolidated balance sheets do not include pre-need funeral and cemetery contracts that will be funded by third-party insurers under group annuity programs, upon delivery of pre-need merchandise and services, where the Company is not the policyholder. At April 25, 2010, the accumulated benefit of all such contracts sold by the Company's sales counsellors was \$187.3 million (October 25, 2009 - \$165.8 million).

The trust funds consist of the following investments:

	Fair Value		Cost	
	April 25, 2010	<i>October 25, 2009</i>	April 25, 2010	<i>October 25, 2009</i>
	<i>(\$000)</i>		<i>(\$000)</i>	
Cash	4,713	4,390	4,713	4,390
Term deposits	242,451	237,634	234,393	228,331
Fixed income:				
Canadian government bonds	44,349	43,117	43,410	41,285
Canadian corporate bonds	108,826	111,591	103,590	105,289
	153,175	154,708	147,000	146,574

	<i>Fair Value</i>		<i>Cost</i>	
	<i>April 25, 2010</i>	<i>October 25, 2009</i>	<i>April 25, 2010</i>	<i>October 25, 2009</i>
	<i>(\$000)</i>		<i>(\$000)</i>	
Equities:				
Canadian preferred shares	5,117	3,948	5,134	3,845
Canadian common shares	22,904	21,922	17,218	16,440
U.S. common shares	3,085	2,102	3,354	2,513
	31,106	27,972	25,706	22,798
Equity/bond funds	16,776	16,774	16,722	16,815
	448,221	441,478	428,534	418,908

4. CEMETERY CARE FUNDS

Cemetery care funds consist of the following investments:

	<i>Fair Value</i>		<i>Cost</i>	
	<i>April 25, 2010</i>	<i>October 25, 2009</i>	<i>April 25, 2010</i>	<i>October 25, 2009</i>
	<i>(\$000)</i>		<i>(\$000)</i>	
Cash	634	567	634	567
Term deposits	2,043	4,978	2,043	4,978
Fixed income:				
Canadian government bonds	47,129	45,956	46,134	44,091
Canadian corporate bonds	88,690	82,701	85,068	78,342
Foreign corporate bonds	3,725	3,236	4,532	4,532
Canadian mortgage backed securities	15,164	17,311	15,181	17,520
Canadian asset backed securities	19,421	19,456	19,104	19,104
	174,129	168,660	170,019	163,589
Equities:				
Canadian preferred shares	3,684	2,972	3,728	2,926
Canadian common shares	20,824	16,861	18,844	16,988
U.S. common shares	410	191	414	207
	24,918	20,024	22,986	20,121
	201,724	194,229	195,682	189,255

5. INVENTORY

The cost of inventory recognized in operating expenses as cost of sales for the 13 and 26 weeks ended April 25, 2010 and April 26, 2009 included the following:

	<i>13 Weeks Ended</i>		<i>26 Weeks Ended</i>	
	<i>April 25, 2010</i>	<i>April 26, 2009</i>	<i>April 25, 2010</i>	<i>April 26, 2009</i>
	<i>(\$000)</i>		<i>(\$000)</i>	
Merchandise inventories	8,061	7,125	15,920	14,179
Crypts and niches and cemetery land	2,969	2,278	5,896	4,366
	11,030	9,403	21,816	18,545

6. FINANCIAL INSTRUMENTS

Derivative Financial Instruments

As of April 25, 2010, the Company's use of interest rate swap agreements was limited to three (October 25, 2009 – three) interest rate swaps with a Canadian chartered bank, whereby the Company fixed a portion of its term loan financing at interest rates ranging from 4.4% to 5.0%. At April 25, 2010, these swaps had a total notional amount of \$20.0 million (October 25, 2009 – \$20.0 million). The swaps expire in 2012 and 2014. Swap costs in the 13 and 26 weeks ended April 25, 2010 were \$0.2 million and \$0.4 million, respectively (13 and 26 weeks ended April 26, 2009 – \$0.3 million and \$0.4 million, respectively) and are included in interest expense. Losses due to non-performance by the counter-party are not anticipated due to their high credit standing.

All of the Company's interest rate swaps are designated as cash flow hedges. At April 25, 2010, the critical terms of the swaps did not match the terms of the underlying floating rate debt. Therefore, the hypothetical derivative method was used to perform a quantitative, retrospective and prospective assessment of the effectiveness of the swaps. This methodology involved regression analysis of historical interest rates for the floating rate portion of the swaps and historical interest rates for the underlying debt. The result of the analysis was that the fair value of the cash flows from the interest rates of the swaps was highly effective at offsetting the variability in cash flows from the interest rates of the underlying debt. Therefore, hedge accounting was used to record the swaps and related activity for the year.

Fair Value of Financial Instruments

Financial instruments measured at fair value in the Company's consolidated balance sheets include pre-need trust funds, cemetery care funds and interest rate swap agreements.

Financial instruments included in Level 1 are determined by reference to unadjusted quoted prices in active markets for identical assets and liabilities accessed at the measurement date. The Company's financial instruments classified as Level 1 securities at April 25, 2010 include cash, money market funds, common stock, certain fixed income securities and equity/bond funds. Financial instruments included in Level 2 represent securities that are estimated using inputs that are based on observable market data for a comparable ("similar") asset or liability. The Company's financial instruments classified as Level 2 securities at April 25, 2010 include GIC's, asset backed securities, mortgage backed securities and interest rate swap contracts. Financial instruments included in Level 3 are estimated based on an input that is unobservable in the market and that reflects the entity's own assumptions about what market participants would assume in pricing the asset or liability. As at April 25, 2010, the Company did not have any financial instruments that had fair values determined by Level 3 inputs.

The following table indicates the fair value hierarchy of the inputs used to measure the fair value of the pre-need trust funds, cemetery care funds and interest rate swap agreements at April 25, 2010. There were no reclassifications between levels in the hierarchy compared to October 25, 2009.

	<i>Quoted Market Prices in Active Markets (Level 1)</i>	<i>Significant Other Observable (Level 2)</i>	<i>Significant Unobservable (Level 3)</i>	<i>April 25, 2010 Fair Market Value</i>	<i>October 25, 2009 Fair Market Value</i>
			(\$000)		
Pre-need trust funds	448,221	-	-	448,221	441,478
Cemetery care funds	167,139	34,585	-	201,724	194,229
Interest rate swap agreements	-	(1,322)	-	(1,322)	(1,779)
	<u>615,360</u>	<u>33,263</u>	<u>-</u>	<u>648,623</u>	<u>633,928</u>

Market Risk

Investments in the pre-need trust funds and cemetery care funds are subject to market price risk. The cost and fair values of the funds are presented in notes 3 and 4, respectively. Since the assets in these funds are classified as available for sale, any changes to the fair values do not directly affect the Consolidated Statements of Earnings. In addition, changes in the fair values of these funds are attributed to non-controlling interests and deferred revenue as appropriate; accordingly, the Consolidated Statements of Comprehensive Income are unaffected as well. However, future sales revenues and investment income are indirectly impacted by changes in the fair values of the pre-need funds and cemetery care funds upon the delivery of the underlying pre-need contracts and the reinvestment of funds in the care funds, respectively.

7. INVESTMENT AND OTHER INCOME

<i>13 Weeks Ended April 25 and April 26</i>										
	<i>Pre-Need Cemetery Funds</i>		<i>Pre-Need Funeral Funds</i>		<i>Cemetery Care Funds</i>		<i>Other</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>(\$000)</i>									
Realized earnings of funds:										
Interest and dividends ⁽¹⁾	1,896	1,770	1,907	1,956	2,380	2,240	-	-	6,183	5,966
Realized gains	211	22	157	19	60	9	-	-	428	50
Realized losses	(11)	(13)	(4)	(1)	(44)	(9)	-	-	(59)	(23)
Trust expenses	(61)	(54)	(61)	(55)	(86)	(78)	-	-	(208)	(187)
	2,035	1,725	1,999	1,919	2,310	2,162	-	-	6,344	5,806
Deferred revenue	(54)	(54)	-	-	-	-	-	-	(54)	(54)
Trust expenses ⁽²⁾	61	54	61	55	86	78	-	-	208	187
Non-controlling interests in funds	(2,042)	(1,725)	(2,060)	(1,974)	(40)	(22)	-	-	(4,142)	(3,721)
	-	-	-	-	2,356	2,218	-	-	2,356	2,218
Fee income	629	555	2,646	1,779	-	-	-	-	3,275	2,334
Other	-	-	-	-	-	-	359	419	359	419
	629	555	2,646	1,779	2,356	2,218	359	419	5,990	4,971
<i>26 weeks ended April 25 and April 26</i>										
	<i>Pre-Need Cemetery Funds</i>		<i>Pre-Need Funeral Funds</i>		<i>Cemetery Care Funds</i>		<i>Other</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>(\$000)</i>									
Realized earnings of funds:										
Interest and dividends ⁽¹⁾	3,714	3,517	3,735	3,883	4,713	4,447	-	-	12,162	11,847
Realized gains	314	22	235	83	266	844	-	-	815	949
Realized losses	(200)	(13)	(90)	(1)	(158)	(473)	-	-	(448)	(487)
Trust expenses	(122)	(106)	(122)	(111)	(172)	(151)	-	-	(416)	(368)
	3,706	3,420	3,758	3,854	4,649	4,667	-	-	12,113	11,941
Deferred revenue	(67)	(78)	-	-	-	-	-	-	(67)	(78)
Trust expenses ⁽²⁾	122	106	122	111	172	151	-	-	416	368
Non-controlling interests in funds	(3,761)	(3,448)	(3,880)	(3,965)	(155)	(414)	-	-	(7,796)	(7,827)
	-	-	-	-	4,666	4,404	-	-	4,666	4,404
Fee income	1,132	1,043	4,425	2,972	-	-	-	-	5,557	4,015
Other	-	-	-	-	-	-	691	806	691	806
	1,132	1,043	4,425	2,972	4,666	4,404	691	806	10,914	9,225

⁽¹⁾ Includes interest income for the 13 and 26 weeks ended April 25, 2010 of \$4.9 million and \$10.3 million, respectively (for the 13 and 26 weeks ended April 26, 2009 - \$4.6 million and \$10.0 million, respectively).

⁽²⁾ Trust expenses are reclassified to operating expenses in the financial statements.

Effective income tax rate:

The reconciliation of the Company's effective income tax rate is as follows:

	13 Weeks Ended		26 Weeks Ended	
	April 25, 2010	<i>April 26, 2009</i>	April 25, 2010	<i>April 26, 2009</i>
	%		%	
Combined basic federal and provincial income tax rate	31.1	31.3	31.0	31.6
Change in the basic tax rate resulting from:				
Dividends	(1.8)	(1.5)	(1.7)	(1.2)
Impact of future tax changes	0.5	1.3	3.2	1.5
Asset impairment provision	1.3	-	0.7	-
Meals and entertainment	0.2	0.3	0.3	0.3
Impact of capital (gains) losses	(1.0)	0.1	(0.4)	-
Increase (decrease) in prior year provision	0.3	(0.4)	0.1	(0.2)
Other items	(0.1)	(0.2)	(0.3)	(0.1)
Effective income tax rate	30.5	30.9	32.9	31.9

11. DISCONTINUED OPERATIONS

A branch operation that met the criteria for being classified as a discontinued operation in the fourth quarter of 2007 was sold in the first quarter of 2009 for net cash proceeds of \$1.8 million. The after-tax gain on the sale was \$0.1 million, which included the disposal of goodwill having a carrying value of nil.

In the second quarter of 2009, the assets of five funeral branch operations met the criteria for being classified as discontinued operations. The decision to sell these branches was made as these operations did not fit into the Company's long-term strategic direction. In addition, marginal performance was a factor in the case of two of these branch operations and possible future earnings reductions was a factor in the case of the remaining three branch operations. The sale of these branch operations was completed in the third quarter of 2009 for cash proceeds of \$2.4 million. The after-tax gain on the sale of these branch operations was \$0.1 million, including the disposal of goodwill having a carrying value of \$0.7 million.

In the fourth quarter of 2009, the Company sold a parcel of undeveloped cemetery land. The sale resulted in an after-tax loss of \$0.5 million. The decision to sell the property was made since the potential for the property to be developed into saleable cemetery land was evaluated as unlikely.

Revenue associated with discontinued operations for the 13 and 26 weeks ended April 25, 2010 was \$0.1 million (13 and 26 weeks ended April 26, 2009 – \$0.4 million and \$0.9 million, respectively). The net loss for the 13 weeks and the 26 weeks ended April 25, 2010 were less than \$0.1 million (net earnings for the 13 and 26 weeks ended April 26, 2009 – \$0.1 million and \$0.3 million, respectively).

12. NET CHANGE IN OTHER OPERATING BALANCE SHEET ITEMS

	13 Weeks Ended		26 Weeks Ended	
	April 25, 2010	<i>April 26, 2009</i>	April 25, 2010	<i>April 26, 2009</i>
	(\$000)		(\$000)	
Accounts receivable	(787)	(521)	(454)	(942)
Developed land, crypt and niche cost of sales	2,847	2,053	5,616	4,097
Additions to developed land, crypts and niches	(1,487)	(3,915)	(3,261)	(9,681)
Instalment accounts receivable	(3,164)	(1,726)	(2,518)	418
Stored merchandise	(120)	17	(334)	(174)
Accounts payable and accrued liabilities	3,765	1,492	(4,871)	(4,801)
Income taxes receivable/payable	199	(732)	51	(1,401)
Deferred revenue	4,486	3,900	2,725	1,693
Other liabilities	1,004	531	1,340	729
Other changes	149	453	991	485
	6,892	1,552	(715)	(9,577)

13. CONTRACTUAL COMMITMENTS

At April 25, 2010, the Company was contractually committed to capital and cemetery burial space inventory expenditures of \$13.3 million (October 25, 2009 – \$16.4 million), which the Company expects to spend within the next two years. The Company is also contractually committed to funeral inventory purchases of \$39.2 million during the period from February 1, 2008 to January 31, 2013. From February 1, 2008 to April 25, 2010, the Company had purchased \$19.7 million under this commitment.

14. RESTATEMENT OF PRIOR PERIOD DEFERRED REVENUE AND NON-CONTROLLING INTERESTS IN PRE-NEED FUNDS

The Company restated the comparative amounts in the Consolidated Balance Sheets to correct an immaterial misclassification between deferred revenue and non-controlling interests in pre-need funds of \$18.3 million. The restatement of these balances also affected the net change in other operating balance sheet items and the change in non-controlling interests in pre-need funds in the Consolidated Statements of Cash Flows by \$0.1 million. The restatement had no impact on the Consolidated Statements of Earnings, shareholder's equity or current or total liabilities.

15. SUBSEQUENT EVENTS

Subsequent to April 25, 2010, Mr. Daniel J. Scanlan resigned from the Board of Directors and from his position of Chairman of the Board and was appointed Chairman Emeritus. In recognition of Mr. Scanlan's years of service to the Company, the Board approved the initiation of an unfunded defined benefit pension plan, granting the Chairman Emeritus \$1.9 million of benefits in reference to past service that will accrue interest at 4.5% per annum on the accrued benefit obligation. The pension will be paid in bi-weekly payments beginning in June 2010 and ending in September 2015. In the event Mr. Scanlan predeceases his spouse, the bi-weekly payments would be reduced by half and would continue until the \$1.9 million of benefits and accrued interest are fully distributed. The Company's liability for the pension ceases in the event that both Mr. Scanlan and his wife pass away before the pension amount has been fully distributed. The \$1.9 million of past service costs will be amortized to the income statement on a straight-line basis over the estimated life of the employee.

Subsequent to the end of the quarter, the Canada Revenue Agency ("CRA") issued GST/HST Info Sheet ("GI-074") entitled "Ontario and British Columbia: Transition to the Harmonized Sales Tax ("HST") – Prepaid Funeral and Cemetery Arrangements and Interment Rights". Under GI-074, HST would apply to all payments due or made on cemetery interment right contracts on or after May 1, 2010, which appears to contradict previous transitional guidance issued by the Ontario Ministry of Finance ("Information Notice No. 3") and the British Columbia Ministry of Finance ("HST Notice #1") in October 2009. GI-074 also provides that HST would apply to all finance charges earned on pre-need cemetery and funeral contracts on or after July 1, 2010. The Company will be lobbying the CRA and the provincial Ministries of Finance to enact the transitional rules originally issued by the provincial Ministries of Finance. If the Company is unsuccessful in this lobby, the Company intends at this time to collect from its customers the HST owing on contracts written prior to its HST promotional campaigns, which began in the fall of 2009. The estimated HST relating to these contracts at April 25, 2010 is \$0.9 million. The Company's estimate of the remaining HST liability at April 25, 2010 for payments relating to pre-need cemetery interment rights due or made on or after May 1, 2010 for contracts written after its promotional campaigns began is \$0.7 million. The Company's estimate of its remaining HST liability on finance charges to be earned after July 1, 2010 for contracts written prior to that date is \$0.2 million at April 25, 2010.

16. SEGMENT DISCLOSURE

The Company has two reportable segments: cemetery and funeral. The corporate segment has been provided principally to reconcile the reportable segments to consolidated results. The cemetery segment sells interment rights and cemetery merchandise and services. The funeral segment sells funeral merchandise and services. The corporate segment's responsibilities include strategy development, human resource management, capital investment decisions, accounting and finance, management of information technology resources and performance monitoring of the cemetery and funeral operations.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Company's 2009 annual consolidated financial statements. The Company evaluates performance of the segments based on earnings before interest expense and income taxes.

The Company's reportable segments are strategic business units that offer different products and services. The nature of these products and services overlap in some instances. However, these segments are managed separately and have different regulatory requirements.

All of the Company's revenues are derived in Canada and all of the Company's capital assets and goodwill are located in Canada.

Industry segments (\$000)

	<i>For the 13 weeks ended April 25 and April 26</i>							
	<i>Cemetery</i>		<i>Funeral</i>		<i>Corporate</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Sales ⁽¹⁾	30,422	25,249	31,623	30,026	-	-	62,045	55,275
Investment and other income ⁽¹⁾	3,069	2,874	2,792	1,963	129	134	5,990	4,971
Revenue	33,491	28,123	34,415	31,989	129	134	68,035	60,246
Depreciation and amortization ⁽¹⁾	1,151	1,022	1,448	1,446	447	389	3,046	2,857
Earnings (loss) before interest expense and income taxes ⁽¹⁾	4,075	2,392	9,168	8,710	(4,502)	(3,614)	8,741	7,488
Interest expense	-	-	-	-	343	477	343	477
Earnings (loss) before income taxes ⁽¹⁾	4,075	2,392	9,168	8,710	(4,845)	(4,091)	8,398	7,011
Capital expenditures	4,286	2,051	1,483	2,095	337	460	6,106	4,606
Acquisitions	-	-	-	-	-	-	-	-
Developed land, crypt and niche additions	1,487	3,915	-	-	-	-	1,487	3,915
Cemetery land held for future development additions ⁽¹⁾	18	42	-	-	-	-	18	42
Pre-need contracts written	27,074	21,518	21,344	14,939	-	-	48,418	36,457

For the 26 weeks ended April 25 and April 26

	<i>Cemetery</i>		<i>Funeral</i>		<i>Corporate</i>		<i>Consolidated</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Sales ⁽¹⁾	58,230	48,595	63,178	60,977	-	-	121,408	109,572
Investment and other income ⁽¹⁾	5,981	5,633	4,681	3,288	252	304	10,914	9,225
Revenue	64,211	54,228	67,859	64,265	252	304	132,322	118,797
Depreciation and amortization ⁽¹⁾	2,219	1,919	2,830	2,730	803	727	5,852	5,376
Earnings (loss) before interest expense and income taxes ⁽¹⁾	7,460	4,420	18,557	18,182	(8,721)	(7,539)	17,296	15,063
Interest expense	-	-	-	-	729	1,049	729	1,049
Earnings (loss) before income taxes ⁽¹⁾	7,460	4,420	18,557	18,182	(9,450)	(8,588)	16,567	14,014
Identifiable assets ⁽²⁾	690,505	669,233	429,979	433,885	31,563	35,785	1,152,047	1,138,903
Capital expenditures	7,464	3,784	2,178	2,705	888	672	10,530	7,161
Acquisition	-	-	-	1,014	-	-	-	1,014
Developed land, crypt and niche additions	3,261	9,681	-	-	-	-	3,261	9,681
Cemetery land held for future development additions ⁽¹⁾	27	58	-	-	-	-	27	58
Pre-need contracts written	48,133	37,528	37,047	26,970	-	-	85,180	64,498

⁽¹⁾ *Figures provided for 2009 have been restated to conform with the current year's presentation - see note 11.*

⁽²⁾ *Identifiable assets shown for 2009 are as at October 25.*