

FIRST QUARTER REPORT

***Thirteen Weeks Ended
January 25, 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 thirteen week period ended January 25, 2009 and includes material information available up to March 4, 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 in the first quarter of 2008 was a reduction of net earnings of \$2.3 million and a reduction of basic and diluted earnings per share of \$0.22. The reduction in net earnings included a cumulative future tax adjustment of \$1.9 million 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. In the first quarter of 2009, the Company expensed \$2.0 million in burial space inventories and \$7.1 million in merchandise inventories (2008 - \$2.0 million and \$7.0 million, respectively).

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.

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 THIRTEEN WEEK PERIOD ENDED JANUARY 25, 2009 COMPARED TO THE THIRTEEN WEEK PERIOD ENDED JANUARY 27, 2008

TOTAL COMPANY RESULTS

Revenue for the quarter ended January 25, 2009 was \$58.7 million compared to \$56.8 million for the quarter ended January 27, 2008. This represented an increase of \$1.9 million or 3.2%. Following is a breakdown of total revenue:

	2009		2008	
	\$Millions	% of Total	\$Millions	% of Total
Sales				
Cemetery	23.3	39.7	23.0	40.5
Funeral	31.3	53.3	29.8	52.5
	<u>54.6</u>	<u>93.0</u>	<u>52.8</u>	<u>93.0</u>
Investment and other income	4.1	7.0	4.0	7.0
	<u>58.7</u>	<u>100.0</u>	<u>56.8</u>	<u>100.0</u>

Sales increased by \$1.8 million or 3.5% in 2009 compared to 2008. Sales in the cemetery division increased by \$0.3 million or 1.5% and sales in the funeral division increased by \$1.5 million or 5.0%.

Investment and other income increased by \$0.1 million or 0.3% over 2008 as follows (in \$millions):

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

Corporate interest income decreased by \$0.2 million primarily due to the repayment of the mortgage receivable in January 2008 and lower interest income on excess cash in the first quarter of 2009.

Operating expenses increased by \$2.3 million or 5.3% over 2008. Cemetery division expenses increased by \$1.4 million or 6.2% due mainly to increases in care and maintenance, administrative and selling expenses. Funeral division expenses increased by \$0.9 million or 4.3%, due mainly to an increase in services expenses.

Corporate expenses increased by \$0.3 million or 7.4% over 2008, due mainly to an increase in employee costs.

Earnings before interest expense and income taxes ("EBIT") decreased by \$0.8 million or 9.2% from 2008 to \$7.7 million. The reduction in EBIT was the result of a decrease in the cemetery division of \$0.9 million due to an increase in expenses of 6.2%, which exceeded a 1.5% increase in sales and an increase in the loss of the corporate division of \$0.5 million, which were partially offset by an increase in EBIT of the funeral division of \$0.6

million. The increase in sales in the cemetery division was lower than historical increases. The average annual increase in cemetery sales from 2003 to 2008 was 4.9%. The 6.2% increase in expenses was partially timing related. The decrease in earnings of the corporate division was due to a reduction in interest income of \$0.2 million, an increase in termination costs of \$0.1 million and an increase in other employee costs of \$0.2 million.

Interest expense included interest on floating rate bank term debt and the cost of the Company's interest rate swap contracts. Interest expense decreased by \$0.5 million or 44.9% to \$0.6 million in 2009 due to a decrease in the weighted average balance of long-term debt outstanding of \$26.5 million or 35.3% and a lower average floating rate of interest of 3.7% compared to 5.5% in 2008, the impact of which was offset by higher swap costs of \$0.1 million. The weighted average long-term debt balance decreased due to repayments on the bank term loans in the 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 January 25, 2009 and October 26, 2008 was 61% compared to 52% at January 27, 2008.

Income taxes for the first quarter of 2009 reflected an effective tax rate of 32.8% compared to 58.1% in the first quarter of 2008. Of the decrease in the effective rate of 25.3 percentage points, 23.4 percentage points was due to a higher increase in the future tax expense in 2008 of \$1.8 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 the impact of a net capital gain in the first quarter of 2009 compared to a net capital loss in 2008, a lower combined basic rate of 0.5 of a percentage point and the favourable impact of dividends and refundable dividend taxes.

Net earnings from discontinued operations increased from earnings of less than \$0.1 million in the first quarter of 2008 to earnings of \$0.2 million in the first quarter of 2009 due to a gain on the sale of one discontinued funeral branch operation.

Net earnings and earnings per share increased by \$1.8 million or 57.8% to \$4.9 million and \$0.17 to \$0.46 per share respectively. The increase was mainly due to a higher increase in the future tax expense in 2008 of \$1.8 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. Excluding future income tax expense from both years, net earnings increased by less than \$0.1 million or 0.9%. The increase in earnings was the net result of the decrease in EBIT of \$0.8 million, which was more than offset by a reduction in interest expense of \$0.5 million, an increase in net earnings from discontinued operations and a reduction in the effective income tax rate.

CEMETERY DIVISION

Cemetery sales in the first quarter of 2009 increased by \$0.3 million or 1.5% from 2008 to \$23.3 million. The increase in sales in the cemetery division was lower than historical increases. The average annual increase in cemetery sales from 2003 to 2008 was 4.9%. Of the \$0.3 million increase in cemetery sales, \$0.2 million occurred due to higher group sales of pre-need interment rights. Sales in the quarter, including finance charges and net of cancellation allowances, consisted of:

- \$8.5 million (2008 - \$8.5 million) of at-need sales of interment rights and deliveries of at-need merchandise and services;
- \$8.0 million (2008 - \$7.8 million) of pre-need sales of interment rights; and
- \$6.8 million (2008 - \$6.7 million) of pre-need sales of merchandise and services, recognized when merchandise was delivered or services were performed, including income earned on related pre-need trust funds.

Pre-need cemetery contracts written in the first quarter of 2009 decreased by \$0.4 million or 2.4%, which the Company believes could partially be the result of the current economic uncertainty.

In the first quarter of 2009, the number of interments performed by the Company increased by 0.7% to 4,120 and the number of cremations decreased by 3.4% to 3,743 compared to the first quarter of 2008. 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 quarter increased by \$0.2 million or 6.2% over 2008 to \$2.7 million due to higher care fund income and referral fees received as a result of higher average balances in the care funds and pre-need trust funds, respectively. The annualized rate of return on the care funds was 4.9% compared to 5.0%

for the first quarter of 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 12.8% to \$1.7 million in the first quarter of 2009 due to a higher average balance in the funds of \$13.9 million or 7.1% as well as an increase in the average rate of return from 3.2% 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 first quarter of 2009 increased by \$1.4 million or 6.2% over 2008 as follows (in \$millions):

Cost of sales	0.2
Selling	0.3
Care and maintenance	0.4
Administrative	0.4
Other	<u>0.1</u>
	<u>1.4</u>

Of the \$0.2 million or 2.8% increase in the cost of sales expense, \$0.1 million was due to the increase in sales. The cost of sales percentage for 2009 was 35.3%, which was 0.4 of a percentage point higher than the cost of sales percentage for 2008.

Selling expenses increased by \$0.3 million or 4.5% primarily due to higher employee costs and an increase in direct mail costs, which was partially caused by timing of the mailings as compared to 2008.

Care and maintenance expenses increased by \$0.4 million or 9.6% 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 additional employees.

Administrative expenses increased by \$0.4 million or 33.2% mainly due to higher employee costs as a result of incremental employees that were added in 2008 after the first quarter, annual increases, market adjustments and higher termination costs of \$0.1 million.

EBIT in the cemetery division decreased by \$0.9 million or 30.7% to \$2.0 million, due to an increase in expenses of 6.2%, which exceeded a 1.5% increase in sales. The increase in sales was lower than historical increases. The average annual increase in cemetery sales from 2003 to 2008 was 4.9%. The 6.2% increase in expenses was partially timing related.

FUNERAL DIVISION

As at January 25, 2009, the Company wholly owned 87 funeral branch 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 quarter of 2009 increased by \$1.5 million or 5.0% from the first quarter of 2008 to \$31.3 million. The improvement was attributable to a \$1.2 million or 4.2% 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 number of services of 0.7% as well as a higher average sale per funeral service of 3.5%. 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 such as receptions, catering, custom printing and flowers. 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:

- \$21.2 million (2008 - \$19.8 million) of at-need sales of funeral merchandise and services;

- \$10.0 million (2008 - \$9.9 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 first quarter of 2009 decreased by \$0.2 million or 1.9% due to turnover of staff that have been or will be replaced, the current economic uncertainty and other factors. Pre-need funeral contracts written under the trust program represented 39.1% (2008 – 43.3%) of total contracts written, while contracts written under the group annuity program represented 60.9% (2008 – 56.7%).

Investment and other income in the funeral division increased by \$0.1 million or 6.8% to \$1.2 million in 2009 due to increases of less than \$0.1 million in both annuity and referral fees.

Interest and dividend income earned on the pre-need funeral funds in the quarter decreased by \$0.1 million or 5.8% to \$1.8 million compared to the first quarter of 2008 due mainly to a reduction in the average balance in the funds of \$2.9 million or 1.3% as well as a lower annualized rate of return on the funds of 3.2% compared to 3.3%. 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 second 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 quarter of 2009 increased by \$0.9 million or 4.3% over 2008, of which \$0.8 million was due to higher services expenses. The increase in services expenses of \$0.8 million or 7.7% was mainly due to higher employee costs of \$0.5 million due to annual salary and wage increases, incremental employees, market adjustments and higher temporary and part-time wages. The remaining increase of \$0.3 million included services expenses for new operations of \$0.1 million and higher meals and entertainment expenses of \$0.1 million, among other items.

EBIT in the funeral division increased by \$0.6 million or 7.0% to \$9.6 million due to an increase in sales of \$1.5 million, which was partially offset by an increase in services expenses of \$0.8 million and other expenses of \$0.1 million.

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 \$0.2 million compared to the first quarter of 2008 due to the repayment of the mortgage receivable in January 2008 and a lower average cash balance in the first quarter of 2009.

Corporate expenses increased by \$0.3 million or 7.4% in the first quarter of 2009 to \$4.1 million due mainly to an increase in employee costs including salaries and wages, benefits, incentive compensation and termination costs. Excluding the increase in termination costs, corporate expenses increased by 3.9%.

The loss in the corporate division increased by \$0.5 million or 14.7% to a loss of \$3.9 million due to a reduction in interest income of \$0.2 million, an increase in termination costs of \$0.1 million and an increase in other employee costs of \$0.2 million.

As a percentage of total Company revenue, corporate expenses increased to 7.0% in the first quarter of 2009 from 6.7% for the same period in 2008. This was attributable to an increase in revenue of 3.2% while corporate costs grew by 7.4%. 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 January 25, 2009, and October 26, 2008, were as follows:

	January 25, 2009	October 26, <u>2008</u>
Current ratio	2.89:1	2.60:1
Working capital (in \$millions)	54.7	56.7
Debt to equity ratio	0.26:1	0.26:1

Long-term debt to EBITDA ⁽¹⁾	1.17:1	1.14:1
Interest coverage ratio ⁽¹⁾	7.18:1	6.68:1

⁽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.

Cash decreased by \$7.1 million mainly due to additions to developed land, crypts and niches of \$5.8 million, fixed asset additions of \$2.6 million, an acquisition of the land and building of an existing funeral branch operation for \$1.0 million and the payment of fiscal 2008 year end accrued liabilities, such as bonuses and vacation pay, which were partially offset by \$1.7 million in proceeds from the disposal of a discontinued operation.

Pre-need receivables and funds, including the current portion thereof, increased by \$6.9 million or 1.4% to \$507.5 million at January 25, 2009. Excluding a fair value gain of \$5.5 million, pre-need receivables and funds increased by \$1.4 million or 0.3%. This compared to an increase of \$1.2 million or 0.2% in the first quarter of 2008, excluding a fair value gain of \$0.8 million and other non recurring items. The fair value gain of \$5.5 million was mainly related to a reduction in the prevailing market interest rate of long-term term deposits, which increased the fair value of a significant portion of the term deposit portfolio.

Income taxes receivable increased from \$4.2 million at October 26, 2008 to \$5.3 million at January 25, 2009, an increase of \$1.1 million. The increase was due to instalments paid in the first quarter, which were based on the prior year's higher taxable income, that exceeded current taxes by \$0.7 million as well as a reclassification of \$0.4 million to accounts payable and accrued liabilities.

Crypts and niches increased by \$3.8 million or 13.6% to \$32.1 million due to additions of \$5.7 million, which were partially offset by cost of inventory sold of \$1.9 million. The \$5.7 million spent on crypt and niche inventory included \$2.8 million spent on a new mausoleum at Glendale Memorial Gardens in Toronto, Ontario, \$1.7 million spent on a mausoleum addition at Rideau Memorial Gardens in Montreal, Quebec 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 \$1.0 million or 0.5% in the first quarter of 2009 to \$193.2 million due to additions of \$2.6 million (2008 - \$1.7 million) and the acquisition of an existing funeral branch operation for \$1.0 million, that were partially offset by depreciation of \$2.5 million (2008 - \$2.6 million). Of the \$2.6 million in additions, \$1.3 million was spent on maintenance capital and \$1.3 million was spent on new initiatives (2008 - \$1.0 million and \$0.7 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 \$1.1 million.

Cemetery care funds and non-controlling interests in cemetery care funds increased by \$2.8 million or 1.6% in the first quarter of 2009 including a fair value loss in the period of \$0.4 million, which was offset by a realized capital gain of \$0.4 million. The increase occurred 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 \$2.5 million or 1.5% in the first quarter of 2008, excluding a fair value adjustment and realized capital losses.

Assets and liabilities related to discontinued operation, including the current portion, decreased by \$3.6 million and \$1.9 million respectively, due to the sale of a funeral branch operation identified as a discontinued operation at October 26, 2008.

Accounts payable and accrued liabilities decreased by \$6.4 million or 19.9% as follows (in \$millions):

Trade accounts payables	2.5
Accrued liabilities	5.3
Other accounts payable	<u>(1.4)</u>
	<u>6.4</u>

The decrease in trade accounts payable was mainly related to a lower volume of expense activity for the first quarter of 2009 compared to the fourth quarter of 2008. The decrease in accrued liabilities was largely related to a reduction in accrued bonuses, vacation pay and employee termination settlements. Other accounts payable increased by \$1.4 million mainly due to reclassifications of \$0.7 million from income taxes receivable and future income taxes payable and an increase in goods and services tax ("GST") payable of \$0.5 million.

Other liabilities increased by \$1.4 million or 8.5%. The \$1.4 million increase was primarily due to a \$1.2 million fair value loss on the interest rate swap agreements as well as a higher future amount owing for GST.

Deferred revenue at January 25, 2009, plus the non-controlling interests in pre-need funds, plus the accumulated benefit of the pre-need funeral group annuity funds excluded from the balance sheet was \$755.5 million compared to \$743.3 million at October 26, 2008, an increase of \$12.2 million or 1.6%. Of the \$12.2 million increase, \$5.5 million was a fair value gain on the pre-need trust funds. The remaining increase was \$6.7 million or 0.9% (first quarter of 2008 – \$6.7 million or 0.9%) and represented deferral of revenue in the period in excess of amounts recognized upon delivery of merchandise and services.

CONSOLIDATED STATEMENTS OF CASH FLOWS

THIRTEEN WEEK PERIOD ENDED JANUARY 25, 2009

Net cash used for operating activities of continuing operations increased by \$2.6 million or 100.4% from the first quarter of 2008 due mainly to an increase in the net change in other operating balance sheet items (“net change”) of \$2.5 million.

The most significant items in the net change of \$2.5 million included:

- higher additions to developed land, crypts and niches of \$3.8 million;
- a net decrease in cash used for accounts payable and accrued liabilities of \$2.5 million;
- a net increase in cash used for deferred revenue of \$1.7 million; and
- a net increase in cash provided by instalment accounts receivable of \$0.5 million.

Net cash used for investing activities of continuing operations was \$9.8 million, compared to cash provided in 2008 of \$2.9 million, a decrease in cash of \$12.7 million. The decrease was mainly due to:

- \$6.8 million in proceeds received on repayment of the mortgage receivable in the first quarter of 2008;
- a \$4.0 million net 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, as well as higher deposits to the fund that exceeded withdrawals for deliveries in 2009;
- \$1.0 million used to acquire the land and building of an existing funeral branch operation;
- higher additions to fixed assets of \$0.8 million and
- a net increase in cash used for other items of \$0.1 million.

Net cash provided by investing activities of discontinued operations was \$1.7 million, compared to less than \$0.1 million in 2008. The increase of \$1.7 million was due to proceeds received on the disposal of one funeral branch operation in the first quarter of 2009.

Net cash provided by financing activities of continuing operations was \$6.2 million in 2009 compared to \$4.3 million in 2008, an increase in cash of \$1.9 million or 42.8%. The increase was mainly due to a higher increase in non-controlling interests in pre-need funds of \$1.5 million and a decrease of \$0.7 million in dividend payments, which was due to timing. These increases were partially offset by 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 January 25, 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 January 25, 2009 were \$89.1 million (October 26, 2008 – \$89.1 million). At January 25, 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 January 25, 2009 was 0.26:1 (October 26, 2008 – 0.26:1).

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

Based on historical cash inflows and outflows, management believes that cash on hand and future cash flow from operating activities are sufficient to sustain ongoing operations as well as the routine maintenance and orderly replacement of the Company's fixed assets. 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 January 25, 2009 but that had not yet generated operating revenue.

Brampton Memorial Gardens Chapel and Reception Centre: As at January 25, 2009, the Company had spent \$4.2 million on this project. The Company estimates that an additional \$2.6 million will be spent to complete the project and anticipates completing the project in fiscal 2009.

The Company had committed to the following expenditures for capital and cemetery burial space inventory at January 25, 2009 (in \$millions), which the Company expects to spend within the next two years:

Cemetery burial space inventory	10.3
New reception centres	2.4
Maintenance capital expenditures	<u>0.3</u>
	<u>13.0</u>

The Company is also contractually committed to funeral inventory purchases of \$37.7 million during the period from February 1, 2008 to January 31, 2013. From February 1, 2008 to January 25, 2009, the Company had purchased \$8.6 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	20.1
Cemetery burial space inventory	14.3
Maintenance capital expenditures	<u>13.4</u>
	<u>47.8</u>

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

UNAUDITED SUMMARY OF QUARTERLY RESULTS

	<i>For the 13 weeks ended</i>							
	<i>First Quarter</i>		<i>Fourth Quarter</i>		<i>Third Quarter</i>		<i>Second Quarter</i>	
	<i>Jan-25</i>	<i>Jan-27</i>	<i>Oct-26</i>	<i>Oct-28</i>	<i>Jul-27</i>	<i>Jul-29</i>	<i>Apr-27</i>	<i>Apr-29</i>
<i>(\$millions, except per share amounts)</i>	2009	2008	2008	2007	2008	2007	2008	2007
Revenue	58.7	56.8	59.4	58.1	62.0	57.1	58.4	59.3
Net earnings from continuing operations	4.8	3.1	5.7	3.7	5.5	3.5	5.4	6.4
Net earnings	4.9	3.1	5.8	2.2	5.2	3.6	5.6	6.5

(\$millions, except per share amounts)	<i>For the 13 weeks ended</i>							
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter				
	Jan-25	Jan-27	Oct-26	Oct-28	Jul-27	Jul-29	Apr-27	Apr-29
	2009	2008	2008	2007	2008	2007	2008	2007
Basic and diluted earnings per share from continuing operations ⁽¹⁾	\$0.44	\$0.29	\$0.53	\$0.34	\$0.52	\$0.33	\$0.50	\$0.61
Basic and diluted earnings per share ⁽¹⁾	\$0.46	\$0.29	\$0.53	\$0.21	\$0.50	\$0.34	\$0.52	\$0.61

⁽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 second quarter of 2007 was affected by an 11.8% increase in funeral division sales compared to the second quarter of 2006, which was driven by an improvement in the number of services provided of 7.9%.

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

Net earnings from continuing operations and earnings per share from continuing operations in the fourth quarter of 2008 were higher as a result of an adjustment of \$1.5 million 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.

Net earnings from continuing operations and earnings per share from continuing operations in the first quarter of 2008 were low 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 fourth quarter of 2007 were low as a result of after tax impairment provisions of \$0.7 million.

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

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

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 January 25, 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 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 number of services and the average sale per service in the funeral division. However, the Company has experienced decreases in both cemetery and funeral pre-need contracts written in the first quarter of 2009, which the Company believes could be at least partially the result of the economic uncertainty. This 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, especially for customers without contracts arranged on a pre-need basis.

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 9.4% of the receivable balance or \$0.4 million at January 25, 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 January 25, 2009 (October 26, 2008 – \$8.1 million).
- At January 25, 2009, the pre-need trust funds had \$2.0 million in unrealized losses in its bond holdings and the care funds had \$7.8 million in unrealized losses in its bond 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 quarter was reduced partially as a result of lower prevailing rates of interest. However, since 61% of the Company's debt is at fixed rates, the impact was not significant. The Company is currently negotiating bank fees that are charged on its revolving term loans, operating lines of credit and unused floating rate debt facilities, which are likely to increase costs due to the current financial market.
- The fair value loss on the interest rate swap agreements increased in the quarter by \$1.2 million before income taxes due to lower prevailing rates of interest. The total fair value loss on the interest rate swap agreements at January 25, 2009 was \$3.1 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 province of Quebec and numerous Canadian cities in Eastern Canada have enacted and are enforcing pesticide by-laws that ban, or severely restrict, pesticide use in all areas, including cemeteries. The province of Ontario plans to implement a province wide ban in the spring of 2009. This new provincial ban 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. 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.

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.

March 4, 2009

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS

<i>For the 13 weeks ended (in thousands of dollars)</i>	January 25, 2009	<i>January 27, 2008⁽¹⁾</i>
Revenue		
Sales	54,666	52,829
Investment and other income (note 8)	4,051	4,040
	58,717	56,869
Expenses		
Operating	46,963	44,618
Corporate	4,095	3,814
	51,058	48,432
Earnings before interest expense and income taxes	7,659	8,437
Interest expense	572	1,039
Earnings before income taxes	7,087	7,398
Income taxes (note 10)	2,327	4,298
Net earnings from continuing operations	4,760	3,100
Net earnings from discontinued operations (note 11)	161	19
Net earnings	4,921	3,119
Basic and diluted earnings per share (note 9)		
Basic and diluted earnings per share from continuing operations	\$0.44	\$0.29
Basic and diluted earnings per share from discontinued operations	0.02	-
Basic and diluted earnings per share	\$0.46	\$0.29

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

UNAUDITED CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>For the 13 weeks ended (in thousands of dollars)</i>	January 25, 2009	<i>January 27, 2008</i>
Retained earnings, beginning of period	112,853	94,302
Net earnings for the period	4,921	3,119
Refundable tax on dividend income (note 10)	(90)	-
Dividends	(1,179)	-
Retained earnings, end of period	116,505	97,421

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>For the 13 weeks ended (in thousands of dollars)</i>	January 25, 2009	January 27, 2008
Net earnings	4,921	3,119
Other comprehensive loss:		
Net change in losses on effective portion of derivatives designated as cash flow hedges net of income taxes of \$381 in 2009 and \$364 in 2008 (note 7).	(806)	(643)
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 (\$1,726) in 2009 and (\$286) in 2008.	3,761	529
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 (\$1,726) in 2009 and (\$286) in 2008.	(3,761)	(529)
	-	-
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 \$119 in 2009 and \$26 in 2008.	(258)	(49)
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 \$119 in 2009 and \$26 in 2008.	258	49
	-	-
Other comprehensive loss	(806)	(643)
Comprehensive income	4,115	2,476

UNAUDITED CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

<i>For the 13 weeks ended (in thousands of dollars)</i>	January 25, 2009	January 27, 2008
Accumulated other comprehensive (loss) income, beginning of period	(1,268)	88
Other comprehensive loss for the period	(806)	(643)
Accumulated other comprehensive loss, end of period	(2,074)	(555)

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.
UNAUDITED CONSOLIDATED BALANCE SHEETS

<i>As at (in thousands of dollars)</i>	January 25, 2009	October 26, 2008 ⁽¹⁾
Assets		
Current assets		
Cash	7,641	14,768
Accounts receivable	20,011	19,548
Pre-need receivables, current portion (note 4)	37,925	39,964
Merchandise inventories	10,502	10,335
Income taxes receivable	5,300	4,183
Prepaid expenses	646	1,377
Future income taxes, current portion	1,481	1,492
Assets related to discontinued operation, current portion (note 11)	-	378
	83,506	92,045
Notes receivable (note 6)	700	500
Crypts and niches	32,113	28,277
Cemetery land	34,871	34,959
Fixed assets	193,161	192,144
Pre-need receivables and funds (note 4)	469,573	460,613
Stored merchandise	13,722	13,531
Other assets	547	135
Goodwill	51,168	51,168
Intangible assets	1,966	1,984
Future income taxes	17,653	17,569
Cemetery care funds (note 5)	172,901	170,156
Assets related to discontinued operation (note 11)	-	3,230
	1,071,881	1,066,311
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	25,920	32,345
Long-term debt, current portion	1,594	1,594
Future income taxes, current portion	1,339	1,440
	28,853	35,379
Long-term debt	47,074	47,097
Other liabilities	17,813	16,418
Deferred revenue	184,234	186,402
Non-controlling interests in pre-need funds	427,868	418,754
Future income taxes	3,319	3,195
Liabilities related to discontinued operation (note 11)	-	1,937
	709,161	709,182
Non-controlling interests in cemetery care funds	172,901	170,156
Shareholders' equity		
Share capital (note 9)	75,388	75,388
Retained earnings	116,505	112,853
Accumulated other comprehensive loss	(2,074)	(1,268)
	114,431	111,585
	189,819	186,973
	1,071,881	1,066,311

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

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>For the 13 weeks ended (in thousands of dollars)</i>	January 25, 2009	<i>January 27, 2008 ⁽¹⁾</i>
Cash provided by (used for)		
Operating activities		
Net earnings from continuing operations	4,760	3,100
Add (deduct) items not affecting cash:		
Depreciation and amortization	2,539	2,654
Loss (gain) on disposal of assets	9	(9)
Future income taxes (note 10)	581	2,132
Stock based compensation	-	104
Net change in other operating balance sheet items (note 12)	(13,017)	(10,540)
Net cash used for continuing operations	(5,128)	(2,559)
Net cash used for discontinued operations	(38)	(31)
Investing activities		
Additions to fixed assets	(2,555)	(1,737)
Acquisition (note 3)	(1,014)	-
Additions to cemetery land held for future development	(26)	(97)
Proceeds on disposal of assets	22	16
Proceeds from mortgage receivable	-	6,750
Change in pre-need funds	(3,516)	506
Change in cemetery care funds	(2,751)	(2,503)
Net cash (used for) provided by continuing operations	(9,840)	2,935
Additions to fixed assets	5	-
Proceeds on disposal of assets	1,657	-
Change in pre-need funds	27	32
Net cash provided by discontinued operations	1,689	32
Financing activities		
Repayment of long-term debt	(23)	(3)
Dividends paid	-	(744)
Proceeds on exercise of stock options	-	564
Change in non-controlling interests in pre-need funds	3,481	2,028
Change in non-controlling interests in cemetery care funds	2,751	2,503
Net cash provided by continuing operations	6,209	4,348
Net cash used for discontinued operations	(19)	(32)
(Decrease) increase in cash	(7,127)	4,693
Cash, beginning of period	14,768	24,483
Cash, end of period	7,641	29,176
Supplementary information		
Income taxes paid	2,565	3,643
Interest paid	607	1,043

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

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.

UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the 13 weeks ended January 25, 2009 and January 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. 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 in the first quarter of 2008 was a reduction of net earnings of \$2.3 million and a reduction of basic and diluted earnings per share of \$0.22. The reduction in net earnings included a cumulative future tax adjustment of \$1.9 million 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 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. In the first quarter of 2009, the Company expensed \$2.0 million in burial space inventories and \$7.1 million in merchandise inventories (2008 - \$2.0 million and \$7.0 million, respectively).

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.

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

	January 25, 2009	October 26, 2008
		(\$000)
Pre-need cemetery trust funds	216,640	209,825
Pre-need funeral trust funds	199,628	196,713
	416,268	406,538
Instalment accounts receivable	68,139	70,285
Pre-need group annuity funds	23,091	23,754
	507,498	500,577
Less: current portion of instalment accounts receivable	37,925	39,964
	469,573	460,613

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 January 25, 2009, the accumulated benefit of all such contracts sold by the Company's sales counsellors was \$143.3 million (October 26, 2008 - \$138.1 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	
	January 25, 2009	October 26, 2008	January 25, 2009	October 26, 2008
		(\$000)		(\$000)
Cash	5,214	4,398	5,214	4,398
Term deposits	233,420	225,409	224,714	222,352
Bonds	139,387	137,385	141,387	142,034
Equities	18,069	19,202	19,518	17,805
Equity/bond funds	20,178	20,144	19,007	19,007
	416,268	406,538	409,840	405,596

5. CEMETERY CARE FUNDS

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

	Fair Value		Cost	
	January 25, 2009	October 26, 2008	January 25, 2009	October 26, 2008
		(\$000)		(\$000)
Cash	853	1,205	853	1,205
Term deposits	9,579	6,186	9,579	6,186
Bonds	150,645	149,205	154,968	155,057
Equities	11,824	13,560	15,295	15,126
	172,901	170,156	180,695	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%.

7. DERIVATIVE FINANCIAL INSTRUMENTS

As of January 25, 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 January 25, 2009 these swaps had a total notional amount of \$29.9 million (October 26, 2008 – \$29.8 million). The swaps expire in 2009, 2012 and 2014. Swap costs in the 13 weeks ended January 25, 2009 were \$0.1 million (13 weeks ended January 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 year, which generally reflects the estimated amount that the Company would receive or pay to terminate the contracts at the balance sheet date. The fair value of the swaps is provided to the Company by the chartered bank that is the counter party to the transactions. The estimated fair value of the interest rate swaps was a loss of \$3.1 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 January 25, 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 January 25 and January 27									
	Cemetery		Funeral		Care Funds		Other		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	(\$000)									
Realized earnings of funds:										
Interest and dividends ⁽¹⁾	1,747	1,549	1,762	1,871	2,207	2,114	-	-	5,716	5,534
Realized gains	-	-	64	-	835	-	-	-	899	-
Realized losses	-	(52)	-	(297)	(464)	(825)	-	-	(464)	(1,174)
Trust expenses	(52)	(41)	(56)	(35)	(73)	(72)	-	-	(181)	(148)
	1,695	1,456	1,770	1,539	2,505	1,217	-	-	5,970	4,212
Deferred revenue	(24)	(12)	-	-	-	-	-	-	(24)	(12)
Trust expenses ⁽²⁾	52	41	56	35	73	72	-	-	181	148
Non-controlling interests in funds	(1,723)	(1,485)	(1,826)	(1,574)	(392)	805	-	-	(3,941)	(2,254)
	-	-	-	-	2,186	2,094	-	-	2,186	2,094
Fee income	488	425	1,207	1,130	-	-	-	-	1,695	1,555
Other	-	-	-	-	-	-	170	391	170	391
	488	425	1,207	1,130	2,186	2,094	170	391	4,051	4,040

⁽¹⁾ Includes interest income of \$5.4 million (2008 - \$4.8 million).

⁽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:

	Number of Shares		Amount	
	January 25, 2009	October 26, 2008	January 25, 2009	October 26, 2008
			(\$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 weeks ended January 25, 2009 was 10,713,743 (13 weeks ended January 27, 2008 – 10,699,613).

At January 25, 2009, there were no options outstanding (October 26, 2008 – nil options outstanding).

10. INCOME TAXES

Income tax expense:

Income tax expense for the 13 weeks ended January 25, 2009 and January 27, 2008 consisted of the following:

	2009	2008
		(\$000)
Current tax expense	1,746	2,166
Future income tax expense relating to the origination and reversal of temporary differences	455	249
Future income tax expense resulting from change in tax rates	126	1,883
	2,327	4,298

Effective income tax rate:

The reconciliation of the Company's effective income tax rate for the periods ended January 25, 2009 and January 27, 2008 are as follows:

	2009	2008
		(%)
Combined basic federal and provincial income tax rate	31.9	32.4
Change in the basic tax rate resulting from:		
Dividends/RDTOH ⁽¹⁾	(1.2)	(0.8)
Impact of future tax changes	1.8	25.2
Impact of capital (gains) losses	(0.1)	0.8
Meals and entertainment	0.4	0.5
Effective income tax rate	32.8	58.1

⁽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.

At January 25, 2009, the Company had \$4.4 million in unrecognized capital losses (January 27, 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.

Revenue associated with discontinued operations for the first quarter of 2009 was \$0.1 million (first quarter of 2008 – \$0.5 million) and net earnings for the first quarter of 2009 were \$0.2 million (first quarter of 2008 – less than \$0.1 million).

12. NET CHANGE IN OTHER OPERATING BALANCE SHEET ITEMS

	<i>January 25, 2009</i>	<i>January 27, 2008</i>
	(\$000)	
Accounts receivable	(463)	(461)
Instalment accounts receivable	2,146	1,610
Stored merchandise	(191)	(276)
Developed land, crypt and niche cost of sales	2,044	1,958
Additions to developed land, crypts and niches	(5,766)	(1,952)
Accounts payable and accrued liabilities	(7,604)	(10,067)
Income taxes receivable/payable	(1,367)	(1,468)
Deferred revenue	(2,086)	(394)
Other liabilities	208	(185)
Other changes	62	695
	(13,017)	(10,540)

13. CONTRACTUAL COMMITMENTS

At January 25, 2009, the Company was contractually committed to capital and cemetery burial space inventory expenditures of \$13.0 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 \$37.7 million during the period from February 1, 2008 to January 31, 2013. From February 1, 2008 to January 25, 2009, the Company had purchased \$8.6 million under this commitment.

14. SEGMENT DISCLOSURE

Industry segments (\$000)

	<i>For the 13 weeks ended January 25 and January 27</i>							
	<i>Cemetery</i>		<i>Funeral</i>		<i>Corporate</i> ⁽³⁾		<i>Consolidated</i>	
	2009	2008	2009	2008	2009	2008	2009	2008
Sales	23,346	22,991	31,320	29,838	-	-	54,666	52,829
Investment and other income	2,674	2,519	1,207	1,130	170	391	4,051	4,040
Revenue	26,020	25,510	32,527	30,968	170	391	58,717	56,869
Depreciation and amortization	897	942	1,304	1,325	338	387	2,539	2,654
Earnings (loss) before interest expense and income taxes ⁽¹⁾	2,028	2,925	9,556	8,935	(3,925)	(3,423)	7,659	8,437
Interest expense	-	-	-	-	572	1,039	572	1,039
Earnings (loss) before income taxes ⁽¹⁾	2,028	2,925	9,556	8,935	(4,497)	(4,462)	7,087	7,398
Identifiable assets ⁽²⁾	607,046	594,798	429,718	432,410	35,117	39,103	1,071,881	1,066,311
Capital expenditures	1,733	1,351	610	163	212	223	2,555	1,737
Acquisition	-	-	1,014	-	-	-	1,014	-
Developed land, crypt and niche additions	5,766	1,952	-	-	-	-	5,766	1,952
Cemetery land held for future development additions	26	97	-	-	-	-	26	97
Pre-need contracts written	16,010	16,399	12,031	12,268	-	-	28,041	28,667

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

⁽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.*