

THIRD QUARTER REPORT

***13 and 39 Weeks Ended
July 26, 2009***



ARBOR MEMORIAL SERVICES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis for Arbor Memorial Services Inc. ("Arbor" or the "Company") has been prepared for the 13 weeks and 39 weeks ended July 26, 2009 and includes material information available up to September 2, 2009. 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 2008 Annual Information Form under "Description of the Business – Risk Factors" and 2008 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.

Implementation of New Accounting Standards

In the fourth quarter of fiscal 2008, the Company adopted the revisions to CICA Handbook Section 1000, Financial Statements and Concepts and Section 3064, Goodwill and Intangible Assets. As a result of the changes to these standards, deferred obtaining costs are expensed as incurred rather than being classified as assets on the Balance Sheet. The prior year interim financial statements have been restated accordingly. The impact on the statement of earnings for the 13 and 39 weeks ended July 27, 2008 was a reduction of net earnings of \$0.5 million and \$3.6 million, respectively, and a reduction of basic and diluted earnings per share of \$0.04 and \$0.34, respectively. The reduction in net earnings included a cumulative future tax adjustment of \$1.9 million, or \$0.18 earnings per share, in the first quarter that was required as a result of a reduction in Federally enacted statutory rates applied to deductible temporary differences created by this policy change.

The CICA issued a new Handbook Section 3031, Inventories, which replaced Section 3030 of the same title for fiscal years beginning on or after January 1, 2008. This Section introduced changes to the measurement and disclosure of inventory and converged 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 and requires the

reversal of previously recorded write-downs to realizable value when there is clear evidence that net realizable value has increased. As a result of adopting this standard, the Company is required to disclose the amount of inventories recognized as an expense in the period, as follows:

	13 Weeks Ended		39 Weeks Ended	
	July 26, 2009	<i>July 27, 2008</i>	July 26, 2009	<i>July 27, 2008</i>
		(\$000)		(\$000)
Burial space inventories	2,274	2,816	6,640	7,061
Merchandise inventories	8,023	8,169	22,257	21,803
	10,297	10,985	28,897	28,864

The CICA issued an amendment to Handbook Section 1400, General Standards of Financial Statement Presentation, for fiscal years beginning on or after January 1, 2008. This Section has been amended to include requirements to assess an entity's ability to continue as a going concern and, when management is aware in making this assessment of material uncertainties related to events or conditions that may cast doubt on the entity's ability to continue as a going concern, those uncertainties would be disclosed. As a result of management's going concern assessment, the Company concluded that no additional disclosures are required at this time.

Future Accounting Policy Changes

The CICA has issued three new accounting standards, CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests, which will apply prospectively for fiscal years beginning on or after January 1, 2011. Earlier adoption of these standards is permitted, however all three standards must be adopted concurrently. These standards replace the former CICA Handbook Sections 1581, Business Combinations and 1600, Consolidated Financial Statements and are based on International Financial Reporting Standard 3, "Business Combinations". Section 1582 establishes new accounting standards for business combinations, Section 1601 establishes new standards for the preparation of consolidated financial statements, including enhanced disclosures regarding consolidated and unconsolidated entities and Section 1602 establishes accounting standards for non-controlling interests in subsidiaries that arise subsequent to a business combination.

In May 2009, the CICA amended Section 3862, Financial Instruments - Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require classification of all fair value measurements using a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The standard will also require disclosure on the relative reliability of the inputs used and the effect of change in reasonably possible alternatives. The amendments will be effective for annual financial statements relating to fiscal years ending after September 30, 2009, specifically October 25, 2009 for the Company.

The Company has not yet determined the impact of the new standards on its financial statements.

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 2008 Annual Report. Historical information provided is not necessarily indicative of the results to be expected in the future.

RESULTS OF OPERATIONS FOR THE 13 WEEKS ENDED JULY 26, 2009 COMPARED TO THE 13 WEEKS ENDED JULY 27, 2008

TOTAL COMPANY RESULTS

Revenue for the 13 weeks ended July 26, 2009 was \$61.4 million compared to \$61.6 million for the 13 weeks ended July 27, 2008. This represented a decrease of \$0.2 million or 0.3%. Following is a breakdown of total revenue:

	2009		2008	
	\$Millions	% of Total	\$Millions	% of Total
Sales				
Cemetery	27.6	45.0	29.0	47.1
Funeral	29.3	47.7	28.2	45.8
	<u>56.9</u>	<u>92.7</u>	<u>57.2</u>	<u>92.9</u>
Investment and other income	4.5	7.3	4.4	7.1
	<u>61.4</u>	<u>100.0</u>	<u>61.6</u>	<u>100.0</u>

Sales decreased by \$0.3 million or 0.5% in 2009 compared to 2008. Sales in the cemetery division decreased by \$1.4 million or 4.9% and sales in the funeral division increased by \$1.1 million or 4.0%.

Investment and other income increased by \$0.1 million or 2.1% over 2008 due primarily to higher care fund income in the cemetery division.

Operating expenses decreased by \$0.3 million or 0.5% over 2008. Cemetery division expenses decreased by \$0.3 million or 1.0% due mainly to a lower cost of sales, which was partially offset by higher care and maintenance expenses. Funeral division expenses were consistent with the prior year, which was the net impact of a reduction in termination expenses of \$0.7 million and an increase in other expenses of the same amount.

Corporate expenses decreased by \$0.2 million or 5.0% from 2008, which was primarily attributable to the reversal of a sales tax contingency reserve.

Earnings before interest expense and income taxes ("EBIT") increased by \$0.2 million or 2.9% over 2008 to \$8.5 million. The increase in EBIT was primarily the result of an increase of \$1.1 million in the funeral division due to higher sales and lower termination costs of \$0.7 million, which were offset by an increase in other expenses. The favourable variance in the funeral division was mostly offset by a decrease in the cemetery division's EBIT of \$1.0 million due to a reduction in sales of 4.9%, which exceeded a 1.0% decrease in expenses. Cemetery sales compared unfavourably to the third quarter of 2008, which experienced a strong increase of 11.3% over the prior year.

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 \$0.2 million or 28.2% to \$0.5 million in 2009 due to a decrease in the weighted average balance of long-term debt outstanding of \$4.5 million or 8.4% and a lower average floating rate of interest of 3.9% compared to 5.0% in 2008, the impact of which was offset by higher swap costs of \$0.2 million. The weighted average long-term debt balance decreased due to repayments on the bank term loans in the second and fourth quarters of 2008. The proportion of fixed rate debt to total debt at July 26, 2009 was 62% compared to 61% at October 26, 2008 and 67% at July 27, 2008.

Income taxes for the third quarter of 2009 reflected an effective tax rate of 26.4% compared to 28.4% in the third quarter of 2008. The decrease in the effective rate of 2.0 percentage points was primarily due to:

- the favourable impact of capital gains, which decreased the effective rate by 2.0 percentage points;
- the favourable impact of dividends and refundable dividend taxes of 1.2 percentage points;
- a non-taxable reversal of the sales tax contingency reserve that decreased the effective rate by 0.6 of a percentage point compared to 2008; and
- a lower combined basic rate of 0.5 of a percentage point.

The effect of these items on the effective rate was partially offset by the impact of future tax changes, which increased the effective rate by 1.4 percentage points compared to 2008 and the recovery of a prior year over-provision that reduced the effective rate in 2008 by 1.0 percentage points.

Net loss from discontinued operations decreased by \$0.1 million or 81.2% from 2008 to \$0.3 million due mainly to a provision for asset impairment of \$0.5 million related to a parcel of cemetery land held for future development that was classified as held for sale this period, which was partially offset by a net gain on the sale of five funeral branch operations in the third quarter of 2009. The decision to sell the cemetery land was made since the potential for the property to be developed into saleable cemetery land was evaluated as unlikely.

Net earnings and earnings per share increased by \$0.3 million or 6.5% to \$5.6 million and \$0.03 to \$0.52 per share respectively. The improvement was primarily due to an increase in EBIT of \$0.2 million and lower interest expense of \$0.2 million.

CEMETERY DIVISION

Cemetery sales in the third quarter of 2009 decreased by \$1.4 million or 4.9% from 2008 to \$27.6 million. The unfavourable comparison to the third quarter of 2008 was related to an exceptional increase in that period of 11.3%. The average annual increase in cemetery sales from 2003 to 2008 was 4.9%.

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

- \$11.1 million (2008 – \$11.0 million) of at-need sales of interment rights and deliveries of at-need merchandise and services;
- \$8.4 million (2008 – \$10.0 million) of pre-need sales of interment rights; and
- \$8.2 million (2008 – \$8.1 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 \$1.4 million decrease in cemetery sales (in \$millions):

<u>At-Need</u>	
Interment rights	0.6
Merchandise	(0.7)
Services	0.2
	<u>0.1</u>
 <u>Pre-Need</u>	
Interment rights	(1.6)
Merchandise	0.3
Services	(0.2)
	<u>(1.5)</u>
	<u><u>(1.4)</u></u>

The increase in sales of at-need interment rights of \$0.6 million or 28.1% was due to a \$0.3 million or 30.5% increase in burial lots, a \$0.2 million or 25.9% increase in niches and a \$0.1 million or 24.7% increase in crypts. The increases in niche and burial lot sales were due to a higher average selling price due to mix of products sold and price increases as well as a higher number of units sold for burial lots.

The decrease in at-need merchandise of \$0.7 million or 10.5% was due to lower deliveries of bronze memorials of \$0.5 million or 15.0% and lower deliveries of upright monuments of \$0.2 million or 11.8%. The decrease in memorial deliveries was due to lower contracts written in the second and third quarters of 2009 of 2.2% and 12.8% respectively. The decrease in monument deliveries was due to timing of delivery of 2009 monument contracts written.

Sales of pre-need interment rights decreased by \$1.6 million or 16.0% as follows:

Lots	0.9
Crypts	0.5
Niches	0.2
	<u>1.6</u>

The \$1.6 million decrease in sales was primarily due to a strong increase in interment right sales in the third quarter of 2008 of \$2.0 million or 25.1% over 2007. A significant portion of the reduction occurred at one branch operation in Western Canada due to weather-related issues in 2009, which impacted the development of new lot inventory. The Company believes that the prevailing economic conditions in the period were also a factor in the decline in sales.

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;
- 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 2009, the number of interments performed by the Company increased by 4.0% to 5,202 and the number of cremations decreased by 5.4% to 3,508 compared to the third quarter of 2008 due to one less crematorium operating this period versus last year, as well as a decline in the number of deaths and loss of market share in certain market areas. For comparative purposes, interments increased by 1.9% and cremations increased by 10.4% in the third quarter of 2008 as compared to 2007. The average growth in interments and cremations over the five-year period from 2003 to 2008 was 1.4% and 1.5%, respectively.

Cemetery investment income for the third quarter of 2009 increased by \$0.2 million or 6.7% over 2008 to \$2.8 million due primarily to an increase in care fund income of 6.5%. Care fund income increased as a result of a higher average care fund balance of \$10.7 million or 6.2%. The annualized rate of return of 5.1% was consistent with 2008. Interest and dividend income on the care funds is recognized as earned and used to defray cemetery care and maintenance costs.

Interest and dividend income earned on pre-need cemetery merchandise and services trust funds increased by \$0.1 million or 5.2% to \$1.8 million in the third quarter of 2009 due to a higher average balance in the funds of \$14.0 million or 6.9%, which was partially offset by a decrease in the average rate of return from 3.4% to 3.3%. The fund realized a net gain of \$0.3 million in the third quarter of 2009 primarily as a result of selling and reinvesting certain equity investments in compliance with new investment criteria that were introduced by the Alberta Consumer Services Board. 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 2009 decreased by \$0.3 million or 1.0% from 2008 as follows (in \$millions):

Cost of sales	(0.5)
Care and maintenance	0.3
Other	<u>(0.1)</u>
	<u>(0.3)</u>

The \$0.5 million or 4.8% decrease in the cost of sales expense was due to the reduction in sales. The cost of sales percentage for the third quarter of 2009 was consistent with the third quarter of 2008.

Care and maintenance expenses increased by \$0.3 million or 5.7% due primarily to higher salaries and wages as a result of annual increases and incremental employees, and higher temporary and part-time wages.

EBIT in the cemetery division for the third quarter of 2009 decreased by \$1.0 million or 22.8% due mainly to lower sales and higher employee costs.

FUNERAL DIVISION

As at July 26, 2009, the Company wholly owned 82 funeral homes. Five funeral branch operations, which were classified as discontinued operations in the second quarter of 2009, were sold in the period.

Funeral sales in the third quarter of 2009 increased by \$1.1 million or 4.0% from the third quarter of 2008 to \$29.3 million. The increase in sales occurred primarily in existing operations and was due to a higher average sale per funeral service of 2.6% and an increase in the number of services performed of 1.2%. The increase in the average sale per funeral service was the result of price increases and an increase in the sale of floral arrangements. For comparative purposes, the increase in the number of existing funeral home services in the third quarter of 2008 as compared to 2007 was 6.4%. The five-year average increase in the number of existing funeral home services from 2003 to 2008 was 1.9%.

Sales in the period consisted of:

- \$19.2 million (2008 - \$18.7 million) of at-need sales of funeral merchandise and services;
- \$10.0 million (2008 - \$9.4 million) from the fulfilment of funeral merchandise and services sales that were arranged on a pre-need basis; and
- \$0.1 million (2008 - \$0.1 million) of flower shop sales.

Pre-need funeral contracts written in the third quarter of 2009 increased by \$0.3 million or 2.0%. Pre-need funeral contracts written under the trust program represented 36.4% (2008 – 34.3%) of total contracts written, while contracts written under the group annuity program represented 63.6% (2008 – 65.7%).

Investment and other income in the funeral division decreased by less than \$0.1 million or 2.1% in 2009 due to lower annuity fees.

Interest and dividend income earned on the pre-need funeral funds in the third quarter of 2009 decreased by \$0.1 million or 4.7% to \$1.9 million compared to the third quarter of 2008 due to a reduction in the average balance in the funds of \$1.1 million or 0.5% as well as a lower annualized rate of return on the funds of 3.5% compared to 3.6%. The decrease in the average balance in the funds was due mainly to deliveries that exceeded new pre-need trust contracts written. The fund realized a net gain of \$0.6 million in the third quarter of 2009 primarily as a result of selling and reinvesting certain equity investments in compliance with new investment criteria that were introduced by the Alberta Funeral Services Regulatory Board. 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 2009 were consistent with 2008. A breakdown of the changes by category follows (in \$millions):

Cost of sales	0.2
Services	0.7
Administrative	(0.8)
Other	<u>(0.1)</u>
	<u>-</u>

The increase in services expenses of \$0.7 million or 6.9% was mainly due to higher employee costs as a result of annual salary and wage increases, incremental employees, market adjustments and higher anticipated bonus payments.

The decrease in administrative expenses was primarily due to lower termination costs in the period compared to 2008.

EBIT in the funeral division increased by \$1.1 million or 14.8% to \$8.4 million due to an increase in sales of 4.0% and a decrease in termination costs of \$0.7 million. Excluding the impact of termination costs from both years, EBIT increased by \$0.4 million or 5.2%.

CORPORATE DIVISION

Corporate revenue, consisting of rental income from leasing a portion of the Company's head office building, interest income on the Company's bank accounts and notes receivable, decreased by \$0.1 million or 22.1% compared to the third quarter of 2008 due to lower interest income on the Company's bank accounts as a result of a reduced average cash balance and lower interest rates in the third quarter of 2009.

Corporate expenses decreased by \$0.2 million or 5.0% in the third quarter of 2009 to \$3.4 million, which was mainly due to the reversal of a sales tax contingency reserve in 2009. Excluding the impact of this reversal, corporate expenses decreased by less than \$0.1 million or 0.9%.

The loss in the corporate division decreased by \$0.1 million or 3.8% to a loss of \$3.3 million.

As a percentage of total Company revenue, corporate expenses decreased to 5.6% in the third quarter of 2009 from 5.9% for the same period of 2008. For comparative purposes, corporate expenses as a percentage of revenue averaged 6.5% from 2004 to 2008 on an annual basis.

RESULTS OF OPERATIONS FOR THE 39 WEEKS ENDED JULY 26, 2009 COMPARED TO THE 39 WEEKS ENDED JULY 27, 2008

TOTAL COMPANY RESULTS

Revenue for the 39 weeks ended July 26, 2009, was \$179.9 million compared to \$176.3 million for the 39 weeks ended July 27, 2008. This represented an increase of \$3.6 million or 2.1%. Following is a breakdown of total revenue:

	2009		2008	
	\$Millions	% of Total	\$Millions	% of Total
Sales				
Cemetery	76.2	42.4	75.5	42.8
Funeral	90.5	50.3	87.7	49.8
	<u>166.7</u>	<u>92.7</u>	<u>163.2</u>	<u>92.6</u>
Investment and other income	13.2	7.3	13.1	7.4
	<u>179.9</u>	<u>100.0</u>	<u>176.3</u>	<u>100.0</u>

Sales increased by \$3.5 million or 2.1% in the first 39 weeks of 2009 compared to the first 39 weeks of 2008. Sales in the cemetery division increased by \$0.7 million or 0.9% and sales in the funeral division increased by \$2.8 million or 3.2%.

Investment and other income increased by \$0.1 million or 1.0% over 2008 due to higher annuity fees in the funeral division and higher care fund income in the cemetery division. The favourable impact of these changes was mostly offset by a reduction in interest income in the corporate division.

Operating expenses increased by \$4.9 million or 3.5% over 2008. Cemetery division expenses increased by \$3.0 million or 4.0%, due mainly to increases in selling, care and maintenance, administrative and cost of sales expenses. Funeral division expenses increased by \$2.0 million or 2.9% due mainly to increases in services, cost of sales and pre-need expenses, which were partially offset by lower administrative expenses as a result of a reduction in termination costs.

Corporate expenses increased by \$0.2 million or 1.8% over 2008 due mainly to increases in employee costs and legal fees.

Earnings before interest expense and income taxes ("EBIT") were \$23.5 million, which represented a decrease of \$1.5 million or 6.1% from 2008. The \$1.5 million decrease was the result of a \$1.9 million reduction in EBIT in the cemetery division and a \$0.8 million increase in the loss of the corporate division, which were partially offset by an increase in EBIT of \$1.2 million in the funeral division. The decline of \$1.9 million in the cemetery division was due to an increase in expenses that exceeded the increase in revenue. The increase in expenses was driven by higher employee compensation and cost of sales while the growth in revenue was lower than historically experienced. The \$0.8 million increase in the loss of the corporate division was mainly due to a reduction in interest income on the Company's bank accounts and a mortgage receivable that was repaid in January 2008 as well as a 1.8% increase in expenses.

Interest expense included interest on floating-rate bank term debt and the cost of the Company's interest rate swap contracts. Interest expense decreased \$1.0 million or 40.2% to \$1.5 million in the first 39 weeks of 2009 due primarily to a lower weighted-average balance of long-term debt outstanding of \$14.5 million or 22.9% and a lower average floating rate of interest of 4.2% compared to 5.4% in 2008, the impact of which was partially offset by higher swap costs of \$0.6 million. The weighted average long-term debt balance decreased due to repayments on the bank term loans in the second and fourth quarters of 2008 and a capital lease buyout of \$1.9 million in the second quarter of 2008. The proportion of fixed-rate debt to total debt at July 26, 2009 was 62% compared to 61% at October 26, 2008 and 67% at July 27, 2008.

Income taxes for the first 39 weeks of 2009 reflected an effective tax rate of 29.9% compared to 38.9% in the first 39 weeks of 2008. Of the decrease in the effective rate of 9.0 percentage points, 6.5 percentage points was due to an increase in the future tax expense in 2008 of \$1.6 million that resulted from the impact of a reduction in future Federal tax rates in the first quarter of 2008. Other factors included a lower combined basic rate of 0.7 of

a percentage point, the favourable impact of dividends and refundable dividend taxes and a reduction in capital losses in 2009 compared to 2008.

Net earnings from discontinued operations in the first 39 weeks of 2009 decreased by \$0.2 million or 97.3% compared to the first 39 weeks of 2008.

Net earnings and earnings per share in the first 39 weeks of 2009 increased by \$1.5 million or 10.7% to \$15.4 million and by \$0.14 to \$1.44 per share, respectively, compared to the first 39 weeks of 2008. The increase was attributable to lower income taxes of \$2.2 million or 24.7% and lower interest expense of \$1.0 million or 40.2%, which were partially offset by a reduction in EBIT of \$1.5 million or 6.1%. Of the \$2.2 million reduction in income taxes, \$1.6 million was due to a higher increase in the future tax expense in 2008 that resulted from a reduction in future Federal tax rates in the first quarter.

CEMETERY DIVISION

Cemetery sales in the first 39 weeks of 2009 increased by \$0.7 million or 0.9% over 2008 to \$76.2 million. The increase in sales was lower than historical increases. The average annual increase in cemetery sales from 2003 to 2008 was 4.9%.

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

- \$25.9 million (2008 – \$26.7 million) of pre-need sales of interment rights;
- \$21.9 million (2008 – \$21.2 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
- \$28.4 million (2008 – \$27.6 million) of at-need sales of interment rights and deliveries of at-need merchandise and services.

The following is a breakdown of the \$0.7 million increase in cemetery sales (in \$millions):

<u>At-Need</u>	
Interment rights	1.0
Merchandise	(0.3)
Services	0.1
	<u>0.8</u>
 <u>Pre-Need</u>	
Interment rights	(0.8)
Merchandise	0.7
Services	-
	<u>(0.1)</u>
	<u>0.7</u>

The increase in sales of at-need interment rights of \$1.0 million or 16.6% was primarily due to higher niche sales of \$0.6 million or 24.8% and higher burial lot sales of \$0.3 million or 10.8%. The increase in niche and burial lot sales was mainly due to a higher average selling price as a result of mix of products sold and price increases, as well as the availability of new inventory for niches.

The decrease of \$0.3 million or 1.9% in the delivery of at-need merchandise resulted mainly from lower deliveries of bronze memorials of \$0.3 million or 5.1%. The decrease in memorial deliveries was primarily due to a reduction of 4.2% in contracts written in 2009 compared to 2008, which resulted in lower deliveries in the period.

The decrease in pre-need interment right sales of \$0.8 million or 3.1% was due to a reduction in burial lot sales of \$0.8 million or 6.6%. The reduction primarily occurred at one branch operation in Western Canada due to weather-related issues in 2009, which impacted the development of new lot inventory, and successful marketing campaigns in 2007 and 2008 directed toward specific customer groups. Although burial lot sales decreased by 6.6% in the period, burial lot sales for the first three quarters of 2008 and 2007 increased by 6.3% and 8.5% over the prior period, respectively. The Company believes that the prevailing economic conditions in the period were also a factor in the decline in sales.

The increase of \$0.7 million or 4.3% in pre-need merchandise sales resulted mainly from higher deliveries of pre-need upright monuments of \$0.6 million or 20.1%. The increase in deliveries of upright monuments was due to:

- an increase of 9.2% in contracts written in 2008 compared to 2007 and an increase of 5.2% in contracts written in 2007 compared to 2006, which resulted in higher deliveries in the period;
- an increase in sales of \$0.2 million resulting from administrative projects undertaken in both 2008 and 2009 to contact customers and secure approval for manufacture of markers that were fully-paid in prior years, and
- timing of delivery.

Deliveries of upright monuments and bronze memorials (“markers”) can vary significantly from quarter to quarter since delivery is dependent on many factors, including, but not limited to:

- the timing of full payment by the customer;
- the amount of time it takes for customers to approve the manufacture and delivery of their marker;
- the amount of time it takes for orders to be submitted to the manufacturers;
- 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 39 weeks of 2009, the number of interments performed by the Company increased by 1.9% to 13,378 and the number of cremations decreased by 5.1% to 10,924 compared to the first 39 weeks of 2008 due to one less crematorium operating this period versus last year, as well as a decline in the number of deaths and loss of market share in certain areas. For comparative purposes, interments increased by 0.3% and cremations increased by 3.2% in fiscal 2008 as compared to fiscal 2007.

Cemetery investment income for the first 39 weeks of 2009 increased by \$0.4 million or 4.9% over 2008 to \$8.3 million due to an increase in care fund income of \$0.2 million or 3.6% and an increase in referral and annuity fees of \$0.2 million or 10.9%. The increase in care fund income was due to a higher average balance in the funds of \$9.9 million or 5.7% and occurred despite a decrease in the annualized rate of return on the funds from 5.1% in 2008 to 5.0% in 2009. Interest and dividend income on the care funds is recognized as earned and used to defray cemetery care and maintenance costs. The increase in referral fees was due to an increase in the average balance of the pre-need cemetery merchandise and services trust funds of 6.5% and the receipt of \$0.1 million in the period for Quebec referral fees that related to 2008.

The care funds realized gains and losses on mandatory redemptions in its fixed income portfolio and due to changes in investment strategy to lengthen the duration of the portfolio and redistribute asset classes, which resulted in a net gain of \$0.3 million in the period. Comparatively, the fund realized a net capital loss of \$1.3 million in 2008, which was primarily due to an exchange loss on mandatory redemptions.

Interest and dividend income earned on pre-need cemetery merchandise and services trust funds increased by \$0.3 million or 6.9% due to a higher average balance in the funds of \$13.0 million or 6.5%. The average rate of return on the funds was 3.3% in both years. The fund realized a net gain of \$0.3 million in the period primarily as a result of selling and reinvesting certain equity investments in compliance with new investment criteria that were introduced by the Alberta Consumer Services Board. 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 39 weeks of 2009 increased by \$3.0 million or 4.0% over the same period of 2008 as follows (in \$millions):

Cost of sales	0.5
Selling	0.9
Care and maintenance	0.8
Administrative	0.7
Other	0.1
	<u>3.0</u>

Of the increase in the cost of sales expense of \$0.5 million or 2.1%, \$0.2 million was due to higher sales and \$0.2 million was due to an increase in the cost of at-need merchandise and book to physical adjustments. The cost of sales percentage for the first 39 weeks of 2009 was 34.7%, which was 0.4 of a percentage point higher than the cost of sales percentage for 2008.

Selling expenses increased by \$0.9 million or 3.7% and care and maintenance expenses increased by \$0.8 million or 5.4% primarily due to higher employee compensation as a result of annual increases, market adjustments that were implemented in the second quarter of 2008 and incremental employees. Selling expenses included an increase in training salaries for new sales counsellors of \$0.2 million or 56.3% due to higher than historical hiring of counsellors.

Administrative expenses increased by \$0.7 million or 18.8% due mainly to higher employee compensation as a result of incremental employees, annual increases, market adjustments, higher accrued incentive compensation and higher termination costs of \$0.2 million.

EBIT in the cemetery division decreased by \$1.9 million or 19.7% due to an increase in expenses of 4.0% that exceeded a 1.3% increase in revenue. The higher percentage increase in expenses compared to revenue was driven by increases in employee compensation, including \$0.2 million in termination costs, while the increase in revenue was lower than historical increases.

FUNERAL DIVISION

As at July 26, 2009, the Company wholly owned 82 funeral homes. Six funeral branch operations, which were previously classified as discontinued operations, were sold in the period.

Funeral sales in the first 39 weeks of 2009 increased by \$2.8 million or 3.2% over the first 39 weeks of 2008 to \$90.5 million. The improvement was attributable to a \$2.5 million or 2.9% increase in sales from existing funeral home operations and a \$0.3 million increase in sales from new operations, which was comprised of additional calls at funeral homes in Windsor and Brampton, Ontario as a result of the availability of reception centres completed at nearby cemeteries in November 2007 and July 2009, respectively.

The increase in sales from existing operations was due to an increase in the average sale per funeral service of 3.3%, the effect of which was partially offset by a lower number of services of 0.3%. The increase in the average sale per funeral service was the result of price increases, an increase in the proportion of caskets sold with a higher average selling price and an increase in the sale of floral arrangements. For comparative purposes, the average annual increase in the number of existing funeral home services from fiscal 2003 to 2008 was 1.9%.

Sales in the period consisted of:

- \$59.9 million (2008 - \$58.5 million) of at-need sales of funeral merchandise and services;
- \$30.3 million (2008 - \$28.9 million) from the fulfilment of merchandise and services sales that were arranged on a pre-need basis; and
- \$0.3 million (2008 - \$0.3 million) of flower shop sales.

Pre-need funeral contracts written in the first 39 weeks of 2009 increased by \$1.0 million or 2.6%. Pre-need funeral contracts written under the trust program in the first 39 weeks of 2009 represented 36.7% (2008 – 40.1%) of total contracts written, while contracts written under the group annuity program represented 63.3% (2008 – 59.9%).

Investment and other income in the funeral division increased by \$0.3 million or 7.8% to \$4.5 million in the first 39 weeks of 2009 due mainly to higher annuity fees of \$0.3 million or 8.1%. The higher annuity fees primarily resulted from an increase in contracts written under the group annuity program of \$2.0 million or 8.5%.

Interest and dividend income earned on the pre-need funeral funds decreased by \$0.1 million or 2.1% to \$5.8 million due to a lower average balance in the funds of \$1.4 million or 0.6% and a lower annualized rate of return on the funds of 3.5% compared to 3.6%. The decrease in the average balance in the funds was mainly due to deliveries that exceeded new pre-need trust contracts written. The fund realized a net gain of \$0.6 million in the period primarily as a result of selling and reinvesting certain equity investments in compliance with new investment criteria that were introduced by the Alberta Funeral Services Regulatory Board. 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 39 weeks of 2009 increased by \$2.0 million or 2.9% over the first 39 weeks of 2008. A breakdown of the \$2.0 million increase follows (in \$ millions):

Cost of sales	0.4
Services	2.1
Administration	(0.9)

Pre-need	0.3
Other	<u>0.1</u>
	<u>2.0</u>

The increase in services expenses of \$2.1 million or 7.2% was primarily due to higher employee costs of \$1.9 million or 8.3% due mainly to annual salary and wage increases, incremental employees, market adjustments, higher lieu time costs accrued, higher temporary and part-time wages, an increase in benefit costs and higher anticipated bonus incentive payments.

The decrease in administrative expenses was primarily due to lower termination costs of \$0.7 million compared to 2008.

EBIT in the funeral division increased by \$1.2 million or 4.5% to \$26.6 million in the first 39 weeks of 2009 due to an increase in sales and investment income that exceeded the increase in expenses. The increase in expenses was favourably affected by a decrease in termination costs from 2008 of \$0.7 million or 90.7%. Excluding the impact of termination costs from both years, EBIT increased by \$0.5 million or 1.8%.

CORPORATE DIVISION

Corporate revenue, consisting of rental income from leasing a portion of the Company's head office building, interest on the Company's bank accounts, notes receivable and a mortgage receivable, decreased by \$0.6 million or 54.2% compared to the first 39 weeks of 2008 due primarily to lower interest income on the Company's bank accounts of \$0.5 million as a result of a reduction in the average cash balance and lower rates of interest.

Corporate expenses increased by \$0.2 million or 1.8% in the first 39 weeks of 2009 to \$11.3 million due mainly to an increase in employee costs and legal fees. The increase in employee costs was the result of higher salaries and wages, benefits, accrued incentive compensation and termination costs of \$0.1 million. Excluding the impact of termination costs from both years, corporate expenses increased by 1.0%.

The loss in the corporate division increased by \$0.8 million or 7.8% to a loss of \$10.8 million due primarily to a reduction in interest income of \$0.6 million.

As a percentage of total Company revenue, corporate expenses were 6.3% in the first 39 weeks of 2009 and 2008. For comparative purposes, corporate expenses as a percentage of revenue averaged 6.5% from 2004 to 2008 on an annual basis.

CONSOLIDATED BALANCE SHEETS

Key financial indicators for the balance sheets as at July 26, 2009, and October 26, 2008, were as follows:

	July 26, 2009	October 26, <u>2008</u> ⁽²⁾
Current ratio	3.39:1	2.60:1
Working capital (in \$millions)	62.8	56.7
Debt to equity ratio	0.25:1	0.26:1
Long-term debt to EBITDA ⁽¹⁾	1.19:1	1.16:1
Interest coverage ratio ⁽¹⁾	7.88:1	6.62:1

(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.

(2) Certain figures provided for 2008 have been restated to conform with the current period's presentation – see note 11.

The improvements in the current ratio and working capital were mainly due to a reduction in accounts payable and accrued liabilities and a decrease in the current portion of long-term debt, which relates to the timing of the debt renewal.

The improvement in the interest coverage ratio was primarily due to a reduction in interest expense as a result of repayment of bank term loans in the second and fourth quarters of 2008.

Cash increased by \$2.3 million mainly due to cash from operating activities of \$17.2 million and \$4.1 million in proceeds from the disposal of discontinued operations, which were partially offset by fixed asset additions of \$14.3 million, an acquisition of the land and building of an existing funeral branch operation for \$1.0 million and the payment of dividends of \$3.5 million.

Merchandise inventory increased by \$1.4 million or 13.5% as a result of higher upright monument inventory. The increase in monument inventory occurred due to a backlog in the finishing, shipment and installation of monuments purchased to fulfill pre-need and at-need cemetery contracts.

Pre-need receivables and funds, including the current portion thereof, increased by \$27.1 million or 5.4% to \$525.5 million at July 26, 2009. Excluding a fair value gain of \$17.8 million and a realized capital gain of \$1.0 million, pre-need receivables and funds increased by \$8.3 million or 1.7%. This compared to an increase of \$8.1 million or 1.7% in 2008, excluding a fair value gain of \$3.2 million and non-recurring items. The fair value gain of \$17.8 million was mainly related to a reduction in the prevailing market interest rates for term deposits and corporate bonds, which increased the fair value of the term deposit and fixed income portfolio.

Income taxes receivable decreased from \$4.2 million at October 26, 2008 to \$1.0 million at July 26, 2009, a decrease of \$3.2 million. The decrease was due to collection of \$4.5 million of the instalments paid in excess of the actual taxes for fiscal 2008, which was partially offset by tax instalments paid in 2009 that exceeded the tax provision for the period by \$0.9 million as well as a reclassification of \$0.4 million to accounts payable and accrued liabilities.

Crypts and niches increased by \$7.4 million or 26.1% to \$35.7 million due to additions of \$13.2 million, which were partially offset by the cost of inventory sold of \$5.9 million. The \$13.2 million spent on crypt and niche inventory included \$8.1 million spent on a new mausoleum at Glendale Memorial Gardens in Toronto, Ontario, \$2.4 million spent on a mausoleum addition at Rideau Memorial Gardens in Montréal, Québec and \$0.5 million spent on a new interior niche structure at Chapel Lawn Memorial Gardens in Winnipeg, Manitoba, among other items.

Fixed assets increased by \$4.6 million or 2.4% in 2009 to \$195.4 million due to additions of \$11.7 million (2008 - \$8.4 million) and the acquisition of an existing funeral branch operation for \$1.0 million, that were partially offset by depreciation of \$8.1 million (2008 - \$7.8 million). Of the \$11.7 million in additions, \$7.0 million was spent on maintenance capital and \$4.7 million was spent on new initiatives (2008 - \$6.4 million and \$2.0 million, respectively). The only significant project in the period was the partial construction of a reception centre in Brampton, Ontario, on which the Company spent \$3.4 million.

Cemetery care funds and non-controlling interests in cemetery care funds increased by \$16.9 million or 9.9% in 2009 including a fair value gain in the period of \$8.3 million and a realized net capital gain of \$0.3 million. Excluding the fair value gain and realized capital gain, cemetery care funds increased by \$8.3 million or 4.7% 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 \$8.2 million or 4.9% in 2008, excluding a fair value adjustment and realized capital losses.

Assets and liabilities related to discontinued operations, including the current portion of assets, decreased by \$8.4 million and \$4.1 million, respectively, primarily due to the sale of six funeral branch operations in the period. The asset balance of \$2.3 million at July 26, 2009 represented a parcel of cemetery land originally held for future development.

Accounts payable and accrued liabilities decreased by \$8.2 million or 25.4% as follows (in \$millions):

Trade accounts payables	5.7
Accrued liabilities	2.3
Other accounts payable	<u>0.2</u>
	<u>8.2</u>

The decrease in trade accounts payable was mainly related to lower payables for construction and development and inventory and other timing-related variables. The decrease in accrued liabilities was largely related to a reduction in employee termination settlements of \$1.3 million, accrued bonuses of \$0.8 million and vacation pay of \$0.4 million, which were partially offset by a net increase in other accrued liabilities.

Other liabilities increased by \$1.1 million or 7.0%. The \$1.1 million increase was primarily due to higher future amounts owing for GST collected on pre-need contracts of \$1.0 million as well as an increase of \$0.1 million for the pre-tax fair value loss on the interest rate swap agreements.

Deferred revenue and non-controlling interests in pre-need funds, plus the accumulated benefit of the pre-need funeral group annuity funds excluded from the balance sheet, was \$788.1 million compared to \$740.8 million at October 26, 2008, an increase of \$47.3 million or 6.4%. Of the \$47.3 million increase, \$17.8 million was a fair value gain on the pre-need trust funds and \$1.0 million related to a realized capital gain. The remaining increase was \$28.5 million or 3.9% (2008 – \$30.6 million or 4.3%) and represented deferral of revenue in the period in excess of amounts recognized upon delivery of merchandise and services.

CONSOLIDATED STATEMENTS OF CASH FLOWS

13 WEEKS ENDED JULY 26, 2009

Net cash provided by operating activities of continuing operations increased by \$6.6 million or 151.3% from the 13 weeks ended July 27, 2008 due mainly to a positive net change in other operating balance sheet items (“net change”) of \$2.1 million in 2009 compared to a negative net change of \$3.9 million in 2008, a difference of \$6.0 million.

The most significant items in the net change of \$6.0 million included:

- a \$5.4 million decrease in cash used for income taxes;
- a net increase in cash used for accounts payable and accrued liabilities of \$1.8 million;
- a net decrease in accounts receivable of \$1.0 million;
- a net decrease in deferred revenue of \$0.8 million; and
- a net decrease in instalment accounts receivable of \$0.8 million.

Net cash used for investing activities of continuing operations increased by \$0.8 million or 7.4% in the third quarter of 2009. The increase was mainly due to higher additions to fixed assets of \$0.7 million.

Net cash provided by financing activities of continuing operations decreased by \$1.3 million or 19.7% mainly due to an increase of \$1.2 million in dividend payments.

39 WEEKS ENDED JULY 26, 2009

Net cash provided by operating activities of continuing operations increased by \$1.7 million or 11.0% from the first thirty nine weeks of 2008 due mainly to a reduction in cash used in the net change in other operating balance sheet items (“net change”) of \$1.2 million. The \$1.2 million decrease in the net change was primarily due to a \$6.3 million decrease in cash used for income taxes, the impact of which was partially offset by higher additions to developed land, crypts and niches of \$4.8 million as well as other changes.

Net cash used for investing activities of continuing operations increased by \$13.1 million mainly due to:

- \$6.8 million in proceeds received on repayment of the mortgage receivable in 2008;
- higher additions to fixed assets of \$2.9 million;
- a \$2.2 million decrease in cash related to pre-need funds, which was primarily due to a withdrawal from the funds in 2008 of \$2.6 million for prior year deliveries; and
- \$1.0 million used to acquire the land and building of an existing funeral branch operation in 2009.

Net cash provided by financing activities of continuing operations was \$13.7 million in 2009 compared to cash used of \$4.6 million in 2008, an increase in cash of \$18.3 million. The increase was mainly due to \$22.1 million in repayments on the long-term debt in 2008, which was partially offset by an increase of \$2.8 million in dividends paid in 2009 and a decrease of \$0.6 million in proceeds on the exercise of stock options. In the third quarter of 2009, the Company repaid \$12.5 million in floating-rate debt at maturity to one financial institution and refinanced at more favourable borrowing rates with another financial institution.

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 26, 2009, the Company had access to unused operating lines of credit of \$12.4 million (October 26, 2008 – \$12.8 million) and unused floating rate debt facilities of \$76.3 million (October 26, 2008 – \$76.3 million). Total unused credit facilities as of July 26, 2009 were \$88.7 million (October 26, 2008 – \$89.1 million). At July 26, 2009, there was \$1.6 million in letters of credit recorded against the operating facility (October 26, 2008 – \$1.2 million). The Company's debt to equity ratio at July 26, 2009 was 0.25:1 (October 26, 2008 – 0.26:1).

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

Based on historical cash inflows and outflows, management believes that cash on hand and future cash flow from operating activities are sufficient to sustain ongoing operations as well as the routine maintenance and orderly replacement of the Company's fixed assets. For fiscal 2009, the Company has no plans to borrow additional debt on its bank term loans to fund ongoing operations or the orderly replacement of fixed assets based on its current cash position, expected cash from operations and projected capital and burial space inventory expenditures. However, the Company may borrow additional debt in fiscal 2009 to fund new initiatives, such as acquisitions, new reception centres and funeral homes, new cemetery land and major additions to funeral homes. The requirement for new debt will depend on the timing of construction and development for internally generated projects and the availability of properties that can be acquired with attractive returns for acquisitions.

CAPITAL EXPENDITURES, CEMETERY BURIAL SPACE INVENTORY AND CONTRACTUAL COMMITMENTS

There were no projects on which the Company had expended significant funds prior to July 26, 2009 that had not yet generated operating revenue.

The Company had committed to the following expenditures for capital and cemetery burial space inventory at July 26, 2009 (in \$millions), which the Company expects to spend within the next two years:

Cemetery burial space inventory	6.5
Maintenance capital expenditures	2.6
New funeral home initiatives	1.5
New reception centres	<u>0.2</u>
	<u>10.8</u>

The Company is also contractually committed to funeral inventory purchases of \$37.3 million during the period from February 1, 2008 to January 31, 2013. From February 1, 2008 to July 26, 2009, the Company had purchased \$12.9 million under this commitment. The Company anticipates funding these expenditures from existing cash and cash from operations generated in 2009.

Following is the Company's planned capital and cemetery burial space inventory spending for the remainder of fiscal 2009 (in \$millions):

New initiatives	7.2
Cemetery burial space inventory	7.3
Maintenance capital expenditures	<u>6.4</u>
	<u>20.9</u>

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

UNAUDITED SUMMARY OF QUARTERLY RESULTS

<i>(\$millions, except per share amounts)</i>	<i>For the 13 weeks ended</i>							
	<i>Third Quarter</i>		<i>Second Quarter</i>		<i>First Quarter</i>		<i>Fourth Quarter</i>	
	<i>Jul-26</i>	<i>Jul-27</i>	<i>Apr-26</i>	<i>Apr-27</i>	<i>Jan-25</i>	<i>Jan-27</i>	<i>Oct-26</i>	<i>Oct-28</i>
	2009	2008	2009	2008	2009	2008	2008	2007
Revenue	61.4	61.6	60.1	58.1	58.4	56.6	59.1	57.8
Net earnings from continuing operations	5.9	5.4	4.9	5.3	4.7	3.1	5.7	3.6
Net earnings	5.6	5.3	4.9	5.6	4.9	3.1	5.8	2.2
Basic and diluted earnings per share from continuing operations ⁽¹⁾	\$0.55	\$0.50	\$0.45	\$0.49	\$0.44	\$0.29	\$0.53	\$0.33
Basic and diluted earnings per share ⁽¹⁾	\$0.52	\$0.49	\$0.46	\$0.52	\$0.46	\$0.29	\$0.53	\$0.21

⁽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 memorials. The higher funeral sales were mainly due to a higher than usual increase in the number of existing funeral home services provided.

Revenue in the first quarter of 2008 was lower since the increase in sales of 1.5% in the cemetery division was lower than historical increases. The average annual increase in cemetery sales for 2007 and 2008 was 4.2%.

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

Net earnings from continuing operations and earnings per share from continuing operations were higher in the fourth quarter of 2008 compared to the fourth quarter of 2007 as a result of an adjustment of \$1.5 million in 2008 to the refundable dividend tax on hand, which resulted from the change in the annual dividend from \$0.07 per share to \$0.44 per share, and impairment provisions of \$0.7 million in 2007.

Net earnings from continuing operations and earnings per share from continuing operations in the first quarter of 2008 were lower than the first quarter of 2009 as a result of a \$1.9 million future tax expense related to a decrease in substantively enacted Federal tax rates that were applied to deductible temporary differences.

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 quarter of 2007, which was lower as a result of impairment provisions for discontinued operations of \$1.5 million.

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 26, 2009, 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

Current economic market conditions

The Company has given consideration to how the current economic and financial market uncertainty has affected or will affect the Company's performance, resources, estimates, liquidity and other areas. Due to the nature of the Company's products and services, in particular the inevitable need for them and the cumulative impact on current period results from pre-need contracts written in prior years, the Company has not yet experienced a decline in the average sale per service in the funeral division or pre-need funeral contracts written. However, the Company did experience decreases in both cemetery sales and pre-need cemetery contracts written in the third quarter of 2009 of 4.9% and 9.0% respectively, which the Company believes could have been at least partially the result of the economic uncertainty. However, the decreases could also be related to strong increases of 11.3% in cemetery sales and 11.4% in pre-need cemetery contracts written in the third quarter of 2008 over 2007. For the 39 weeks ended July 26, 2009, both cemetery sales and pre-need cemetery contracts written had increased by 0.9% and 0.3%, respectively. A reduction in contracts written could impact revenue recognized in the future. In addition, a prolonged negative economic environment could result in price sensitivity and/or a reduction in the products and services purchased.

Following are additional factors that have been considered:

- The Company noted that at-need cemetery contracts with less than 25% of the contract amount paid and at least one overdue payment cycle represented 9.5% of the receivable balance or \$0.5 million at July 26, 2009 (October 26, 2008- 7.4% and \$0.3 million). The Company has considered this change in its estimate of the provision for uncollectible accounts, which represents 25.7% of this balance at July 26, 2009.
- There were no incremental goodwill impairment issues identified in the current quarter. However, the Company will continue to monitor its under-performing reporting units. The aggregate amount of goodwill associated with these reporting units was \$8.1 million at July 26, 2009 (October 26, 2008 – \$8.1 million). The Company did identify an after-tax impairment in the carrying value of a parcel of cemetery land of \$0.4 million, based on a decision to sell the property in the third quarter of 2009. The loss was partially the result of reduced market values of land in the geographic area where the land is situated.
- At July 26, 2009, the pre-need trust funds had \$0.6 million in unrealized losses in the equity and bond funds while the care funds had \$0.4 million in net unrealized losses in its equity holdings. The Company reviews the investments within its trust funds on an ongoing basis and, based on consultation with its investment managers, does not believe there are any going concern issues or "other than temporary" declines in value. However, the Company continues to monitor the performance of individual investments.
- There have been no changes made to valuation techniques with respect to the fair market values of the pre-need trust and care funds.
- The Company does not anticipate a material impact on costs or any constraints on the supply of products or services required to support the operation of the business.
- With respect to liquidity, the Company believes that based on cash on hand, credit facilities that are currently available and the anticipated impact of prevailing conditions on future cash flows, it is in sound condition to fund current operations and satisfy obligations.
- The Company's interest expense in the first 39 weeks of 2009 was reduced partially as a result of lower prevailing rates of interest. However, since 62% of the Company's debt is at fixed rates, the impact was not significant. In the second quarter, the Company was advised that the pricing structure for its revolving term loans, operating lines of credit and unused floating rate debt facilities for one of its primary bankers would be increased as of May 1, 2009. The estimated annual increase in interest expense as a result of these changes, assuming the current levels of debt by banker are maintained, is \$0.6 million. The Company, however, intends to utilize the more favourable pricing structure of its other primary banker to the extent possible and transferred \$12.5 million in the current quarter.
- The fair value loss on the interest rate swap agreements increased in the period by \$0.1 million before income taxes due to lower prevailing rates of interest. The total fair value loss on the interest rate swap agreements at July 26, 2009 was \$2.0 million.
- The Company has not made changes to either its overall strategy or strategic objectives as a result of prevailing conditions.

Seasonality

While the death care industry is fairly stable and predictable, the Company's at-need business and pre-need deliveries of some merchandise and services can be affected by seasonal fluctuations in the death rate. Death

rates are generally higher in the winter months. The Company's pre-need cemetery sales of interment rights can also have seasonal fluctuations, whereby sales are generally lower in the winter and summer months.

Regulation

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

Environmental

The provinces of Quebec and Ontario and numerous Canadian cities across the country have now enacted and are enforcing pesticide by-laws. These bylaws severely restrict or ban pesticide use in all areas, including cemeteries. These new provincial bans will supersede all existing municipal bans. The Company and its competitors continue to lobby to obtain exemptions from current and future pesticide by-laws based on the expectations of its customers. However, to date we have been unsuccessful in obtaining this exemption. Pesticide by-laws increase the cost of maintaining the Company's cemetery land. However, the increase in cost has not been significant to date. The estimated annual incremental cost if all cemetery locations were subject to such by-laws is \$0.4 million.

The Company also continues to monitor its compliance and programs with respect to other existing environmental standards and regulations as well as potential new standards and regulations across Canada and believes that costs will be incurred to comply with these regulations. However, the Company estimates that the one-time cost of compliance with known regulations will be approximately \$0.6 million and that the incremental annual cost of compliance will not be significant.

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.

September 2, 2009

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS

<i>In thousands of dollars</i>	13 weeks ended		39 weeks ended	
	July 26, 2009	July 27, 2008 ⁽¹⁾	July 26, 2009	July 27, 2008 ⁽¹⁾
Revenue				
Sales	56,920	57,218	166,664	163,183
Investment and other income (note 8)	4,519	4,427	13,242	13,105
	61,439	61,645	179,906	176,288
Expenses				
Operating	49,532	49,797	145,070	140,130
Corporate	3,444	3,626	11,287	11,087
	52,976	53,423	156,357	151,217
Earnings before interest expense and income taxes	8,463	8,222	23,549	25,071
Interest expense	478	666	1,527	2,553
Earnings before income taxes	7,985	7,556	22,022	22,518
Income taxes (note 10)	2,110	2,147	6,584	8,749
Net earnings from continuing operations	5,875	5,409	15,438	13,769
Net (loss) earnings from discontinued operations (note 11)	(279)	(154)	5	184
Net earnings	5,596	5,255	15,443	13,953
Basic and diluted earnings per share (note 9)				
Continuing operations	\$0.55	\$0.50	\$1.44	\$1.28
Discontinued operations	(0.03)	(0.01)	-	0.02
Basic and diluted earnings per share	\$0.52	\$0.49	\$1.44	\$1.30

⁽¹⁾ Certain figures provided for 2008 have been restated to conform with the current period's presentation - see notes 2 and 11.

UNAUDITED CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>In thousands of dollars</i>	13 weeks ended		39 weeks ended	
	July 26, 2009	July 27, 2008 ⁽¹⁾	July 26, 2009	July 27, 2008 ⁽¹⁾
Retained earnings, beginning of period	120,141	103,000	112,853	94,302
Net earnings for the period	5,596	5,255	15,443	13,953
Refundable tax on dividend income (note 10)	(158)	-	(360)	-
Dividends	(1,179)	-	(3,536)	-
Retained earnings, end of period	124,400	108,255	124,400	108,255

⁽¹⁾ Certain figures provided for 2008 have been restated to conform with the current period's presentation - see notes 2 and 11.

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>In thousands of dollars</i>	13 weeks ended		39 weeks ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
Net earnings ⁽¹⁾	5,596	5,255	15,443	13,953
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 (\$306) and \$33 (2008 - (\$46) and \$440) (note 7).	618	32	(66)	(917)
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 (\$1,404) and (\$5,661) in 2009 (2008 - \$541 and (\$1,053)).	2,945	(1,109)	12,148	2,150
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 \$1,404 and \$5,661 in 2009 (2008 - (\$541) and \$1,053).	(2,945)	1,109	(12,148)	(2,150)
	-	-	-	-
Net change in unrealized losses associated with available for sale securities of the cemetery care funds:				
Change in unrealized losses associated with available for sale securities of the cemetery care funds, net of income taxes of (\$1,633) and (\$2,639) in 2009 (2008 - \$498 and \$253).	3,489	(1,018)	5,663	(516)
Change in unrealized losses associated with available for sale securities of the cemetery care funds attributable to non-controlling interests, net of income taxes of \$1,633 and \$2,639 in 2009 (2008 - (\$498) and (\$253)).	(3,489)	1,018	(5,663)	516
	-	-	-	-
Other comprehensive income (loss)	618	32	(66)	(917)
Comprehensive income ⁽¹⁾	6,214	5,287	15,377	13,036

⁽¹⁾ Net earnings and comprehensive income for 2008 have been restated to conform with the current period's presentation - see notes 2 and 11.

UNAUDITED CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

<i>In thousands of dollars</i>	13 weeks ended		39 weeks ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
Accumulated other comprehensive (loss) income, beginning of period	(1,952)	(861)	(1,268)	88
Other comprehensive income (loss) for the period	618	32	(66)	(917)
Accumulated other comprehensive loss, end of period	(1,334)	(829)	(1,334)	(829)

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.
UNAUDITED CONSOLIDATED BALANCE SHEETS

<i>In thousands of dollars</i>	As at	
	July 26, 2009	October 26, 2008 ⁽¹⁾
Assets		
Current assets		
Cash	17,087	14,768
Accounts receivable	18,487	19,404
Pre-need receivables, current portion (note 4)	39,151	39,938
Merchandise inventories	11,656	10,267
Income taxes receivable	986	4,183
Prepaid expenses	1,289	1,377
Future income taxes, current portion	378	1,492
Assets related to discontinued operations, current portion (note 11)	-	616
	89,034	92,045
Notes receivable (note 6)	700	500
Crypts and niches	35,653	28,277
Cemetery land	32,154	32,265
Fixed assets	195,379	190,799
Pre-need receivables and funds (note 4)	486,331	458,490
Stored merchandise	14,192	13,531
Other assets	145	135
Goodwill	50,507	50,507
Intangible assets	1,929	1,984
Future income taxes	16,777	17,569
Cemetery care funds (note 5)	187,070	170,156
Assets related to discontinued operations (note 11)	2,250	10,053
	1,112,121	1,066,311
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	24,132	32,345
Long-term debt, current portion	562	1,594
Future income taxes, current portion	1,538	1,440
	26,232	35,379
Long-term debt	48,092	47,097
Other liabilities	17,492	16,343
Deferred revenue	187,568	186,453
Non-controlling interests in pre-need funds	443,843	416,631
Future income taxes	3,370	3,195
Liabilities related to discontinued operations (note 11)	-	4,084
	726,597	709,182
Non-controlling interests in cemetery care funds	187,070	170,156
Shareholders' equity		
Share capital (note 9)	75,388	75,388
Retained earnings	124,400	112,853
Accumulated other comprehensive loss	(1,334)	(1,268)
	123,066	111,585
	198,454	186,973
	1,112,121	1,066,311

⁽¹⁾ Certain figures provided for 2008 have been restated to conform with the current period's presentation - see note 11.

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>In thousands of dollars</i>	13 weeks ended		39 weeks ended	
	July 26, 2009	July 27, 2008 ⁽¹⁾	July 26, 2009	July 27, 2008 ⁽¹⁾
Cash provided by (used for)				
Operating activities				
Net earnings from continuing operations	5,875	5,409	15,438	13,769
Add (deduct) items not affecting cash:				
Depreciation and amortization	2,747	2,653	8,123	7,875
Gain on disposal of assets	(34)	(39)	(58)	(111)
Future income taxes (note 10)	343	252	1,392	2,751
Stock based compensation	-	-	-	104
Net change in other operating balance sheet items (note 12)	2,094	(3,887)	(7,692)	(8,890)
Net cash provided by continuing operations	11,025	4,388	17,203	15,498
Net cash (used for) provided by discontinued operations	(26)	(102)	103	228
Investing activities				
Additions to fixed assets	(4,546)	(3,821)	(14,283)	(11,354)
Acquisition (note 3)	-	-	(1,015)	-
Additions to cemetery land held for future development	(18)	(35)	(76)	(190)
Proceeds on disposal of assets	52	222	90	302
Proceeds from mortgage receivable	-	-	-	6,750
Change in pre-need funds	(3,836)	(3,905)	(9,108)	(6,947)
Change in cemetery care funds	(2,859)	(2,893)	(8,326)	(8,194)
Net cash used for continuing operations	(11,207)	(10,432)	(32,718)	(19,633)
Additions to fixed assets	-	(42)	(27)	(94)
Additions to cemetery land held for future development	-	(25)	(56)	(37)
Proceeds on disposal of assets	2,366	1,511	4,112	2,102
Change in pre-need funds	7	76	47	94
Net cash provided by discontinued operations	2,373	1,520	4,076	2,065
Financing activities				
Proceeds from new long-term debt	12,497	-	12,510	-
Repayment of long-term debt	(12,524)	-	(12,547)	(22,073)
Dividends paid	(1,179)	-	(3,536)	(744)
Proceeds on exercise of stock options	-	-	-	564
Change in non-controlling interests in pre-need funds	3,766	3,858	8,941	9,426
Change in non-controlling interests in cemetery care funds	2,859	2,893	8,326	8,194
Net cash provided by (used for) continuing operations	5,419	6,751	13,694	(4,633)
Net cash used for discontinued operations	(7)	(86)	(39)	(104)
Increase (decrease) in cash	7,577	2,039	2,319	(6,579)
Cash, beginning of period	9,510	15,865	14,768	24,483
Cash, end of period	17,087	17,904	17,087	17,904
Supplementary information				
Income taxes paid	1,475	2,762	5,786	9,166
Interest paid	554	673	1,644	2,611

⁽¹⁾ Certain figures provided for 2008 have been restated to conform with the current period's presentation - see notes 2 and 11.

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.

UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the 39 weeks ended July 26, 2009 and July 27, 2008

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 2008 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 2008 annual consolidated financial statements.

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

2. NEW ACCOUNTING STANDARDS

IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

In the fourth quarter of fiscal 2008, the Company adopted the revisions to CICA Handbook Section 1000, Financial Statements and Concepts and Section 3064, Goodwill and Intangible Assets. As a result of the changes to these standards, deferred obtaining costs are expensed as incurred rather than being classified as assets on the balance sheet. The prior year interim financial statements have been restated accordingly. The impact on the statement of earnings for the 13 and 39 weeks ended July 27, 2008 was a reduction of net earnings of \$0.5 million and \$3.6 million, respectively, and a reduction of basic and diluted earnings per share of \$0.04 and \$0.34, respectively. The reduction in net earnings included a cumulative future tax adjustment of \$1.9 million, or \$0.18 earnings per share, in the first quarter that was required as a result of a reduction in Federally enacted statutory rates applied to deductible temporary differences created by this policy change.

Inventory

The CICA issued a new Handbook Section 3031, Inventories, which replaced Section 3030 of the same title for fiscal years beginning on or after January 1, 2008. This Section introduced changes to the measurement and disclosure of inventory and is converged 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 and requires the reversal of previously recorded write-downs to realizable value when there is clear evidence that net realizable value has increased. As a result of adopting this standard, the Company is required to disclose the amount of inventories recognized as an expense in the period. The following amounts are included in operating expenses in the consolidated statement of earnings:

	13 Weeks Ended		39 Weeks Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
		(\$000)		(\$000)
Burial space inventories	2,274	2,816	6,640	7,061
Merchandise inventories	8,023	8,169	22,257	21,803
	10,297	10,985	28,897	28,864

Going Concern

The CICA issued an amendment to Handbook Section 1400, General Standards of Financial Statement Presentation, for fiscal years beginning on or after January 1, 2008. This Section has been amended to include requirements to assess an entity's ability to continue as a going concern and, when management is aware in making this assessment of material uncertainties related to events or conditions that may cast doubt on the entity's ability to continue as a going concern, those uncertainties would be disclosed. As a

result of management's going concern assessment, the Company concluded that no additional disclosures are required.

FUTURE ACCOUNTING POLICY CHANGES

The CICA has issued three new accounting standards, CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests, which will apply prospectively for fiscal years beginning on or after January 1, 2011. Earlier adoption of these standards is permitted, however all three standards must be adopted concurrently. These standards replace the former CICA Handbook Sections 1581, Business Combinations and 1600, Consolidated Financial Statements and are based on International Financial Reporting Standard 3, "Business Combinations". Section 1582 establishes new accounting standards for business combinations, Section 1601 establishes new standards for the preparation of consolidated financial statements, including enhanced disclosures regarding consolidated and unconsolidated entities and Section 1602 establishes accounting standards for non-controlling interests in subsidiaries that arise subsequent to a business combination.

In May 2009, the CICA amended Section 3862, Financial Instruments - Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require classification of all fair value measurements using a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The standard will also require disclosure on the relative reliability of the inputs used and the effect of change in reasonably possible alternatives. The amendments will be effective for annual financial statements relating to fiscal years ending after September 30, 2009, specifically October 25, 2009 for the Company.

The Company has not yet determined the impact of the new standards on its financial statements.

3. ACQUISITION

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

4. PRE-NEED RECEIVABLES AND FUNDS

	July 26, 2009	<i>October 26, 2008</i>
		(\$000)
Pre-need cemetery trust funds	228,723	209,825
Pre-need funeral trust funds	204,894	194,590
	433,617	404,415
Instalment accounts receivable	69,410	70,259
Pre-need group annuity funds	22,455	23,754
	525,482	498,428
Less: current portion of instalment accounts receivable	39,151	39,938
	486,331	458,490

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 26, 2009, the accumulated benefit of all such contracts was \$156.7 million (October 26, 2008 - \$137.7 million).

The trust funds consist of the following investments:

	<i>Fair Value</i>		<i>Cost</i>	
	<i>July 26, 2009</i>	<i>October 26, 2008</i>	<i>July 26, 2009</i>	<i>October 26, 2008</i>
	<i>(\$000)</i>		<i>(\$000)</i>	
Cash	3,666	4,398	3,666	4,398
Term deposits	236,174	223,286	226,739	220,231
Fixed income:				
Canadian government bonds	41,069	35,852	39,455	34,807
Canadian corporate bonds	109,403	101,532	105,526	107,227
	150,472	137,384	144,981	142,034
Equities:				
Canadian preferred shares	3,952	1,610	3,844	1,714
Canadian common shares	21,211	23,075	16,489	19,099
U.S. common shares	2,063	-	2,514	-
	27,226	24,685	22,847	20,813
Equity/bond funds	16,079	14,662	16,634	15,998
	433,617	404,415	414,867	403,474

5. CEMETERY CARE FUNDS

Cemetery care funds consist of the following investments:

	<i>Fair Value</i>		<i>Cost</i>	
	<i>July 26, 2009</i>	<i>October 26, 2008</i>	<i>July 26, 2009</i>	<i>October 26, 2008</i>
	<i>(\$000)</i>		<i>(\$000)</i>	
Cash	1,156	1,205	1,156	1,205
Term deposits	1,654	6,186	1,654	6,186
Fixed income:				
Canadian government bonds	44,052	34,306	42,747	33,932
Canadian corporate bonds	80,801	67,574	78,242	71,403
Foreign corporate bonds	3,005	3,887	4,533	4,532
Canadian mortgage backed securities	18,102	25,900	18,633	26,086
Canadian asset backed securities	18,619	17,539	19,104	19,104
	164,579	149,206	163,259	155,057
Equities:				
Canadian preferred shares	2,967	1,321	2,926	1,429
Canadian common shares	16,517	12,238	16,983	13,697
U.S. common shares	197	-	207	-
	19,681	13,559	20,116	15,126
	187,070	170,156	186,185	177,574

6. NOTES RECEIVABLE

The notes receivable were established on the sale of three funeral branch operations in 2008 and 2009 for which the Company received a portion of the sale proceeds in the form of promissory notes. One promissory note in the amount of \$0.5 million has 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 second promissory note in the amount of \$0.2 million has a term of three years, expiring on November 28, 2011. Interest is payable monthly at an annual rate of 7%. The fair value of the notes receivable closely approximates the carrying value at July 26, 2009.

7. DERIVATIVE FINANCIAL INSTRUMENTS

As of July 26, 2009, the Company's use of interest rate swap agreements was limited to four (October 26, 2008 – four) 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 5.0% plus a bank margin. At July 26, 2009 these swaps had a total notional amount of \$30.0 million (October 26, 2008 – \$29.8 million). The swaps expire in 2009, 2012 and 2014. Swap costs in the 13 and 39 weeks ended July 26, 2009 were \$0.3 million and \$0.7 million, respectively (13 and 26 weeks ended July 27, 2008 – \$0.1 million) and are included in interest expense.

The fair value of the interest rate swaps is estimated as the discounted unrealized gain or loss calculated based on the market price at the end of the period, 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. However, the Company has verified the methodology utilized in the calculation of the fair value. The estimated fair value of the interest rate swaps was a loss of \$2.0 million (October 26, 2008 – loss of \$1.9 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 26, 2009 the critical terms of the swaps did not match the terms of the underlying floating rate debt. Therefore, the hypothetical derivative method was used to perform a quantitative, retrospective and prospective assessment of the effectiveness of the swaps. This methodology involved regression analysis of historical interest rates for the floating rate portion of the swaps and historical interest rates for the underlying debt. The result of the analysis was that the fair value of the cash flows from the interest rates of the swaps was highly effective at offsetting the variability in cash flows from the interest rates of the underlying debt. Therefore, hedge accounting was used to record the swaps and related activity for the year.

8. INVESTMENT AND OTHER INCOME

	<i>13 Weeks Ended July 26, 2009 and July 27, 2008</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>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>(\$000)</i>									
Realized earnings of funds:										
Interest and dividends ⁽¹⁾	1,796	1,707	1,864	1,927	2,349	2,206	-	-	6,009	5,840
Realized gains	480	57	745	27	5	74	-	-	1,230	158
Realized losses	(143)	(26)	(187)	(544)	(90)	(146)	-	-	(420)	(716)
Trust expenses	(56)	(54)	(58)	(51)	(78)	(70)	-	-	(192)	(175)
	2,077	1,684	2,364	1,359	2,186	2,064	-	-	6,627	5,107
Deferred revenue	(113)	(83)	-	-	-	-	-	-	(113)	(83)
Trust expenses ⁽²⁾	56	54	58	51	78	70	-	-	192	175
Non-controlling interests in funds	(2,020)	(1,655)	(2,422)	(1,410)	62	50	-	-	(4,380)	(3,015)
	-	-	-	-	2,326	2,184	-	-	2,326	2,184
Fee income	499	464	1,511	1,544	-	-	-	-	2,010	2,008
Other	-	-	-	-	-	-	183	235	183	235
	499	464	1,511	1,544	2,326	2,184	183	235	4,519	4,427

39 weeks ended July 26, 2009 and July 27, 2008

	<i>Pre-Need Cemetery</i>		<i>Pre-Need Funeral</i>		<i>Cemetery Care Funds</i>		<i>Other</i>		<i>Consolidated</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	(\$000)									
Realized earnings of funds:										
Interest and dividends ⁽¹⁾	5,313	4,970	5,771	5,896	6,796	6,557	-	-	17,880	17,423
Realized gains	502	130	828	60	849	95	-	-	2,179	285
Realized losses	(156)	(98)	(188)	(888)	(563)	(1,412)	-	-	(907)	(2,398)
Trust expenses	(162)	(158)	(169)	(170)	(229)	(219)	-	-	(560)	(547)
	5,497	4,844	6,242	4,898	6,853	5,021	-	-	18,592	14,763
Deferred revenue	(191)	(149)	-	-	-	-	-	-	(191)	(149)
Trust expenses ⁽²⁾	162	158	169	170	229	219	-	-	560	547
Non-controlling interests in funds	(5,468)	(4,853)	(6,411)	(5,068)	(352)	1,254	-	-	(12,231)	(8,667)
	-	-	-	-	6,730	6,494	-	-	6,730	6,494
Fee income	1,542	1,390	4,483	4,157	-	-	-	-	6,025	5,547
Other	-	-	-	-	-	-	487	1,064	487	1,064
	1,542	1,390	4,483	4,157	6,730	6,494	487	1,064	13,242	13,105

⁽¹⁾ Includes interest income for the 13 and 39 weeks ended July 26, 2009 of \$5.3 million and \$16.2 million, respectively. (for the 13 and 39 weeks ended July 27, 2008 - \$5.4 million and \$15.9 million, respectively).

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

9. SHARE CAPITAL

Authorized:

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

Issued and outstanding:

	<i>Number of Shares</i>		<i>Amount</i>	
	<i>July 26, 2009</i>	<i>October 26, 2008</i>	<i>July 26, 2009</i>	<i>October 26, 2008</i>
	(\$000)			
Class A Voting shares	2,525,497	2,525,497	1,734	1,734
Class B Non-Voting shares	8,188,246	8,188,246	73,654	73,654
	10,713,743	10,713,743	75,388	75,388

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. The weighted average number of shares outstanding for the 13 and 39 weeks ended July 26, 2009 was 10,713,743 (13 and 39 weeks ended July 27, 2008 – 10,713,743 and 10,708,998).

At July 26, 2009 and at October 26, 2008, there were no options outstanding.

not fit into the Company's long-term strategic direction. In addition, marginal performance was a factor in the case of two of these branch operations and possible future earnings reductions was a factor in the case of the remaining three branch operations. The sale of these branch operations was completed in the third quarter of 2009 for cash proceeds of \$2.4 million. The after-tax gain on the sale of these branch operations was \$0.1 million

In the third quarter of 2009, the Company committed to the sale of a parcel of undeveloped cemetery land. Since the sale is expected to result in an after-tax loss of \$0.4 million, a provision for impairment was recorded in the third quarter of 2009. The decision to sell the property was made since the potential for the property to be developed into saleable cemetery land was evaluated as unlikely.

Revenue associated with discontinued operations for the 13 and 39 weeks ended July 26, 2009 was \$0.3 million and \$1.1 million, respectively (13 and 39 weeks ended July 27, 2008 – \$0.8 million and \$2.5 million, respectively). Net (loss) earnings for the 13 and 39 weeks ended July 26, 2009 were (\$0.3) million and less than \$0.1 million (13 and 39 weeks ended July 27, 2008 – (\$0.2) million and \$0.2 million, respectively).

12. NET CHANGE IN OTHER OPERATING BALANCE SHEET ITEMS

	13 Weeks Ended		39 Weeks Ended	
	July 26, 2009	July 27, 2008	July 26, 2009	July 27, 2008
	(\$000)		(\$000)	
Accounts receivable	1,859	815	917	(4)
Developed land, crypt and niche cost of sales	2,375	2,447	6,472	6,610
Additions to developed land, crypts and niches	(3,913)	(4,295)	(13,594)	(8,764)
Instalment accounts receivable	431	(373)	849	586
Stored merchandise	(487)	(107)	(661)	(671)
Accounts payable and accrued liabilities	(1,492)	304	(6,293)	(3,758)
Income taxes receivable/payable	5,046	(354)	3,645	(2,653)
Deferred revenue	(893)	(1,658)	591	(645)
Other liabilities	321	309	1,050	654
Other changes	(1,153)	(975)	(668)	(245)
	2,094	(3,887)	(7,692)	(8,890)

13. CONTRACTUAL COMMITMENTS

At July 26, 2009, the Company was contractually committed to capital and cemetery burial space inventory expenditures of \$10.8 million (October 26, 2008 – \$19.7 million), which the Company expects to spend within the next two years. The Company is also contractually committed to funeral inventory purchases of \$37.3 million during the period from February 1, 2008 to January 31, 2013. From February 1, 2008 to July 26, 2009, the Company had purchased \$12.9 million under this commitment.

14. SEGMENT DISCLOSURE

Industry segments (\$000)

	<i>For the 13 weeks ended July 26 and July 27</i>							
	<i>Cemetery</i>		<i>Funeral</i>		<i>Corporate</i> ⁽³⁾		<i>Consolidated</i>	
	2009	2008	2009	2008	2009	2008	2009	2008
Sales ⁽¹⁾	27,625	29,053	29,295	28,165	-	-	56,920	57,218
Investment and other income ⁽¹⁾	2,825	2,648	1,511	1,544	183	235	4,519	4,427
Revenue	30,450	31,701	30,806	29,709	183	235	61,439	61,645
Depreciation and amortization ⁽¹⁾	1,018	953	1,374	1,356	355	344	2,747	2,653
Earnings (loss) before interest expense and income taxes ⁽¹⁾	3,303	4,279	8,421	7,334	(3,261)	(3,391)	8,463	8,222
Interest expense	-	-	-	-	478	666	478	666
Earnings (loss) before income taxes ⁽¹⁾	3,303	4,279	8,421	7,334	(3,739)	(4,057)	7,985	7,556
Capital expenditures ⁽¹⁾	3,000	2,223	824	1,321	692	195	4,516	3,739
Developed land, crypt and niche additions	3,913	4,295	-	-	-	-	3,913	4,295
Cemetery land held for future development additions ⁽¹⁾	18	35	-	-	-	-	18	35
Pre-need contracts written	19,136	21,016	14,177	13,898	-	-	33,313	34,914
	<i>For the 39 weeks ended July 26 and July 27</i>							
	<i>Cemetery</i>		<i>Funeral</i>		<i>Corporate</i> ⁽³⁾		<i>Consolidated</i>	
	2009	2008	2009	2008	2009	2008	2009	2008
Sales ⁽¹⁾	76,220	75,523	90,444	87,660	-	-	166,664	163,183
Investment and other income ⁽¹⁾	8,272	7,884	4,483	4,157	487	1,064	13,242	13,105
Revenue	84,492	83,407	94,927	91,817	487	1,064	179,906	176,288
Depreciation and amortization ⁽¹⁾	2,937	2,811	4,104	3,991	1,082	1,073	8,123	7,875
Earnings (loss) before interest expense and income taxes ⁽¹⁾	7,723	9,623	26,626	25,471	(10,800)	(10,023)	23,549	25,071
Interest expense	-	-	-	-	1,527	2,553	1,527	2,553
Earnings (loss) before income taxes ⁽¹⁾	7,723	9,623	26,626	25,471	(12,327)	(12,576)	22,022	22,518
Identifiable assets ⁽²⁾	643,729	594,798	433,510	432,410	34,882	39,103	1,112,121	1,066,311
Capital expenditures ⁽¹⁾	6,784	4,650	3,528	3,121	1,364	657	11,676	8,428
Acquisition	-	-	1,015	-	-	-	1,015	-
Developed land, crypt and niche additions	13,594	8,764	-	-	-	-	13,594	8,764
Cemetery land held for future development additions ⁽¹⁾	76	190	-	-	-	-	76	190
Pre-need contracts written	56,664	56,477	41,147	40,114	-	-	97,811	96,591

(1) Figures provided for 2008 and 2009 have been restated to conform with the current year's presentation - see note 2 and 11.

(2) Identifiable assets shown for 2009 are at July 26 (2008 are as at October 26).

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

15. SUBSEQUENT EVENTS

Disposition:

Subsequent to July 26, 2009, the Company disposed of a parcel of undeveloped cemetery land for net cash proceeds of \$2.2 million. The disposal resulted in an estimated after-tax loss of \$0.4 million.

Acquisition:

Subsequent to July 26, 2009, the Company acquired adjacent land and building to expand an existing funeral branch operation for \$0.5 million.

Normal course issuer bid:

On September 3, 2009, the Company announced that it had received approval by the Toronto Stock Exchange ("TSX") to make a normal course issuer bid to purchase up to 126,274 of its Class A voting common shares and 409,412 Class B non-voting common shares, representing approximately 5% of the issued and outstanding Class A and Class B shares, respectively. Under the bid, purchases will be made on the open market by the Company through the facilities of the TSX at the prevailing market price at the time of acquisition between September 8, 2009 and September 7, 2010. The Company will cancel any common shares purchased pursuant to the normal course issuer bid.