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Consolidated Financial Statements

for the Years Ended December 31, 2019 and 2018.



PARK LAWN
CORPORATION

Independent Auditor's Report

To the Shareholders of Park Lawn Corporation:

Opinion

We have audited the consolidated financial statements of Park Lawn Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of earnings, comprehensive (loss) income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Patrycja Anna Kajda.

Mississauga, Ontario

March 30, 2020

MNP LLP
Chartered Professional Accountants

Licensed Public Accountants

PARK LAWN CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	December 31, 2019	December 31, 2018 <i>(Restated, Measurement Period Adjustment - see Note 6)</i>
Assets		
Current assets		
Cash	\$ 21,255,330	\$ 14,149,092
Accounts receivable	13,506,860	8,976,690
Pre-need receivables, current portion (Note 4)	29,044,341	26,204,444
Inventories, current portion (Note 5)	9,459,240	9,988,909
Prepaid expenses and other current assets (Note 13)	10,253,633	3,601,132
	<u>83,519,404</u>	<u>62,920,267</u>
Non-current assets		
Pre-need receivables, net of current portion (Note 4)	58,015,914	57,917,186
Inventories, net of current portion (Note 5)	83,309,709	76,525,265
Land held for development (Note 7)	22,138,968	14,793,930
Property and equipment (Note 8)	194,585,169	126,395,369
Care and maintenance trust fund investments (Note 9)	224,494,986	195,927,256
Pre-need merchandise and service trust fund investments (Note 10)	257,150,385	157,597,312
Deferred tax assets (Note 28)	5,858,634	4,113,646
Goodwill and intangibles (Note 6 and 12)	379,253,330	284,982,610
Deferred commissions	28,191,067	22,977,219
Other assets (Note 13 and 33)	38,003,291	10,856,828
	<u>1,291,001,453</u>	<u>952,086,621</u>
TOTAL ASSETS	<u>\$ 1,374,520,857</u>	<u>\$ 1,015,006,888</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 14 and 29)	\$ 31,344,065	\$ 20,495,554
Dividends payable	1,115,484	879,142
Current portion of long-term debt (Note 15)	421,074	298,826
Current portion of notes payable (Note 16)	1,323,036	426,604
Current portion of lease liabilities (Note 17)	1,831,687	-
	<u>36,035,346</u>	<u>22,100,126</u>
Non-current liabilities		
Long-term debt, net of current portion (Note 15)	173,465,316	91,045,776
Notes payable, net of current portion (Note 16)	7,368,286	4,277,811
Lease liabilities, net of current portion (Note 17)	4,682,043	-
Deferred revenue (Note 18)	150,254,843	138,614,401
Deferred tax liabilities (Note 28)	6,544,817	4,970,996
Care and maintenance trusts' corpus (Note 9)	224,494,986	195,927,256
Deferred pre-need receipts held in trust (Note 10)	257,150,385	157,597,312
	<u>823,960,676</u>	<u>592,433,552</u>
Shareholders' Equity		
Share capital (Note 21)	502,047,830	363,957,423
Contributed surplus	7,618,962	2,297,514
Accumulated other comprehensive income	(2,112,155)	21,888,697
Retained earnings	5,091,160	10,829,808
	<u>512,645,797</u>	<u>398,973,442</u>
Non-controlling interest	1,879,038	1,499,768
	<u>514,524,835</u>	<u>400,473,210</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,374,520,857</u>	<u>\$ 1,015,006,888</u>
Commitments and Contingencies (Note 31)		
Subsequent Events (Note 33)		

Approved by the Board of Directors

"Andrew Clark"

Andrew Clark - CEO, Director

"Joseph Leeder"

Joseph Leeder - CFO, Director

The accompanying notes are an integral part of these consolidated financial statements

PARK LAWN CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Revenue		
Sales	\$ 223,155,812	\$ 148,143,419
Income from care and maintenance funds (Note 9)	10,827,579	8,769,883
Interest and other income (Note 26)	10,275,741	4,507,717
	<u>244,259,132</u>	<u>161,421,019</u>
Cost of sales	<u>46,813,191</u>	<u>33,426,046</u>
Gross profit	<u>197,445,941</u>	<u>127,994,973</u>
Operating expenses		
General and administrative (Note 23)	101,588,439	54,839,489
Amortization of intangibles (Note 12 and 23)	2,811,894	311,074
Maintenance (Note 23)	31,583,242	26,023,728
Advertising and selling (Note 23)	28,723,849	23,364,745
Interest expense (Note 24)	5,668,410	2,397,134
Share based incentive compensation (Note 25)	3,611,488	1,185,661
	<u>173,987,322</u>	<u>108,121,831</u>
Earnings from operations	23,458,619	19,873,142
Acquisition and integration costs (Note 6)	(12,964,150)	(10,384,125)
Other (expenses) (Note 27)	<u>(420,266)</u>	<u>(203,554)</u>
Earnings before income taxes	10,074,203	9,285,463
Income tax expense (Note 28)	<u>2,788,092</u>	<u>2,165,882</u>
Net earnings for the year	<u>\$ 7,286,111</u>	<u>\$ 7,119,581</u>
Net earnings attributable to:		
Equity holders of PLC	\$ 6,906,841	\$ 6,722,456
Non-controlling interest	<u>379,270</u>	<u>397,125</u>
	<u>\$ 7,286,111</u>	<u>\$ 7,119,581</u>
Attributable to equity holders of PLC		
Net earnings per share - basic	<u>\$ 0.246</u>	<u>\$ 0.326</u>
Net earnings per share - diluted	<u>\$ 0.246</u>	<u>\$ 0.325</u>
Weighted average number of common shares:		
- basic	<u>28,042,373</u>	<u>20,610,121</u>
- diluted	<u>28,121,174</u>	<u>20,655,472</u>

The accompanying notes are an integral part of these consolidated financial statements.

PARK LAWN CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Net earnings for the year	\$ 7,286,111	\$ 7,119,581
Item of other comprehensive income to be subsequently reclassified to net income		
Foreign currency translation of foreign operations	(24,000,852)	23,542,789
Comprehensive (loss) income	<u>\$ (16,714,741)</u>	<u>\$ 30,662,370</u>

The accompanying notes are an integral part of these consolidated financial statements.

PARK LAWN CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	# of Common Shares Issued and Outstanding	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income/Loss	Non Controlling Interest	Shareholders' Equity
Balance at January 1, 2018	15,346,732	\$ 179,775,963	\$ 1,133,771	\$ 1,691,930	\$ (1,654,092)	\$ 1,102,643	\$ 182,050,215
Dividends declared (Note 20)	-	-	-	(9,361,258)	-	-	(9,361,258)
Shares issued:							
Dividend reinvestment plan (Note 21(i))	43,333	992,914	-	-	-	-	992,914
Equity incentive plan (Note 25)	-	-	1,163,743	-	-	-	1,163,743
Prospectus financing, net of costs (Note 21(ii))	7,745,250	183,188,546	-	-	-	-	183,188,546
Adoption of IFRS 15 (Note 2)	-	-	-	11,776,680	-	-	11,776,680
Other comprehensive income	-	-	-	-	23,542,789	-	23,542,789
Net earnings for the year	-	-	-	6,722,456	-	397,125	7,119,581
Balance at December 31, 2018	<u>23,135,315</u>	<u>\$ 363,957,423</u>	<u>\$ 2,297,514</u>	<u>\$ 10,829,808</u>	<u>\$ 21,888,697</u>	<u>\$ 1,499,768</u>	<u>\$ 400,473,210</u>
Balance at January 1, 2019	23,135,315	\$ 363,957,423	\$ 2,297,514	\$ 10,829,808	\$ 21,888,697	\$ 1,499,768	\$ 400,473,210
Dividends declared (Note 20)	-	-	-	(12,645,489)	-	-	(12,645,489)
Shares issued:							
Dividend reinvestment plan (Note 21(i))	82,220	2,130,633	-	-	-	-	2,130,633
Equity incentive plan (Note 25)	34,052	-	3,231,167	-	-	-	3,231,167
Prospectus financing, net of costs (Note 21(ii))	5,605,100	138,375,634	-	-	-	-	138,375,634
Contingent equity consideration (Note 21(iii))	498,157	(2,415,860)	2,090,281	-	-	-	(325,579)
Other comprehensive loss	-	-	-	-	(24,000,852)	-	(24,000,852)
Net earnings for the year	-	-	-	6,906,841	-	379,270	7,286,111
Balance at December 31, 2019	<u>29,354,844</u>	<u>\$ 502,047,830</u>	<u>\$ 7,618,962</u>	<u>\$ 5,091,160</u>	<u>\$ (2,112,155)</u>	<u>\$ 1,879,038</u>	<u>\$ 514,524,835</u>

The accompanying notes are an integral part of these consolidated financial statements.

PARK LAWN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash provided by (used in):		
Operating activities		
Net earnings for the year	\$ 7,286,111	\$ 7,119,581
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Acquisition and integration costs	12,964,150	10,384,125
Deferred tax expense/asset	880,317	1,394,099
Depreciation of property and equipment, investment properties and amortization of intangibles (Note 8 and 12)	13,459,547	5,673,857
Amortization of cemetery property (Note 5)	7,647,209	6,226,705
Amortization of deferred commissions	3,016,266	3,346,556
Amortization of deferred financing costs (Note 15)	296,245	161,873
Interest on lease liabilities (Note 17)	338,462	-
Share based incentive compensation (Note 25)	3,231,167	1,163,743
(Gain) loss on disposal of property and equipment (Note 8)	115,744	-
(Gain) loss on change in fair value of contingent payments (Note 19)	-	110,710
(Gain) loss on shares settlement (Note 21)	(179,633)	-
Changes in working capital that provided (required) cash:		
Accounts receivable	(208,739)	(568,707)
Net receipts on pre-need activity	(5,465,598)	(4,060,183)
Merchandise inventories	(218,245)	(746,550)
Prepaid expenses and other current assets	405,222	(1,199,575)
Accounts payable and accrued liabilities	5,898,001	1,836,512
Cash provided by (used in) operating activities	49,466,226	30,842,746
Investing activities		
Acquisition and integration costs	(12,964,150)	(10,384,125)
Net cash on acquisitions and other strategic transactions (Note 6)	(174,643,970)	(257,122,738)
Additions to cemetery property	(9,998,847)	(5,666,260)
Acquisition of property and equipment (Note 8)	(14,002,349)	(8,220,635)
Proceeds on disposal of property and equipment (Note 8)	2,739,292	53,483
Land held for development (Note 7)	(30,090)	(659,511)
Deferred commissions	(4,299,415)	(3,835,146)
Decrease (increase) in other assets (Note 13)	(33,679,299)	(6,629,568)
Cash provided by (used in) investing activities	(246,878,828)	(292,464,500)
Financing activities		
Proceeds from issuance of long-term debt (Note 15)	123,716,925	90,464,654
Repayment of long-term debt (Note 15)	(40,150,011)	(1,901,049)
Repayment of lease liabilities (Note 17)	(2,009,049)	-
Proceeds (repayment) of note payable (Note 16)	(566,554)	508,611
Proceeds from financing, net of costs (Note 15)	136,435,744	180,930,773
Dividends and distributions paid (Note 20)	(10,514,856)	(8,368,344)
Deferred financing costs (Note 15)	(1,321,371)	(252,593)
Cash paid to settle contingent consideration (Note 21)	(624,966)	-
Cash provided by (used in) financing activities	204,965,862	261,382,052
Translation adjustment on cash	(447,022)	1,652,296
Net increase (decrease) in cash	7,106,238	1,412,594
Cash, beginning of year	14,149,092	12,736,498
Cash, end of year	\$ 21,255,330	\$ 14,149,092
Supplemental disclosures:		
Income taxes paid	\$ 701,268	\$ 663,810
Interest expenses paid	\$ 4,963,528	\$ 2,323,418

The accompanying notes are an integral part of these consolidated financial statements.

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

1. NATURE OF OPERATIONS

Park Lawn Corporation (the “Company” or “PLC”), located at 2 St. Clair Ave. West, Suite 1300, Toronto, Ontario, M4V 1L5, is an Ontario corporation which owns and operates cemeteries, crematoriums and funeral homes in Canada and the U.S. The Company is publicly traded on the TSX with the stock symbol of PLC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved by the Company’s Board of Directors on March 30, 2020.

b. Basis of presentation

The consolidated financial statements of the Company have been prepared on a historical cost basis with the exception of certain financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

c. Functional currency

The consolidated financial statements are presented in Canadian dollars, which is also the parent company’s functional currency. Each entity within the consolidated group determines its own functional currency and items included in the consolidated financial statements of each entity are remeasured using the functional currency. The consolidated financial statements of foreign subsidiaries for which the functional currency is not the Canadian dollar are translated into Canadian dollars using the exchange rate in effect at the end of the reporting period for assets and liabilities and the average exchange rates for the period for revenue, expenses and cash flows. Foreign exchange differences arising on translation are recognized in other comprehensive income and in accumulated other comprehensive income in shareholders’ equity.

Within each entity, transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognized in the consolidated statements of earnings. Non-monetary assets and liabilities that are measured at historical cost are translated using the exchange rate at the date of the transaction.

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities, including structured entities (“SEs”) controlled by the Company. Control exists when the Company is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investment entities

The Company consolidates SEs when it has control over such SEs, irrespective of the size of the equity investment held in a particular SE.

Pre-need merchandise and service trust fund investments represent amounts set aside in both provincially and state legislated trust funds related to pre-need cemetery and funeral contracts. Care and maintenance fund investments represent amounts set aside in trust for provincially and state legislated care and maintenance fund obligations and non-legislated care and maintenance fund investments related to cemetery interment right sales. These trust funds are SEs as defined in IFRS 12, “Disclosure of interests in other entities.” The Company assesses control over these entities in accordance with IFRS 10, “Consolidated financial statements.” In accordance with this guidance, the Company has determined that the Company is the primary beneficiary of these trusts, as the Company is exposed to the majority of variable losses and returns associated with these trusts and has the ability to affect those returns through its power over the trusts. The Company directs the investment policies of these trust funds to obtain the majority of the benefits of the activities of these trusts.

Pre-need trust fund

The pre-need merchandise and service trust funds are recorded at fair value and amortized cost. Any unrealized net gain or loss resulting from changes in the fair value of the legislated trust funds, as well as accumulated and undistributed income, are recorded to deferred pre-need receipts held in trust.

Care and maintenance trust fund

The care and maintenance fund investments are recorded at fair value and amortized cost. Any unrealized net gain or loss resulting from changes in the fair value of the cemetery care and maintenance fund investments is recorded to the care trusts’ corpus.

Transactions eliminated on consolidation

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

e. Earnings per share

Basic earnings per share are computed by dividing net earnings by the weighted average number of common shares outstanding for the period. Diluted earnings per share are calculated using the same method as basic earnings per share adjusted for the weighted average number of common shares outstanding for the period to reflect the dilutive impact, if any, of convertible instruments and equivalents, assuming they were exercised for the number of common shares calculated by applying the treasury stock method.

f. Revenue recognition

IFRS 15 is a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps: i) identify the contract with a customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations in the contract; and v) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company's revenue streams are from the sale of cemetery property interment rights, cemetery services and merchandise sales, and funeral services and merchandise sales as described below:

Cemetery property interment rights

For cemetery property interment rights performance obligations, control transfers to the customer when the property is developed and the interment right has been sold and can no longer be marketed or sold to another customer. In jurisdictions that allow contracts for the sale of pre-need cemetery interment rights to be cancelled by the customer prior to burial, cancellation estimates have been provided for, based on historical experience and current trends.

Cemetery services

Cemetery services consist primarily of opening and closing fees and merchandise installation fees. For cemetery service performance obligations, control transfers to the customer when the service is complete. Sales of cemetery services are recognized as revenue at the date of the performance of the service.

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

f. Revenue recognition - continued

Merchandise sales

Merchandise sales for the cemetery business consist primarily of outer burial containers, memorial markers and other ancillary merchandise. Merchandise sales for the funeral business consist primarily of burial caskets, urns, outer burial containers and other ancillary funeral and cremation merchandise. For the merchandise sale performance obligations, control transfers when merchandise is delivered.

For at-need contracts, the Company generally delivers the merchandise and performs the services at the time of need. Personalized marker merchandise and marker installation services sold on at-need contracts are recognized when control is transferred to the customer, generally when the marker is delivered and installed in the cemetery.

The Company also sells price-guaranteed pre-need contracts providing for future merchandise at prices prevailing when the agreements are signed. Revenue associated with sales of pre-need contracts is deferred until control of the merchandise or the services is transferred to the customer, which is upon delivery of the merchandise, generally at the time of need.

On certain pre-need contracts, the Company sells memorialization merchandise that is delivered to the customer at the time of sale. Revenue is recognized at the time of delivery when control of the memorialization merchandise is transferred.

For personalized marker merchandise sold on a pre-need contract, the Company will purchase the merchandise from vendors, personalize merchandise in accordance with the customer's specific written instructions, either store the merchandise or install the merchandise based on the customer's instructions, and transfer title to the customer.

Revenue is recognized and the cost of sales is recorded when control is transferred for the merchandise, which occurs upon delivery or installation of the merchandise at the cemetery.

Funeral services

Funeral services include arranging and directing funeral services, cremations and other ancillary funeral services. For the funeral services performance obligations, control transfers when the service is complete.

Sales of funeral services are recognized as revenue at the date of the performance of the service.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

f. Revenue recognition - continued

Investment income – pre-need services and merchandise

The Company is entitled to retain, in certain jurisdictions, the interest, capital gains and dividends within the trusts as earned, which is considered to be at the point of time the pre-need contract becomes at-need. These amounts are recognized as sales revenue when the merchandise and services on the underlying pre-need cemetery or funeral contracts are delivered or performed, respectively. This investment income is intended to offset inflationary price increases from the time of the pre-need contract to delivery.

In the state of Michigan, the Company is entitled to retain the interest, capital gains and dividends as earned, which is considered to be income at the point of time the investment has been realized and distributed to the Company. Interest and dividends are recognized in sales revenue when distributed. This interest and dividends are intended to offset inflationary price increases from the time of the pre-need contract to delivery. Realized capital gains are recorded as interest and other income at the time of distribution, as these distributions are over and above the inflationary price increase from time of the pre-need contract to delivery.

Investment income – care and maintenance funds

A portion of the proceeds from the sale of cemetery property interment rights is required by state or provincial law to be paid by the Company into perpetual care trust funds to maintain the cemetery. Investment earnings from these trusts are distributed regularly and recognized in income from care and maintenance funds by the Company as earned and withdrawn. These distributions are intended to defray cemetery maintenance costs incurred for cemetery properties, which are expensed as incurred.

Finance charges

The instalment accounts receivable contracts contain a financing component. Finance charges on the uncollected balance of instalment accounts receivable are recognized in interest and other income over the term of the sales agreement using the effective interest method.

Cost of sales

Costs related to the sale of property interment rights include the property and construction costs specifically identified by project. Upon completion of the project, construction costs are charged to expense when the property interment right is delivered. Costs such as direct labour, property, merchandise, direct supplies and perpetual care are recognized when the merchandise or services are delivered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Deferred revenue and commissions

Deferred revenue arises in connection with the sales of pre-need cemetery and funeral merchandise and services.

The Company defers incremental commission costs paid as a result of obtaining contracts with customers as deferred commission assets and amortizes these costs to selling and advertising expenses as the related deferred revenues are recognized.

g. Deferred revenue

Deferred revenue arises in connection with sales of pre-need cemetery and funeral merchandise and services, the recognition of which is deferred until they meet the requirements of the Company's revenue recognition policies. The corresponding investment income earned on legislated trust fund investments is similarly deferred. Contracts for the sale of pre-need cemetery and funeral merchandise and services can be cancelled by the customer prior to delivery. The Company estimates the portion of deferred revenue that will ultimately be cancelled based on historical experience and current trends. Deferred revenue is net of an allowance for cancellations.

h. Financial instruments

The Company adopted IFRS 9, "Financial instruments, classification and measurement" on January 1, 2018, applying the limited exemption for transition for classification and measurement and impairment, and accordingly, has not restated comparative periods in the year of initial application.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories i) those to be measured subsequently at fair value through profit or loss (FVTPL); ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI); and iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in the consolidated statements of earnings or other comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

h. Financial instruments - continued

Amortized cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely principal and interest ("SPPI") criterion. Financial assets classified in this category are measured at amortized cost using the effective interest method.

Fair value through profit or loss

This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in the consolidated statements of earnings.

Financial assets at fair value through other comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through other comprehensive income instead of through the consolidated statements of earnings. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or a financial liability not measured at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes recognized through the consolidated statements of earnings or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

h. Financial instruments - continued

Impairment

The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information.

For accounts receivable and pre-need receivables, the Company applies the simplified approach as permitted by IFRS 9. The approach that the Company has taken for accounts receivable and pre-need receivables is a provisional matrix, whereby lifetime expected credit losses are recognized based on aging characterization and credit worthiness of customers. Specific provisions may be used where there is information that a specific customer's expected credit losses have increased.

	IFRS 9	
	Classification	Measurement
Cash	FVTPL	Fair value
Accounts receivable	Amortized cost	Amortized cost
Pre-need receivables	Amortized cost	Amortized cost
Pre-need merchandise and service trust fund investments	FVTPL and amortized cost	Fair value and amortized cost
Care and maintenance trust fund investments	FVTPL and amortized cost	Fair value and amortized cost
Other assets	FVTPL and amortized cost	Fair value and amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Dividends payable	Amortized cost	Amortized cost
Long-term debt	Amortized cost	Amortized cost
Notes payable	Amortized cost	Amortized cost
Deferred pre-need receipts held in trust	FVTPL	Fair value
Care and maintenance trusts' corpus	FVTPL	Fair value
Contingent payments	FVTPL	Fair value

i. Accounts receivable

Accounts receivable represent amounts due from customers related to at-need cemetery and funeral contracts and miscellaneous current receivables. For accounts receivable impairment, the Company applies the simplified approach as permitted by IFRS 9.

PARK LAWN CORPORATION
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

j. Pre-need receivables

Pre-need receivables represent installment accounts receivable due from customers related to pre-need cemetery and funeral contracts. Installment accounts receivable are recorded at amortized cost at the time a contract is signed, net of a provision for cancellations. In jurisdictions that allow contracts for these accounts to be cancelled, the Company provides a cancellation reserve for cemetery receivables. This allowance is based on an analysis of historical and future expected trends of collection and cancellation activity.

Where permitted by provincial or state law, customers may arrange their pre-need funeral contracts by purchasing an insurance policy. The pre-need funeral contracts secured by third party insurance policies are not recorded as assets or liabilities of the Company. See Note 11 to the consolidated financial statements for further information.

k. Inventories

Inventories include unsold merchandise inventories and the unamortized acquisition, construction and development cost of crypts, niches and developed cemetery land. Inventories are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Rebates and allowances received from vendors are recognized as a reduction to the cost of inventory unless the rebates clearly relate to the reimbursement of specific expenses.

l. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. Land is stated at cost less any impairment.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the declining-balance method after taking into account their estimated residual values. Depreciation begins when the property and equipment become available for use. Depreciation is charged to the consolidated statements of earnings and comprehensive income.

The estimated useful lives, residual values and depreciation method are reviewed at each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The estimated useful lives of property and equipment of the Company as estimated by the management are as follows:

	<u>Annual rates</u>
Building, cemetery and funeral	3-5%
Machine, equipment and automotive	10-30%
Cemetery improvements	5-10%

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

1. Property and equipment - continued

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Gains and losses on disposals are determined by comparing net proceeds with carrying amounts and are included in the consolidated statements of earnings.

At the end of each reporting period, the Company assesses whether there is an indication that an asset, goodwill or cash-generating unit ("CGU") may be impaired. If any indication exists, the Company estimates the recoverable amount. The recoverable amount is the higher of an asset's, or CGU's fair value less costs to sell and its value in use. Where the carrying value of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered to be impaired and is written down to its recoverable amount. Goodwill is tested for impairment annually regardless of any indications.

Impairment losses are recognized in the consolidated statements of earnings in those expense categories consistent with the function of the impaired asset.

The Company evaluates impairment charges of long-lived assets for potential reversals when events or circumstances warrant such consideration. Impairment losses related to goodwill cannot be reversed in future periods. An impairment loss recognized in prior years for intangible assets, other than goodwill, is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

m. Intangible assets

Intangible assets, either acquired as a result of a business combination or developed internally, are assets that can be identified, are controlled by the Company and provide future economic benefits to the Company. Intangible assets are recognized at cost, and unless determined to have an indefinite life, are amortized over their expected useful life.

Intangible assets are tested for impairment on an annual basis or more frequently if there are indicators that the assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If the recoverable amount of the asset is estimated to be less than the carrying amount, the carrying amount is reduced to its recoverable amount.

The Company derecognizes the carrying amount of intangible assets on disposal or when no future economic benefits are expected from its use.

	Annual rates
Brand	Indefinite life
Non-compete agreements	Straight-line over term

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

n. Borrowing costs

Borrowing costs, if any, directly attributable to the acquisition or construction of a qualifying asset are capitalized. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use. The capitalized borrowing cost is calculated by applying the weighted average borrowing rate, giving consideration first to any project specific borrowings or any directly attributable general borrowings, to the accumulated average costs for the period, until the assets are substantially ready for their intended use. All other borrowing costs are recognized in finance costs in the consolidated statements of earnings in the period in which they occur.

o. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of earnings because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the asset and liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted at each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

o. Taxation – continued

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognized as an expense or income in the consolidated statements of earnings, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination.

p. Share based incentive compensation payments

Deferred share units (a “DSU”), performance share units (a “PSU”) and restricted share units (a “RSU”) are payments settled for shares or cash, as applicable, which are measured at fair value at the grant date. For DSUs and RSUs, compensation cost is measured at the fair value of the underlying common share, and is expensed over the award’s vesting period. Compensation expense is recognized in the consolidated statements of earnings with a corresponding increase in contributed surplus. At this time, the Board plans to settle DSUs and RSUs for shares and, upon the applicable settlement date, the corresponding amounts previously credited to contributed surplus are transferred to share capital.

In addition, the Board plans to credit all DSUs and RSUs with dividend equivalents in the form of additional DSUs and RSUs, as applicable. Dividend equivalents shall vest in proportion to, and settle in the same manner as, the awards to which they relate. DSUs and RSUs that are dilutive as at the reporting date are considered in the calculation of diluted earnings per share.

The Company has a performance stock option plan granted to senior executives, officers and employees. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over each tranche’s vesting period, based on the number of awards expected to vest, with the offset credited to contributed surplus. When options are exercised, the amount received is credited to share capital and the fair value attributed to these options is transferred from contributed surplus to share capital. The impact of a revision of the original estimate is recognized in the consolidated statements of earnings such that the cumulative expense reflects the revised estimate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

q. Business combinations

The Company has applied the acquisition method in accounting for business combinations.

The Company measures goodwill as the difference between the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, and the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair value of the assets transferred (including cash), liabilities incurred by the Company on behalf of the acquiree, and equity interests issued by the Company. Consideration transferred also includes the fair value of any contingent consideration.

The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 – Financial Instruments, with the corresponding gain or loss being recognized in the consolidated statements of earnings.

Transaction costs that the Company incurs in connection with a business combination, such as finders' fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed in the period as incurred.

Accounting standards adopted on January 1, 2019

r. IFRS 16 - Leases

IFRS 16 – Leases (“IFRS 16”) is effective for annual periods beginning on or after January 1, 2019. The most significant change introduced by IFRS 16 is a single lessee accounting model, requiring lessees to recognize assets and liabilities for leases on the statement of financial position.

The Company is a party to lease contracts for, among others: a) office space; b) machinery and equipment. Leases are recognized, measured and presented in line with IFRS 16.

Accounting by the lessee

The Company implemented a single accounting model, requiring lessees to recognize assets and liabilities for all leases excluding exceptions listed in the standard. The Company elected to apply exemptions for short term leases and for leases for which the underlying asset is of low value. The Company has also elected to apply the practical expedient to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

r. IFRS – 16 Leases – continued

Accounting by the lessee – continued

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Based on the accounting policy applied, the Company recognizes a right-of-use asset and a lease liability at the commencement date of the contract for all leases conveying the right to control the use of an identified asset for a period of time. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets are initially measured at cost, which comprises:

- i) the amount of the initial measurement of the lease liability;
- ii) any lease payments made at or before the commencement date, less any lease incentives; and
- iii) any initial direct costs incurred by the lessee.

After the commencement date, the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability. Depreciation is calculated using the straight-line method over the estimated useful life or over the term of the respective lease. If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date, which comprises:

- i) fixed payments, less any lease incentives receivable;
- ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- iii) amounts expected to be payable by the lessee under residual value guarantees;
- iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

r. IFRS – 16 Leases – continued

Accounting by the lessee – continued

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate on the underlying asset. Generally, the Company uses its incremental borrowing rate on the underlying asset as the discount rate. The lease liability is subsequently measured at amortized cost using the effective interest method.

The lease term determined by the Company comprises:

- i) non-cancellable period of lease contracts;
- ii) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- iii) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Accounting by the lessor

There are no contracts based on which the Company is acting as a lessor.

Impact of transition to IFRS 16

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach, with recognition of a right-of-use asset equal to the lease liability adjusted for prepaid or accrued lease payments immediately before the date of initial application.

The weighted average incremental discount rate was 4.8%. In applying the modified retrospective approach, the Company has taken advantage of the following practical expedients:

- i) A single discount rate has been applied to portfolios of leases with reasonably similar characteristics;
- ii) Leases with a remaining term of twelve months or less from the date of application have been accounted for as short-term leases even though the initial term from lease commencement have been more than twelve months; and
- iii) For the purposes of measuring the right-of-use asset, hindsight has been used. Therefore, it has been measured based on prevailing estimates at the date of initial application and not retrospectively by making estimates and judgements based on circumstances on or after the lease commencement date.

PARK LAWN CORPORATION
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

r. IFRS – 16 Leases – continued

Impact of transition to IFRS 16 – continued

The aggregate lease liability recognized in the consolidated statement of financial position at January 1, 2019 can be reconciled as follows:

Operating lease commitments as at December 31, 2018	\$ 7,388,606
Effect of discounting those lease commitments	(1,067,471)
	<u>\$ 6,321,135</u>

A corresponding right-of-use asset of \$6,321,135 has been recognized in the consolidated statement of financial position as at January 1, 2019 and has been classified as property and equipment.

s. Future accounting policy changes

The IASB has issued the following standards, amendments and interpretations which have not been early adopted in these consolidated financial statements.

IFRS 3 – “Business Combinations (Amendment)”, the amendments clarify the definition of a business, permitting a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Earlier application is permitted. These standards are not expected to have material impact on the Company in the current or future reporting periods.

3. CRITICAL ESTIMATES AND JUDGEMENTS

Use of estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgements and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported expenses during the period. Actual results could differ from these estimates. Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets, liabilities, and equity in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

PARK LAWN CORPORATION
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3. CRITICAL ESTIMATES AND JUDGEMENTS - continued

Use of estimates - continued

- i) The Company determined its cash generating units (“CGUs”) for the purpose of goodwill impairment testing as at December 31, 2019. These CGUs consisted of Northeast, Southeast, Central, Midwest, Southwest, West and Other. The Company’s impairment tests for goodwill and intangible assets are based on the greater of value in use calculations that use a discounted cash flow model and estimated fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU, using an appropriate valuation model. These calculations are corroborated by calculation multiples or other available fair value indicators. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Using a five year (and related terminal value) discounted cash flow model, the Company determines the recoverable amount by calculating the value in use. The Company used a one year budgeted cash flow approved by the board, which had revenue growth rates between 0% and 7%. The cash flow forecasts were extrapolated beyond the one year period using an estimated long-term growth rate of 2%, terminal growth rates of 2% and post-tax discount rates between 6.2% and 8.6%. The Company has determined that the discount rates reasonably reflect the risks associated with the cash flow projections for the CGUs. The Company allocates the carrying value of goodwill and intangibles acquired from acquisitions to CGUs and uses estimates to test for any potential impairment. The Company’s impairment tests for goodwill and intangible assets are based on the greater of value in use calculations that use a discounted cash flow model over a five-year period and estimated fair value less cost to sell. An increase of 100 basis points in the pre-tax discount rate would not result in an impairment charge.
- ii) In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgement and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In certain circumstances where estimates have been made, the Company may obtain third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of certain purchase prices and accounting adjustments.
- iii) In determining an allowance for sales returns, the Company provides various allowances and/or cancellation reserves for cemetery receivables. These allowances are based on the analysis of historical trends and include, where applicable, collection and cancellation activity.

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. CRITICAL ESTIMATES AND JUDGEMENTS - continued

Use of estimates - continued

- iv) In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options granted, probability of achieving performance conditions, the expected life of the option, the volatility of the Company's stock price and the risk-free interest rate are used.
- v) In calculating income tax expense, the Company makes significant judgements in interpreting tax rules and regulations. Judgements are made to evaluate whether or not we can recover a deferred tax asset based on our assessment of existing tax laws, estimates of future profitability, and tax planning strategies.

4. PRE-NEED RECEIVABLES

	December 31, 2019	December 31, 2018
Pre-need receivables, current portion	\$ 29,044,341	\$ 26,204,444
Pre-need receivables, net of current portion	58,015,914	57,917,186
Total	<u>\$ 87,060,255</u>	<u>\$ 84,121,630</u>

The above is net of an allowance for sales returns of \$7,497,819 at December 31, 2019 (at December 31, 2018 - \$6,772,773).

5. INVENTORIES

	December 31, 2019	December 31, 2018 <i>(Restated, Measurement Period Adjustment - see Note 6)</i>
Merchandise inventories	\$ 3,068,697	\$ 2,850,452
Cemetery lots	38,909,330	36,716,144
Crypts and niches	42,816,411	42,067,841
Construction in progress	7,974,511	4,879,737
Total	92,768,949	86,514,174
Current portion	<u>9,459,240</u>	<u>9,988,909</u>
Non-current portion	<u>\$ 83,309,709</u>	<u>\$ 76,525,265</u>

There were no inventory write-downs in either year.

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. INVENTORIES – continued

Inventory expensed through cost of sales during the year was as follows:

	December 31, 2019	December 31, 2018
Merchandise	\$ 23,281,796	\$ 15,248,386
Cemetery lots, crypts and niches (cost of property)	7,647,209	6,226,705
Total	<u>\$ 30,929,005</u>	<u>\$ 21,475,091</u>

6. BUSINESS COMBINATIONS

Acquisitions completed in fiscal 2019

The following table summarizes the statement of financial position impact on the acquisition date of the Company's business combinations that occurred in the year ended December 31, 2019:

	Final Cress (i)	Final Baue (ii)	Preliminary Horan (iii)	Preliminary Other (iv)	Total
Assets acquired:					
Cash	\$ 458,410	\$ 665,001	\$ 1,267,187	\$ -	\$ 2,390,598
Accounts receivable	1,620,494	1,686,989	712,764	-	4,020,247
Pre-need receivables	-	1,676,528	543,627	1,180,672	3,400,827
Inventories	167,030	3,498,082	278,221	2,340,772	6,284,105
Prepaid expenses and other current assets	245,749	6,829	101,527	416,508	770,613
Land held for development	-	5,765,160	-	2,032,753	7,797,913
Property and equipment	13,882,443	13,990,689	29,099,502	9,333,990	66,306,624
Care and maintenance trust fund investments	-	4,593,840	1,154,349	4,659,366	10,407,555
Pre-need merchandise and service trust fund investments	-	37,777,961	39,775,432	5,406,938	82,960,331
Deferred commissions	-	2,829,204	2,274,823	-	5,104,027
Deferred tax assets	-	-	-	-	-
Goodwill	8,734,881	36,094,938	43,573,345	3,873,502	92,276,666
Intangibles	3,470,287	6,798,309	8,646,113	1,120,624	20,035,333
Total assets	<u>\$ 28,579,294</u>	<u>\$ 115,383,530</u>	<u>\$ 127,426,890</u>	<u>\$ 30,365,125</u>	<u>\$ 301,754,839</u>
Liabilities assumed:					
Accounts payable and accrued liabilities	\$ 451,444	\$ 2,868,860	\$ 1,699,300	\$ 362,892	\$ 5,382,496
Long-term debt	-	78,200	-	-	78,200
Lease liabilities	111,904	157,108	257,828	-	526,840
Deferred tax liabilities	810,304	1,321,284	-	-	2,131,588
Care and maintenance trusts' corpus	-	4,593,840	1,154,349	4,659,366	10,407,555
Deferred pre-need receipts held in trust	-	37,777,961	39,775,432	5,406,938	82,960,331
Deferred revenue	-	10,056,363	9,371,914	-	19,428,277
	<u>1,373,652</u>	<u>56,853,616</u>	<u>52,258,823</u>	<u>10,429,196</u>	<u>120,915,287</u>
Fair value of consideration transferred:					
Cash consideration	24,674,045	59,435,125	75,516,118	19,067,519	178,692,807
Deferred cash consideration	2,149,699	1,016,985	508,558	868,410	4,543,652
Working capital adjustment	381,898	(1,922,196)	(856,609)	-	(2,396,907)
	<u>27,205,642</u>	<u>58,529,914</u>	<u>75,168,067</u>	<u>19,935,929</u>	<u>180,839,552</u>
Total liabilities and considerations	<u>\$ 28,579,294</u>	<u>\$ 115,383,530</u>	<u>\$ 127,426,890</u>	<u>\$ 30,365,125</u>	<u>\$ 301,754,839</u>

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

6. BUSINESS COMBINATIONS – continued

Acquisitions completed in fiscal 2019 – continued

- i) On April 1, 2019, the Company completed the acquisition of all the outstanding equity of Cress Funeral Service Inc. (“Cress”) for a purchase price of approximately \$27.2 million (US\$20.4 million), subject to customary working capital adjustments. Cress’s acquisition expands PLC’s footprint into Wisconsin by adding eight funeral homes and two crematoria to PLC’s portfolio. The acquisition was funded from PLC’s credit facility.

Since the date of acquisition in 2019, Cress has contributed approximately \$7.0 million in revenue and \$1.3 million in net earnings in 2019. The Company has used a significant amount of judgement and simplifying assumptions in estimating the revenue and net earnings of Cress as if the business occurred at the beginning of the year. If acquired at the beginning of the year, the Company has estimated that Cress would have contributed approximately \$9.4 million in revenue and \$1.8 million in net earnings.

Cress’s purchase price allocation was finalized in the fourth quarter of 2019 to reflect the final determination of the fair value of assets and liabilities acquired.

- ii) On June 3, 2019, the Company completed the acquisition of all the outstanding stock and membership interests of The Baue Funeral Home Co. (“Baue”), for an aggregate total purchase price of approximately \$58.5 million (US\$43.5 million) in cash, subject to customary working capital adjustments. Baue operates a large cemetery and three funeral homes (including one on-site), in St. Charles, Missouri. Baue’s acquisition significantly increases PLC’s footprint and presence in Missouri. The acquisition of Baue was funded with the proceeds from the Company’s recent equity financing.

Since the date of acquisition in 2019, Baue has contributed approximately \$10.3 million in revenue and \$0.9 million in net earnings in 2019. The Company has used a significant amount of judgement and simplifying assumptions in estimating the revenue and net earnings of Baue as if the business occurred at the beginning of the year. If acquired at the beginning of the year, the Company has estimated that Baue would have contributed approximately \$17.6 million in revenue and \$1.6 million in net earnings.

Baue’s purchase price allocation was finalized in the fourth quarter of 2019 to reflect the final determination of the fair value of assets and liabilities acquired.

- iii) On July 1, 2019, the Company completed the acquisition of all the outstanding equity of Horan & McConaty Funeral Services, Inc. (“Horan”) for an aggregate total purchase price of approximately \$75.2 million (US\$57.2 million) in cash, subject to customary working capital adjustments. Horan operates two cemeteries and 11 funeral homes (including two on-sites) in Denver and Aurora, Colorado. Horan’s acquisition expands U.S. footprint with first acquisition in Colorado. The acquisition of Horan was funded with the remaining proceeds from the Company’s recent equity financing and the Company’s credit facility.

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

6. BUSINESS COMBINATIONS – continued

Since the date of acquisition in 2019, Horan has contributed approximately \$13.2 million in revenue and \$1.3 million in net earnings in 2019. The Company has used a significant amount of judgement and simplifying assumptions in estimating the revenue and net earnings of Horan as if the business occurred at the beginning of the year. If acquired at the beginning of the year, the Company has estimated that Horan would have contributed approximately \$26.3 million in revenue and \$2.6 million in net earnings.

The fair value allocations for Horan's acquisition are based on preliminary purchase allocations conducted by management. As the acquisition is within the measurement period under IFRS 10, it continues to be refined. The Company is gathering information to finalize the fair value of deferred revenue and inventories.

- iv) On November 18, 2019, the Company completed the acquisition of all the assets of two U.S. businesses, Journey Group Texas One, LLC and Journey Group Texas Two, LLC ("Journey Group") for an aggregate total purchase price of approximately \$12.5 million (US\$9.5 million) in cash, subject to customary working capital adjustments. Journey operates three cemeteries, three funeral homes and two combination funeral home and cemetery properties in Texas. Journey's acquisition increases PLC's U.S. footprint and presence in Texas. The acquisition of Journey was funded with the Company's credit facility.

The fair value allocations for Journey Group's acquisition are based on preliminary purchase allocations conducted by management. As the acquisition is within the measurement period under IFRS 10, it continues to be refined. The Company is gathering information to finalize the fair value of the property and equipment, land held for development and inventories.

On May 1, 2019, the Company completed the acquisition of all the assets of John L. Ziegenhein & Sons Undertaking Inc. ("Ziegenhein Funeral Homes"), a two-location funeral business in St. Louis, Missouri for a purchase price of approximately \$6.1 million (US\$4.5 million). The acquisition of Ziegenhein Funeral Homes further expands PLC's existing footprint in the Missouri market. The acquisition was funded with proceeds from the Company's recent equity financing.

On June 25, 2019, the Company completed the acquisition of all the assets of Integrity Funeral Care, Inc. ("Integrity"), a funeral business located in Houston, Texas for a purchase price of approximately \$1.3 million (US\$1 million). The acquisition of Integrity expands PLC's existing footprint in the Houston market. The acquisition was funded from PLC's credit facility.

Purchase price allocation for the above acquisitions was finalized in the fourth quarter of 2019.

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. BUSINESS COMBINATIONS – continued

Acquisitions completed in fiscal 2018

The purchase price allocation for Signature was finalized during the period ended March 31, 2019, and the purchase price allocation for Citadel has been finalized during the period ended September 30, 2019. All net assets acquired, and consideration paid have been included at their respective fair values. The Company has restated the comparative figures in the consolidated statement of financial position based on the measurement period adjustments. The following tables summarize the effects of the change described above on the line items of the consolidated statement of financial position for the year ended December 31, 2018.

	December 31, 2018		December 31, 2018	
	<i>As previously stated</i>	<i>Adjustments</i>	<i>As restated</i>	
Inventories, net of current portion	\$ 71,102,414	\$ 5,422,851	\$ 76,525,265	
Land held for development	28,023,925	(13,229,995)	14,793,930	
Property and equipment	125,203,549	1,191,820	126,395,369	
Deferred commissions	24,663,902	(1,686,683)	22,977,219	
Goodwill and Intangibles	281,833,941	3,148,669	284,982,610	
Deferred revenue	(143,767,739)	5,153,338	(138,614,401)	
Total	<u>\$ 387,059,992</u>	<u>\$ -</u>	<u>\$ 387,059,992</u>	

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

6. BUSINESS COMBINATIONS – continued

Acquisitions completed in fiscal 2018 – continued

The following table summarizes the statement of financial position impact on the acquisition date of the Company's business combinations that occurred in the year ended December 31, 2018:

	Final CMS (i)	Final Signature (ii)	Final Citadel (iii)	Final Other (iv)	Total
Assets acquired:					
Cash	\$ 1,471,869	\$ 5,203,463	\$ 619,214	\$ 112,131	\$ 7,406,677
Accounts receivable	343,184	2,240,375	1,039,719	361,662	3,984,940
Pre-need receivables	12,695,556	9,439,211	3,460,379	-	25,595,146
Inventories	25,058,801	8,825,044	9,488,587	280,841	43,653,273
Prepaid expenses and other current assets	354,364	503,162	120,522	35,596	1,013,644
Land held for development	-	6,447,166	429,655	-	6,876,821
Property and equipment	7,764,123	45,492,637	13,075,640	8,647,763	74,980,163
Care and maintenance trust fund investments	58,558,937	13,878,211	11,286,831	-	83,723,979
Pre-need merchandise and service trust fund investments	4,607,433	39,677,089	5,282,755	3,041,186	52,608,463
Deferred commissions	1,238,900	1,286,202	2,438,281	-	4,963,383
Deferred tax assets	596,700	273,556	128,220	18,592	1,017,068
Goodwill	33,592,882	107,091,898	29,759,147	8,963,790	179,407,717
Intangibles	-	5,492,305	660,590	573,940	6,726,835
Total assets	<u>\$ 146,282,749</u>	<u>\$ 245,850,319</u>	<u>\$ 77,789,540</u>	<u>\$ 22,035,501</u>	<u>\$ 491,958,109</u>
Liabilities assumed:					
Accounts payable and accrued liabilities	\$ 1,442,552	\$ 4,826,293	\$ 1,848,032	\$ 368,182	\$ 8,485,059
Long-term debt	-	-	303,061	72,739	375,800
Notes payable	1,287,684	2,394,811	-	-	3,682,495
Deferred tax liabilities	1,035,932	-	-	145,313	1,181,245
Care and maintenance trusts' corpus	58,558,937	13,878,211	11,286,831	-	83,723,979
Deferred pre-need receipts held in trust	4,607,433	39,677,089	5,282,755	3,041,186	52,608,463
Deferred revenue	14,595,911	23,324,363	38,712,711	-	76,632,985
	<u>81,528,449</u>	<u>84,100,767</u>	<u>57,433,390</u>	<u>3,627,420</u>	<u>226,690,026</u>
Fair value of consideration transferred:					
Cash consideration	64,339,300	158,760,138	19,508,817	18,391,714	260,999,969
Deferred cash consideration	-	-	847,333	-	847,333
Working capital adjustment	415,000	2,989,414	-	16,367	3,420,781
	<u>64,754,300</u>	<u>161,749,552</u>	<u>20,356,150</u>	<u>18,408,081</u>	<u>265,268,083</u>
Total liabilities and considerations	<u>\$ 146,282,749</u>	<u>\$ 245,850,319</u>	<u>\$ 77,789,540</u>	<u>\$ 22,035,501</u>	<u>\$ 491,958,109</u>

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

6. BUSINESS COMBINATIONS – continued

Acquisitions completed in fiscal 2018 – continued

(i) *CMS*

On March 7, 2018, the Company completed the acquisition of 100% ownership interest in the common shares of CMS Mid-Atlantic, Inc. (“CMS”) for a purchase price of approximately \$65 million (US\$50 million). The purchase price was funded from PLC’s credit facility. CMS currently operates, manages and provides financial services for six cemeteries in New Jersey and one in New York. The acquisition of CMS increases the scale and expands the geographic diversification in the U.S. market.

During the third quarter of 2018, the Company completed the purchase of 78 acres of land in Lafayette, New Jersey for US\$3 million. This property will be used to expand an existing cemetery.

(ii) *Signature*

On May 7, 2018, the Company completed the acquisition of a 100% ownership interest in the common shares of Signature Funeral and Cemetery Investments, LLC. (“Signature”) for a purchase price of approximately \$158.8 million (US\$123 million), plus a working capital adjustment of approximately \$3 million (US\$2.5 million). The purchase price was funded using the proceeds from the Company’s bought deal offering of subscription receipts which closed on May 4, 2018.

Signature’s acquisition adds four new states, Kansas, Missouri, New Mexico and Mississippi into PLC’s portfolio, while expanding its footprint in the Texas market. The acquisition adds nine cemeteries, 21 funeral homes (including seven located on cemetery sites) and five crematoria to PLC’s portfolio. The acquisition of Signature increased the scale and geographic diversification in the U.S. market.

Signature’s purchase price allocation was finalized in the first quarter of 2019 to reflect the final determination of the fair value of assets and liabilities acquired.

(iii) *Citadel*

On November 1, 2018, the Company completed the acquisition of 100% ownership interest in the common shares of Citadel Management LLC (“Citadel”) for a purchase price of approximately \$20.4 million (US\$15.5 million). The purchase price was funded from PLC’s credit facility.

The acquisition of Citadel expands the Company’s operations in North Carolina and marks its entry in to the South Carolina market. The acquisition fits well with the Company’s existing portfolio and provides opportunity for growth in these markets. It adds 29 cemeteries and eight funeral homes (including one on-site) in North and South Carolina to the Company’s portfolio.

Citadel’s purchase price allocation was finalized in the third quarter of 2019 to reflect the final determination of the fair value of assets and liabilities acquired.

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

6. BUSINESS COMBINATIONS – continued

Acquisitions completed in fiscal 2018 – continued

(iv) *Other acquisitions*

During 2018, the Company also completed the following acquisitions: Billingsley Funeral Home (“Billingsley”), Opatovsky Funeral Home (“Opatovsky”), Hansons Arbor Funeral Chapels & Crematorium (“Hansons”), Wayne Boze Funeral Home and Gateway Memorial Park (“Wayne Boze”), and Wells Funeral Homes and Cremation Services (“Wells”). Billingsley’s and Opatovsky’s purchase price allocation was finalized in the first quarter of 2019, Hansons’ in the second quarter of 2019, and Wayne Boze and Wells in the third quarter of 2019. Billingsley and Opatovsky further expand the company’s presence in the Ontario market and their proximity to the existing operations in the GTA make these businesses a strategic fit to the existing portfolio of assets in Ontario. Hansons’ acquisition continues PLC’s successful expansion into the BC market and Wayne Boze and Wells fit with PLC’s portfolio in the U.S. and are in line with PLC’s growth strategy.

7. LAND HELD FOR DEVELOPMENT

Land held for development represents land held for future cemetery, funeral and other development opportunities. At December 31, 2019 land held for development was valued at \$22,138,968 (at December 31, 2018 - \$14,793,930).

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

8. PROPERTY AND EQUIPMENT

	2019					
	(Restated, Measurement Period Adjustment - see Note 6)	Acquired in business combinations	Additions	Disposals	Foreign currency translation	December 31, 2019
Cost:						
Land	\$ 31,099,513	24,311,069	145,513	(1,367,479)	(1,586,741)	\$ 52,601,875
Buildings, cemetery and funeral	83,152,117	36,797,799	7,804,831	(2,145,248)	(4,822,692)	120,786,807
Machinery, equipment and automotive	15,931,295	4,354,924	4,610,747	(818,520)	(1,939,358)	22,139,088
Cemetery improvements	9,611,192	319,207	1,441,258	-	(112,683)	11,258,974
Right-of-use asset	6,321,135	523,625	1,356,343	2,488	(109,370)	8,094,221
Total	146,115,252	66,306,624	15,358,692	(4,328,759)	(8,570,844)	214,880,965
Accumulated depreciation:						
Buildings, cemetery and funeral	5,498,477	-	4,250,969	(818,968)	(939,094)	7,991,384
Machinery, equipment and automotive	5,239,993	-	3,497,243	(640,564)	(986,525)	7,110,147
Cemetery improvements	2,660,278	-	1,128,674	-	(335,642)	3,453,310
Right-of-use asset	-	-	1,770,767	(14,191)	(15,621)	1,740,955
Total	13,398,748	-	10,647,653	(1,473,723)	(2,276,882)	20,295,796
Net Book Value	\$ 132,716,504					\$ 194,585,169

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

8. PROPERTY AND EQUIPMENT – continued

						December 31, 2018
						<i>(Restated, Measurement Period Adjustment - see Note 6)</i>
	January 1, 2018	Acquired in business combinations	Additions	Disposals	Foreign currency translation	
Cost:						
Land	\$ 11,394,808	17,215,049	1,030,380	(1,631)	1,460,907	\$ 31,099,513
Buildings, cemetery and funeral	25,589,142	48,631,928	4,456,652	-	4,474,395	83,152,117
Machinery, equipment and automotive	6,563,882	6,099,547	2,222,947	(211,075)	1,255,994	15,931,295
Cemetery improvements	5,476,743	2,982,790	510,656	-	641,003	9,611,192
Total	49,024,575	74,929,314	8,220,635	(212,706)	7,832,299	139,794,117
Accumulated depreciation:						
Buildings, cemetery and funeral	2,339,721	-	2,217,636	-	941,120	5,498,477
Machinery, equipment and automotive	2,355,020	-	2,244,095	(159,223)	800,101	5,239,993
Cemetery improvements	1,370,602	-	901,052	-	388,624	2,660,278
Total	6,065,343	-	5,362,783	(159,223)	2,129,845	13,398,748
Net Book Value	\$ 42,959,232					\$ 126,395,369

Property and equipment depreciation expense charged to operations amounted to \$10,647,653 and \$5,362,783 for the year ended December 31, 2019 and 2018, respectively.

Included in additions at December 31, 2019 are \$5,653,153 of additions at Canadian cemeteries and funeral sites (at December 31, 2018 - \$3,692,898) and \$9,705,539 of additions at U.S. cemeteries (at December 31, 2018 - \$4,527,737).

During the year ended December 31, 2019, the Company sold redundant real estate and property for a sale price of approximately \$2,800,000 realizing a net gain of approximately \$50,000 and settled an insurance claim that resulted in a gain of approximately \$66,000.

The gains and losses described above on the sale of property and equipment are included in other income (expenses) in the consolidated statements of earnings.

Management has reviewed the valuation of the property and equipment and has not identified any indicators of impairment in the value of the property and equipment.

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9. CARE AND MAINTENANCE TRUST FUND INVESTMENTS

The Company's care and maintenance trust funds were established, as required by provincial and state regulations, to receive principal contributions from the Company upon the sale of cemetery lots, mausoleum crypts and niches.

Pursuant to the requirements of provincial and state regulations, the Company is required to deposit a portion of the proceeds received in respect of pre-need contracts into trust. Such amounts are treated as a cost of sale at the time of the sale.

The principal of these trusts is recorded in the consolidated statements of financial position and represents these contributions to the trusts and capital gains and losses and must be held in perpetuity in these trusts.

Only the income, not the capital gains, may be paid to the Company to be used exclusively for eligible care and maintenance of the cemeteries and crematoriums as defined by provincial and state regulations.

Investment income recognized in operations amounted to \$10,827,579 and \$8,769,883 for the year ended December 31, 2019 and 2018, respectively. If the income earned by the trusts should exceed eligible care and maintenance expenses incurred by the Company, the excess would be added to the capital of the trusts and would not be eligible for pay out to the Company in the future.

Care and maintenance trust fund investments consist of the following:

	Fair Value		Cost	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 10,306,689	\$ 8,378,916	\$ 10,302,565	\$ 8,347,173
Equities	99,989,034	89,174,511	89,206,429	87,964,536
Fixed income	81,807,889	69,972,381	79,843,248	71,426,289
Alternative investments	22,378,232	16,772,362	21,077,471	16,143,442
Preferred stocks	10,013,142	11,629,086	9,962,062	12,288,336
	<u>\$ 224,494,986</u>	<u>\$ 195,927,256</u>	<u>\$ 210,391,775</u>	<u>\$ 196,169,776</u>

The fixed income component of these care and maintenance trust funds is generally invested in medium-term government, promissory notes and corporate bonds which are held to maturity and earn income at fixed rates of return. The alternative investments component of these care and maintenance trust funds is invested in limited partnership units, private mortgages and other debt investments.

The increase in care and maintenance trust fund investments is a result of an appreciation in fair value of capital markets since December 31, 2018, contributions to the trust funds and recent acquisitions.

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

10. PRE-NEED MERCHANDISE AND SERVICE TRUST FUND INVESTMENTS

Pre-need merchandise and service trust funds were established as required by provincial and state regulations to hold funds paid in advance of need, to purchase when required at-need supplies and services such as funeral services, merchandise, grave and crypt openings.

When the services are performed, the Company withdraws the money held in the trust funds to pay for the supplies and services. In certain jurisdictions, any surplus income earned is refunded to the customers and any deficiency of funds is absorbed by the Company by recording less revenue for supplies and services.

Pre-need merchandise and service trust fund investments consist of the following:

	Fair value		Cost	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 28,692,429	\$ 12,509,568	\$ 28,658,480	\$ 12,498,274
GIC's	29,753,510	31,783,609	29,753,510	31,783,609
Equities	80,151,449	47,915,566	68,352,424	46,317,623
Fixed income	79,229,148	49,215,235	77,875,056	49,856,323
Alternative investments	36,954,092	16,173,334	34,798,443	16,173,334
Preferred stocks	2,369,757	-	2,376,524	-
	<u>\$ 257,150,385</u>	<u>\$ 157,597,312</u>	<u>\$ 241,814,437</u>	<u>\$ 156,629,163</u>

The fixed income component of these pre-need merchandise and service trust funds is generally invested in medium-term government, promissory notes and corporate bonds and deposit investment certificates which are held-to-maturity and earn income at fixed rates of return.

The increase in pre-need merchandise and service trust funds is a result of an appreciation in fair value of capital markets since December 31, 2018 and recent acquisitions.

11. PREARRANGED FUNERAL INSURANCE CONTRACTS

In addition to trust funded prearranged funeral services contracts, the Company also has prearranged funeral services contracts which are funded by insurance. As of December 31, 2019, the current face amount of pre-funded policies was approximately \$288 million (at December 31, 2018 – approximately \$176 million). The increase in prearranged funeral insurance contracts is primarily a result of recent acquisitions. Families who have prearranged with the Company will receive a refund to the extent that the face amount of the policy exceeds the current retail value of the merchandise and services to be provided. The insurance funded contracts are not included in the consolidated financial statements as the Company is not the beneficiary of the policy. Amounts funded through insurance are available to the Company when the funeral services are performed.

PARK LAWN CORPORATION
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12. GOODWILL AND INTANGIBLES

The changes in the carrying amount of goodwill and intangible assets at December 31, 2019 were:

	December 31, 2019	December 31, 2018 <i>(Restated, Measurement Period Adjustment - see Note 6)</i>
Goodwill		
Opening balance:	\$ 277,981,729	\$ 85,729,285
Additions	92,276,666	179,799,671
Adjustment	-	(1,266,849)
Foreign currency translation	(14,256,412)	13,719,622
Closing balance:	<u>\$ 356,001,983</u>	<u>\$ 277,981,729</u>
Intangibles		
Non-compete agreements		
Opening balance:	\$ 7,000,881	\$ 233,333
Additions	4,536,449	6,688,661
Amortization	(2,811,894)	(311,074)
Foreign currency translation	(634,981)	389,961
Closing balance:	<u>\$ 8,090,455</u>	<u>\$ 7,000,881</u>
Brand		
Opening balance:	\$ -	\$ -
Additions	15,498,884	-
Foreign currency translation	(337,992)	-
Closing balance:	<u>\$ 15,160,892</u>	<u>\$ -</u>
Intangibles	<u>\$ 23,251,347</u>	<u>\$ 7,000,881</u>
Goodwill and Intangibles	<u><u>\$ 379,253,330</u></u>	<u><u>\$ 284,982,610</u></u>

As part of the annual recoverability testing process in 2018, the Company recognized a goodwill impairment charge of \$1,266,849. A 5% change in the pre-tax discount rate would reduce the recoverable value by approximately \$1.6 million. The impairment charge was related to MMG not meeting its EBITDA earnout target for the contingent consideration in 2018. As a result of not meeting the earnout target there was an offsetting gain on the fair value of contingent consideration of \$1,156,139 resulting in a net expense of \$110,710 as described in Note 19.

The increase in goodwill is primarily a result of recent acquisitions.

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

13. OTHER ASSETS

Included in prepaid expenses and other current assets is a \$6.5 million including accrued interest (at December 31, 2018 - \$ nil) promissory note to Serenity Valley Mausoleum Inc. (“Serenity Mausoleum”) and Serenity Valley P. Lawn Management Inc. (“Serenity Management”) which is measured at amortized cost. The promissory note has a maturity date and is payable in the fourth quarter of 2020. The note bears interest at 9%.

Included in other assets is a \$2.7 million including accrued interest (at December 31, 2018 - \$3.1 million) employee share loan plan as described in Note 29.

In addition, included in other assets is a \$6.3 million including accrued interest (at December 31, 2018 - \$6.2 million) secured debt investment in Humphrey Funeral Home A. W. Miles – Newbigging Chapel Limited (“Humphrey”) which is measured at fair value. The debenture bears interest at 5% and is convertible into equity of Humphrey on maturity at the option of the Company. The debenture is due on demand after a period of five years. The fair value of the secured debt investment approximates the book value.

In addition, included in other assets is a \$26.5 million (US\$20.4 million) (at December 31, 2018 - \$nil) promissory note to WG – TN, LLC (“WG-TN”) and Harpeth Hills Memory Gardens Inc. (“HHMG”) which is measured at fair value. The promissory note had a maturity date of March 31, 2020 and bore interest at 10%. The note along with its associated interest are exchangeable as consideration for 100% of the Equity Interest in WG-TN and HHMG by the borrower. The fair value of the secured debt investment approximates the book value.

Subsequent to December 31, 2019, the promissory note described above was converted to equity interest in WG-TN and HHMG.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2019	December 31, 2018
Trade payables and accrued liabilities	\$ 30,461,301	\$ 20,387,323
Income taxes payable	882,764	108,231
	<u>\$ 31,344,065</u>	<u>\$ 20,495,554</u>

The average credit period on trade payables is 30 to 60 days in 2019 and 2018.

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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15. LONG-TERM DEBT

	December 31, 2019	December 31, 2018
Revolving loan facility	\$ 173,694,846	\$ 90,300,000
Mortgages	1,103,419	1,183,154
Other debt	928,231	676,428
Deferred financing costs	(1,840,106)	(814,980)
Total	173,886,390	91,344,602
Current portion	421,074	298,826
Non-current portion	<u>\$ 173,465,316</u>	<u>\$ 91,045,776</u>

Revolving loan facility

On November 22, 2019, the Company amended its existing syndicated bank financing arrangement to increase its borrowing capacity to \$300 million (\$250 million committed credit facility and additional \$50 million accordion facility). The financing arrangement has a term of five years. The revolving facility bears variable interest at the banker's acceptance rate plus an applicable margin based on a leverage ratio calculation. The additional credit will provide the Company with further flexibility as it continues to pursue its growth strategy. In particular, the revolving credit facility is expected to support the Company's ability to capitalize on organic projects and acquisition opportunities as they arise while maintaining a prudent approach to leverage.

At December 31, 2019, there was \$173,694,846 outstanding under the credit facility (at December 31, 2018 - \$90,300,000). Deferred financing costs have been capitalized and are being amortized over the term of 5 years using the effective interest rate method. At December 31, 2019, deferred financing costs were \$1,840,106 (at December 31, 2018 - \$814,980). At December 31, 2019, standby letters of credit issued utilized \$764,023 of the credit line (at December 31, 2018 - \$20,000).

Other debt

Other debt relates to automotive equipment and is secured by the vehicles. These have interest rates ranging from 3.0% to 9.0% and remaining terms of 2 to 5 years.

Debt covenants

The Company has provided covenants to certain of its lenders. The Company was in compliance with all of its covenants in 2019 and 2018.

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15. LONG-TERM DEBT – continued

Summary of principal repayments by year

	2020	2021	2022	2023	2024	Thereafter	Total
Revolving loan facility	\$ -	\$ -	\$ -	\$ -	\$ -	\$173,694,846	\$173,694,846
Mortgages	82,310	85,566	88,831	92,220	95,659	658,833	1,103,419
Other debt	338,764	260,648	218,098	57,939	37,137	15,645	928,231
	421,074	346,214	306,929	150,159	132,796	174,369,324	175,726,496
Deferred financing costs	-	-	-	-	-	(1,840,106)	(1,840,106)
Total	<u>\$ 421,074</u>	<u>\$ 346,214</u>	<u>\$ 306,929</u>	<u>\$ 150,159</u>	<u>\$ 132,796</u>	<u>\$172,529,218</u>	<u>\$ 173,886,390</u>

16. NOTES PAYABLE

	December 31, 2019	December 31, 2018
Notes payable	\$ 8,691,322	\$ 4,704,415
Current portion	1,323,036	426,604
Non-current portion	<u>\$ 7,368,286</u>	<u>\$ 4,277,811</u>

Notes payable

- i) The Company has an outstanding note payable of \$1,772,984 (at December 31, 2018 - \$1,760,241) to the former owner of a cemetery. The note calls for yearly payments of \$50,000 at 0% interest until the note matures in 2113. Payments of principal and interest are allowed to be deferred until the cemetery achieves positive cash flow. The note was discounted upon recognition to reflect an imputed interest rate of 5%. The note is nonrecourse and can be cancelled by either party.
- ii) The Company has outstanding notes payable of \$6,918,338 (at December 31, 2018 - \$2,944,174) to former owners of previously acquired businesses. These notes payable have interest rates ranging from 2% to 6% and remaining terms of 4 to 10 years.

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17. LEASE LIABILITIES

Lease liabilities relate to office space, machinery and equipment.

	December 31, 2019
Future minimum lease payments	
Due in less than one year	\$ 2,073,330
Due between one and two years	1,750,960
Due between two and three years	931,289
Due thereafter	2,750,802
Interest	(992,651)
Present value of minimum lease payments	6,513,730
Current portion	1,831,687
Non-current portion	\$ 4,682,043

Lease liabilities interest expense charged to operations amounted to \$338,462 and \$nil for the year ended December 31, 2019 and 2018, respectively.

18. DEFERRED REVENUE

Deferred revenue represents the amount of unperformed pre-arranged cemetery and funeral contracts. The components of deferred revenue consist of the following:

	December 31, 2019	December 31, 2018 <i>(Restated, Measurement Period Adjustment - see Note 6)</i>
Cemetery and funeral merchandise, lots, crypts, and niches	\$ 85,744,243	\$ 89,740,143
Cemetery and funeral services	64,510,600	48,874,258
Total	\$ 150,254,843	\$ 138,614,401

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19. CONTINGENT PAYMENT

MMG

Effective March 1, 2016, the Company completed the acquisition of 100% ownership interest in the common shares of Midwest Memorial Group, LLC (“MMG”). On closing, the Company paid \$22,537,598 (US\$16,657,500) for 100% of the common shares.

The Company was required to make additional payments to the extent that earnings before interest, taxes, depreciation and amortization (“EBITDA”) during calendar years 2016, 2017, and 2018 (“the Earn-out Periods”) equaled or exceeded pre-established targets. The key assumptions used in the calculation was a three year EBITDA projection which management believes the discount rate reasonably reflected the risks associated with projections for the business. There were no contingent payments made for the first, second, or third earn-out period in 2016, 2017 and 2018, and the remaining contingent payment liability was written off at December 31, 2018.

The fair value of the liability in connection with the contingent consideration was revalued at each reporting date and any changes in fair value of the estimated liability were recorded in the consolidated statements of earnings and comprehensive income. Included in the change in fair value at December 31, 2018 was a goodwill charge of \$1,266,849 offset by a gain on the adjustment of the fair value of consideration of \$1,156,139 (see Note 12).

20. DIVIDENDS

The Company declares and pays cash dividends on a monthly basis to shareholders. The total amount of dividends declared by the Company for year ended December 31, 2019 and 2018 were \$12,645,489 or \$0.456 per share and \$9,361,258 or \$0.456 per share, respectively. The monthly dividend was \$0.038 per share in all periods.

21. SHARE CAPITAL

Authorized

Common shares

The Company is authorized to issue an unlimited number of common shares. All common shares issued are fully paid. The holders of common shares are entitled to share equally in dividends, returns of capital and to vote at shareholders’ meetings.

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21. SHARE CAPITAL - continued

Shares issued and outstanding

	Number of Common Shares	Amount
Balance December 31, 2017	15,346,732	\$ 179,775,963
Shares issued pursuant to:		
Dividend reinvestment plan (i)	43,333	992,914
Prospectus financing, net of costs (ii)	7,745,250	183,188,546
Balance December 31, 2018	23,135,315	363,957,423
Shares issued pursuant to:		
Dividend reinvestment plan (i)	82,220	2,130,633
Equity incentive plan	34,052	-
Prospectus financing, net of costs (ii)	5,605,100	138,375,634
Contingent equity consideration (iii)	498,157	(2,415,860)
Balance December 31, 2019	29,354,844	\$ 502,047,830

(i) *Dividend reinvestment plan*

On October 13, 2015, the Company announced the implementation of a dividend reinvestment plan (“DRIP”). The DRIP allows eligible shareholders of PLC to reinvest their cash dividends into additional common shares of PLC, which will be issued from treasury or purchased on the open market on the applicable dividend payment date. If common shares are issued from treasury, the price at which such common shares are issued will be the volume weighted trading price of the Company’s common shares over the five business days immediately preceding such dividend payment date less a discount, if any, of up to 5%, at the Company’s election. The Company has determined to set the initial discount for purchases under the DRIP at 3%. The Company may, subject to the terms of the DRIP, alter or eliminate any discount at any time. For the year ended December 31, 2019, 82,220 common shares were issued under the DRIP (for the year ended December 31, 2018 – 43,333).

PARK LAWN CORPORATION
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21. SHARE CAPITAL – continued

(ii) Prospectus financings

On May 4, 2018, the Company completed a subscription receipts offering of 7,745,250 subscription receipts at a price of \$24.50 per subscription receipt for a total of gross proceeds of \$189,758,625, including the exercise in full of the over-allotment option. The net proceeds from the sale of common shares were used partially to fund the cash portion of the purchase price for the acquisition of Signature and for strategic growth initiatives including acquisitions and for general corporate purposes. The issuance included transaction costs of \$6,570,079 inclusive of \$338,100 after tax in management compensation.

On April 23, 2019, the Company completed a bought deal financing, issuing 5,605,100 common shares at a price of \$25.65 per common share for a total of gross proceeds of \$143,770,815, including the exercise in full of the over-allotment option. The net proceeds of this offering were used to repay approximately \$40 million of outstanding indebtedness under the Company's credit facility and for strategic growth initiatives including acquisitions and for general corporate purposes. The issuance included transaction costs of \$7,355,072 inclusive of \$496,125 after tax in management compensation. The Company recognized a deferred tax asset of \$1,939,890 from the transaction costs

(iii) Contingent equity consideration

On May 15, 2019, the Company finalized an agreement it entered into on April 1, 2019, providing for the early termination of the earnout agreements relating to the Company's 2017 acquisition of Saber Management, LLC ("Saber"). The agreement provides, among other things, for the vendor of Saber to forego future earnout entitlements in consideration for a cash payment of approximately \$600,000, deferred cash payments of approximately \$400,000, the issuance of 498,157 common shares and the issuance of 46,000 restricted share units of the Company resulting in a gain on settlement of \$179,633. The gain is included in other income (expenses) in the consolidated statements of earnings.

22. CAPITAL MANAGEMENT

The Company defines capital as the aggregate of shareholders' equity and debt. The Company's equity comprises the shares of the Company subscribed for by the shareholders. On a quarterly basis, as part of its credit agreement with respect to its long-term loan, the Company monitors both its debt service coverage ratio and its interest coverage ratio. The Company continues to meet these requirements. The Board of Directors manages the dividend policy and the pricing of products and services of the Company so as to ensure that there is adequate cash flow to fund the Company's operations and safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders.

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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23. COSTS AND OPERATING EXPENSES BY NATURE

	December 31, 2019	December 31, 2018
Personnel expenses	\$ 87,364,897	\$ 60,752,005
Cost of sales - merchandise inventories, cemetery lots, crypts and niches (Note 5)	30,929,004	21,475,091
Cost of sales - contributions to care and maintenance trust funds	7,389,042	6,274,040
Maintenance	17,040,537	12,393,172
Advertising and selling	15,762,717	6,918,814
Depreciation of property and equipment, amortization of intangibles (Notes 8 and 12)	13,459,547	5,673,857
Others	43,186,359	25,663,764
Total of costs, operating, general and administrative, maintenance, advertising and selling expenses	<u>\$ 215,132,103</u>	<u>\$ 139,150,743</u>

Personnel expenses include salaries, wages, commissions and incentive compensation.

24. INTEREST EXPENSE

	December 31, 2019	December 31, 2018
Interest on:		
Revolving loan facility	\$ 4,572,542	\$ 1,921,605
Mortgages	42,665	107,588
Other debt	452,437	211,504
Lease liabilities	338,462	-
Interest capitalized to construction	(33,941)	(5,436)
Amortization of finance fees and transaction costs	296,245	161,873
Total	<u>\$ 5,668,410</u>	<u>\$ 2,397,134</u>

25. EQUITY INCENTIVE PLAN

At the annual and special meeting of shareholders held on May 31, 2016, the shareholders of the Company approved an equity incentive plan (the “EIP”). The purpose of the EIP is to, among other things: (i) provide the Company with a mechanism to attract, retain and motivate qualified directors, officers and employees of the Company, including its subsidiaries, (ii) reward directors, officers and employees that have been granted awards under the EIP for their contributions toward the long-term goals and success of the Company, and (iii) enable and encourage such directors, officers and employees to acquire common shares of the Company as long-term investments and proprietary interests in the Company.

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25. EQUITY INCENTIVE PLAN – continued

On May 31, 2019, the shareholders of the Company approved an amended and restated omnibus EIP, consisting of DSUs, RSUs, Performance Share Units (“PSUs”), and Options to acquire common shares (“Options”). The number of common shares that may be issued upon the settlement of awards granted under the EIP shall not exceed 2,000,000 common shares of the Company.

The EIP provides flexibility to the Company to grant equity-based incentive awards in the form of DSUs, RSUs, PSUs and Options.

The Board plans to credit all DSUs and RSUs with dividend equivalents in the form of additional DSUs and RSUs, as applicable. Dividend equivalents shall vest in proportion to, and settle in the same manner as, the awards to which they relate.

All future grants of equity-based awards will be made pursuant to the EIP and no further equity-based awards will be made pursuant to the 2014 ESLP plan. The 2014 ESLP will remain in effect only in respect of outstanding equity-based awards (see Note 28).

Deferred share units

Directors are required to receive at least 50% of their annual board retainers in the form of DSUs, although they may elect to receive a greater percentage pursuant to the terms of the EIP. A DSU is a unit equivalent in value to a common share credited by means of a bookkeeping entry in the books of the Company. The number of DSUs granted is determined by the five-day volume weighted average trading price (the “Market Price”), but their value is tied to the then trading price of PLC’s common shares. Upon settlement (typically on termination of service), holders will receive, in respect of each vested DSU, one fully paid and non-assessable common share or cash. At this time, the Board plans to settle DSUs for shares. Subject to the terms of an award agreement, DSUs will vest immediately at the date of grant. DSUs will be granted to directors every three months for services rendered evenly over the next four quarters.

Under the DSU plan, the following DSUs were granted by the Company and are outstanding. Each dividend equivalent represents one common share.

	December 31, 2019	December 31, 2018
Outstanding, beginning of the year	30,450	19,984
Awarded	10,920	9,991
Redemptions	(5,091)	-
Dividend equivalents	581	475
Outstanding, end of the year	<u>36,860</u>	<u>30,450</u>

Restricted share units

A RSU is a unit equivalent in value to a common share credited by means of a bookkeeping entry in the books of the Company which entitles the holder to receive one common share for each RSU after a specified vesting period determined by the Plan Administrator (as defined in the EIP), in its sole discretion.

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25. EQUITY INCENTIVE PLAN – continued

Restricted share units – continued

RSUs vest according to the terms of the applicable award agreement. All RSUs awarded to date vest within three years of their grant date.

Upon settlement, holders will receive, in respect of each vested RSU, either: (i) one fully paid and non-assessable common share, or (ii) subject to the approval of the Plan Administrator, a cash payment determined with reference to the Market Price in the same manner as with DSUs. At this time, the Board plans to settle RSUs for shares.

Under the RSU plan, the following RSUs were granted by the Company and are outstanding. Each dividend equivalent represents one common share. 83,082 of the awarded and outstanding RSUs have vested.

	December 31, 2019	December 31, 2018
Outstanding, beginning of the year	176,337	104,165
Awarded	98,141	85,885
Forfeited	-	(16,297)
Redemptions	(31,928)	-
Dividend equivalents	3,650	2,584
Outstanding, end of the year	246,200	176,337

Performance Share Units

Under the PSU plan, the following PSUs were granted by the Company and are outstanding. Each dividend equivalent represents one common share. None of the awarded and outstanding PSUs has vested. The performance-based restricted share units listed will cliff vest on March 31, 2022. The actual number of restricted share units earned with respect to the three year performance period will be subject to a multiplier (of between 0 and 1.5 times) and based on the average “bonus score” (which itself is determined with reference to the Board-approved annual bonus score card) obtained over a three year performance period.

	December 31, 2019	December 31, 2018
Outstanding, beginning of the year	-	-
Awarded	60,112	-
Forfeited	-	-
Redemptions	-	-
Dividend equivalents	1,154	-
Outstanding, end of the year	61,266	-

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25. EQUITY INCENTIVE PLAN – continued

Options

On May 30, 2019, 1,058,000 options were granted. Trading price at the time of the grant was \$29.77. The fair market value of options was determined using the Black-Scholes valuation model with the following implicit assumptions: average risk-free rate of interest of 1.61%, dividend rate of 1.79%, volatility of 22.98%, forfeiture rate of 0% and an expected life of 4.2 years. In addition, due to non-vesting conditions the options were discounted using a Cost of Carry model, which estimated an estimated term of 10.8 years and risk-free rate of 1.77%. The options were then adjusted for non-vesting performance conditions with a weighted average expectancy of 38%.

On July 15, 2019 320,000 options were granted. Trading price at the time of the grant was \$25.39. The fair market value of options was determined using the Black-Scholes valuation model with the following implicit assumptions: average risk-free rate of interest of 1.52%, dividend rate of 1.79%, volatility of 22.45%, forfeiture rate of 0% and an expected life of 5 years. In addition, due to non-vesting conditions the options were discounted using a Cost of Carry model, which estimated an estimated term of 10.8 years and risk-free rate of 1.77%. The options were then adjusted for non-vesting performance conditions with a weighted average expectancy of 38%.

Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted	Exercised	Expired	Forfeited	Closing Balance	Vested	Unvested
May 30, 2019	June 30, 2023	\$ 25.43		1,058,000	-	-	-	1,058,000	-	1,058,000
July 15, 2019	June 30, 2023	\$ 25.39	-	320,000	-	-	-	320,000	-	320,000
			-	1,378,000	-	-	-	1,378,000	-	1,378,000
Weighted Average Exercise Price				\$ 25.42	\$ -	\$ -	\$ -	\$ 25.42	\$ -	\$ 25.42

The compensation expense in respect of EIP was \$3,611,488 in 2019 and \$1,185,661 in 2018, and the counterpart has been reflected in contributed surplus. Management plans to settle all DSUs, RSUs, PSUs and Options by issuing shares. When the DSUs, RSUs, PSUs and Options are settled for shares, the amounts previously credited to contributed surplus are transferred to share capital.

26. INTEREST AND OTHER INCOME

	2019	2018
Pre-need trust realized capital gain	\$ 4,270,633	\$ -
Finance charges	5,122,151	3,863,660
Interest income and other	882,957	644,057
	<u>\$ 10,275,741</u>	<u>\$ 4,507,717</u>

The pre-need trust realized capital gain is comprised of realized capital gain from the pre-need trust fund in the state of Michigan.

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27. OTHER INCOME (EXPENSES)

Other income (expenses) is comprised mainly of additional board and professional fees of approximately \$716,000. During the year, the board established a strategic committee to assess governance and succession planning. Also included in other income (expenses) is a gain on Saber's contract settlement of approximately \$180,000 and a net gain on the sale of properties of approximately \$116,000.

28. INCOME TAXES

Income taxes

The following are the major components of the income tax expense:

	December 31, 2019	December 31, 2018
Current tax expense	\$ 1,907,775	\$ 771,783
Deferred tax expense	880,317	1,394,099
Total	<u>\$ 2,788,092</u>	<u>\$ 2,165,882</u>

The reconciliation of the difference between the income tax expense using the statutory tax rate and the effective tax rate for the years ended December 31, 2019 and 2018 is as follows:

	December 31, 2019	December 31, 2018
Earnings before income taxes	<u>\$ 10,074,203</u>	<u>\$ 9,285,463</u>
Combined Canadian federal and provincial statutory rates	<u>26.50%</u>	<u>26.50%</u>
Income taxes based on combined Canadian statutory income tax rates	\$ 2,669,664	\$ 2,460,648
Difference in foreign tax rates	(236,999)	42,854
Tax rate changes and other adjustments	551,335	100,994
Share based compensation and other non-deductible expenses	308,051	308,392
Impact of non-taxable dividend income	(636,000)	(613,415)
Tax exempt entities	<u>132,041</u>	<u>(133,591)</u>
Income tax (recovery) expense	<u>\$ 2,788,092</u>	<u>\$ 2,165,882</u>

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28. INCOME TAXES – continued

Deferred tax assets and liabilities

	December 31, 2019	December 31, 2018
Deferred Tax Assets (Liabilities)- Canada		
Non-capital losses carried forward-Canada	\$ 3,381,292	\$ 2,238,726
Share issuance and finance costs	3,519,842	3,127,994
Other deferred tax and intangible assets	(147,514)	-
Property and equipment	(894,986)	(1,253,074)
Net deferred income tax asset	<u>\$ 5,858,634</u>	<u>\$ 4,113,646</u>
Deferred Tax Assets (Liabilities) - US		
Net operating losses carried forward	\$ 4,436,218	\$ 2,303,339
Pre-need sales adjustment	-	1,569,265
Stock Based Compensation	839,380	-
Other deferred tax assets	679,912	772,720
Accrued expenses	1,398,020	-
Deferred revenue	3,896,269	907,577
Property and equipment	(3,163,506)	(1,203,951)
Tax exempt entities	-	(361,488)
Inventories	(3,262,611)	(1,241,490)
Goodwill and intangibles	(5,655,435)	(3,074,759)
Deferred commission	(5,713,064)	(4,642,209)
Net deferred income tax asset (liability)	<u>\$ (6,544,817)</u>	<u>\$ (4,970,996)</u>

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in net deferred tax asset - Canada

	December 31, 2019	December 31, 2018
Balance at the beginning of the year	\$ 4,113,646	\$ 2,930,788
Recognized in profit/loss	(40,271)	(546,904)
Recognized in equity	1,785,259	2,257,773
Goodwill	-	(528,011)
Balance at the end of the year	<u>\$ 5,858,634</u>	<u>\$ 4,113,646</u>

Deferred tax assets have been recognized in respect of these items because it is probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

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28. INCOME TAXES – continued

Movement in net deferred tax asset (liability) - US

	December 31, 2019	December 31, 2018
Balance at the beginning of the year	\$ (4,970,996)	\$ 51,408
Recognized in profit/loss	(840,046)	(847,194)
Recognized in equity	1,329,321	(4,403,336)
Goodwill	(2,063,096)	228,126
Balance at the end of the year	<u>\$ (6,544,817)</u>	<u>\$ (4,970,996)</u>

The Company's Canadian non-capital losses expire as follows:

2026	\$ 24,093
2028	93,388
2031	27,125
2032	13,008
2033	-
2034	5,049
2036	1,773,139
2037	2,965,120
2038	2,731,499
2039	5,258,157
	<u>\$ 12,890,578</u>

29. RELATED PARTY TRANSACTIONS AND BALANCES

Employee share loan plan

At the annual and special meeting of shareholders held on June 18, 2013, the shareholders of the Company approved an employee share loan plan - the "ESLP".

Amounts issued under the ESLP were as follows:

- On October 7, 2013, the Company loaned \$1,575,000 to Nine Two Seven Limited to acquire 210,000 common shares of the Company. The loan bears interest at a rate of 3.2% per annum payable upon maturity and will mature on August 27, 2023;
- On January 7, 2015, the Company loaned \$746,200 to Nine Two Seven Limited to acquire 65,000 common shares of the Company. The loan bears interest at a rate of 3.2% per annum payable upon maturity and will mature on January 7, 2025

Subsequent to year end the two loans described above were forgiven.

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29. RELATED PARTY TRANSACTIONS AND BALANCES – continued

On January 7, 2015, under the ESLP the Company loaned \$1,258,750 to Leeder Holdings Inc. to acquire 125,000 common shares of the Company. Leeder Holding Inc. is owned by an officer and director of the Company. The loan bears interest at a rate of 3.2% per annum payable upon maturity and will mature on January 7, 2025.

Total loans outstanding under the ESLP, including accrued interest amounted to \$2,712,688 at December 31, 2019 (at December 31, 2018 - \$3,063,666). Interest income earned by the Company for the years ended December 31, 2019 and 2018 was \$92,413 and \$97,857, respectively.

At the annual and special meeting of shareholders held on May 31, 2016, the shareholders of the Company approved the EIP.

Key management compensation

Key management includes the members of the Board of Directors, the Chief Executive Officer, the President, the Chief Financial Officer and the Chief Operating Officer. The compensation paid or payable to key management is shown below:

	December 31, 2019	December 31, 2018
Directors' fees and management compensation	<u>\$ 4,084,958</u>	<u>\$ 2,401,971</u>

Directors' fees and management compensation included in share-based incentive for the years ended December 31, 2019 and 2018 were \$1,414,079 and \$249,688 respectively. Included in accounts payable and accrued liabilities are directors' fees and management compensation of \$809,890 (at December 31, 2018 - \$549,609).

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Fair value of financial instruments

Cash, accounts receivable, pre-need receivables, employee share loan, contingent payment, trade payables and accrued liabilities, dividends payable, long-term debt and notes payable are financial instruments whose fair values approximate their carrying values due to their short-term maturity, variable interest rates or current market rates for instruments with fixed rates.

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30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT – continued

Fair value of financial instruments – continued

The fair value hierarchy under which the Company's financial instruments are valued is as follows:

- Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 includes inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly or indirectly;
- Level 3 includes inputs for the assets or liability that are not based on observable market data.

As at December 31, 2019, the fair value of the secured debt investment in Humphrey's (see Note 13) is valued under Level 3.

As at December 31, 2019, the care and maintenance and pre-need merchandise and service trust funds and related liabilities are carried at fair value under Level 1, Level 2, Level 3 and amortized cost.

The trust assets are valued as follows:

Care and maintenance trust fund investments at December 31, 2019						
		Level 1	Level 2	Level 3	Amortized	
		Quoted market	Valuation	Valuation	cost	
	Cost	price	technique -	technique - non-		Total fair value
			observable	observable		
			market inputs	market inputs		
Cash and cash equivalents	\$ 10,302,565	\$ 10,306,689	\$ -	\$ -	\$ -	\$ 10,306,689
Equities	89,206,429	99,989,034	-	-	-	99,989,034
Fixed income	79,843,248	59,520,055	-	9,753,663	12,534,171	81,807,889
Alternative investments	21,077,471	-	-	22,378,232	-	22,378,232
Preferred stocks	9,962,062	10,013,142	-	-	-	10,013,142
	<u>\$ 210,391,775</u>	<u>\$ 179,828,920</u>	<u>\$ -</u>	<u>\$ 32,131,895</u>	<u>\$ 12,534,171</u>	<u>\$ 224,494,986</u>
Care and maintenance trust fund investments at December 31, 2018						
		Level 1	Level 2	Level 3	Amortized	
		Quoted market	Valuation	Valuation	cost	
	Cost	price	technique -	technique - non-		Total fair value
			observable	observable		
			market inputs	market inputs		
Cash and cash equivalents	\$ 8,347,173	\$ 8,378,916	\$ -	\$ -	\$ -	\$ 8,378,916
Equities	87,964,536	88,941,462	-	233,049	-	89,174,511
Fixed income	71,426,289	54,624,386	-	9,956,992	5,391,003	69,972,381
Alternative investments	16,143,442	-	-	16,772,362	-	16,772,362
Preferred stocks	12,288,336	11,629,086	-	-	-	11,629,086
	<u>\$ 196,169,776</u>	<u>\$ 163,573,850</u>	<u>\$ -</u>	<u>\$ 26,962,403</u>	<u>\$ 5,391,003</u>	<u>\$ 195,927,256</u>

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30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT – continued

Fair value of financial instruments – continued

Certain fixed income investments that were previously presented as fixed income Level 2 in the amount of \$43,062,095 have been reclassified to alternative investments Level 3 for \$2,728,400, fixed income Level 1 for \$37,951,911 and fixed income at amortized cost for \$2,381,784, based on their classification.

Pre-need merchandise and service trust fund investments at December 31, 2019

		Level 1	Level 2	Level 3	Amortized	
		Quoted market	Valuation	Valuation	cost	
	Cost	price	technique -	technique - non-		Total fair value
			observable	observable		
			market inputs	market inputs		
Cash and cash equivalents	\$ 28,658,480	\$ 28,692,429	\$ -	\$ -	\$ -	\$ 28,692,429
GIC's	29,753,510	29,753,510	-	-	-	29,753,510
Equities	68,352,424	80,151,449	-	-	-	80,151,449
Fixed income	77,875,056	72,981,235	-	5,173,567	1,074,346	79,229,148
Alternative investments	34,798,443	-	-	36,954,092	-	36,954,092
Preferred stocks	2,376,524	2,369,757	-	-	-	2,369,757
	<u>\$ 241,814,437</u>	<u>\$ 213,948,380</u>	<u>\$ -</u>	<u>\$ 42,127,659</u>	<u>\$ 1,074,346</u>	<u>\$ 257,150,385</u>

Pre-need merchandise and service trust fund investments at December 31, 2018

		Level 1	Level 2	Level 3	Amortized	
		Quoted market	Valuation	Valuation	cost	
	Cost	price	technique -	technique - non-		Total fair value
			observable	observable		
			market inputs	market inputs		
Cash and cash equivalents	\$ 12,498,274	\$ 12,509,568	\$ -	\$ -	\$ -	\$ 12,509,568
GIC's	31,783,609	31,783,609	-	-	-	31,783,609
Equities	46,317,623	47,915,566	-	-	-	47,915,566
Fixed income	49,856,323	42,195,714	-	5,434,078	1,585,443	49,215,235
Alternative investments	16,173,334	-	-	16,173,334	-	16,173,334
Preferred stocks	-	-	-	-	-	-
	<u>\$ 156,629,163</u>	<u>\$ 134,404,457</u>	<u>\$ -</u>	<u>\$ 21,607,412</u>	<u>\$ 1,585,443</u>	<u>\$ 157,597,312</u>

Certain fixed income investments that were previously presented as fixed income Level 2 in the amount of \$9,988,337 have been reclassified to fixed income Level 1 for \$2,968,816 and fixed income at amortized cost of \$7,019,521, based on their classification.

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30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT – continued

Fair value of financial instruments – continued

(i) Credit risk

The Company's exposure to credit risk relates to its accounts receivable, pre-need receivables, other assets and the ESLP. The Company grants credit to customers in the normal course of business. The credit risk associated with cemetery and pre-need cemetery receivables due from customers is generally considered minimal, because of the diversification of our customer base, burials are not performed until customer balances are paid in full, and bad debts have not been significant relative to the volume of business. Collections from customers on pre-need funeral or cemetery contracts that are either placed in regulated trusts or used to pay life insurance contracts do not subject the Company to collection risk as the revenue on such contracts has not been recognized.

In the opinion of management, none of the amounts comprising accounts receivable, pre-need receivables, other assets and ESLP were considered impaired, except as provided for as bad debt expenses. The Company provides an allowance for losses based on a review of the current aging of receivables, historical experience, current and future and short-term business conditions, and management judgement. As at December 31, 2019, the allowance for doubtful accounts was \$696,355 (at December 31, 2018 - \$642,853). The Company's exposure to credit risk on the ESLP is minimized as the Company's shares including rights to dividends payable on such shares, are pledged as security on the loans.

(ii) Investment risk

The Company retains independent trustees to manage the funds deposited into the cemetery perpetual care trust and the cemetery and funeral pre-need trusts. The trustees together with input from the Company develop an Investment Policy Statement that governs the management of the funds including compliance with any legislative requirements of provincial or state regulators, the asset allocation of each fund, and the selection of investment managers. The assets of the pre-need merchandise and service trust funds and perpetual care trust funds are invested according to the Company's investment policy statement by independent investment managers.

The Investment Committee of the Board of Directors of the Company regularly reviews both compliance and performance of the individual investments. The Company does not consider there to be a significant credit risk for its investments based on investment grade ratings and performance criteria used in selecting investments.

(iii) Liquidity risk

The Company is exposed to liquidity risk to the extent that it must meet its financial obligations when due. The Company's approach to managing liquidity risk is to ensure that it always has sufficient cash and other current financial assets to meet its obligations when due without incurring unacceptable losses or damage to the Company's reputation. Management forecasts cash flows to identify financing requirements. These requirements are then addressed through a combination of cash management and access to additional capital.

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT – continued

Fair value of financial instruments – continued

Management is of the view, based on historical cash flow, that there is sufficient current and future cash flow from its operating activities to sustain ongoing operations (including mausoleum construction) as well as maintaining the Company's property and equipment. Should contractual commitments require payment, management believes that its current sources of liquidity are sufficient to cover these obligations.

(iv) Market risk

Pre-need merchandise and service trust funds

The principal objective of the pre-need cemetery and funeral trusts are to preserve the original principal balance invested in the trust and to achieve growth in the principal over time to preserve and increase the purchasing power of the assets. Since pre-need contracts generally take several years to turn at-need, the funds deposited into the pre-need trusts are invested through several investment cycles. The pre-need trust funds are weighted more heavily to GICs and other fixed income assets such as government and corporate bonds.

Perpetual Care trust funds

The cemetery perpetual care trust funds, in accordance with provincial and state regulations, emphasize yield orientated investments that prioritize current investment income with some capital appreciation over time in order to provide for the care and maintenance of the cemetery properties. In most jurisdictions, only investment income received, and not capital gains, may be applied to pay the cost of eligible care and maintenance expenses. If income from this Trust should exceed eligible care and maintenance expenses, the excess must be added to the capital of the Trust and would not be eligible for pay out to the Company in the future.

In order to achieve current investment income and some longer-term capital growth, the Cemetery perpetual care fund portfolio is weighted more heavily to equity investments. The portfolio is highly diversified and managed by professional fund managers specialized in this asset class with a long-term view on acceptable risk tolerance.

(v) Foreign exchange risk

The consolidated financial statements are presented in Canadian dollars, which is also the parent company's consolidated functional currency. Each entity within the consolidated group determines its own functional currency.

The Company does have exposure to the U.S. dollar with respect to amounts repatriated to Canada to fund its interest and principal repayments on its credit facility and to fund its dividend payments. The Company regularly reviews its currency hedging strategy and makes its decision based on market conditions. As at December 31, 2019 the Company did not have any foreign currency hedges in place.

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT – continued

Fair value of financial instruments – continued

(vi) Interest rate risk

Interest rate risk on trust investments

In the opinion of management, the Company has an acceptable level of interest rate risk with respect to the trust fund investments as the majority of the investments bearing interest are invested in fixed rate securities with varying maturities and an average period to maturity of 5 years or less. There has been no change in the Company's risk exposure and processes for risk management and measurement from 2018. The Company believes that a 1% increase or decrease in the variable market interest rate would not affect Company earnings from pre-need merchandise and service trusts or the perpetual care trust funds.

Interest rate on revolving loan facility

The Company has a revolving loan facility, that bears interest at the bankers' acceptance rate plus 1.70%. Based on the loan balances at December 31, 2019, a 1% increase or decrease in the variable market interest rate would have an impact of approximately \$1,740,000. The Company has the ability to convert the loan facility to a fixed term.

31. COMMITMENTS AND CONTINGENCIES

Litigation

From time to time the Company is subject to legal proceedings and claims arising in the ordinary course of business. Some of the more frequent ordinary routine litigations incidental to our business are based on burial practices claims and employment related matters. Management is of the opinion based upon information presently available, that it is unlikely that any such liability, to the extent not provided for by insurance or otherwise, would have a material adverse effect in relation to the Company's consolidated financial position, liquidity or results of operations.

Construction

The Company has five construction commitments totaling \$22.8 million for the construction of a funeral visitation and reception centre, care centre, funeral home, mausoleum and cemetery development

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32. SEGMENTED INFORMATION

IFRS 8 - "Operating Segments" defines an operating segment as a component of an entity that engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance; and for which discrete financial information is available.

The Company has two operating segments, one which provides goods and services associated with the disposition and memorialization of remains in Canada and the other which provides the same goods and services in the United States. The Company's operating segments are consistent with its geographic segments, and therefore the required disclosures are made below.

Geographic information

For the Company's geographically segmented non-current assets the Company has allocated based on the location of assets, as follows:

	December 31, 2019	December 31, 2018
Canada	\$ 205,799,226	\$ 193,440,060
United States	1,085,202,227	758,646,561
Total	<u>\$ 1,291,001,453</u>	<u>\$ 952,086,621</u>

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32. SEGMENTED INFORMATION – continued

Geographic information – continued

For the Company's geographically segmented revenue, the Company has allocated revenue based on the location of the customer, as follows:

	December 31, 2019	December 31, 2018
Revenue:		
Sales:		
Canada	\$ 35,560,443	\$ 38,270,886
United States	187,595,369	109,872,533
Total sales	<u>223,155,812</u>	<u>148,143,419</u>
Income from care and maintenance funds:		
Canada	5,029,639	4,332,957
United States	5,797,940	4,436,926
Total income from care and maintenance funds	<u>10,827,579</u>	<u>8,769,883</u>
Interest and other income:		
Canada	883,285	609,983
United States	9,392,456	3,897,734
Total interest and other income	<u>10,275,741</u>	<u>4,507,717</u>
Total revenue:		
Canada	41,473,367	43,213,826
United States	202,785,765	118,207,193
Total Revenue	<u><u>\$ 244,259,132</u></u>	<u><u>\$ 161,421,019</u></u>

33. SUBSEQUENT EVENTS

On January 31, 2020 the Company completed the previously announced acquisition of all the outstanding stock and membership interests of Family Legacy, LLC ("Family Legacy") for a purchase price of approximately \$40.8 million (US\$30.8 million), a business with 12 locations operating in Nashville, Tennessee, as well as all of the outstanding membership interests in WG-TN and HHMG a large combination business located in Nashville, Tennessee. The above acquisition expands PLC's U.S. operations into the high-growth middle Tennessee metropolitan market by adding four combination funeral home and cemetery properties, seven stand-alone funeral homes and two stand-alone cemeteries. The acquisition of Family Legacy and Harpeth Hills is in line with PLC's communicated growth strategy. The transaction was funded with proceeds from PLC's existing credit facility.

The initial accounting for these business acquisitions was not complete at the time that these consolidated financial statements were approved by the Board of Directors. As such, certain disclosures required under IFRS 3 in respect of the above acquisitions cannot yet be made.

On March 12, 2020 the Coronavirus or COVID-19, was declared a pandemic by the World Health Organization. This has resulted in significant economic uncertainty and consequently, it is difficult to reliably measure the potential impact of this on the Company's future business and financial results.

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the December 31, 2018 consolidated financial statements presentation including:

- i) Reclassification of \$617,166 for the twelve month period ended December 31, 2018 in costs to maintenance expenses to better reflect the nature of the labour costs. Direct labour costs for performing cemetery services are included in costs.



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ending December 31, 2019

The following Management's Discussion and Analysis ("**MD&A**") provides a review of corporate and market developments, results of operations and financial position of Park Lawn Corporation ("**PLC**" or the "**Company**") for the year ended December 31, 2019. This discussion should be read in conjunction with the consolidated financial statements for the year ended December 31, 2019 and the accompanying notes contained therein. Information contained in this MD&A is based on information available to management as of March 30, 2020.

Forward-Looking Information

All information other than statements of current and historical fact contained in this MD&A is forward-looking information. In certain cases, forward-looking information can be identified by the use of words such as "plans", "expects", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will", "occur" or "be achieved" and similar words or the negative thereof. The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement.

Forward-looking information in this MD&A includes, but is not limited to, statements regarding the impact of COVID-19 on the business, the growth targets that PLC aspires to achieve by the end of 2022, future earnings generated by recent acquisitions completed by the Company, expected synergies, the Company's business generally, future development and construction, future financial position and business strategy, the deathcare industry, potential acquisitions, potential business partnering, litigation, the ability of the Company to procure additional sales from new and existing customers, and the Company's plans and objectives. By their nature, forward-looking information is inherently uncertain, is subject to risk and is based on numerous assumptions, including those set out under the heading "Outlook" in PLC's management's discussion and analysis for the second quarter of 2018 (filed on SEDAR on August 14, 2018), that recent acquisitions perform as expected, PLC will be able to implement business improvements and achieve cost savings, PLC will be able to retain key personnel, there will be no unexpected expenses occurring as a result of the acquisitions, multiples remain at or below levels paid by PLC for previously announced acquisitions, the CAD to USD exchange rate remains consistent, the acquisition and financing markets remain accessible, capital can be obtained at reasonable costs and PLC's current business lines operate and obtain synergies as expected, as well as those regarding present and future business strategies, the environment in which the Company will operate in the future, expected revenues, expansion plans and the Company's ability to achieve its goals. Although management of the Company believes that the expectations represented in such forward-looking information are reasonable, there can be no assurance that such expectations will prove to be correct.

The future outcomes that relate to forward-looking information may be influenced by many factors that could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking information, including, but not limited to, the risks associated with the current COVID-19 pandemic and the other risk factors described under the heading “Risk Factors” in the Company’s most recent Annual Information Form. The Company cautions that such list of factors is not exhaustive, and when relying on forward-looking information to make decisions with respect to the Company, readers should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking information.

There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. Forward-looking information is provided as of the date of this MD&A or such other date specified herein, and the Company assumes no obligation to update or revise such forward-looking information to reflect new events or circumstances except as required under applicable securities laws.

Financial Statements and Accounting Policies

The Company prepares its financial statements in Canadian dollars in accordance with International Financial Reporting Standards (“**IFRS**”) applicable to the preparation of consolidated financial statements. The Company’s significant accounting policies are summarized in Note 2 to its consolidated annual financial statements for the year ended December 31, 2019. PLC’s consolidated financial statements for the year ended December 31, 2019, are based on the accounting policies consistent with those disclosed in Note 2 to its consolidated annual financial statements for the year ended December 31, 2019.

The preparation of the consolidated financial statements requires management to make certain estimates, judgements and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported expenses during the period. Actual results could differ from these estimates. Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets, liabilities, and equity in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Goodwill valuation

The Company determined its cash generating units (“**CGUs**”) for the purpose of goodwill impairment testing as at December 31, 2019. These CGUs consisted of Northeast, Southeast, Central, Midwest, Southwest, West and Other. The Company’s impairment tests for goodwill and intangible assets are based on the greater of value in use calculations that use a discounted cash flow model and estimated fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU, using an appropriate valuation model. These calculations are corroborated by calculation multiples or other available fair value indicators. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Using a five year (and related terminal value) discounted cash flow model, the Company

determines the recoverable amount by calculating the value in use. The model used average annual growth rates of 2%, terminal growth rates of 2% and post-tax discount rates between 6.2% and 8.6%. The Company has determined that the discount rates reasonably reflect the risks associated with the cash flow projections for the CGUs. The Company allocates the carrying value of goodwill and intangibles acquired from acquisitions to CGUs and uses estimates to test for any potential impairment. The Company's impairment tests for goodwill and intangible assets are based on the greater of value in use calculations that use a discounted cash flow model over a five-year period and estimated fair value less cost to sell. An increase of 100 basis points in the pre-tax discount rate would not result in an impairment charge.

Business combinations

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgement and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In certain circumstances where estimates have been made, the Company may obtain third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of certain purchase prices and accounting adjustments.

Allowances

The cancellation allowance and allowance for expected credit losses is a significant judgement that is based on managements' best estimates. These allowances are based on the analysis of historical trends, future expectations and include, where applicable, collection and cancellation activity.

Share-Based Compensation

In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options granted, probability of achieving performance conditions, the expected life of the option, the volatility of the Company's stock price and the risk-free interest rate are used.

Income tax expense

In calculating income tax expense, the Company makes significant judgements in interpreting tax rules and regulations. Judgements are made to evaluate whether or not we can recover a deferred tax asset based on our assessment of existing tax laws, estimates of future profitability, and tax planning strategies.

Consolidation

The Company's consolidated annual financial statements for the year ended December 31, 2019 include the accounts of the Company and its subsidiaries. All significant accounts and transactions between consolidated entities are eliminated. Should there be a party with a minority interest in a property that the Company controls, that minority interest is reflected as "non-controlling interest" in the consolidated annual financial statements.

Description of Non-IFRS Measures

Management uses both IFRS and Non-IFRS Measures to monitor and assess the Company's operating performance. Non-IFRS Measures exclude the impact of certain expenses and income that have been recognized under IFRS when analyzing operating performance. Management believes that the excluded items are not reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. As such, management believes that Non-IFRS measures may be useful to investors and other third parties because they allow for greater transparency with respect to key metrics used by the Company in its financial and operational decision making. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

These Non-IFRS measures are intended to provide additional information and should not be considered in isolation nor as a substitute for measures of performance prepared in accordance with IFRS. In this MD&A, management uses the following measures, which are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are unlikely to be comparable to similar measures presented by other organizations:

- Adjusted Net Earnings - the Company uses Adjusted Net Earnings to assist in evaluating its operating performance. The Company believes that this Non-IFRS measure provides meaningful supplemental information to investors and other third parties regarding operating results because it excludes certain income or expense items which do not relate to operating activities of the Company's underlying business and which may not be indicative of the Company's future financial results.

The adjustments may include, but are not limited to, the after-tax impact of acquisition and integration costs, share based compensation, amortization of intangibles and other gains or losses.

Please see the "Overall Performance, Twelve and Three Months Ended December 31, 2019 - Adjusted Net Earnings" below for a reconciliation of the Company's Net Earnings to Adjusted Net Earnings.

- EBITDA - the Company defines EBITDA as earnings from operations before interest expense, taxes, depreciation and amortization (including amortization of tangibles and intangibles and amortization of cemetery property). The Company believes EBITDA to be an important measure that allows investors and other third parties to assess the operating performance of its ongoing business and to compare its results to the results of its competitors.

The Company's cemetery property inventory is acquired or constructed over many years, if not decades, in advance of its sale. The cash associated with this investing activity is a cash outflow in the

period in which the inventory is acquired or constructed. As sales occur, the Company draws down its inventory by making a non-cash charge to cost of goods sold.

- Adjusted EBITDA - Adjusted EBITDA adjusts EBITDA for the non-recurring, one-time or non-cash income or expense items identified in the Adjusted Net Earnings defined above. The Company believes that the inclusion of Adjusted EBITDA also provides useful supplementary information to investors and other third parties and assists in evaluating the Company's performance and trends.

Please see the "Quarterly Information" below for a reconciliation of the Company's earnings from operations to Adjusted EBITDA.

- Adjusted Cash Flow - the Company evaluates, among other things, the sustainability of its dividend on a regular basis using an Adjusted Cash Flow metric. Adjusted Cash Flow is defined as the Company's controlling interest in the following: earnings before income taxes, depreciation and amortization (including amortization of tangibles and intangibles and amortization of cemetery property), less cash income taxes payable, and adjusted for other non-cash income or expense items.

Please see the "Discussion of Operating Results, Twelve and Three Months Ended December 31, 2019 - Adjusted Cash Flow" below for a reconciliation of the Company's earnings from operations to Adjusted Cash Flow.

Overview

PLC is an Ontario corporation listed on the Toronto Stock Exchange (the "TSX") under the stock symbol of "PLC". PLC is the only Canadian publicly listed cemetery, funeral and cremation company.

The Company is one of the largest providers of deathcare products and services in North America. The Company sells its products and services both at the time of need (at-need) and on a pre-arranged basis (pre-need). PLC operates in five Canadian provinces and 15 U.S. states. The Company and its subsidiaries operate 114 cemeteries, 109 funeral homes (including 21 on-sites, where a funeral home is located on a cemetery) and 39 crematoria businesses, each of which service different areas and provide a different combination of product and services. The primary products and services are: cemetery lots, crypts, niches, monuments, caskets, urns and other merchandise, funeral services and after life celebration services.

The Company's growth strategy includes organic initiatives and future acquisitions. Organic initiatives include the build-out of inventory at existing cemetery properties, remodeling of existing funeral homes, construction of new stand-alone funeral homes and construction of new on-site funeral homes referred to as combination properties. The deathcare industry continues to be a highly-fragmented market and the Company plans to continue its acquisition growth strategy where opportunities are attractive and can be integrated with our existing operations or provide an entry to new markets.

In North America, we are all adjusting and adapting to daily changes as a result of the COVID-19 pandemic. Although the impact to PLC's day-to-day business operations to-date has not been material, this could change quickly. The outbreak of contagious illness such as this can impact our business operations in the short term including our staff and the families we serve, our pre-need funeral and cemetery sales performance, local

precautionary legislation may impact our at-need services by restricting the size and number of funeral services, and the economic impact of the pandemic may impact the income we receive from our trust funds. Although in most jurisdictions funeral homes and cemeteries are classified as essential services and we plan to remain open to serve our families at their time of need, the COVID 19 outbreak will be different in each city, state and province we operate in and we may need to temporarily reduce staffing or close certain of our facilities. The pandemic could lead to interruptions in our supply chain and temporary closures of our supplier facilities.

Given the high level of uncertainty surrounding COVID-19 impacts, the Company is in the process of making many proactive changes and contingency plans relating to the current environment and will continue to work to address COVID-19 challenges as they evolve, so as to minimize the risk and impact to our employees, all families we serve and all stakeholders. Given the uncertain impacts of COVID-19, capital expenditure programs are on hold unless they are deemed necessary. Programs on hold include the recently announced construction of an on-site funeral visitation and reception centre at the Westminster Cemetery. We will evaluate our acquisition pipeline and we may defer certain of these opportunities as our immediate focus is on preserving financial flexibility. In the near term, we will focus on operating and integrating our existing business operations.

Selected Consolidated Financial Information

The table below summarizes the operating results including Adjusted Net Earnings and Adjusted EBITDA for the years ended December 31, 2019, December 31, 2018 and December 31, 2017:

For the Year Ended December 31,	2019	2018	2017
Total revenue	\$ 244,259,132	\$ 161,421,019	\$ 87,289,797
Earnings from operations	\$ 23,458,619	\$ 19,873,142	\$ 9,311,528
Net earnings, PLC shareholders	\$ 6,906,841	\$ 6,722,456	\$ 4,196,814
Adjusted Net Earnings, PLC shareholders	\$ 22,359,678	\$ 16,141,464	\$ 8,597,161
Adjusted EBITDA, PLC shareholders (see Quarterly Information)	\$ 53,254,746	\$ 34,702,126	\$ 16,630,310
Per share amounts attributable to PLC shareholders			
Net earnings - basic	\$ 0.246	\$ 0.326	\$ 0.315
Net earnings - diluted	\$ 0.246	\$ 0.325	\$ 0.314
Adjusted Net Earnings - diluted	\$ 0.795	\$ 0.781	\$ 0.643
Adjusted EBITDA - diluted (see Quarterly Information)	\$ 1.894	\$ 1.680	\$ 1.245
Weighted average shares outstanding - diluted	28,121,174	20,655,472	13,362,840
Dividends paid to shareholders	\$ 12,645,489	\$ 9,361,258	\$ 6,189,817
Cash	\$ 21,255,330	\$ 14,149,092	\$ 12,736,498
Total assets	\$ 1,374,520,857	\$ 1,015,006,888	\$ 459,081,252
Total non-current liabilities	\$ 823,960,676	\$ 592,433,552	\$ 264,884,249
Total debt	\$ 189,091,442	\$ 96,049,017	\$ 4,395,808

Adjusted Net Earnings and Adjusted EBITDA are non-IFRS measures. See "Description of Non-IFRS Measures".

Revenue increased significantly over the period from 2017 through to 2019. The increase in 2019 is attributable to acquisitions which occurred in that year and a higher volume of cemetery operations in the U.S. Adjusted Net Earnings and Adjusted EBITDA also increased over this period.

The Company's consolidated assets have increased from \$459,081,252 as at December 31, 2017 to \$1,015,006,888 and \$1,374,520,857 as at December 31, 2018 and 2019, respectively. As at December 31, 2019 the Company had long-term debt of \$182,577,712. Approximately \$173.7 million of this debt relates to the revolving credit facility, and the remaining balance is for notes payables to former cemetery property owners, vendor take-back financing, non-compete agreements and vehicle and equipment loans. The Company also had unrestricted cash totalling \$21,255,330.

The weighted average shares outstanding over this period increased largely because of equity financings completed in each year. The most recent equity financing closed in April 2019 resulting in an additional 5,605,100 common shares being issued, bringing the total number of issued and outstanding common shares

to 29,354,844 as at December 31, 2019. The fully diluted weighted average shares outstanding increased to 28,121,174 for fiscal 2019 and 29,776,547 for the three month period ending December 31, 2019.

In 2019 the Company invested approximately \$193.83 million (including \$12.9 million of acquisition and integration costs) on strategic acquisitions, compared to \$275.6 million (including \$10.4 acquisition and integration costs) described in more detail in the notes to the financial statements and later in this report.

Overall Performance

During 2019 and 2018 the Company completed several acquisitions in Canada and in the United States, the more significant of these being the acquisition of Journey Group Texas One, LLC and Journey Group Texas Two, LLC ("**Journey Group**") in November 2019, Horan & McConaty Funeral Services, Inc. ("**Horan**") in July 2019, The Baue Funeral Home Co. ("**Baue**") in June 2019 and Cress Funeral Service, Inc. ("**Cress**") in April 2019, the acquisition of Citadel Management LLC ("**Citadel**") in November 2018, the acquisition of Signature Funeral and Cemetery Investments, LLC ("**Signature**") in May 2018, and the acquisition of CMS Mid-Atlantic Inc. ("**CMS**") in March 2018. Over the period from January 1, 2017 to December 31, 2019 the Company significantly increased its operational footprint and expanded and diversified its geographic footprint to include the states of Colorado, Illinois, Kansas, Kentucky, Mississippi, Missouri, New Jersey, New Mexico, New York, North Carolina, South Carolina, Texas, Wisconsin and the province of British Columbia. The Company also added to the existing operations in Ontario, Manitoba and Saskatchewan.

In addition to the cemetery and funeral operations acquired over this period, the Company also added experienced management teams and established a head office for its U.S. operations in Houston, Texas. PLC's management team in Houston has begun to integrate the acquired businesses by establishing regional business units to share resources more effectively, achieve best in practice sales strategies across the business units, modernize information systems, centralize human resource, risk management, legal, finance, procurement and other support functions in order to realize cost savings and other synergies going forward.

The Company has invested in growing the U.S. based head office in Houston since making the Signature acquisition in 2018. This investment in people and corporate infrastructure will allow the Company to support the business as it moves towards its previously disclosed aspirational growth target of \$100 million in proforma Adjusted EBITDA by the end of 2022. While this investment has resulted in a short term drag on earnings, Adjusted EBITDA and Adjusted EBITDA margins, management remains confident that these investments will assist in bringing efficiencies from reduced costs at the divisional level in 2020 and beyond, and makes the business more scalable.

As a result of the above noted acquisitions, the Company achieved improvement in its operating results for the twelve and three month periods ended December 31, 2019 compared to 2018. Revenue increased year over year by 51.3% to \$244,259,132 from \$161,421,019 in 2018 and revenue for the quarter ended December 31, 2019 increased by 36.2% to \$68,956,490 compared to \$50,625,376. After adjusting for the impact of foreign exchange, revenue growth from comparable business units year over year was 2.9% and growth for the quarter was 1.3%.

Net earnings attributable to PLC shareholders for the year ended December 31, 2019 were \$6,906,841 compared to \$6,722,456 for the same period in 2018. For the three-month period ended December 31, 2019 net earnings attributable to PLC shareholders were \$543,706 compared to \$2,212,557 for the same period in

2018. On a fully diluted per share basis, the net earnings attributable to PLC shareholders were \$0.246 and \$0.018 for the twelve and three-month period ended December 31, 2019, respectively, compared to \$0.325 and \$0.095 for the same periods in 2018.

Adjusted Net Earnings and Adjusted EBITDA

The 2019 and the 2018 net earnings as stated have been significantly impacted by certain one-time, non-recurring or non-cash revenue and expense items that management believes should be highlighted to better explain the Company's operating performance for the periods under review on an adjusted basis. The table below summarizes the calculation of Adjusted Net Earnings and Adjusted EBITDA for the three and twelve month periods ended December 31, 2019 and 2018:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2019	2018	2019	2018
Net earnings, PLC shareholders	\$ 543,706	\$ 2,212,557	\$ 6,906,841	\$ 6,722,456
Adjusted for the impact of:				
Acquisition and integration costs	3,314,960	2,588,144	12,964,150	10,384,125
Share based compensation	934,197	589,679	3,611,488	1,185,661
Amortization of intangible assets	880,132	119,880	2,811,894	311,074
Other (income) expenses	351,362	26,963	420,266	203,554
Tax effect on the above items	(1,247,517)	(531,347)	(4,354,961)	(2,665,406)
Adjusted Net Earnings, PLC shareholders	<u>\$ 4,776,840</u>	<u>\$ 5,005,876</u>	<u>\$ 22,359,678</u>	<u>\$ 16,141,464</u>
Adjusted EBITDA, PLC shareholders (see Quarterly Information)	<u>\$ 13,397,500</u>	<u>\$ 11,280,499</u>	<u>\$ 53,254,746</u>	<u>\$ 34,702,126</u>
Per share amounts attributable to PLC shareholders				
Adjusted Net Earnings - diluted	<u>\$ 0.160</u>	<u>\$ 0.214</u>	<u>\$ 0.795</u>	<u>\$ 0.781</u>
Adjusted EBITDA - diluted (see Quarterly Information)	<u>\$ 0.450</u>	<u>\$ 0.482</u>	<u>\$ 1.894</u>	<u>\$ 1.680</u>
Weighted average shares outstanding - diluted	<u>29,776,547</u>	<u>23,399,076</u>	<u>28,121,174</u>	<u>20,655,472</u>

Adjusted Net Earnings and Adjusted EBITDA are non-IFRS measures. See "Description of Non-IFRS Measures"

A description of the items included in the above table follows:

- Acquisition and integration costs - the Company has stated that part of its growth plan includes growth through acquisitions. In order to implement this growth initiative, the Company will incur ongoing expenses for acquisition and integration costs. IFRS requires that such costs be expensed in the period incurred rather than capitalized to the cost of the acquisition. Accordingly, net earnings will be negatively impacted for expenses incurred in connection with these growth initiatives as management executes on its growth strategy. Commensurate with the size and number of transactions in the last

two years, the acquisition and integration expenses incurred by the Company have increased over the period from January 1, 2018 to December 31, 2019.

During the year ended December 31, 2019 and 2018, the Company incurred acquisition and integration related expenses of \$12,964,150 and \$10,384,125 respectively. During the three month period ended December 31, 2019 and 2018, the Company incurred acquisition and integration related expenses of \$3,314,960 and \$2,588,144, respectively, which relate to recent acquisitions and other acquisition and integration activity. As previously discussed, the Company invested approximately \$193.83 million (including \$12.9 million of acquisition and integration costs) on strategic acquisitions, compared to \$275.6 million (including \$10.4 acquisition and integration costs), to acquire new business.

- Share based compensation - on May 31, 2019, the shareholders of the Company approved an amended and restated omnibus equity incentive plan (the “**EIP**”), consisting of Deferred Share Units (“**DSUs**”), Restricted Share Units (“**RSUs**”), Performance Share Units (“**PSUs**”), and Options to acquire common shares (“**Options**”). The number of common shares that may be issued by the Company upon the settlement of awards granted under the EIP shall not exceed 2,000,000. The Company has issued 1,378,000 Options to senior management that vest only upon the Company achieving certain performance metrics (the “**Performance Options**”). The Performance Options are governed by the terms of the EIP, except as modified by the terms of the individual award agreements, as described in further detail in the management information circular of the Company dated April 23, 2019. The Company recognized \$3,611,488 in non-cash share-based compensation expense during the year ended December 31, 2019 compared to \$1,185,661 in 2018, and \$934,197 during the three month period ended December 31, 2019 compared to \$589,679 for the same period in 2018. Share based incentive compensation expense will vary based on vesting conditions and the timing of when awards are issued. Since the unit obligations are expected to be settled in common shares at some date in the future, the share-based compensation expenses are not deductible for tax purposes.
- Amortization of intangible assets – represents the amount of amortization of intangible assets acquired as a result of business combinations. The Company recognized \$2,811,894 in amortization expense of intangible assets during the year ended December 31, 2019 compared to \$311,074 for the same period in 2018, and \$880,132 during the three-month period ended December 31, 2019 compared to \$119,880 for the same period in 2018. The increase in intangible assets relates primarily to non-compete agreements on recent transactions. The non-compete agreements protect the Company against competition from former owners however the amortization is a short term drag on earnings.
- Other (income) expense – comprised of additional board and professional fees of approximately \$716,000, a gain on the contract settlement related to PLC Saber Ltd. of approximately \$180,000 and a net gain on the sale of properties of approximately \$116,000 for the year ended December 31, 2019.
- Income tax – represents an adjustment for the tax impact of the above noted adjustments where such items are taxable in nature.

After reflecting the impact of the above items, Adjusted Net Earnings attributable to PLC shareholders for the year ended December 31, 2019 was \$22,359,678 or \$0.795 per share compared to \$16,141,464 or \$0.781 per share for the same period in 2018 and for the three month period ended December 31, 2019 were \$4,776,840

or \$0.160 per share compared to \$5,005,876 or \$0.214 per share for the same period in 2018. This represents an increase of 38.5% in the Adjusted Net Earnings and 1.8% in the Adjusted Net Earnings per share year over year and a decrease of 4.6% in the Adjusted Net Earnings and a decrease of 25.2% in the Adjusted Net Earnings per share for the quarter.

Adjusted EBITDA attributable to PLC shareholders for the year ended December 31, 2019 was \$53,254,746 or \$1.894 per share compared to \$34,702,126 or \$1.680 per share in 2018 and for the three month period ended December 31, 2019 was \$13,397,500 or \$0.450 per share compared to \$11,280,499 or \$0.482 per share for the same period in 2018. This represents an increase of 53.5% in the Adjusted EBITDA and 12.7% in the Adjusted EBITDA per share year over year and an increase of 18.8% in the Adjusted EBITDA and a decrease of 6.6% in the Adjusted EBITDA per share for the quarter.

The businesses acquired prior to January 1, 2019 performed well in 2019, making a significant contribution to the growth in revenue and Adjusted EBITDA in the current year. The strongest performance came from the cemetery operations in New Jersey, Kentucky and Michigan as a result of strong organic revenue growth.

While revenues from businesses acquired in 2019, were in-line with internal expectations the businesses were slow to normalize operating expenses as quickly as anticipated. As the Company moves forward, the management expects that as these businesses are integrated, their results will improve and be in line with management's expectations. This together with the increased expenses relating to the establishment of our corporate infrastructure in the U.S. to support our growth initiatives, has resulted in a drag on our current operating results.

In November 2019, the Company acquired Journey Group assets and in early 2020 acquired two additional businesses in the state of Tennessee (described in more detail below). Combined, the Company expects that these acquisitions will add an additional \$11 million in Adjusted EBITDA going forward once fully integrated within the Company's portfolio. The investment that has been made in corporate overhead and infrastructure is expected to allow PLC to absorb these new businesses in the consolidated group without any further material expenses increase to support the businesses and will allow management to integrate the businesses in order to obtain operational improvements and synergies in future periods.

Other events during the recent quarter include the following:

- On November 18, 2019, the Company completed the acquisition of all the assets of two U.S. businesses, Journey Group, for an aggregate total purchase price of approximately \$12.5 million (US\$9.5 million) in cash, subject to customary working capital adjustments. Journey Group operates three cemeteries, three funeral homes and two combination funeral home and cemetery properties in Texas. Journey Group's acquisition increases PLC's U.S. footprint and presence in Texas. The acquisition of Journey Group was funded with the Company's credit facility.
- On November 22, 2019, the Company amended its existing syndicated bank financing arrangement to increase its borrowing capacity to \$300 million (\$250 million committed credit facility and additional \$50 million accordion facility). The financing arrangement has a term of five years.

- On December 20, 2019, in connection with the acquisition of WG-TN, LLC (“**WG-TN**”) and Harpeth Hills Memory Gardens Inc. (“**HHMG**”), the Company made an investment of a \$26.5 million (US\$20.4 million) secured by a promissory note to WG-TN and HHMG which is measured at fair value. The promissory note had a maturity date of March 31, 2020 and bore interest at 10%. The note along with its associated interest are exchangeable as consideration for 100% of the Equity Interest in WG-TN and HHMG by the borrower.

Subsequent to December 31, 2019, the Company also announced the following events:

- The aforementioned promissory note was converted to equity interest in WG-TN and HHMG.
- On January 31, 2020 the Company has completed the previously announced acquisition of all the outstanding stock and membership interests of Family Legacy, LLC (“**Family Legacy**”) for a purchase price of approximately \$40.8 million (US\$30.8 million), a business with 12 locations operating in Nashville, Tennessee, as well as all of the outstanding membership interests in WG-TN and HHMG, a large combination business located in Nashville, Tennessee. The above acquisition expands PLC’s U.S. operations into the high-growth middle Tennessee metropolitan market by adding four combination funeral home and cemetery properties, seven stand-alone funeral homes and two stand-alone cemeteries. The above acquisitions are in line with PLC’s communicated growth strategy. The transactions were funded with proceeds from PLC’s existing credit facility. The initial accounting for these business acquisitions was not complete at the time these consolidated financial statements were approved by the board of directors (the “**Board**”). As such, certain disclosures required under IFRS 3 in respect of the above acquisitions cannot yet be made.
- On February 18, 2020 the Company announced that Andrew Clark will be stepping down as Chairman and CEO of the Company. On March 30, 2020, the Company announced that Andrew Clark will resign as CEO on March 31, 2020, and that the Board of Directors has appointed J. Bradley Green to serve in the role of Interim Chief Executive Officer. Mr. Green has served as the President of PLC since May of 2018 and previously served as the CEO of the Signature Group prior to the Company’s acquisition of the business.
- On March 2, 2020 the Company announced that construction of an on-site funeral visitation and reception centre at the Westminster Cemetery in Toronto, Ontario is now underway. The 32,100 square-foot facility will be the Company’s first on-site funeral visitation and reception centre in Canada. Construction is expected to be completed by the end of 2021. This project is an important plank of the Company’s growth strategy, which includes margin expansion, acquisitions and the enhancement of its existing cemetery properties. Given the uncertain impacts of COVID-19, this program is on hold.
- On March 5, 2020 the Company announced an update on the continuing development of the 78-acre Eternal Sunset Memorial Park and Cemetery in Lafayette, New Jersey. Since November 2018, the Company has developed and opened approximately 12,000 new lots of inventory, having sold lots to multiple associations and hundreds of families. The Company has begun development of 6,000 lots, with an anticipated completion date of December 31, 2020.

Consolidated Statement of Financial Position

Current Assets & Liabilities

Current assets were \$83,519,404 at December 31, 2019 compared to \$62,920,267 at December 31, 2018. The increase was primarily due to recent acquisitions and increase in cash.

Current liabilities were \$36,035,346 at December 31, 2019 compared to \$22,100,126 at December 31, 2018. The increase was primarily due to recent acquisitions.

Net working capital at December 31, 2019 was \$47,484,058 compared to \$40,820,141 at December 31, 2018.

Care and Maintenance Trust Funds

The Company contributes a portion of all lot, crypt and niche sales to the Care and Maintenance Trust Funds in accordance with the regulatory requirements. During the year ended December 31, 2019, the Company contributed \$7,909,089 to the trust funds compared to \$7,137,408 during the same period in 2018. The Care and Maintenance Trust Fund assets are included in the Consolidated Statement of Financial Position at market value. As of December 31, 2019, the balance of the trust funds was \$224,494,986 compared to \$195,927,256 as at December 31, 2018. The increase is primarily a result of an appreciation in fair value of capital markets since December 31, 2018, contributions to the trust funds and recent acquisitions. The Care and Maintenance Trust Fund assets are offset by a corresponding liability for Care and Maintenance Trusts' Corpus.

Pre-Need Merchandise and Service Trust Funds

The Company maintains Pre-Need Merchandise and Service Trust Funds for the deposit of cash received for the purchase of pre-need merchandise and services to be delivered at some future date. When the merchandise is delivered and the services are performed, the Company receives the current market value for the service from the Pre-Need Merchandise and Service Trust Funds. The Pre-Need Merchandise and Service Trust Fund assets are included in the Consolidated Statement of Financial Position at market value. The assets within the trust funds had a market value at December 31, 2019 of \$257,150,385 compared to \$157,597,312 as at December 31, 2018. The increase is primarily a result of an appreciation in fair value of capital markets since December 31, 2018 and recent acquisitions. The Pre-Need Merchandise and Service Trust Funds are offset by a corresponding liability for Deferred Pre-Need Receipts held in trust.

Prearranged Funeral Insurance Contracts

In addition to trust funded prearranged funeral services contracts, the Company also has prearranged funeral services contracts which are funded by insurance. At December 31, 2019, and December 31, 2018, the current face amounts of pre-funded policies were approximately \$288 million and \$176 million, respectively. The increase in prearranged funeral insurance contracts is primarily due to recent acquisitions. Families who have prearranged with the Company will receive a refund to the extent that the face amount of the policy exceeds the current retail value of the merchandise and services to be provided. The insurance funded contracts are not included in the consolidated financial statements as the Company is not the beneficiary of the policy. Amounts funded through insurance are available to the Company when the funeral services are performed.

Finance Assurances

The Company has entered into arrangements with certain surety companies whereby such companies agree to issue surety bonds on the Company's behalf as financial assurance. When selling pre-need contracts, the Company may purchase surety bonds where allowed by state law. The surety bonds are used to support the Company's pre-need cemetery merchandise sales activities, in lieu of trusting certain amounts of funds received from the customer. The amount of the bond posted is generally determined by the total amount of pre-need contract that would otherwise be required to be trusted, in accordance with state law. The obligations underlying these surety bonds are recorded as deferred revenue. At December 31, 2019, the Company had surety bonds in place having an aggregate face value of approximately \$40.3 million.

Liquidity and Capital Resources

The Company's principal sources of liquidity are cash provided from operations and from the issuance of debt and equity instruments. As previously mentioned, the Company had a net working capital of \$47,484,058 as at December 31, 2019.

On November 22, 2019, the Company amended its existing syndicated bank financing arrangement to increase its borrowing capacity to \$300 million (\$250 million committed credit facility and additional \$50 million accordion facility). The credit facility has a term of five years. The additional credit provides the Company with further flexibility as it continues to pursue its growth strategy. At December 31, 2019, the Company had \$173.7 million outstanding on the credit facility and had \$21.3 million in cash on hand.

In addition, as at December 31, 2019, the Company had other debt of \$10.7 million comprised of vehicle loans, mortgages on certain funeral homes and notes payable to former business owners supporting non-compete and warranty agreements. Further, the Company had \$6.5 million in lease liabilities relating to the adoption of IFRS 16 (as discussed in more detail under "New Accounting Policies Adopted in 2019", in this MD&A) and new leases entered into in the current period.

The Company has five construction commitments totalling \$22.8 million for the construction of a funeral visitation and reception centre, care centre, funeral home, mausoleum and cemetery development.

On April 23, 2019, the Company completed a bought deal financing, issuing 5,605,100 common shares at a price of \$25.65 per common share for total gross proceeds of \$143,770,815, including the exercise in full of the over-allotment option. The net proceeds from the April 2019 equity offering were used to repay approximately \$40 million of outstanding indebtedness under the Company's credit facility and to pay for the acquisition of Ziegenhein Funeral Home and Baue. The acquisition of Horan in July 2019 was funded with the remaining cash proceeds from the April 2019 equity offering and the Company's credit facility.

From December 2013 to December 2019, the Company raised approximately \$505 million from the issuance of common shares to fund various growth initiatives. The Company may use additional share offerings as a way to fund future growth initiatives if, and when, such opportunities arise.

Discussion of Operating Results, Twelve Months Ended December 31, 2019

Total revenue for the year ended December 31, 2019 was \$244,259,132 compared to \$161,421,019 in the same period in 2018. This represents an increase of \$82,838,113 or 51.3%, over the same period in 2018.

Revenue was derived from the following sources:

	December 31, 2019	December 31, 2018
Sales	\$ 223,155,812	\$ 148,143,419
Income from care and maintenance funds	10,827,579	8,769,883
Interest and other income	10,275,741	4,507,717
	<u>\$244,259,132</u>	<u>\$ 161,421,019</u>

After adjusting for the impact of foreign exchange, revenue growth from comparable business units' year over year was 2.9%. For acquired companies, comparable growth is calculated as the difference between actual revenue achieved by each company in the financial period following acquisition compared to the revenue achieved in the corresponding financial period preceding the date of acquisition by PLC. Without adjusting for the impact of foreign exchange, revenue growth from comparable business units was 4.3%.

The revenue increase from comparable business operations was primarily related to cemetery operations in the U.S. The increase in comparable revenue from cemetery operations year over year is primarily due to an increase in recognized revenue from the completion of previously sold mausoleum buildings, increased pre-need sales production, expansion of cemetery inventory and opening of new cemetery property, and higher revenue from the pre-need and care and maintenance trust funds.

Gross profit margin was 80.8% for the year ended December 31, 2019 compared to 79.3% for the same period in 2018. The increase in gross profit margin is due to a combination of higher interest and other income, gross profit margin improvement from comparable business units due to increased selling prices in certain locations and the acquisition of higher margin businesses in 2019.

Operating expenses for the year ended December 31, 2019 were \$173,987,322 compared to \$108,121,831 in the same period in 2018. This represents an increase of \$65,865,491 over the same period in 2018, as indicated below:

	December 31, 2019	December 31, 2018
General and administrative, including depreciation	\$101,588,439	\$54,839,489
Amortization of intangibles	2,811,894	311,074
Maintenance	31,583,242	26,023,728
Advertising and selling	28,723,849	23,364,745
Interest	5,668,410	2,397,134
Share based compensation expense	3,611,488	1,185,661
	<u>\$173,987,322</u>	<u>\$108,121,831</u>

The overall increase in operating expenses year over year was due primarily to the inclusion of newly acquired businesses, higher general and administrative expenses for corporate infrastructure, additional amortization expense for intangible assets relating to recent acquisitions, increased interest expense associated with higher loan balances on the credit facility and additional share based compensation expense as a result of more awards being issued.

In aggregate, after adjusting for the impact of foreign exchange, the Company's general and administrative, advertising and selling, and maintenance expenses for comparable business units for the year ended December 31, 2019 increased by approximately \$5.7 million compared to the same period in 2018.

General and administrative expenses for comparable business units increased by approximately \$6.7 million as additional expenses were incurred to support the Company's current and long-term growth initiatives including increased personnel, listing fees and regulatory expenses, investor relations activities, legal and audit fees, and trust fund management fees. This increase was offset by a decrease of approximately \$1.1 million in advertising and selling expenses from comparable operations. Maintenance expenses decreased by approximately \$130,000 and were largely in line with management's expectations and consistent with the prior year, although certain of these expenses can be seasonal in nature and may be different period over period.

Amortization of intangible assets increased by \$2,500,820 for the year ended December 31, 2019 compared to the same period in 2018. The increase in intangible assets relates primarily to non-compete agreements on recent transactions.

Interest expense increased by \$3,271,276 for the year ended December 31, 2019 compared to the same period in 2018, primarily as the Company has utilized its credit facility to fund its recent acquisitions. Amortization of deferred finance costs associated with establishing the facility and standby fees were also higher.

The Company's EIP was established in the second quarter of 2016, as a means of compensating directors and designated employees of the Company and its subsidiaries, and of promoting share ownership and alignment with shareholders' interests. The EIP provides for the grant of DSUs, RSUs, PSUs and Options. The plan was amended in May of 2019. Compensation expense associated with these units for the year ended December 31, 2019 was \$3,611,488 compared to \$1,185,661 for the same period in 2018.

As a result of the above, earnings from operations for the year ended December 31, 2019 totaled \$23,458,619 compared to \$19,873,142 in 2018. This represents an increase of \$3,585,477 or 18.0% year over year.

Other income and expense items which are non-operating in nature for the period, and previously discussed, include acquisition and integration costs. During the years ended December 31, 2019 and 2018, the Company incurred expenses of \$12,964,150 and \$10,384,125, respectively, which relate to recent acquisitions and other acquisition and integration activity. Acquisition expenses will vary from period to period depending on the size and level of acquisition activity.

Income tax expense for the year ended December 31, 2019 was \$2,788,092 compared to \$2,165,882 for the same period in 2018. The increase is primarily the result of an increase in taxable income for the year ended December 31, 2019 compared to the same period in 2018. The effective tax rate in 2019 was 27.7% which is higher than the Company's statutory tax rates as a result of certain permanent differences in operating expenses that are not deductible expenses for tax purposes as well as non-taxable dividend income compared to 23.3% for the same period in 2018.

As a result of the above, the Company's after-tax earnings from operations for the year ended December 31, 2019 totaled \$7,286,111 compared to \$7,119,581 for the same period in 2018.

Earnings Per Share

The weighted average diluted number of common shares outstanding for the year ended December 31, 2019 increased to 28,121,174 compared to 20,655,472 for the same period in 2018, an increase of 7,465,702 or 36.1%. The increase in outstanding shares relates primarily to the April 2019 and May 2018 equity offering.

Fully diluted earnings per common share attributable to PLC shareholders for the year ended December 31, 2019 were \$0.246 compared to \$0.325 for the same period in 2018.

Adjusted Net Earnings Per Share

The 2019 and 2018 net earnings, as stated, have been significantly impacted by certain one-time, non-recurring or non-cash revenue and expense items that management believes should be highlighted to better reflect the Company's operating performance for the period under review. The table below summarizes the impact of these items for the year ended December 31, 2019 compared to 2018:

Twelve Months Ended December 31,

	2019	2018
Net earnings, PLC shareholders	\$ 6,906,841	\$ 6,722,456
Adjusted for the impact of:		
Acquisition and integration costs	12,964,150	10,384,125
Share based compensation	3,611,488	1,185,661
Amortization of intangible assets	2,811,894	311,074
Other (income) or expenses	420,266	203,554
Tax effect on the above items	(4,354,961)	(2,665,406)
Adjusted Net Earnings, PLC shareholders	<u>\$ 22,359,678</u>	<u>\$ 16,141,464</u>
Adjusted EBITDA, PLC shareholders (see Quarterly Information)	<u>\$ 53,254,746</u>	<u>\$ 34,702,126</u>
Per share amounts attributable to PLC shareholders		
Adjusted Net Earnings - diluted	<u>\$ 0.795</u>	<u>\$ 0.781</u>
Adjusted EBITDA - diluted (see Quarterly Information)	<u>\$ 1.894</u>	<u>\$ 1.680</u>
Weighted average shares outstanding - diluted	<u>28,121,174</u>	<u>20,655,472</u>

Adjusted Net Earnings and Adjusted EBITDA are non-IFRS measures. See "Description of Non-IFRS Measures".

As indicated in the chart above, Adjusted Net Earnings to PLC shareholders for the year ended December 31, 2019 increased to \$22,359,678 from \$16,141,464 in 2018 during the same period. This represents an increase of 38.5% year over year. The fully diluted Adjusted Net Earnings per share for the year ended December 31, 2019 was \$0.795 compared to \$0.781 for the same period in 2018, a year over year increase of \$0.014 or 1.8%.

Adjusted EBITDA Per Share

Adjusted EBITDA attributable to PLC shareholders for the year ended December 31, 2019 was \$53,254,746 compared to \$34,702,126, an increase of \$18,552,620 or 53.5% over 2018. The fully diluted Adjusted EBITDA per share for the year ended December 31, 2019 was \$1.894 compared to \$1.680 for the same period in 2018, a year over year increase of \$0.214 or 12.7%.

Adjusted Cash Flow

The Company uses Adjusted Cash Flow as a measure of, among other things, the sustainability of its dividend. The table below summarizes the calculation of Adjusted Cash Flow from its operations for the year ended December 31, 2019 and 2018 compared to its dividend payout:

	Twelve Months Ended December 31,	
	2019	2018
Earnings before income taxes	\$ 10,074,203	\$ 9,285,463
Adjusted for:		
Amortization of cemetery property	7,647,209	6,226,705
Depreciation and amortization	13,459,547	5,673,857
Cash income taxes payable	(1,400,000)	(780,000)
Share based compensation	3,231,167	1,163,743
Change in fair value of contingent earn-out payments	-	110,710
Adjusted cash flow from operations	33,012,126	21,680,478
Less non controlling interest amounts:		
Net earnings	379,270	397,125
Depreciation and amortization	217,244	125,582
Adjusted cash flow, equity holders of PLC	<u>\$32,415,612</u>	<u>\$21,157,772</u>
Adjusted cash flow per common share-diluted	<u>\$1.153</u>	<u>\$1.024</u>
Dividends per common share	<u>\$0.456</u>	<u>\$0.456</u>
Payout ratio	<u>40%</u>	<u>45%</u>

Adjusted Cash Flow is a non-IFRS measure. See "Description of Non-IFRS Measures".

As calculated above, the Company's Adjusted Cash Flow from operations was \$32,415,612 for the year ended December 31, 2019 compared to \$21,157,772 for the same period in 2018. This represents Adjusted Cash Flow per fully diluted common share of \$1.153 and \$1.024 for the year ended December 31, 2019 and 2018, respectively.

The Company paid dividends of \$0.456 per common share for the years ended December 31, 2019 and 2018. The dividends paid represent 40% and 45% of the Adjusted Cash Flow per common share for the years ended December 31, 2019 and 2018, respectively.

Discussion of Operating Results, Three Months Ended December 31, 2019

Total revenue for the three month period ended December 31, 2019 was \$68,956,490 compared to \$50,625,376 in the same three month period in 2018. This represents an increase of \$18,331,114 or 36.2%, over the same period in 2018.

Revenue was derived from the following sources:

	December 31 2019	December 31 2018
Sales	\$ 60,442,794	\$ 46,627,346
Income from care and maintenance funds	2,859,158	2,611,091
Interest and other income	5,654,538	1,386,939
	<u>\$68,956,490</u>	<u>\$ 50,625,376</u>

After adjusting for the impact of foreign exchange, revenue growth from comparable business units' quarter over quarter was 1.3%. For acquired companies, comparable growth is calculated as the difference between actual revenue achieved by each company in the financial period following acquisition compared to the revenue achieved in the corresponding financial period preceding the date of acquisition by PLC. Without adjusting for the impact of foreign exchange, revenue growth from comparable business units' quarter over quarter was 2.3%. The organic growth achieved in the fourth quarter of 2018 was 10.8%

The revenue increase from comparable business operations was primarily related to cemetery operations in the U.S. The increase in comparable revenue from cemetery operations quarter over quarter is largely due to an increase in recognized revenue from the completed construction of previously sold mausoleum buildings, increased pre-need sales production, expansion of cemetery inventory and marginally higher revenue from the pre-need and care and maintenance trust funds.

Gross profit margin was 80.3% for the three month period ended December 31, 2019 compared to 79.2% for the same period in 2018. The increase in gross profit margin is due to a combination of higher interest and other income, gross profit margin improvement from comparable business units due to increased selling prices in certain locations and the acquisition of higher margin businesses in 2019.

Operating expenses for the three month period ended December 31, 2019 were \$50,733,733 compared to \$33,602,207 in the same three month period in 2018. This represents an increase of \$17,131,526 over the same period in 2018, as indicated below:

	December 31, 2019	December 31, 2018
General and administrative	\$31,678,307	\$18,131,228
Amortization of intangibles	880,132	119,880
Maintenance	8,226,671	6,900,556
Advertising and selling	7,460,694	6,891,221
Interest	1,553,732	969,643
Share based compensation expense	934,197	589,679
	<u><u>\$50,733,733</u></u>	<u><u>\$33,602,207</u></u>

The overall increase in operating expenses year over year was due primarily to the inclusion of acquired businesses, additional amortization expense for intangible assets relating to recent acquisitions, increased interest expense associated with higher loan balances on the credit facility and additional share-based compensation expense as a result of more awards being issued.

In aggregate, after adjusting for the impact of foreign exchange, the Company's general and administrative, advertising and selling, and maintenance expenses for the comparable business units for the quarter ended December 31, 2019 increased by approximately \$2.7 million compared to the same period in 2018.

General and administrative expenses increased by approximately \$3.2 million for comparable business units. As mentioned previously, the year over year increase related to growing the Company's infrastructure at its head offices to support the Company's current and long-term growth initiatives including increased personnel,

office space, listing fees and regulatory expenses, investor relations activities, legal and audit fees, trust fund management, etc. This increase was offset by a decrease of approximately \$720,000 in advertising and selling expenses from comparable operations. Maintenance expenses increased by approximately \$180,000 and were largely in line with management's expectations and consistent with the prior year, although certain of these expenses can be seasonal in nature and may be different period over period.

Amortization of intangible assets increased by \$760,252 in the fourth quarter of 2019. The increase in intangible assets relate primarily to non-compete agreements on recent transactions that protect and benefit the Company going forward but are amortized over a relatively short period and are a drag on current earnings in the short term.

Interest expense increased by \$584,089 in the fourth quarter of 2019, primarily as the Company has utilized its credit facility to fund its recent acquisitions. Amortization of deferred finance costs associated with establishing the facility and standby fees were also higher.

As previously stated, the EIP provides for the grant of DSUs, RSUs, PSUs and Options. Compensation expense associated with these units for the three month period ended December 31, 2019 was \$934,197 compared to \$589,679 for the same period in 2018. The increase this quarter is largely related to the issuance of Performance Options earlier this year.

As a result of the above, earnings from operations for the three month period ended December 31, 2019 totaled \$4,607,987 compared to \$6,489,911 in 2018.

Other income and expense items which are non-operating in nature for the period, and previously discussed, include acquisition and integration costs. During the three month periods ended December 31, 2019 and 2018, the Company incurred expenses of \$3,314,960 and \$2,588,144, respectively, which relate to recent acquisitions and other acquisition and integration activity. Acquisition expenses will vary from period to period depending on the size and level of acquisition activity.

Income tax expense for the three month period ended December 31, 2019 was \$272,943 compared to \$1,536,439 for the same period in 2018. The effective tax rate in 2019 was 29.0% which is higher than the Company's statutory tax rates as a result of certain operating expenses such as share based compensation that are not deductible expenses for tax purposes and qualifying dividend income that is not taxable, compared to 39.7% for the same period in 2018.

As a result of the above, the Company's after-tax earnings from operations for the three-month period ended December 31, 2019 totaled \$668,722 compared to \$2,338,365 for the same period in 2018.

Earnings Per Share

The weighted average diluted number of common shares outstanding for the three month period ended December 31, 2019 increased to 29,776,547 compared to 23,399,076 for the same period in 2018, an increase of 6,377,471 or 27.3%. The increase in outstanding shares relates primarily to the April 2019 and May 2018 equity offerings.

Fully diluted earnings per common share attributable to PLC shareholders for the three month period ended December 31, 2019 was \$0.018 compared to \$0.095 for the same period in 2018.

Adjusted Net Earnings Per Share

The 2019 and 2018 net earnings, as stated, have been significantly impacted by certain one-time, non-recurring or non-cash revenue and expense items that management believes should be highlighted to better reflect the Company's operating performance for the period under review. The table below summarizes the impact of these items for the three month period ended December 31, 2019 compared to 2018:

	Three Months Ended December 31,	
	2019	2018
Net earnings, PLC shareholders	\$ 543,706	\$ 2,212,557
Adjusted for the impact of:		
Acquisition and integration costs	3,314,960	2,588,144
Share based compensation	934,197	589,679
Amortization of intangible assets	880,132	119,880
Other income (expenses)	351,362	26,963
Tax effect on the above items	(1,247,517)	(531,347)
Adjusted Net Earnings, PLC shareholders	<u>\$ 4,776,840</u>	<u>\$ 5,005,876</u>
Adjusted EBITDA, PLC shareholders (see Quarterly Information)	<u>\$ 13,397,500</u>	<u>\$ 11,280,499</u>
Per share amounts attributable to PLC shareholders		
Adjusted Net Earnings - diluted	<u>\$ 0.160</u>	<u>\$ 0.214</u>
Adjusted EBITDA - diluted (see Quarterly Information)	<u>\$ 0.450</u>	<u>\$ 0.482</u>
Weighted average shares outstanding - diluted	<u>29,776,547</u>	<u>23,399,076</u>

Adjusted Net Earnings and Adjusted EBITDA are non-IFRS measures. See "Description of Non-IFRS Measures".

As indicated in the chart above, Adjusted Net Earnings to PLC shareholders for the three month period ended December 31, 2019 was \$4,776,840 compared to \$5,005,876 in 2018 during the same period. This represents a decrease of 4.6% year over year. The fully diluted Adjusted Net Earnings per share for the three month period ended December 31, 2019 was \$0.160 compared to \$0.214 for the same period in 2018, a year over year decrease of \$0.054 or 25.2%.

Adjusted EBITDA Per Share

Adjusted EBITDA attributable to PLC shareholders for the three month period ended December 31, 2019 was \$13,397,500 compared to \$11,280,499 for the same period in 2018, an increase of \$2,117,001 or 18.8% over 2018. The fully diluted Adjusted EBITDA per share for the three month period ended December 31, 2019 was \$0.450 compared to \$0.482 for the same period in 2018, a year over year decrease of \$0.032 or 6.6%.

Adjusted Cash Flow

The Company uses Adjusted Cash Flow as a measure of, among other things, the sustainability of its dividend. The table below summarizes the calculation of Adjusted Cash Flow from its operations for the three month period ended December 31, 2019 and 2018 compared to its dividend payout:

	Three Months Ended December 31,	
	2019	2018
Earnings before income taxes	\$ 941,665	\$ 3,874,804
Adjusted for:		
Amortization of cemetery property	2,492,331	1,573,661
Depreciation and amortization	3,879,428	1,843,704
Cash income taxes payable	(790,000)	370,000
Share based compensation	849,418	574,723
Adjusted cash flow from operations	7,372,842	8,236,892
Less non controlling interest amounts:		
Net earnings	125,016	125,808
Depreciation and amortization	45,459	33,900
Adjusted cash flow, equity holders of PLC	\$7,202,367	\$8,077,185
Adjusted cash flow per common share-diluted	\$0.242	\$0.345
Dividends per common share	\$0.114	\$0.114
Payout ratio	47%	33%

Adjusted Cash Flow is a non-IFRS measure. See "Description of Non-IFRS Measures".

As calculated above, the Company's Adjusted Cash Flow from operations was \$7,202,367 for the three month period ended December 31, 2019 compared to \$8,077,185 for the same period in 2018. This represents Adjusted Cash Flow per fully diluted common share of \$0.242 and \$0.345 for the three-month period ended December 31, 2019 and 2018, respectively.

The Company paid dividends of \$0.114 per common share for the three month periods ended December 31, 2019 and 2018. The dividends paid represent 47% and 33% of the Adjusted Cash Flow per common share for the three month periods ended December 31, 2019 and 2018, respectively.

Quarterly Information

	2019 Q4	2019 Q3	2019 Q2	2019 Q1	Year Ending Dec 31, 2019
Revenue	\$68,956,490	\$66,578,738	\$58,570,919	\$50,152,985	\$244,259,132
Earnings from operations	\$4,607,987	\$6,721,601	\$5,854,384	\$6,274,647	\$23,458,619
Net earnings, PLC shareholders	\$543,706	\$1,579,106	\$1,458,782	\$3,325,247	\$6,906,841
Adjusted Net Earnings, PLC shareholders	\$4,776,840	\$6,581,920	\$5,658,024	\$5,342,894	\$22,359,678
Net earnings per share - basic, PLC shareholders	*\$0.018	*\$0.053	*\$0.049	*\$0.141	*\$0.246
Net earnings per share - diluted, PLC shareholders	*\$0.018	*\$0.053	*\$0.049	*\$0.141	*\$0.246
Adjusted Net Earnings per share - diluted, PLC shareholders	*\$0.160	*\$0.221	*\$0.190	*\$0.226	*\$0.795
Earnings from operations (per above)	4,607,987	6,721,601	5,854,384	6,274,647	23,458,619
Interest expense	1,553,732	1,462,582	1,376,255	1,275,841	5,668,410
Depreciation and amortization	3,879,428	3,884,364	3,272,249	2,423,506	13,459,547
Amortization of cemetery property	2,492,331	2,054,922	1,790,868	1,309,088	7,647,209
Share based compensation	934,197	1,116,805	933,333	627,153	3,611,488
Adjusted EBITDA, non-controlling interest	(70,175)	(133,277)	(213,237)	(173,838)	(590,527)
Adjusted EBITDA, PLC shareholders	\$ 13,397,500	\$ 15,106,997	\$ 13,013,852	\$ 11,736,397	\$53,254,746
Adjusted EBITDA margin	**19.5%	**22.9%	**22.6%	**23.7%	**22.0%
Adjusted EBITDA per share - diluted, PLC shareholders	*\$0.450	*\$0.507	*\$0.438	*\$0.497	*\$1.894
	2018 Q4	2018 Q3	2018 Q2	2018 Q1	Year Ending Dec 31, 2018
Revenue	\$50,625,376	\$43,239,963	\$40,349,440	\$27,206,240	\$161,421,019
Earnings from operations	\$6,489,911	\$5,708,435	\$4,219,015	\$3,455,781	\$19,873,142
Net earnings (loss), PLC shareholders	\$2,212,557	\$3,272,770	\$(435,849)	\$1,672,978	\$6,722,456
Adjusted Net Earnings, PLC shareholders	\$5,005,876	\$4,588,241	\$3,712,472	\$2,834,875	\$16,141,464
Net earnings per share - basic, PLC shareholders	*\$0.095	*\$0.141	*\$(0.021)	*\$0.108	*\$0.326
Net earnings (loss) per share - diluted, PLC shareholders	*\$0.095	*\$0.141	*\$(0.021)	*\$0.108	*\$0.325
Adjusted Net Earnings per share - diluted, PLC shareholders	*\$0.214	*\$0.197	*\$0.182	*\$0.183	*\$0.781
Earnings from operations (per above)	6,489,911	5,708,435	4,219,015	3,455,781	19,873,142
Interest expense	969,643	624,497	553,371	249,623	2,397,134
Depreciation and amortization	1,843,704	1,625,566	1,399,521	805,066	5,673,857
Amortization of cemetery property	1,573,661	1,416,176	2,081,037	1,155,831	6,226,705
Share based compensation	589,679	99,631	249,106	247,245	1,185,661
Adjusted EBITDA, non-controlling interest	(186,099)	(177,235)	(180,981)	(110,058)	(654,373)
Adjusted EBITDA, PLC shareholders	\$ 11,280,499	\$ 9,297,070	\$ 8,321,069	\$ 5,803,488	\$34,702,126
Adjusted EBITDA margin	**22.6%	**21.9%	**21.1%	**21.7%	**21.9%
Adjusted EBITDA per share - diluted, PLC shareholders	*\$0.482	*\$0.400	*\$0.409	*\$0.375	*\$1.680

*The sum of the quarterly amounts per share, basic and diluted, may not equal the period amount due to the rounding and use of weighted average shares outstanding.

**Adjusted EBITDA margin includes amounts attributable to the non-controlling interest.

Dividends

The Company makes monthly dividend payments to the shareholders of record on the last business day of each month, to be paid on the 15th day following each month end, or, if not a business day, the next business day thereafter. The monthly dividend is \$0.038 per share (\$0.456 per year). The dividend policy is subject to the discretion of the Company's Board and may vary depending on, among other things, the Company's earnings, financial requirements and the satisfaction of solvency tests imposed by the *Business Corporations Act* (Ontario) for the declaration of dividends.

For the years ended December 31, 2019 and December 31, 2018, the Company declared dividends to shareholders totaling \$0.456 per share. The following table sets forth the per share amounts of monthly dividends declared and paid by the Company since January 1, 2019.

Month	Dividend		Per Share
	Record Date	Payment Date	
December, 2019	December 31, 2019	January 15, 2020	0.038
November, 2019	November 30, 2019	December 16, 2019	0.038
October, 2019	October 31, 2019	November 15, 2019	0.038
September, 2019	September 30, 2019	October 15, 2019	0.038
August, 2019	August 31, 2019	September 16, 2019	0.038
July, 2019	July 31, 2019	August 15, 2019	0.038
June, 2019	June 30, 2019	July 15, 2019	0.038
May, 2019	May 31, 2019	June 14, 2019	0.038
April, 2019	April 30, 2019	May 15, 2019	0.038
March, 2019	March 31, 2019	April 15, 2019	0.038
February, 2019	February 28, 2019	March 15, 2019	0.038
January, 2019	January 31, 2019	February 15, 2019	<u>0.038</u>
Total dividends per share			<u>\$ 0.456</u>

Related Party Transactions

The Company's related parties include the following persons and entities: (i) associates, or entities which are controlled or significantly influenced by the Company; (ii) key management personnel, which are comprised of directors and officers by the Company; and (iii) entities controlled by key management personnel.

At the annual and special meeting of shareholders held on June 18, 2013, the shareholders of the Company approved an employee share loan plan - the "ESLP".

Amounts issued under the ESLP were as follows:

- On October 7, 2013, the Company loaned \$1,575,000 to Nine Two Seven Limited to acquire 210,000 common shares of the Company. The loan bears interest at a rate of 3.2% per annum payable upon maturity and will mature on August 27, 2023;

- On January 7, 2015, the Company loaned \$746,200 to Nine Two Seven Limited to acquire 65,000 common shares of the Company. The loan bears interest at a rate of 3.2% per annum payable upon maturity and will mature on January 7, 2025.

Subsequent to year end the two loans described above were forgiven.

On January 7, 2015, under the ESLP the Company loaned \$1,258,750 to Leeder Holdings Inc. to acquire 125,000 common shares of the Company. Leeder Holding Inc. is owned by an officer and director of the Company. The loan bears interest at a rate of 3.2% per annum payable upon maturity and will mature on January 7, 2025.

Total loans outstanding under the ESLP, including accrued interest amounted to \$2,712,688 at December 31, 2019 (at December 31, 2018 - \$3,063,666). Interest income earned by the Company for the years ended December 31, 2019 and 2018 was \$92,413 and \$97,857, respectively.

At the annual and special meeting of shareholders held on May 31, 2016, the shareholders of the Company approved the EIP.

Disclosure Controls and Procedures

National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filing* (“**NI 52-109**”) requires public companies in Canada to submit annual and interim certificates relating to the design and effectiveness of the disclosure controls and procedures that are in use at the company. Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer (“**CEO**”) and Chief Financial Officer (“**CFO**”), on a timely basis so that appropriate decisions can be made regarding public disclosure.

Subject to limitations set out below, the Company’s management, under the supervision of the CEO and the CFO, has designed and maintained a set of disclosure controls and procedures to ensure that information required to be disclosed by the Company in its annual filing, interim filings or other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Controls over Financial Reporting

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management conducted its evaluation based on the framework set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under this framework, management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2019.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be designed effectively can provide only reasonable assurance with respect to financial reporting and financial statement preparation.

Limitation on Scope of Design

The CEO and CFO have limited the scope of design of disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of Baue which was acquired during the second quarter of 2019 and Horan which was acquired during the third quarter of 2019.

This scope limitation is in accordance with section 3.3(1)(b) of NI 52-109, which allows an issuer to limit the design of disclosure controls and procedures and internal control over financial reporting for a business that the issuer acquired not more than 365 days before the last day of the period covered by this MD&A.

The following is a summary of certain financial information related to the recent acquisitions of Baue and Horan:

	Baue December 31, 2019	Horan December 31, 2019
Revenue	\$ 10,292,989	\$ 13,151,306
Net earnings	\$ 947,178	\$ 1,283,501
Current assets	\$ 4,403,117	\$ 4,065,509
Non-current assets	\$ 111,469,037	\$ 76,569,290
Current liabilities	\$ 2,043,548	\$ 1,726,821
Non-current liabilities	\$ 56,382,675	\$ 55,043,253

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during Fiscal 2019 that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

New Accounting Policies Adopted in 2019

The Company's accounting policies are as disclosed in Note 2 of PLC's 2019 annual consolidated financial statements. There have been no material changes to PLC's accounting policies from what was disclosed at that time, with the exception of the adoption of IFRS 16 as disclosed in Note 2 in the Company's December 31, 2019 consolidated financial statements.

Effective January 1, 2019, the Company has adopted IFRS 16 using the modified retrospective approach, with recognition of a right of use asset equal to the lease liability adjusted for prepaid or accrued lease payments immediately before the date of initial application.

The aggregate lease liability recognized in the statement of financial position at January 1, 2019 can be reconciled as follows:

Operating lease commitment as at December 31, 2018	\$ 7,388,606
Effect of discounting those lease commitments	<u>(1,067,471)</u>
	<u>\$ 6,321,135</u>

A corresponding right-of-use asset of \$6,321,135 has been recognized in the statement of financial position as at January 1, 2019 and has been classified as property and equipment.

The transition to IFRS 16 on January 1, 2019 for the twelve month period ended December 31, 2019, had an impact of increased depreciation of approximately \$1,770,000, and interest expense of approximately \$340,000, offset by the removal of lease payments of approximately \$2,010,000 in operating expenses for a net increase of approximately \$100,000 in operating expenses and a corresponding decrease in net earnings. Adjusted EBITDA increased by approximately \$2,010,000 for the twelve month period ended December 31, 2019, respectively.

Shares Outstanding

The authorized capital of the Company consists of an unlimited number of common shares. As at December 31, 2019, there were 29,354,844 common shares issued and outstanding, representing an increase of 6,219,529 common shares issued and outstanding since December 31, 2018. The increase in the number of common shares is the result of the issuance of shares pursuant to the April 2019 equity offering and the Company's DRIP and EIP. As at March 30, 2020, there were 29,425,112 common shares issued and outstanding. In addition, the Company has 2,000,000 common shares reserved and available for grant and issuance of the EIP. Of these 2,000,000 common shares, 1,945,245 are reserved for the issuance to employees and 54,755 common shares are reserved for issuance to directors. As at March 30, 2020, 37,012 DSU's, 278,547 RSUs, 61,440 PSUs and 1,000,000 Options were outstanding.

Additional Information

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com and on the Company's website at www.parklawncorp.com.