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Consolidated Financial Statements

For the years ended December 31, 2020 and 2019



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, 2020 and December 31, 2019, and the consolidated statements of earnings, comprehensive income (loss), 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, 2020 and December 31, 2019, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill Impairment Assessment

Key Audit Matter Description

As described in Note 12, the Company's goodwill balance was \$391,232,208 as of December 31, 2020, which represented approximately 26% of the total assets. Goodwill is tested for impairment annually during the fourth quarter, or whenever certain events or changes in circumstances indicate that the carrying value of goodwill may be greater than the recoverable amount. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets (a cash generating unit ("CGU")). Management uses a value in use approach to determine the recoverable amount for all its CGUs. The grouping of CGUs is described in Note 3(ii).

Goodwill impairment assessment of the CGUs is a key audit matter as there was significant judgment made by management when developing the value in use. Economic factors such as the COVID-19 global pandemic impact the future cash flow projections. This in turn led to significant auditor judgment, subjectivity, and effort in performing procedures evaluating management's cash flow projections and significant assumptions, including revenue growth rates (over a five year period and terminal year), ratio of expense to revenue, sustaining capital expenditures and pre-tax discount rates.

Audit Response

We responded to this matter by performing procedures over goodwill impairment. Our audit work in relation to this included, but was not restricted to, the following:

- Evaluating the appropriateness of management's CGU grouping through review of management's accounting position paper, management's budgeting process, and corroborative discussions with management's operational leaders.
- Obtaining an understanding of management's process for developing the value in use estimate.
- Evaluating the appropriateness of the discounted cash flow model by testing the completeness, accuracy, and relevance of underlying data used in the cash flow model.
- Evaluating the reasonableness of significant assumptions used by management, including the revenue growth rates, ratio of expenses to revenue, sustaining capital expenditures and pre-tax discount rates.
- Evaluating management's assumptions related to the revenue growth rates, ratio of expenses to revenue and sustaining capital expenditures by evaluating whether the assumptions were reasonable considering (i) the current and past performance of the CGU grouping, (ii) the consistency with forecasts per industry data, and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit.
- Evaluating management's assumption related to the pre-tax discount rate by using internal valuation professionals with specialized skill and knowledge.
- Assessing the appropriateness of the disclosures relating to the assumptions used in the impairment assessment in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 this other information, 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.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

MNP LLP

Mississauga, Ontario

March 30, 2021

Chartered Professional Accountants

Licensed Public Accountants

PARK LAWN CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	December 31, 2020	December 31, 2019 <i>(Restated, Measurement Period Adjustment - see Note 6)</i>
Assets		
Current assets		
Cash	\$ 31,475,091	\$ 21,255,330
Accounts receivable	14,015,313	13,506,860
Pre-need receivables, current portion (Note 4)	33,120,302	29,044,341
Inventories, current portion (Note 5)	12,103,621	9,459,240
Prepaid expenses and other assets (Note 14)	11,971,945	10,253,633
	<u>102,686,272</u>	<u>83,519,404</u>
Non-current assets		
Pre-need receivables, net of current portion (Note 4)	72,013,545	58,015,914
Inventories, net of current portion (Note 5)	95,211,242	85,259,166
Land held for development (Note 7)	26,414,299	24,452,997
Property and equipment (Note 8)	227,201,137	194,059,878
Care and maintenance trust fund investments (Note 9)	246,001,481	224,494,986
Pre-need merchandise and service trust fund investments (Note 10)	293,048,584	257,150,385
Deferred tax assets (Note 29)	5,142,370	5,858,634
Goodwill and intangibles (Note 6 and 12)	422,504,504	376,772,778
Deferred commissions (Note 13)	32,814,234	28,191,067
Prepaid expenses and other assets (Note 6 and 14)	8,097,713	38,003,291
	<u>1,428,449,109</u>	<u>1,292,259,096</u>
TOTAL ASSETS	<u>\$ 1 531 135 381</u>	<u>\$ 1 375 778 500</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 15 and 30)	\$ 45,172,738	\$ 31,344,066
Dividends payable (Note 21)	1,123,452	1,115,484
Current portion of long-term debt (Note 16)	353,389	421,074
Current portion of notes payable (Note 17)	2,697,019	1,323,036
Current portion of lease liabilities (Note 18)	2,154,722	1,831,687
	<u>51,501,320</u>	<u>36,035,347</u>
Non-current liabilities		
Long-term debt, net of current portion (Note 16)	143,347,019	173,465,316
Notes payable, net of current portion (Note 17)	7,963,765	7,368,286
Lease liabilities, net of current portion (Note 18)	5,136,666	4,682,043
Senior Unsecured Debentures (Note 19)	81,964,547	-
Deferred tax liabilities (Note 29)	12,501,714	6,544,817
Deferred revenue (Note 20)	176,170,396	151,512,485
Care and maintenance trusts' corpus (Note 9)	246,001,481	224,494,986
Deferred pre-need receipts held in trust (Note 10)	293,048,584	257,150,385
	<u>966,134,172</u>	<u>825,218,318</u>
Shareholders' Equity		
Share capital (Note 22)	505,560,310	502,047,830
Contributed surplus	11,406,852	7,618,962
Accumulated other comprehensive income	(16,327,689)	(2,112,155)
Retained earnings	10,673,762	5,091,160
	<u>511,313,235</u>	<u>512,645,797</u>
Non-controlling interest	2,186,654	1,879,038
	<u>513,499,889</u>	<u>514,524,835</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,531,135,381</u>	<u>\$ 1,375,778,500</u>

Commitments and Contingencies (Note 32)

Subsequent Events (Note 34)

Approved by the Board of Directors

"Paul G. Smith"

Paul G. Smith - Chairman, Director

"Steven Scott"

Steven Scott - 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, 2020 AND 2019

	2020	2019
Revenue		
Sales	\$ 317,139,490	\$ 223,155,812
Income from care and maintenance funds (Note 9)	10,661,812	10,827,579
Interest and other income (Note 27)	6,351,676	10,275,741
	<u>334,152,978</u>	<u>244,259,132</u>
Cost of sales (Note 5 and 24)	<u>61,512,315</u>	<u>46,813,191</u>
Gross profit	<u>272,640,663</u>	<u>197,445,941</u>
Operating expenses		
General and administrative	142,827,042	101,588,439
Amortization of intangibles (Note 12)	2,448,031	2,811,894
Maintenance	34,734,406	31,583,242
Advertising and selling	36,815,842	28,723,849
Finance costs (Note 25)	9,853,791	5,668,410
Share based incentive compensation (Note 26 and 30)	5,270,069	3,611,488
	<u>231,949,181</u>	<u>173,987,322</u>
Earnings from operations	40,691,482	23,458,619
Acquisition and integration costs (Note 6)	(6,538,806)	(12,964,150)
Other income (expenses) (Note 28)	<u>(4,588,323)</u>	<u>(420,266)</u>
Earnings before income taxes	29,564,353	10,074,203
Income tax expense (Note 29)	<u>10,226,173</u>	<u>2,788,092</u>
Net earnings for the year	<u>\$ 19,338,180</u>	<u>\$ 7,286,111</u>
Net earnings attributable to:		
Equity holders of PLC	\$ 19,030,564	\$ 6,906,841
Non-controlling interest	<u>307,616</u>	<u>379,270</u>
	<u>\$ 19,338,180</u>	<u>\$ 7,286,111</u>
Attributable to equity holders of PLC		
Net earnings per share - basic	\$ 0.640	\$ 0.246
Net earnings per share - diluted	<u>\$ 0.637</u>	<u>\$ 0.246</u>
Weighted average number of common shares:		
- basic	<u>29,716,980</u>	<u>28,042,373</u>
- diluted	<u>29,894,399</u>	<u>28,121,174</u>

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

PARK LAWN CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Net earnings for the year	\$ 19,338,180	\$ 7,286,111
Item of other comprehensive income to be subsequently reclassified to net earnings		
Foreign currency translation of foreign operations	(14,215,534)	(24,000,852)
Comprehensive income (loss)	<u>\$ 5,122,646</u>	<u>\$ (16,714,741)</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, 2020 AND 2019

	# 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, 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 21)	-	-	-	(12,645,489)	-	-	(12,645,489)
Shares issued:							
Dividend reinvestment plan (Note 22)	82,220	2,130,633	-	-	-	-	2,130,633
Equity incentive plan (Note 26)	34,052	-	3,231,167	-	-	-	3,231,167
Prospectus financing, net of costs (Note 22)	5,605,100	138,375,634	-	-	-	-	138,375,634
Contingent equity consideration	498,157	(2,415,860)	2,090,281	-	-	-	(325,579)
Other comprehensive income (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>
Balance at January 1, 2020	29,354,844	\$ 502,047,830	\$ 7,618,962	\$ 5,091,160	\$ (2,112,155)	\$ 1,879,038	\$ 514,524,835
Dividends declared (Note 21)	-	-	-	(13,447,962)	-	-	(13,447,962)
Equity incentive plan (Note 26)	-	-	5,455,641	-	-	-	5,455,641
Restructuring cost related to EIP (Note 28)	-	-	(260,429)	-	-	-	(260,429)
Shares issued:							
Dividend reinvestment plan (Note 22)	84,377	2,105,158	-	-	-	-	2,105,158
Exercise of Equity incentive plan (Note 26)	125,305	1,407,322	(1,407,322)	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	(14,215,534)	-	(14,215,534)
Net earnings for the year	-	-	-	19,030,564	-	307,616	19,338,180
Balance at December 31, 2020	<u>29,564,526</u>	<u>\$ 505,560,310</u>	<u>\$ 11,406,852</u>	<u>\$ 10,673,762</u>	<u>\$ (16,327,689)</u>	<u>\$ 2,186,654</u>	<u>\$ 513,499,889</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, 2020 AND 2019

	2020	2019
Cash provided by (used in):		
Operating activities		
Net earnings for the year	\$ 19,338,180	\$ 7,286,111
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Acquisition and integration costs	6,538,806	12,964,150
Deferred tax expense (Note 29)	6,190,223	880,317
Depreciation of property and equipment, and amortization of intangibles (Note 8 and 12)	15,774,272	13,459,547
Amortization of cemetery property (Note 8)	8,915,555	7,647,209
Amortization of deferred commissions (Note 13)	4,675,670	3,016,266
Amortization of deferred financing costs (Note 16)	692,915	296,245
Accretion expense on senior unsecured debentures (Note 19)	329,746	-
Interest on lease liabilities (Note 18)	329,554	338,462
Share based incentive compensation (Note 26)	5,112,133	3,231,167
Loss on forgiveness of loan and other non-cash amounts (Note 28 and 30)	2,440,425	-
(Gain) loss on disposal of property and equipment (Note 8)	(136,847)	115,744
(Gain) loss on sale of other assets (Note 14)	56,172	-
(Gain) loss on shares settlement	-	(179,633)
Changes in working capital that provided (required) cash:		
Accounts receivable	3,579,240	(208,739)
Net receipts on pre-need activity	(12,742,102)	(5,465,598)
Merchandise inventories	697,914	(218,245)
Prepaid expenses and other assets	(2,392,390)	405,222
Deferred commissions (Note 13)	(7,490,472)	(4,299,415)
Accounts payable and accrued liabilities	11,057,234	5,898,001
Cash provided by (used in) operating activities	62,966,228	45,166,811
Investing activities		
Acquisition and integration costs	(6,538,806)	(12,964,150)
Net cash on acquisitions (Note 6)	(65,157,793)	(174,643,970)
Additions to cemetery property	(7,578,164)	(9,998,847)
Acquisition of property and equipment (Note 8)	(15,286,962)	(13,011,664)
Proceeds on disposal of property and equipment (Note 8)	947,273	2,739,292
Additions to computer software	(751,600)	(990,685)
Land held for development	-	(30,090)
Proceeds from sale of other assets (Note 14)	942,376	-
Cash interest from other assets	673,558	353,089
Additions to prepaid expenses and other assets	(300,000)	(34,032,388)
Cash provided by (used in) investing activities	(93,050,118)	(242,579,413)
Financing activities		
Proceeds from issuance of long-term debt (Note 16)	60,305,152	123,716,925
Repayment of long-term debt (Note 16)	(90,331,058)	(40,150,011)
Proceeds from senior unsecured debentures, net of costs (Note 19)	81,634,801	-
Proceeds (repayment) of note payable (Note 17)	(1,206,170)	(566,554)
Proceeds (repayment) of lease liabilities (Note 18)	(2,248,475)	(2,009,049)
Proceeds from financing, net of costs	-	136,435,744
Dividends and distributions paid	(11,342,804)	(10,514,856)
Financing costs (Note 16)	(884,129)	(1,321,371)
Cash paid to settle contingent consideration	-	(624,966)
Cash provided by (used in) financing activities	35,927,317	204,965,862
Translation adjustment on cash	4,376,334	(447,022)
Net increase (decrease) in cash	10,219,761	7,106,238
Cash, beginning of year	21,255,330	14,149,092
Cash, end of year	\$ 31,475,091	\$ 21,255,330
Supplemental disclosures:		
Income taxes paid	\$ 1,184,895	\$ 701,268
Interest expenses paid	\$ 8,551,203	\$ 4,963,528

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

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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 (the “Board”) on March 30, 2021.

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. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

c. Basis of consolidation - continued

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 trust 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.

d. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

d. Functional currency - continued

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 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

f. Revenue recognition - continued

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

f. Revenue recognition - continued

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.

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 certain states, 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 the 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.

Commission revenue

Where permitted by state or provincial law, we may sell a life insurance or annuity policy from third-party insurance companies, for which we earn a commission as general agent for the insurance company. These general agent commissions are based on a percentage per contract sold and are recognized as sales when the insurance purchase transaction between the preneed purchaser and third-party insurance provider is completed. All selling costs incurred pursuant to the sales of insurance-funded preneed contracts are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

f. Revenue recognition - continued

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 the 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.

Pursuant to the requirements of provincial and state regulations, the Company is required to deposit a portion of the proceeds received in respect of the sale of cemetery lots, mausoleum crypts and niches into a trust. Such amounts are treated as a cost of sales at the time of the sale.

g. Deferred revenue and deferred commission

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

h. Financial instruments

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); 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

h. Financial instruments - continued

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.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

h. Financial instruments - continued

	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

i. Accounts receivable

Accounts receivable represent amounts due from customers related to at-need cemetery and funeral contracts and miscellaneous current receivables. To assess the credit risk of accounts receivable, the simplified approach is used by the Company as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk. Rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the accounts receivable.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 straight line method. Depreciation begins when the property and equipment become available for use. Depreciation is charged to the consolidated statements of earnings.

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	20-40 years
Machinery, equipment and automotive	3-7 years
Cemetery improvements	15-20 years

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.

m. Goodwill

At each balance sheet date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, the asset is then tested for impairment by comparing its recoverable amount to its carrying value. Goodwill and indefinite life intangible assets are tested for impairment at least annually.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

m. Goodwill - continued

For the purpose of impairment testing, assets, including right-of-use assets, are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets. This grouping is referred to as a cash generating unit ("CGU").

Corporate assets, which include head office facilities, do not generate separate cash inflows. Corporate assets are tested for impairment at the minimum grouping of CGUs to which the corporate assets can be reasonably and consistently allocated. Goodwill arising from a business combination is tested for impairment at the minimum grouping of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of a CGU, or CGU grouping, is the higher of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows from the CGU, or CGU grouping, 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 CGU, or CGU grouping. If the CGU, or CGU grouping, includes right-of-use assets in its carrying amount, the pre-tax discount rate reflects the risks associated with the exclusion of lease payments from the estimated future cash flows. The fair value less costs to sell is based on the best information available to reflect the amount that could be obtained from the disposal of the CGU, or CGU grouping, in an arm's length transaction between knowledgeable and willing parties, net of estimates of the costs of disposal.

An impairment loss is recognized if the carrying amount of a CGU, or CGU grouping, exceeds its recoverable amount. For asset impairments other than goodwill, the impairment loss reduces the carrying amounts of the non-financial assets in the CGU on a pro-rata basis, up to an asset's individual recoverable amount. Any loss identified from goodwill impairment testing is first applied to reduce the carrying amount of goodwill allocated to the CGU grouping, and then to reduce the carrying amounts of the other non-financial assets in the CGU, or CGU grouping, on a pro-rata basis. Impairment losses and reversals are recognized separately from operations in the consolidated statement of loss.

For assets other than goodwill, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed

n. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

n. Intangible assets - continued

Intangible assets with an indefinite life 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

o. 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.

p. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

p. Taxation – continued

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.

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.

q. Share based incentive compensation payments

Deferred share units (a “DSU”), performance share units (a “PSU”) and restricted share units (an “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 Company 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 Company 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

q. Share based incentive compensation payments – continued

The Company has granted certain performance stock options 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 and estimating the probability of performance targets being met. 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.

The Company also issues stock options with no performance criteria. The accounting treatment for these options are consistent with the performance stock options, except that performance targets are not considered in the valuation.

r. Business combinations

The Company applies 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.

The 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. The consideration transferred also includes the fair value of any contingent consideration.

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 and included in the statement of earnings as acquisition and integration costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

s. IFRS 16 - Leases

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 IFRS 16. 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.

At the 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 of the asset 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;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

s. IFRS 16 – Leases - continued

Accounting by the lessee – continued

- iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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.

t. Government grants

Government subsidies and monetary assistances are recognized when there is a reasonable assurance that the subsidy will be received and that the Company will comply with all required conditions. Government subsidies related to current expenses are recorded as other income. During the year ended December 31, 2020, the Company qualified for the Canada Emergency Wage Subsidy ("CEWS") program by the Government of Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

u. Future accounting policy changes

New standards, amendments, and interpretations adopted

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 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 on or after January 1, 2020. The Company has adopted this standard effective January 1, 2020. There was no impact on the Company’s financial statements as a result of this adoption.

New standards, amendments, and interpretations not yet adopted

All recently issued accounting pronouncements are not expected to have a material effect on the consolidated financial statements.

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 could result in a material adjustment to the carrying amounts of assets, liabilities, and equity in the event that actual results differ from assumptions.

- i) The Company is continuing to adapt to evolving regulatory measures and health authority guidelines concerning COVID-19 pandemic. The outbreak of this contagious illness continues to pose a threat to the health and economic wellbeing of our employees and their families, the families we serve, our vendors and the Company. In all communities we serve, funeral homes and cemeteries have been classified as essential services and we have remained open to serve our families at their time of need. The pandemic could lead to interruptions in our supply chain and temporary closures of our supplier facilities. The extent to which COVID-19 and its effect on the economy will impact our business is indeterminable, and it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of the Company. The Company is monitoring the situation closely and will continue to make all efforts to minimize the risk to employees, customers and other stakeholders. Given the Company’s ability to continue operating its business, no indicators of impairment were identified in relation to COVID-19.

3. CRITICAL ESTIMATES AND JUDGEMENTS – continued

Use of estimates - continued

- ii) Under the International Accounting Standards (“IAS”), the Company must determine its cash-generating units grouping (“CGUs”) for the purpose of goodwill impairment testing as at December 31, 2020. These CGUs consist of the Company’s regional operating units: Northeast, Southeast, Central, Midwest, South, West, Canada East, and Canada West. 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 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 6.6% and 9.9%. 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. An increase of 100 basis points in the pre-tax discount rate would not result in an impairment charge.
- iii) 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.
- iv) In determining an allowance for sales returns, the Company estimates 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.
- v) 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.

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3. CRITICAL ESTIMATES AND JUDGEMENTS - continued

Use of estimates - continued

- vi) 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, 2020	December 31, 2019
Pre-need receivables, current portion	\$ 33,120,302	\$ 29,044,341
Pre-need receivables, net of current portion	72,013,545	58,015,914
Total	<u>\$ 105,133,847</u>	<u>\$ 87,060,255</u>

The above is net of an allowance for sales returns of \$13,101,436 at December 31, 2020 (at December 31, 2019 - \$9,835,659).

5. INVENTORIES

	December 31, 2020	December 31, 2019 <i>(Restated, Measurement Period Adjustment - see Note 6)</i>
Merchandise inventories	\$ 4,365,474	\$ 3,068,697
Cemetery lots	49,585,386	40,545,700
Crypts and niches	45,197,532	43,129,498
Construction in progress	8,166,471	7,974,511
Total	107,314,863	94,718,406
Current portion	12,103,621	9,459,240
Non-current portion	<u>\$ 95,211,242</u>	<u>\$ 85,259,166</u>

There were no inventory write-downs in either year. For the years ended December 31, 2020 and 2019, the amount of interest capitalized to construction in progress was \$140,124 and \$33,941, respectively.

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

	December 31, 2020	December 31, 2019
Merchandise	\$ 33,282,172	\$ 23,281,796
Cemetery lots, crypts and niches (cost of property)	8,915,555	7,647,209
Total	<u>\$ 42,197,727</u>	<u>\$ 30,929,005</u>

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6. BUSINESS COMBINATIONS

Acquisitions completed in fiscal 2020

The following table summarizes the statement of financial position impact on the acquisition date of the Company's business combinations that occurred in the period ended December 31, 2020:

	Final Family Legacy and Harpeth Hills (i)	Preliminary J.F. Floyd (ii)	Final Other (iii)	Total
Assets acquired:				
Cash	\$ 1,814,726	\$ 226,621	\$ -	\$ 2,041,347
Accounts receivable	1,830,190	2,397,503	-	4,227,693
Pre-need receivables	3,913,730	-	-	3,913,730
Inventories	7,719,078	9,206,230	57,329	16,982,637
Land held for development	949,857	1,479,481	-	2,429,338
Property and equipment	25,011,093	7,238,852	1,743,995	33,993,940
Care and maintenance trust fund investment	10,556,556	7,959,370	-	18,515,926
Pre-need merchandise and service trust fund investments	13,338,371	4,549,532	916,939	18,804,842
Deferred commissions	2,006,826	723,930	-	2,730,756
Prepaid expenses and other assets	105,996	614,099	-	720,095
Goodwill	42,159,001	7,230,177	2,133,887	51,523,065
Intangibles	6,478,200	3,487,917	327,220	10,293,337
Total assets	<u>\$ 115,883,624</u>	<u>\$ 45,113,712</u>	<u>\$ 5,179,370</u>	<u>\$ 166,176,706</u>
Liabilities assumed:				
Accounts payable and accrued liabilities	\$ 2,214,495	\$ 277,948	\$ -	\$ 2,492,443
Note payable	756,675	-	-	756,675
Lease liabilities	183,103	-	1,419,540	1,602,643
Deferred tax liabilities	-	1,190,795	-	1,190,795
Care and maintenance trusts' corpus	10,556,556	7,959,370	-	18,515,926
Deferred pre-need receipts held in trust	13,338,371	4,549,532	916,939	18,804,842
Deferred revenue	19,836,136	5,899,015	-	25,735,151
	<u>46,885,336</u>	<u>19,876,660</u>	<u>2,336,479</u>	<u>69,098,475</u>
Fair value of consideration transferred:				
Cash consideration	40,156,875	24,326,595	2,715,670	67,199,140
Converted promissory note	27,102,791	-	-	27,102,791
Deferred cash consideration	1,178,037	1,325,700	127,220	2,630,957
Working capital adjustment	560,585	(415,242)	-	145,343
	<u>68,998,288</u>	<u>25,237,053</u>	<u>2,842,890</u>	<u>97,078,231</u>
Total liabilities and considerations	<u>\$ 115,883,624</u>	<u>\$ 45,113,713</u>	<u>\$ 5,179,369</u>	<u>\$ 166,176,706</u>

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

Acquisitions completed in fiscal 2020 – continued

- (i) On January 31, 2020 the Company completed the acquisition of all the outstanding stock and membership interests of Family Legacy, LLC (“Family Legacy”) for a purchase price of \$68,998,288 (US\$51,976,111), a business with 12 locations operating in Nashville, Tennessee, as well as all of the outstanding membership interests in WG-TN and HHMG (“Harpeth Hills”) a large combination business located in Nashville, Tennessee. In connection with the Harpeth Hills acquisition, the promissory note (see Note 14) of \$27,102,791 (US\$20,416,415) was converted to equity interest in Harpeth Hills. 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 transaction was funded with proceeds from PLC’s existing credit facility.

Since the date of acquisition in 2020, Family Legacy and Harpeth Hills have contributed \$24,978,958 in revenue and \$3,811,171 in net earnings in 2020. If acquired at the beginning of the year, the Company has estimated that Family Legacy and Harpeth Hills would have contributed approximately \$27,000,000 in revenue and approximately \$4,000,000 in net earnings.

Family Legacy and Harpeth Hills’s purchase price allocation was finalized in the fourth quarter of 2020 to reflect the final determination of the fair value of assets and liabilities acquired.

- (ii) On November 2, 2020, the Company completed the acquisition of all the outstanding stock of W.R. Floyd Corp. and Floyd Properties, Inc. and a majority of the assets of W.R. Floyd Services, Inc. GRAS, LLC, Piedmont Crematory, Inc. and Floyd’s Pet Cremation, LLC (collectively “J.F. Floyd”), a group of businesses located in Spartanburg and Charleston, South Carolina for a purchase price of \$25,237,053 (US\$19,036,776). The J.F. Floyd acquisition adds three combination funeral home and cemetery properties, one stand-alone funeral home, six stand-alone cemeteries and one stand-alone crematory. The addition of these businesses strengthens PLC’s operational footprint in South Carolina and provides a platform from which it can continue to expand into the southeast region of the U.S.

Since the date of acquisition in 2020, J.F. Floyd has contributed \$2,163,126 in revenue and \$466,448 in net earnings in 2020. If acquired at the beginning of the year, the Company has estimated that J.F. Floyd would have contributed approximately \$13,000,000 in revenue and approximately \$3,000,000 in net earnings.

The fair value allocations for J.F. Floyd’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 land held for development, property and equipment, inventories and deferred revenue.

- (iii) On October 1, 2020, the Company completed the acquisition of the assets of Bowers Funeral Service Ltd. (“Bowers”), a three-location funeral home business located in Salmon Arm, Golden and Revelstoke, British Columbia for a purchase price of \$1,920,545. The Bowers’ acquisition was funded with the cash on hand and it expands PLC’s presence in British Columbia.

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6. BUSINESS COMBINATIONS – continued

Acquisitions completed in fiscal 2020 – continued

The Bowers’ purchase price allocation was finalized in the fourth quarter of 2020 to reflect the final determination of the fair value of assets and liabilities acquired.

On December 15, 2020, the Company completed the acquisition of the assets of Winscott Funeral Service Corp. (“Winscott”), a business located in Benbrook, Texas for a purchase price of \$922,345 (US\$725,000). The Winscott acquisition adds one funeral home location. The addition of this business strengthens PLC’s operational footprint in the Dallas/Fort Worth region of Texas.

Winscott’s purchase price allocation was finalized in the fourth quarter of 2020 to reflect the final determination of the fair value of assets and liabilities acquired.

The above acquisitions include deferred cash consideration which primarily relates to non-compete agreements and other seller notes. In relation to these acquisitions, the Company incurred expenses on legal services, financial and tax due diligence, post closing audits, premiums for representation and warranty insurance, preparation of independent valuation reports to substantiate purchase price allocations, the preparation of reports for regulatory compliance purposes, and internal compensation.

For the above acquisitions, goodwill encompasses qualitative factors such as location heritage and workforce synergies.

Acquisitions completed in fiscal 2019

The Company has restated the comparative figures in the consolidated statement of financial position based on the measurement period adjustments related to the purchase price allocations for the acquisitions of Horan & McConaty Funeral Services, Inc. (“Horan”) and Journey Group Texas One, LLC and Journey Group Texas Two, LLC (“Journey Group”), described below. 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, 2019.

	December 31, 2019		December 31, 2019
	<i>As previously stated</i>	<i>Adjustments</i>	<i>As restated</i>
Inventories, net of current portion	83,309,709	1,949,457	85,259,166
Land held for development	22,138,968	2,314,029	24,452,997
Property and equipment	194,585,169	(525,291)	194,059,878
Goodwill and Intangibles	379,253,330	(2,480,552)	376,772,778
Deferred revenue	(150,254,842)	(1,257,643)	(151,512,485)
Total	\$ 529,032,334	\$ -	\$ 529,032,334

PARK LAWN CORPORATION
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6. BUSINESS COMBINATIONS – continued

Acquisitions completed in fiscal 2019 – continued

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

	Final Cress (i)	Final Baue (ii)	Final Horan (iii)	Final Other (iv)	Total
Assets acquired:					
Cash	\$ 458,410	\$ 665,001	\$ 1,267,187	\$ -	\$ 2,390,598
Accounts receivable	1,620,494	1,686,989	712,765	-	4,020,248
Pre-need receivables	-	1,676,528	543,627	1,180,671	3,400,826
Inventories	167,030	3,498,082	2,493,927	1,776,415	7,935,454
Prepaid expenses and other assets	245,749	6,829	101,527	416,508	770,613
Land held for development	-	5,765,160	-	4,387,048	10,152,208
Property and equipment	13,882,443	13,990,689	29,099,503	9,786,136	66,758,771
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
Goodwill	8,734,881	36,094,938	41,749,031	2,981,778	89,560,628
Intangibles	3,470,287	6,798,309	8,254,719	736,671	19,259,986
Total assets	<u>\$ 28,579,294</u>	<u>\$ 115,383,530</u>	<u>\$ 127,426,890</u>	<u>\$ 31,331,531</u>	<u>\$ 302,721,245</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	1,284,940	20,713,217
	<u>1,373,652</u>	<u>56,853,616</u>	<u>52,258,823</u>	<u>11,714,136</u>	<u>122,200,227</u>
Fair value of consideration transferred:					
Cash consideration	24,674,045	59,435,125	75,516,118	18,748,985	178,374,273
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>19,617,395</u>	<u>180,521,018</u>
Total liabilities and considerations	<u>\$ 28,579,294</u>	<u>\$ 115,383,530</u>	<u>\$ 127,426,890</u>	<u>\$ 31,331,531</u>	<u>\$ 302,721,245</u>

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 \$27,205,642 (US\$20,398,622) in cash. Cress’s acquisition expanded 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.

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 \$58,529,914 (US\$43,452,052) in cash. 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 April 2019 equity financing.

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 for an aggregate total purchase price of \$75,168,067 (US\$57,231,664) in cash. Horan operates two cemeteries and 11 funeral homes (including two on-sites) in Denver and Aurora, Colorado. Horan’s acquisition expanded PLC’s U.S. footprint with its first acquisition in Colorado. The acquisition of Horan was funded with the remaining proceeds from the Company’s April 2019 equity financing and the Company’s credit facility.

Horan’s purchase price allocation was finalized in the first quarter of 2020 to reflect the final determination of the fair value of assets and liabilities acquired.

- iv) 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 \$12,209,534 (US\$9,239,847) in cash. 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 from PLC’s credit facility.

6. BUSINESS COMBINATIONS – continued

Acquisitions completed in fiscal 2019 – continued

Journey's purchase price allocation was finalized in the second quarter of 2020 to reflect the final determination of the fair value of assets and liabilities acquired.

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 \$6,090,461 (US\$4,539,700). The acquisition of Ziegenhein Funeral Homes further expanded PLC's existing footprint in the Missouri market. The acquisition was funded with proceeds from the Company's April 2019 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 \$1,317,400 (US\$1,000,000). The acquisition of Integrity expanded PLC's existing footprint in the Houston market. The acquisition was funded from PLC's credit facility.

The purchase price allocation for the above two acquisitions was finalized in the fourth quarter of 2019.

The above acquisitions include deferred cash consideration which primarily relates to non-compete agreements and other seller notes. In relation to these acquisitions, the Company incurred expenses on legal services, financial and tax due diligence, post closing audits, premiums for representation and warranty insurance, preparation of independent valuation reports to substantiate purchase price allocations, the preparation of reports for regulatory compliance purposes, and internal compensation.

7. LAND HELD FOR DEVELOPMENT

Land held for development represents land held for future cemetery, funeral and other development opportunities. At December 31, 2020 land held for development had a net book value of \$26,414,299 (at December 31, 2019 - \$24,452,997).

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8. PROPERTY AND EQUIPMENT

	January 1, 2020 (Restated, Measurement Period Adjustment - See Note 6)	Acquired in business combinations	Additions	Disposals	Foreign currency translation	December 31, 2020
Cost:						
Land	\$ 52,698,436	8,057,925	279,240	(101,911)	(1,263,731)	\$ 59,669,959
Buildings, cemetery and funeral	120,933,778	18,210,258	11,498,415	(498,132)	(2,966,398)	147,177,921
Machinery, equipment and automotive	21,199,779	1,659,300	2,987,559	(320,210)	(506,496)	25,019,932
Cemetery improvements	11,301,600	4,468,471	1,846,565	-	(407,831)	17,208,805
Right-of-use asset	8,222,081	1,597,986	1,155,936	(305,842)	(113,715)	10,556,446
Total	<u>214,355,674</u>	<u>33,993,940</u>	<u>17,767,715</u>	<u>(1,226,095)</u>	<u>(5,258,171)</u>	<u>259,633,063</u>
Accumulated depreciation:						
Buildings, cemetery and funeral	7,991,384	-	6,398,064	(116,101)	(360,226)	13,913,121
Machinery, equipment and automotive	7,110,147	-	4,151,264	(68,869)	(280,116)	10,912,426
Cemetery improvements	3,453,310	-	685,756	-	(72,405)	4,066,661
Right-of-use asset	<u>1,740,955</u>	<u>-</u>	<u>2,091,157</u>	<u>(230,700)</u>	<u>(61,694)</u>	<u>3,539,718</u>
Total	<u>20,295,796</u>	<u>-</u>	<u>13,326,241</u>	<u>(415,670)</u>	<u>(774,441)</u>	<u>32,431,926</u>
Net book value	<u>\$ 194,059,878</u>					<u>\$ 227,201,137</u>

PARK LAWN CORPORATION
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8. PROPERTY AND EQUIPMENT – continued

	January 1, 2019	Acquired in business combinations	Additions	Disposals	Foreign currency translation	December 31, 2019 (Restated, Measurement Period Adjustment - See Note 6)
Cost:						
Land	\$ 31,099,513	24,409,311	145,513	(1,367,479)	(1,588,422)	\$ 52,698,436
Buildings, cemetery and funeral	83,152,117	36,947,329	7,804,831	(2,145,248)	(4,825,251)	120,933,778
Machinery, equipment and automotive	15,931,295	4,385,847	3,620,064	(818,520)	(1,918,907)	21,199,779
Cemetery improvements	9,611,192	362,574	1,441,258	-	(113,424)	11,301,600
Right-of-use asset	6,321,135	653,710	1,358,831	-	(111,595)	8,222,081
Total	146,115,252	66,758,771	14,370,497	(4,331,247)	(8,557,599)	214,355,674
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					\$ 194,059,878

Property and equipment depreciation expense amounted to \$13,326,241 and \$10,647,653 for the years ended December 31, 2020 and 2019, respectively, and is included in general and administrative expense on the statements of earnings.

Included in additions at December 31, 2020 are \$6,669,749 of additions at Canadian cemeteries and funeral sites (at December 31, 2019 - \$5,653,153) and \$11,097,966 of additions at U.S. cemeteries and funeral sites (at December 31, 2019 - \$8,717,344).

During the year ended December 31, 2020, the Company sold property for a sale price of \$947,272 realizing a net gain of \$136,847.

During the year ended December 31, 2019, the Company sold redundant real estate and property for a sale price of \$2,970,780 realizing a net gain from the sale and an insurance claim settlement of \$115,744.

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

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 the sale of cemetery lots, mausoleum crypts and niches 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. The corpus generally remains in perpetuity and the income 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. Many states require capital gains and losses to be held in perpetuity in these trusts, however, certain states allow net capital gains and losses to be included in the income that is paid to the Company. Additionally, some states allow a total return distribution to the Company which may contain income, net capital appreciation, and principal.

Investment income recognized in operations amounted to \$10,661,812 and \$10,827,579 for the years ended December 31, 2020 and 2019, 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, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 9,015,412	\$ 10,306,689	\$ 9,015,429	\$ 10,302,565
Equities	105,871,706	99,989,034	92,725,178	91,586,195
Fixed income	90,476,562	81,807,889	89,285,287	80,749,044
Alternative investments	21,681,390	22,378,232	18,403,283	21,811,104
Preferred stocks	18,956,411	10,013,142	18,648,435	9,962,062
	<u>\$ 246,001,481</u>	<u>\$ 224,494,986</u>	<u>\$ 228,077,612</u>	<u>\$ 214,410,970</u>

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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.

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

	Fair value		Cost	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 8,852,595	\$ 28,692,429	\$ 8,852,595	\$ 28,658,480
GIC's	29,859,660	29,753,510	29,859,660	29,753,510
Equities	101,145,960	80,151,449	82,084,696	68,353,825
Fixed income	107,459,914	79,229,148	104,629,412	77,875,056
Alternative investments	39,385,007	36,954,092	32,529,371	34,798,443
Preferred stocks	6,345,448	2,369,757	6,195,069	2,376,524
	<u>\$ 293,048,584</u>	<u>\$ 257,150,385</u>	<u>\$ 264,150,803</u>	<u>\$ 241,815,838</u>

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, 2020, the current face amount of pre-funded policies was \$368,903,733 (at December 31, 2019 – \$288,207,017). The increase 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, 2020 were:

	January 1, 2020 (Restated, Measurement Period Adjustment - See Note 6)	Acquired in business combinations	Additions	Foreign currency translation	December 31, 2020
Cost:					
Goodwill	\$ 353,316,157	51,523,065	-	(13,607,014)	\$ 391,232,208
Non-compete agreements	10,441,200	3,026,883	-	(134,189)	13,333,894
Brand	15,168,684	7,266,454	-	(589,662)	21,845,476
Computer software	969,705	-	751,600	(57,380)	1,663,925
Total	379,895,746	61,816,402	751,600	(14,388,245)	428,075,503
Accumulated amortization:					
Non-compete agreements	3,122,968	-	2,448,031	-	5,570,999
Computer software	-	-	-	-	-
Total	3,122,968	-	2,448,031	-	5,570,999
Net book value	<u>\$ 376,772,778</u>				<u>\$ 422,504,504</u>
					December 31, 2019 (Restated, Measurement Period Adjustment - See Note 6)
	January 1, 2019	Acquired in business combinations	Additions	Foreign currency translation	
Cost:					
Goodwill	\$ 277,981,729	89,560,628	-	(14,226,200)	\$ 353,316,157
Non-compete agreements	7,311,955	3,753,223	-	(623,978)	10,441,200
Brand	-	15,506,763	-	(338,079)	15,168,684
Computer software	-	-	990,685	(20,980)	969,705
Total	285,293,684	108,820,614	990,685	(15,209,237)	379,895,746
Accumulated amortization:					
Non-compete agreements	311,074	-	2,811,894	-	3,122,968
Computer software	-	-	-	-	-
Total	311,074	-	2,811,894	-	3,122,968
Net book value	<u>\$ 284,982,610</u>				<u>\$ 376,772,778</u>

PARK LAWN CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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12. GOODWILL AND INTANGIBLES – continued

At December 31, 2020, the Company had approximately \$214,000,000 (approximately US\$168,000,000) (at December 31, 2019 – approximately \$225,000,000, approximately US\$173,000,000) of goodwill that is being amortized for tax purposes over 15 years.

As of January 1, 2019, computer software previously included in property, plant and equipment was reclassified to goodwill and intangibles. There has been no amortization on the computer software since it is not available for use yet.

13. DEFERRED COMMISSIONS

	December 31, 2020	December 31, 2019
Deferred commissions		
Opening balance:	\$ 28,191,067	\$ 22,977,219
Acquired in business combinations	2,730,756	5,104,027
Additions	7,490,472	5,408,263
Amortization	(4,675,670)	(3,998,574)
Foreign currency translation	(922,391)	(1,299,868)
Closing balance:	<u>\$ 32,814,234</u>	<u>\$ 28,191,067</u>

14. PREPAID EXPENSES AND OTHER ASSETS

	December 31, 2020	December 31, 2019
Promissory note	\$ 6,694,170	\$ 6,520,836
Prepaid expenses and other	5,277,775	3,732,797
Total current other assets	<u>\$ 11,971,945</u>	<u>\$ 10,253,633</u>
	December 31, 2020	December 31, 2019
Secured convertible debt investment	\$ 6,399,249	\$ 32,823,089
ESLP	-	2,712,688
Prepaid expenses and other	1,698,464	2,467,514
Total non-current other assets	<u>\$ 8,097,713</u>	<u>\$ 38,003,291</u>

i) Current other assets

Included in current other assets is a \$6,500,000 (at December 31, 2019 - \$6,500,000) 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 was repaid in the first quarter of 2021. The note bore interest at 9%.

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14. PREPAID EXPENSES AND OTHER ASSETS - continued

ii) Non-current other assets

Included in non-current other assets is a \$6,300,000 (at December 31, 2019 - \$6,300,000) 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, on November 9, 2023 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 2019, included in non-current other assets was a promissory note to WG – TN, LLC (“WG-TN”) and Harpeth Hills Memory Gardens Inc. (“HHMG”) which was measured at fair value. The promissory note had a maturity date of March 31, 2020 and bore interest at 10%. The promissory note was converted to equity interest in WG-TN and HHMG in the first quarter of 2020 (See Note 6).

In 2019, included in non-current other assets was an employee share loan plan of \$2,712,688. The loans were forgiven in 2020 (see Note 28 and Note 30).

In addition, in 2020, the Company sold other non-current asset for a sale price of \$942,376 realizing a loss of \$56,172.

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2020	December 31, 2019
Trade payables and accrued liabilities	\$ 42,322,241	\$ 30,461,302
Income taxes payable	2,850,497	882,764
	<u>\$ 45,172,738</u>	<u>\$ 31,344,066</u>

The average credit period on trade payables is 30 to 60 days in 2020 and 2019.

16. LONG-TERM DEBT

	December 31, 2020	December 31, 2019
Revolving loan facility	\$ 144,064,440	\$ 173,694,846
Mortgages	1,020,781	1,103,419
Other debt	646,508	928,231
Deferred financing costs	(2,031,321)	(1,840,106)
Total	<u>143,700,408</u>	<u>173,886,390</u>
Current portion	<u>353,389</u>	<u>421,074</u>
Non-current portion	<u>\$ 143,347,019</u>	<u>\$ 173,465,316</u>

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16. LONG-TERM DEBT – continued

Revolving loan facility

On November 22, 2019, the Company amended its existing syndicated bank financing arrangement to increase its borrowing capacity to \$300,000,000 (\$250,000,000 committed credit facility and additional \$50,000,000 accordion facility). The credit facility has a term of five years with a maturity date of January 18, 2025. The revolving facility bears variable interest at the banker's acceptance rate plus an applicable margin based on a leverage ratio calculation.

In March 2020, as part of the COVID-19 contingency planning process, the Company requested that its lending syndicate increase its leverage ratio from 3.5 times to 4.0 times on a temporary basis from May 8, 2020 through June 29, 2021. The leverage ratio would reduce to 3.75 times on June 30, 2021 and then revert to not more than 3.5 times on September 30, 2021 and thereafter. The financing arrangement amended in March 2020 has a term of five years. In addition, the Company requested a temporary increase of \$25,000,000 in credit availability to provide additional liquidity for a period of one year commencing May 8, 2020. The lending syndicate approved both requests effective May 8, 2020. Subsequently, on August 21, 2020, the Company cancelled the temporary increase of \$25,000,000.

At December 31, 2020, there was \$144,064,440 outstanding under the credit facility (at December 31, 2019 - \$173,694,846). Deferred financing costs have been capitalized and are being amortized over the term of 5 years using the effective interest rate method. For the years ended December 31, 2020 and 2019, the amortization of deferred financing costs was \$692,915 and \$296,245, respectively. At December 31, 2020, standby letters of credit issued utilizing \$764,023 of the credit line (at December 31, 2019 - \$764,023).

Other debt

Other debt relates to equipment and is secured by the vehicles. This debt has interest rates ranging from 3.0% to 9.0% and remaining terms of 1 to 5 years.

Debt covenants

The Company was in compliance with all of its covenants in 2020 and 2019.

Summary of principal repayments by year

	2021	2022	2023	2024	2025	Thereafter	Total
Revolving loan facility	\$ -	\$ -	\$ -	\$ -	\$ 144,064,440	\$ -	\$ 144,064,440
Mortgages	85,592	88,857	92,247	95,688	99,417	558,980	1,020,781
Other debt	267,797	227,846	73,275	53,106	24,484	-	646,508
	353,389	316,703	165,522	148,794	144,188,341	558,980	145,731,729
Deferred financing costs	-	-	-	-	(2,031,321)	-	(2,031,321)
Total	\$ 353,389	\$ 316,703	\$ 165,522	\$ 148,794	\$ 142,157,020	\$ 558,980	\$ 143,700,408

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17. NOTES PAYABLE

	December 31, 2020	December 31, 2019
Notes payable	\$ 10,660,784	\$ 8,691,322
Current portion	2,697,019	1,323,036
Non-current portion	<u>\$ 7,963,765</u>	<u>\$ 7,368,286</u>

Notes payable

- i) The Company has an outstanding note payable of \$1,355,804 (at December 31, 2019 - \$1,772,984) to the former owner of real estate acquired by a cemetery. The note calls for yearly payments of \$50,000 at 0% interest until the note matures in 2113. Payments of principal 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 is subject to a development agreement that can be terminated by either party after May 9, 2023. The loan can be prepaid at any time without penalty.
- ii) The Company has outstanding notes payable of \$9,304,980 (at December 31, 2019 - \$6,918,338) to former owners of previously acquired businesses, primarily non-compete agreements, and notes related to the financing of the general business insurance policies. These notes payable have interest rates ranging from 2% to 6% and remaining terms of 1 to 10 years.

18. LEASE LIABILITIES

Lease liabilities relate to office space, machinery, and equipment.

	December 31, 2020	December 31, 2019
Future minimum lease payments		
Due in less than one year	\$ 2,277,776	\$ 2,073,330
Due between one and two years	1,430,314	1,750,960
Due between two and three years	1,128,935	931,289
Due thereafter	3,741,628	2,750,802
Interest	<u>(1,287,265)</u>	<u>(992,651)</u>
Present value of minimum lease payments	7,291,388	6,513,730
Current portion	<u>2,154,722</u>	<u>1,831,687</u>
Non-current portion	<u>\$ 5,136,666</u>	<u>\$ 4,682,043</u>

Lease liabilities interest expense charged to operations amounted to \$329,554 and \$338,462 for the years ended December 31, 2020 and 2019, respectively.

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19. SENIOR UNSECURED DEBENTURES

On July 14, 2020, the Company completed a bought deal offering of Senior Unsecured Debentures (“Debentures”). A total of \$75,000,000 aggregate principal amount of Debentures were issued at a price of \$1,000 per Debenture. PLC also granted the underwriters an option to purchase up to an additional \$11,250,000 aggregate principal amount of Debentures, on the same terms and conditions. This option was exercised in full following the closing of the offering for total gross proceeds of \$86,250,000. The issuance included transaction costs of \$4,615,199 inclusive of \$250,000 in management compensation. The net proceeds from the offering have been used to pay down the Company’s existing credit facility to free up capacity to fund potential future acquisition opportunities and for general corporate purposes.

The Debentures bear interest at a rate of 5.75% per annum, payable semi-annually in arrears on June 30 and December 31 of each year commencing on December 31, 2020 and will mature on December 31, 2025.

The debentures are measured at amortized cost using the effective interest method over the life of the debenture. The balance of the debentures as at December 31, 2020 consists of the following:

	December 31, 2020
Face value upon issuance	\$ 86,250,000
Debt issuance costs	(4,615,199)
Fair value of debt on initial recognition	81,634,801
Accretion expense during the period	329,746
Balance at the end of the period	<u>\$ 81,964,547</u>

The Debentures may not be redeemed by the Company prior to December 31, 2023 (the “First Call Date”).

On or after the First Call Date and prior to December 31, 2024, the Debentures may be redeemed by the Company, in whole or in part from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to 102.875% of the principal amount of the Debentures redeemed plus accrued and unpaid interest, if any, up to but excluding the date set for redemption.

On or after December 31, 2024 and prior to December 31, 2025 (the “Maturity Date”), the Debentures may be redeemed by the Company, in whole or in part from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to the principal amount of the Debentures redeemed plus accrued and unpaid interest, if any, up to but excluding the date set for redemption.

Interest expense on the debentures for the year ended December 31, 2020 totaled \$2,323,433 (for the year ended December 31, 2019 - \$nil). Accretion expense for the year ended December 31, 2020 totaled \$329,746 (for the year ended December 31, 2019 - \$nil).

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19. SENIOR UNSECURED DEBENTURES – continued

The Company has the right, at its sole discretion, to redeem or repay outstanding principal amounts thereunder at redemption or maturity of the Debentures by issuing Shares rather than the payment of cash. Shares will be valued at the 20 day volume weighted average price (“VWAP”), less a 5% discount. If such option is exercised by the Company, holders of Debentures will become holders of equity securities of PLC and will, consequently, be subject to the general risks and uncertainties affecting equity shareholders, including the ability to claim an entitlement only in its capacity as a shareholder.

20. 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, 2020	December 31, 2019 <i>(Restated, Measurement Period Adjustment - see Note 6)</i>
Cemetery and funeral merchandise, lots, crypts, and niches	\$ 97,250,590	\$ 86,940,945
Cemetery and funeral services	78,919,806	64,571,540
Total	<u>\$ 176,170,396</u>	<u>\$ 151,512,485</u>

21. DIVIDENDS

The Company declares and pays cash dividends on a monthly basis to shareholders. The total amount of dividends declared by the Company for the years ended December 31, 2020 and 2019 were \$13,447,962 or \$0.456 per share and \$12,645,489 or \$0.456 per share, respectively. The monthly dividend was \$0.038 per share in all periods. At December 31, 2020, dividends payable were \$1,123,452 (at December 31, 2019 - \$1,115,484).

22. 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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22. SHARE CAPITAL – continued

Shares issued and outstanding

	Number of Common Shares	Amount
Balance January 1, 2019	23,135,315	\$ 363,957,423
Shares issued pursuant to:		
Dividend reinvestment plan (i)	82,220	2,130,633
Equity incentive plan (Note 26)	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	<u>29,354,844</u>	<u>\$ 502,047,830</u>
Shares issued pursuant to:		
Dividend reinvestment plan (i)	84,377	2,105,158
Equity incentive plan (Note 26)	125,305	1,407,322
Balance December 31, 2020	<u>29,564,526</u>	<u>\$ 505,560,310</u>

(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, 2020, 84,377 common shares were issued under the DRIP (for the year ended December 31, 2019 – 82,220).

(ii) *Prospectus financings*

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 \$40,000,000 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.

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22. SHARE CAPITAL – continued

Shares issued and outstanding - continued

(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.

23. 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 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.

24. COST OF SALES

	December 31, 2020	December 31, 2019
Cost of sales - merchandise (Note 5)	\$ 33,282,172	\$ 23,281,796
Cost of sales - cemetery lots, crypts and niches (cost of property) (Note 5)	8,915,555	7,647,209
Cost of sales - contributions to care and maintenance trust funds	10,722,870	7,389,041
Cost of sales - services	8,591,718	8,495,145
Total cost of sales	<u>\$ 61,512,315</u>	<u>\$ 46,813,191</u>

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25. FINANCE COSTS

	December 31, 2020	December 31, 2019
Finance costs:		
Interest on revolving loan facility (Note 16)	\$ 5,917,749	\$ 4,572,542
Interest on senior unsecured debentures (Note 19)	2,323,433	-
Interest on mortgages and other debt (Note 16)	608,014	495,102
Interest on lease liabilities (Note 18)	329,554	338,462
Amortization of deferred financing costs (Note 16)	692,915	296,245
Accretion expense on senior unsecured debentures (Note 19)	329,746	-
Interest capitalized to construction	(140,124)	(33,941)
Realized foreign exchange on finance costs	(207,496)	-
Total	<u>\$ 9,853,791</u>	<u>\$ 5,668,410</u>

26. 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.

On June 22, 2020, the shareholders of the Company approved a second amended and restated omnibus EIP. The amended EIP provides flexibility to the Company to grant equity-based incentive awards in the form of DSUs, RSUs, 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 may not exceed 2,400,000 common shares of the Company.

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

Deferred share units

With the exception of the Chair of the Board, all directors of the Company are required to receive at least 50% of their annual Board retainers in equity, although they may elect to receive a greater percentage pursuant to the terms of the EIP. Directors will receive such equity in the form of DSUs. Provided, however, in lieu of DSUs, a director may elect to receive the equity portion of their retainer in cash which then must be used to purchase an equivalent amount of equity on the open market. As it pertains to the Chair of the Board, the Chair is required to receive at least 35% of his annual board retainer in the form of

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26. EQUITY INCENTIVE PLAN - continued

Deferred share units - continued

equity, although he may elect to receive a greater percentage pursuant to the terms of the EIP. The Chair will receive such equity in the form of DSUs. Provided, however, in lieu of DSUs, the Chair may elect to receive the equity portion of his retainer in cash which then must be used to purchase an equivalent amount of equity on the open market.

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. The DSU costs are expensed to share based incentive compensation as granted. The fair value of the DSU is determined based on the fair value of the shares on the date of issuance.

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

	December 31, 2020	December 31, 2019
Outstanding, beginning of the year	36,860	30,450
Awarded	10,514	10,920
Redemptions	(9,982)	(5,091)
Dividend equivalents	676	581
Outstanding, end of the year	<u>38,068</u>	<u>36,860</u>

Restricted share units

An 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. 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.

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26. EQUITY INCENTIVE PLAN – continued

Restricted share units – continued

Under the EIP, the following RSUs were granted by the Company and are outstanding. Each dividend equivalent represents one common share. As at December 31, 2020, 122,738 of the awarded and outstanding RSUs have vested.

The RSU costs are expensed to share based incentive compensation as it's vested. The fair value of the RSU is determined based on the fair value of the shares on the date of issuance. The weighted average issuance price in 2020 was \$28.42 (2019 - \$25.29).

	December 31, 2020	December 31, 2019
Outstanding, beginning of the year	246,200	176,337
Awarded	115,888	98,141
Forfeited	(6,148)	-
Redemptions	(99,641)	(31,928)
Dividend equivalents	4,541	3,650
Outstanding, end of the year	<u>260,840</u>	<u>246,200</u>

Performance Share Units

A PSU is a unit equivalent in value to a common share credited by means of a bookkeeping entry in the books of the Company. PSUs vest according to the terms of the applicable award agreement. The PSUs listed below will cliff vest on March 31, 2022. The actual number of share units earned with respect to the three year performance period is 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. The PSU costs are expensed to share based incentive compensation as vested. The fair value of the PSU is determined based on the fair value of the shares on the date of issuance multiplied by the bonus score. The weighted average issuance price in 2019 was \$23.12 and a multiplier of 1 was used.

Under the EIP, 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 have vested.

	December 31, 2020	December 31, 2019
Outstanding, beginning of the year	61,266	-
Awarded	-	60,112
Forfeited	(21,674)	-
Redemptions	(15,684)	-
Dividend equivalents	629	1,154
Outstanding, end of the	<u>24,537</u>	<u>61,266</u>

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26. EQUITY INCENTIVE PLAN – continued

Options

On May 21, 2020, 390,000 options were granted. The trading price of the Company's shares at the time of the grant was \$22.26. 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 0.35%, dividend rate of 2.05%, volatility of 28.03%, forfeiture rate of 0% and an expected life of 5 years.

Performance Options

On May 30, 2019, 1,058,000 options were granted. The trading price of the Company's shares 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 Finnerty model, which assumed an estimated term of 10.8 years and a 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. The trading price of the Company's shares at the time of the grant was \$28.89. 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 4 years. In addition, due to non-vesting conditions the options were discounted using a Finnerty model, which assumed an estimated term of 10.8 years and a risk-free rate of 1.77%. The options were then adjusted for non-vesting performance conditions with a weighted average expectancy of 38%.

On October 5, 2020, 80,000 options were granted. The trading price of the Company's shares at the time of the grant was \$27.94. 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 0.26%, dividend rate of 1.63%, volatility of 28.23%, forfeiture rate of 0% and an expected life of 4 years. In addition, due to non-vesting conditions the options were discounted using a Finnerty model, which assumed an estimated term of 7 years and a risk-free rate of 0.26%. The options were then adjusted for non-vesting performance conditions with a weighted average expectancy of 38%.

Grant Date	Expiry Date	Exercise		01-Jan-20	Granted	Exercised	Expired	Forfeited	31-Dec-20	Vested	Unvested
		Price									
May 30, 2019	June 30, 2023	\$ 25.43		1,058,000	-	-	-	(378,000)	680,000	-	680,000
July 15, 2019	June 30, 2023	\$ 28.37		320,000	-	-	-	-	320,000	-	320,000
May 21, 2020	May 21, 2025	\$ 20.98		-	390,000	-	-	-	390,000	-	390,000
October 5, 2020	October 30, 2024	\$ 27.70		-	80,000	-	-	-	80,000	-	80,000
				1,378,000	470,000	-	-	(378,000)	1,470,000	-	1,470,000
		Weighted Average Exercise Price	\$	26.11	\$	22.12	\$	-	\$ 25.43	\$	25.01

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26. EQUITY INCENTIVE PLAN – continued

Performance Options - continued

The compensation expense in respect of EIP amounted to \$5,270,069 and \$3,611,488 for the years ended December 31, 2020 and 2019, respectively. Included in the compensation expense is \$157,936 and \$380,321, respectively, of legal and administrative fees related to the issuance of EIP. 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.

27. INTEREST AND OTHER INCOME

	December 31, 2020	December 31, 2019
Pre-need trust realized capital gain	\$ -	\$ 4,270,633
Finance charges	5,179,724	5,122,151
Interest and other income	1,171,952	882,957
	<u>\$ 6,351,676</u>	<u>\$ 10,275,741</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. Finance charges relate to the uncollected balance of instalment accounts receivable. Interest and other income relate primarily to interest on the promissory note to Serenity Mausoleum and Serenity Management and interest on a secured debt investment in Humphrey (see Note 14).

28. OTHER INCOME (EXPENSES)

	December 31, 2020	December 31, 2019
Special Committee (i)	\$ (1,174,120)	\$ (433,677)
Restructuring costs (ii)	(977,604)	(240,000)
Agreement (iii)	(1,720,734)	-
Legal costs (iv)	(789,662)	-
Agreement (v)	(1,035,750)	-
Canada Emergency Wage Subsidy CEWS (vi)	1,028,872	-
Gain on share settlement (vii)	-	179,633
Gain on sale of property and equipment and other assets (viii)	80,675	115,744
Other	-	(41,966)
	<u>\$ (4,588,323)</u>	<u>\$ (420,266)</u>

- (i) Special Committee costs are \$1,174,120 and \$433,677 for the year ended December 31, 2020 and 2019, respectively, relating to the Special Committee's strategic review work, corporate governance matters and executive management transition preparedness as previously referred to, including Board fees, legal, CEO search fees and other professional fees. The Special Committee of the Board was dissolved on May 12, 2020.

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28. OTHER INCOME (EXPENSES) - continued

- (ii) Restructuring costs are \$977,604 and \$240,000 for the year ended December 31, 2020 and 2019, respectively.
- (iii) Agreement is comprised of costs relating to the transition of Mr. Clark of \$1,720,734 (notwithstanding the terms of Mr. Clark's employment agreement) consisting of:
- forgiveness of a \$1,648,439 loan and accrued interest of \$16,665, provided by the Company to the Nine Two Seven Limited;
 - the forfeiture of 21,674 PSUs and immediate vesting of 10,632 PSUs which resulted in other expense of \$74,382;
 - the forfeiture of 378,000 options which resulted in other income of \$334,811;
 - the payment of \$93,000 in legal expenses incurred by Mr. Clark in connection with his departure and other consideration valued in the amount of \$223,059.

On May 10, 2020, the Company and Mr. Clark entered into an agreement resulting in the Company having no further financial obligations to Mr. Clark. On May 12, 2020, Mr. Clark resigned from the Board.

- (iv) Legal costs are \$789,662 for the year ended December 31, 2020. Legal costs related to the departure of Mr. Clark, the defence of intellectual property created by the Company and the preservation and recovery of investments made or authorized by Mr. Clark.
- (v) Agreement is comprised of costs of \$1,035,750, relating to a loan forgiveness upon the retirement of Mr. Leeder.
- (vi) In the second quarter of 2020, the Company received \$1,028,872 of wages subsidy under the CEWS program. During the second quarter of fiscal 2020, the Government of Canada announced the CEWS for Canadian employers whose businesses were affected by the COVID-19 pandemic. The CEWS provides a wage subsidy of up to 75% on eligible remuneration, subject to certain criteria including demonstration of revenue declines as a result of COVID-19.
- (vii) Gain on share settlement relates to a gain on the Saber contract settlement of \$179,633 during the second quarter of 2019 (see Note 22iii).
- (viii) The Company sold property and equipment and other assets resulting in a net gain of \$80,675 for the year ended December 31, 2020 and a net gain of \$115,744 for the year ended December 31, 2019.

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29. INCOME TAXES

Income taxes

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

	December 31, 2020	December 31, 2019
Current tax expense	\$ 4,035,950	\$ 1,907,775
Deferred tax expense	6,190,223	880,317
Total	<u>\$ 10,226,173</u>	<u>\$ 2,788,092</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, 2020 and 2019 is as follows:

	December 31, 2020	December 31, 2019
Earnings before income taxes	<u>\$ 29,564,353</u>	<u>\$ 10,074,203</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	\$ 7,834,554	\$ 2,669,664
Difference in foreign tax rates	(351,759)	(236,999)
Tax rate changes and other adjustments	2,897,852	551,335
Share based compensation and other non-deductible expenses	632,406	308,051
Impact of non-taxable dividend income	(795,000)	(636,000)
Tax exempt entities	<u>8,120</u>	<u>132,041</u>
Income tax (recovery) expense	<u>\$ 10,226,173</u>	<u>\$ 2,788,092</u>

PARK LAWN CORPORATION
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29. INCOME TAXES – continued

Deferred tax assets and liabilities

	December 31, 2020	December 31, 2019
Deferred Tax Assets (Liabilities)- Canada		
Non-capital losses carried forward-Canada	\$ 5,847,154	\$ 3,381,292
Share issuance and finance costs	2,048,192	3,519,842
Other deferred tax and intangible assets	283,622	(147,514)
Property and equipment	(903,377)	(894,986)
Unrealized capital gain	(2,133,221)	-
Net deferred income tax asset	<u>\$ 5,142,370</u>	<u>\$ 5,858,634</u>
Deferred Tax Assets (Liabilities) - US		
Net operating losses carried forward	\$ 321,998	\$ 4,436,218
Stock Based Compensation	1,569,308	839,380
Other deferred tax assets	1,420,568	679,912
Accrued expenses	1,963,278	1,398,020
Deferred revenue	10,643,569	3,896,269
Property and equipment	(5,958,357)	(3,163,506)
Inventories	(5,947,551)	(3,262,611)
Goodwill and intangibles	(8,968,003)	(5,655,435)
Deferred commission	(7,546,524)	(5,713,064)
Net deferred income tax asset (liability)	<u>\$ (12,501,714)</u>	<u>\$ (6,544,817)</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, 2020	December 31, 2019
Balance at the beginning of the year	\$ 5,858,634	\$ 4,113,646
Recognized in profit/loss	(743,782)	(40,271)
Recognized in equity	27,518	1,785,259
Goodwill	-	-
Balance at the end of the year	<u>\$ 5,142,370</u>	<u>\$ 5,858,634</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.

PARK LAWN CORPORATION
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29. INCOME TAXES – continued

Movement in net deferred tax asset (liability) - US

	December 31, 2020	December 31, 2019
Balance at the beginning of the year	\$ (6,544,817)	\$ (4,970,996)
Recognized in profit/loss	(5,446,441)	(840,046)
Recognized in equity	211,116	1,089,305
Goodwill	(1,190,795)	(2,131,579)
Foreign currency translation	469,223	308,499
Balance at the end of the year	<u>\$ (12,501,714)</u>	<u>\$ (6,544,817)</u>

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

2026	\$ 24,093
2028	93,388
2031	27,125
2032	13,008
2034	5,049
2036	1,971,628
2037	2,969,889
2038	2,746,110
2039	6,024,892
2040	8,270,646
	<u>\$ 22,145,828</u>

30. 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. Nine Two Seven Limited is owned by a former director and officer of the Company. The loan bore interest at a rate of 3.2% per annum payable upon maturity 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 bore interest at a rate of 3.2% per annum payable upon maturity on January 7, 2025.

PARK LAWN CORPORATION
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30. RELATED PARTY TRANSACTIONS AND BALANCES – continued

Employee share loan plan - continued

The two loans described above were forgiven in the amount of \$1,665,104 on February 17, 2020 (see Note 28).

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 a former officer and director of the Company. The loan bore interest at a rate of 3.2% per annum payable upon maturity on January 7, 2025. The Company has agreed to forgive a \$1,035,750 loan provided by the Company to Leeder Holdings Inc. and agreed to the accelerated vesting of 4,878 performance share units and 4,878 restricted share units on December 31, 2020.

Total loans outstanding under the ESLP, including accrued interest amounted to \$nil at December 31, 2020 (at December 31, 2019 - \$2,712,688). Interest income earned by the Company for the years ended December 31, 2020 and 2019 was \$33,144 and \$92,413, respectively.

Key management compensation

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

	December 31, 2020	December 31, 2019
Directors' fees and management compensation	\$ 5,927,829	\$ 4,084,958
	December 31, 2020	December 31, 2019
Agreement (Note 28 iii)	\$ 1,720,734	\$ -
Agreement (Note 28 v)	1,035,750	-
	<u>\$ 2,756,484</u>	<u>\$ -</u>

Directors' fees and management compensation included in share-based incentive for the years ended December 31, 2020 and 2019 were \$2,152,687 and \$1,414,079 respectively. At December 31, 2020, included in accounts payable and accrued liabilities are directors' fees and management compensation of \$1,525,650 (at December 31, 2019 - \$809,890).

PARK LAWN CORPORATION
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31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Fair value of financial instruments

Cash, accounts receivable, pre-need receivables, 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.

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, 2020, the fair value of the secured debt investment in Humphrey's (see Note 14) is valued under Level 3.

As at December 31, 2020, 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, 2020

		Level 1	Level 2	Level 3	Amortized cost	
		Quoted market	Valuation technique - observable	Valuation technique - non-observable		Total fair value
	Cost	price	market inputs	market inputs		
Cash and cash equivalents	\$ 9,015,429	\$ 9,015,412	\$ -	\$ -	\$ -	\$ 9,015,412
Equities	92,725,178	105,871,706	-	-	-	105,871,706
Fixed income	89,285,287	72,804,769	-	9,025,262	8,646,531	90,476,562
Alternative investments	18,403,283	-	-	21,681,390	-	21,681,390
Preferred stocks	18,648,435	18,956,411	-	-	-	18,956,411
	<u>\$ 228,077,612</u>	<u>\$ 206,648,298</u>	<u>\$ -</u>	<u>\$ 30,706,652</u>	<u>\$ 8,646,531</u>	<u>\$ 246,001,481</u>

Care and maintenance trust fund investments at December 31, 2019

		Level 1	Level 2	Level 3	Amortized cost	
		Quoted market	Valuation technique - observable	Valuation technique - non-observable		Total fair value
	Cost	price	market inputs	market inputs		
Cash and cash equivalents	\$ 10,302,565	\$ 10,306,689	\$ -	\$ -	\$ -	\$ 10,306,689
Equities	91,586,195	99,989,034	-	-	-	99,989,034
Fixed income	80,749,044	59,520,055	-	9,753,663	12,534,171	81,807,889
Alternative investments	21,811,104	-	-	22,378,232	-	22,378,232
Preferred stocks	9,962,062	10,013,142	-	-	-	10,013,142
	<u>\$ 214,410,970</u>	<u>\$ 179,828,920</u>	<u>\$ -</u>	<u>\$ 32,131,895</u>	<u>\$ 12,534,171</u>	<u>\$ 224,494,986</u>

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31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT – continued

Fair value of financial instruments – continued

Pre-need merchandise and service trust fund investments at December 31, 2020

		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	\$ 8,852,595	\$ 8,852,595	\$ -	\$ -	\$ -	\$ 8,852,595
GIC's	29,859,660	29,859,660	-	-	-	29,859,660
Equities	82,084,696	101,145,960	-	-	-	101,145,960
Fixed income	104,629,412	101,611,629	-	5,072,906	775,379	107,459,914
Alternative investments	32,529,371	-	-	39,385,007	-	39,385,007
Preferred stocks	6,195,069	6,345,448	-	-	-	6,345,448
	<u>\$ 264,150,803</u>	<u>\$ 247,815,292</u>	<u>\$ -</u>	<u>\$ 44,457,913</u>	<u>\$ 775,379</u>	<u>\$ 293,048,584</u>

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	68,353,825	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>\$ 241,815,838</u>	<u>\$ 213,948,380</u>	<u>\$ -</u>	<u>\$ 42,127,659</u>	<u>\$ 1,074,346</u>	<u>\$ 257,150,385</u>

(i) Credit risk

The Company's exposure to credit risk relates to its accounts receivable, pre-need receivables and other assets. 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.

31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT – continued

Fair value of financial instruments – continued

(i) Credit risk - continued

In the opinion of management, none of the amounts comprising accounts receivable, pre-need receivables and other assets 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, 2020, the allowance for doubtful accounts was \$956,447 (at December 31, 2019 - \$696,355).

(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 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.

(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 risk profiles of the investments are adjusted to achieve the desired goal and are weighted toward fixed income and equities with both a capital growth and income component. The portfolio is diversified and managed by professional fund managers specialized in this asset class with a long-term view on acceptable risk tolerance.

31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT – continued

Fair value of financial instruments – continued

(iv) Market risk - continued

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 fixed income and yield oriented equity investments. The portfolio is 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 has 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, 2020 the Company did not have any foreign currency hedges in place.

(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 2019. 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.

31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT – continued

Fair value of financial instruments – continued

(vi) Interest rate risk - continued

Interest rate on revolving loan facility

The Company has a revolving loan facility, that bears interest at the bankers' acceptance rate plus 1.45% at December 31, 2020. Based on the loan balances at December 31, 2020, a 1% increase or decrease in the variable market interest rate would have an impact of \$1,440,644 per annum. The Company has the ability to convert the loan facility to a fixed term.

32. 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 14 construction commitments with the remaining balance of \$16,550,980 committed, primarily for the construction of Westminster funeral visitation and reception centre in Toronto, Ontario and for funeral homes, mausoleums and cemetery development in the United States. To date, the Company has spent \$18,776,447 on these construction commitments.

33. 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.

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33. SEGMENTED INFORMATION – continued

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, 2020	December 31, 2019
Canada	\$ 206,887,380	\$ 205,799,226
United States	1,221,561,729	1,086,459,870
Total	<u>\$ 1,428,449,109</u>	<u>\$ 1,292,259,096</u>

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

	December 31, 2020	December 31, 2019
Revenue:		
Sales:		
Canada	\$ 36,500,888	\$ 35,560,443
United States	280,638,602	187,595,369
Total sales	<u>317,139,490</u>	<u>223,155,812</u>
Income from care and maintenance funds:		
Canada	4,130,000	5,029,639
United States	6,531,812	5,797,940
Total income from care and maintenance funds	<u>10,661,812</u>	<u>10,827,579</u>
Interest and other income:		
Canada	1,171,952	883,285
United States	5,179,724	9,392,456
Total interest and other income	<u>6,351,676</u>	<u>10,275,741</u>
Total revenue:		
Canada	41,802,840	41,473,367
United States	292,350,138	202,785,765
Total Revenue	<u>\$ 334,152,978</u>	<u>\$ 244,259,132</u>

34. SUBSEQUENT EVENTS

North Carolina

PLC has entered into a definitive agreement to purchase substantially all of the assets of West Funeral Home, Inc., West Monument Company and Cemetery, Inc. and Sky View Memorial Park, Inc., in Asheville and Weaverville, North Carolina (collectively the “West Businesses”). The West Businesses consist of one funeral home, three cemeteries and one monument company and complement PLC’s existing North Carolina operations. Following required regulatory approvals, the transaction is anticipated to close in the second quarter of 2021.

Tennessee

PLC has entered into a definitive agreement to purchase all of the issued and outstanding membership interests of Cremation Society of Tennessee and Family Care Services, LLC, as well as all of the issued and outstanding stock of Polk Memorial Gardens Corporation and Williams Funeral Home, Inc. with businesses located in Columbia, Mt. Pleasant and Pulaski, Tennessee (collectively the “Williams Businesses”). The Williams Businesses consist of two funeral homes, three cemeteries and one cremation business. The addition of the Williams businesses greatly expands PLC’s presence in the middle Tennessee market which is widely known as one of the fastest growing regions in the United States. Following satisfaction of regulatory requirements, the transaction is anticipated to close in the second quarter of 2021.

Wisconsin

Park Lawn has entered into a definitive agreement to purchase substantially all of the assets of Wichmann Funeral Home & Crematory, Inc., BDB Company LLP and 312 Milwaukee Street, LLC in Appleton, Menasha, Kaukauna and Kimberly, Wisconsin (collectively the “Wichmann Businesses”). The Wichmann Businesses consist of five funeral homes, two crematoria and one cremation business which complements PLC’s existing operations in and around the Madison area. Following regulatory approval, the transaction is anticipated to close in the second quarter of 2021.

These three transactions are expected to be financed with funds from the Company’s credit facility and available cash on hand.



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ending December 31, 2020

The following Management's Discussion and Analysis (this "**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 three month period and year ended December 31, 2020. This discussion should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the year ended December 31, 2020. Information contained in this MD&A is based on information available to management as of March 30, 2021. Unless otherwise stated, all amounts discussed herein are denominated in Canadian dollars.

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 statements 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 Company's business, the growth targets that PLC aspires to achieve by the end of 2022, the EBITDA (as defined below) multiples that the Company generally expects to pay for acquisitions, future earnings generated by recent acquisitions completed by the Company, expected synergies of acquisitions completed by the Company, 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 its 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), and that the risk mitigation strategies undertaken with respect to COVID-19 will be effective, recent acquisitions will 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 will remain at or below levels paid by PLC for previously announced acquisitions, the Canadian dollar to United States dollar exchange rate will remain consistent, the acquisition and financing markets will remain accessible, capital can be obtained at reasonable costs and PLC's current business lines will operate and obtain synergies as expected, as well as risks and assumptions 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, risks associated with the current COVID-19 pandemic; risks associated with the Company's growth strategy; risks associated with the geographic concentration of the Company's operations; risks associated with the Company's reliance on key personnel; risks associated with the potential to maintain effective internal controls over financial reporting; tax related risks; risks associated with the Company's non-controlled interests; risks associated with relations with the Company's unionized and non-unionized employees; risks associated with self-insurance and insurance coverage and limits; risks associated with the Company's fixed operating costs; risks associated with changing consumer preferences; risks associated with the increasing number of cremations; risks associated with litigation and professional liability practice claims; risks associated with competition in the industry and markets in which the Company operates; risks associated with the capital expenditure requirements of the Company's business; regulatory risks; environmental and health and safety risks; cybersecurity risks 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, 2020.

Consolidation

The Company's consolidated annual financial statements for the year ended December 31, 2020 include the accounts of the Company and its subsidiaries. All significant accounts and transactions between consolidated entities are eliminated. A minority interest held by any party in a property that the Company controls is reflected as "non-controlling interest" in the consolidated annual financial statements.

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 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.

The following table provides CAD/USD average exchange rates for the three month period and year ended December 31, 2020, December 31, 2019, and December 31, 2018 as well as period end exchange rates for each of the aforementioned periods.

Exchange Rate	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2020	2019	2018	2020	2019	2018
Average	1.3030	1.3200	1.3204	1.3415	1.3269	1.2957
Period End	1.2732	1.2988	1.3642	1.2732	1.2988	1.3642

The average exchange rates in the table above are for entities that are owned for the entire fiscal year. For entities acquired during the year, an average exchange rate is calculated from their acquisition date to the year-end date. The period end exchange rate is the same for all entities owned at year-end.

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

Under the International Accounting Standards ("IAS"), the Company must determine its cash-generating units ("CGUs") for the purpose of goodwill impairment testing as at December 31, 2020. These CGUs consist of the Company's regional operating units: Northeast, Southeast, Central, Midwest, South, West, Canada East, and Canada West. 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 utilized a one year budgeted cashflow and extrapolated beyond the one year period using an estimated long-term growth rates of 2%, terminal growth rates of 2% and post-tax discount rates between 6.6% and 9.9%. 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

In determining an allowance for sales cancellations and/or refunds, 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.

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.

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 adjust for 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 defines Adjusted Net Earnings as net earnings adjusted for non-recurring, one-time or non-cash income or expense items. 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 are non-cash in nature and/or do not relate to core 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 "Overall Financial Performance - 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 finance costs, taxes, depreciation and amortization (including amortization of tangible and intangible assets 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 prior periods and 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 and classified as investing activities in the Company's consolidated statement of cash flows. As sales occur, the Company draws down its inventory by making a non-cash charge to cost of goods sold.

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

- **Adjusted EBITDA** - Adjusted EBITDA is EBITDA adjusted for non-cash share based compensation. The Company believes that the inclusion of Adjusted EBITDA also provides useful supplementary information to investors and other third parties that allows them to assess the operating performance of the Company's ongoing business and to compare its results to prior periods and to the results of its competitors.

Please see the "Quarterly and Annual Information" below for a reconciliation of the Company's EBITDA to Adjusted EBITDA.

- **Adjusted EBITDA Margin** – the Company calculates Adjusted EBITDA Margin as Adjusted EBITDA as a percentage of total revenue. The Company believes the Adjusted EBITDA Margin helps to assess the operating performance of the Company and to compare its results to prior periods and to the results of its competitors.
- **Adjusted Cash Flow** - Adjusted Cash Flow is defined as the Company's controlling interest in the following: earnings before income taxes, depreciation and amortization (including amortization of tangible and intangible assets and amortization of cemetery property), less cash income taxes payable, and adjusted for other non-cash income or expense items. The Company evaluates, among other things, the sustainability of its dividend on a regular basis using an Adjusted Cash Flow metric.

Please see "Discussion of Operating Results, Three Months ended December 31, 2020 – Adjusted Cash Flow" and "Discussion of Operating Results, Twelve Months ended December 31, 2020 – Adjusted Cash Flow" below for a reconciliation of the Company's earnings from operations to Adjusted Cash Flow.

- **Revenue Growth from Comparable Business Units** - is calculated as the percentage increase in revenue for Same Store Operations in the period relative to the comparable period, plus the percentage increase in revenue for Acquired Operations in the period relative to a 12 month period (or pro-rated as necessary) prior to acquisition by the Company.
- **Same Store Operations** – consists of business units or locations owned by the Company for the entire period from January 1, 2019 and ending December 31, 2020 and is used to determine Revenue Growth from Comparable Business Units.

- **Acquired Operations** – consists of business units or locations acquired by the Company during the period from January 1, 2019 and ending December 31, 2020 and is used to determine Revenue Growth from Comparable Business Units.
- **Leverage Ratio** – is calculated as total indebtedness to trailing twelve months Adjusted EBITDA. Leverage Ratio is defined by the Company's credit agreement. Total indebtedness includes the face value of bank debt, mortgages, vehicle loans, notes payable and letter of credits, excludes lease liabilities, and is offset by cash on hand. Trailing twelve months Adjusted EBITDA is calculated in accordance with the credit agreement and includes Adjusted EBITDA for Acquired Operations in the period relative to a 12 month period (or pro-rated as necessary) prior to acquisition by the Company.

This non-IFRS measure helps to assess the Company's ability to repay the principal of its total indebtedness and assess the Company's use of leverage in the performance of the Company's operations.

- **Interest Coverage Ratio** – is calculated as the ratio of trailing twelve months Adjusted EBITDA to interest expense. Interest Coverage Ratio is defined by and calculated in accordance with the Company's credit agreement.

This non-IFRS measure helps to assess the Company's ability to service its ongoing interest payments.

Overview

PLC is an Ontario corporation listed on the Toronto Stock Exchange under the stock symbol of "PLC". PLC is the only Canadian publicly listed cemetery, funeral and cremation operating 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). As at December 31, 2020, PLC operated in 5 Canadian provinces and 15 U.S. states. The Company and its subsidiaries operated 123 cemeteries, 116 funeral homes (including 24 on-sites, where a funeral home is located on a cemetery) and 40 crematoria businesses, each of which serviced different areas and provided a different combination of products and services. The Company's primary products and services are: cemetery lots, crypts, niches, monuments, caskets, urns and other merchandise, funeral services, after life celebration services, and cremation services.

The Company's growth strategy includes organic initiatives and future acquisitions. Organic initiatives include the build-out of inventory at new or 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 in North America, and the Company plans to continue its acquisition growth strategy where opportunities are attractive and can be integrated with its existing operations or provide an entry to new markets. The Company generally expects to pay earnings multiples based on stabilized EBITDA of 4x – 6x for smaller acquisitions and 6x – 8x for larger acquisitions, with a premium paid for size of the acquired business. Expectations for Canadian acquisitions tend to have lower multiples than the U.S. equivalent due to differences in supply and demand, and the activity

in the U.S. marketplace. Ultimately, as each transaction is unique, multiples paid for acquisitions may be outside of these ranges as the circumstances require.

After leadership concerns were raised to the Company's board of directors (the "**Board**") in late 2019, the Board formed a Special Committee which subsequently completed its work and was dissolved on May 12, 2020. The Special Committee was formed to ensure that the Company's leadership team was properly positioned to support its previously stated goal of reaching \$100,000,000 in Adjusted EBITDA and a 26% Adjusted EBITDA margin by the end of 2022. While performing its duties, the Special Committee also undertook a strategic review of the Company's corporate governance matters, including executive management transitional planning preparedness. During this process, the Company announced on February 18, 2020, that Mr. Clark, Chairman and CEO, was stepping down from his position as Chairman and CEO, and that Mr. Paul Smith would assume the role of Chairman of the Board. The Board immediately commenced a search for a new CEO and Mr. Clark remained in the position of CEO until the successful completion of the search process.

On March 27, 2020, amid the start of the COVID-19 outbreak in North America, the Company announced that Mr. Clark would relinquish his role as CEO and that Mr. J. Bradley Green, the Company's then President, would assume the role of Interim CEO effective March 31, 2020. On April 9, 2020, the Company suspended the search for a permanent CEO and determined that it would re-commence the search once it had a clearer view on the end of the COVID-19 pandemic. On May 10, 2020, the Company and Mr. Clark entered into an agreement resulting in the Company having no further financial obligations to Mr. Clark. On May 12, 2020, Mr. Clark resigned from the Board. On June 22, 2020, the Board appointed Mr. Green to the position of CEO and as a director of the Board and Mr. Dodds was appointed President and Chief Operating Officer and as a director of the Board.

On September 8, 2020, the Company announced the appointment of Mr. Millett as Chief Financial Officer. Mr. Millett filled the position of Mr. Leeder, who retired on December 31, 2020.

In North America, we continue to adapt to evolving regulatory measures and health authority guidelines concerning the COVID-19 pandemic. The outbreak of this contagious illness continues to pose a threat to the health and economic wellbeing of our employees and their families, the families we serve, our vendors and the Company. In all communities we serve, funeral homes and cemeteries have been classified as essential services and we have remained open to serve our families at their time of need. In recognition of the challenges our employees face as first responders working on the front lines, our ongoing focus remains on the safety and security of them and their families. We have implemented enhanced safety protocols and procedures designed for working with any deceased who may have been infected by COVID-19. Likewise, we have also put into place, and continue to adjust as may be required by local authorities, safety protocols and procedures in regard to our interactions with our customers to protect the health and safety of all concerned. We implemented web broadcasting of funeral services in our funeral homes and provided other alternatives to traditional visitations and services so that friends and family could be included at the funeral service of loved ones. In addition, stay at home orders impacted the way we conducted our pre-need sales such that we are now utilizing different strategies and technology to help us through the selling process under these challenging times. Further, the pandemic created a triggering effect whereby we now have a backlog of family contacts and sales opportunities. We also implemented work from home policies where possible to reduce the risk of our employees being exposed to the infection.

As the pandemic began to unfold in early 2020 it was unclear as to the severity or the duration of COVID-19 including the financial impact it might have on the Company in the weeks and months ahead. With that in mind, the Company implemented contingency planning procedures in early March to limit the financial risk to our business. This included implementing measures to reduce operating expenses in certain areas of the business including minimizing the use of part time employees, eliminating non-essential expenses such as travel, reduced marketing and advertising expenditures, reduced corporate expenses where possible and managed field level maintenance programs to essential matters only. We also deferred or slowed the pace of a number of planned maintenance and growth capital expenditure programs until we had a clearer view of the impact of the pandemic on the Company's business. In addition, the Company also examined our acquisition pipeline and deferred many of the opportunities as we focused on preserving financial flexibility. Finally, we restructured the Company's credit facility to provide additional liquidity and relaxed covenants for a specific period of time.

Management's focus in the near term was on operations and completing the integration of our existing businesses.

Due to the various measures we implemented and the great work of our people, the pandemic has not to date had a materially negative impact on the overall financial performance of the business. As a result, the Company was able to reactivate several growth oriented objectives during the second half of 2020, including certain capital expenditure programs and our acquisition program.

Additionally, the Canadian and U.S. governments announced measures to support workers and businesses through the COVID-19 crisis. On March 27, 2020, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act ("**CARES Act**") which includes modifications to the limitation on business interest expense and net operating loss provisions, and provides a payment delay of employer payroll taxes during 2020 after the date of enactment. As of December 31, 2020, the Company evaluated the income tax provisions of the CARES Act and determined they have no significant effect on the computation of our estimated effective tax rate for the year ended December 31, 2020. However, the payment of approximately \$3,800,000 of the employer portion of payroll taxes otherwise due in 2020 has been delayed with 50% due by December 31, 2021 and the remaining 50% by December 31, 2022. On December 27, 2020, the U.S. government enacted the Consolidated Appropriations Act of 2021 ("**CAA**"). The CAA includes provisions extending certain CARES Act provisions and adds coronavirus relief, tax and health extenders. The Company will continue to evaluate the impact of the CAA and its impact on our financial statements in 2021 and beyond. In Canada, the programs allowed for a deferral of income taxes and HST payments until June 30, 2020, however, more significant was the Canada Emergency Wage Subsidy ("**CEWS**") program. This program initially allowed for qualifying companies to recover 75% of certain wages paid in March to June 2020, and the Company applied for and received \$1,028,872 in wage subsidies for the first two claim periods. The Government announced an additional CEWS program on July 23, 2020 extending it to December 2020, however, the Company did not qualify for further wage subsidies.

Furthermore, in July 2020, the Company raised \$81,634,801 (net of commissions to underwriters and transaction costs) from the issuance of publicly traded Senior Unsecured Debentures ("**Debentures**"). The net proceeds were used to repay a portion of the Company's outstanding credit facility, providing further liquidity and financial flexibility for the Company. For purposes of testing the covenants under the Company's credit facility, the Debentures are not included as part of total indebtedness. The Company intends to use the

enhanced borrowing capacity under the credit facility to fund future acquisitions and for general corporate purposes. The Company has the right, at its sole discretion, to redeem or repay outstanding principal amounts thereunder at redemption or maturity of the Debentures by issuing Shares rather than the payment of cash. Shares will be valued at the 20 day volume weighted average price ("VWAP"), less a 5% discount. If such option is exercised by the Company, holders of Debentures will become holders of equity securities of PLC and will, consequently, be subject to the general risks and uncertainties affecting equity shareholders, including the ability to claim an entitlement only in its capacity as a shareholder.

Selected Consolidated Annual Financial Information

The table below summarizes selected financial information for the years ended December 31, 2020, December 31, 2019, and December 31, 2018. The financial information was prepared in accordance with IFRS, except as noted in the table.

For the Year Ended December 31,	2020	2019	2018
Cash	\$ 31,475,091	\$ 21,255,330	\$ 14,149,092
Total assets	\$1,531,135,381	\$1,375,778,500	\$1,015,006,888
Total non-current liabilities	\$ 966,134,171	\$ 825,218,318	\$ 592,433,552
Total debt	\$ 243,617,127	\$ 189,091,442	\$ 96,049,017
Dividends paid to shareholders	\$ 13,447,962	\$ 12,645,489	\$ 9,361,258
Total revenue	\$ 334,152,978	\$ 244,259,132	\$ 161,421,019
Earnings from operations	\$ 40,691,482	\$ 23,458,619	\$ 19,873,142
Net earnings, PLC shareholders	\$ 19,030,564	\$ 6,906,841	\$ 6,722,456
Adjusted Net Earnings, PLC shareholders	\$ 34,625,559	\$ 22,359,678	\$ 16,141,464
Adjusted EBITDA, PLC shareholders	\$ 79,862,930	\$ 53,254,746	\$ 34,702,126
Per share amounts attributable to PLC shareholders			
Net earnings - basic	\$ 0.640	\$ 0.246	\$ 0.326
Net earnings - diluted	\$ 0.637	\$ 0.246	\$ 0.325
Adjusted Net Earnings - diluted	\$ 1.158	\$ 0.795	\$ 0.781
Adjusted EBITDA - diluted	\$ 2.672	\$ 1.894	\$ 1.680
Weighted average shares outstanding - diluted	29,894,399	28,121,174	20,655,472

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

Over the past three years the Company has experienced a significant growth. As at January 1, 2018, the Company owned and operated 102 businesses in 5 Canadian provinces and 6 U.S. states. As at December 31, 2020, the Company operated in 5 Canadian provinces and 15 U.S. states and the Company and its subsidiaries operated 123 cemeteries, 116 funeral homes (including 24 on-sites, where a funeral home is located on a cemetery) and 40 crematoria businesses. Between 2018 and 2020, the Company made acquisitions totalling \$542,867,332 including the acquisition of a beneficial management platform with the acquisition of the

Signature Funeral and Cemetery Investments, LLC. This growth was primarily financed through equity offerings, use of proceeds from the Company's credit facility, and most recently in July 2020 the issuance of \$86,250,000 of Debentures. Between 2018 and 2020, the Company completed equity offerings totalling \$333,529,440, issuing 13,350,350 common shares. As at December 31, 2020, the Company had \$144,064,440 drawn and letters of credit totaling \$764,023 outstanding on its credit facility.

The Company expects further growth through acquisitions and internally generated projects, and subsequent to December 31, 2020 announced the following acquisitions:

North Carolina

PLC has entered into a definitive agreement to purchase substantially all of the assets of West Funeral Home, Inc., West Monument Company and Cemetery, Inc. and Sky View Memorial Park, Inc., in Asheville and Weaverville, North Carolina (collectively the "**West Businesses**"). The West Businesses consist of one funeral home, three cemeteries and one monument company and complement PLC's existing North Carolina operations. Following required regulatory approvals, the transaction is anticipated to close in the second quarter of 2021.

Tennessee

PLC has entered into a definitive agreement to purchase all of the issued and outstanding membership interests of Cremation Society of Tennessee and Family Care Services, LLC, as well as all of the issued and outstanding stock of Polk Memorial Gardens Corporation and Williams Funeral Home, Inc. with businesses located in Columbia, Mt. Pleasant and Pulaski, Tennessee (collectively the "**Williams Businesses**"). The Williams Businesses consist of two funeral homes, three cemeteries and one cremation business. The addition of the Williams Businesses greatly expands PLC's presence in the middle Tennessee market which is widely known as one of the fastest growing regions in the United States. Following satisfaction of regulatory requirements, the transaction is anticipated to close in the second quarter of 2021.

Wisconsin

Park Lawn has entered into a definitive agreement to purchase substantially all of the assets of Wichmann Funeral Home & Crematory, Inc., BDB Company LLP and 312 Milwaukee Street, LLC in Appleton, Menasha, Kaukauna and Kimberly, Wisconsin (collectively the "**Wichmann Businesses**"). The Wichmann Businesses consist of five funeral homes, two crematoria and one cremation business which complements PLC's existing operations in and around the Madison area. Following regulatory approval, the transaction is anticipated to close in the second quarter of 2021.

The combined transactions represent 1,659 calls and 456 interments per year and have been or are expected to be financed with funds from the Company's credit facility and available cash on hand. Once all of these transactions close and the businesses are fully integrated, the combination of the West, Wichmann, Williams Businesses together with Winscott Funeral Service Corp., which was acquired by the Company on December 15, 2020, are expected to add approximately US\$3,600,000 in EBITDA. The agreed upon purchase price multiples for each of these transactions are within PLC's publicly-stated targeted EBITDA multiple ranges for transactions of this nature.

Overall Financial Performance

During 2020 and 2019 the Company completed several acquisitions in the United States, the more significant of these being the acquisition of: WG-TN, LLC and Harpeth Hills Memory Gardens Inc. (collectively, “**Harpeth Hills**”) and Family Legacy, LLC (“**Family Legacy**”) in January 2020; J. F. Floyd Mortuary, Crematory and Cemetery (“**J. F. Floyd**”) in November 2020; Journey Group Texas One, LLC and Journey Group Texas Two, LLC (collectively, “**Journey Group**”) in November 2019; Horan & McConaty Funeral Services, Inc. in July 2019; The Baue Funeral Home Co. in June 2019; and Cress Funeral Service, Inc. in April 2019.

In addition to the cemetery and funeral operations acquired in 2020 and 2019, in 2018 the Company added an experienced management team and established a second corporate office in Houston, Texas. The Company has invested in growing and expanding the Houston office and has begun to further 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 and centralize human resource, risk management, legal, finance, procurement and other support functions in order to realize cost savings and other synergies going forward. 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 \$100,000,000 in pro forma Adjusted EBITDA by the end of 2022.

Primarily as a result of the above noted acquisitions, revenue for the year ended December 31, 2020 increased by 36.8% to \$334,152,978 from \$244,259,132 for the year ended December 31, 2019. Revenue for the fourth quarter of 2020 increased by 35.3% to \$93,274,216 from \$68,956,490 for the same period in 2019. Excluding differences in foreign exchange rates, Revenue Growth from Comparable Business Units year-over-year was 10.8% and the growth quarter-over-quarter was 20.9%.

Net earnings attributable to PLC shareholders for the year ended December 31, 2020 increased by 175.5% to \$19,030,564 from \$6,906,841 for the year ended December 31, 2019. For the three month period ended December 31, 2020 net earnings attributable to PLC shareholders increased by 1051.5% to \$6,260,955 from \$543,706 for the same period in 2019.

On a fully diluted per share basis, the net earnings attributable to PLC shareholders for the year ended December 31, 2020 increased by 158.9% to \$0.637 from \$0.246 for the year ended December 31, 2019 and for the three month period ended December 31, 2020 increased by 1061.1% to \$0.209 from \$0.018 for the same period in 2019. The increases in net earnings are primarily due to earnings from acquisitions made during 2020 and 2019, increased income from Same Store Operations and a reduction in acquisition and integration costs in 2020 compared to 2019 offset by other expenses discussed in this MD&A.

Adjusted Net Earnings and Adjusted EBITDA

The 2020 and the 2019 net earnings as stated have been 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, 2020 and 2019:

	Three Months Ended December 30, Twelve Months Ended December 30,			
	2020	2019	2020	2019
Net earnings, PLC shareholders	\$ 6,260,955	\$ 543,706	\$ 19,030,564	\$ 6,906,841
Adjusted for the impact of:				
Acquisition and integration costs	1,729,060	3,314,960	6,538,806	12,964,150
Share based compensation	1,501,744	934,197	5,270,069	3,611,488
Other (income) expenses	1,260,683	351,362	4,588,323	420,266
Amortization of intangible assets	601,376	880,132	2,448,031	2,811,894
Tax effect on the above items	(830,832)	(1,247,517)	(3,250,234)	(4,354,961)
Adjusted Net Earnings, PLC shareholders	<u>\$ 10,522,986</u>	<u>\$ 4,776,840</u>	<u>\$ 34,625,559</u>	<u>\$ 22,359,678</u>
Adjusted EBITDA, PLC shareholders (see Quarterly and Annual Information)	<u>\$ 24,181,865</u>	<u>\$ 13,397,500</u>	<u>\$ 79,862,930</u>	<u>\$ 53,254,746</u>
Per share amounts attributable to PLC shareholders				
Adjusted Net Earnings - diluted	<u>\$ 0.351</u>	<u>\$ 0.160</u>	<u>\$ 1.158</u>	<u>\$ 0.795</u>
Adjusted EBITDA - diluted (see Quarterly and Annual Information)	<u>\$ 0.806</u>	<u>\$ 0.450</u>	<u>\$ 2.672</u>	<u>\$ 1.894</u>
Weighted average shares outstanding - diluted	<u>29,999,849</u>	<u>29,776,547</u>	<u>29,894,399</u>	<u>28,121,174</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 completed a number of large and strategically significant acquisitions in 2019 and 2020. In 2019 the Company invested \$180,521,018 and in 2020 invested an additional \$97,078,231 on business combinations. Commensurate with the size and number of transactions, the acquisition and integration expenses incurred by the Company for the three month period and year ended December 31, 2020 decreased relative to the three month period and year ended December 31, 2019.

The Company incurs various expenses relating to acquisition and integration of business combinations including legal services, financial and tax due diligence, post-closing audits, premiums for representation and warranty insurance, preparation of independent valuation reports to substantiate purchase price allocations, the preparation of reports for regulatory compliance purposes, and internal compensation.

- Share based compensation - on June 22, 2020, the shareholders of the Company approved a second 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 2,400,000 common shares. The Company has 949,803 EIP Units outstanding to senior management consisting of 760,000 performance options (“Performance Options”), 140,000 Options, 25,266 RSUs and 24,537 PSUs. Performance Options and PSUs are subject to both time and performance based vesting, while Options and RSUs are subject to time based vesting. The Company recognized \$5,270,069 in non-cash

share-based compensation expense during the year ended December 31, 2020 compared to \$3,611,488 for the year ended December 31, 2019 and \$1,501,744 during the three month period ended December 31, 2020 compared to \$934,197 for the same period in 2019. Share based incentive compensation expense will vary based on vesting conditions, performance metrics, the value of the underlying security, 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 Canadian tax purposes.

- Amortization of intangible assets – represents the amount of amortization of intangible assets acquired as a result of business combinations. The Company recognized \$2,448,031 in amortization expense of intangible assets during the year ended December 31, 2020 compared to \$2,811,894 for the year ended December 31, 2019 and \$601,376 during the three month period ended December 31, 2020 compared to \$880,132 for the same period in 2019.
- Other expenses – comprised of the following:
 - \$1,174,120 and \$26,700 for the twelve and three month periods ended December 31, 2020, respectively, relating to the Special Committee’s strategic review of corporate governance matters and executive management transition preparedness (as referred to above under “Overview”) , including Board fees, and legal, CEO search and other professional fees;
 - \$977,604 and \$25,010 for the twelve and three month periods ended December 31, 2020, respectively, in restructuring costs;
 - \$1,720,734 and \$nil for the twelve and three month period ended December 31, 2020, respectively, relating to the transition of Mr. Clark;
 - \$789,662 and \$297,167 for the twelve and three month periods ended December 31, 2020, in legal costs primarily related to the departure Mr. Clark, including legal costs for the defence of intellectual property created by the Company and the preservation and of certain investments made or authorized by Mr. Clark;
 - \$1,035,750 for the twelve and three month periods ended December 31, 2020, respectively, relating to the forgiveness of a loan upon retirement of Mr. Leeder;
- Other income – comprised of the following:
 - In the second quarter of 2020 the Company received and recorded \$1,028,872 of wage subsidies allowable under the CEWS program.
 - \$80,675 and \$123,944 for the twelve and three month periods ended December 31, 2020, respectively related to the net gain on sale of property.
- Income tax – represents an adjustment for the tax impact of the above noted adjustments where such items are taxable in nature.

Adjusted Net Earnings attributable to PLC shareholders for the year ended December 31, 2020 was \$34,625,559 or \$1.158 per share compared to \$22,359,678 or \$0.795 per share for the same period in 2019. This represents an increase of 54.9% in the Adjusted Net Earnings and 45.7% in the Adjusted Net Earnings per share year over year.

For the three month period ended December 31, 2020 Adjusted Net Earnings attributable to PLC shareholders was \$10,522,986 or \$0.351 per share compared to \$4,776,840 or \$0.160 per share for the same period in 2019. This represents an increase of 120.3% in the Adjusted Net Earnings and 119.4% in the Adjusted Net Earnings per share quarter over quarter.

Adjusted EBITDA attributable to PLC shareholders for the year ended December 31, 2020 was \$79,862,930 or \$2.672 per share compared to \$53,254,746 or \$1.894 per share for the same period in 2019. This represents an increase of 50.0% in the Adjusted EBITDA and 41.1% in the Adjusted EBITDA per share year over year.

For the three month period ended December 31, 2020, Adjusted EBITDA attributable to PLC shareholders was \$24,181,865 or \$0.806 per share compared to \$13,397,500 or \$0.450 per share for the same period in 2019. This represents an increase of 80.5% in the Adjusted EBITDA and 79.1% in the Adjusted EBITDA per share quarter over quarter.

The Adjusted EBITDA profit margin for the year ended December 31, 2020 was 24.1% compared to 22.0% for the same period in 2019 and for the three month period ended December 31, 2020 was 26.1% compared to 19.5% for the same period in 2019.

The increase in Adjusted Net Earnings and Adjusted EBITDA is primarily related to acquisition growth during 2019 and 2020.

On January 31, 2020, the Company completed the acquisition of all the outstanding stock and membership interests of Family Legacy and Harpeth Hills, a business with 12 locations operating in the greater Nashville, Tennessee area. As part of the transaction, a promissory note for \$27,102,791 (US \$20,416,415) was converted to acquire all the outstanding membership interests in Harpeth Hills, a large combination business also located in Nashville, Tennessee. The total purchase price for Family Legacy and Harpeth Hills was \$68,998,288 (US\$51,976,111). The above noted acquisitions expand 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 and were funded with proceeds from PLC's existing credit facility.

On October 1, 2020, the Company completed the acquisition of the assets of Bowers Funeral Service Ltd., a three-location funeral home business located in Salmon Arm, Golden and Revelstoke, British Columbia. The Bowers' businesses perform approximately 390 calls per year. The acquisition expands PLC's presence in British Columbia and was funded with cash on hand.

On November 2, 2020, the Company completed the acquisition of all the outstanding stock of J.F. Floyd, a group of businesses located in Spartanburg and Charleston, South Carolina. The J.F. Floyd acquisition adds three combination funeral home and cemetery properties, one stand-alone funeral home, six stand-alone cemeteries, and one stand-alone crematory, and was funded primarily with cash on hand. The J.F. Floyd businesses perform approximately 650 calls and over 800 interments per year and the acquisition strengthens PLC's operational footprint in South Carolina and provides a platform from which it can continue to expand into the southeast region of the U.S.

On December 15, 2020, the Company completed the acquisition of the assets of Winscott Funeral Service Corp., a business located in Benbrook, Texas. The Winscott acquisition adds one funeral home location that expands PLC's operational footprint in the Dallas/Fort Worth region of Texas.

Discussion of Operating Results, Three Months ended December 31, 2020

Total revenue for the three month period ended December 31, 2020 was \$93,274,216 compared to \$68,956,490 in the same period in 2019. This represents an increase of \$24,317,726 or 35.3%, over the same period in 2019.

Revenue is derived primarily from sales of property, merchandise and services by the Company's cemetery, funeral and cremation businesses. Revenue, cost of sales and gross profit for the three month periods ended December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Sales	\$ 88,823,938	\$ 64,713,427
Income from care and maintenance funds	2,990,962	2,859,158
Interest and other income	1,459,316	1,383,905
Revenue	93,274,216	68,956,490
Cost of sales	17,645,007	13,614,770
Gross profit	<u>\$ 75,629,209</u>	<u>\$ 55,341,720</u>

Sales for the three month period ended December 31, 2020 were \$88,823,938 compared to \$64,713,427 in the same period of 2019. This represents an increase of \$24,110,511 or 37.3%, over the same period in 2019. The increase in sales related primarily to Acquired Operations for the three month period ended December 31, 2020, as well as, increased at-need demand for funeral and cemetery services and merchandise primarily from the Company's U.S. operations.

Income from care and maintenance funds for the three month period ended December 31, 2020 was \$2,990,962 compared to \$2,859,158 in the same period of 2019, which represents an increase of \$131,804 or 4.6%.

Interest and other income for the three month period ended December 31, 2020 was \$1,459,316 compared to \$1,383,905 in the same period in 2019, representing an increase of \$75,411 or 5.4%.

Excluding the impact of foreign exchange differences in the periods, Revenue Growth from Comparable Business Units' quarter over quarter was 20.9%.

The positive Revenue Growth from Comparable Business Units during the quarter related to increased at-need revenue primarily in the U.S. The Company experienced increases in at-need sales, which tends to be correlated with an increase in deaths in both Canada and the United States during the fourth quarter. Despite the increase in deaths, in jurisdictions where stringent COVID-19 restrictions were put into place, generally speaking, there was a decrease in the average revenue per call. Revenue Growth from Comparable Business Units, excluding the impact of foreign exchange, was 22.7% for Acquired Operations, and 20.1% for Same Store Operations displaying positive results in all aspects of operations. Irrespective of the cause, our strong relationship with the

communities in which we operate and our general preparedness to meet customers' requests in a challenging environment contributed to an overall increase in sales.

Additionally, the Company benefited from the completion of the construction of three mausoleums during the quarter contributing \$3,614,125 of revenue from previously deferred sales being recognized on completion of the mausoleums.

Cost of sales for the three month period ended December 31, 2020 was \$17,645,007 compared to \$13,614,770 in the same period in 2019. This represents an increase of \$4,030,237 or 29.6%, over the same period in 2019 and is primarily a result of increased sales activity during the quarter, as well as the completion of the three aforementioned mausoleums.

Operating expenses for the three month period ended December 31, 2020 were \$62,346,206 compared to \$50,733,733 in the same period in 2019. This represents an increase of \$11,612,473 or 22.9% over the same period in 2019, as indicated below:

	December 31, 2020	December 31, 2019
General and administrative	\$39,039,264	\$31,678,307
Amortization of intangibles	601,376	880,132
Maintenance	9,077,368	8,226,671
Advertising and selling	9,516,424	7,460,694
Finance costs	2,610,030	1,553,732
Share based incentive compensation	1,501,744	934,197
	<u>\$62,346,206</u>	<u>\$50,733,733</u>

The overall increase in operating expenses quarter over quarter was due primarily to the inclusion of Acquired Operations, higher general and administrative expenses for corporate infrastructure, increased finance costs associated with higher loan balances on the credit facility, interest on the Debentures, and increased share based compensation expenses due to share based compensation issued during 2020.

The Company's general and administrative expenses increased primarily as a result of the acquisitions of the Journey Group on November 18, 2019, Harpeth Hills and Family Legacy on January 31, 2020, J. F. Floyd on November 2, 2020, as well as corporate level costs related to the expansion of our corporate infrastructure to support the Company's growth and strategy. This investment in our corporate infrastructure occurred towards the end of the 2019 fiscal year. These increases were partially offset due to decreases in general and administrative expenses resulting from the integration of various acquisitions made throughout 2019.

Advertising and selling expenses, as well as maintenance expenses, increased primarily as a result of Acquired Operations. Additionally, increases in advertising and selling expenses increased due to selling commissions associated with higher sales primarily at the Company's cemetery locations. Further, other increases in maintenance expenses were experienced at the Company's cemetery operations due to increased interments

performed by maintenance staff and the completion of projects which were deferred from earlier in the year due to COVID-19.

Finance costs for the three month period ended December 31, 2020 primarily include interest expense on the Company's credit facility and interest expense on the Debentures. Finance costs increased by \$1,056,298 for the three month period ended December 31, 2020 compared to the same period in 2019 as a result of the issuance of the Debentures in July 2020. Amortization of deferred finance costs associated with establishing and amending the credit facility and the Debenture offering contributed to the increase in finance costs. This increase was offset by a realized gain on foreign exchange translation on loans denominated in US dollar.

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 and subsequently in June of 2020. Compensation expense associated with these units for the three month period ended December 31, 2020 was \$1,501,744 compared to \$934,197 for the same period in 2019 due to additional share based compensation issued during the year ended December 31, 2020.

As a result of the above, earnings from operations for the three month period ended December 31, 2020 totaled \$13,283,003 compared to \$4,607,987 for the same period in 2019. This represents an increase of \$8,675,016 or 188.3% quarter over quarter.

Other income and expenses for the three month period ended December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Earnings from operations	\$ 13,283,003	\$ 4,607,987
Acquisition and integration costs	(1,729,060)	(3,314,960)
Other income (expenses)	<u>(1,260,683)</u>	<u>(351,362)</u>
Earnings before income taxes	10,293,260	941,665
Income tax expense	<u>3,888,324</u>	<u>272,943</u>
Net earnings for the period	<u><u>\$ 6,404,936</u></u>	<u><u>\$ 668,722</u></u>

During the three month period ended December 31, 2020 and 2019, the Company incurred acquisition and integration expenses of \$1,729,060 and \$3,314,960, respectively. Acquisition expenses will vary from period to period depending on the size and level of acquisition activity, and include expenses relating to legal, financial and tax due diligence, post closing audits, representation and warranty insurance premiums, preparation of independent valuation reports, the preparation of reports for regulatory compliance purposes, and internal compensation.

As previously discussed, other income (expenses) for the fourth quarter primarily include costs related to the forgiveness of a loan upon the retirement of Mr. Leeder, legal costs related to the departure of Mr. Clark, the defence of intellectual property created by the Company and the preservation and recovery of investments made or authorized by Mr. Clark.

Income tax expense for the three month period ended December 31, 2020 was \$3,888,324 compared to \$272,943 for the same period in 2019. The effective tax rate in 2020 was 37.8% 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, such as share based compensation expenses, forgiveness of loans, offset by non-taxable dividend income compared to 29.0% for the same period in 2019.

As a result of the above, the Company's after-tax earnings from operations for the three month period ended December 31, 2020 totaled \$6,404,936 compared to \$668,722 for the same period in 2019.

Earnings Per Share

The weighted average diluted number of common shares outstanding for the three month period ended December 31, 2020 increased to 29,999,849 compared to 29,776,547 for the same period in 2019, an increase of 223,302 or 0.7%. The increase in outstanding shares relates to the issuance of shares pursuant to the Company's dividend reinvestment plan ("DRIP") and EIP.

Fully diluted earnings per common share attributable to PLC shareholders for the three month period ended December 31, 2020 were \$0.209 compared to \$0.018 for the same period in 2019.

Adjusted Net Earnings Per Share

The 2020 and 2019 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, 2020 compared to the same period in 2019:

	Three Months Ended December 31,	
	2020	2019
Net earnings, PLC shareholders	\$ 6,260,955	\$ 543,706
Adjusted for the impact of:		
Acquisition and integration costs	1,729,060	3,314,960
Share based compensation	1,501,744	934,197
Other (income) or expenses	1,260,683	351,362
Amortization of intangible assets	601,376	880,132
Tax effect on the above items	(830,832)	(1,247,517)
Adjusted Net Earnings, PLC shareholders	<u>\$ 10,522,986</u>	<u>\$ 4,776,840</u>
Adjusted EBITDA, PLC shareholders (see Quarterly and Annual Information)	<u>\$ 24,181,865</u>	<u>\$ 13,397,500</u>
Per share amounts attributable to PLC shareholders		
Adjusted Net Earnings - diluted	<u>\$ 0.351</u>	<u>\$ 0.160</u>
Adjusted EBITDA - diluted (see Quarterly and Annual Information)	<u>\$ 0.806</u>	<u>\$ 0.450</u>
Weighted average shares outstanding - diluted	<u>29,999,849</u>	<u>29,776,547</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, 2020 increased to \$10,522,986 from \$4,776,840 during the same period in 2019. This represents an increase of 120.3% quarter over quarter. The fully diluted Adjusted Net Earnings per share for the three month period ended December 31, 2020 was \$0.351 compared to \$0.160 for the same period in 2019, a quarter over quarter increase of \$0.191 or 119.4%.

Adjusted EBITDA Per Share

Adjusted EBITDA attributable to PLC shareholders for the three month period ended December 31, 2020 was \$24,181,865 compared to \$13,397,500 during the same period in 2019, which represents an increase of \$10,784,365 or 80.5% quarter over quarter. The fully diluted Adjusted EBITDA per share for the three month period ended December 31, 2020 was \$0.806 compared to \$0.450 for the same period in 2019, a quarter over quarter increase of \$0.356 or 79.1%.

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 the Company's operations for the three month periods ended December 31, 2020 and 2019 compared to its dividend payout:

	Three Months Ended December 31,	
	2020	2019
Earnings before income taxes	\$ 10,293,260	\$ 941,665
Adjusted for:		
Amortization of cemetery property	2,908,059	2,492,331
Depreciation and amortization	4,073,309	3,879,428
Cash income taxes payable	(1,910,000)	(790,000)
Share based compensation	1,488,239	849,418
Forgiveness of loan and other non-cash amounts	1,035,750	-
Adjusted cash flow from operations	17,888,617	7,372,842
Less non controlling interest amounts:		
Net earnings	143,981	125,016
Depreciation and amortization	41,417	45,459
Adjusted cash flow, equity holders of PLC	\$17,703,220	\$7,202,367
Adjusted cash flow per common share-diluted	\$0.590	\$0.242
Dividends per common share	\$0.114	\$0.114
Payout ratio	19%	47%

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 \$17,703,220 for the three month period ended December 31, 2020 compared to \$7,202,367 for the same period in 2019. This represents Adjusted Cash Flow per fully diluted common share of \$0.590 and \$0.242 for the three month periods ended December 31, 2020 and 2019, respectively.

The Company paid dividends of \$0.114 per common share for the three month periods ended December 31, 2020 and 2019. The dividends paid represent 19% and 47% of the Adjusted Cash Flow per common share for the three month periods ended December 31, 2020 and 2019, respectively.

Discussion of Operating Results, Twelve Months ended December 31, 2020

Total revenue for the year ended December 31, 2020 was \$334,152,978 compared to \$244,259,132 in the same period in 2019. This represents an increase of \$89,893,846 or 36.8%, over the same period in 2019.

Revenue, cost of sales and gross profit for the years ended December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Sales	\$317,139,490	\$223,155,812
Income from care and maintenance funds	10,661,812	10,827,579
Interest and other income	6,351,676	10,275,741
Revenue	334,152,978	244,259,132
Cost of sales	61,512,315	46,813,191
Gross profit	\$272,640,663	\$197,445,941

Sales for the year ended December 31, 2020, were \$317,139,490 compared to \$223,155,812 in the same period of 2019. This represents an increase of \$93,983,678 or 42.1%, over the same period in 2019. This increase in sales is primarily related to Acquired Operations made throughout 2019 and 2020, as well as sales growth from both pre-need and at-need sales in Same Store Operations throughout 2020.

Income from care and maintenance funds for the year ended December 31, 2020 was \$10,661,812 compared to \$10,827,579 in the same period of 2019, a decrease of \$165,767 or 1.5%.

Interest and other income for the year ended December 31, 2020 was \$6,351,676 compared to \$10,275,741 in the same period in 2019, a decrease of \$3,924,065 or 38.2%. Included in the year ended December 31, 2019 income was a realized capital gain of \$4,270,633 from a pre-need trust fund.

Excluding the impact of foreign exchange differences in the periods, Revenue Growth from Comparable Business Units' year over year was 10.8%.

The year over year increase in comparable revenue for the year ended December 31, 2020 was due primarily to higher pre-need and at-need sales throughout the company's U.S. cemeteries and funeral homes. This was partially offset by decreases in revenue per service due to various levels of jurisdictional restrictions that were enforced during 2020 as a result of the COVID-19 pandemic.

Sales from Acquired Operations also increased, which contributed to Revenue Growth from Comparable Business Units. Sales from Acquired Operations improved compared to the year ended December 31, 2019 as the Company began to realize integration improvements on Acquired Operations completed in the first half of 2019.

Cost of sales for the year ended December 31, 2020 was \$61,512,315 compared to \$46,813,191 in the same period in 2019. This represents an increase of \$14,699,124 or 31.4%, over the same period in 2019, and is primarily a result of Acquired Operations and increased sales between the year ended December 31, 2020 and December 31, 2019.

Operating expenses for the year ended December 31, 2020 were \$231,949,181 compared to \$173,987,322 in the same period in 2019. This represents an increase of \$57,961,859 or 33.3% over the same period in 2019, as indicated below:

	December 31, 2020	December 31, 2019
General and administrative	\$142,827,042	\$101,588,439
Amortization of intangibles	2,448,031	2,811,894
Maintenance	34,734,406	31,583,242
Advertising and selling	36,815,842	28,723,849
Finance costs	9,853,791	5,668,410
Share based incentive compensation	5,270,069	3,611,488
	<u>\$231,949,181</u>	<u>\$173,987,322</u>

The overall increase in operating expenses year over year was due primarily to the inclusion of Acquired Operations, higher general and administrative expenses for corporate infrastructure, increased finance costs associated with higher loan balances on the credit facility and the Debentures, as well as, additional share based compensation expense from additional awards being issued in 2020.

For the year ended December 31, 2020, general and administrative expenses increased by \$41,238,603 compared to the same period in 2019. The increase in expenses relates primarily to Acquired Operations and an increase in people to support the growth in certain businesses post acquisition, aligning employee benefits and health insurance costs with the Company's benefit plan, as well as the corporate level headcount and costs relating to the expansion of our corporate infrastructure to support the Company's continued growth. This investment in our corporate infrastructure occurred primarily during the 2019 fiscal year and is expected to support most of the planned growth in the near-term.

For the year ended December 31, 2020 maintenance expenses increased by \$3,151,164, when compared to the same period in 2019. This increase is primarily due to Acquired Operations.

Advertising and selling expenses increased by \$8,091,993 for the year ended December 31, 2020 compared to the same period in 2019. This increase was primarily a result of Acquired Operations and increased selling commissions associated with higher sales, primarily at the Company's cemetery locations.

Finance costs for the year ended December 31, 2020, include interest expense on the Company's credit facility and interest expense on the Debentures. Finance costs increased by \$4,185,381 or 73.8% for the year ended December 31, 2020 compared to the same period in 2019, as a result of the Company utilizing its credit facility to fund its recent acquisitions, as well as the issuance of the Debentures in July 2020. Amortization of deferred finance costs associated with establishing and amending the credit facility and the Debenture offering, contributed to the increase in finance costs. This increase was offset by a realized gain on foreign exchange translation on loans denominated in US dollar during the three month period ended December 31, 2020.

As previously stated, the EIP provides for the grant of DSUs, RSUs, and Options. Share based incentive compensation expense associated with these units for the year ended December 31, 2020 was \$5,270,069 compared to \$3,611,488 for the same period in 2019. Share based incentive compensation increased \$1,658,581 or 45.9% due primarily due to additional awards issued during the year ended December 31, 2020.

As a result of the above, earnings from operations for the year ended December 31, 2020 totaled \$40,691,482 compared to \$23,458,619 for the same period in 2019. This represents an increase of \$17,232,863 or 73.5% year over year.

Other income and expenses for the years ended December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Earnings from operations	\$ 40,691,482	\$ 23,458,619
Acquisition and integration costs	(6,538,806)	(12,964,150)
Other income (expenses)	<u>(4,588,323)</u>	<u>(420,266)</u>
Earnings before income taxes	\$ 29,564,353	\$ 10,074,203
Income tax expense	<u>10,226,173</u>	<u>2,788,092</u>
Net earnings for the period	<u><u>\$ 19,338,180</u></u>	<u><u>\$ 7,286,111</u></u>

During the years ended December 31, 2020 and 2019, the Company incurred acquisition and integration expenses of \$6,538,806 and \$12,964,150, respectively. Acquisition expenses will vary from period to period depending on the size and level of acquisition activity, and includes costs relating to legal, financial and tax due diligence, post closing audits, representation and warranty insurance premiums, preparation of independent valuation reports, reports for regulatory compliance purposes, and internal compensation.

Other income (expenses) previously discussed in this MD&A include expenses relating to the work of the Special Committee, the departure of and amounts paid to Mr. Clark, legal costs related to the defence of intellectual property created by the Company, legal costs related to the preservation of investments made or authorized by Mr. Clark, restructuring costs, costs related to the forgiveness of loans of Mr. Clark and Mr. Leeder, and income related to wages recovery under CEWS program. Certain of these expenses are discussed in more detail in “Related Party Transactions” below.

Income tax expense for the year ended December 31, 2020 was \$10,226,173 compared to \$2,788,092 for the same period in 2019. The effective tax rate in 2020 was 34.6% 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, such as share based compensation expenses, forgiveness of loans, offset by non-taxable dividend income compared to 27.7% for the same period in 2019.

As a result of the above, the Company’s after-tax earnings from operations for the year ended December 31, 2020 totaled \$19,338,180 compared to \$7,286,111 for the same period in 2019.

Earnings Per Share

The weighted average diluted number of common shares outstanding for the year ended December 31, 2020 increased to 29,894,399 compared to 28,121,174 for the same period in 2019, an increase of 1,773,225 or 6.3%. The increase in outstanding shares relates primarily to the Company’s equity offering in April 2019 and the issuance of shares pursuant to the Company’s DRIP and EIP.

Fully diluted earnings per common share attributable to PLC shareholders for the year ended December 31, 2020 were \$0.637 compared to \$0.246 for the same period in 2019.

Adjusted Net Earnings Per Share

The 2020 and 2019 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, 2020 compared to the same period in 2019:

	Twelve Months Ended December 31,	
	2020	2019
Net earnings, PLC shareholders	\$ 19,030,564	\$ 6,906,841
Adjusted for the impact of:		
Acquisition and integration costs	6,538,806	12,964,150
Share based compensation	5,270,069	3,611,488
Other (income) or expenses	4,588,323	420,266
Amortization of intangible assets	2,448,031	2,811,894
Tax effect on the above items	(3,250,234)	(4,354,961)
Adjusted Net Earnings, PLC shareholders	<u>\$ 34,625,559</u>	<u>\$ 22,359,678</u>
Adjusted EBITDA, PLC shareholders (see Quarterly and Annual Information)	<u>\$ 79,862,930</u>	<u>\$ 53,254,746</u>
Per share amounts attributable to PLC shareholders		
Adjusted Net Earnings - diluted	<u>\$ 1.158</u>	<u>\$ 0.795</u>
Adjusted EBITDA - diluted (see Quarterly and Annual Information)	<u>\$ 2.672</u>	<u>\$ 1.894</u>
Weighted average shares outstanding - diluted	<u>29,894,399</u>	<u>28,121,174</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, 2020 increased to \$34,625,559 from \$22,359,678 during the same period in 2019. This represents an increase of 54.9% year over year. The fully diluted Adjusted Net Earnings per share for the year ended December 31, 2020 was \$1.158 compared to \$0.795 for the same period in 2019, a year over year increase of \$0.363 or 45.7%.

Adjusted EBITDA Per Share

Adjusted EBITDA attributable to PLC shareholders for the year ended December 31, 2020 was \$79,862,930 compared to \$53,254,746 during the same period in 2019, which represents an increase of \$26,608,184 or 50.0% year over year. The fully diluted Adjusted EBITDA per share for the year ended December 31, 2020 was \$2.672 compared to \$1.894 for the same period in 2019, a year over year increase of \$0.778 or 41.1%.

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 years ended December 31, 2020 and 2019 compared to its dividend payout:

	Twelve Months Ended December 31,	
	2020	2019
Earnings before income taxes	\$ 29,564,353	\$ 10,074,203
Adjusted for:		
Amortization of cemetery property	8,915,555	7,647,209
Depreciation and amortization	15,774,272	13,459,547
Cash income taxes payable	(2,790,000)	(1,400,000)
Share based compensation	5,112,133	3,231,167
Forgiveness of loan and other non-cash amounts	2,440,425	-
Adjusted cash flow from operations	59,016,738	33,012,126
Less non controlling interest amounts:		
Net earnings	307,616	379,270
Depreciation and amortization	164,875	217,244
Adjusted cash flow, equity holders of PLC	\$58,544,248	\$32,415,612
Adjusted cash flow per common share-diluted	\$1.958	\$1.153
Dividends per common share	\$0.456	\$0.456
Payout ratio	23%	40%

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 \$58,544,248 for the year ended December 31, 2020 compared to \$32,415,612 for the same period in 2019. This represents Adjusted Cash Flow per fully diluted common share of \$1.958 and \$1.153 for the years ended December 31, 2020 and 2019, respectively.

The Company paid dividends of \$0.456 per common share for the years ended December 31, 2020 and 2019. The dividends paid represent 23% and 40% of the Adjusted Cash Flow per common share for the years ended December 31, 2020 and 2019, respectively.

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, 2020	December 31, 2019
Canada	\$ 206,887,380	\$ 205,799,226
United States	1,221,561,729	1,086,459,870
Total	<u>\$ 1,428,449,109</u>	<u>\$ 1,292,259,096</u>

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

	December 31, 2020	December 31, 2019
Revenue:		
Sales:		
Canada	\$ 36,500,888	\$ 35,560,443
United States	280,638,602	187,595,369
Total sales	<u>317,139,490</u>	<u>223,155,812</u>
Income from care and maintenance funds:		
Canada	4,130,000	5,029,639
United States	6,531,812	5,797,940
Total income from care and maintenance funds	<u>10,661,812</u>	<u>10,827,579</u>
Interest and other income:		
Canada	1,171,952	883,285
United States	5,179,724	9,392,456
Total interest and other income	<u>6,351,676</u>	<u>10,275,741</u>
Total revenue:		
Canada	41,802,840	41,473,367
United States	292,350,138	202,785,765
Total Revenue	<u>\$ 334,152,978</u>	<u>\$ 244,259,132</u>

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. The Company had a net working capital of \$51,184,951 as at December 31, 2020 including \$31,475,091 in cash. Net working capital is calculated as the difference between the Company's current assets and its current liabilities.

On November 22, 2019, the Company amended its existing syndicated bank financing arrangement to increase its borrowing capacity from \$225,000,000 to \$300,000,000 (comprised of a \$250,000,000 committed credit facility and an additional \$50,000,000 accordion facility). The credit facility has a term of five years with a maturity date of January 18, 2025.

In March 2020, as part of the COVID-19 contingency planning process, the Company requested that its lending syndicate increase its leverage ratio from 3.5 times to 4.0 times on a temporary basis from May 8, 2020 through

June 29, 2021. The leverage ratio would reduce to 3.75 times on June 30, 2021 and then revert to not more than 3.5 times on September 30, 2021 and thereafter. In addition, the Company requested a temporary increase of \$25,000,000 in credit availability to provide additional liquidity for a period of one year commencing May 8, 2020. The lending syndicate approved both requests effective May 8, 2020. On August 21, 2020, based on the positive performance of its operations, the Company cancelled the temporary increase of \$25,000,000.

In July 2020, the Company raised \$86,250,000 in gross proceeds from the issuance of publicly traded Debentures. The proceeds were used to repay a portion of the outstanding credit facility. For purposes of testing the covenants under the Company's credit facility, the Debentures are not included as part of total indebtedness. The Company intends to use the enhanced borrowing capacity under the credit facility to fund future acquisitions and for general corporate purposes.

The credit facility requires the Company to maintain a Leverage Ratio of less than 4 times. It also requires the Company to maintain an Interest Coverage Ratio of greater than 3 times. As of December 31, 2020, the Company was in compliance with both covenant tests with the Leverage Ratio being 1.55 times and the Interest Coverage Ratio being 12.45 times.

At December 31, 2020, the Company had \$144,828,463 outstanding on the credit facility including letters of credit. The Company has an undrawn balance on its credit facility of \$105,171,537 and \$31,475,091 in cash on hand as at December 31, 2020, this provides the Company with \$136,646,628 in liquidity.

As at December 31, 2020, the Company had other debt of \$12,328,072 comprised of vehicle loans, mortgages on certain funeral homes and notes payable to former business owners supporting non-compete and warranty agreements and related to the financing of the general business insurance policies. Further, the Company had \$7,291,388 in lease liabilities. The Debentures balance as at December 31, 2020 was \$81,964,547, net of debt issuance costs and accretion expense of \$4,285,453.

Summary of principal repayments by year

	2021	2022	2023	2024	2025	Thereafter	Total
Revolving loan facility	\$ -	\$ -	\$ -	\$ -	\$ 144,064,440	\$ -	\$ 144,064,440
Mortgages	85,592	88,857	92,247	95,688	99,417	558,980	1,020,781
Other debt	267,797	227,846	73,275	53,106	24,484	-	646,508
	353,389	316,703	165,522	148,794	144,188,341	558,980	145,731,729
Deferred financing costs	-	-	-	-	(2,031,321)	-	(2,031,321)
Total	<u>\$ 353,389</u>	<u>\$ 316,703</u>	<u>\$ 165,522</u>	<u>\$ 148,794</u>	<u>\$ 142,157,020</u>	<u>\$ 558,980</u>	<u>\$ 143,700,408</u>

Lease liabilities

	December 31, 2020	December 31, 2019
Future minimum lease payments		
Due in less than one year	\$ 2,277,776	\$ 2,073,330
Due between one and two years	1,430,314	1,750,960
Due between two and three years	1,128,936	931,289
Due thereafter	3,741,628	2,750,802
Interest	(1,287,265)	(992,651)
Present value of minimum lease payments	7,291,388	6,513,730
Current portion	2,154,722	1,831,687
Non-current portion	\$ 5,136,666	\$ 4,682,043

The Company has 14 construction commitments with the remaining balance of \$16,550,980 committed, primarily for the construction of the Westminster funeral visitation and reception centre in Toronto, Ontario and for funeral homes, mausoleums, and cemetery development in the United States. To date the Company has spent \$18,776,447 on these construction commitments in progress.

From December 2013 to December 2020, the Company raised approximately \$505,000,000 from the issuance of common shares to fund various growth initiatives. The Company may use additional share or debenture offerings to fund future growth initiatives if, and when, such opportunities arise.

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 regulatory requirements. During the year ended December 31, 2020, the Company contributed \$9,344,776 to the trust funds compared to \$7,909,089 during the same period in 2019. The Care and Maintenance Trust Fund assets are included in the Consolidated Statement of Financial Position at market value. As of December 31, 2020, the balance of the trust funds was \$246,001,481 compared to \$224,494,986 as at December 31, 2019. The increase is primarily a result of recent acquisitions and contributions to the trust funds. The Care and Maintenance Trust Fund assets are offset by a corresponding liability for Care and Maintenance Trusts' Corpus.

As of December 31, 2020, the Company had net unrealized gains in the Care and Maintenance Trust Funds of approximately \$17,900,000, which represents a 7.9% net unrealized gain to the original cost basis. This is an improvement from the net unrealized loss of approximately \$19,600,000 at March 31, 2020 due to improved capital markets during the second, third, and fourth quarter of 2020.

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, 2020 of \$293,048,584 compared to \$257,150,385 as at December 31, 2019. The increase is a result of recent acquisitions and an increase in fair value since December 31, 2019. The Pre-Need Merchandise and Service Trust Funds are offset by a corresponding liability for Deferred Pre-Need Receipts held in trust.

As of December 31, 2020, the Company had net unrealized gain in the Pre-Need Merchandise and Service Trust Funds of approximately \$28,900,000, which represents a 10.9% net unrealized gain to the original cost basis. This is an improvement from the net unrealized loss of approximately \$2,900,000 at March 31, 2020 due to improved capital markets during the second, third, and fourth quarter of 2020. The unrealized gains are muted because of the higher cash positions and the Canadian GIC's. Adjusting for those items the net unrealized gain at December 31, 2020 on the other investments was 12.8 %.

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, 2020, and December 31, 2019, the current face amounts of pre-funded policies were \$368,903,733 and \$288,207,017, 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 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, 2020, the Company had surety bonds in place having an aggregate face value of \$37,621,704.

Quarterly and Annual Information

	2020 Q4	2020 Q3	2020 Q2	2020 Q1	Year Ending Dec 31, 2020
Revenue	\$93,274,216	\$83,206,952	\$84,117,242	\$73,554,568	\$334,152,978
Earnings from operations	\$13,283,003	\$8,940,533	\$10,582,088	\$7,885,858	\$40,691,482
Net earnings, PLC shareholders	\$6,260,955	\$5,403,038	\$6,632,514	\$734,057	\$19,030,564
Adjusted Net Earnings, PLC shareholders	\$10,522,986	\$7,748,660	\$8,784,310	\$7,569,603	\$34,625,559
Net earnings per share - basic, PLC shareholders	*\$0.210	*\$0.181	*\$0.223	*\$0.025	*\$0.640
Net earnings per share - diluted, PLC shareholders	*\$0.209	*\$0.180	*\$0.223	*\$0.025	*\$0.637
Adjusted Net Earnings per share - diluted, PLC shareholders	*\$0.351	*\$0.259	*\$0.295	*\$0.255	*\$1.158
Earnings from operations (per above)	13,283,003	8,940,533	10,582,088	7,885,858	40,691,482
Finance costs	2,610,030	2,720,149	2,133,827	2,389,785	9,853,791
Depreciation and amortization	4,073,309	3,964,144	3,918,934	3,817,885	15,774,272
Amortization of cemetery property	2,908,059	2,448,478	1,834,266	1,724,752	8,915,555
Non-controlling interest	(194,280)	(135,916)	(176,474)	(135,569)	(642,239)
EBITDA, PLC shareholders	22,680,121	17,937,388	18,292,641	15,682,711	74,592,861
Share based compensation	1,501,744	1,165,547	1,195,402	1,407,376	5,270,069
Adjusted EBITDA, PLC shareholders	\$ 24,181,865	\$ 19,102,935	\$ 19,488,043	\$ 17,090,087	\$ 79,862,930
Adjusted EBITDA margin	**26.1%	**23.0%	**23.2%	**23.3%	**24.1%
Adjusted EBITDA per share - diluted, PLC shareholders	*\$0.806	*\$0.638	*\$0.654	*\$0.576	*\$2.672
	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
Finance costs	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
Non-controlling interest	(70,175)	(133,277)	(213,237)	(173,838)	(590,527)
EBITDA, PLC shareholders	12,463,303	13,990,192	12,080,519	11,109,244	49,643,258
Share based compensation	934,197	1,116,805	933,333	627,153	3,611,488
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

*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, 2020 and December 31, 2019, 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, 2020.

Dividend			
Month	Record Date	Payment Date	Per Share
December, 2020	December 31, 2020	January 15, 2021	0.038
November, 2020	November 30, 2020	December 15, 2020	0.038
October, 2020	October 31, 2020	November 16, 2020	0.038
September, 2020	September 30, 2020	October 15, 2020	0.038
August, 2020	August 31, 2020	September 15, 2020	0.038
July, 2020	July 31, 2020	August 14, 2020	0.038
June, 2020	June 30, 2020	July 15, 2020	0.038
May, 2020	May 31, 2020	June 15, 2020	0.038
April, 2020	April 30, 2020	May 15, 2020	0.038
March, 2020	March 31, 2020	April 15, 2020	0.038
February, 2020	February 29, 2020	March 16, 2020	0.038
January, 2020	January 31, 2020	February 14, 2020	<u>0.038</u>
Total dividends per share			<u>\$ 0.456</u>

Related Party Transactions

As discussed in this section and disclosed elsewhere in the MD&A, 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 the directors and officers of the Company; and (iii) entities controlled by key management personnel.

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. Nine Two Seven Limited is owned by Mr. Clark. The loan bore interest at a rate of 3.2% per annum payable upon maturity 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 bore interest at a rate of 3.2% per annum payable upon maturity on January 7, 2025

The two loans described above were forgiven in the amount of \$1,665,104 on February 17, 2020.

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 Mr. Leeder. The loan bore interest at a rate of 3.2% per annum payable upon maturity on January 7, 2025. The loan was forgiven in the amount of \$1,035,750 on December 31, 2020.

Total loans outstanding under the ESLP, including accrued interest, amounted to \$nil at December 31, 2020 (at December 31, 2019 - \$2,712,688). Interest income earned by the Company for the years ended December 31, 2020 and 2019 was \$33,144 and \$92,413, respectively.

Effective March 31, 2020, Mr. Clark stepped down as CEO of the Company. Upon his departure, the Company and Mr. Clark entered into an agreement, and subsequently amended that agreement, which contained the following financial terms, which total \$1,720,734 (notwithstanding the terms of Mr. Clark's employment agreement):

- forgiveness of a \$1,648,439 loan and accrued interest of \$16,665, provided by the Company to Nine Two Seven Limited under the Company's ESLP;
- the forfeiture of all equity incentives held by Mr. Clark, other than 10,632 PSUs and 1,651 DSUs. Since all the forfeited equity incentive awards previously issued to Mr. Clark had been previously expensed as part of share-based compensation, this results in other income of \$260,429 for the quarter ended March 31, 2020;
- the payment of \$93,000 in legal expenses incurred by Mr. Clark in connection with his departure;
- other consideration valued in the amount of \$223,059; and
- no other payments, including in respect of bonuses, notice or severance.

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 CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure.

Subject to the 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, 2020.

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 Family Legacy and Harpeth Hills and J.F. Floyd which were acquired during 2020.

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 Family Legacy and Harpeth Hills and J.F. Floyd:

	Family Legacy and Harpeth Hills December 31, 2020	J. F. Floyd December 31, 2020
Revenue	\$ 24,978,958	\$ 2,163,126
Net earnings	\$ 3,811,171	\$ 466,448
Current assets	\$ 4,501,905	\$ 3,530,826
Non-current assets	\$ 57,324,159	\$ 32,012,264
Current liabilities	\$ 3,510,404	\$ 668,983
Non-current liabilities	\$ 42,470,693	\$ 21,592,919

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the 2020 fiscal year that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Shares Outstanding

The authorized capital of the Company consists of an unlimited number of common shares. As at December 31, 2020, there were 29,564,526 common shares issued and outstanding, representing an increase of 209,682 common shares issued and outstanding since December 31, 2019. The increase in the number of common shares is the result of the issuance of shares pursuant to the Company's DRIP and EIP. As at March 30, 2021, there were 29,666,648 common shares issued and outstanding. In addition, the Company has 2,400,000 common shares reserved and available for grant and issuance under the EIP. As at March 30, 2021, 1,709,394 DSUs, RSUs, PSUs and Options were outstanding.

We are actively assessing and responding, where possible, to the effects of the COVID-19 pandemic on the Company's employees, customers, suppliers and other stakeholders. The Company has taken a number of measures to mitigate the negative effects of the COVID-19 pandemic as outlined above under "Overview". However, the pandemic continues to represent a material risk to our business. 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, we may need to temporarily reduce staffing or close certain of our facilities. Additionally, the pandemic could lead to interruptions in our supply chain and temporary closures of our supplier facilities.

The extent to which COVID-19 and its effect on the economy will impact our business is highly uncertain and may lead to adverse changes in our cash flows, working capital levels, debt balances, operating results and financial position in the future.

The Company is monitoring the situation closely and will continue to make all efforts to minimize the risk to employees, customers and other stakeholders.

Additional Information

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