

SECOND QUARTER REPORT

***Six Months Ended
April 30, 2007***



***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 three and six months ended April 30, 2007 and includes material information available up to May 29, 2007. 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 2006 Annual Information Form under "Description of the Business – Risk Factors" and 2006 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.

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"). This non-GAAP financial measure 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.

NEW ACCOUNTING POLICIES

Financial Instruments

The Canadian Institute of Chartered Accountants ("CICA") has issued the following new accounting standards, which were effective for the Company's first quarter of fiscal 2007: Financial Instruments – Recognition and Measurement ("Section 3855"); Hedges ("Section 3865"); Comprehensive Income ("Section 1530") and Equity ("Section 3251"). Each of the standards requires prospective application

Section 1530 introduces the concept of comprehensive income, which consists of net income and other comprehensive income ("OCI"), and represents changes in shareholders' equity during a period arising from transactions with non-owners. OCI includes among its components, unrealized gains and losses on financial assets classified as "available for sale" and changes in the fair value of the effective portion of cash flow hedging instruments together with income tax expenses or benefits associated with each component. As a result of the implementation of this section, our Consolidated Financial Statements include a Consolidated Statement of

Comprehensive Income and a Consolidated Statement of Accumulated Other Comprehensive Loss. In addition, the cumulative amount of OCI, which is termed “accumulated other comprehensive loss” or “AOCL”, is presented as a new category of shareholders’ equity in the Consolidated Balance Sheets.

Section 3855 establishes standards for recognizing and measuring financial instruments and non-financial derivatives. On application of Section 3855, the Company classified the investments in the pre-need cemetery and funeral trust funds and the investments in the cemetery care funds as “available for sale” and changed the basis of measurement for these assets from cost to fair value in the Consolidated Balance Sheets. Unrealized gains and losses on these “available for sale” financial assets are excluded from net earnings and recorded, net of income taxes, as a component of OCI in the Consolidated Statement of Comprehensive Income. Unrealized gains and losses are then offset by the amounts attributable to non-controlling interests in pre-need funds, non-controlling interests in cemetery care funds or deferred revenue, as appropriate, as such unrealized earnings have not been earned by the Company through the performance of services or delivery of merchandise. The Company continues to recognize as sales, amounts removed from the pre-need funds upon the performance of services and delivery of merchandise, including realized earnings accumulated in the funds and the Company’s AOCL is ultimately not affected by the revaluation of the pre-need cemetery and funeral trust funds and the cemetery care funds.

The cemetery and funeral trust funds were measured at fair value at November 1, 2006, and the resulting unrealized net gain of \$9.5 million was recorded to OCI, net of income taxes of \$3.3 million. The funds were then remeasured at fair value at the end of each interim period and the changes in the fair value were recorded to OCI, net of income taxes. In accordance with the Section, however, the prior period comparative figures at October 31, 2006, were not restated to fair value and are therefore presented at cost.

Similarly, the cemetery care funds were measured at fair value at November 1, 2006, and the resulting unrealized net gain of \$6.1 million was recorded to OCI, net of income taxes of \$2.2 million. The funds were then remeasured at fair value at the end of each interim period and the changes in the fair value were recorded to OCI, net of income taxes. In accordance with the Section, however, the prior period comparative figures at October 31, 2006, were not restated to fair value and are therefore presented at cost.

All other financial assets and financial liabilities are classified and measured as follows:

<u>Asset/Liability</u>	<u>Classification</u>	<u>Measurement</u>
Accounts receivable	Loans and receivables	Amortized cost
Instalment accounts receivable	Loans and receivables	Amortized cost
Mortgage receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

Section 3865 establishes standards for when and how hedge accounting may be applied. The Company’s derivative financial instruments, which consist of interest rate swap agreements that have been designated as cash flow hedges, have also been reported at fair value as a result of the implementation of Section 3855 and Section 3865. The unrealized gains and losses that arise as a result of remeasuring the swap agreements at their fair value at the end of each period are recognized, net of income taxes, in OCI. To date there has not been any ineffectiveness in these cash flow hedges. The accumulated loss at November 1, 2006, of \$0.9 million was recorded, net of income taxes of \$0.3 million, as a transition adjustment to opening AOCL. The estimated fair value of the interest rate swaps at April 30, 2007 was a loss of \$0.5 million, which was recorded in “Other liabilities”. The change in the loss in the period ended April 30, 2007 was recorded, net of income taxes, in OCI.

Section 3855 requires that interest income and expense be allocated over the relevant period using the effective interest method (EIM). Under the EIM, interest income and expense is calculated and recorded using an effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the initial net carrying amount of the financial asset or liability. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as other than “held for trading” are included in the initial carrying value of such instruments and amortized using the EIM. As a result of implementing this Section, the Company has recorded the interest income and expense related to all financials assets and liabilities using the EIM. The change to the EIM did not result in any significant differences to the Company’s current calculation of interest income and expense.

In accordance with Section 3855 the Company conducted a search for embedded derivatives in all contractual arrangements dated subsequent to October 31, 2002 and did not identify any imbedded features that required separate presentation from the related host contract.

Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. As a result of the implementation of this section, the Company has presented a sub-total of "retained earnings" and AOCL on the face of the Consolidated Balance Sheets.

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 2006 Annual Report. Historical information provided is not necessarily indicative of the results to be expected in the future.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED APRIL 30, 2007 COMPARED TO THE THREE MONTHS ENDED APRIL 30, 2006

Total Company Results

Revenue for the quarter ended April 30, 2007, was \$59.8 million compared to \$55.7 million for the quarter ended April 30, 2006. This represented an increase of \$4.1 million or 7.4%. Following is a breakdown of total revenue:

	2007		2006	
	\$Millions	% of Total	\$Millions	% of Total
Sales				
Cemetery	24.4	40.8	23.9	42.9
Funeral	31.3	52.2	28.0	50.3
Corporate	0.1	0.2	0.1	0.2
	<u>55.8</u>	<u>93.3</u>	<u>52.0</u>	<u>93.4</u>
Investment and other income	4.0	6.7	3.7	6.6
	<u>59.8</u>	<u>100.0</u>	<u>55.7</u>	<u>100.0</u>

Sales increased by \$3.7 million or 7.1% in the second quarter of 2007 compared to the second quarter of 2006. Sales in the cemetery division increased by \$0.5 million or 2.1%, sales in the funeral division increased by \$3.3 million or 11.8%, while sales in the corporate division remained consistent at \$0.1 million. Of the \$3.3 million increase in the funeral division, \$0.6 million was related to new operations. Sales from existing operations in the funeral division increased by \$2.6 million or 10.1%.

Investment and other income increased by \$0.3 million or 8.1% over 2006 due to an increase in interest and dividends received on the cemetery care funds and higher interest received on the Company's bank accounts.

Operating expenses increased by \$3.3 million or 8.0% over 2006. Cemetery division expenses increased by \$1.1 million or 4.9%, due mainly to an increase in cost of sales, selling and care and maintenance expenses. Funeral division expenses increased by \$2.3 million or 11.5%, due mainly to increases in cost of sales and services expenses. Of the \$2.3 million increase in the funeral division, \$2.0 million was related to existing operations, which represented an increase of 11.2%.

Corporate expenses decreased by \$0.1 million due to a revised estimate of a gain recognized on the disposal of an equity investment in one funeral home that occurred in a prior year.

Earnings before interest expense and income taxes ("EBIT") were \$11.6 million, which represented an increase of \$0.8 million or 7.2% over 2006. The increase was driven by the funeral division, which improved by \$1.0 million or 10.8% over the second quarter of 2006 due to higher sales. Partially offsetting the increase in the funeral division was a decrease in the earnings of the cemetery division of \$0.4 million or 8.4%. Of the \$0.8 million increase in total Company EBIT, \$0.4 million was attributable to existing operations, which represented an increase of 3.9%.

Interest expense included interest on floating-rate bank term debt, a capital lease and the cost of the Company's interest rate swap contracts. Interest expense decreased by \$0.1 million or 4.9% to \$1.2 million in the second quarter of 2007 due to a lower weighted-average long-term debt balance outstanding of \$3.9 million or 4.0% and lower swap costs of \$0.1 million. The impact of the lower balance outstanding and the lower swap costs was partially offset by the impact of a higher average floating rate of interest of 5.0% compared to 4.5% in the second quarter of 2006. The overall weighted-average rate of interest on long-term debt for the period was 5.3% compared to 5.1% in the first six months of 2006. The weighted-average long-term debt balance decreased due to repayments on the bank term loans in the fourth quarter of 2006. The proportion of fixed-rate debt at April 30, 2007 was 46% compared to 49% at October 31, 2006 and 50% at April 30, 2006.

Income taxes for the second quarter of 2007 resulted in an effective tax rate of 33.4%, which was comparable to the effective rate for the second quarter of 2006 at 33.5%.

Net earnings and earnings per share in the second quarter of 2007 increased by \$0.5 million or 8.4% to \$7.0 million and \$0.66 per share respectively compared to the second quarter of 2006. The increase was mainly attributable to improved earnings in the funeral division as a result of higher sales.

Cemetery Division

Cemetery sales in the second quarter of 2007 increased by \$0.5 million or 2.1% over 2006 to \$24.4 million. Sales in the quarter, including finance charges and net of cancellation allowances, consisted of:

- \$8.6 million (2006 - \$8.4 million) of pre-need sales of interment rights;
- \$7.5 million (2006 - \$6.9 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; and
- \$8.3 million (2006 - \$8.6 million) of at-need sales of interment rights and deliveries of at-need merchandise and services.

Following is a breakdown of the \$0.5 million increase in cemetery sales (in \$millions):

<u>At-Need</u>	
Interment rights	0.3
Merchandise	(0.6)
Services	-
	<u>(0.3)</u>
 <u>Pre-Need</u>	
Interment rights	0.2
Merchandise	0.5
Services	<u>0.1</u>
	<u>0.8</u>
	<u>0.5</u>

The increase in sales of at-need interment rights of \$0.3 million or 16.7% was due to a higher average selling price per burial space and a higher number of interment rights sold, which the Company believes was related to a higher number of deaths across the country in the period. The higher average selling price was due to mix of sales by product line, product type and branch location as well as an increase in the average selling price of individual products.

Of the \$0.6 million or 14.8% decrease in the delivery of at-need merchandise, \$0.4 million resulted from an administrative project undertaken in 2006 that identified monuments that were physically delivered in prior periods but not delivered in the system. In addition, current period deliveries of upright monuments decreased by \$0.3 million, due partially to a lower amount of contracts written in fiscal 2006 compared to fiscal 2005 of 8.1%.

The increase in the delivery of pre-need merchandise of \$0.5 million was the result of higher deliveries of bronze memorials. Deliveries of bronze memorials were higher in 2007 due to increased efforts to contact customers and secure approval for manufacture of memorials that became fully-paid in prior years and also to increases in the average selling price of memorials over the last few years to cover cost increases passed on by a supplier.

Deliveries of upright monuments and bronze memorials ("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; and
- the amount of time it takes to manufacture the markers.

In the second quarter of 2007, the number of interments performed by the Company increased by 3.1% to 4,207 and the number of cremations increased by 4.4% to 3,857 compared to the second quarter of 2006. For comparative purposes, interments decreased by 0.2% and cremations increased by 1.4% in fiscal 2006 as compared to fiscal 2005.

Cemetery investment income for the quarter increased by \$0.2 million or 7.6% over 2006 to \$2.5 million due to an increase in care fund income of \$0.2 million or 8.2% and a increase in referral fees of less than \$0.1 million or 4.7%. The increase in care fund income was due to a higher average balance in the funds of \$11.9 million or 8.0%. The average rate of return on the funds remained consistent with 2006 at 5.3%. Interest and dividend income on the care funds is recognized as earned in order 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 6.2% due to a higher average balance in the funds of \$10.5 million or 5.9%. The rate of return on the funds in the quarter was consistent with the second quarter of 2006 at 3.3%. 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 2007 increased by \$1.1 million or 4.9% to \$22.7 million as follows (in \$millions):

Cost of sales	0.5
Selling	0.2
Care and maintenance	0.3
Other	<u>0.1</u>
	<u>1.1</u>

Of the increase in the cost of sales expense of \$0.5 million, \$0.2 million was due to the increase in sales and the remainder was mainly due to a higher cost of pre-need and at-need bronze memorials delivered in the period, but also to mix of sales by product and other items.

The cost of sales percentage for the second quarter of 2007 was 47.4%, which was 1.2 percentage points higher than the cost of sales percentage for 2006. The increase in the cost of sales percentage was mainly due to a higher cost percentage for pre-need and at-need bronze memorials that were delivered in the period. The cost percentage for bronze memorials increased by 4.4 percentage points compared to the first six months of 2006, reflecting cost increases in this product line over the last few years as a result of higher market prices for copper. While the Company has increased corresponding selling prices to cover these cost increases, it has been unable to maintain its margins.

Selling expenses increased by \$0.2 million or 5.6% due mainly to increased employee costs and higher marketing expenses. Care and maintenance expenses increased by \$0.3 million or 7.6%, due mainly to increases in employee costs, property taxes and utilities.

EBIT in the cemetery division decreased by \$0.4 million or 8.4% due to cost increases in excess of the increase in sales.

Funeral Division

As at April 30, 2007, the Company wholly owned 93 funeral homes, two of which were classified as discontinued operations.

Funeral sales in the second quarter of 2007 increased by \$3.3 million or 11.8% over the second quarter of 2006 to \$31.2 million. The improvement was attributable to a \$2.6 million or 10.1% increase in sales from existing funeral home operations, a \$0.6 million increase in sales from new funeral home operations and a small increase in flower shop sales. New operations in the period included seven funeral homes in the Ottawa, Ontario area that were acquired at the beginning of fiscal 2006 and additional calls received at a funeral home in Ajax, Ontario as a result of the availability of a reception centre completed at a nearby cemetery in March 2006.

The increase in sales from existing funeral home operations was due to an increase in the number of services of 7.9% and an improvement in the average sale per funeral service of 2.2%. The Company believes that the increase in the number of services was mainly due to an increase in the number of deaths across the country during the period. In addition, the Company believes that the increase is related to their ongoing efforts to capture market share and increasing synergy with the cemetery division. The average annual increase in existing home services from fiscal 2002 to fiscal 2006 was 0.8%. The increase in the average sale per funeral service was the result of the Company's continued efforts to provide customers with value-added merchandise and services such as receptions, catering, custom printing and ancillary merchandise, as well as regular price increases.

Sales in the period consisted of:

- \$20.5 million (2006 - \$18.6 million) of at-need sales of funeral merchandise and services;
- \$10.6 million (2006 - \$9.2 million) from the fulfilment of merchandise and services sales that were arranged on a pre-need basis; and
- \$0.1 million (2006 - \$0.1 million) of flower shop sales.

Pre-need funeral contracts written in the second quarter of 2007 increased by \$0.4 million or 2.7%. The increase in contracts written was mostly related to existing operations. Pre-need funeral contracts written under the trust program in the second quarter represented 43.3% (second quarter of 2006 – 39.3%) of total contracts written, while contracts written under the group annuity program represented 56.7% (second quarter of 2006 – 60.7%).

Investment and other income in the funeral division increased by less than \$0.1 million or 1.9% to \$1.2 million in the second quarter of 2007 due to marginal improvements in both the fees received from the deposit of pre-need funeral funds under the group annuity program and referral fees under the trust program. The increases in both fees were the result of an improvement in pre-need funeral contracts written of 2.7%.

Interest and dividend income earned on the pre-need funeral funds in the quarter increased by \$0.1 million or 5.6% due to a higher average balance in the funds of \$11.6 million or 5.3%. The average annualized rate of return on the funds was consistent with the second quarter of 2006 at 3.3%. 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 expenses in the second quarter of 2007 increased by \$2.3 million or 11.5% over the second quarter of 2006. Excluding the impact of new operations, expenses increased by \$2.0 million or 11.2%. A breakdown of the \$2.3 million increase in expenses by type of expenditure follows (in \$millions):

Cost of sales	0.6
Services	1.0
Facilities	0.2
Motor equipment	0.2
Administrative	0.2
Other	<u>0.1</u>
	<u>2.3</u>

The \$0.6 million increase in cost of sales was mainly due to the increase in sales. The cost of sales percentage for the quarter was higher than the second quarter of 2006 by 0.2 of a percentage point at 16.1%.

The increase in services expenses of \$1.0 million or 11.2% was mainly due to higher employee salaries and wages, in addition to higher supply purchases and advertising costs. Salaries were higher in the second quarter of 2007 due to regular annual increases, while the increase in temporary and part-time wages was mainly related to the higher sales.

EBIT in the funeral division increased by \$1.0 million or 10.8% to \$10.6 million in the second quarter of 2007. The \$1.0 million increase was made up of an increase in earnings of new operations of \$0.4 million and an increase in earnings of existing operations of \$0.6 million or 7.2%. The increase in earnings of existing operations was mainly related to the improvement in sales.

Corporate Division

Corporate revenue, consisting of rental income from leasing a portion of the Company's head office building and interest on the Company's bank accounts, short-term investments and a mortgage receivable, increased by \$0.1

million or 21.6% to \$0.4 million in the second quarter of 2007. The increase was mainly due to higher interest income on the Company's bank accounts.

Corporate expenses decreased by \$0.1 million or 1.4%, to \$3.5 million in the second quarter of 2007, due to a revised estimate of a gain recognized on the disposal of an equity investment in one funeral home that occurred in a prior year.

As a percentage of total Company revenue, corporate expenses decreased to 5.9% in the second quarter of 2007 from 6.4% in the second quarter of 2006. This was attributable to an increase in revenue of 7.4% combined with a 1.4% decrease in corporate costs. For comparative purposes, corporate expenses as a percentage of revenue were 6.3% in fiscal 2006 and 6.7% in fiscal 2005 and 2004.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED APRIL 30, 2007 COMPARED TO THE SIX MONTHS ENDED APRIL 30, 2006

Total Company Results

Revenue for the six months ended April 30, 2007, was \$115.1 million compared to \$106.4 million for the six months ended April 30, 2006. This represented an increase of \$8.7 million or 8.2%. Following is a breakdown of total revenue:

	2007		2006	
	\$Millions	% of Total	\$Millions	% of Total
Sales				
Cemetery	46.3	40.2	44.9	42.2
Funeral	60.7	52.7	54.0	50.7
Corporate	0.3	0.3	0.3	0.3
	<u>107.3</u>	<u>93.2</u>	<u>99.2</u>	<u>93.2</u>
Investment and other income	7.8	6.8	7.2	6.8
	<u>115.1</u>	<u>100.0</u>	<u>106.4</u>	<u>100.0</u>

Sales increased by \$8.1 million or 8.2% in the first six months of 2007 compared to the first six months of 2006. Sales in the cemetery division increased by \$1.4 million or 3.1%, sales in the funeral division increased by \$6.7 million or 12.4%, while sales in the corporate division remained consistent at \$0.3 million. Of the \$6.7 million increase in the funeral division, \$1.4 million was related to new operations. Sales from existing operations in the funeral division increased by \$5.3 million or 10.6%.

Investment and other income increased by 8.3% over 2006 due to an increase in interest and dividends received on the cemetery care funds, higher fees received on the deposit of pre-need funeral funds under the group annuity program and higher interest income earned on the Company's bank accounts and mortgage receivable.

Operating expenses increased by \$6.1 million or 7.5% over 2006. Cemetery division expenses increased by \$2.2 million or 5.4%, due mainly to increases in cost of sales, selling and care and maintenance expenses. Funeral division expenses increased by \$3.9 million or 9.9%, due mainly to increases in cost of sales and services expenses. Of the \$3.9 million increase in the funeral division, \$3.3 million was related to existing operations, which represented an increase of 9.3%.

Corporate expenses remained consistent with the first six months of 2006 at \$7.0 million.

Earnings before interest expense and income taxes ("EBIT") were \$21.2 million, which represented an increase of \$2.6 million or 13.9% over 2006. The increase was driven by the funeral division, which improved by \$3.1 million or 17.7% over the first six months of 2006 due to higher sales. Partially offsetting the increase in the funeral division was a decrease in the earnings of the cemetery division of \$0.6 million. Of the \$2.6 million increase in total Company EBIT, \$1.6 million was attributable to existing operations, which represented an increase of 9.2%.

Interest expense included interest on floating-rate bank term debt, a capital lease and the cost of the Company's interest rate swap contracts. Interest expense decreased marginally or 0.6% to \$2.5 million in the first six months of 2007 due to a lower weighted-average balance of long-term debt outstanding of \$4.3 million or 4.5% and lower

swap costs of \$0.3 million. The decrease occurred despite a higher average floating rate of interest of 5.0% compared to 4.2% in the first six months of 2006. The overall weighted-average rate of interest on long-term debt for the period was 5.3% compared to 5.1% in 2006. The weighted-average long-term debt balance decreased due to repayments on the bank term loans in the fourth quarter of 2006. The proportion of fixed-rate debt at April 30, 2007 was 46% compared to 49% at October 31, 2006 and 50% at April 30, 2006.

Income taxes for the first six months of 2007 resulted in an effective tax rate of 33.9% compared to 33.2% in the first six months of 2006. The increase in the effective rate was mainly due to a higher proportion of net capital gains recognized in the first six months of 2006 compared to 2007.

Net earnings and earnings per share in the first six months of 2007 increased by \$1.5 million or 14.0% to \$12.4 million and \$1.17 per share respectively compared to the first six months of 2006. The increase was mainly attributable to improved earnings in the funeral division as a result of higher sales.

Cemetery Division

Cemetery sales in the first six months of 2007 increased by \$1.4 million or 3.1% over 2006 to \$46.3 million. Sales in the year, including finance charges and net of cancellation allowances, consisted of:

- \$16.5 million (2006 - \$15.6 million) of pre-need sales of interment rights;
- \$13.7 million (2006 - \$13.3 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; and
- \$16.1 million (2006 - \$16.0 million) of at-need sales of interment rights and deliveries of at-need merchandise and services.

The following is a breakdown of the \$1.4 million increase in cemetery sales (in \$millions):

<u>At-Need</u>	
Interment rights	0.7
Merchandise	(0.9)
Services	<u>0.3</u>
	<u>0.1</u>
<u>Pre-Need</u>	
Interment rights	0.9
Merchandise	0.2
Services	<u>0.2</u>
	<u>1.3</u>
	<u>1.4</u>

The increase in sales of at-need interment rights of \$0.7 million or 18.7% was due to a higher average selling price per burial space and a higher number of interment rights sold, which the Company believes is related to a higher number of deaths across the country in the period. The higher average selling price was due to mix of sales by product line, product type and branch location as well as an increase in the average selling price of individual products.

Of the \$0.9 million or 11.4% decrease in the delivery of at-need merchandise, \$0.4 million resulted from an administrative project undertaken in 2006. In addition, deliveries of upright monuments in the period decreased by \$0.5 million. The lower monument deliveries were related to a lower amount of contracts written in fiscal 2006 compared to fiscal 2005 of 8.1% and timing of delivery.

Deliveries of upright monuments and bronze memorials (“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; and
- the amount of time it takes to manufacture the markers.

The increase in pre-need interment right sales of \$0.9 million or 5.8% was due to a group sale of traditional burial lots of \$0.5 million in the first quarter of 2007 and higher sales of traditional burial lots and niches.

In the first six months of 2007, the number of interments performed by the Company increased by 5.5% to 8,431 and the number of cremations increased by 3.7% to 7,637 compared to the first six months of 2006. For comparative purposes, interments decreased by 0.2% and cremations increased by 1.4% in fiscal 2006 as compared to fiscal 2005.

Cemetery investment income for the six months increased by \$0.2 million or 4.7% over 2006 to \$4.9 million due to an increase in care fund income of \$0.2 million or 6.1% and a decrease in referral fees of less than \$0.1 million or 1.7%. The increase in care fund income was due to a higher average balance in the funds of \$11.6 million or 7.8% and occurred despite a decrease in the annualized rate of return on the funds from 5.3% in 2006 to 5.2% in 2007. Interest and dividend income on the care funds is recognized as earned in order 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 7.1% due to a higher average balance in the funds of \$10.8 million or 6.1% and a higher average rate of return of 3.3% compared to 3.2% in 2006. 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 six months of 2007 increased by \$2.2 million or 5.4% over the same period of 2006 as follows (in \$millions):

Cost of sales	1.4
Selling	0.3
Care and maintenance	0.4
Other	<u>0.1</u>
	<u>2.2</u>

Of the increase in the cost of sales expense of \$1.4 million:

- \$0.7 million was due to the increase in sales;
- \$0.4 million was due to a net decrease in three cost of sales provisions based on revised estimates in the first six months of 2006; and
- the remainder was mainly due to a higher cost of pre-need and at-need bronze memorials delivered in the period, but also to mix of sales by product and other items.

The cost of sales percentage for the first six months of 2007 was 47.2%, which was 0.8 of a percentage point higher than the cost of sales percentage for 2006 excluding the changes in the provisions. The increase in the cost of sales percentage, excluding the changes in provisions, was mainly due to a higher cost percentage for pre-need and at-need bronze memorials that were delivered in the period. The cost percentage for bronze memorials increased by 3.8 percentage points compared to the first six months of 2006, reflecting cost increases in this product line over the last few years as a result of higher market prices for copper. While the Company has increased corresponding selling prices to cover these cost increases, it has been unable to maintain its margins.

Selling expenses increased by \$0.3 million or 3.5%, due mainly to increased employee costs and higher marketing expenses. Care and maintenance expenses increased by \$0.4 million or 4.2%, due mainly to increases in employee costs, property taxes, utilities and crematorium fuel.

EBIT in the cemetery division decreased by \$0.6 million or 8.0%, due to the adjustments to cost of sales in 2006 and increases in other expense categories in excess of the increase in sales.

Funeral Division

As at April 30, 2007, the Company wholly owned 93 funeral homes, two of which were classified as discontinued operations.

Funeral sales in the first six months of 2007 increased by \$6.7 million or 12.4% over the first six months of 2006 to \$60.7 million. The improvement was attributable to a \$5.3 million or 10.6% increase in sales from existing funeral home operations and a \$1.4 million increase in sales from new operations. New operations in the period included seven funeral homes in the Ottawa, Ontario area that were acquired at the beginning of fiscal 2006 and additional calls received at a funeral home in Ajax, Ontario as a result of the availability of a reception centre completed at a nearby cemetery in March 2006.

The increase in sales from existing funeral home operations was due to an increase in the number of services of 7.8%, an improvement in the average sale per funeral service of 2.6% and a small increase in flower shop sales. The increase in the average sale per funeral service was the result of the Company's continued efforts to provide customers with value-added merchandise and services such as receptions, catering, custom printing and ancillary merchandise, as well as regular price increases. The Company believes that the increase in the number of services was mainly due to an increase in the number of deaths across the country during the period. In addition, the Company believes that the increase in the number of services is related to its ongoing efforts to capture market share and increasing synergy with the cemetery division. The average annual increase in existing home services from fiscal 2002 to fiscal 2006 was 0.8%.

Sales in the period consisted of:

- \$40.6 million (2006 - \$36.6 million) of at-need sales of funeral merchandise and services;
- \$19.9 million (2006 - \$17.2 million) from the fulfilment of merchandise and services sales that were arranged on a pre-need basis; and
- \$0.2 million (2006 - \$0.2 million) of flower shop sales.

Pre-need funeral contracts written in the first six months of 2007 increased by \$1.9 million or 7.8%. Of the \$1.9 million increase, \$0.9 million was related to the new funeral homes acquired in the Ottawa, Ontario area in 2006. Excluding these contracts, pre-need funeral contracts written increased by 4.7%. Pre-need funeral contracts written under the trust program in the first six months represented 41.8% (first six months of 2006 – 42.7%) of total contracts written, while contracts written under the group annuity program represented 58.2% (first six months of 2006 – 57.3%).

Investment and other income in the funeral division increased by \$0.2 million or 7.5% to \$2.3 million in the first six months of 2007. The improvement was attributable to an increase in the fees received from the deposit of pre-need funeral funds under the group annuity program of \$0.2 million or 11.7% and a small decrease in referral fees under the trust program. The increase in the fees received under the annuity program was the result of an improvement in funeral contracts written of 7.8% and a higher average payout rate, which is affected by the type of contract and the age of the customer.

Interest and dividend income earned on the pre-need funeral funds in the six months increased by \$0.1 million or 3.5% to \$3.8 million due to a higher average balance in the funds of \$13.2 million or 6.2% and despite a lower annualized rate of return on the funds of 3.3% compared to 3.4% in the first six months of 2006. The rate of return decreased due to reinvestment of a portion of the funds at lower rates. 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 expenses in the first six months of 2007 increased by \$3.9 million or 9.9% over the first six months of 2006. Excluding the impact of new operations, expenses increased by \$3.3 million or 9.3%. A breakdown of the \$3.9 million increase in expenses by type of expenditure follows (in \$ millions):

Cost of sales	1.3
Services	1.7
Facilities	0.2
Motor equipment	0.2
Administrative	0.3
Other	<u>0.2</u>
	<u>3.9</u>

The \$1.3 million increase in cost of sales was mainly due to the increase in sales. The cost of sales percentage for the period was higher than the first six months of 2006 by 0.3 of a percentage point at 16.1%.

The increase in services expenses of \$1.7 million or 9.9% was mainly due to higher employee salaries, wages and bonuses. Salaries were higher in the first six months of 2007 due to regular annual increases, while the increase in temporary and part-time wages was mainly due to the higher sales. The increase in bonuses was due to the improved results in the division.

EBIT in the funeral division increased by \$3.1 million or 17.7% to \$20.3 million in the first six months of 2007. The \$3.1 million increase was made up of an increase in earnings of new operations of \$1.0 million and an increase in

earnings of existing operations of \$2.1 million or 12.8%. The increase in earnings of existing operations was mainly related to the improvement in sales.

Corporate Division

Corporate revenue, consisting of rental income from leasing a portion of the Company's head office building and interest on the Company's bank accounts, short-term investments and a mortgage receivable, increased by \$0.1 million or 18.4% to \$0.8 million in the first six months of 2007. The increase was due to higher interest income on the Company's bank accounts and higher interest income on the mortgage receivable due to renegotiation of the mortgage at the end of the first quarter of 2006.

Corporate expenses decreased by 0.1% in the first six months of 2007 compared to the first six months of 2006 to \$7.0 million. As a percentage of total Company revenue, corporate expenses decreased to 6.1% in the first six months of 2007 from 6.6% in the first six months of 2006. This was attributable to an increase in revenue of 8.2% combined with a 0.1% decrease in corporate costs. For comparative purposes, corporate expenses as a percentage of revenue were 6.3% in fiscal 2006 and 6.7% in fiscal 2005 and 2004.

CONSOLIDATED BALANCE SHEETS

Key financial indicators for the balance sheets as at April 30, 2007, and October 31, 2006, were as follows:

	April 30 2007	October 31 2006
Current ratio ⁽¹⁾	3.65:1	2.53:1
Working capital (in \$millions) ⁽¹⁾	78.67	53.65
Debt to equity ratio	0.45:1	0.48:1
Long-term debt to EBITDA ⁽²⁾	1.97:1	2.10:1
Interest coverage ratio ⁽²⁾	5.70:1	5.36:1

⁽¹⁾ October 31, 2006 indicator restated based on current period's presentation

⁽²⁾ Bank covenant: long-term debt to EBITDA must be less than or equal to 3.5 and interest coverage ratio must equal or exceed 3.25.

The current ratio and working capital increased by 1.12 and \$25.0 million respectively from October 31, 2006 to April 30, 2007. The improvement was due mainly to increases in cash and accounts receivable of \$17.0 million and \$3.2 million and decreases in accounts payable and accrued liabilities and long-term debt, current portion of \$1.8 million and \$2.7 million, respectively.

Cash increased by \$17.0 million compared to October 31, 2006, due mainly to the net impact of:

- net cash from operating activities of \$15.9 million;
- proceeds received on repayment of a portion of the mortgage receivable of \$6.8 million;
- payments made on fixed assets additions of \$5.0 million; and
- other net cash spent of \$0.7 million.

Accounts receivable increased by \$3.2 million or 16.1% to \$23.3 million due to an increase of \$1.6 million in commodity taxes receivable to recover prior period over-remittances and an increase in sales in the second quarter of 2007 compared to the fourth quarter of 2006 of \$4.3 million.

Accounts receivable arising from at-need cemetery sales were paid on average within 42 days at April 30, 2007 compared to 41 days at October 31, 2006 and 48 days at April 30, 2006. Accounts receivable arising from at-need funeral sales were paid on average within 29 days at April 30, 2007 compared to 28 days at October 31, 2006 and 30 days at April 30, 2006.

Pre-need receivables and funds, including the current portion thereof, increased by \$14.9 million or 3.1% to \$496.0 million at April 30, 2007 compared to October 31, 2006. Of the \$14.9 million increase, \$11.7 million was due to a fair value adjustment recorded as a result of the implementation of new accounting standards for financial instruments. Excluding the fair value adjustment, pre-need receivables and funds increased by \$3.2 million or 0.7%. This compared to an increase of \$7.4 million or 1.6% excluding new operations in the first six months of 2006. The smaller increase in the first six months of 2007 was mainly due to:

- higher withdrawals of pre-need merchandise and services funds in the period of \$1.6 million due to deliveries of the underlying pre-need contracts;
- \$0.9 million in non-recurring funding in the first six months of 2006 related to a contingent liability for the provision of undelivered pre-need merchandise and services for sold cemeteries; and
- a decrease in instalment accounts receivable of \$1.1 million in the first six months of 2007 compared to an increase of \$0.6 million in the first six months of 2006.

Cemetery care funds increased by \$11.6 million or 7.4% in the first six months of 2007, of which \$5.6 million was due to a fair value adjustment as a result of the implementation of new accounting standards for financial instruments. Excluding the fair value adjustment, cemetery care funds increased by \$6.0 million or 3.8% 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 \$5.2 million or 3.6% in the first six months of 2006.

Crypts and niches decreased by \$2.2 million or 9.1% to \$21.9 million due to inventory sold in the six months of \$4.2 million, which was partially offset by additions of \$2.0 million. The \$2.0 million (first six months of 2006 - \$2.8 million) spent on crypt and niche inventory in the first six months of 2007 included:

- \$0.3 million for a combination mausoleum and columbarium at Sunset Memorial Gardens (Thunder Bay, Ontario);
- \$0.4 million for a mausoleum addition at Rideau Memorial Gardens (Montreal, Québec);
- \$0.3 million for initial costs of a new mausoleum at Glendale Memorial Gardens (Toronto, Ontario);
- \$0.4 million for an exterior columbarium at Dartmouth Memorial Gardens (Dartmouth, Nova Scotia); and
- \$0.6 million for other crypt and niche projects.

Fixed Assets at April 30, 2007 remained consistent with the balance at October 31, 2006 at \$183.8 million. However, in the period the Company recorded depreciation of \$5.0 million (first six months of 2006 - \$4.8 million) and additions of \$5.0 million (first six months of 2006 - \$19.9 million, including \$14.5 million in assets acquired on the purchase of seven funeral homes). Of the \$5.0 million in additions, \$2.9 million was spent on maintenance capital and \$2.1 million was spent on new initiatives. The more significant projects in the period included \$0.7 million for development of a new cemetery sales office at Rideau Memorial Gardens (Montreal, Québec) and \$1.3 million for a new reception centre at Greenlawn Memorial Gardens/Victoria Memorial Gardens (Windsor, Ontario).

Accounts payable and accrued liabilities decreased by \$1.8 million or 6.7% as follows (in \$millions):

Trade accounts payable	0.3
Accrued liabilities	(2.0)
Other accounts payable	<u>(0.1)</u>
	<u>(1.8)</u>

The decrease in accrued liabilities was largely related to a reduction in accrued bonuses, vacation pay and dividends due to timing. Accrued bonuses and vacation pay generally increase through the year and accrued dividends occur late in the year.

Income taxes payable decreased by \$1.0 million or 26.3%, due to taxes payable of \$3.8 million at October 31, 2006 related to a parcel of land sold in 2003 subject to a mortgage receivable and which were paid in the first quarter of 2007. The reduction in taxes payable due to payment of the \$3.8 million was partially offset by net 2007 taxes payable of \$2.7 million, representing the difference between accrued taxes for the first six months of 2007 and tax instalments paid in the period, which were based on 2006 earnings.

Deferred revenue at April 30, 2007 increased by \$3.6 million or 2.0% from October 31, 2006 to \$179.6 million. Of the \$3.6 million increase, \$1.7 million was due to a fair value adjustment recorded as a result of the implementation of new accounting standards for financial instruments.

Deferred revenue at April 30, 2007 plus the 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 \$699.6 million compared to \$670.1 at October 31, 2006, an increase of \$29.5 million or 4.4%. Of the \$29.5 million increase, \$11.7 million was a fair value adjustment to pre-need trust funds that was recorded as a result of the implementation of new accounting standards for financial instruments. The remaining increase was \$17.8 million or 2.7% (first six months of 2006 - \$15.8 million or 2.6%, excluding the increase related to the 7 new funeral homes acquired in the first quarter of 2006) and represented deferral of revenue in the period in excess of amounts recognized upon delivery of merchandise and services.

Non-controlling interests in pre-need funds increased by \$14.1 million or 3.5% to \$418.6 million. Of the \$14.1 million, \$10.0 million was due to a fair value adjustment recorded as a result of the implementation of new accounting standards for financial instruments in the first quarter of 2007. The remaining increase of \$4.1 million or 1.0% was due to higher deferred merchandise and services contracts written compared to the amount of merchandise and services delivered to customers in the period.

Other liabilities increased by \$1.5 million or 14.5%. Of the \$1.5 million increase:

- \$0.5 million represented the fair value of the interest rate swap agreements that was recorded in the period as a result of the implementation of new accounting standards for financial instruments;
- \$0.9 million was due to an increase in GST and HST payable; and
- \$0.1 million was related to other items.

Non-controlling interests in cemetery care funds increased by \$11.6 million or 7.4% in the first six months of 2007, of which \$5.6 million was due to a fair value adjustment as a result of the implementation of new accounting standards for financial instruments. Excluding the fair value adjustment, non-controlling interests in cemetery care funds increased by \$6.0 million or 3.8% due to deposits made to the care funds as a result of at-need and pre-need cemetery interment right sales. This compared to an increase of \$5.2 million or 3.6% in the first six months of 2006.

CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED APRIL 30, 2007

Net cash provided by operating activities of continuing operations improved by \$3.4 million or 24.1% from the second quarter of 2006 to the second quarter of 2007 due to:

- higher net earnings of \$0.6 million;
- lower additions to developed land, crypts and niches of \$1.1 million
- a higher net change in other operating balance sheet items of \$1.4 million; and
- \$0.3 million of other changes.

The most significant factors in the higher net change in other operating balance sheet items were a larger increase in accounts payable and accrued liabilities and a larger increase in deferred revenue in the first quarter of 2007 compared to the same period of 2006.

Net cash used for investing activities of continuing operations improved by \$10.8 million due to \$6.8 million in proceeds received on repayment of a portion of the mortgage receivable, lower additions to cemetery land held for future development of \$2.8 million and a smaller increase in pre-need funds of \$2.0 million. These items were partially offset by an increase in additions to fixed assets of \$0.9 million. The increase in additions to fixed assets was due to higher spending on reception centres.

Net cash provided by financing activities of continuing operations decreased by \$0.9 million or 18.9% in the second quarter of 2007 compared to the second quarter of 2006 due to a smaller increase in non-controlling interests in pre-need funds excluding the fair value adjustment.

SIX MONTHS ENDED APRIL 30, 2007

Net cash provided by operating activities of continuing operations improved by \$5.6 million or 53.6% from the first six months of 2006 to the first six months of 2007 due to:

- higher net earnings of \$1.6 million;
- a smaller reduction in future income taxes of \$1.2 million;
- lower additions to developed land, crypts and niches of \$0.9 million;
- a lower negative net change in other operating balance sheet items of \$1.6 million; and
- \$0.3 million of other changes.

Net cash used for investing activities of continuing operations improved by \$36.3 million mainly due to:

- the acquisition of seven funeral homes in the first quarter of 2006 for \$24.0 million;

- \$6.8 million in proceeds received on repayment of a portion of the mortgage receivable in the first six months of 2007;
- lower additions to cemetery land held for future development of \$2.8 million;
- a smaller increase in pre-need funds of \$2.8 million; and
- a negative change of \$0.1 million in other items.

Net cash provided by financing activities of continuing operations decreased by \$20.4 million in the first six months of 2007 compared to the first six months of 2006 mainly due to new debt proceeds of \$19.9 million borrowed in the first quarter of 2006 to partially finance the acquisition of seven funeral homes.

UNAUDITED QUARTERLY RESULTS

	Four Fiscal Quarters Ended April 30, 2007			
	<u>Jul-31</u>	<u>Oct-31</u>	<u>Jan-31</u>	<u>Apr-30</u>
Revenue (\$millions) ⁽¹⁾	53.4	55.7	55.3	59.8
Net earnings (\$millions) ⁽²⁾	4.2	4.2	5.4	7.0
Basic and diluted earnings per share (\$) ⁽³⁾	0.39	0.39	0.51	0.66

	Four Fiscal Quarters Ended April 30, 2006			
	<u>Jul-31</u>	<u>Oct-31</u>	<u>Jan-31</u>	<u>Apr-30</u>
Revenue (\$millions) ⁽¹⁾	48.5	50.8	50.7	55.7
Net earnings (\$millions) ⁽²⁾	3.1	4.2	4.4	6.4
Basic and diluted earnings per share (\$) ⁽³⁾	0.30	0.38	0.42	0.61

Prepared in accordance with GAAP. All amounts are in Canadian dollars.

- (1) Revenue for the last two quarters of 2005 and the first three quarters of 2006 were restated to conform with the presentation at April 30, 2007 and October 31, 2006 (see note 9 to the financial statements).
- (2) Net earnings from continuing operations do not differ significantly from net earnings.
- (3) All earnings per share figures presented are applicable to both Class A and Class B shares. Diluted earnings per share do not differ from basic earnings per share.

Revenue

Revenue in the first quarter of 2006 through to the second quarter of 2007 was affected by new operations, particularly seven funeral homes in the Ottawa, Ontario area that were acquired in the first quarter of 2006. New operations in those quarters contributed the following to sales (in \$millions):

First quarter 2006	\$1.9
Second quarter 2006	\$2.1
Third quarter 2006	\$2.5
Fourth quarter 2006	\$2.6
First quarter 2007	\$2.7
Second quarter 2007	\$2.6

Revenue in the second quarter of 2007 was higher than all other quarters due to an 11.8% increase in funeral division sales compared to the second quarter of 2006, which was driven by an improvement in the number of services provided of 7.8%. The Company believes that this increase in services is due to a higher number of deaths across the country in the first six months of 2007. Seasonality was also a factor in this quarter when compared to the first quarter of 2007.

Revenue in the second quarter of 2006 was affected by an increase in the delivery of at-need cemetery merchandise and services of \$1.2 million, of which \$0.5 million was related to an administrative project.

The Company believes that revenue in the third quarter of 2006 and the third quarter of 2005 were the lowest of the comparable quarters due to seasonality.

Net Earnings and Earnings Per Share

Net earnings and earnings per share in the second quarter of 2007 were positively affected by the improvement in sales in the funeral division.

Net earnings and earnings per share in the fourth quarter of 2006 were negatively affected by an increase in provisions for cancellation of pre-need merchandise and services of \$0.9 million after income taxes and \$0.6 million in impairment provisions after income taxes.

Net earnings and earnings per share in the third quarter of 2006 and the third quarter of 2005 were low as a result of the lower revenues.

Net earnings and earnings per share in the second quarter of 2006 were higher due to the improvement in sales in both the cemetery and funeral divisions and positive adjustments to cost of sales in the cemetery division.

Net earnings and earnings per share in the fourth quarter of 2005 were affected by a provision of \$0.5 million after income taxes for settlement of pre-need liabilities of sold cemeteries.

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. At May 29, 2007, the Company had issued 2,525,497 Class A shares and 8,073,246 Class B shares for \$1.7 million and \$70.8 million respectively.

At April 30, 2007, there were 120,352 options outstanding. The weighted-average exercise price of share purchase options that were issued, outstanding and exercisable at April 30, 2007 was \$23.50 (October 31, 2006 - \$25.07) and the weighted-average remaining contractual life was 0.6 years (October 31, 2006 – 0.9 years). In the first quarter of fiscal 2007, 45,000 options expired and in the second quarter of 2007, 2,648 options were exercised resulting in 2,648 Class B Non-Voting Shares being issued for cash proceeds of \$0.06 million (2006 – nil options expired and nil options were exercised). An additional 852 options were exercised subsequent to April 30, 2007 and 852 Class B Non-Voting Shares were issued for cash proceeds of \$0.02 million.

Weighted-average shares outstanding:

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>April 30</u>	<u>April 30</u>	<u>April 30</u>	<u>April 30</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Weighted-average shares outstanding – basic	10,595,497	10,595,243	10,595,368	10,595,243
Effect of dilutive options	13,866	-	10,559	-
Weighted-average shares outstanding – diluted	10,609,363	10,595,243	10,605,927	10,595,243

CAPITAL EXPENDITURES AND CEMETERY BURIAL SPACE INVENTORY

At April 30, 2007, the Company had one project on which significant funds had been expended prior to April 30, 2007, but that had not yet generated operating revenue as follows:

Greenlawn Memorial Gardens/Victoria Memorial Gardens – Reception Centre: as at April 30, 2007, the Company had spent \$2.0 million on this project. The Company estimates that an additional \$5.4 million will be spent to complete this project and anticipates completing the project in the first quarter of fiscal 2008.

The Company had committed to the following expenditures for capital and cemetery burial space inventory at April 30, 2007 (in \$millions):

Reception centre	3.4
Cemetery burial space inventory	1.0
Cemetery maintenance capital expenditures	0.4
Funeral maintenance capital expenditures	0.4
Funeral casket inventory	<u>7.9</u>
	<u>13.1</u>

The Company anticipates funding these expenditures from existing cash and cash from operations generated in 2007.

Following is the Company's planned capital and cemetery burial space inventory spending for the remainder of fiscal 2007 (in \$millions):

Maintenance capital expenditures	8.4
New initiatives	7.0
Cemetery burial space inventory	<u>5.4</u>
	<u>20.8</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 of the projects.

EVENTS AND UNCERTAINTIES

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.

SUBSEQUENT EVENT

Subsequent to April 30, 2007, the Company and a senior officer agreed to an amount of \$1.1 million in consideration of termination of employment. This amount will be recorded in the Statement of Earnings in the third quarter of 2007.

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.

May 29, 2007

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS

<i>In \$000</i>	<i>Three Months Ended April 30</i>		<i>Six Months Ended April 30</i>	
	<i>2007</i>	<i>2006⁽¹⁾</i>	<i>2007</i>	<i>2006⁽¹⁾</i>
Revenue				
Sales	55,747	51,984	107,348	99,204
Investment and other income (note 6)	4,034	3,743	7,771	7,243
	59,781	55,727	115,119	106,447
Expenses				
Operating	44,649	41,329	86,925	80,823
Corporate	3,498	3,548	7,022	7,029
	48,147	44,877	93,947	87,852
Earnings before interest expense and income taxes	11,634	10,850	21,172	18,595
Interest expense	1,216	1,278	2,453	2,468
Earnings before income taxes	10,418	9,572	18,719	16,127
Income taxes (note 8)	3,475	3,202	6,339	5,350
Net earnings from continuing operations	6,943	6,370	12,380	10,777
Net (loss) earnings from discontinued operations (note 9)	9	42	(17)	65
Net earnings	6,952	6,412	12,363	10,842
Earnings per share - basic and diluted (in \$)				
Earnings per share from continuing operations	0.66	0.61	1.17	1.01
Earnings per share from discontinued operations	-	-	-	0.01
	0.66	0.61	1.17	1.02

⁽¹⁾ Certain figures provided for 2006 have been reclassified to conform with the current period's presentation - see note 9.

UNAUDITED CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>In \$000</i>	<i>Three Months Ended April 30</i>		<i>Six Months Ended April 30</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Retained earnings, beginning of period	124,297	104,892	118,886	100,462
Net earnings for the period	6,952	6,412	12,363	10,842
Retained earnings, end of period	131,249	111,304	131,249	111,304

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>In \$000</i>	<i>Three Months Ended April 30 2007</i>	<i>Six Months Ended April 30 2007</i>
Net earnings	6,952	12,363
Other comprehensive income:		
Net change in losses on derivatives designated as cash flow hedges (note 5)		
Reduction in losses on derivatives designated as cash flow hedges	114	373
Income taxes on reduction in losses on derivatives designated as cash flow hedges	(42)	(135)
	72	238
Net change in unrealized gains associated with available for sale securities of the pre-need trust funds (note 3)		
Change in unrealized gains associated with available for sale securities of the pre-need trust funds, net of income taxes of \$530 and \$776	980	1,434
Net change in unrealized gains 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 \$530 and \$776	(980)	(1,434)
	-	-
Net change in unrealized gains associated with available for sale securities of the cemetery care funds (note 4)		
Change in unrealized gains associated with available for sale securities of the cemetery care funds, net of income taxes of \$17 and \$185	(34)	(343)
Net change in unrealized gains associated with available for sale securities of the cemetery care funds attributable to non-controlling interests and deferred revenue, net of income taxes of \$17 and \$185	34	343
	-	-
Other comprehensive income	72	238
Comprehensive income	7,024	12,601

UNAUDITED CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

<i>In \$000</i>	<i>Three Months Ended April 30 2007</i>	<i>Six Months Ended April 30 2007</i>
Accumulated other comprehensive loss, beginning of period	(389)	-
Fair value transition adjustment for derivatives, net of income taxes	-	(555)
	(389)	(555)
Other comprehensive income for the period	72	238
Accumulated other comprehensive loss, end of period	(317)	(317)

Arbor Memorial Services Inc.
UNAUDITED CONSOLIDATED BALANCE SHEETS

In \$000	As at	
	April 30 2007	October 31 2006
Assets		
Current assets		
Cash and cash equivalents	28,845	11,857
Accounts receivable	23,278	20,054
Merchandise inventories	9,945	9,663
Prepaid expenses	866	947
Mortgage receivable, current portion	6,750	6,750
Future income taxes, current portion	297	220
Pre-need receivables, current portion (note 3)	38,345	39,309
	108,326	88,800
Pre-need receivables and funds (note 3)	457,625	441,721
Cemetery care funds (note 4)	167,874	156,310
Crypts and niches	21,898	24,077
Cemetery land	35,310	35,583
Fixed assets	183,786	183,834
Goodwill	54,502	54,502
Mortgage receivable	-	6,750
Deferred obtaining costs and stored merchandise	71,749	69,846
Future income taxes	4,988	4,777
Assets related to discontinued operations (note 9)	1,246	1,246
Intangible and other assets	2,884	2,766
	1,110,188	1,070,212
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	24,480	26,242
Income taxes payable	2,741	3,717
Future income taxes, current portion	2,419	2,490
Long-term debt, current portion	14	2,701
	29,654	35,150
Deferred revenue	179,640	176,035
Non-controlling interests in pre-need funds	418,631	404,483
Long-term debt	92,223	89,713
Future income taxes	6,498	6,500
Other liabilities	12,175	10,636
	738,821	722,517
Non-controlling interests in cemetery care funds	167,874	156,310
Shareholders' equity		
Share capital (note 7)	72,561	72,499
Retained earnings	131,249	118,886
Accumulated other comprehensive loss	(317)	-
	130,932	118,886
	203,493	191,385
	1,110,188	1,070,212

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>In \$000</i>	Three Months Ended		Six Months Ended	
	April 30		April 30	
	2007	2006⁽¹⁾	2007	2006⁽¹⁾
Cash provided by (used for)				
Operating activities				
Net earnings	6,952	6,412	12,363	10,842
Add (deduct) net loss (earnings) from discontinued operations (note 9)	(9)	(42)	17	(65)
Add (deduct) items not affecting cash from operating activities:				
Depreciation and amortization	2,559	2,445	5,087	4,868
Gain on disposal of assets	(319)	(114)	(323)	(128)
Future income taxes (note 8)	(324)	(523)	(182)	(1,336)
Developed land, crypt and niche cost of sales	2,395	2,197	4,540	4,232
Additions to developed land, crypts and niches	(1,056)	(2,167)	(2,095)	(2,997)
Net change in other operating balance sheet items (note 10)	7,309	5,902	(3,475)	(5,045)
Net cash provided by continuing operations	17,507	14,110	15,932	10,371
Net cash provided by (used for) discontinued operations	9	8	(17)	44
Investing activities				
Additions to fixed assets	(3,402)	(2,468)	(5,016)	(5,443)
Acquisition	-	(16)	-	(23,997)
Additions to cemetery land held for future development	(33)	(2,843)	(70)	(2,849)
Proceeds on disposal of assets	402	117	407	131
Proceeds from mortgage receivable payment	6,750	-	6,750	-
Change in pre-need funds	(1,223)	(3,184)	(4,299)	(7,133)
Change in cemetery care funds	(2,611)	(2,486)	(5,955)	(5,216)
Net cash used for continuing operations	(117)	(10,880)	(8,183)	(44,507)
Net cash provided by discontinued operations	-	18	-	25
Financing activities				
Proceeds from new long-term debt	-	-	-	19,942
Repayment of long-term debt	(3)	(4)	(177)	(7)
Dividends	-	-	(742)	(742)
Proceeds on exercise of stock options	62	-	62	-
Change in non-controlling interests in pre-need funds	1,177	2,261	4,158	5,264
Change in non-controlling interests in cemetery care funds	2,611	2,486	5,955	5,216
Net cash provided by continuing operations	3,847	4,743	9,256	29,673
Net cash used for discontinued operations	-	(20)	-	(27)
Increase (decrease) in cash	21,246	7,979	16,988	(4,421)
Cash (bank indebtedness), beginning of period	7,599	(1,446)	11,857	10,954
Cash and cash equivalents, end of period	28,845	6,533	28,845	6,533
Cash and cash equivalents:				
Cash	23,845	6,533	23,845	6,533
Short-term investment	5,000	-	5,000	-
	28,845	6,533	28,845	6,533
Supplementary information				
Income taxes paid	2,155	2,576	7,581	5,432
Interest paid	1,295	1,332	2,523	2,470

⁽¹⁾ Certain figures provided for 2006 have been reclassified to conform with the current period's presentation - see note 9.

Arbor Memorial Services Inc.

UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Six Months Ended April 30, 2007 and 2006

1. BASIS OF PRESENTATION

The accompanying unaudited quarterly 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 2006 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 2006 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. NEW ACCOUNTING POLICIES

The Canadian Institute of Chartered Accountants ("CICA") has issued the following new accounting standards, which were effective for the Company's first quarter of fiscal 2007: Financial Instruments – Recognition and Measurement ("Section 3855"); Hedges ("Section 3865"); Comprehensive Income ("Section 1530"); and Equity ("Section 3251"). Each of the standards requires prospective application.

Section 1530 introduces the concept of comprehensive income, which consists of net income and other comprehensive income ("OCI"), and represents changes in shareholders' equity during a period arising from transactions with non-owners. OCI includes among its components, unrealized gains and losses on financial assets classified as "available for sale" and changes in the fair value of the effective portion of cash flow hedging instruments together with income tax expenses or benefits associated with each component. As a result of the implementation of this section, the Consolidated Financial Statements include a Consolidated Statement of Comprehensive Income and a Consolidated Statement of Accumulated Other Comprehensive Loss. In addition, the cumulative amount of OCI, which is termed "accumulated other comprehensive loss" or "AOCL", is presented as a new category of shareholders' equity in the Consolidated Balance Sheets.

Section 3855 establishes standards for recognizing and measuring financial instruments. On application of Section 3855, the Company classified the investments in the pre-need cemetery and funeral trust funds and the investments in the cemetery care funds as "available for sale" and changed the basis of measurement for these assets from cost to fair value in the Consolidated Balance Sheets. Unrealized gains and losses on these "available for sale" financial assets are excluded from net earnings and recorded, net of income taxes, as a component of OCI in the Consolidated Statement of Comprehensive Income. Unrealized gains and losses are then offset by the amounts attributable to the non-controlling interests in pre-need funds, the non-controlling interests in cemetery care funds or deferred revenue, as appropriate, as such unrealized earnings have not been earned by the Company through the performance of services or delivery of merchandise. The Company continues to recognize as sales, amounts removed from the pre-need funds upon the performance of services and delivery of merchandise, including realized earnings accumulated in the funds and the Company's AOCL is ultimately not affected by the revaluation of the pre-need cemetery and funeral trust funds and the cemetery care funds.

All financial assets and financial liabilities are classified and measured as follows:

Asset/Liability	Classification	Measurement
Accounts receivable	Loans and receivables	Amortized cost
Instalment accounts receivable	Loans and receivables	Amortized cost
Mortgage receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

Section 3865 establishes standards for when and how hedge accounting may be applied. The Company's derivative financial instruments, which consist of interest rate swap agreements that have been designed as cash flow hedges, have been reported at fair value as a result of the implementation of Section 3855 and Section 3865. The unrealized gains and losses that arise as a result of remeasuring the swap agreements at their fair value at the end of each period are recognized, net of income taxes, in OCI. To date, there has not been ineffectiveness in these cash flow hedges.

Section 3855 requires that interest income and expense be allocated over the relevant period using the effective interest method (EIM). Under the EIM, interest income and expense is calculated and recorded using an effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the initial net carrying amount of the financial asset or liability. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as other than "held for trading" are included in the initial carrying value of such instruments and amortized using the EIM. As a result of implementing this Section, the Company has recorded the interest income and expense related to all financial assets and liabilities using the EIM.

In accordance with Section 3855, the Company conducted a search for embedded derivatives in all contractual arrangements dated subsequent to October 31, 2002, and did not identify any embedded features that required separate presentation from the related host contract.

Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. As a result of the implementation of this section, the Company has presented a sub-total of "retained earnings" and AOCL on the face of the Consolidated Balance Sheets.

3. PRE-NEED RECEIVABLES AND FUNDS

	April 30 2007	<i>October 31 2006</i>
		(\$000)
Cemetery trust funds	195,712	184,332
Funeral trust funds	207,195	201,798
	402,907	386,130
Instalment accounts receivable	67,417	68,493
Pre-need group annuity funds	25,646	26,407
	495,970	481,030
Less: current portion of instalment accounts receivable	38,345	39,309
	457,625	441,721

As a result of the implementation of Section 3855 of the CICA Handbook as described in Note 2, the cemetery and funeral trust funds were measured at fair value at November 1, 2006, and the resulting unrealized net gain of \$9.5 million was initially recorded to "other comprehensive income", net of income taxes of \$3.3 million. The funds were then remeasured at fair value at the end of each interim period and the changes in the fair value were recorded to "other comprehensive income", net of income taxes. In each case, the initial unrealized net gain in the funds and the subsequent changes therein have been offset by the amounts attributable to "non-controlling interests in pre-need funds" or "deferred revenue" as appropriate. In accordance with the Section, however, the prior period comparative figures at October 31, 2006, were not restated to fair value and are therefore presented at cost.

The funds consist of investments with fixed and floating interest rates, equity securities and an equity fund as follows:

	<i>Fair Value</i>		<i>Cost</i>	
	<i>April 30</i> <i>2007</i>	<i>October 31</i> <i>2006</i>	<i>April 30</i> <i>2007</i>	<i>October 31</i> <i>2006</i>
	(\$000)		(\$000)	
Cash	9,042	7,691	9,042	7,691
Term deposits	225,011	228,575	224,169	228,572
Bonds	129,967	124,117	127,890	120,763
Equities	26,009	23,084	17,667	16,683
Equity fund	12,878	12,171	12,421	12,421
	402,907	395,638	391,189	386,130

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 30, 2007, the accumulated benefit of all such contracts sold by the Company's sales counsellors was \$101.4 million (October 31, 2006 - \$89.6 million). In addition, the accumulated benefit of all such contracts sold by the Company's third-party insurer's licensed agents was \$2.1 million.

4. CEMETERY CARE FUNDS

As a result of the implementation of Section 3855 of the CICA Handbook as described in Note 2, the cemetery care funds were measured at fair value at November 1, 2006, and the resulting unrealized net gain of \$6.1 million was recorded to "other comprehensive income", net of income taxes of \$2.2 million. The funds were then remeasured at fair value at the end of each interim period and the changes in the fair value were recorded to "other comprehensive income", net of income taxes. In each case, the initial unrealized net gain in the funds and the subsequent changes therein have been offset by the amounts attributable to "non-controlling interests in cemetery care funds". In accordance with the Section, however, the prior period comparative figures at October 31, 2006, were not restated to fair value and are therefore presented at cost.

Cemetery care funds consist of investments with fixed and floating interest rates, a mortgage fund and equity securities as follows:

	<i>Fair Value</i>		<i>Cost</i>	
	<i>April 30</i> <i>2007</i>	<i>October 31</i> <i>2006</i>	<i>April 30</i> <i>2007</i>	<i>October 31</i> <i>2006</i>
	(\$000)		(\$000)	
Cash and term deposits	2,644	8,953	2,644	8,953
Bonds	148,365	137,411	146,760	134,486
Mortgage fund	148	152	148	152
Equities	16,717	15,931	12,713	12,719
	167,874	162,447	162,265	156,310

5. DERIVATIVE FINANCIAL INSTRUMENTS

As of April 30, 2007, the Company's use of derivative financial instruments was limited to seven (October 31, 2006 – seven) interest rate swap agreements with a Canadian chartered bank. Total debt under swap contracts at the end of the period was \$40.8 million (October 31, 2006 - \$43.8 million) and the estimated fair value of the interest rate swaps at April 30, 2007 was a loss of \$0.5 million (October 31, 2006 – loss of \$0.9 million), which was recorded in "other liabilities". The change in the loss at the end of each period was recorded, net of income taxes, in "other comprehensive income" (see note 2). The accumulated loss at November 1, 2006 of \$0.9 million was recorded, net of income taxes of \$0.3 million, as a transition adjustment to opening "accumulated other comprehensive loss". Total swaps and other fixed rate debt represented 46% (October 31, 2006 – 49%) of the total amount of long-term debt outstanding. Swap costs for the three and six months ended April 30, 2007 were \$59,336 and \$124,349 respectively (three and six months ended April 30, 2006 - \$188,753 and \$443,583 respectively).

6. INVESTMENT AND OTHER INCOME

	<i>Three Months Ended April 30</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>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>(\$000)</i>									
Realized earnings of funds:										
Interest and dividends	1,531	1,442	1,882	1,782	2,120	1,960	-	-	5,533	5,184
Realized gains	40	64	-	28	-	256	-	-	40	348
Realized losses	-	(61)	-	(57)	(6)	(47)	-	-	(6)	(165)
Trust expenses	(40)	(26)	(35)	(23)	(70)	(69)	-	-	(145)	(118)
	1,531	1,419	1,847	1,730	2,044	2,100	-	-	5,422	5,249
Deferred revenue	(77)	(29)	-	-	-	-	-	-	(77)	(29)
Non-controlling interests in funds	(1,454)	(1,390)	(1,847)	(1,730)	58	(158)	-	-	(3,243)	(3,278)
	-	-	-	-	2,102	1,942	-	-	2,102	1,942
Fee income	404	386	1,226	1,203	-	-	-	-	1,630	1,589
Other	-	-	-	-	-	-	302	212	302	212
	404	386	1,226	1,203	2,102	1,942	302	212	4,034	3,743
	<i>Six Months Ended April 30</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>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>(\$000)</i>									
Realized earnings of funds:										
Interest and dividends	3,061	2,859	3,785	3,657	4,114	3,879	-	-	10,960	10,395
Realized gains	41	247	3	610	6	259	-	-	50	1,116
Realized losses	(9)	(62)	(10)	(195)	(8)	(61)	-	-	(27)	(318)
Trust expenses	(79)	(63)	(70)	(57)	(140)	(136)	-	-	(289)	(256)
	3,014	2,981	3,708	4,015	3,972	3,941	-	-	10,694	10,937
Deferred revenue	(89)	(46)	-	-	-	-	-	-	(89)	(46)
Non-controlling interests in funds	(2,925)	(2,935)	(3,708)	(4,015)	105	(97)	-	-	(6,528)	(7,047)
	-	-	-	-	4,077	3,844	-	-	4,077	3,844
Fee income	813	827	2,336	2,173	-	-	-	-	3,149	3,000
Other	-	-	-	-	-	-	545	399	545	399
	813	827	2,336	2,173	4,077	3,844	545	399	7,771	7,243

7. SHARE CAPITAL

Issued and outstanding:

	<i>Number of Shares</i>		<i>Amount</i>	
	<i>April 30 2007</i>	<i>October 31 2006</i>	<i>April 30 2007</i>	<i>October 31 2006</i>
	<i>(\$000)</i>			
Class A Shares	2,525,497	2,525,497	1,734	1,734
Class B Shares	8,072,394	8,069,746	70,827	70,765
	10,597,891	10,595,243	72,561	72,499

9. DISCONTINUED OPERATIONS

In 2005, the assets of one funeral branch operation met the criteria for being classified as a discontinued operation. The sale of this operation was completed in the fourth quarter of 2006. In the fourth quarter of 2006, the assets of two additional branches met the criteria for being classified as discontinued operations.

Revenue associated with discontinued operations in the second quarter and first six months of 2007 was \$0.1 million and \$0.2 million respectively (2006 – \$0.3 million and \$0.6 million respectively). Net earnings (loss) in the second quarter and first six months of 2007 were less than \$0.1 million (second quarter of 2006 – net earnings less than \$0.1 million, first six months of 2006 - net earnings of \$0.1 million). The prior year comparative amounts in the statements of earnings and the statements of cash flows have been reclassified for the two funeral branches identified as discontinued operations in the fourth quarter of 2006.

10. NET CHANGE IN OTHER OPERATING BALANCE SHEET ITEMS

	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>April 30</i>	<i>April 30</i>	<i>April 30</i>	<i>April 30</i>
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>(\$000)</i>		<i>(\$000)</i>	
Accounts receivable	(135)	1,550	(3,224)	128
Prepaid expenses	283	72	81	(481)
Instalment accounts receivable	184	(704)	1,077	(443)
Deferred obtaining costs and stored merchandise	(1,015)	(953)	(1,903)	(1,435)
Accounts payable and accrued liabilities	4,401	3,051	(1,020)	(5,438)
Income taxes payable	1,647	1,453	(976)	1,673
Deferred revenue	1,606	865	1,877	714
Other liabilities	717	422	1,043	415
Other changes	(379)	146	(430)	(178)
	7,309	5,902	(3,475)	(5,045)

11. CONTRACTUAL COMMITMENTS

At April 30, 2007, the Company was contractually committed to capital and cemetery burial space inventory expenditures of \$5.2 million (October 31, 2006 - \$2.0 million). The Company is also contractually committed to funeral inventory purchases of \$15.5 million, during the period from February 1, 2006 to January 31, 2008. However, if the Company does not meet its commitment by January 31, 2008, the term of the commitment will be extended. From February 1, 2006 to April 30, 2007, the Company had purchased \$7.6 million under this commitment.

12. SUBSEQUENT EVENT

Subsequent to April 30, 2007, the Company and a senior officer agreed to an amount of \$1.1 million in consideration of termination of employment. This amount will be recorded in the Statement of Earnings in the third quarter of 2007.

13. SEGMENT DISCLOSURE

Industry segments (\$000)

	Three Months Ended April 30							
	Cemetery		Funeral		Corporate ⁽³⁾		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
Sales ⁽¹⁾	24,376	23,871	31,234	27,964	137	149	55,747	51,984
Investment and other income ⁽¹⁾	2,506	2,328	1,226	1,203	302	212	4,034	3,743
Revenue	26,882	26,199	32,460	29,167	439	361	59,781	55,727
Depreciation and amortization ⁽¹⁾	849	792	1,350	1,285	360	368	2,559	2,445
Earnings (loss) before interest expense and income taxes ⁽¹⁾	4,133	4,510	10,560	9,527	(3,059)	(3,187)	11,634	10,850
Interest expense	-	-	-	-	1,216	1,278	1,216	1,278
Earnings (loss) before income taxes ⁽¹⁾	4,133	4,510	10,560	9,527	(4,275)	(4,465)	10,418	9,572
Capital expenditures	2,532	940	689	1,504	181	24	3,402	2,468
Developed land, crypt and niche additions	1,056	2,167	-	-	-	-	1,056	2,167
Cemetery land held for future development additions	33	2,843	-	-	-	-	33	2,843
Pre-need contracts written	17,870	18,306	14,595	14,211	-	-	32,465	32,517

	Six Months Ended April 30							
	Cemetery		Funeral		Corporate ⁽³⁾		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
Sales ⁽¹⁾	46,329	44,912	60,740	53,995	279	297	107,348	99,204
Investment and other income ⁽¹⁾	4,890	4,671	2,336	2,173	545	399	7,771	7,243
Revenue	51,219	49,583	63,076	56,168	824	696	115,119	106,447
Depreciation and amortization ⁽¹⁾	1,690	1,571	2,678	2,559	719	738	5,087	4,868
Earnings (loss) before interest expense and income taxes ⁽¹⁾	7,033	7,643	20,337	17,285	(6,198)	(6,333)	21,172	18,595
Interest expense	-	-	-	-	2,453	2,468	2,453	2,468
Earnings (loss) before income taxes ⁽¹⁾	7,033	7,643	20,337	17,285	(8,651)	(8,801)	18,719	16,127
Identifiable assets ⁽²⁾	594,707	573,465	469,483	462,655	45,998	34,092	1,110,188	1,070,212
Capital expenditures	3,593	3,276	1,174	1,986	249	181	5,016	5,443
Developed land, crypt and niche additions	2,095	2,997	-	-	-	-	2,095	2,997
Cemetery land held for future development additions	70	2,849	-	-	-	-	70	2,849
Pre-need contracts written	34,342	33,723	26,615	24,681	-	-	60,957	58,404

⁽¹⁾ Figures provided for 2006 have been reclassified to conform with the current year's presentation - see note 9.

⁽²⁾ Identifiable assets shown for 2006 are as at October 31.

⁽³⁾ The corporate balances are provided principally to reconcile the reportable segments to consolidated results.