

THIRD QUARTER REPORT

***Three and Nine Months Ended
July 31, 2008***



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 nine months ended July 31, 2008 and includes material information available up to August 28, 2008. 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 2007 Annual Information Form under "Description of the Business – Risk Factors" and 2007 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"). 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.

New Disclosure Requirements

In 2006, the Canadian Institute of Chartered Accountants ("CICA") issued the following new disclosure requirements: Financial Instruments – Disclosures ("Section 3862"); Financial Instruments – Presentation ("Section 3863") and Capital Disclosures ("Section 1535"). The standards require prospective application and were effective for the Company's first quarter of fiscal 2008.

Section 3862, together with Section 3863, replaces Section 3861 and requires that disclosures be provided in the financial statements that enable users to evaluate the significance of financial instruments for the Company's financial position and performance as well as the nature and extent of risks arising from financial instruments and how the Company manages those risks. As a result of implementing this standard, the Company has included additional disclosure in note 7 to the consolidated financial statements in this interim report.

Section 3863 establishes standards for the presentation of financial instruments and non-financial derivatives related to the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial

assets and liabilities are offset. The presentation used by the Company in the 2007 annual consolidated financial statements met the requirements of the new accounting standard.

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The Section requires disclosure of information about the Company's objectives, policies and processes for managing capital and how it is meeting these objectives. As a result of implementing this standard, the Company has included additional disclosure in note 10 to the consolidated financial statements in this interim report.

Future Accounting Policy Changes

Revisions to CICA Handbook Section 1000, Financial Statements and Concepts and Section 3064, Goodwill and Intangible Assets, are applicable to fiscal years beginning on or after October 1, 2008. Adoption of these standards is effective for the Company's first quarter of fiscal 2009, however, the Company intends to adopt the standards in the fourth quarter of 2008. The objectives of these revisions are to:

- remove material that may be interpreted as permitting the recognition of assets that would not otherwise meet the definition of an asset or the recognition criteria;
- include guidance to clarify the distinction between assets and expenses;
- include guidance on the definition of an intangible asset and the recognition of internally generated intangible assets; and
- withdraw Section 3450, Research and Development Costs, as assets developed as a result of research and development activities would now be included within the scope of Section 3064.

As a result of changes to these standards, deferred obtaining costs can no longer be classified as assets and these costs will be expensed as incurred. Based on preliminary estimates, the Company believes the impact on the statement of earnings will be a reduction of net earnings of \$2.7 million or \$0.25 per share in 2007 and between \$2.0 million to \$2.3 million or \$0.19 to \$0.22 per share in 2008. The policy change will also require retroactive application for obtaining costs currently capitalized to the Company's balance sheet, resulting in an adjustment to opening retained earnings at November 1, 2006 estimated to be \$40.4 million.

The CICA issued a new Handbook Section 3031, Inventories, which will replace Section 3030 of the same title for fiscal years beginning on or after January 1, 2008. Adoption of this standard is effective for the Company's first quarter of fiscal 2009 and is not expected to have a material impact on its financial statements. This Section introduces changes to the measurement and disclosure of inventory and converges with international financial reporting standards. The new accounting standard specifies that inventories are to be valued at the lower of cost and net realizable value. The standard requires the reversal of previously recorded write-downs to realizable value when there is clear evidence that net realizable value has increased.

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 2007 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 JULY 31, 2008 COMPARED TO THE THREE MONTHS ENDED JULY 31, 2007

TOTAL COMPANY RESULTS

Revenue for the quarter ended July 31, 2008 was \$62.0 million compared to \$57.1 million for the quarter ended July 31, 2007. This represented an increase of \$4.9 million or 8.6%. Following is a breakdown of total revenue:

	2008		2007	
	\$Millions	% of Total	\$Millions	% of Total
Sales				
Cemetery	29.1	46.9	26.1	45.7
Funeral	28.5	46.0	26.5	46.4
	<u>57.6</u>	<u>92.9</u>	<u>52.6</u>	<u>92.1</u>
Investment and other income	4.4	7.1	4.5	7.9
	<u>62.0</u>	<u>100.0</u>	<u>57.1</u>	<u>100.0</u>

Sales increased by \$5.0 million or 9.5% in 2008 compared to 2007. Sales in the cemetery division increased by \$3.0 million or 11.3% and sales in the funeral division increased by \$2.0 million or 7.7%.

Investment and other income decreased by \$0.1 million or 1.4% over 2007 as follows (in \$millions):

Cemetery care fund interest and dividends	0.1
Funeral referral fees	0.1
Corporate interest income	(0.2)
Other	<u>(0.1)</u>
	<u>(0.1)</u>

Corporate interest income decreased by \$0.2 million due to the repayment of the mortgage receivable in January 2008.

Operating expenses increased by \$3.0 million or 6.5% over 2007. Cemetery division expenses increased by \$1.1 million or 4.0%, due mainly to increases in cost of sales, care and maintenance and selling expenses, which were partially offset by a decrease in termination expenses. Funeral division expenses increased by \$2.0 million or 9.7%, due mainly to increases in termination and services expenses and cost of sales.

Corporate expenses increased by less than \$0.1 million or 1.1% over 2007.

Earnings before interest expense and income taxes ("EBIT") were \$9.1 million, which represented an increase of \$1.9 million or 26.1% from 2007. The cemetery division increased by \$2.0 million or 76.8% and the funeral division increased by \$0.2 million or 2.2% from 2007 while the corporate division loss grew by \$0.3 million or 8.9%. Total termination expenses across all divisions decreased from \$1.9 million in 2007 to \$0.8 million in 2008.

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 \$0.5 million or 43.3% to \$0.7 million in 2008 due to a lower weighted-average balance of long-term debt outstanding of \$31.6 million or 37.3% and a lower weighted-average rate of interest on long-term debt of 5.0% compared to 5.5% in 2007. The weighted-average long-term debt balance decreased due to repayments on the bank term loans in the fourth quarter of 2007 and the second quarter of 2008. The lower rate of interest was the result of lower prevailing floating rates of interest in the period. The proportion of fixed-rate debt to total debt at July 31, 2008 was 66% compared to 47% at October 31, 2007 and 54% at July 31, 2007.

Income taxes for the third quarter of 2008 reflected an effective tax rate of 29.1% compared to 31.2% in the third quarter of 2007. The decrease in the effective rate of 2.1 percentage points was mainly due to a lower combined basic federal and provincial tax rate of 1.5 percentage points and the impact of capital losses in the third quarter of 2007. The lower combined basic rate was due to a decrease in the federal rate and the elimination of the federal surtax effective January 1, 2008.

Net (loss) earnings from discontinued operations changed from earnings of \$0.1 million in the third quarter of 2007 to a loss of \$0.2 million in the third quarter of 2008 due to the after-tax loss of \$0.3 million on the sale of two funeral branch operations. Of the \$0.3 million loss, \$0.2 million was related to income taxes that resulted from non-deductible fair value increments.

Net earnings and earnings per share in the third quarter of 2008 increased by \$1.5 million or 35.8% to \$5.7 million and by \$0.14 to \$0.54 per share respectively compared to the third quarter of 2007. The increase was mainly due to the impact of higher revenue of \$4.9 million or 8.6% and a decrease in interest expense of \$0.5 million or 43.3%.

CEMETERY DIVISION

Cemetery sales in the third quarter of 2008 increased by \$3.0 million or 11.3% from 2007 to \$29.1 million. Sales in the quarter, including finance charges and net of cancellation allowances, consisted of:

- \$11.0 million (2007 - \$10.1 million) of at-need sales of interment rights and deliveries of at-need merchandise and services;
- \$10.0 million (2007 - \$8.0 million) of pre-need sales of interment rights; and

- \$8.1 million (2007 - \$8.0 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 \$3.0 million increase in cemetery sales (in \$millions):

<u>At-Need</u>	
Interment rights	-
Merchandise	0.7
Services	<u>0.2</u>
	<u>0.9</u>
<u>Pre-Need</u>	
Interment rights	2.0
Merchandise	(0.3)
Services	<u>0.4</u>
	<u>2.1</u>
	<u>3.0</u>

The increase in the delivery of at-need merchandise sales of \$0.7 million or 11.9% occurred as follows (in \$millions):

Bronze memorials	0.4
Upright monuments	0.2
Other	<u>0.1</u>
	<u>0.7</u>

The \$0.4 million or 16.7% increase in deliveries of bronze memorials was due to an 11.8% increase in contracts written in 2008 compared to 2007 and timing of delivery.

Sales of pre-need interment rights increased \$2.0 million or 25.1% as follows (in \$millions):

Lots	0.3
Crypts	1.3
Niches	<u>0.4</u>
	<u>2.0</u>

Sales of crypts increased \$1.3 million or 65.5% mainly due to increased sales from two new structures in the Greater Toronto Area.

The decrease in pre-need merchandise sales of \$0.3 million was related to lower deliveries of memorials and monuments resulting from projects undertaken in both 2007 and 2008 to contact customers for the purpose of manufacturing and storing memorials and monuments. Of the increase in pre-need services sales of \$0.4 million, \$0.3 million was due to higher sales resulting from the installation and delivery of private crypt and niche structures.

Deliveries of upright monuments and bronze memorials (“markers”) can vary significantly from period to period 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 third quarter of 2008, the number of interments performed by the Company increased by 1.9% to 5,000 and the number of cremations increased by 10.4% to 3,710 compared to the third quarter of 2007. For comparative purposes, interments increased by 4.1% and cremations increased by 1.1% in fiscal 2007 as compared to fiscal 2006.

Cemetery investment income for the quarter increased by \$0.1 million or 3.8% over 2007 to \$2.6 million due to higher care fund income received. The increase in care fund income was due to a higher average balance in the

funds of \$10.4 million or 6.4%. The annualized rate of return on the funds was 5.1% compared to 5.2% for the third quarter of 2007. 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 9.6% to \$1.7 million in the third quarter of 2008 due to a higher average balance in the funds of \$12.4 million or 6.5% as well as an increase in the average rate of return from 3.3% to 3.4%. 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 third quarter of 2008 increased by \$1.1 million or 4.0% over 2007 as follows (in \$millions):

Cost of sales	1.5
Selling	0.2
Care and maintenance	0.4
Administrative	(1.2)
Other	<u>0.2</u>
	<u>1.1</u>

Of the \$1.5 million or 12.6% increase in the cost of sales expense, \$1.4 million was due to the increase in sales. The cost of sales percentage for 2008 was 46.0%, which was 0.5 percentage points higher than the cost of sales percentage for 2007, due mainly to higher sales of crypts.

Care and maintenance expenses increased by \$0.4 million or 6.4% due mainly to higher salaries and wages as a result of annual increases and market adjustments. Administrative expenses decreased \$1.2 million or 47.7% mainly due to lower termination costs of \$1.5 million, which was partially offset by increases in various expense categories including bonuses, moving costs, meeting expenses and consumer shows.

EBIT in the cemetery division increased by \$2.0 million or 76.8%, due mainly to higher sales and lower termination expenses, which were partially offset by higher care and maintenance and selling expenses.

FUNERAL DIVISION

As at July 31, 2008, the Company wholly owned 88 funeral branch operations, of which one was classified as a discontinued operation. Two funeral branch operations were sold in the third quarter of 2008.

Funeral sales in the third quarter of 2008 increased by \$2.0 million or 7.7% from the third quarter of 2007 to \$28.5 million. The improvement in sales was due to an increase in the number of services of 6.4% as well as a higher average sale per funeral service of 1.3%. Of the \$2.0 million increase, \$0.2 million related to new operations. For comparative purposes, the average annual increase in existing funeral home services from fiscal 2003 to 2007 was 1.9%.

Sales in the period consisted of:

- \$19.0 million (2007 - \$17.8 million) of at-need sales of funeral merchandise and services;
- \$9.4 million (2007 - \$8.6 million) from the fulfilment of funeral merchandise and services sales that were arranged on a pre-need basis; and
- \$0.1 million (2007 - \$0.1 million) of flower shop sales.

Pre-need funeral contracts written in the third quarter of 2008 decreased by \$0.2 million or 1.2%. Pre-need funeral contracts written under the trust program represented 34.3% (2007 - 43.6%) of total contracts written, while contracts written under the group annuity program represented 65.7% (2007 - 56.4%).

Investment and other income in the funeral division increased by \$0.1 million or 5.6% to \$1.6 million in 2008 primarily due to higher referral fees of \$0.1 million. Annuity fees were consistent with the prior year.

Interest and dividend income earned on the pre-need funeral funds in the quarter increased by 5.4% to \$2.0 million compared to the third quarter of 2007 due to a higher annualized rate of return on the funds of 3.5% compared to 3.3% in the third quarter of 2007. The average balance in the funds decreased by \$2.3 million or 1.0%. Realized losses on the funds in the quarter increased from \$0.2 million in 2007 to \$0.5 million in 2008 due to the sale of two bond funds, on which market losses were realized. 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 third quarter of 2008 increased by \$2.0 million or 9.7% over 2007. A breakdown of the \$2.0 million increase in expenses by type of expenditure follows (in \$millions):

Cost of sales	0.4
Services	0.7
Administrative	0.7
Other	<u>0.2</u>
	<u>2.0</u>

The increase in cost of sales was mainly due to the increase in sales. However, the cost of sales percentage for the quarter was higher than the third quarter of 2007 by 0.2 of a percentage point.

The increase in services expenses of \$0.7 million or 7.1% was mainly due to higher employee costs and timing of meeting expenses. Employee costs were \$0.5 million or 7.0% higher in the third quarter of 2008 due to annual increases, incremental employees, market adjustments and higher temporary and part-time wages required as a result of the increase in the number of services. The increase in administrative expenses of \$0.7 million was primarily due to higher termination expenses of \$0.5 million compared to the third quarter of 2007 and higher legal fees of \$0.1 million.

EBIT in the funeral division increased by \$0.2 million or 2.2% to \$7.9 million due to the impact of the increase 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, decreased by \$0.2 million compared to the third quarter of 2007 due to the repayment of the mortgage receivable in January 2008.

Corporate expenses increased by less than \$0.1 million or 1.1% in the third quarter of 2008 to \$3.6 million.

As a percentage of total Company revenue, corporate expenses decreased to 5.8% in the third quarter of 2008 from 6.3% for the same period in 2007. This was attributable to an increase in revenue of 8.6% while corporate costs grew by 1.1%. For comparative purposes, corporate expenses as a percentage of revenue were 6.2% in fiscal 2007, 6.4% in fiscal 2006 and 6.7% in fiscal 2005.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED JULY 31, 2008 COMPARED TO THE NINE MONTHS ENDED JULY 31, 2007

TOTAL COMPANY RESULTS

Revenue for the nine months ended July 31, 2008, was \$177.3 million compared to \$171.2 million for the nine months ended July 31, 2007. This represented an increase of \$6.1 million or 3.6%. Following is a breakdown of total revenue:

	2008		2007	
	\$Millions	% of Total	\$Millions	% of Total
Sales				
Cemetery	75.5	42.6	72.4	42.3
Funeral	88.7	50.0	86.3	50.4
	<u>164.2</u>	<u>92.6</u>	<u>158.7</u>	<u>92.7</u>
Investment and other income	13.1	7.4	12.5	7.3
	<u>177.3</u>	<u>100.0</u>	<u>171.2</u>	<u>100.0</u>

Sales increased by \$5.5 million or 3.4% in the first nine months of 2008 compared to the first nine months of 2007. Sales in the cemetery division increased by \$3.1 million or 4.3% and sales in the funeral division increased by \$2.4 million or 2.7%.

Investment and other income increased by \$0.6 million or 5.1% over 2007 as follows (in \$millions):

Funeral and cemetery annuity fees	0.3
Cemetery care fund interest and dividends	0.3
Funeral and cemetery referral fees	0.2
Corporate interest and lease income	<u>(0.2)</u>
	<u>0.6</u>

Annuity fees increased by \$0.3 million or 9.2% due to a larger reduction in the provision for cancellation of contracts and higher annuity fees received. Cemetery care fund interest and dividends increased by \$0.3 million or 5.2% due to a higher average balance in the funds.

Operating expenses increased by \$5.9 million or 4.4% over 2007. Cemetery division expenses increased by \$2.1 million or 3.1%, due mainly to increases in cost of sales, care and maintenance and selling expenses, which were partially offset by lower termination expenses. Funeral division expenses increased by \$3.7 million or 6.0%, due mainly to increases in services, cost of sales and termination expenses.

Corporate expenses increased \$0.5 million or 4.5% over the first nine months of 2007 due mainly to higher employee salaries and wages as a result of annual increases and incremental employees.

Earnings before interest expense and income taxes ("EBIT") were \$27.9 million, which represented a decrease of \$0.3 million or 0.9% from 2007. The decrease was due to a \$0.9 million shortfall in the funeral division and a \$0.7 million shortfall in the corporate division, which were partially offset by an increase of \$1.3 million in the cemetery division.

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 \$1.1 million or 29.6% to \$2.6 million in the first nine months of 2008 due primarily to a lower weighted-average balance of long-term debt outstanding of \$27.2 million or 30.1%. The weighted-average rate of interest on long-term debt of 5.4% was consistent with 2007. The weighted-average long-term debt balance decreased due to repayments on the bank term loans in the fourth quarter of 2007 and the second quarter of 2008. The proportion of fixed-rate debt to total debt at July 31, 2008 was 66% compared to 47% at October 31, 2007 and 54% at July 31, 2007.

Income taxes for the first nine months of 2008 reflected an effective tax rate of 30.7% compared to 33.2% in the first nine months of 2007. The decrease in the effective rate of 2.5 percentage points was mainly due to a lower combined basic federal and provincial tax rate of 1.9 percentage points as well as a 0.6 decrease due to future tax changes. The lower combined basic rate was due to a decrease in the federal rate and the elimination of the federal surtax effective January 1, 2008.

Net (loss) earnings from discontinued operations was less than \$0.1 million in the period compare to earnings of \$0.2 million for the first nine months of 2007. The change of \$0.3 million was mainly attributed to the after-tax loss of \$0.3 million on the sale of two funeral branch operations in the third quarter of 2008. Of the \$0.3 million loss, \$0.2 million was related to income taxes that resulted from non-deductible fair value increments.

Net earnings and earnings per share in the first nine months of 2008 increased by \$1.0 million or 6.0% to \$17.6 million and by \$0.08 to \$1.64 per share respectively compared to the first nine months of 2007. The increase was mainly attributable to a decrease in interest expense of \$1.1 million and a decrease in income taxes of \$0.4 million, which were partially offset by a decrease in EBIT and lower earnings from discontinued operations.

CEMETERY DIVISION

Cemetery sales in the first nine months of 2008 increased by \$3.1 million or 4.3% over 2007 to \$75.5 million. Sales in the year, including finance charges and net of cancellation allowances, consisted of:

- \$26.7 million (2007 - \$24.4 million) of pre-need sales of interment rights;
- \$21.2 million (2007 - \$21.8 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; and
- \$27.6 million (2007 - \$26.2 million) of at-need sales of interment rights and deliveries of at-need merchandise and services.

The following is a breakdown of the \$3.1 million increase in cemetery sales (in \$millions):

<u>At-Need</u>	
Interment rights	(0.3)
Merchandise	1.2
Services	<u>0.5</u>
	<u>1.4</u>
 <u>Pre-Need</u>	
Interment rights	2.3
Merchandise	(1.2)
Services	<u>0.6</u>
	<u>1.7</u>
	<u>3.1</u>

The decrease in sales of at-need interment rights of \$0.3 million or 4.6% was primarily due to lower crypt sales in the first two quarters of 2008. The \$1.2 million or 9.5% increase in the delivery of at-need merchandise sales mainly resulted from higher deliveries of bronze memorials and upright monuments of \$1.1 million. The increase in deliveries was due to improvements of 6.3% and 17.8% respectively in contracts written in 2007 compared to 2006, which resulted in higher deliveries in the period. Timing of delivery was also a factor.

The increase in pre-need interment right sales of \$2.3 million or 9.2% was due to a \$0.8 million increase in sales of traditional burial lots, despite group sales being \$0.2 million lower compared to 2007, and higher sales of crypts of \$1.1 million primarily due to the construction and development of new inventory.

The decrease of \$1.2 million in pre-need merchandise sales was mainly due to a reduction in sales resulting from administrative projects undertaken in both 2007 and 2008 to contact customers and get markers manufactured and stored or installed. Timing of delivery was also a factor.

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; and
- projects undertaken to contact customers and get markers manufactured and stored or installed.

In the first nine months of 2008, the number of interments performed by the Company decreased by 1.6% to 13,129 and the number of cremations increased by 4.7% to 11,515 compared to the first nine months of 2007. For comparative purposes, interments increased by 4.1% and cremations increased by 1.1% in fiscal 2007 as compared to fiscal 2006.

Cemetery investment income for the nine months increased by \$0.4 million or 5.9% over 2007 to \$7.9 million primarily due to an increase in care fund income of \$0.3 million or 5.2%. The increase in care fund income was due to a higher average balance in the funds of \$11.4 million or 7.1% while the annualized rate of return on the funds decreased from 5.2% in 2007 to 5.1% in 2008. 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 \$0.4 million or 7.6% due to a higher average balance in the funds of \$12.3 million or 6.6%. The average rate of return on the funds was 3.3% in both years. 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 nine months of 2007 increased by \$2.1 million or 3.1% over the same period of 2007 as follows (in \$millions):

Cost of sales	1.1
Selling	0.6
Care and maintenance	0.8
Administrative	(1.1)
Reception centres	0.2
Gain on disposal of assets	0.3
Other	<u>0.2</u>
	<u>2.1</u>

The increase in the cost of sales expense of \$1.1 million was due to higher sales. The cost of sales percentage for the first nine months of 2008 was 46.2%, which was 0.4 of a percentage point lower than the cost of sales percentage for 2007 as a result of a reduction in the provision for deferred losses on bronze memorials and vaults of \$0.2 million.

Selling expenses increased by \$0.6 million or 4.1% and care and maintenance expenses increased by \$0.8 million or 5.4% and primarily due to increased employee costs. Administrative expenses decreased by \$1.1 million or 23.5% primarily due to lower termination costs in 2008 of \$1.5 million. The decrease was partially offset by increases in moving costs, consumer shows and meeting expenses.

EBIT in the cemetery division increased by \$1.3 million or 14.3% due mainly to an increase in revenue and lower termination expenses.

FUNERAL DIVISION

As at July 31, 2008, the Company wholly owned 88 funeral homes, one of which was classified as a discontinued operation. Three funeral branch operations were sold in the period.

Funeral sales in the first nine months of 2008 increased by \$2.4 million or 2.7% over the first nine months of 2007 to \$88.7 million. The sales increase was due to a higher number of services provided by existing funeral homes of 0.9%, an improvement in the average sale per funeral service of existing funeral homes of 1.1% and sales of new operations of \$0.6 million. For comparative purposes, the average annual increase in existing funeral home services from fiscal 2003 to 2007 was 1.9%.

Sales in the period consisted of:

- \$59.2 million (2007 - \$57.8 million) of at-need sales of funeral merchandise and services;
- \$29.2 million (2007 - \$28.2 million) from the fulfilment of merchandise and services sales that were arranged on a pre-need basis; and
- \$0.3 million (2007 - \$0.3 million) of flower shop sales.

Pre-need funeral contracts written in the first nine months of 2008 decreased by \$0.6 million or 1.4%. Pre-need funeral contracts written under the trust program in the first nine months represented 40.1% (first nine months of 2007 – 42.4%) of total contracts written, while contracts written under the group annuity program represented 59.9% (first nine months of 2007 – 57.6%).

Investment and other income in the funeral division increased by \$0.4 million or 11.5% to \$4.2 million in the first nine months of 2008 due mainly to higher annuity fees. Annuity fees improved by \$0.3 million or 9.2% due to higher sales in the period of 2.5% and a lower estimated cancellation rate used due to improved cancellation experience. The rate received is affected by the term of the contract and the age of the customer.

Interest and dividend income earned on the pre-need funeral funds in the first nine months of fiscal 2008 increased by \$0.3 million or 5.3% to \$6.0 million due to a higher annualized rate of return on the funds of 3.5% compared to 3.3% in the first nine months of 2007 and despite a lower average balance in the funds of \$1.5 million or 0.6%. 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 nine months of 2008 increased by \$3.7 million or 6.0% over the first nine months of 2007. A breakdown of the \$3.7 million increase by type of expenditure follows (in \$ millions):

Cost of sales	0.8
Services	1.7
Facilities	0.3
Administrative	0.5
Other	<u>0.4</u>
	<u>3.7</u>

The \$0.8 million increase in cost of sales was mainly due to the increase in sales and mix of sales particularly related to custom printing and catering sales. The cost of sales percentage for the period was higher than the first nine months of 2007 by 0.4 of a percentage point at 16.7%.

The increase in services expenses of \$1.7 million or 5.9% was primarily due to higher employee salaries and wages but also due to higher clothing and cleaning expenses and higher advertising costs. Salaries and wages were higher in the first nine months of 2008 primarily due to annual increases, incremental employees and market adjustments. The increase of \$0.3 million or 4.2% in facilities costs was primarily related to higher maintenance expenses and was mostly weather related. The increase of \$0.5 million or 17.4% in administrative expenses is primarily due to higher termination expenses and professional fees.

EBIT in the funeral division decreased by \$0.9 million or 3.3% to \$27.0 million in the first nine months of 2008 due to an increase in expenses which exceeded the increase in revenue.

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, was \$0.2 million or 18.0% lower than the first nine months of 2007 at \$1.1 million. The decrease was due to lower interest income on the mortgage receivable that was repaid at the end of the first quarter of 2008.

Corporate expenses increased by \$0.5 million or 4.5% in the first nine months of 2008 compared to the first nine months of 2007 to \$11.1 million due mainly to higher employee salaries and wages of \$0.5 million, which resulted from annual increases and incremental employees.

As a percentage of total Company revenue, corporate expenses increased to 6.3% in the first nine months of 2008 from 6.2% in the first nine months of 2007. This was attributable to an increase in revenue of 3.6% combined with a 4.5% increase in corporate costs. For comparative purposes, corporate expenses as a percentage of revenue were 6.2% in fiscal 2007, 6.4% in fiscal 2006 and 6.7% in fiscal 2005.

CONSOLIDATED BALANCE SHEETS

Key financial indicators for the balance sheets as at July 31, 2008, and October 31, 2007, were as follows:

	July 31 2008	October 31 2007
Current ratio	3.12:1	2.53:1
Working capital (in \$millions)	60.04	61.61
Debt to equity ratio	0.23:1	0.35:1
Long-term debt to EBITDA ⁽¹⁾	1.14:1	1.62:1
Interest coverage ratio ⁽¹⁾	6.96:1	5.88:1

⁽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 current ratio increased by 0.59 and working capital decreased by \$1.57 million from October 31, 2007 to July 31, 2008. The increase in the current ratio was due mainly to a decrease in accounts payable and accrued liabilities of \$7.7 million, current portion of long term debt of \$3.3 million, and income taxes payable of \$1.1 million, partially offset by a reduction in cash of \$6.6 million and the mortgage receivable of \$6.8 million. The decreases in the debt to equity ratio and the long-term debt to EBITDA ratio were mainly the result of repayments on the floating-rate bank term loans of \$20.2 million and a capital lease buyout of \$1.9 million in the second quarter of 2008.

Cash decreased by \$6.6 million mainly due to repayment on the long-term debt of \$22.1 million and fixed asset additions of \$8.4 million, which were partially offset by cash from operating activities of \$13.0 million, collection of \$6.8 million on the repayment of the mortgage receivable and \$2.1 million in proceeds from disposal of discontinued operations.

Mortgage receivable, current portion decreased by \$6.8 million due to the principal balance being repaid in January 2008 in accordance with the terms of the agreement.

Pre-need receivables and funds, including the current portion thereof, increased by \$8.8 million or 1.8% to \$507.4 million at July 31, 2008 compared to October 31, 2007. The \$8.8 million increase included a \$3.2 million fair value gain, \$1.2 million in non-recurring funding related to cremation burial products and a \$2.9 million withdrawal for deliveries in prior years. Excluding these items, pre-need receivables and funds increased by \$7.3 million or 1.5%. This compared to a \$7.6 million or 1.6% increase in 2007 excluding a fair value gain of \$5.0 million.

Cemetery care funds and non-controlling interests in cemetery care funds increased by \$6.1 million or 3.6% in 2008 despite a fair value loss of \$0.8 million and \$1.4 million in realized capital losses due primarily to currency exchange. Excluding the fair value adjustment and realized capital losses, cemetery care funds increased by \$8.3 million or 4.9% 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 \$8.6 million or 5.5% in 2007.

Fixed assets increased by \$0.4 million or 0.2% in the first nine months of 2008 to \$187.9 million due to additions of \$8.4 million (2007 - \$8.6 million), offset by depreciation of \$7.9 million (2007 - \$7.4 million) and disposals of \$0.2 million. Of the \$8.4 million in additions, \$6.4 million was spent on maintenance capital and \$2.0 million was spent on new initiatives (2007 - \$5.4 million and \$3.3 million respectively). The significant projects in the period included the construction of reception centres in Brampton and Windsor, Ontario, on which the Company spent \$0.9 million and \$0.8 million respectively. The disposals of \$0.2 million primarily related to a building that was destroyed by a fire at the Highland Memory Gardens cemetery in North York, Ontario. The Company anticipates that this loss will be fully recovered by insurance proceeds and has established an account receivable for this amount.

Deferred obtaining costs and stored merchandise increased by \$3.0 million or 4.1% in 2008 due to more pre-need contracts written than delivered in the period. Comparatively, this balance increased by \$3.0 million or 4.2% in 2007.

Accounts payable and accrued liabilities decreased by \$7.7 million or 23.1% as follows (in \$millions):

Trade accounts payables	1.9
Accrued liabilities	3.7
Other accounts payable	<u>2.1</u>
	<u>7.7</u>

The decrease in trade accounts payable was mainly related to lower payables for construction and development and a lower volume of expense activity for the third quarter of 2008 compared to the fourth quarter of 2007, which were partially offset by higher amounts owed for inventory purchases. The decrease in accrued liabilities was largely related to a reduction in accrued bonuses, vacation pay and settlements. Other accounts payable decreased by \$2.1 million mainly due to a reduction in dividends, commissions and employee income tax withholdings payable.

Income taxes payable decreased from \$1.1 million at October 31, 2007 to a receivable of \$0.1 million at July 31, 2008, a change of \$1.2 million. The income taxes payable at October 31, 2007 of \$1.1 million represented the difference between accrued taxes for 2007 and tax instalments paid in the year, which were based on the lower earnings in 2006. As at July 31, 2008, income taxes were in a receivable position of \$0.1 million since the 2008 instalments, which were based on strong 2007 results, exceeded the income tax provision for the period.

Long-term debt, including the current portion, decreased by \$22.1 million due to repayments made on the floating-rate bank term loans of \$20.2 million and a capital lease buyout of \$1.9 million in the second quarter of 2008.

Deferred revenue at July 31, 2008 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 \$739.7 million compared to \$710.1 at October 31, 2007, an increase of \$29.6 million or 4.2%. Of the \$29.6 million increase,

\$3.2 million was a fair value gain on the pre-need trust funds. The remaining increase was \$26.4 million or 3.7% (first nine months of 2007 excluding fair value increase - \$27.1 million or 4.0%) and represented deferral of revenue in the period in excess of amounts recognized upon delivery of merchandise and services.

Other liabilities increased by \$2.0 million or 16.6%. The \$2.0 million increase was primarily due to a \$1.4 million fair value loss on the interest rate swap agreements as well as a higher future amount owing for the goods and services tax ("GST"). The higher GST owing is related to a change in legislation that requires GST related to cemetery contracts to be placed into trust upon receipt and remitted, inclusive of investment income earned, to the tax authorities upon delivery of the underlying contract rather than being remitted at the time the contract is written.

CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED JULY 31, 2008

Net cash provided by operating activities of continuing operations decreased by \$0.6 million or 13.0% from the third quarter of 2007 due mainly to a decrease in cash related to the net change in other operating balance sheet items ("net change") of \$3.1 million, which was partially offset by higher net earnings.

The most significant items in the net change of \$3.1 million included:

- a net increase in cash used for deferred revenue of \$2.5 million;
- a net decrease in cash used for income taxes payable of \$0.6 million;
- higher additions to developed land, crypts and niches of \$2.2 million;
- a net decrease in cash used for instalment accounts receivable of \$1.2 million; and
- a net increase in cash used for other items of \$0.2 million.

Net cash used for investing activities of continuing operations was \$9.8 million, compared to cash used in 2007 of \$9.2 million, which contributed to a decrease in cash of \$0.7 million. The decrease was mainly due to a \$0.6 million net decrease in cash related to changes in pre-need funds and a net decrease in cash used for other items of \$0.1 million.

Net cash provided by investing activities of discontinued operations was \$1.6 million, compared to cash used in 2007 of less than \$0.1 million. The increase of \$1.6 million was mainly due to proceeds received on the disposal of two funeral branches in the quarter.

Net cash provided by financing activities of continuing operations was \$6.2 million in 2008 compared to cash used in 2007 of \$9.3 million, an increase in cash of \$15.5 million. The increase in cash was mainly due to \$15.0 million in repayments on the long-term debt in the third quarter of 2007 and an increase in cash of \$0.6 million related to non-controlling interests in pre-need funds, which were partially offset by other items.

NINE MONTHS ENDED JULY 31, 2008

Net cash provided by operating activities of continuing operations decreased by \$7.9 million or 38.2% from the first nine months of 2007 due mainly to a decrease in cash related to the net change in other operating balance sheet items ("net change") of \$10.7 million, which was partially offset by higher net earnings and a positive change related to future income taxes.

The decrease in cash related to the net change was primarily due to:

- higher cash used for accounts payable and accrued liabilities of \$6.4 million;
- higher additions to developed land, crypts and niches of \$4.5 million; and
- a lower increase in deferred revenue of \$3.3 million.

The impact of these items was partially offset by:

- a net increase in cash provided by accounts receivable of \$2.2 million, of which \$1.6 million was the result of establishing a commodity taxes receivable balance in the first quarter of 2007 to recover prior period over-remittances;
- an increase of \$1.0 million in cash provided by instalment accounts receivable; and
- and a reduction of cash used for income taxes payable of \$0.3 million.

The increase in cash used for accounts payable and accrued liabilities of \$6.4 million was mainly due to higher cash used for the payment of construction and development liabilities, operating expenses, and higher payments for accrued bonuses, commissions and payroll expenses.

Net cash used for investing activities of continuing operations decreased by \$2.7 million mainly due to lower cash requirements related to care funds of \$1.8 million, which was primarily due to \$1.4 million in realized capital losses in the funds, and lower cash requirements related to pre-need funds of \$1.0 million. The impact of these items was partially offset by lower proceeds on the disposal of assets and other amounts.

Net cash provided by investing activities of discontinued operations was \$2.2 million, compared to less than \$0.1 million in 2007. The increase in cash was mainly due to proceeds from the disposal of three funeral branches in the period.

Net cash used for financing activities of continuing operations was \$6.7 million in 2008 compared to cash provided of less than \$0.1 million in 2007. The increase in cash used was mainly due to higher repayments on the long-term debt of \$6.9 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 July 31, 2008, the Company had access to unused operating lines of credit of \$12.8 million (October 31, 2007 – \$13.2 million) and unused floating rate debt facilities of \$71.8 million (October 31, 2007 – \$51.7 million). Total unused credit facilities as of July 31, 2008 were \$84.6 million (October 31, 2007 – \$64.9 million). At July 31, 2008, there was \$1.2 million in letters of credit recorded against the operating facility (October 31, 2007 – \$0.8 million). During the first nine months of 2008, the Company repaid \$22.1 million on long-term debt. Subsequent to July 31, 2008, the Company also repaid an additional \$4.5 million. The Company's debt to equity ratio at July 31, 2008 was 0.23:1 (October 31, 2007 – 0.35:1).

The principal liquidity requirements are to fund working capital, recurring expenses, capital expenditures and dividend payments. Working capital primarily includes accounts receivable, which includes extended payment terms particularly related to pre-need contracts in the cemetery division, and merchandise inventory for resale.

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. The Company has no plans to borrow additional debt on its bank term loans in fiscal 2008 based on its current cash position, expected cash from operations and projected capital and burial space inventory expenditures.

CAPITAL EXPENDITURES, CEMETERY BURIAL SPACE INVENTORY AND CONTRACTUAL COMMITMENTS

The following is the only significant project on which the Company had expended significant funds prior to July 31, 2008 but that had not yet generated operating revenue.

Brampton Memorial Gardens Chapel and Reception Centre: As at July 31, 2008, the Company had spent \$1.2 million on this project. The Company estimates that an additional \$5.6 million will be spent to complete the project and anticipates completing the project in fiscal 2009.

The Company had committed to the following expenditures for capital and cemetery burial space inventory at July 31, 2008 (in \$millions), which the Company expects to spend within the next two years:

Cemetery burial space inventory	14.6
New reception centres	2.9
Cemetery maintenance capital expenditures	0.6
Funeral maintenance capital expenditures	<u>0.5</u>
	<u>18.6</u>

The Company is also contractually committed to funeral inventory purchases of \$36.8 million during the period from February 1, 2008 to January 31, 2013. From February 1, 2008 to July 31, 2008, the Company had

purchased \$4.2 million under this commitment. The Company anticipates funding these expenditures from existing cash and cash from operations generated in 2008.

Following is the Company's planned capital and cemetery burial space inventory spending for the remainder of fiscal 2008 (in \$millions):

Maintenance capital expenditures	7.0
New initiatives	5.9
Cemetery burial space inventory	<u>13.1</u>
	<u>26.0</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 QUARTERLY RESULTS

	Four Fiscal Quarters Ended July 31, 2008			
	Oct-31 (Q4)	Jan-31 (Q1)	Apr-30 (Q2)	Jul-31 (Q3)
Revenue (\$millions)	58.1	56.8	58.4	62.0
Net earnings from continuing operations (\$millions)	4.2	5.4	6.2	6.0
Net earnings (\$millions)	2.7	5.4	6.4	5.7
Basic and diluted earnings per share from continuing operations (\$) ⁽¹⁾	0.39	0.51	0.58	0.56
Basic and diluted earnings per share (\$) ⁽¹⁾	0.25	0.51	0.60	0.54

	Four Fiscal Quarters Ended July 31, 2007			
	Oct-31 (Q4)	Jan-31 (Q1)	Apr-30 (Q2)	Jul-31 (Q3)
Revenue (\$millions)	55.2	54.8	59.3	57.1
Net earnings from continuing operations (\$millions)	4.6	5.4	6.9	4.1
Net earnings (\$millions)	4.2	5.4	7.0	4.2
Basic and diluted earnings per share from continuing operations (\$) ⁽¹⁾	0.43	0.51	0.65	0.39
Basic and diluted earnings per share (\$) ⁽¹⁾	0.39	0.51	0.66	0.40

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

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

Revenue

Revenue in the third quarter of 2008 was affected by an improvement of 11.3% in cemetery sales and an improvement of 7.7% in funeral sales. The higher cemetery sales were driven by higher crypt contracts written in the period, which was primarily the result of the availability of new inventory and higher deliveries of at-need bronze memorials and upright monuments. The higher funeral sales were mainly due to a higher than usual increase in the number of existing funeral home services provided.

Seasonality was a factor contributing to higher revenue in the second quarter of both 2008 and 2007.

Revenue in the second quarter of 2007 was also affected by 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 7.9%.

Net Earnings From Continuing Operations and Earnings Per Share From Continuing Operations

Net earnings from continuing operations and earnings per share from continuing operations in the fourth quarter of 2007 were low as a result of after-tax impairment provisions of \$0.7 million.

Net earnings from continuing operations and earnings per share from continuing operations in the third quarter of 2007 were low as a result of \$2.0 million in after-tax termination expenses that occurred in the cemetery, funeral and corporate divisions.

Net earnings from continuing operations and earnings per share from continuing operations in the second quarter of 2007 were positively affected by an improvement in sales in the funeral division and seasonality. Seasonality also affected net earnings and earnings per share for the second quarter of 2008.

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 in most of the reporting periods with the exception of the fourth quarters of 2007 and 2006, which were lower as a result of impairment provisions for discontinued operations of \$1.5 million and \$0.5 million respectively.

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 July 31, 2008, the Company had issued 2,525,497 Class A shares and 8,188,246 Class B shares for \$1.7 million and \$73.7 million respectively.

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.

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.

August 28, 2008

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS

<i>In \$000</i>	<i>Three Months Ended July 31</i>		<i>Nine Months Ended July 31</i>	
	<i>2008</i>	<i>2007 ⁽¹⁾</i>	<i>2008</i>	<i>2007 ⁽¹⁾</i>
Revenue				
Sales	57,585	52,604	164,176	158,724
Investment and other income (note 8)	4,435	4,496	13,131	12,493
	62,020	57,100	177,307	171,217
Expenses				
Operating	49,324	46,318	138,284	132,410
Corporate	3,626	3,587	11,087	10,609
	52,950	49,905	149,371	143,019
Earnings before interest expense and income taxes	9,070	7,195	27,936	28,198
Interest expense	666	1,175	2,553	3,628
Earnings before income taxes	8,404	6,020	25,383	24,570
Income taxes (note 11)	2,444	1,880	7,802	8,162
Net earnings from continuing operations	5,960	4,140	17,581	16,408
Net (loss) earnings from discontinued operations (note 12)	(225)	82	(7)	177
Net earnings	5,735	4,222	17,574	16,585

Basic and diluted earnings per share (note 9)

Basic and diluted earnings per share from continuing operations	\$0.56	\$0.39	\$1.64	\$1.55
Basic and diluted earnings per share from discontinued operations	(0.02)	0.01	-	0.01
Basic and diluted earnings per share	\$0.54	\$0.40	\$1.64	\$1.56

⁽¹⁾ Certain figures provided for 2007 have been reclassified to conform with the current year's presentation - see note 12.

UNAUDITED CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>In \$000</i>	<i>Three Months Ended July 31</i>		<i>Nine Months Ended July 31</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Retained earnings, beginning of period	149,327	131,249	137,488	118,886
Net earnings for the period	5,735	4,222	17,574	16,585
Retained earnings, end of period	155,062	135,471	155,062	135,471

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>In \$000</i>	Three Months Ended July 31		Nine Months Ended July 31	
	2008	2007	2008	2007
Net earnings	5,735	4,222	17,574	16,585
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 (\$46) and \$440 in 2008 and (\$100) and (\$235) in 2007 (note 7).	32	178	(917)	416
Net change in unrealized gains associated with available for sale securities of the pre-need trust funds:				
Change in unrealized gains associated with available for sale securities of the pre-need trust funds, net of income taxes of \$541 and (\$1,053) in 2008 and \$2,357 and \$1,580 in 2007.	(1,109)	(4,352)	2,150	(2,918)
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 (\$541) and \$1,053 in 2008 and (\$2,357) and (\$1,580) in 2007.	1,109	4,352	(2,150)	2,918
	-	-	-	-
Net change in unrealized gains associated with available for sale securities of the cemetery care funds:				
Change in unrealized gains associated with available for sale securities of the cemetery care funds, net of income taxes of \$498 and \$253 in 2008 and \$1,280 and \$1,466 in 2007.	(1,018)	(2,363)	(516)	(2,706)
Change in unrealized gains associated with available for sale securities of the cemetery care funds attributable to non-controlling interests, net of income taxes of (\$498) and (\$253) in 2008 and (\$1,280) and (\$1,466) in 2007.	1,018	2,363	516	2,706
	-	-	-	-
Other comprehensive income (loss)	32	178	(917)	416
Comprehensive income	5,767	4,400	16,657	17,001

UNAUDITED CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

<i>In \$000</i>	Three Months Ended July 31		Nine Months Ended July 31	
	2008	2007	2008	2007
Accumulated other comprehensive (loss) income, beginning of period	(861)	(317)	88	(555)
Other comprehensive income (loss) for the period	32	178	(917)	416
Accumulated other comprehensive loss, end of period	(829)	(139)	(829)	(139)

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.
UNAUDITED CONSOLIDATED BALANCE SHEETS

In \$000	As at	
	July 31	October 31
	2008	2007
Assets		
Current assets		
Cash	17,904	24,483
Accounts receivable	18,778	18,715
Pre-need receivables, current portion (note 4)	39,704	40,088
Mortgage receivable, current portion	-	6,750
Merchandise inventories	9,858	9,670
Income taxes receivable	75	-
Prepaid expenses	1,415	1,395
Future income taxes, current portion	158	251
Assets related to discontinued operations, current portion (note 12)	405	631
	88,297	101,983
Note receivable (note 6)	500	-
Cemetery land	34,952	34,974
Crypts and niches	24,665	22,162
Fixed assets	187,888	187,537
Pre-need receivables and funds (note 4)	467,674	458,473
Goodwill	51,168	51,168
Intangible assets	1,934	1,979
Future income taxes	3,925	4,230
Other assets	72	199
Deferred obtaining costs and stored merchandise	76,696	73,666
Cemetery care funds (note 5)	176,423	170,315
Assets related to discontinued operations (note 12)	3,431	7,537
	1,117,625	1,114,223
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	25,516	33,187
Income taxes payable	-	1,088
Long-term debt, current portion	797	4,087
Future income taxes, current portion	1,949	2,016
	28,262	40,378
Long-term debt	52,359	71,142
Other liabilities	14,226	12,200
Deferred revenue	183,069	183,368
Non-controlling interests in pre-need funds	426,071	414,550
Future income taxes	5,610	6,163
Liabilities related to discontinued operations (note 12)	1,984	3,811
	711,581	731,612
Non-controlling interests in cemetery care funds	176,423	170,315
Shareholders' equity		
Share capital (note 9)	75,388	74,720
Retained earnings	155,062	137,488
Accumulated other comprehensive (loss) income	(829)	88
	154,233	137,576
	229,621	212,296
	1,117,625	1,114,223

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>In \$000</i>	Three Months		Nine Months	
	Ended July 31		Ended July 31	
	2008	2007 ⁽¹⁾	2008	2007 ⁽¹⁾
Cash provided by (used for)				
Operating activities				
Net earnings from continuing operations	5,960	4,140	17,581	16,408
Add (deduct) items not affecting cash:				
Depreciation and amortization	2,672	2,500	7,931	7,518
Gain on disposal of assets	(39)	-	(111)	(383)
Future income taxes (note 11)	85	(443)	218	(625)
Stock based compensation	-	-	104	-
Net change in other operating balance sheet items (note 13)	(4,353)	(1,227)	(12,921)	(2,193)
Net cash provided by continuing operations	4,325	4,970	12,802	20,725
Net cash (used for) provided by discontinued operations	(174)	116	(58)	227
Investing activities				
Additions to fixed assets	(3,739)	(3,634)	(8,429)	(8,644)
Additions to cemetery land held for future development	(60)	(54)	(227)	(124)
Proceeds on disposal of assets	222	59	302	526
Proceeds from mortgage receivable payment	-	-	6,750	6,750
Change in pre-need funds	(3,429)	(2,824)	(6,205)	(7,195)
Change in cemetery care funds	(2,821)	(2,715)	(6,877)	(8,670)
Net cash used for continuing operations	(9,827)	(9,168)	(14,686)	(17,357)
Additions to fixed assets	(2)	(12)	(53)	(18)
Proceeds on disposal of assets	1,528	-	2,119	-
Change in pre-need funds	82	8	147	69
Net cash provided by (used for) discontinued operations	1,608	(4)	2,213	51
Financing activities				
Repayment of long-term debt	-	(15,004)	(22,073)	(15,181)
Dividends paid	-	-	(744)	(742)
Proceeds on exercise of stock options	-	232	564	294
Change in non-controlling interests in pre-need funds	3,378	2,782	8,683	7,001
Change in non-controlling interests in cemetery care funds	2,821	2,715	6,877	8,670
Net cash provided by (used for) continuing operations	6,199	(9,275)	(6,693)	42
Net cash used for discontinued operations	(92)	(8)	(157)	(69)
Increase (decrease) in cash	2,039	(13,369)	(6,579)	3,619
Cash, beginning of period	15,865	28,845	24,483	11,857
Cash, end of period	17,904	15,476	17,904	15,476
Supplementary information				
Income taxes paid	2,762	3,125	9,166	10,706
Interest paid	673	1,189	2,611	3,712

⁽¹⁾ Certain figures provided for 2007 have been reclassified to conform with the current year's presentation - see note 12.

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.
UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended July 31, 2008 and 2007

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 2007 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 2007 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 DISCLOSURE REQUIREMENTS

In 2006, the Canadian Institute of Chartered Accountants issued the following new disclosure requirements: Financial Instruments – Disclosures ("Section 3862"); Financial Instruments – Presentation ("Section 3863") and Capital Disclosures ("Section 1535"). The standards were effective for the Company's first quarter of fiscal 2008.

Section 3862, together with Section 3863, replaces Section 3861 and requires that disclosures be provided in the financial statements that enable users to evaluate the significance of financial instruments to the Company's financial position and performance, as well as the nature and extent of risks arising from financial instruments and how the Company manages those risks. As a result of implementing this standard, the Company has included additional disclosure in note 7 to these unaudited consolidated financial statements. This Section establishes standards for the presentation of financial instruments and non-financial derivatives related to the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and liabilities are offset. The presentation used by the Company in the 2007 annual consolidated financial statements met the requirements of the new accounting standard.

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The Section requires disclosure of information about the Company's objectives, policies and processes for managing capital and how it is meeting these objectives. As a result of implementing this standard, the Company has included additional disclosure in note 10 to these unaudited consolidated financial statements.

3. FUTURE ACCOUNTING POLICY CHANGES

Revisions to CICA Handbook Section 1000, Financial Statements and Concepts and Section 3064, Goodwill and Intangible Assets, are applicable to fiscal years beginning on or after October 1, 2008. Adoption of these standards is effective for the Company's first quarter of fiscal 2009, however, the Company intends to adopt the standards in the fourth quarter of 2008. The objectives of these revisions are to:

- remove material that may be interpreted as permitting the recognition of assets that would not otherwise meet the definition of an asset or the recognition criteria;
- include guidance to clarify the distinction between assets and expenses;
- include guidance on the definition of an intangible asset and the recognition of internally generated intangible assets; and
- withdraw Section 3450, Research and Development Costs, as assets developed as a result of research and development activities would now be included within the scope of Section 3064.

As a result of changes to these standards, deferred obtaining costs can no longer be classified as assets and these costs will be expensed as incurred. Based on preliminary estimates, the Company believes the impact on the statement of earnings will be a reduction of net earnings of \$2.7 million or \$0.25 per share in 2007 and between \$2.0 million to \$2.3 million or \$0.19 to \$0.22 per share in 2008. The policy change will also require retroactive application for obtaining costs currently capitalized to the Company's balance sheet, resulting in an adjustment to opening retained earnings at November 1, 2006 estimated to be \$40.4 million.

The CICA issued a new Handbook Section 3031, Inventories, which will replace Section 3030 of the same title for fiscal years beginning on or after January 1, 2008. Adoption of this standard is effective for the Company's first quarter of fiscal 2009 and is not expected to have a material impact on its financial statements. This Section introduces changes to the measurement and disclosure of inventory and converges with international financial reporting standards. The new accounting standard specifies that inventories are to be valued at the lower of cost and net realizable value. The standard requires the reversal of previously recorded write-downs to realizable value when there is clear evidence that net realizable value has increased.

4. PRE-NEED RECEIVABLES AND FUNDS

	July 31	October 31
	2008	2007
	(\$000)	
Cemetery trust funds	211,495	200,726
Funeral trust funds	202,101	202,277
	413,596	403,003
Instalment accounts receivable	69,760	70,351
Pre-need group annuity funds	24,022	25,207
	507,378	498,561
Less: current portion of instalment accounts receivable	39,704	40,088
	467,674	458,473

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 July 31, 2008, the accumulated benefit of all such contracts was \$130.5 million (October 31, 2007 - \$112.2 million).

The trust funds consisted of investments with fixed and floating interest rates, equity securities and bond and equity funds as follows:

	Fair Value		Cost	
	July 31	October 31	July 31	October 31
	2008	2007	2008	2007
	(\$000)		(\$000)	
Cash	3,654	9,184	3,654	9,184
Term deposits	232,605	214,105	229,796	214,569
Bonds	133,387	125,466	132,219	126,326
Equities	22,995	25,345	17,793	17,341
Equity/bond funds	20,955	28,903	19,270	27,922
	413,596	403,003	402,732	395,342

5. CEMETERY CARE FUNDS

Cemetery care funds consisted of investments with fixed and floating interest rates and equity securities as follows:

	<i>Fair Value</i>		<i>Cost</i>	
	<i>July 31</i> <i>2008</i>	<i>October 31</i> <i>2007</i>	<i>July 31</i> <i>2008</i>	<i>October 31</i> <i>2007</i>
	<i>(\$000)</i>		<i>(\$000)</i>	
Cash and term deposits	9,880	8,430	9,880	8,430
Bonds	150,183	143,021	150,461	145,032
Equities	16,360	18,864	15,126	15,129
	176,423	170,315	175,467	168,591

6. NOTE RECEIVABLE

The note receivable was established on the sale of two funeral home branch operations in the third quarter of fiscal 2008, for which the Company received a portion of the sale proceeds in the form of a promissory note with a term of eight years, expiring on July 25, 2016. Interest is payable monthly at an annual rate of 8%. For the first three years, there is no payment of principal, followed by equal blended monthly payments of principal and interest for the remaining term. The fair value of the note receivable closely approximates the carrying value at July 31, 2008. The note receivable is classified under loans and receivables and measured at amortized cost.

7. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

With respect to financial instruments, the Company primarily has exposure to interest rate risk, credit risk and liquidity risk.

Interest Rate Risk

The Company manages its interest rate risk with the use of interest rate swap agreements. Changes in interest rates would impact the interest cost of the Company's variable rate long-term debt and have an effect on the Company's net income and earnings per share. Based on long-term debt at July 31, 2008, a 1% increase or decrease in the market interest rate could impact the Company's annual interest expense by approximately \$0.2 million (July 31, 2007 – \$0.4 million).

The Company has minimal interest rate risk with respect to the care and pre-need funds as all interest-bearing investments are invested monthly in fixed-rate securities with maturities up to ten years. In addition, interest income earned on the pre-need trust funds is retained in the funds and received when the underlying merchandise is delivered or the service is performed. Therefore, the impact of a 1% interest rate change on the Company's annual cash flow would not be significant.

Based on the ending cash bank balance at July 31, 2008, a 1% change in the market interest rate would affect the Company's annual interest income by approximately \$0.2 million (July 31, 2007 – \$0.2 million).

Credit Risk

The Company's financial instruments that are exposed to credit risk include cash, pre-need trust funds and cemetery care funds. Cash and other funds are invested according to the Company's investment policy which, in the case of trust funds, are established to comply with legislative requirements for such funds. The Investment Committee of the Board of Directors monitors both the compliance against these guidelines and the performance of individual investments. Based on the investment grade ratings and credit worthiness of the institutions holding the investments, the Company does not consider there to be a significant credit risk for its financial instruments.

The Company is also exposed to credit risk associated with accounts receivable, which is mitigated by the Company's large and diverse customer base. No individual customer comprises a significant portion of the balance. The Company records a provision for uncollectible at-need accounts receivable. The balance at July 31, 2008 was \$1.5 million (October 31, 2007 – \$1.3 million). The amounts written off against the

provision in the three and nine months ended July 31, 2008 were \$0.1 million and \$0.3 million, respectively (three and nine months ended July 31, 2007 – \$0.2 million and \$0.4 million respectively). The Company does not reserve for credit losses on pre-need merchandise and services receivable balances since the merchandise and services have not yet been delivered and the revenue has not been recognized but does provide for credit losses on pre-need interment right receivable balances. The Company also provides for cancellation of undelivered pre-need interment right contracts based on historical experience. At-need funeral contracts are payable within 15 days of the provision of service whereas at-need cemetery contracts have varying instalment terms. As at July 31, 2008, the at-need cemetery contracts with less than 25% of the contract amount paid after one overdue payment cycle or more represented 7.1% of the receivable balance. The aging of the accounts receivable balance related to at-need funeral contracts is as follows:

	<u>July 31</u> <u>2008</u>	<u>October 31</u> <u>2007</u>
	(\$000)	
30 days	4,999	4,519
60 days	1,332	1,221
90 days	641	525
Greater than 90 days	2,863	2,868
	<u>9,835</u>	<u>9,133</u>

The portion of at-need funeral contracts that is in accounts receivable greater than ninety days occurs primarily due to customers that are waiting for funds to be released from the estate, and therefore are considered collectible despite the aging in excess of 90 days.

Liquidity Risk

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. In the event that contractual commitments were required to be paid immediately, the Company believes that its current sources of liquidity are sufficient to cover the obligations. The Company has no plans to borrow additional debt on its bank term loans in fiscal 2008 based on its current cash position, expected cash from operations and projected capital and burial space inventory expenditures.

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 July 31, 2008, the Company had access to unused operating lines of credit of \$12.8 million (October 31, 2007 – \$13.2 million) and unused floating rate debt facilities of \$71.8 million (October 31, 2007 – \$51.7 million). Total unused credit facilities as of July 31, 2008 were \$84.6 million (October 31, 2007 – \$64.9 million). At July 31, 2008, there was \$1.2 million in letters of credit recorded against the operating facility (October 31, 2007 – \$0.8 million). The Company's debt to equity ratio at July 31, 2008 was 0.23:1 (October 31, 2007 – 0.35:1).

The amount of principal payable in the remainder of 2008 and over each of the next five years and thereafter is as follows (in \$000):

2008	-
2009	1,593
2010	4,251
2011	5,847
2012	33,466
2013	1,067
Thereafter	<u>6,932</u>
	<u>53,156</u>

Foreign Currency Risk

The Company has minimal investments and purchases that would be exposed to foreign currency risk. The Company conducts all of its sales transactions in Canadian dollars, which eliminates the foreign currency risk.

Derivative Financial Instruments

As of July 31, 2008, the Company's use of interest rate swap agreements was limited to six (October 31, 2007– six) interest rate swaps with a Canadian chartered bank, whereby the Company fixed a portion of its term loan financing at interest rates ranging from 4.3% to 6.2% plus a bank margin. At the end of the period, these swaps had a total notional amount of \$35.6 million (October 31, 2007 – \$33.3 million). One of the swaps amortizes quarterly on a straight-line basis. The swaps expire in 2008, 2009, 2012 and 2014. Total swaps and other fixed rate debt at July 31, 2008 represented 66% (October 31, 2007 – 47%) of the total amount of long-term debt outstanding. Swap costs for the three and nine months ended July 31, 2008 were both \$0.1 million (three and nine months ended July 31, 2007 – less than \$0.1 million and \$0.2 million respectively).

The fair value of the interest rate swaps is estimated as the discounted unrealized gain or loss calculated based on the market price at July 31, 2008, which generally reflects the estimated amount that the Company would receive or pay to terminate the contracts at the balance sheet date. The fair value of the swaps is provided to the Company by the chartered bank that is the counter-party to the transactions. The estimated fair value of the interest rate swaps at July 31, 2008 was a loss of \$1.2 million (October 31, 2007 – gain of \$0.1 million). 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 July 31, 2008, 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 period.

8. INVESTMENT AND OTHER INCOME

	<i>Three Months Ended July 31</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>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	(\$000)									
Realized earnings of funds:										
Interest and dividends ⁽¹⁾	1,707	1,558	1,995	1,892	2,206	2,127	-	-	5,908	5,577
Realized gains	57	1	27	2	74	31	-	-	158	34
Realized losses	(26)	(78)	(544)	(167)	(146)	(91)	-	-	(716)	(336)
Trust expenses	(54)	(47)	(51)	(35)	(70)	(70)	-	-	(175)	(152)
	1,684	1,434	1,427	1,692	2,064	1,997	-	-	5,175	5,123
Deferred revenue	(83)	(53)	-	-	-	-	-	-	(83)	(53)
Trust expenses classified as operating expenses	54	47	51	35	70	70	-	-	175	152
Non-controlling interests in funds	(1,655)	(1,428)	(1,478)	(1,727)	50	30	-	-	(3,083)	(3,125)
	-	-	-	-	2,184	2,097	-	-	2,184	2,097
Fee income	464	455	1,552	1,470	-	-	-	-	2,016	1,925
Other	-	-	-	-	-	-	235	474	235	474
	464	455	1,552	1,470	2,184	2,097	235	474	4,435	4,496

Nine Months Ended July 31

	<i>Pre-Need Cemetery Funds</i>		<i>Pre-Need Funeral Funds</i>		<i>Cemetery Care Funds</i>		<i>Other</i>		<i>Consolidated</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>(\$000)</i>									
Realized earnings of funds:										
Interest and dividends ⁽¹⁾	4,970	4,619	5,950	5,649	6,557	6,241	-	-	17,477	16,509
Realized gains	130	42	60	5	95	37	-	-	285	84
Realized losses	(98)	(87)	(888)	(177)	(1,412)	(99)	-	-	(2,398)	(363)
Trust expenses	(158)	(126)	(170)	(105)	(219)	(210)	-	-	(547)	(441)
	4,844	4,448	4,952	5,372	5,021	5,969	-	-	14,817	15,789
Deferred revenue	(149)	(142)	-	-	-	-	-	-	(149)	(142)
Trust expenses classified as operating expenses	158	126	170	105	219	210	-	-	547	441
Non-controlling interests in funds	(4,853)	(4,432)	(5,122)	(5,477)	1,254	(5)	-	-	(8,721)	(9,914)
	-	-	-	-	6,494	6,174	-	-	6,494	6,174
Fee income	1,390	1,268	4,183	3,753	-	-	-	-	5,573	5,021
Other	-	-	-	-	-	-	1,064	1,298	1,064	1,298
	1,390	1,268	4,183	3,753	6,494	6,174	1,064	1,298	13,131	12,493

⁽¹⁾ Includes interest income for the three and nine months ended July 31, 2008 of \$5.4 million and \$15.9 million respectively (for the three and nine months ended July 31, 2007 - \$5.1 million and \$15.0 million respectively).

9. SHARE CAPITAL

Authorized:

Unlimited number of Preferred Shares
Unlimited number of Class A Voting and Class B Non-Voting Shares

Issued and outstanding:

	<i>Number of Shares</i>		<i>Amount</i>	
	<i>July 31 2008</i>	<i>October 31 2007</i>	<i>July 31 2008</i>	<i>October 31 2007</i>
	<i>(\$000)</i>			
Class A Voting shares	2,525,497	2,525,497	1,734	1,734
Class B Non-Voting shares	8,188,246	8,164,246	73,654	72,986
	10,713,743	10,689,743	75,388	74,720

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.

Weighted-average shares outstanding:

	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>July 31 2008</i>	<i>July 31 2007</i>	<i>July 31 2008</i>	<i>July 31 2007</i>
Weighted-average shares outstanding – basic	10,713,743	10,602,423	10,708,998	10,597,681
Effect of dilutive options	-	16,755	-	12,176
Weighted-average shares outstanding – diluted	10,713,743	10,619,178	10,708,998	10,609,857

At July 31, 2008, there were no options outstanding (July 31, 2007 – 110,500 options outstanding).

10. CAPITAL MANAGEMENT

The Company's objectives, when managing equity capital, are to invest in business opportunities that generate a return to shareholders that exceeds the Company's weighted-average cost of capital ("WACC") and to generate annual growth in earnings per share with a limited risk profile. Business investment opportunities are evaluated utilizing discounted cash flow models to ensure the rate of return, on a risk-adjusted basis, exceeds the WACC.

The WACC is calculated by determining the estimated cost of equity and debt, weighted by the proportions that the Company intends to employ. The Company calculates the cost of equity using the Capital Asset Pricing Model ("CAPM"). Under CAPM, the cost of equity is the sum of the risk-free rate (considered to be a 10-year Government of Canada bond) plus an equity risk premium multiplied by Beta. Beta is a measure of stock price volatility relative to the overall benchmark index. Arbor's Beta ranges from an estimate based on the average of the Beta factors for public companies in the same industry and 1.0 because there isn't sufficient trading volume in Arbor's stock to permit a meaningful estimate of Beta. The cost of debt is based on a ten-year swap rate plus a stamping fee, on an after-tax basis.

The Company's Board of Directors determines the level of dividend payments. To date, the strategy has been to maintain a nominal dividend policy on the premise that as long as the Company has investment opportunities whose returns exceed its WACC, it will use cash from operations and bank debt to finance these projects. If the Company has cash remaining after financing all acceptable investment opportunities, it may be used to repay debt or distributed in the form of cash dividends.

The decision to repay outstanding debt is based on assessing current levels of cash in relation to expected cash that will be generated from operations and anticipated cash required for planned capital and burial space development projects in the remainder of the fiscal year. The Company has unused debt capacity in its bank loans that can be utilized when other investment opportunities arise.

When making decisions to borrow additional debt, the Company ensures that covenants still comply with the requirements within the bank loan agreements. In particular, the Company monitors the long-term debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio as well as the interest coverage ratio. The long-term debt to EBITDA ratio is calculated as the total long-term debt divided by earnings before deducting other income (expenses), if any, interest, taxes, depreciation and amortization expenses. This ratio must be less than or equal to 3.50:1. The long-term debt to EBITDA ratio at July 31, 2008 was 1.14:1 (October 31, 2007 – 1.62:1). The interest coverage ratio must equal or exceed 3.25:1. The interest coverage ratio at July 31, 2008 was 6.96:1 (October 31, 2007 – 5.88:1).

The Company also monitors capital levels on the basis of a debt to equity ratio. This ratio is calculated as total long-term debt (as shown in the balance sheet) divided by equity. Equity includes all components of shareholders' equity. In 2008, the Company's strategy, which was unchanged from 2007, is to maintain the debt to equity ratio at no higher than 1:1. The debt to equity ratio is measured and reported to the Board of Directors monthly. The Board of Directors approves changes to the share capital issued, as required. The debt to equity ratio at July 31, 2008 was 0.23:1 (October 31, 2007 – 0.35:1).

11. INCOME TAXES

Income tax expense:

Income tax expense for the three and nine months ended July 31 consisted of the following:

	<i>Three Months Ended July 31</i>		<i>Nine Months Ended July 31</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>(\$000)</i>		<i>(\$000)</i>	
Current tax expense	2,359	2,323	7,584	8,787
Future income tax expense (benefit) relating to the origination and reversal of temporary differences	232	(356)	480	(542)
Future income tax benefit resulting from change in tax rates	(147)	(87)	(262)	(83)
	2,444	1,880	7,802	8,162

Effective income tax rate:

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

	Three Months Ended		Nine Months Ended	
	July 31	July 31	July 31	July 31
	2008	2007	2008	2007
	%		%	
Combined basic federal and provincial income tax rate	32.4	33.9	32.4	34.3
Change in the basic tax rate resulting from:				
Dividends/RDTOH	(0.7)	(1.0)	(0.7)	(0.8)
Impact of future tax changes	(1.7)	(1.7)	(1.0)	(0.4)
Recovery of prior year over-provision	(0.9)	(0.8)	(0.3)	(0.2)
Meals and entertainment	0.3	0.4	0.3	0.3
Impact of capital losses	-	0.4	0.2	-
Other items	(0.3)	-	(0.2)	-
Effective income tax rate	29.1	31.2	30.7	33.2

The Company has \$4.4 million in unrecognized capital losses, the benefit of which is unlikely to be realized.

12. DISCONTINUED OPERATIONS

In the fourth quarter of 2006, the assets of two funeral branch operations met the criteria for being classified as discontinued operations. The sale of one of these operations was completed in the fourth quarter of 2007 for net cash proceeds of \$0.9 million. The after-tax gain on the sale was \$0.1 million. The sale of the second of these operations occurred in the second quarter of 2008 for net cash proceeds of \$0.6 million. The after-tax gain on the sale of these assets was \$0.1 million.

In the fourth quarter of 2007, the assets of three additional funeral branch operations met the criteria for being classified as discontinued operations. The sale of two of these operations was completed in the third quarter of 2008 for net cash proceeds of \$1.9 million. The after-tax loss on the sale was \$0.3 million, of which \$0.2 million was related to income taxes that resulted from non-deductible fair value increments. For the remaining discontinued branch operation, the Company has a letter of intent from a potential purchaser and is working to dispose of the operation in the fourth quarter of 2008.

Revenue associated with discontinued operations in the third quarter and the first nine months of 2008 was \$0.4 million and \$1.5 million respectively (2007 – \$0.7 million and \$1.9 million respectively). The net loss in the third quarter and the first nine months of 2008 were \$0.2 million and less than \$0.1 million, respectively (2007 – net earnings of \$0.1 million and \$0.2 million respectively). The prior period comparative amounts in the statements of earnings, balance sheets and the statements of cash flows have been reclassified for the funeral branches identified as discontinued operations in the fourth quarter of 2007.

13. NET CHANGE IN OTHER OPERATING BALANCE SHEET ITEMS

	Three Months Ended		Nine Months Ended	
	July 31	July 31	July 31	July 31
	2008	2007	2008	2007
	(\$000)		(\$000)	
Accounts receivable	726	914	(63)	(2,262)
Developed land, crypt and niche cost of sales	2,447	1,731	6,610	6,271
Additions to developed land, crypts and niches	(4,295)	(2,142)	(8,764)	(4,237)
Instalment accounts receivable	(368)	(1,545)	591	(416)
Deferred obtaining costs and stored merchandise	(841)	(1,050)	(3,030)	(2,950)
Accounts payable and accrued liabilities	181	541	(6,927)	(479)
Income taxes receivable/payable	72	(476)	(1,163)	(1,452)
Deferred revenue	(1,661)	840	(664)	2,682
Other liabilities	316	491	669	1,541
Other changes	(930)	(531)	(180)	(891)
	(4,353)	(1,227)	(12,921)	(2,193)

14. CONTRACTUAL COMMITMENTS

At July 31, 2008, the Company was contractually committed to capital and cemetery burial space inventory expenditures of \$18.6 million (October 31, 2007 – \$9.0 million), which the Company expects to spend within the next two years. The Company is also contractually committed to funeral inventory purchases of \$36.8 million during the period from February 1, 2008 to January 31, 2013. From February 1, 2008 to July 31, 2008, the Company had purchased \$4.2 million under this commitment.

15. SUBSEQUENT EVENTS

Acquisition:

Subsequent to July 31, 2008, the Company agreed to exercise the lease option to purchase the land and building of one funeral branch operation for \$1.0 million. The purchase is expected to occur in the fourth quarter of 2008.

Dividend policy:

Subsequent to July 31, 2008, the Board of Directors of the Company approved an amendment to the Company's dividend policy to increase the eligible dividend from \$0.07 per share annually to \$0.11 per share quarterly, commencing the fourth quarter of fiscal 2008.

Repayment of debt:

Subsequent to July 31, 2008, the Company repaid \$4.5 million in floating-rate bank debt.

16. SEGMENT DISCLOSURE

Industry segments (\$000)

	<i>Three Months Ended July 31</i>							
	<i>Cemetery</i>		<i>Funeral</i>		<i>Corporate⁽²⁾</i>		<i>Consolidated</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Sales ⁽¹⁾	29,053	26,113	28,532	26,491	-	-	57,585	52,604
Investment and other income ⁽¹⁾	2,648	2,552	1,552	1,470	235	474	4,435	4,496
Revenue	31,701	28,665	30,084	27,961	235	474	62,020	57,100
Depreciation and amortization ⁽¹⁾	953	849	1,375	1,283	344	368	2,672	2,500
Earnings (loss) before interest expense and income taxes ⁽¹⁾	4,572	2,586	7,889	7,722	(3,391)	(3,113)	9,070	7,195
Interest expense	-	-	-	-	666	1,175	666	1,175
Earnings (loss) before income taxes ⁽¹⁾	4,572	2,586	7,889	7,722	(4,057)	(4,288)	8,404	6,020
Capital expenditures	2,223	1,934	1,321	1,445	195	255	3,739	3,634
Developed land, crypt and niche additions	4,295	2,142	-	-	-	-	4,295	2,142
Cemetery land held for future development additions	60	54	-	-	-	-	60	54
Pre-need contracts written	21,016	18,870	13,898	14,065	-	-	34,914	32,935

Nine Months Ended July 31

	Cemetery		Funeral		Corporate⁽²⁾		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
Sales ⁽¹⁾	75,523	72,442	88,653	86,282	-	-	164,176	158,724
Investment and other income ⁽¹⁾	7,884	7,442	4,183	3,753	1,064	1,298	13,131	12,493
Revenue	83,407	79,884	92,836	90,035	1,064	1,298	177,307	171,217
Depreciation and amortization ⁽¹⁾	2,811	2,539	4,047	3,892	1,073	1,087	7,931	7,518
Earnings (loss) before interest expense and income taxes ⁽¹⁾	10,996	9,619	26,963	27,890	(10,023)	(9,311)	27,936	28,198
Interest expense	-	-	-	-	2,553	3,628	2,553	3,628
Earnings (loss) before income taxes ⁽¹⁾	10,996	9,619	26,963	27,890	(12,576)	(12,939)	25,383	24,570
Identifiable assets ⁽³⁾	635,744	609,638	462,266	469,870	19,615	34,715	1,117,625	1,114,223
Capital expenditures	4,650	5,527	3,122	2,613	657	504	8,429	8,644
Developed land, crypt and niche additions	8,764	4,237	-	-	-	-	8,764	4,237
Cemetery land held for future development additions	227	124	-	-	-	-	227	124
Pre-need contracts written	56,477	53,212	40,114	40,680	-	-	96,591	93,892

⁽¹⁾ Figures provided for 2007 have been reclassified to conform with the current year's presentation - see note 12.

⁽²⁾ The corporate balances are provided principally to reconcile the reportable segments to consolidated results.

⁽³⁾ Identifiable assets shown for 2007 are as at October 31.