

SECOND QUARTER REPORT

***13 and 26 Weeks Ended
April 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 week and 26 weeks ended April 26, 2009 and includes material information available up to June 3, 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 26 weeks ended April 27, 2008 was a reduction of net earnings of \$0.8 million and \$3.1 million, respectively, and a reduction of basic and diluted earnings per share of \$0.08 and \$0.30, 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		26 Weeks Ended	
	April 26, 2009	<i>April 27, 2008</i>	April 26, 2009	<i>April 27, 2008</i>
		(\$000)		(\$000)
Burial space inventories	2,278	2,207	4,366	4,246
Merchandise inventories	7,155	6,616	14,234	13,635
	9,433	8,823	18,600	17,880

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. 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 APRIL 26, 2009 COMPARED TO THE 13 WEEKS ENDED APRIL 27, 2008

TOTAL COMPANY RESULTS

Revenue for the 13 weeks ended April 26, 2009 was \$60.0 million compared to \$58.0 million for the 13 weeks ended April 27, 2008. This represented an increase of \$2.0 million or 3.4%. Following is a breakdown of total revenue:

	2009		2008	
	\$Millions	% of Total	\$Millions	% of Total
Sales				
Cemetery	25.2	42.0	23.5	40.5
Funeral	30.1	50.2	29.9	51.6
	55.3	92.2	53.4	92.1
Investment and other income	4.7	7.8	4.6	7.9
	60.0	100.0	58.0	100.0

Sales increased by \$1.9 million or 3.7% in 2009 compared to 2008. Sales in the cemetery division increased by \$1.7 million or 7.5% and sales in the funeral division increased by \$0.2 million or 0.6%.

Investment and other income increased by less than \$0.1 million or 0.8% over 2008.

Operating expenses increased by \$2.8 million or 6.2% over 2008. Cemetery division expenses increased by \$1.8 million or 7.8% due mainly to increases in cost of sales, selling and administrative expenses. Funeral division expenses increased by \$1.0 million or 4.5%, due mainly to an increase in services and pre-need expenses.

Corporate expenses increased by \$0.1 million or 2.8% over 2008.

Earnings before interest expense and income taxes ("EBIT") decreased by \$1.0 million or 11.3% from 2008 to \$7.5 million. The reduction in EBIT was the result of a decrease in the funeral division of \$0.5 million due to an increase in expenses of 4.5%, which exceeded a 1.5% increase in revenue, and an increase in the loss of the corporate division of \$0.4 million. The increase in revenue in the funeral division was lower than historical increases due to a decline in the number of services performed of 2.8%. The increase in the loss of the corporate division was due mainly to a reduction in interest income of \$0.3 million as a result of a decline in the average cash balance and lower rates of interest.

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 \$0.4 million or 43.8% to \$0.5 million in 2009 due to a decrease in the weighted average balance of long-term debt outstanding of \$15.5 million or 24.2% and a lower average floating rate of interest of 3.9% compared to 5.3% 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 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 April 26, 2009 was 62% compared to 61% at October 26, 2008 and 68% at April 27, 2008.

Income taxes for the second quarter of 2009 reflected an effective tax rate of 30.9% compared to 30.5% in the second quarter of 2008. The increase in the effective rate of 0.4 percentage points was primarily due to the unfavourable impact of future tax changes, which increased the effective rate by 1.3 percentage points. This compared to a reduction in the effective rate of 1.1 percentage points in 2008 due to the favourable impact of future tax changes. The unfavourable impact of future tax changes in 2009 compared to 2008 was partially offset by other factors that included a lower combined basic rate of 1.1 percentage points and the favourable impact of dividends and refundable dividend taxes of 0.7 of a percentage point, among other items.

Net earnings from discontinued operations decreased \$0.2 million or 74.6% from 2008 to \$0.1 million due mainly to the sale of two funeral branch operations in the third quarter of 2008 and a third funeral branch operation in the first quarter of 2009.

Net earnings and earnings per share decreased by \$0.7 million or 11.7% to \$4.9 million and \$0.06 to \$0.46 per share respectively. The decrease was primarily due to a reduction in EBIT of \$1.0 million or 11.3%, which was partially offset by a reduction in interest expense of \$0.4 million or 43.8%. The reduction in EBIT was primarily the result of an increase in funeral revenue that was lower than historical increases due to a decline in the number of services performed and a reduction in other income in the corporate division.

CEMETERY DIVISION

Cemetery sales in the second quarter of 2009 increased by \$1.7 million or 7.5% from 2008 to \$25.2 million. The increase in sales in the cemetery division was higher than historical increases. 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:

- \$8.8 million (2008 - \$8.1 million) of at-need sales of interment rights and deliveries of at-need merchandise and services;
- \$9.6 million (2008 - \$9.0 million) of pre-need sales of interment rights; and
- \$6.8 million (2008 - \$6.4 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 \$1.7 million increase in cemetery sales (in \$millions):

<u>At-Need</u>	
Interment rights	0.3
Merchandise	0.5
Services	(0.1)
	<u>0.7</u>
 <u>Pre-Need</u>	
Interment rights	0.6
Merchandise	0.4
Services	-
	<u>1.0</u>
	<u>1.7</u>

The increase in at-need merchandise of \$0.5 million or 14.1% was due to higher upright monument deliveries of \$0.4 million or 54.9%. The increase in upright monument deliveries was due to timing of delivery as well as an increase of 5.1% in contracts written in 2008 compared to 2007 and an increase of 17.8% in contracts written in 2007 compared to 2006, which resulted in higher deliveries in the period.

The increase in pre-need interment right sales of \$0.6 million or 6.8% was due to an increase of \$0.4 million in crypt sales and a \$0.3 million increase in niche sales. These increases were mainly due to the availability of new inventory.

The increase in pre-need merchandise of \$0.4 million or 9.0% was due mainly to an increase in upright monument deliveries of \$0.5 million or 72.2%. The increase in upright monument deliveries was primarily the result of timing of delivery as well as an increase of 9.2% in contracts written in 2008 compared to 2007, which resulted in higher deliveries in the period.

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 second quarter of 2009, the number of interments performed by the Company increased by 0.5% to 4,056 and the number of cremations decreased by 6.6% to 3,673 compared to the second quarter of 2008 due to operating one less crematorium 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 0.3% and cremations increased by 3.2% in fiscal 2008 as compared to fiscal 2007.

Cemetery investment income for the second quarter of 2009 increased by \$0.1 million or 2.1% over 2008 to \$2.8 million due to an increase in referral and annuity fees of 10.8%. Care fund income for the second quarter of 2009 was consistent with the second quarter of 2008, which was the net result of an increase in the average care fund balance of \$10.6 million or 6.2% and a reduction in the annualized rate of return from 5.2% in 2008 to 4.9% in 2009. 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 3.3% to \$1.8 million in the second quarter of 2009 due to a higher average balance in the funds of \$14.9 million or 7.5%, which was partially offset by a decrease in the average rate of return from 3.5% to 3.3%. Interest and dividend income earned on the pre-need trust funds is deferred and recognized as sales revenue when the underlying merchandise is delivered or the service is performed.

Cemetery expenses for the second quarter of 2009 increased by \$1.8 million or 7.8% over 2008 as follows (in \$millions):

Cost of sales	0.8
Selling	0.6
Administrative	<u>0.4</u>
	<u>1.8</u>

Of the \$0.8 million or 9.7% increase in the cost of sales expense, \$0.6 million was due to the increase in sales and \$0.2 million was due to inventory book to physical adjustments and mix of sales. The cost of sales percentage for the second quarter of 2009 was 35.1%, which was 0.7 of a percentage point higher than the cost of sales percentage for 2008 due to higher book to physical adjustments and mix of sales.

Selling expenses increased by \$0.6 million or 6.7% due primarily to higher commission expenses of \$0.5 million as a result of an increase of 9.7% in contracts written in the second quarter of 2009 compared to 2008.

Administrative expenses increased by \$0.4 million or 34.6% mainly due to higher employee costs as a result of incremental employees, annual increases, market adjustments and higher termination costs of \$0.1 million.

EBIT in the cemetery division remained consistent at \$2.4 million.

FUNERAL DIVISION

As at April 26, 2009, the Company wholly owned 87 funeral homes, five of which were classified as discontinued operations.

Funeral sales in the second quarter of 2009 increased by \$0.2 million or 0.6% from the second quarter of 2008 to \$30.1 million. The increase in sales occurred in existing operations and was due to a higher average sale per funeral service of 3.7%, the effect of which was substantially offset by a decrease in the number of services performed of 2.9%. 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 as well as the Company's continued efforts to provide customers with value added merchandise and services. 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:

- \$19.7 million (2008 - \$20.1 million) of at-need sales of funeral merchandise and services;
- \$10.3 million (2008 - \$9.7 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 second quarter of 2009 increased by \$1.0 million or 7.1%. Pre-need funeral contracts written under the trust program represented 35.1% (2008 – 43.1%) of total contracts written, while contracts written under the group annuity program represented 64.9% (2008 – 56.9%).

Investment and other income in the funeral division increased by \$0.3 million or 19.2% to \$1.8 million in 2009 due to higher annuity fees of \$0.3 million or 24.8%. The higher annuity fees primarily resulted from an increase in contracts written under the group annuity program of \$1.8 million or 22.2% in the second quarter of 2009 as compared to 2008.

Interest and dividend income earned on the pre-need funeral funds in the second quarter of 2009 decreased by \$0.1 million or 5.0% to \$2.0 million compared to the second quarter of 2008 due to a reduction in the average balance in the funds of \$2.6 million or 1.2% as well as a lower annualized rate of return on the funds of 3.6% compared to 3.7%. The decrease in the average balance in the funds was due mainly to deliveries that exceeded new pre-need trust contracts written as well as net capital losses realized in the third and fourth quarters of fiscal 2008 of \$0.5 million. Interest and dividend income on the pre-need funeral funds is deferred and recognized as sales revenue when the underlying merchandise is delivered or the service is performed.

Funeral expenses in the second quarter of 2009 increased by \$1.0 million or 4.5% over 2008. A breakdown of the \$1.0 million increase in expenses follows (in \$millions):

Cost of sales	0.1
Services	0.6
Pre-need	0.2
Depreciation	<u>0.1</u>
	<u>1.0</u>

The increase in services expenses of \$0.6 million or 6.4% was mainly due to higher employee costs as a result of annual salary and wage increases, incremental employees, market adjustments and higher overtime costs.

EBIT in the funeral division decreased by \$0.5 million or 5.6% to \$8.7 million due to an increase in expenses of \$1.0 million or 4.5%, which exceeded a \$0.5 million or 1.5% increase in revenue. The 1.5% increase in revenue was lower than historical increases due to a decline in the number of services performed of 2.8%.

CORPORATE DIVISION

Corporate revenue, consisting of rental income from leasing a portion of the Company's head office building and interest income on the Company's bank accounts, decreased by \$0.3 million or 69.4% compared to the second 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 second quarter of 2009.

Corporate expenses increased by \$0.1 million or 2.8% in the second quarter of 2009 to \$3.7 million.

The loss in the corporate division increased by \$0.4 million or 12.6% to a loss of \$3.6 million due to a reduction in interest income of \$0.3 million and an increase in corporate expenses of \$0.1 million.

As a percentage of total Company revenue, corporate expenses remained consistent at 6.3% in the second quarters of both 2009 and 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 26 WEEKS ENDED APRIL 26, 2009 COMPARED TO THE 26 WEEKS ENDED APRIL 27, 2008

TOTAL COMPANY RESULTS

Revenue for the 26 weeks ended April 26, 2009, was \$118.5 million compared to \$114.7 million for the 26 weeks ended April 27, 2008. This represented an increase of \$3.8 million or 3.3%. Following is a breakdown of total revenue:

	2009		2008	
	\$Millions	% of Total	\$Millions	% of Total
Sales				
Cemetery	48.6	41.0	46.5	40.5
Funeral	61.2	51.7	59.5	51.9
	<u>109.8</u>	<u>92.7</u>	<u>106.0</u>	<u>92.4</u>
Investment and other income	8.7	7.3	8.7	7.6
	<u>118.5</u>	<u>100.0</u>	<u>114.7</u>	<u>100.0</u>

Sales increased by \$3.8 million or 3.6% in the first 26 weeks of 2009 compared to the first 26 weeks of 2008. Sales in the cemetery division increased by \$2.1 million or 4.6% and sales in the funeral division increased by \$1.7 million or 2.8%.

Investment and other income was consistent with 2008.

Operating expenses increased by \$5.2 million or 5.8% over 2008. Cemetery division expenses increased by \$3.3 million or 7.0%, due mainly to increases in cost of sales, selling, administrative and care and maintenance

expenses. Funeral division expenses increased by \$1.9 million or 4.4% due mainly to increases in services expenses.

Corporate expenses increased \$0.4 million or 5.1% over 2008 due mainly to an increase in employee costs.

Earnings before interest expense and income taxes (“EBIT”) were \$15.1 million, which represented a decrease of \$1.8 million or 10.5% from 2008. Of the \$1.8 million decrease, \$0.9 million occurred in the cemetery division and \$0.9 million occurred in the corporate division. These declines were due to an increase in expenses that exceeded the increase in revenue and lower interest income, respectively, compared to 2008. The increase in expenses in the cemetery division that exceeded the increase in revenue was driven by a higher cost of sales percentage, higher obtaining costs based on contracts written in the period and higher administrative employee costs, including an increase of \$0.3 million in termination costs. The lower interest income in the corporate division was due to a reduction in the average cash balance and lower rates of interest

Interest expense included interest on floating-rate bank term debt and the cost of the Company’s interest rate swap contracts. Interest expense decreased \$0.8 million or 44.4% to \$1.0 million in the first 26 weeks of 2009 due primarily to a lower weighted-average balance of long-term debt outstanding of \$19.5 million or 28.6% and a lower average floating rate of interest of 4.3% compared to 5.5% in 2008, the impact of which was partially offset by higher swap costs of \$0.3 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 April 26, 2009 was 62% compared to 61% at October 26, 2008 and 68% at April 27, 2008.

Income taxes for the first 26 weeks of 2009 reflected an effective tax rate of 31.9% compared to 44.1% in the first 26 weeks of 2008. Of the decrease in the effective rate of 12.2 percentage points, 10.4 percentage points was due to a higher increase in the future tax expense in 2008 of \$1.9 million that resulted from the impact of a reduction in future Federal tax rates in the first quarter of 2008 on deductible temporary differences created by a change in accounting policy. Other factors included a lower combined basic rate of 0.8 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 26 weeks of 2009 decreased by less than \$0.1 million or 16.0% compared to the first 26 weeks of 2008.

Net earnings and earnings per share in the first 26 weeks of 2009 increased by \$1.1 million or 13.2% to \$9.8 million and by \$0.11 to \$0.92 per share, respectively, compared to the first 26 weeks of 2008. The increase was attributable to lower income taxes of \$2.1 million or 32.2% and lower interest expense of \$0.8 million or 44.4%, which were partially offset by a reduction in EBIT of \$1.8 million or 10.5%.

CEMETERY DIVISION

Cemetery sales in the first 26 weeks of 2009 increased by \$2.1 million or 4.6% over 2008 to \$48.6 million. Sales in the year, including finance charges and net of cancellation allowances, consisted of:

- \$17.5 million (2008 - \$16.8 million) of pre-need sales of interment rights;
- \$13.7 million (2008 - \$13.1 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; and
- \$17.4 million (2008 - \$16.6 million) of at-need sales of interment rights and deliveries of at-need merchandise and services.

The following is a breakdown of the \$2.1 million increase in cemetery sales (in \$millions):

<u>At-Need</u>	
Interment rights	0.5
Merchandise	0.4
Services	<u>(0.1)</u>
	<u>0.8</u>
 <u>Pre-Need</u>	
Interment rights	0.7
Merchandise	0.5
Services	<u>0.1</u>
	<u>1.3</u>
	<u>2.1</u>

The increase in sales of at-need interment rights of \$0.5 million or 11.1% was primarily due to higher niche sales of \$0.4 million or 24.2%, which was mainly due to the availability of new inventory. The increase of \$0.4 million or 5.4% in the delivery of at-need merchandise resulted mainly from higher deliveries of upright monuments of \$0.2 million or 11.9% and higher deliveries of bronze memorials of \$0.1 million or 3.8%. The increase in upright monument deliveries was due to an increase of 5.1% in contracts written in 2008 compared to 2007 and an increase of 17.8% in contracts written in 2007 compared to 2006, which resulted in higher deliveries in the period.

The increase in pre-need interment right sales of \$0.7 million or 4.6% was due to a \$0.4 million or 7.0% increase in crypt sales, a \$0.2 million or 7.5% increase in niche sales and a \$0.1 million or 1.8% increase in sales of traditional burial lots despite group sales being \$0.1 million lower than 2008.

The increase of \$0.5 million or 4.2% in pre-need merchandise sales resulted mainly from higher deliveries of pre-need upright monuments of \$0.4 million or 24.1%. The increase in deliveries of upright monuments was due to timing of delivery, 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.

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 26 weeks of 2009, the number of interments performed by the Company increased by 0.6% to 8,176 and the number of cremations decreased by 5.0% to 7,416 compared to the first 26 weeks of 2008 due to operating one less crematorium this period versus last 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 26 weeks of 2009 increased by \$0.2 million or 4.0% over 2008 to \$5.4 million due to an increase in care fund income of \$0.1 million or 2.2% and an increase in referral and annuity fees of \$0.1 million or 12.6%. The increase in care fund income was due to a higher average balance in the funds of \$9.9 million or 5.8% and occurred despite a decrease in the annualized rate of return on the funds from 5.1% in 2008 to 4.9% 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 partially due to an amount of \$0.1 million being received in the period for Quebec referral fees that related to 2008.

Interest and dividend income earned on pre-need cemetery merchandise and services trust funds increased by \$0.3 million or 7.8% 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. Interest and dividend income earned on the pre-need trust funds is deferred and recognized as sales revenue when the underlying merchandise is delivered or the service is performed.

Cemetery expenses for the first 26 weeks of 2009 increased by \$3.3 million or 7.1% over the same period of 2008 as follows (in \$millions):

Cost of sales	1.0
Selling	0.9
Care and maintenance	0.5
Administrative	0.7
Other	<u>0.2</u>
	<u>3.3</u>

Of the increase in the cost of sales expense of \$1.0 million or 6.2%, \$0.7 million was due to higher sales, \$0.2 million was due to at-need sales mix fluctuations by product and \$0.1 million was due to book to physical adjustments. The cost of sales percentage for the first 26 weeks of 2009 was 35.2%, which was 0.6 of a percentage point higher than the cost of sales percentage for 2008.

Selling expenses increased by \$0.9 million or 5.7% due mainly to higher commission expenses of \$0.5 million or 6.0% and an increase in marketing costs of \$0.2 million or 9.8%. The increase in commission expenses was the result of an increase of 5.1% in contracts written in the period and mix of products and services sold. The increase in marketing costs, which was primarily caused by timing of the direct mail advertising in 2009 as compared to 2008.

Care and maintenance expenses increased by \$0.5 million or 5.1% due mainly to higher salaries and wages as a result of annual increases, market adjustments that were implemented in the second quarter of 2008 and incremental employees.

Administrative expenses increased by \$0.7 million or 33.9% due mainly to higher employee costs as a result of incremental employees, annual increases, market adjustments, higher accrued incentive compensation and higher termination costs of \$0.3 million.

EBIT in the cemetery division decreased by \$0.9 million or 17.3% due to an increase in expenses of 7.1% that exceeded a 4.6% increase in revenue. The higher percentage increase in expenses compared to revenue was driven by a higher cost of sales percentage, higher obtaining costs based on contracts written in the period and higher administrative employee costs, including an increase of \$0.3 million in termination costs.

FUNERAL DIVISION

As at April 26, 2009, the Company wholly owned 87 funeral homes, five of which were classified as discontinued operations. One funeral branch operation, which was classified as a discontinued operation at October 26, 2008, was sold in the first quarter of 2009.

Funeral sales in the first 26 weeks of 2009 increased by \$1.7 million or 2.8% over the first 26 weeks of 2008 to \$61.2 million. The improvement was attributable to a \$1.4 million or 2.4% 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 a funeral home in Windsor, Ontario as a result of the availability of a reception centre completed at a nearby cemetery in November 2007.

The increase in sales from existing operations was due to an increase in the average sale per funeral service of 3.5%, the effect of which was partially offset by a lower number of services of 1.1%. 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 as well as the Company's continued efforts to provide customers with value added merchandise and services. 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:

- \$40.7 million (2008 - \$39.7 million) of at-need sales of funeral merchandise and services;
- \$20.3 million (2008 - \$19.6 million) from the fulfilment of merchandise and services sales that were arranged on a pre-need basis; and
- \$0.2 million (2008 - \$0.2 million) of flower shop sales.

Pre-need funeral contracts written in the first 26 weeks of 2009 increased by \$0.8 million or 2.9%. Pre-need funeral contracts written under the trust program in the first 26 weeks of 2009 represented 36.9% (first 26 weeks

of 2008 – 43.2%) of total contracts written, while contracts written under the group annuity program represented 63.1% (first 26 weeks of 2008 – 56.8%).

Investment and other income in the funeral division increased by \$0.4 million or 13.7% to \$3.0 million in the first 26 weeks of 2009 due mainly to higher annuity fees of \$0.3 million or 15.2%. The higher annuity fees primarily resulted from an increase in contracts written under the group annuity program of \$2.1 million or 14.4%.

Interest and dividend income earned on the pre-need funeral funds decreased by less than \$0.1 million or 0.8% to \$3.9 million due to a lower average balance in the funds of \$2.9 million or 1.3% and despite a higher annualized rate of return on the funds of 3.6% compared to 3.5%. The decrease in the average balance in the funds was mainly due to deliveries that exceeded new pre-need trust contracts written as well as net capital losses realized in the third through the fourth quarters of fiscal 2008 of \$0.5 million. 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 26 weeks of 2009 increased by \$1.9 million or 4.4% over the first 26 weeks of 2008. A breakdown of the \$1.9 million increase follows (in \$ millions):

Cost of sales	0.2
Services	1.4
Pre-need	0.2
Other	<u>0.1</u>
	<u>1.9</u>

The increase in services expenses of \$1.4 million or 7.3% was primarily due to higher employee costs of \$1.3 million or 8.0% due mainly to annual salary and wage increases, incremental employees, market adjustments, higher lieu time costs accrued, higher temporary and part-time wages and an increase in benefit costs.

EBIT in the funeral division increased by \$0.1 million or 0.4% to \$18.2 million in the first 26 weeks of 2009 due to an increase in sales and investment income that exceeded the increase in expenses.

CORPORATE DIVISION

Corporate revenue, consisting of rental income from leasing a portion of the Company's head office building and interest on the Company's bank accounts and a mortgage receivable, decreased by \$0.5 million or 63.4% compared to the first 26 weeks of 2008 due primarily to lower interest income on the Company's bank accounts of \$0.4 million as a result of a reduction in the average cash balance and lower rates of interest. Mortgage interest also decreased by \$0.1 million due to repayment of a mortgage receivable in January 2008.

Corporate expenses increased by \$0.4 million or 5.1% in the first 26 weeks of 2009 to \$7.8 million due mainly to an increase in employee costs as a result of higher salaries and wages, benefits, accrued incentive compensation and termination costs of \$0.1 million. Excluding the increase in termination costs, corporate expenses increased by 3.2%.

The loss in the corporate division increased by \$0.9 million or 13.7% to a loss of \$7.5 million due to a reduction in interest income of \$0.5 million and an increase in employee costs of \$0.4 million, including \$0.1 million in termination costs.

As a percentage of total Company revenue, corporate expenses increased to 6.6% in the first 26 weeks of 2009 from 6.5% for the same period in 2008. This was attributable to an increase in revenue of 3.3% while corporate costs grew by 5.1%. 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 April 26, 2009, and October 26, 2008, were as follows:

	April 26, 2009	October 26, 2008 ⁽²⁾
Current ratio	3.28:1	2.60:1

Working capital (in \$millions)	60.7	56.7
Debt to equity ratio	0.25:1	0.26:1
Long-term debt to EBITDA ⁽¹⁾	1.20:1	1.16:1
Interest coverage ratio ⁽¹⁾	7.49:1	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.

Cash decreased by \$5.3 million mainly due to fixed asset additions of \$7.2 million, an acquisition of the land and building of an existing funeral branch operation for \$1.0 million and the payment of dividends of \$2.4 million, which were partially offset by cash from operating activities of \$3.6 million and \$1.7 million in proceeds from the disposal of a discontinued operation.

Pre-need receivables and funds, including the current portion thereof, increased by \$18.4 million or 3.7% to \$516.8 million at April 26, 2009. Excluding a fair value gain of \$13.5 million, pre-need receivables and funds increased by \$4.9 million or 1.0%. This compared to an increase of \$4.0 million or 0.8% in 2008, excluding a fair value gain of \$4.9 million and other non-recurring items. The fair value gain of \$13.5 million was mainly related to a reduction in the prevailing market interest rate of term deposits and corporate bonds, which increased the fair value of a significant portion of the term deposit and fixed income portfolio.

Income taxes receivable increased from \$4.2 million at October 26, 2008 to \$6.0 million at April 26, 2009, an increase of \$1.8 million. The increase was due to instalments paid in the year, which were based on the prior year's higher taxable income, that exceeded current taxes by \$1.3 million, as well as a reclassification of \$0.4 million to accounts payable and accrued liabilities and an adjustment of \$0.1 million.

Crypts and niches increased by \$5.9 million or 20.9% to \$34.2 million due to additions of \$9.6 million, which were partially offset by cost of inventory sold of \$3.7 million. The \$9.6 million spent on crypt and niche inventory included \$5.6 million spent on a new mausoleum at Glendale Memorial Gardens in Toronto, Ontario, \$2.3 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 \$2.8 million or 1.5% in 2009 to \$193.6 million due to additions of \$7.2 million (2008 - \$4.7 million) and the acquisition of an existing funeral branch operation for \$1.0 million, that were partially offset by depreciation of \$5.3 million (2008 - \$5.2 million). Of the \$7.2 million in additions, \$4.4 million was spent on maintenance capital and \$2.8 million was spent on new initiatives (2008 - \$3.6 million and \$1.1 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 \$2.0 million.

Cemetery care funds and non-controlling interests in cemetery care funds increased by \$9.0 million or 5.3% in 2009 including a fair value gain in the period of \$3.2 million and a realized net capital gain of \$0.4 million. Excluding the fair value gain and realized capital gain, cemetery care funds increased by \$5.5 million or 3.1% due to deposits made to the funds as a result of at-need and pre-need cemetery interment right sales. This compared to an increase of \$5.3 million or 3.1% 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 \$3.7 million and \$2.0 million, respectively, primarily due to the sale of one funeral branch operation in the period.

Accounts payable and accrued liabilities decreased by \$6.7 million or 20.7% as follows (in \$millions):

Trade accounts payables	4.4
Accrued liabilities	2.8
Other accounts payable	(0.5)
	<u>6.7</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 accrued bonuses of \$2.0 million, employee termination settlements of \$1.0 million and vacation pay of \$0.7 million, which were partially offset by an increase in accrued payroll of \$1.0 million. Other accounts payable increased by \$0.5 million mainly due to an increase in goods and services tax ("GST") payable of \$1.1

million and reclassifications of \$0.7 million from income taxes receivable and future income taxes payable, which were partially offset by decreases in employee income taxes payable and commissions payable.

Other liabilities increased by \$1.8 million or 10.7%. The \$1.8 million increase was primarily due to a \$1.0 million fair value loss on the interest rate swap agreements as well as a higher future amount owing for GST collected on pre-need contracts.

Deferred revenue at April 26, 2009, plus the non-controlling interests in pre-need funds, and the accumulated benefit of the pre-need funeral group annuity funds excluded from the balance sheet, was \$772.8 million compared to \$740.8 million at October 26, 2008, an increase of \$32.0 million or 4.3%. Of the \$32.0 million increase, \$13.5 million was a fair value gain on the pre-need trust funds. The remaining increase was \$18.5 million or 2.5% (2008 – \$17.4 million or 2.5%) and represented deferral of revenue in the period in excess of amounts recognized upon delivery of merchandise and services.

CONSOLIDATED STATEMENTS OF CASH FLOWS

13 WEEKS ENDED APRIL 26, 2009

Net cash provided by operating activities of continuing operations decreased by \$2.1 million or 19.1% from the 13 weeks ended April 27, 2008 due mainly to a decrease in the net change in other operating balance sheet items (“net change”) of \$2.1 million.

The most significant items in the net change of \$2.1 million included:

- a net increase in cash used for accounts payable and accrued liabilities of \$2.9 million;
- higher additions to developed land, crypts and niches of \$1.4 million;
- a net increase in instalment accounts receivable of \$1.1 million;
- a net decrease in deferred revenue of \$2.2 million; and
- a \$0.8 million decrease in cash used for income taxes.

Net cash used for investing activities of continuing operations decreased by \$0.2 million or 2.2% in the second quarter of 2009. The decrease was mainly due to a \$1.8 million net decrease in cash used for pre-need funds, which was primarily due to \$1.1 million deposited to the funds in 2008 related to manual funding of cremation burial products. The decrease was partially offset by higher additions to fixed assets of \$1.7 million.

Net cash provided by financing activities of continuing operations was \$2.0 million in 2009 compared to cash used in 2008 of \$15.7 million, an increase in cash of \$17.8 million. The increase was mainly due to repayments of debt in the second quarter of 2008 of \$22.1 million, which were partially offset by an increase of \$2.4 million in dividend payments and a decrease in cash related to non-controlling interests in pre-need funds of \$1.9 million.

26 WEEKS ENDED APRIL 26, 2009

Net cash provided by operating activities of continuing operations decreased by \$4.6 million or 56.4% from the first twenty six weeks of 2008 due mainly to a decrease in the net change in other operating balance sheet items (“net change”) of \$4.5 million. The \$4.5 million decrease in the net change was primarily due to higher additions to developed land, crypts and niches of \$5.2 million, the impact of which was partially offset by other changes.

Net cash used for investing activities of continuing operations increased by \$12.6 million mainly due to:

- \$6.8 million in proceeds received on repayment of the mortgage receivable in 2008;
- higher additions to fixed assets of \$2.5 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.

Net cash provided by financing activities of continuing operations was \$8.3 million in 2008 compared to cash used of \$11.4 million in 2008, an increase in cash of \$19.7 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 \$1.6 million in dividends paid and a decrease of \$0.6 million in proceeds on the exercise of stock options.

LIQUIDITY

The primary source of liquidity for the Company is cash flow from operations. In addition, the Company has revolving term loans with two financial institutions under similar terms and conditions. The total credit limit under the two facilities is \$125.0 million. The Company also has access to operating lines of credit of \$14.0 million. At April 26, 2009, the Company had access to unused operating lines of credit of \$12.8 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 April 26, 2009 were \$89.1 million (October 26, 2008 – \$89.1 million). At April 26, 2009, there was \$1.2 million in letters of credit recorded against the operating facility (October 26, 2008 – \$1.2 million). The Company's debt to equity ratio at April 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

The following is the only significant project on which the Company had expended significant funds prior to April 26, 2009 but that had not yet generated operating revenue.

Brampton Memorial Gardens Chapel and Reception Centre: As at April 26, 2009, the Company had spent \$5.1 million on this project. The Company estimates that an additional \$1.7 million will be spent to complete the project and anticipates completing the project in the third quarter of 2009.

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

Cemetery burial space inventory	8.1
New reception centres	1.7
Maintenance capital expenditures	<u>1.6</u>
	<u>11.4</u>

The Company is also contractually committed to funeral inventory purchases of \$37.5 million during the period from February 1, 2008 to January 31, 2013. From February 1, 2008 to April 26, 2009, the Company had purchased \$10.8 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	18.2
Maintenance capital expenditures	11.2
Cemetery burial space inventory	<u>9.8</u>
	<u>39.2</u>

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

UNAUDITED SUMMARY OF QUARTERLY RESULTS

(\$millions, except per share amounts)	For the 13 weeks ended							
	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	Apr-26 2009	Apr-27 2008	Jan-25 2009	Jan-27 2008	Oct-26 2008	Oct-28 2007	Jul-27 2008	Jul-29 2007
Revenue	60.1	58.1	58.4	56.6	59.1	57.8	61.6	56.7
Net earnings from continuing operations	4.9	5.3	4.7	3.1	5.7	3.6	5.4	3.5
Net earnings	4.9	5.6	4.9	3.1	5.8	2.2	5.2	3.6
Basic and diluted earnings per share from continuing operations ⁽¹⁾	\$0.45	\$0.49	\$0.44	\$0.29	\$0.53	\$0.33	\$0.51	\$0.33
Basic and diluted earnings per share ⁽¹⁾	\$0.46	\$0.52	\$0.46	\$0.29	\$0.53	\$0.21	\$0.50	\$0.34

⁽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.

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 annually, 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 increase related to a decrease in substantively enacted Federal tax rates that were applied to deductible temporary differences created by a change in accounting policy.

Net earnings from continuing operations and earnings per share from continuing operations in the third quarter of 2007 were lower than the third quarter of 2008 as a result of \$2.0 million in after-tax termination expenses that occurred in the cemetery, funeral and corporate divisions.

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 provision 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 April 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 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 sales in the cemetery division or a decline in the average sale per service in the funeral division. Both cemetery and funeral pre-need contracts written in the second quarter of 2009 increased from the second quarter of 2008 by 12.9% and 7.1% respectively. However, the Company did experience decreases in both cemetery and funeral pre-need contracts written in the first quarter of 2009, which the Company believes could have been at least partially the result of the economic uncertainty. 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 one overdue payment cycle or more represented 8.1% of the receivable balance or \$0.4 million at April 26, 2009 compared to 7.4% at October 26, 2008. However, the Company does not believe this is a significant enough change to warrant revising its estimate of the provision for uncollectible accounts.
- There were no incremental asset impairment issues identified in the current quarter. However, the Company will continue to monitor the performance of its under-performing reporting units. The aggregate amount of goodwill associated with these reporting units was \$8.1 million at April 26, 2009 (October 26, 2008 – \$8.1 million).
- At April 26, 2009, the pre-need trust funds had no unrealized losses while the care funds had \$4.2 million in unrealized losses in its fixed income and equity holdings. The Company reviews the investment portfolio within its trust funds on an ongoing basis and, based on consultation with its investment managers, does not believe there are any going concern or "other than temporary" impairment issues. 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 26 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.
- The fair value loss on the interest rate swap agreements increased in the year by \$1.0 million before income taxes due to lower prevailing rates of interest. The total fair value loss on the interest rate swap agreements at April 26, 2009 was \$2.9 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.

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 annual cost if all cemetery locations were subject to such by-laws is \$0.4 million.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

June 3, 2009

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS

<i>In thousands of dollars</i>	13 weeks ended		26 weeks ended	
	April 26,	April 27,	April 26,	April 27,
	2009	2008 ⁽¹⁾	2009	2008 ⁽¹⁾
Revenue				
Sales	55,362	53,412	109,744	105,965
Investment and other income (note 8)	4,686	4,647	8,723	8,678
	60,048	58,059	118,467	114,643
Expenses				
Operating	48,800	45,959	95,538	90,333
Corporate	3,748	3,647	7,843	7,461
	52,548	49,606	103,381	97,794
Earnings before interest expense and income taxes	7,500	8,453	15,086	16,849
Interest expense	477	848	1,049	1,887
Earnings before income taxes	7,023	7,605	14,037	14,962
Income taxes (note 10)	2,171	2,317	4,474	6,602
Net earnings from continuing operations	4,852	5,288	9,563	8,360
Net earnings from discontinued operations (note 11)	74	291	284	338
Net earnings	4,926	5,579	9,847	8,698
Basic and diluted earnings per share (note 9)				
Continuing operations	\$0.45	\$0.49	\$0.89	\$0.78
Discontinued operations	0.01	0.03	0.03	0.03
Basic and diluted earnings per share	\$0.46	\$0.52	\$0.92	\$0.81

⁽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		26 weeks ended	
	April 26,	April 27,	April 26,	April 27,
	2009	2008 ⁽¹⁾	2009	2008 ⁽¹⁾
Retained earnings, beginning of period	116,505	97,421	112,853	94,302
Net earnings for the period	4,926	5,579	9,847	8,698
Refundable tax on dividend income (note 10)	(112)	-	(202)	-
Dividends	(1,178)	-	(2,357)	-
Retained earnings, end of period	120,141	103,000	120,141	103,000

⁽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		26 weeks ended	
	April 26, 2009	April 27, 2008	April 26, 2009	April 27, 2008
Net earnings	4,926	5,579	9,847	8,698
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 (\$42) and \$339 (2008 - \$122 and \$486) (note 7).	122	(306)	(684)	(949)
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 (\$2,531) and (\$4,257) in 2009 (2008 - (\$1,308) and (\$1,594)).	5,442	2,730	9,203	3,259
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 (\$2,531) and (\$4,257) in 2009 (2008 - (\$1,308) and (\$1,594)).	(5,442)	(2,730)	(9,203)	(3,259)
	-	-	-	-
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 (\$1,125) and (\$1,006) in 2009 (2008 - (\$271) and (\$245)).	2,432	551	2,174	502
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 (\$1,125) and (\$1,006) in 2009 (2008 - (\$271) and (\$245)).	(2,432)	(551)	(2,174)	(502)
Other comprehensive income (loss)	122	(306)	(684)	(949)
Comprehensive income	5,048	5,273	9,163	7,749

UNAUDITED CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

<i>In thousands of dollars</i>	13 weeks ended		26 weeks ended	
	April 26, 2009	April 27, 2008	April 26, 2009	April 27, 2008
Accumulated other comprehensive (loss) income, beginning of period	(2,074)	(555)	(1,268)	88
Other comprehensive income (loss) for the period	122	(306)	(684)	(949)
Accumulated other comprehensive loss, end of period	(1,952)	(861)	(1,952)	(861)

Arbor Memorial Services Inc.
UNAUDITED CONSOLIDATED BALANCE SHEETS

<i>As at (in thousands of dollars)</i>	April 26, 2009	<i>October 26, 2008 ⁽¹⁾</i>
Assets		
Current assets		
Cash	9,510	14,768
Accounts receivable	20,346	19,404
Pre-need receivables, current portion (note 4)	39,273	39,938
Merchandise inventories	11,027	10,267
Income taxes receivable	6,032	4,183
Prepaid expenses	708	1,377
Future income taxes, current portion	663	1,492
Assets related to discontinued operations, current portion (note 11)	239	616
	87,798	92,045
Notes receivable (note 6)	700	500
Crypts and niches	34,184	28,277
Cemetery land	34,750	34,959
Fixed assets	193,620	190,799
Pre-need receivables and funds (note 4)	477,560	458,490
Stored merchandise	13,705	13,531
Other assets	143	135
Goodwill	50,507	50,507
Intangible assets	1,948	1,984
Future income taxes	17,371	17,569
Cemetery care funds (note 5)	179,174	170,156
Assets related to discontinued operations (note 11)	4,013	7,359
	1,095,473	1,066,311
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	25,665	32,345
Long-term debt, current portion	-	1,594
Future income taxes, current portion	1,454	1,440
	27,119	35,379
Long-term debt	48,681	47,097
Other liabilities	18,095	16,343
Deferred revenue	188,071	186,453
Non-controlling interests in pre-need funds	435,223	416,631
Future income taxes	3,400	3,195
Liabilities related to discontinued operations (note 11)	2,133	4,084
	722,722	709,182
Non-controlling interests in cemetery care funds	179,174	170,156
Shareholders' equity		
Share capital (note 9)	75,388	75,388
Retained earnings	120,141	112,853
Accumulated other comprehensive loss	(1,952)	(1,268)
	118,189	111,585
	193,577	186,973
	1,095,473	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		26 weeks ended	
	April 26, 2009	April 27, 2008 ⁽¹⁾	April 26, 2009	April 27, 2008 ⁽¹⁾
Cash provided by (used for)				
Operating activities				
Net earnings from continuing operations	4,852	5,288	9,563	8,360
Add (deduct) items not affecting cash:				
Depreciation and amortization	2,855	2,587	5,376	5,222
Gain on disposal of assets	(19)	(63)	(24)	(72)
Future income taxes (note 10)	468	367	1,049	2,499
Stock based compensation	-	-	-	104
Net change in other operating balance sheet items (note 12)	651	2,710	(12,363)	(7,847)
Net cash provided by continuing operations	8,807	10,889	3,601	8,266
Net cash provided by discontinued operations	89	297	129	330
Investing activities				
Additions to fixed assets	(4,606)	(2,952)	(7,161)	(4,689)
Acquisition (note 3)	-	-	(1,014)	-
Additions to cemetery land held for future development	(88)	(70)	(114)	(167)
Proceeds on disposal of assets	20	65	38	80
Proceeds from mortgage receivable	-	-	-	6,750
Change in pre-need funds	(1,728)	(3,568)	(5,272)	(3,042)
Change in cemetery care funds	(2,716)	(2,798)	(5,467)	(5,301)
Net cash used for continuing operations	(9,118)	(9,323)	(18,990)	(6,369)
Additions to fixed assets	(32)	(52)	(27)	(52)
Proceeds on disposal of assets	85	590	1,746	591
Change in pre-need funds	(15)	6	40	18
Net cash provided by discontinued operations	38	544	1,759	557
Financing activities				
Proceeds from new long-term debt	13	-	13	-
Repayment of long-term debt	-	(22,070)	(23)	(22,073)
Dividends paid	(2,357)	-	(2,357)	(744)
Proceeds on exercise of stock options	-	-	-	564
Change in non-controlling interests in pre-need funds	1,666	3,560	5,175	5,568
Change in non-controlling interests in cemetery care funds	2,716	2,798	5,467	5,301
Net cash provided by (used for) continuing operations	2,038	(15,712)	8,275	(11,384)
Net cash provided by (used for) discontinued operations	15	(6)	(32)	(18)
Increase (decrease) in cash	1,869	(13,311)	(5,258)	(8,618)
Cash, beginning of period	7,641	29,176	14,768	24,483
Cash, end of period	9,510	15,865	9,510	15,865
Supplementary information				
Income taxes paid	1,746	2,761	4,311	6,404
Interest paid	483	895	1,090	1,938

⁽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 26 weeks ended April 26, 2009 and April 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 26 weeks ended April 27, 2008 was a reduction of net earnings of \$0.8 million and \$3.1 million, respectively, and a reduction of basic and diluted earnings per share of \$0.08 and \$0.30, 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		26 Weeks Ended	
	April 26,	April 27,	April 26,	April 27,
	2009	2008	2009	2008
	<i>(\$000)</i>		<i>(\$000)</i>	
Burial space inventories	2,278	2,207	4,366	4,246
Merchandise inventories	7,155	6,616	14,234	13,635
	9,433	8,823	18,600	17,880

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. 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

	April 26, 2009	<i>October 26, 2008</i>
	<i>(\$000)</i>	
Pre-need cemetery trust funds	224,077	209,825
Pre-need funeral trust funds	200,183	194,590
	424,260	404,415
Instalment accounts receivable	69,841	70,259
Pre-need group annuity funds	22,732	23,754
	516,833	498,428
Less: current portion of instalment accounts receivable	39,273	39,938
	477,560	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 April 26, 2009, the accumulated benefit of all such contracts sold by the Company's sales counsellors was \$149.5 million (October 26, 2008 - \$137.7 million).

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

	Fair Value		Cost	
	April 26, 2009	<i>October 26, 2008</i>	April 26, 2009	<i>October 26, 2008</i>
	<i>(\$000)</i>		<i>(\$000)</i>	
Cash	3,245	4,398	3,245	4,398
Term deposits	234,235	223,286	224,122	220,231
Fixed income:				
Canadian government bonds	37,527	35,852	35,234	34,807
Canadian corporate bonds	107,412	101,532	107,020	107,227
	144,939	137,384	142,254	142,034

	<i>Fair Value</i>		<i>Cost</i>	
	<i>April 26, 2009</i>	<i>October 26, 2008</i>	<i>April 26, 2009</i>	<i>October 26, 2008</i>
	<i>(\$000)</i>		<i>(\$000)</i>	
Equities:				
Canadian preferred shares	3,369	1,610	3,466	1,714
Canadian common shares	20,914	23,075	17,659	19,099
U.S. common shares	2,010	-	2,514	-
	26,293	24,685	23,639	20,813
Mutual funds	15,548	14,662	16,600	15,998
	424,260	404,415	409,859	403,474

5. CEMETERY CARE FUNDS

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

	<i>Fair Value</i>		<i>Cost</i>	
	<i>April 26, 2009</i>	<i>October 26, 2008</i>	<i>April 26, 2009</i>	<i>October 26, 2008</i>
	<i>(\$000)</i>		<i>(\$000)</i>	
Cash	324	1,205	324	1,205
Term deposits	6,740	6,186	6,740	6,186
Fixed income:				
Canadian government bonds	40,139	34,306	38,243	33,932
Canadian corporate bonds	75,612	67,574	75,499	71,403
Foreign corporate bonds	3,005	3,887	4,532	4,532
Canadian mortgage backed securities	19,702	25,900	20,307	26,086
Canadian asset backed securities	17,716	17,539	19,104	19,104
	156,174	149,206	157,685	155,057
Equities:				
Canadian preferred shares	2,864	1,321	2,926	1,429
Canadian common shares	12,888	12,238	15,529	13,697
U.S. common shares	184	-	207	-
	15,936	13,559	18,662	15,126
	179,174	170,156	183,411	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 note receivable closely approximates the carrying value at April 26, 2009.

7. DERIVATIVE FINANCIAL INSTRUMENTS

As of April 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 April 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 26 weeks ended April 26, 2009 were \$0.3 million and \$0.4 million, respectively (13 and 26 weeks ended April 27, 2008 – nil) 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 \$2.9 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 April 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

	13 Weeks Ended April 26, 2009 and April 27, 2008									
	Pre-Need Cemetery Funds		Pre-Need Funeral Funds		Cemetery Care Funds		Other		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	(\$000)									
Realized earnings of funds:										
Interest and dividends ⁽¹⁾	1,770	1,714	1,969	2,089	2,240	2,237	-	-	5,979	6,040
Realized gains	22	73	19	33	9	21	-	-	50	127
Realized losses	(13)	(20)	(1)	(47)	(9)	(441)	-	-	(23)	(508)
Trust expenses	(54)	(63)	(55)	(84)	(78)	(77)	-	-	(187)	(224)
	1,725	1,704	1,932	1,991	2,162	1,740	-	-	5,819	5,435
Deferred revenue	(54)	(54)	-	-	-	-	-	-	(54)	(54)
Trust expenses ⁽²⁾	54	63	55	84	78	77	-	-	187	224
Non-controlling interests in funds	(1,725)	(1,713)	(1,987)	(2,075)	(22)	399	-	-	(3,734)	(3,389)
	-	-	-	-	2,218	2,216	-	-	2,218	2,216
Fee income	555	501	1,779	1,492	-	-	-	-	2,334	1,993
Other	-	-	-	-	-	-	134	438	134	438
	555	501	1,779	1,492	2,218	2,216	134	438	4,686	4,647

⁽¹⁾ Includes interest income for the 13 and 26 weeks ended April 26, 2009 of \$4.6 million and \$10.0 million, respectively. (for the 13 and 26 weeks ended April 27, 2008 - \$5.7 million and \$10.5 million, respectively).

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

26 weeks ended April 26, 2009 and April 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)	3,517	3,263	3,907	3,969	4,447	4,351	-	-	11,871	11,583
Realized gains	22	73	83	33	844	21	-	-	949	127
Realized losses	(13)	(72)	(1)	(344)	(473)	(1,266)	-	-	(487)	(1,682)
Trust expenses	(106)	(104)	(111)	(119)	(151)	(149)	-	-	(368)	(372)
	3,420	3,160	3,878	3,539	4,667	2,957	-	-	11,965	9,656
Deferred revenue	(78)	(66)	-	-	-	-	-	-	(78)	(66)
Trust expenses (2)	106	104	111	119	151	149	-	-	368	372
Non-controlling interests in funds	(3,448)	(3,198)	(3,989)	(3,658)	(414)	1,204	-	-	(7,851)	(5,652)
	-	-	-	-	4,404	4,310	-	-	4,404	4,310
Fee income	1,043	926	2,972	2,613	-	-	-	-	4,015	3,539
Other	-	-	-	-	-	-	304	829	304	829
	1,043	926	2,972	2,613	4,404	4,310	304	829	8,723	8,678

(1) Includes interest income for the 13 and 26 weeks ended April 26, 2009 of \$4.6 million and \$10.0 million, respectively. (for the 13 and 26 weeks ended April 27, 2008 - \$5.7 million and \$10.5 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>April 26, 2009</i>	<i>October 26, 2008</i>	<i>April 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 26 weeks ended April 26, 2009 was 10,713,743 (13 and 26 weeks ended April 27, 2008 – 10,713,743 and 10,706,601).

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

10. INCOME TAXES

Income tax expense:

Income tax expense for the 13 and 26 weeks ended April 26, 2009 and April 27, 2008 consisted of the following:

	13 Weeks Ended		26 Weeks Ended	
	April 26, 2009	April 27, 2008	April 26, 2009	April 27, 2008
	(\$000)		(\$000)	
Current tax expense	1,703	1,950	3,425	4,103
Future income tax expense relating to the origination and reversal of temporary differences	414	416	869	665
Future income tax expense (benefit) resulting from change in tax rates	54	(49)	180	1,834
	2,171	2,317	4,474	6,602

Effective income tax rate:

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

	13 Weeks Ended		26 Weeks Ended	
	April 26, 2009	April 27, 2008	April 26, 2009	April 27, 2008
	%		%	
Combined basic federal and provincial income tax rate	31.3	32.4	31.6	32.4
Change in the basic tax rate resulting from:				
Dividends/RDTH ⁽¹⁾	(1.5)	(0.8)	(1.2)	(0.8)
Impact of future tax changes	1.3	(1.1)	1.5	11.9
Recovery of prior year over-provision	(0.4)	-	(0.2)	-
Meals and entertainment	0.3	0.3	0.3	0.4
Impact of capital losses (gains)	0.1	(0.1)	-	0.3
Other items	(0.2)	(0.2)	(0.1)	(0.1)
Effective income tax rate	30.9	30.5	31.9	44.1

⁽¹⁾ Refundable dividend taxes on hand.

Refund of refundable dividend tax on hand:

A portion of the Company's taxes that are payable relative to dividend income are potentially refundable when taxable dividends are paid to shareholders. These taxes are charged and credited to retained earnings as they become payable and recoverable.

Capital losses:

At April 26, 2009, the Company had \$4.4 million in unrecognized capital losses (October 26, 2008 – \$4.4 million), the benefit of which is unlikely to be realized.

11. DISCONTINUED OPERATIONS

In the fourth quarter of 2007, the assets of three funeral branch operations met the criteria for being classified as discontinued operations. The Company made the decision to sell these branches due to continued underperformance in the case of one branch operation and anticipated earnings reductions in the case of the two other branch operations. The sale of two of these operations was completed in the third quarter of 2008 for net cash proceeds of \$1.9 million. The after tax loss on the sale was \$0.3 million, of which \$0.2 million was related to income taxes that resulted from non-deductible fair value increments. The remaining discontinued branch operation was sold in the first quarter of 2009 for net cash proceeds of \$1.8 million. The after tax gain on the sale was \$0.2 million.

In the second quarter of 2009, the assets of five funeral branch operations met the criteria for being classified as discontinued operations. The decision to sell these branches was made since these operations do 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.

Revenue associated with discontinued operations for the 13 and 26 weeks ended April 26, 2009 was \$0.4 million and \$0.7 million, respectively (13 and 26 weeks ended April 27, 2008 – \$0.9 million and \$1.7 million, respectively). Net earnings for the 13 and 26 weeks ended April 26, 2009 were \$0.1 million and \$0.3 million (13 and 26 weeks ended April 27, 2008 – \$0.3 million and \$0.3 million, respectively).

12. NET CHANGE IN OTHER OPERATING BALANCE SHEET ITEMS

	<i>13 Weeks Ended</i>		<i>26 Weeks Ended</i>	
	<i>April 26, 2009</i>	<i>April 27, 2008</i>	<i>April 26, 2009</i>	<i>April 27, 2008</i>
	<i>(\$000)</i>		<i>(\$000)</i>	
Accounts receivable	(521)	(360)	(942)	(819)
Developed land, crypt and niche cost of sales	2,053	2,205	4,097	4,163
Additions to developed land, crypts and niches	(3,915)	(2,517)	(9,681)	(4,469)
Instalment accounts receivable	(1,727)	(648)	418	959
Stored merchandise	17	(288)	(174)	(564)
Accounts payable and accrued liabilities	226	3,171	(7,378)	(6,906)
Income taxes receivable/payable	(34)	(831)	(1,401)	(2,299)
Deferred revenue	3,569	1,400	1,484	1,013
Other liabilities	530	530	729	345
Other changes	453	48	485	730
	651	2,710	(12,363)	(7,847)

13. CONTRACTUAL COMMITMENTS

At April 26, 2009, the Company was contractually committed to capital and cemetery burial space inventory expenditures of \$11.4 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 \$37.5 million during the period from February 1, 2008 to January 31, 2013. From February 1, 2008 to April 26, 2009, the Company had purchased \$10.8 million under this commitment.

14. SEGMENT DISCLOSURE

Industry segments (\$000)

	For the 13 weeks ended April 26 and April 27							
	Cemetery		Funeral		Corporate ⁽³⁾		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008
Sales ⁽¹⁾	25,249	23,479	30,113	29,933	-	-	55,362	53,412
Investment and other income ⁽¹⁾	2,773	2,717	1,779	1,492	134	438	4,686	4,647
Revenue	28,022	26,196	31,892	31,425	134	438	60,048	58,059
Depreciation and amortization ⁽¹⁾	1,022	916	1,444	1,329	389	342	2,855	2,587
Earnings (loss) before interest expense and income taxes ⁽¹⁾	2,392	2,419	8,722	9,243	(3,614)	(3,209)	7,500	8,453
Interest expense	-	-	-	-	477	848	477	848
Earnings (loss) before income taxes ⁽¹⁾	2,392	2,419	8,722	9,243	(4,091)	(4,057)	7,023	7,605
Capital expenditures ⁽¹⁾	2,051	1,076	2,095	1,637	460	239	4,606	2,952
Developed land, crypt and niche additions	3,915	2,517	-	-	-	-	3,915	2,517
Cemetery land held for future development additions	88	70	-	-	-	-	88	70
Pre-need contracts written	21,518	19,062	14,939	13,948	-	-	36,457	33,010

	For the 26 weeks ended April 26 and April 27							
	Cemetery		Funeral		Corporate ⁽³⁾		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008
Sales ⁽¹⁾	48,595	46,470	61,149	59,495	-	-	109,744	105,965
Investment and other income ⁽¹⁾	5,447	5,236	2,972	2,613	304	829	8,723	8,678
Revenue	54,042	51,706	64,121	62,108	304	829	118,467	114,643
Depreciation and amortization ⁽¹⁾	1,919	1,858	2,730	2,635	727	729	5,376	5,222
Earnings (loss) before interest expense and income taxes ⁽¹⁾	4,420	5,344	18,205	18,137	(7,539)	(6,632)	15,086	16,849
Interest expense	-	-	-	-	1,049	1,887	1,049	1,887
Earnings (loss) before income taxes ⁽¹⁾	4,420	5,344	18,205	18,137	(8,588)	(8,519)	14,037	14,962
Identifiable assets ⁽²⁾	628,464	594,798	430,616	432,410	36,393	39,103	1,095,473	1,066,311
Capital expenditures ⁽¹⁾	3,784	2,427	2,705	1,800	672	462	7,161	4,689
Acquisition	-	-	1,014	-	-	-	1,014	-
Developed land, crypt and niche additions	9,681	4,469	-	-	-	-	9,681	4,469
Cemetery land held for future development additions	114	167	-	-	-	-	114	167
Pre-need contracts written	37,528	35,461	26,970	26,216	-	-	64,498	61,677

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

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

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