

SECOND QUARTER REPORT

***Three and Six Months Ended
April 30, 2008***



ARBOR MEMORIAL SERVICES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis for Arbor Memorial Services Inc. ("Arbor" or the "Company") has been prepared for the three and six months ended April 30, 2008 and includes material information available up to June 3, 2008. The financial data provided has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and all figures provided are in Canadian dollars. Management's Discussion and Analysis herewith provided is the responsibility of the Company's management. The Board of Directors is responsible for reviewing and approving Management's Discussion and Analysis. Additional information relating to Arbor, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

Information Regarding Forward-Looking Statements

Certain statements contained in this Management's Discussion and Analysis including, but not limited to, information regarding the status and progress of the Company's operating and capital activities, the plans and objectives of the Company and assumptions regarding the Company's future performance are forward-looking statements. Forward-looking statements may include words such as "believes", "may", "should", "estimates", "continues", "indicates", "suggests", "anticipates", "intends", "plans", "expects" and similar expressions. These forward-looking statements are based on current expectations and various factors and assumptions. Accordingly, these forward-looking statements are subject to certain risks and uncertainties. The material factors and assumptions that were applied in making the forward-looking statements in this Management's Discussion and Analysis include, but are not limited to: reliance on third-party reports from government bodies and industry associations, the use of economic forecasts prepared by various financial institutions, historical experience, and financial reporting of competitors and suppliers. Risks and uncertainties that could cause or contribute to actual results differing from such statements include, but are not limited to, those discussed elsewhere in this Management's Discussion and Analysis, particularly under "Events and Uncertainties", and in the Company's 2007 Annual Information Form under "Description of the Business – Risk Factors" and 2007 Annual Report under "Risks, Events and Uncertainties". The Company cannot provide any assurance that forward-looking statements will materialize. The Company assumes no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Non-GAAP Financial Measures

In addition to the GAAP results provided in this Management's Discussion and Analysis, some of the discussion of operating performance is based on earnings before interest expense and income taxes ("EBIT"). EBIT excludes the impact of interest expense and income taxes as disclosed in the statements of earnings. EBIT is a non-GAAP financial measure that does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. This non-GAAP financial measure is provided as a supplement, and should not be considered an alternative to measurements required by GAAP. Management uses EBIT to assess its operating results, as it believes it is important to assess the cemetery, funeral, and corporate activities without these non-operating components. Management believes that this measure provides useful additional information to management and investors regarding the Company's performance as it provides a basis for analyzing the ongoing operating results, which may vary due to different market and economic factors than those that affect interest expense and income taxes.

New Disclosure Requirements

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

Section 3862, together with Section 3863, replaces Section 3861 and requires that disclosures be provided in the financial statements that enable users to evaluate the significance of financial instruments for the Company's financial position and performance as well as the nature and extent of risks arising from financial instruments and how the Company manages those risks. As a result of implementing this standard, the Company has included additional disclosure in note 6 to the consolidated financial statements in this interim report.

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

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

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The Section requires disclosure of information about the Company's objectives, policies and processes for managing capital and how it is meeting these objectives. As a result of implementing this standard, the Company has included additional disclosure in note 9 to the consolidated financial statements in this interim report.

Future Accounting Policy Changes

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

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

As a result of changes to these standards, deferred obtaining costs can no longer be classified as assets and these costs will be expensed as incurred. Based on preliminary estimates, the Company believes the impact on the income statement is a reduction of net earnings of \$2.7 million or \$0.25 per share in 2007 and between \$2.2 million to \$2.8 million or \$0.20 to \$0.26 per share in 2008. The policy change will also require retroactive application for obtaining costs currently capitalized to the Company's balance sheet, resulting in an adjustment to opening retained earnings. The reduction to opening retained earnings is estimated to be \$40.4 million.

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

RESULTS OF OPERATIONS

The data set forth herein should be read in conjunction with the Company's consolidated financial statements and accompanying notes included in the Company's 2007 Annual Report. Historical information provided is not necessarily indicative of the results to be expected in the future.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED APRIL 30, 2008 COMPARED TO THE THREE MONTHS ENDED APRIL 30, 2007

TOTAL COMPANY RESULTS

Revenue for the quarter ended April 30, 2008 was \$58.4 million compared to \$59.3 million for the quarter ended April 30, 2007. This represented a decrease of \$0.9 million or 1.5%. Following is a breakdown of total revenue:

	2008		2007	
	\$Millions	% of Total	\$Millions	% of Total
Sales				
Cemetery	23.5	40.2	24.4	41.1
Funeral	30.3	51.9	30.8	51.9
	<u>53.8</u>	<u>92.1</u>	<u>55.2</u>	<u>93.0</u>
Investment and other income	4.6	7.9	4.1	7.0
	<u>58.4</u>	<u>100.0</u>	<u>59.3</u>	<u>100.0</u>

Sales decreased by \$1.4 million or 2.5% in 2008 compared to 2007. Sales in the cemetery division decreased by \$0.9 million or 3.7% and sales in the funeral division decreased by \$0.5 million or 1.5%.

Investment and other income increased by \$0.5 million or 12.4% over 2007 as follows (in \$millions):

Cemetery care fund interest and dividends	0.1
Funeral and cemetery annuity and referral fees	0.4
Corporate interest and lease income	<u>-</u>
	<u>0.5</u>

Operating expenses increased by \$0.7 million or 1.5% over 2007. Cemetery division expenses increased by \$0.2 million or 0.9%, due mainly to increases in selling and care and maintenance expenses and a reduction in the gain on disposal of assets, which were partially offset by a decrease in cost of sales. Funeral division expenses increased by \$0.5 million or 2.1%, due mainly to increases in services and facilities expenses.

Corporate expenses increased by \$0.2 million or 4.3% over 2007, due mainly to higher employee costs.

Earnings before interest expense and income taxes (“EBIT”) were \$9.9 million, which represented a decrease of \$1.7 million or 14.3% from 2007. The cemetery division declined by \$0.9 million or 21.4% and the funeral division declined by \$0.6 million or 5.9% from 2007 due to a decrease in revenue and an increase in expenses. Corporate earnings were lower by \$0.2 million due to an increase in expenses of the same amount.

Interest expense included interest on floating-rate bank term debt, a capital lease and the cost of the Company’s interest rate swap contracts. Interest expense decreased by \$0.4 million or 30.3% to \$0.8 million in 2008 due to a lower weighted-average balance of long-term debt outstanding of \$28.0 million or 30.4%. The decrease occurred despite a higher average floating rate of interest of 5.1% compared to 5.0% in the second quarter of 2007. The overall weighted-average rate of interest on long-term debt for both periods was 5.3%. The weighted-average long-term debt balance decreased due to repayments on the bank term loans in the third and fourth quarters of 2007 and the second quarter of 2008. The proportion of fixed-rate debt to total debt at April 30, 2008 was 68% compared to 47% at October 31, 2007 and 46% at April 30, 2007.

Income taxes for the second quarter of 2008 reflected an effective tax rate of 31.2% compared to 33.3% in the second quarter of 2007. The decrease in the effective rate of 2.1 percentage points was mainly due to a lower combined basic federal and provincial tax rate. The lower combined basic rate was due to a decrease in the federal rate and the elimination of the federal surtax effective January 1, 2008.

Net earnings and earnings per share in the second quarter of 2008 decreased by \$0.5 million or 7.8% to \$6.4 million and \$0.60 per share respectively compared to the second quarter of 2007. The decrease was due to a reduction in revenue of \$0.9 million or 1.4% and an increase in expenses of \$0.8 million or 1.7%, which were partially offset by a decrease in interest expense of \$0.4 million, a decrease in income taxes of \$0.6 million and a small increase in earnings from discontinued operations.

CEMETERY DIVISION

Cemetery sales in the second quarter of 2008 decreased by \$0.9 million or 3.7% from 2007 to \$23.5 million. Sales in the year, including finance charges and net of cancellation allowances, consisted of:

- \$8.1 million (2007 - \$8.3 million) of at-need sales of interment rights and deliveries of at-need merchandise and services;
- \$9.0 million (2007 - \$8.6 million) of pre-need sales of interment rights; and
- \$6.4 million (2007 - \$7.5 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 \$0.9 million decrease in cemetery sales (in \$millions):

<u>At-Need</u>	
Interment rights	(0.2)
Merchandise	(0.2)
Services	<u>0.2</u>
	<u>(0.2)</u>

<u>Pre-Need</u>	
Interment rights	0.4
Merchandise	(1.2)
Services	<u>0.1</u>
	<u>(0.7)</u>
	<u>(0.9)</u>

The increase in sales of pre-need interment rights of \$0.4 million or 4.4% was due to higher lot sales, which was partially the result of an increase in group sales of lots of \$0.2 million.

The decrease in the delivery of pre-need merchandise of \$1.2 million or 18.9% occurred as follows (in \$millions):

Bronze memorials	(0.6)
Upright monuments	(0.5)
Urns	<u>(0.1)</u>
	<u>(1.2)</u>

Of the \$1.1 million decrease in deliveries of bronze memorials and upright monuments, \$0.4 million was related to lower deliveries resulting from projects undertaken in both 2007 and 2008 to contact customers for the purpose of manufacturing and storing memorials and monuments. The remaining difference was mainly timing related. First quarter deliveries of memorials and monuments were higher than 2007 by \$0.3 million and \$0.2 million respectively.

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

- the timing of full payment by the customer;
- the amount of time it takes for customers to approve the manufacture and delivery of their marker;
- the amount of time it takes for orders to be submitted to the manufacturers;
- the amount of time it takes to manufacture the markers; and
- projects undertaken to contact customers and get markers manufactured and stored or installed.

In the second quarter of 2008, the number of interments performed by the Company decreased by 4.1% to 4,036 and the number of cremations increased by 1.9% to 3,932 compared to the second quarter of 2007. For comparative purposes, interments increased by 4.1% and cremations increased by 1.1% in fiscal 2007 as compared to fiscal 2006.

Cemetery investment income for the quarter increased by \$0.2 million or 8.4% over 2007 to \$2.7 million due to higher care fund income of \$0.1 million and higher referral fees of \$0.1 million. The increase in care fund income was due to a higher average balance in the funds of \$10.5 million or 6.5%. The annualized rate of return on the funds was 5.2% compared to 5.3% for the second quarter of 2007. Interest and dividend income on the care funds is recognized as earned and used to defray cemetery care and maintenance costs.

Interest and dividend income earned on pre-need cemetery merchandise and services trust funds increased by 12.0% to \$1.7 million in the second quarter of 2008 due to a higher average balance in the funds of \$10.3 million or 5.5% as well as an increase in the average rate of return from 3.3% to 3.5%. 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 2008 increased by \$0.2 million or 0.9% over 2007 as follows (in \$millions):

Cost of sales	(0.7)
Selling	0.3
Care and maintenance	0.2
Gain on asset disposals	0.2
Other	<u>0.2</u>
	<u>0.2</u>

Of the \$0.7 million or 5.8% decrease in the cost of sales expense, \$0.4 million was due to the reduction in sales and \$0.3 million was mainly the result of a decrease in the cost percentage for pre-need burial spaces as a result

of a higher proportion of burial lot sales compared to crypt and niche sales, including the impact of group lot sales that have a lower commission rate. The cost of sales percentage for 2008 was 46.3%, which was 1.1 percentage points lower than the cost of sales percentage for 2007, due mainly to the higher sales of pre-need burial lots.

Selling expenses increased \$0.3 million or 5.6% due to higher employee salaries, benefits and termination costs.

EBIT in the cemetery division decreased by \$0.9 million or 21.4%, due to decreased sales and an increase in expenses.

FUNERAL DIVISION

As at April 30, 2008, the Company wholly owned 90 funeral branch operations, three of which were classified as discontinued operations. One funeral branch operation was sold in the second quarter of 2008.

Funeral sales in the second quarter of 2008 decreased by \$0.5 million or 1.5% from the second quarter of 2007 to \$30.3 million. The decrease in sales was due to a reduction in the number of services of 1.8% partially offset by an improvement in the average sale per funeral service of 0.3%. The decrease in the number of services was mainly related to the significant increase in the number of services in the second quarter of 2007. In that period, existing home services were up by 7.9%. However, for comparative purposes, the average annual increase in existing funeral home services from fiscal 2002 to 2006 was 0.8%.

Sales in the period consisted of:

- \$20.4 million (2007 - \$20.2 million) of at-need sales of funeral merchandise and services;
- \$9.8 million (2007 - \$10.5 million) from the fulfilment of funeral merchandise and services sales that were arranged on a pre-need basis; and
- \$0.1 million (2007 - \$0.1 million) of flower shop sales.

Pre-need funeral contracts written in the second quarter of 2008 decreased by \$0.6 million or 4.4%. Pre-need funeral contracts written under the trust program represented 43.1% (2007 – 43.3%) of total contracts written, while contracts written under the group annuity program represented 56.9% (2007 – 56.7%).

Investment and other income in the funeral division increased by \$0.3 million or 25.3% to \$1.5 million in 2008 primarily due to higher annuity fees of \$0.2 million. The higher annuity fees primarily resulted from a higher payout rate, which is based on the age of the customer and the payment terms, and a \$0.1 million reduction in the provision for cancellation of contracts based on favourable experience.

Interest and dividend income earned on the pre-need funeral funds in the quarter increased by 11.9% to \$2.1 million compared to the second quarter of 2007 due to a higher annualized rate of return on the funds of 3.7% compared to 3.3% in the second quarter of 2007. The average balance in the funds decreased by \$1.7 million or 0.7%. 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 2008 increased by \$0.5 million or 2.1% over 2007. A breakdown of the \$0.5 million increase in expenses by type of expenditure follows (in \$millions):

Services	0.3
Facilities	0.2
Cost of sales	0.1
Administrative	<u>(0.1)</u>
	<u>0.5</u>

The increase in services expenses of \$0.3 million or 3.3% was mainly due to higher employee costs and a small increase in other expenses, which were partially offset by a lower provision for bonuses. Employee costs were \$0.5 million higher in the second quarter of 2008 due to annual increases, incremental employees and market adjustments, while the \$0.3 million decrease in the provision for bonuses was due to weaker performance compared to the second quarter of 2007.

EBIT in the funeral division decreased by \$0.6 million or 5.9% to \$9.8 million, due to the decrease in sales and 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, was consistent with the second quarter of 2007.

Corporate expenses increased by \$0.1 million or 4.3% in the second quarter of 2008 to \$3.6 million. The main contributor to the increase was higher salaries and wages of \$0.1 million or 9.2% as a result of annual increases and incremental employees.

As a percentage of total Company revenue, corporate expenses increased to 6.2% in the second quarter of 2008 from 5.9% for the same period in 2007. This was attributable to a decrease in revenue of 1.5% while corporate costs grew by 4.3%. For comparative purposes, corporate expenses as a percentage of revenue were 6.2% in fiscal 2007, 6.4% in fiscal 2006 and 6.7% in fiscal 2005.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED APRIL 30, 2008 COMPARED TO THE SIX MONTHS ENDED APRIL 30, 2008

TOTAL COMPANY RESULTS

Revenue for the six months ended April 30, 2008, was \$115.3 million compared to \$114.1 million for the six months ended April 30, 2007. This represented an increase of \$1.2 million or 1.1%. Following is a breakdown of total revenue:

	2008		2007	
	\$Millions	% of Total	\$Millions	% of Total
Sales				
Cemetery	46.5	40.3	46.3	40.6
Funeral	60.1	52.1	59.8	52.4
	<u>106.6</u>	<u>92.4</u>	<u>106.1</u>	<u>93.0</u>
Investment and other income	8.7	7.6	8.0	7.0
	<u>115.3</u>	<u>100.0</u>	<u>114.1</u>	<u>100.0</u>

Sales increased by \$0.5 million or 0.4% in the first six months of 2008 compared to the first six months of 2007. Sales in the cemetery division increased by \$0.2 million or 0.3% and sales in the funeral division increased by \$0.3 million or 0.6%.

Investment and other income increased by \$0.7 million or 8.7% over 2007 as follows (in \$millions):

Funeral and cemetery annuity and referral fees	0.5
Cemetery care fund interest and dividends	0.2
Corporate interest and lease income	-
	<u>0.7</u>

Operating expenses increased by \$2.9 million or 3.3% over 2007. Cemetery division expenses increased by \$1.1 million or 2.5%, due mainly to increases in care and maintenance and selling expenses, which were partially offset by a lower cost of sales. Funeral division expenses increased by \$1.8 million or 4.2%, due mainly to increases in services, facilities and cost of sales expenses.

Corporate expenses increased \$0.4 million or 6.3% over the first six months of 2007 due mainly to higher employee salaries and wages of \$0.2 million as a result of annual increases and incremental employees and a \$0.1 million stock based compensation expense incurred in the first quarter of 2008.

Earnings before interest expense and income taxes ("EBIT") were \$18.9 million, which represented a decrease of \$2.1 million or 10.2% from 2007. Of the \$2.1 million decrease, \$1.1 million occurred in the funeral division, \$0.6 million occurred in the cemetery division and \$0.4 million occurred in the corporate division. All of these declines were due to higher expenses compared to 2007.

Interest expense included interest on floating-rate bank term debt, a capital lease and the cost of the Company's interest rate swap contracts. Interest expense decreased \$0.6 million or 23.1% to \$1.9 million in the first six months of 2008 due primarily to a lower weighted-average balance of long-term debt outstanding of \$24.1 million or 26.1%. The decrease occurred despite a higher weighted-average rate of interest on long-term

debt for the period of 5.5% compared to 5.3% in 2007. The weighted-average long-term debt balance decreased due to repayments on the bank term loans in the third and fourth quarters of 2007 and the second quarter of 2008. The proportion of fixed-rate debt to total debt at April 30, 2008 was 68% compared to 47% at October 31, 2007 and 46% at April 30, 2007.

Income taxes for the first six months of 2008 reflected an effective tax rate of 31.6% compared to 33.9% in the first six months of 2007. The decrease in the effective rate of 2.3 percentage points was mainly due to a lower combined basic federal and provincial tax rate of 2.0 percentage points. The lower combined basic rate was due to a decrease in the federal rate and the elimination of the federal surtax effective January 1, 2008.

Net earnings and earnings per share in the first six months of 2008 decreased by \$0.5 million or 4.2% to \$11.8 million and by \$0.06 to \$1.11 per share respectively compared to the first six months of 2007. The decrease was mainly attributable to higher operating and corporate expenses of \$3.3 million or 3.6%, which exceeded the increase in revenue of \$1.2 million or 1.0%. Partially offsetting the impact of these items, was a decrease in interest expense of \$0.6 million, a decrease in income taxes of \$0.9 million, and a small increase in earnings from discontinued operations. While net earnings for the first six months ended April 30, 2008 decreased by \$0.5 million from 2007, net earnings in 2007 increased by \$1.5 million or 14.0% over 2006, mainly due to an increase in funeral sales of 12.4%.

CEMETERY DIVISION

Cemetery sales in the first six months of 2008 increased by \$0.2 million or 0.3% over 2007 to \$46.5 million. Sales in the year, including finance charges and net of cancellation allowances, consisted of:

- \$16.8 million (2007 - \$16.5 million) of pre-need sales of interment rights;
- \$13.1 million (2007 - \$13.7 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; and
- \$16.6 million (2007 - \$16.1 million) of at-need sales of interment rights and deliveries of at-need merchandise and services.

The following is a breakdown of the \$0.2 million increase in cemetery sales (in \$millions):

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

The decrease in sales of at-need interment rights of \$0.3 million or 6.2% was due to lower crypt sales. The \$0.5 million or 7.5% increase in the delivery of at-need merchandise resulted from higher sales of bronze memorials of \$0.2 million, higher sales of upright monuments of \$0.2 million and higher sales of urns of \$0.1 million. The increase in sales of at-need bronze memorials was due to an increase of 6.3% in contracts written in 2007 compared to 2006, which resulted in higher deliveries in the period, and timing of delivery. The increase in at-need upright monument sales was due to 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 \$0.3 million or 1.5% was due to a \$0.4 million increase in sales of traditional burial lots despite group sales being \$0.1 million lower compared to 2007. The decrease of \$0.8 million in pre-need merchandise sales was mainly due to sales resulting from administrative projects undertaken, which were \$0.4 million lower than the same period of 2007 for bronze memorials and \$0.2 million lower for upright monuments. Timing of delivery was also a factor.

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

- the timing of full payment by the customer;
- the amount of time it takes for customers to approve the manufacture and delivery of their marker;
- the amount of time it takes for orders to be submitted to the manufacturers; and
- the amount of time it takes to manufacture the markers.

In the first six months of 2008, the number of interments performed by the Company decreased by 2.0% to 8,129 and the number of cremations increased by 1.1% to 7,805 compared to the first six months of 2007. For comparative purposes, interments increased by 4.1% and cremations increased by 1.1% in fiscal 2007 as compared to fiscal 2006.

Cemetery investment income for the six months increased by \$0.3 million or 7.1% over 2007 to \$5.2 million primarily due to an increase in care fund income of \$0.2 million or 5.7%. The increase in care fund income was due to a higher average balance in the funds of \$11.3 million or 7.1% and occurred despite a decrease in the annualized rate of return on the funds from 5.2% in 2007 to 5.1% in 2008. Interest and dividend income on the care funds is recognized as earned in order to defray cemetery care and maintenance costs.

Interest and dividend income earned on pre-need cemetery merchandise and services trust funds increased by \$0.2 million or 6.6% due to a higher average balance in the funds of \$11.6 million or 6.2%. 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 six months of 2007 increased by \$1.1 million or 2.5% over the same period of 2007 as follows (in \$millions):

Cost of sales	(0.4)
Care and maintenance	0.4
Selling	0.3
Reception centres	0.2
Gain on disposal of assets	0.2
Depreciation	0.2
Other	<u>0.2</u>
	<u>1.1</u>

Of the decrease in the cost of sales expense of \$0.4 million, \$0.3 million was due to a lower cost of pre-need burial space sales due to mix by product and branch and \$0.1 million was due to lower sales. The cost of sales percentage for the first six months of 2008 was 46.3%, which was 0.9 of a percentage point lower than the cost of sales percentage for 2007.

Care and maintenance expenses increased by \$0.4 million or 4.9% and selling expenses increased by \$0.3 million or 3.7% primarily due to increased employee costs.

EBIT in the cemetery division decreased by \$0.6 million or 8.7% due to an increase in expenses that exceeded the increase in revenue.

FUNERAL DIVISION

As at April 30, 2008, the Company wholly owned 90 funeral homes, three of which were classified as discontinued operations. One funeral branch operation was sold in the second quarter of 2008.

Funeral sales in the first six months of 2008 increased by \$0.3 million or 0.6% over the first six months of 2007 to \$60.1 million. The increase in sales was due to an increase in the average sale per funeral service of 1.2% offset by a lower number of services of 0.6%. The increase in the average sale per funeral service was the result of the Company's continued efforts to provide customers with value-added merchandise and services such as receptions, catering, custom printing and ancillary merchandise, as well as price increases. The decrease in the number of services was related to the significant increase in the number of services in the first six months of 2007. In that period, existing home services were up by 7.8%. However, for comparative purposes, the average annual increase in existing funeral home services from fiscal 2002 to 2006 was 0.8%.

Sales in the period consisted of:

- \$40.2 million (2007 - \$39.9 million) of at-need sales of funeral merchandise and services;
- \$19.7 million (2007 - \$19.7 million) from the fulfilment of merchandise and services sales that were arranged on a pre-need basis; and
- \$0.2 million (2007 - \$0.2 million) of flower shop sales.

Pre-need funeral contracts written in the first six months of 2008 decreased by \$0.4 million or 1.5%. Pre-need funeral contracts written under the trust program in the first six months represented 43.2% (first six months of 2007 – 41.8%) of total contracts written, while contracts written under the group annuity program represented 56.8% (first six months of 2007 – 58.2%).

Investment and other income in the funeral division increased by \$0.3 million or 15.2% to \$2.6 million in the first six months of 2008. The improvement was primarily attributable to an increase in the fees received from the deposit of pre-need funeral funds under the group annuity program of \$0.3 million or 16.4%. The increase in the fees received under the annuity program was the result of a higher average payout rate, which is affected by the type of contract and the age of the customer and a \$0.1 million reduction in the provision for cancellation of contracts based on favourable experience.

Interest and dividend income earned on the pre-need funeral funds in the first six months of fiscal 2008 increased by \$0.2 million or 5.3% to \$4.0 million due to a higher annualized rate of return on the funds of 3.5% compared to 3.3% in the first six months of 2007 and despite a lower average balance in the funds of \$1.0 million or 0.5%. Interest and dividend income on the pre-need funeral funds is deferred and recognized as sales revenue when the underlying merchandise is delivered or the service is performed.

Funeral expenses in the first six months of 2008 increased by \$1.8 million or 4.2% over the first six months of 2007. A breakdown of the \$1.8 million increase by type of expenditure follows (in \$ millions):

Services	1.0
Facilities	0.4
Cost of sales	<u>0.4</u>
	<u>1.8</u>

The increase in services expenses of \$1.0 million or 5.4% was mainly due to higher employee salaries and wages. Salaries and wages were higher in the first six months of 2008 primarily due to annual increases, incremental employees and market adjustments.

The increase of \$0.4 million or 7.8% in facilities costs was mainly due to higher utilities and maintenance expenses and was mostly weather related.

The \$0.4 million increase in cost of sales was mainly due to the increase in sales and mix of sales related to custom printing and services sales. The cost of sales percentage for the period was higher than the first six months of 2007 by 0.5 of a percentage point at 16.6%.

EBIT in the funeral division decreased by \$1.1 million or 5.4% to \$19.1 million in the first six months of 2008 due to an increase in expenses which exceeded the increase in revenue.

CORPORATE DIVISION

Corporate revenue, consisting of rental income from leasing a portion of the Company's head office building and interest on the Company's bank accounts, short-term investments and a mortgage receivable, was consistent with the first six months of 2007 at \$0.8 million.

Corporate expenses increased by \$0.4 million or 6.3% in the first six months of 2008 compared to the first six months of 2007 to \$7.5 million due mainly to higher employee salaries and wages of \$0.3 million as a result of annual increases and incremental employees, and a \$0.1 million stock based compensation expense incurred in the first quarter of 2008.

As a percentage of total Company revenue, corporate expenses increased to 6.5% in the first six months of 2008 from 6.2% in the first six months of 2007. This was attributable to an increase in revenue of 1.0% combined with a 6.3% increase in corporate costs. For comparative purposes, corporate expenses as a percentage of revenue were 6.2% in fiscal 2007, 6.4% in fiscal 2006 and 6.7% in fiscal 2005.

CONSOLIDATED BALANCE SHEETS

Key financial indicators for the balance sheets as at April 30, 2008, and October 31, 2007, were as follows:

	April 30 <u>2008</u>	October 31 <u>2007</u>
Current ratio	3.18:1	2.53:1
Working capital (in \$millions)	59.13	61.61
Debt to equity ratio	0.24:1	0.35:1
Long-term debt to EBITDA ⁽¹⁾	1.19:1	1.62:1
Interest coverage ratio ⁽¹⁾	6.06:1	5.88:1

⁽¹⁾ Bank covenant: long-term debt to EBITDA must be less than or equal to 3.50 and interest coverage ratio must equal or exceed 3.25.

The current ratio increased by 0.65 and working capital decreased by \$2.5 million from October 31, 2007 to April 30, 2008. The increase in the current ratio was due mainly to a decrease in current portion of long term debt of \$4.1 million, accounts payable and accrued liabilities of \$7.9 million and income taxes payable of \$1.1 million, offset by a reduction in cash of \$8.6 million and the mortgage receivable of \$6.8 million. The decrease in working capital was primarily due to a reduction in cash of \$8.6 million and mortgage receivable, current portion of \$6.8 million, partially offset by a decrease in current liabilities of \$13.2 million.

Cash decreased by \$8.6 million mainly due to repayment on the long-term debt of \$22.1 million, which was partially offset by cash from operating activities of \$8.5 million and collection of \$6.8 million on the repayment of the mortgage receivable.

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

Pre-need receivables and funds, including the current portion thereof, increased by \$6.7 million or 1.3% to \$505.2 million at April 30, 2008 compared to October 31, 2007. The \$6.7 million increase was mainly due to a \$4.9 million fair value gain, and \$1.1 million in non-recurring funding in 2008 related to cremation burial products, partially offset by a \$2.9 million withdrawal for deliveries in prior years. Excluding these items, pre-need receivables and funds increased by \$3.7 million or 0.7%. This compared to a \$3.2 million or 0.7% increase in 2007 excluding a fair value gain of \$11.7 million.

Cemetery care funds and non-controlling interests in cemetery care funds increased by \$4.8 million or 2.8% in 2008, including \$0.8 million due to a fair value gain and \$1.3 million in realized capital losses due primarily to currency exchange. Excluding the fair value adjustment and realized capital losses, cemetery care funds increased by \$5.3 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 \$6.0 million or 3.8% in 2007.

Fixed assets decreased by \$0.5 million or 0.3% in the first six months of 2008 to \$187.0 million due to depreciation of \$5.2 million (2007 - \$5.0 million), offset by additions of \$4.7 million (2007 - \$5.0 million). Of the \$4.7 million in additions, \$3.6 million was spent on maintenance capital and \$1.1 million was spent on new initiatives (2007 - \$2.9 million and \$2.1 million respectively). The only significant project in the period was the development of a reception centre in Windsor, Ontario, on which the Company spent \$0.7 million.

Deferred obtaining costs and stored merchandise increased by \$2.2 million or 3.0% in 2008 due to more pre-need contracts being written than being delivered in the period. Comparatively, this balance increased by \$1.9 million or 2.7% in 2007.

Accounts payable and accrued liabilities decreased by \$7.9 million or 23.7% as follows (in \$millions):

Trade accounts payables	2.0
Accrued liabilities	4.2
Other accounts payable	<u>1.7</u>
	<u>7.9</u>

The decrease in trade accounts payable was mainly related to lower payables for construction and development offset by higher amounts owed to trust funds and a lower volume of expense activity for the second quarter of

2008 compared to the fourth quarter of 2007. The decrease in accrued liabilities was largely related to a reduction in accrued bonuses, vacation pay and settlements. Other accounts payable decreased by \$1.7 million mainly due to a reduction in dividends, commissions payable and employee income tax withholdings.

Income taxes payable decreased from \$1.1 million at October 31, 2007 to a receivable of \$0.1 million at April 30, 2008, a change of \$1.2 million. The income taxes payable at October 31, 2007 of \$1.1 million represented the difference between accrued taxes for 2007 and tax instalments paid in the year, which were based on the lower earnings in 2006. As at April 30, 2008, income taxes were in a receivable position of \$0.1 million since the 2008 instalments, which were based on strong 2007 results, exceeded the income tax provision for the period.

Long-term debt decreased by \$22.1 million due to repayments made on the floating-rate bank term loans in the second quarter of 2008.

Deferred revenue at April 30, 2008 plus the non-controlling interests in pre-need funds, plus the accumulated benefit of the pre-need funeral group annuity funds excluded from the balance sheet was \$732.3 million compared to \$710.0 at October 31, 2007, an increase of \$22.3 million or 3.1%. Of the \$22.3 million increase, \$4.9 million was a fair value gain on the pre-need trust funds. The remaining increase was \$17.4 million or 2.5% (first six months of 2007 excluding fair value increase - \$17.8 million or 2.7%) and represented deferral of revenue in the period in excess of amounts recognized upon delivery of merchandise and services.

Other liabilities increased by \$1.8 million or 14.7%. The \$1.8 million increase was primarily due to a \$1.4 million fair value loss on the interest rate swap agreements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED APRIL 30, 2008

Net cash provided by operating activities of continuing operations decreased by \$6.3 million or 36.4% from the second quarter of 2007 due mainly to a decrease in the net change in other operating balance sheet items ("net change") of \$6.4 million.

The most significant items in the net change of \$6.4 million included:

- a net increase in cash used for accounts payable and accrued liabilities of \$1.3 million;
- a net increase in cash used for income taxes payable of \$1.7 million;
- higher additions to developed land, crypts and niches of \$1.5 million;
- a net increase in cash used for instalment accounts receivable of \$0.9 million; and
- a net increase in cash used for other items of \$1.0 million.

Net cash used for investing activities of continuing operations was \$9.0 million, compared to cash used in 2007 of \$0.2 million, which contributed to a decrease in cash of \$8.8 million. The decrease was mainly due to:

- \$6.8 million in proceeds received on repayment of the mortgage receivable in the second quarter of 2007; and
- a \$2.4 million net change in pre-need funds, which was primarily due to a \$2.0 million increase in deposits to the funds in excess of withdrawals, of which \$1.1 million related to manual funding for cremation burial products.

Net cash used for financing activities of continuing operations was \$16.1 million in 2008 compared to cash provided in 2007 of \$3.9 million, a decrease in cash of \$20.0 million. The decrease in cash was mainly due to \$22.1 million in repayments on the long-term debt, partially offset by an increase in cash of \$2.4 million related to non-controlling interests in pre-need funds.

SIX MONTHS ENDED APRIL 30, 2008

Net cash provided by operating activities of continuing operations decreased by \$7.3 million or 46.4% from the first six months of 2007 due mainly to a decrease in the net change in other operating balance sheet items ("net change") of \$7.6 million. The \$7.6 million decrease in the net change was primarily due to a net increase in cash used for accounts payable and accrued liabilities of \$6.1 million and higher additions to developed land, crypts and niches of \$2.4 million. The impact of these items was partially offset by a net increase in cash provided by accounts receivable of \$2.4 million, of which \$1.6 million was the result of the collection of

commodity taxes receivable, which was established in the second quarter of 2007 to recover prior period over-remittances. Other changes netted to \$1.5 million.

The increase in cash used for accounts payable and accrued liabilities of \$6.1 million was mainly due to higher cash used for the payment of construction and development liabilities, operating expenses, and higher payments for accrued bonuses, commissions and payroll expenses.

Net cash used for investing activities of continuing operations decreased by \$3.4 million mainly due to a smaller increase in care funds of \$1.9 million, which was primarily due to \$1.3 million in realized capital losses in the funds, and a smaller increase in pre-need funds of \$1.6 million.

Net cash used for financing activities of continuing operations was \$12.9 million in 2008 compared to cash provided of \$9.3 million in 2007, a decrease in cash of \$22.2 million. The decrease was mainly due to \$22.1 million in repayments on the long-term debt.

LIQUIDITY

Based on historical cash inflows and outflows, management believes that cash on hand and future cash flow from operating activities are sufficient to sustain ongoing operations as well as the routine maintenance and orderly replacement of the Company's fixed assets. The Company has no plans to borrow additional debt on its bank term loans in fiscal 2008 based on its current cash position, expected cash from operations and projected capital and burial space inventory expenditures.

CAPITAL EXPENDITURES AND CEMETERY BURIAL SPACE INVENTORY

The following are projects on which the Company had expended significant funds prior to April 30, 2008 but that had not yet generated operating revenue.

Glendale Memorial Gardens Mausoleum: As at April 30, 2008, the Company had spent \$4.1 million on this project. The Company estimates that an additional \$15.8 million will be spent to complete this project and anticipates completing the project in fiscal 2009.

Glen Oaks Memorial Gardens Mausoleum: As at April 30, 2008, the Company had spent \$1.4 million on this project. The Company estimates that an additional \$1.6 million will be spent to complete the project and anticipates completing the project in fiscal 2008.

Brampton Memorial Gardens Chapel and Reception Centre: As at April 30, 2008, the Company had spent \$0.7 million on this project. The Company estimates that an additional \$6.1 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 April 30, 2008 (in \$millions):

Cemetery burial space inventory	6.4
Cemetery maintenance capital expenditures	0.4
New reception centres	0.1
Funeral maintenance capital expenditures	<u>0.1</u>
	<u>7.0</u>

The Company anticipates funding these expenditures from existing cash and cash from operations generated in 2008.

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

Maintenance capital expenditures	10.5
New initiatives	8.8
Cemetery burial space inventory	<u>14.3</u>
	<u>33.6</u>

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

UNAUDITED QUARTERLY RESULTS

	Four Fiscal Quarters Ended April 30, 2008			
	Jul-31 (Q3)	Oct-31 (Q4)	Jan-31 (Q1)	Apr-30 (Q2)
Revenue (\$millions)	57.1	58.1	56.8	58.4
Net earnings from continuing operations (\$millions)	4.1	4.2	5.4	6.2
Net earnings (\$millions)	4.2	2.7	5.4	6.4
Basic and diluted earnings per share from continuing operations (\$) ⁽¹⁾	0.39	0.39	0.51	0.58
Basic and diluted earnings per share (\$) ⁽¹⁾	0.40	0.25	0.51	0.60

	Four Fiscal Quarters Ended April 30, 2007			
	Jul-31 (Q3)	Oct-31 (Q4)	Jan-31 (Q1)	Apr-30 (Q2)
Revenue (\$millions)	52.9	55.2	54.8	59.3
Net earnings from continuing operations (\$millions)	4.2	4.6	5.4	6.9
Net earnings (\$millions)	4.2	4.2	5.4	7.0
Basic and diluted earnings per share from continuing operations (\$) ⁽¹⁾	0.39	0.43	0.51	0.65
Basic and diluted earnings per share (\$) ⁽¹⁾	0.39	0.39	0.51	0.66

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

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

Revenue

Seasonality was a factor contributing to higher revenue in the second quarter of both 2008 and 2007. Seasonality also contributed to fourth quarter revenues, which were higher in both years compared to most other quarters.

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

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

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

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

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

Net Earnings and Earnings Per Share

Net earnings and earnings per share did not vary significantly from net earnings from continuing operations and earnings per share from continuing operations in most of the reporting periods with the exception of the fourth quarters of 2007 and 2006, which were lower as a result of impairment provisions for discontinued operations of \$1.5 million and \$0.5 million respectively.

OUTSTANDING SHARES

The Company has an unlimited number of Preferred Shares, Class A Voting Shares and Class B Non-Voting Shares authorized for issue. The Class A and Class B shares have identical rights and privileges, except that the Class A shares are voting. In certain circumstances, if an offer is made by the Company or a third party to purchase Class A shares from each holder in Ontario, each Class B share is convertible into one Class A share. At April 30, 2008, the Company had issued 2,525,497 Class A shares and 8,188,246 Class B shares for \$1.7 million and \$73.7 million respectively.

EVENTS AND UNCERTAINTIES

Seasonality

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

June 3, 2008

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS

<i>In \$000, except per share amounts</i>	<i>Three Months Ended April 30</i>		<i>Six Months Ended April 30</i>	
	<i>2008</i>	<i>2007 ⁽¹⁾</i>	<i>2008</i>	<i>2007 ⁽¹⁾</i>
Revenue				
Sales	53,762	55,132	106,591	106,120
Investment and other income (note 7)	4,656	4,143	8,696	7,997
	58,418	59,275	115,287	114,117
Expenses				
Operating	44,892	44,243	88,960	86,092
Corporate	3,647	3,498	7,461	7,022
	48,539	47,741	96,421	93,114
Earnings before interest expense and income taxes	9,879	11,534	18,866	21,003
Interest expense	848	1,216	1,887	2,453
Earnings before income taxes	9,031	10,318	16,979	18,550
Income taxes (note 10)	2,816	3,441	5,358	6,282
Net earnings from continuing operations	6,215	6,877	11,621	12,268
Net earnings from discontinued operations (note 11)	196	75	218	95
Net earnings	6,411	6,952	11,839	12,363
Basic and diluted earnings per share (note 8)				
Basic and diluted earnings per share from continuing operations	0.58	0.65	1.09	1.16
Basic and diluted earnings per share from discontinued operations	0.02	0.01	0.02	0.01
Basic and diluted earnings per share	0.60	0.66	1.11	1.17

⁽¹⁾ Certain figures provided for 2007 have been reclassified to conform with the current year's presentation - see note 11. In addition, lease income in the corporate division was reclassified from sales to investment and other income.

UNAUDITED CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>In \$000</i>	<i>Three Months Ended April 30</i>		<i>Six Months Ended April 30</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Retained earnings, beginning of period	142,916	124,297	137,488	118,886
Net earnings for the period	6,411	6,952	11,839	12,363
Retained earnings, end of period	149,327	131,249	149,327	131,249

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>In \$000</i>	<i>Three Months Ended April 30</i>		<i>Six Months Ended April 30</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Net earnings	6,411	6,952	11,839	12,363
Other comprehensive income:				
Net change in gains and losses on effective portion of derivatives designated as cash flow hedges, net of income taxes of \$122 and \$486 (2007- \$42 and \$135) (note 6)	(306)	72	(949)	238
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 \$1,308 and \$1,594 (2007 - \$530 and \$776)	2,730	980	3,259	1,434
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 \$1,308 and \$1,594 (2007 - \$530 and \$776)	(2,730)	(980)	(3,259)	(1,434)
	-	-	-	-
Net change in unrealized losses associated with available for sale securities of the cemetery care funds				
Change in unrealized gains and losses associated with available for sale securities of the cemetery care funds, net of income taxes of \$271 and \$245 (2007 - \$17 and \$185)	551	(34)	502	(343)
Change in unrealized gains and losses associated with available for sale securities of the cemetery care funds attributable to non-controlling interests, net of income taxes of \$271 and \$245 (2007- \$17 and \$185)	(551)	34	(502)	343
	-	-	-	-
Other comprehensive (loss) income	(306)	72	(949)	238
Comprehensive income	6,105	7,024	10,890	12,601

UNAUDITED CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

<i>In \$000</i>	<i>Three Months Ended April 30</i>		<i>Six Months Ended April 30</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Accumulated other comprehensive (loss) income, beginning of period	(555)	(389)	88	(555)
Other comprehensive (loss) income for the period	(306)	72	(949)	238
Accumulated other comprehensive loss, end of period	(861)	(317)	(861)	(317)

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.
UNAUDITED CONSOLIDATED BALANCE SHEETS

In \$000	As at	
	April 30	October 31
	2008	2007
Assets		
Current assets		
Cash	15,865	24,483
Accounts receivable	19,504	18,715
Merchandise inventories	9,509	9,670
Prepaid expenses	863	1,395
Income taxes receivable	147	-
Mortgage receivable, current portion	-	6,750
Pre-need receivables, current portion (note 4)	39,568	40,088
Future income taxes, current portion	198	251
Assets related to discontinued operations, current portion (note 11)	617	631
	86,271	101,983
Pre-need receivables and funds (note 4)	465,663	458,473
Cemetery care funds (note 5)	175,118	170,315
Crypts and niches	22,618	22,162
Cemetery land	34,991	34,974
Fixed assets	186,989	187,537
Goodwill	51,168	51,168
Deferred obtaining costs and stored merchandise	75,855	73,666
Intangible and other assets	2,092	2,178
Future income taxes	3,897	4,230
Assets related to discontinued operations (note 11)	7,050	7,537
	1,111,712	1,114,223
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	25,335	33,187
Income taxes payable	-	1,088
Long-term debt, current portion	-	4,087
Future income taxes, current portion	1,804	2,016
	27,139	40,378
Long-term debt	53,156	71,142
Other liabilities	13,988	12,200
Deferred revenue	184,550	183,368
Non-controlling interests in pre-need funds	424,523	414,550
Future income taxes	5,636	6,163
Liabilities related to discontinued operations (note 11)	3,748	3,811
	712,740	731,612
Non-controlling interests in cemetery care funds	175,118	170,315
Shareholders' equity		
Share capital (note 8)	75,388	74,720
Retained earnings	149,327	137,488
Accumulated other comprehensive (loss) income	(861)	88
	148,466	137,576
	223,854	212,296
	1,111,712	1,114,223

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

In \$000	Three Months Ended		Six Months Ended	
	April 30		April 30	
	2008	2007 ⁽¹⁾	2008	2007 ⁽¹⁾
Cash provided by (used for)				
Operating activities				
Net earnings from continuing operations	6,215	6,877	11,621	12,268
Add (deduct) items not affecting cash:				
Depreciation and amortization	2,605	2,524	5,259	5,018
Gain on disposal of assets	(63)	(323)	(72)	(323)
Future income taxes (note 10)	75	(324)	133	(182)
Stock based compensation	-	-	104	-
Net change in other operating balance sheet items (note 12)	2,208	8,598	(8,568)	(966)
Net cash provided by continuing operations	11,040	17,352	8,477	15,815
Net cash provided by discontinued operations	144	160	116	111
Investing activities				
Additions to fixed assets	(2,953)	(3,400)	(4,690)	(5,010)
Additions to cemetery land held for future development	(70)	(33)	(167)	(70)
Proceeds on disposal of assets	64	407	80	407
Proceeds from mortgage receivable payment	-	6,750	6,750	6,750
Change in pre-need funds	(3,632)	(1,266)	(2,776)	(4,371)
Change in cemetery care funds	(2,378)	(2,611)	(4,056)	(5,955)
Net cash used for continuing operations	(8,969)	(153)	(4,859)	(8,249)
Net cash provided by discontinued operations	573	40	605	55
Financing activities				
Repayment of long-term debt	(22,070)	(3)	(22,073)	(177)
Dividends paid	-	-	(744)	(742)
Proceeds on exercise of stock options	-	62	564	62
Change in non-controlling interests in pre-need funds	3,626	1,220	5,305	4,219
Change in non-controlling interests in cemetery care funds	2,378	2,611	4,056	5,955
Net cash (used for) provided by continuing operations	(16,066)	3,890	(12,892)	9,317
Net cash used for discontinued operations	(33)	(43)	(65)	(61)
(Decrease) increase in cash	(13,311)	21,246	(8,618)	16,988
Cash, beginning of period	29,176	7,599	24,483	11,857
Cash and cash equivalents, end of period	15,865	28,845	15,865	28,845
Cash and cash equivalents:				
Cash	15,865	23,845	15,865	23,845
Short-term investment	-	5,000	-	5,000
	15,865	28,845	15,865	28,845
Supplementary information				
Income taxes paid	2,761	2,155	6,404	7,581
Interest paid	895	1,295	1,938	2,523

⁽¹⁾ Certain figures provided for 2007 have been reclassified to conform with the current year's presentation - see note 11.

See accompanying notes to the unaudited consolidated financial statements.

Arbor Memorial Services Inc.
UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Six Months Ended April 30, 2008 and 2007

1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are consistent with the accounting policies used to prepare the 2007 annual consolidated financial statements, except as otherwise noted herein. While management considers the interim disclosures presented to be adequate, these consolidated financial statements do not include all of the disclosures required for annual financial statements and should be read in conjunction with the Company's 2007 annual consolidated financial statements.

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

2. NEW DISCLOSURE REQUIREMENTS

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

Section 3862, together with Section 3863, replaces Section 3861 and requires that disclosures be provided in the financial statements that enable users to evaluate the significance of financial instruments to the Company's financial position and performance, as well as the nature and extent of risks arising from financial instruments and how the Company manages those risks. As a result of implementing this standard, the Company has included additional disclosure in note 6 to these unaudited consolidated financial statements. This section establishes standards for the presentation of financial instruments and non-financial derivatives related to the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and liabilities are offset. The presentation used by the Company in the 2007 annual consolidated financial statements met the requirements of the new accounting standard.

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The Section requires disclosure of information about the Company's objectives, policies and processes for managing capital and how it is meeting these objectives. As a result of implementing this standard, the Company has included additional disclosure in note 9 to these unaudited consolidated financial statements.

3. FUTURE ACCOUNTING POLICY CHANGES

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

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

As a result of changes to these standards, deferred obtaining costs can no longer be classified as assets and these costs will be expensed as incurred. Based on preliminary estimates, the Company believes the impact on the income statement is a reduction of net earnings of \$2.7 million or \$0.25 per share in 2007 and between \$2.2 million to \$2.8 million or \$0.20 to \$0.26 per share in 2008. The policy change will also require retroactive application for obtaining costs currently capitalized to the Company's balance sheet, resulting in an adjustment to opening retained earnings. The reduction to opening retained earnings is estimated to be \$40.4 million.

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

4. PRE-NEED RECEIVABLES AND FUNDS

	April 30 2008	<i>October 31 2007</i>
	(\$000)	
Cemetery trust funds	208,519	200,726
Funeral trust funds	202,982	202,277
	411,501	403,003
Instalment accounts receivable	69,392	70,351
Pre-need group annuity funds	24,338	25,207
	505,231	498,561
Less: current portion of instalment accounts receivable	39,568	40,088
	465,663	458,473

The consolidated balance sheets do not include pre-need funeral and cemetery contracts that will be funded by third-party insurers under group annuity programs, upon delivery of pre-need merchandise and services, where the Company is not the policyholder. At April 30, 2008, the accumulated benefit of all such contracts was \$123.3 million (October 31, 2007 - \$112.2 million).

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

	Fair Value		Cost	
	April 30 2008	<i>October 31 2007</i>	April 30 2008	<i>October 31 2007</i>
	(\$000)		(\$000)	
Cash	3,918	9,184	3,918	9,184
Term deposits	223,538	214,105	219,100	214,569
Bonds	131,483	125,466	129,714	126,326
Equities	23,459	25,345	17,770	17,341
Equity fund	29,103	28,903	28,483	27,922
	411,501	403,003	398,985	395,342

5. CEMETERY CARE FUNDS

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

	<i>Fair Value</i>		<i>Cost</i>	
	<i>April 30</i> <i>2008</i>	<i>October 31</i> <i>2007</i>	<i>April 30</i> <i>2008</i>	<i>October 31</i> <i>2007</i>
	(\$000)		(\$000)	
Cash and term deposits	10,594	8,430	10,594	8,430
Bonds	147,454	143,021	146,927	145,032
Equities	17,070	18,864	15,126	15,129
	175,118	170,315	172,647	168,591

6. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

Interest Rate Risk

The Company manages its interest rate risk with the use of interest rate swap agreements. Changes in interest rates would impact the interest cost of the Company's variable rate long-term debt and have an effect on the Company's net income and earnings per share. Based on long-term debt at April 30, 2008, a 1% increase or decrease in the market interest rate could impact the Company's annual interest expense by approximately \$0.2 million (April 30, 2007 – \$0.5 million).

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

Based on the ending cash bank balance at April 30, 2008, a 1% change in the market interest rate would affect the Company's annual interest income by approximately \$0.2 million (April 30, 2007 – \$0.2 million).

Credit Risk

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

The Company is also exposed to credit risk associated with accounts receivable, which is mitigated by the Company's large and diverse customer base. No individual customer comprises a significant portion of the balance. The Company records a provision for uncollectible at-need accounts receivable. The balance at April 30, 2008 was \$1.5 million (October 31, 2007 – \$1.3 million). The amount written off against the provision in the three and six months ended April 30, 2008 were \$0.1 million and \$0.2 million respectively (three and six months ended April 30, 2007 – \$0.1 million and \$0.3 million). The Company does not reserve for pre-need receivable balances since the merchandise and services have not yet been delivered and the revenue has not been recognized.

Liquidity Risk

Based on historical cash inflows and outflows, management believes that cash on hand and future cash flow from operating activities are sufficient to sustain ongoing operations as well as the routine maintenance and orderly replacement of the Company's fixed assets. In the event that contractual commitments were required to be paid, the Company believes that its current sources of liquidity are sufficient to cover the

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

The Company has revolving term loans with two financial institutions under similar terms and conditions. The total credit limit under the two facilities is \$125.0 million. In addition, the Company has access to operating lines of credit of \$14.0 million. At April 30, 2008, the Company had access to unused operating lines of credit of \$12.9 million (October 31, 2007 – \$13.2 million) and unused floating rate debt facilities of \$71.8 million (October 31, 2007 – \$51.7 million). Total unused credit facilities as of April 30, 2008, were \$84.7 million (October 31, 2007 – \$64.9 million). The Company's debt to equity ratio at April 30, 2008 was 0.24:1 (October 31, 2007 – 0.35:1).

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

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

Foreign Currency Risk

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

Derivative Financial Instruments

As of April 30, 2008, the Company's use of interest rate swap agreements was limited to six (October 31, 2007– six) interest rate swaps with a Canadian chartered bank, whereby the Company fixed a portion of its term loan financing at interest rates ranging from 4.3% to 6.2% plus a bank margin. At the end of the period, these swaps had a total notional amount of \$36.3 million (October 31, 2007 – \$33.3 million). One of the swaps amortizes quarterly on a straight-line basis. The swaps expire in 2008, 2009, 2012 and 2014. Total swaps and other fixed rate debt at April 30, 2008 represented 68% (October 31, 2007 – 47%) of the total amount of long-term debt outstanding. Swap costs for the three and six months ended April 30, 2008 were both less than \$0.1 million (three and six months ended April 30, 2007 – \$0.1 million each).

The fair value of the interest rate swaps is estimated as the discounted unrealized gain or loss calculated based on the market price at April 30, 2008, which generally reflects the estimated amount that the Company would receive or pay to terminate the contracts at the balance sheet date. The fair value of the swaps is provided to the Company by the chartered bank that is the counter-party to the transactions. The estimated fair value of the interest rate swaps at April 30, 2008 was a loss of \$1.3 million (October 31, 2007 – gain of \$0.1 million). Losses due to non-performance by the counter-party are not anticipated due to their high credit standing.

All of the Company's interest rate swaps are designated as cash flow hedges. At April 30, 2008, the critical terms of the swaps did not match the terms of the underlying floating rate debt. Therefore, the hypothetical derivative method was used to perform a quantitative, retrospective and prospective assessment of the effectiveness of the swaps. This methodology involved regression analysis of historical interest rates for the floating rate portion of the swaps and historical interest rates for the underlying debt. The result of the analysis was that the fair value of the cash flows from the interest rates of the swaps was highly effective at offsetting the variability in cash flows from the interest rates of the underlying debt. Therefore, hedge accounting was used to record the swaps and related activity for the period.

7. INVESTMENT AND OTHER INCOME

	<i>Three Months Ended April 30</i>									
	<i>Pre-Need Cemetery Funds</i>		<i>Pre-Need Funeral Funds</i>		<i>Cemetery Care Funds</i>		<i>Other</i>		<i>Consolidated</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>(\$000)</i>									
Realized earnings of funds:										
Interest and dividends ⁽¹⁾	1,714	1,531	2,084	1,863	2,237	2,120	-	-	6,035	5,514
Realized gains	73	40	33	-	21	-	-	-	127	40
Realized losses	(20)	-	(47)	-	(441)	(6)	-	-	(508)	(6)
Trust expenses	(63)	(40)	(84)	(35)	(77)	(70)	-	-	(224)	(145)
	1,704	1,531	1,986	1,828	1,740	2,044	-	-	5,430	5,403
Deferred revenue	(54)	(77)	-	-	-	-	-	-	(54)	(77)
Trust expenses classified as operating expenses	63	40	84	35	77	70	-	-	224	145
Non-controlling interests in funds	(1,713)	(1,494)	(2,070)	(1,863)	399	(12)	-	-	(3,384)	(3,369)
	-	-	-	-	2,216	2,102	-	-	2,216	2,102
Fee income	501	404	1,501	1,198	-	-	-	-	2,002	1,602
Other	-	-	-	-	-	-	438	439	438	439
	501	404	1,501	1,198	2,216	2,102	438	439	4,656	4,143

	<i>Six Months Ended April 30</i>									
	<i>Pre-Need Cemetery Funds</i>		<i>Pre-Need Funeral Funds</i>		<i>Cemetery Care Funds</i>		<i>Other</i>		<i>Consolidated</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>(\$000)</i>									
Realized earnings of funds:										
Interest and dividends ⁽¹⁾	3,263	3,061	3,955	3,757	4,351	4,114	-	-	11,569	10,932
Realized gains	73	41	33	3	21	6	-	-	127	50
Realized losses	(72)	(9)	(344)	(10)	(1,266)	(8)	-	-	(1,682)	(27)
Trust expenses	(104)	(79)	(119)	(70)	(149)	(140)	-	-	(372)	(289)
	3,160	3,014	3,525	3,680	2,957	3,972	-	-	9,642	10,666
Deferred revenue	(66)	(89)	-	-	-	-	-	-	(66)	(89)
Trust expenses classified as operating expenses	104	79	119	70	149	140	-	-	372	289
Non-controlling interests in funds	(3,198)	(3,004)	(3,644)	(3,750)	1,204	(35)	-	-	(5,638)	(6,789)
	-	-	-	-	4,310	4,077	-	-	4,310	4,077
Fee income	926	813	2,631	2,283	-	-	-	-	3,557	3,096
Other	-	-	-	-	-	-	829	824	829	824
	926	813	2,631	2,283	4,310	4,077	829	824	8,696	7,997

⁽¹⁾ Includes interest income for the three and six months ended April 30, 2008 of \$5.7 million and \$10.5 million respectively (for the three and six months ended April 30, 2007 - \$4.9 million and \$10.0 million respectively).

8. 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	
	April 30 2008	October 31 2007	April 30 2008	October 31 2007
			(\$000)	
Class A Voting shares	2,525,497	2,525,497	1,734	1,734
Class B Non-Voting shares	8,188,246	8,164,246	73,654	72,986
	10,713,743	10,689,743	75,388	74,720

The Class A and Class B shares have identical rights and privileges, except that the Class A shares are voting. In certain circumstances, if an offer is made by the Company or a third party to purchase Class A shares from each holder in Ontario, each Class B share is convertible into one Class A share.

Weighted-average shares outstanding:

	Three Months Ended		Six Months Ended	
	April 30 2008	April 30 2007	April 30 2008	April 30 2007
Weighted-average shares outstanding – basic	10,713,743	10,595,497	10,706,601	10,595,368
Effect of dilutive options	-	13,866	-	10,559
Weighted-average shares outstanding – diluted	10,713,743	10,609,363	10,706,601	10,605,927

At April 30, 2008, there were no options outstanding (April 30, 2007 – 120,352 options outstanding).

9. CAPITAL MANAGEMENT

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

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

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

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

When making decisions to borrow additional debt, the Company ensures that covenants still comply with the requirements within the bank loan agreements. In particular, the Company monitors the long-term debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio as well as the interest coverage ratio. The long-term debt to EBITDA ratio is calculated as the total long-term debt divided by earnings before deducting other income (expenses), if any, interest, taxes, depreciation and amortization expenses. This ratio must be less than or equal to 3.50:1. The long-term debt to EBITDA ratio at April 30, 2008 was 1.19:1 (October 31, 2007 – 1.62:1). The interest coverage ratio must equal or exceed 3.25:1. The interest coverage ratio at April 30, 2008 was 6.06:1 (October 31, 2007 – 5.88:1).

The Company also monitors capital levels on the basis of a debt to equity ratio. This ratio is calculated as total long-term debt (as shown in the balance sheet) divided by equity. Equity includes all components of shareholders' equity. In 2008, the Company's strategy, which was unchanged from 2007, is to maintain the debt to equity ratio at no higher than 1:1. The debt to equity ratio is measured and reported to the Board of Directors monthly. The Board of Directors approves changes to the share capital issued, as required. The debt to equity ratio at April 30, 2008 was 0.24:1 (October 31, 2007 – 0.35:1).

10. INCOME TAXES

Income tax expense:

Income tax expense for the three and six months ended April 30 consisted of the following:

	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>April 30</i>		<i>April 30</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>(\$000)</i>		<i>(\$000)</i>	
Current tax expense	2,741	3,765	5,225	6,464
Future income tax expense (benefit) relating to the origination and reversal of temporary differences	124	(286)	248	(186)
Future income tax benefit resulting from change in tax rates	(49)	(38)	(115)	4
	2,816	3,441	5,358	6,282

Effective income tax rate:

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

	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>April 30</i>	<i>April 30</i>	<i>April 30</i>	<i>April 30</i>
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>%</i>		<i>%</i>	
Combined basic federal and provincial income tax rate	32.4	34.6	32.4	34.4
Change in the basic tax rate resulting from:				
Dividends/RDTH	(0.6)	(0.6)	(0.7)	(0.7)
Impact of future tax changes	(0.5)	(0.4)	(0.7)	-
Meals and entertainment	0.2	0.2	0.3	0.3
Impact of capital (gains) losses	(0.1)	(0.4)	0.3	(0.2)
Other items	(0.2)	(0.1)	-	0.1
Effective income tax rate	31.2	33.3	31.6	33.9

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

11. DISCONTINUED OPERATIONS

In the fourth quarter of 2006, the assets of two funeral branch operations met the criteria for being classified

as discontinued operations. The sale of one of these operations was completed in the fourth quarter of 2007 for net cash proceeds of \$0.9 million. The after-tax gain on the sale was \$0.1 million. The sale of the second of these operations occurred in the second quarter of 2008 for net cash proceeds of \$0.6 million. The after-tax gain on the sale of these assets was \$0.1 million.

In the fourth quarter of 2007, the assets of three additional funeral branch operations met the criteria for being classified as discontinued operations. For these three branch operations, the Company is committed to a plan to sell the operations at a price that is likely to be realized within one year. The decision to sell these branches was based on continued under performance, despite measures undertaken to improve the performance, and increased competition in the marketplace.

Revenue associated with discontinued operations in the second quarter and first six months of 2008 was \$0.5 million and \$1.0 million respectively (2007 – \$0.7 million and \$1.2 million respectively). Net earnings in the second quarter and first six months of 2008 were both \$0.2 million (2007 – both were \$0.1 million). The prior period comparative amounts in the statements of earnings, balance sheets and the statements of cash flows have been reclassified for the funeral branches identified as discontinued operations in the fourth quarter of 2007.

12. NET CHANGE IN OTHER OPERATING BALANCE SHEET ITEMS

	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>April 30</i> <i>2008</i>	<i>April 30</i> <i>2007</i>	<i>April 30</i> <i>2008</i>	<i>April 30</i> <i>2007</i>
	<i>(\$000)</i>		<i>(\$000)</i>	
Accounts receivable	(328)	(170)	(789)	(3,176)
Developed land, crypt and niche cost of sales	2,205	2,395	4,163	4,540
Additions to developed land, crypts and niches	(2,517)	(1,056)	(4,469)	(2,095)
Instalment accounts receivable	(651)	208	959	1,129
Deferred obtaining costs and stored merchandise	(1,470)	(1,013)	(2,189)	(1,900)
Accounts payable and accrued liabilities	3,076	4,401	(7,108)	(1,020)
Income taxes receivable/payable	(87)	1,647	(1,235)	(976)
Deferred revenue	1,391	1,585	997	1,842
Other liabilities	534	691	353	1,050
Other changes	55	(90)	750	(360)
	2,208	8,598	(8,568)	(966)

13. CONTRACTUAL COMMITMENTS

At April 30, 2008, the Company was contractually committed to capital and cemetery burial space inventory expenditures of \$7.0 million (October 31, 2007 – \$9.0 million). The Company is also contractually committed to funeral inventory purchases of \$37.0 million during the period from February 1, 2008 to January 31, 2013. From February 1, 2008 to April 30, 2008, the Company had purchased \$2.1 million under this commitment.

14. SEGMENT DISCLOSURE

Industry segments (\$000)

	<i>Three Months Ended April 30</i>							
	<i>Cemetery</i>		<i>Funeral</i>		<i>Corporate⁽²⁾</i>		<i>Consolidated</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Sales ⁽¹⁾	23,479	24,376	30,283	30,756	-	-	53,762	55,132
Investment and other income ⁽¹⁾	2,717	2,506	1,501	1,198	438	439	4,656	4,143
Revenue	26,196	26,882	31,784	31,954	438	439	58,418	59,275
Depreciation and amortization ⁽¹⁾	916	849	1,347	1,315	342	360	2,605	2,524
Earnings (loss) before interest expense and income taxes ⁽¹⁾	3,250	4,133	9,838	10,460	(3,209)	(3,059)	9,879	11,534
Interest expense	-	-	-	-	848	1,216	848	1,216
Earnings (loss) before income taxes ⁽¹⁾	3,250	4,133	9,838	10,460	(4,057)	(4,275)	9,031	10,318
Capital expenditures	1,076	2,532	1,638	687	239	181	2,953	3,400
Developed land, crypt and niche additions	2,517	1,056	-	-	-	-	2,517	1,056
Cemetery land held for future development additions	70	33	-	-	-	-	70	33
Pre-need contracts written	19,062	17,870	13,948	14,595	-	-	33,010	32,465
	<i>Six Months Ended April 30</i>							
	<i>Cemetery</i>		<i>Funeral</i>		<i>Corporate⁽²⁾</i>		<i>Consolidated</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Sales ⁽¹⁾	46,470	46,329	60,121	59,791	-	-	106,591	106,120
Investment and other income ⁽¹⁾	5,236	4,890	2,631	2,283	829	824	8,696	7,997
Revenue	51,706	51,219	62,752	62,074	829	824	115,287	114,117
Depreciation and amortization ⁽¹⁾	1,858	1,690	2,672	2,609	729	719	5,259	5,018
Earnings (loss) before interest expense and income taxes ⁽¹⁾	6,424	7,033	19,074	20,168	(6,632)	(6,198)	18,866	21,003
Interest expense	-	-	-	-	1,887	2,453	1,887	2,453
Earnings (loss) before income taxes ⁽¹⁾	6,424	7,033	19,074	20,168	(8,519)	(8,651)	16,979	18,550
Identifiable assets ⁽³⁾	627,367	609,638	464,746	469,870	19,599	34,715	1,111,712	1,114,223
Capital expenditures	2,427	3,593	1,801	1,168	462	249	4,690	5,010
Developed land, crypt and niche additions	4,469	2,095	-	-	-	-	4,469	2,095
Cemetery land held for future development additions	167	70	-	-	-	-	167	70
Pre-need contracts written	35,461	34,342	26,216	26,615	-	-	61,677	60,957

⁽¹⁾ Figures provided for 2007 have been reclassified to conform with the current year's presentation - see note 11. In addition, lease income in the corporate division was reclassified from sales to investment and other income.

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

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