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Condensed Interim Consolidated Financial Statements

As at and for the the three months ending
March 31, 2020 and 2019 | Unaudited



PARK LAWN
CORPORATION

NOTICE TO READER

Park Lawn Corporation's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements.

(signed) "Joseph Leeder"
Joseph Leeder
Chief Financial Officer

(signed) "Steven Scott"
Steven Scott
Director

PARK LAWN CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT MARCH 31, 2020 AND DECEMBER 31, 2019
(UNAUDITED)

	March 31, 2020	December 31, 2019 <i>(Restated, Measurement Period Adjustment - see Note 6)</i>
Assets		
Current assets		
Cash	\$ 27,895,444	\$ 21,255,330
Accounts receivable	12,572,682	13,506,859
Pre-need receivables, current portion (Note 4)	32,260,245	29,044,341
Inventories, current portion (Note 5)	11,682,648	9,459,240
Prepaid expenses and other current assets (Note 13)	10,391,466	10,253,633
	<u>94,802,485</u>	<u>83,519,403</u>
Non-current assets		
Pre-need receivables, net of current portion (Note 4)	69,609,357	58,015,914
Inventories, net of current portion (Note 5)	93,722,272	85,500,785
Land held for development (Note 7)	25,066,206	22,138,968
Property and equipment (Note 8)	223,457,316	194,585,169
Care and maintenance trust fund investments (Note 9)	213,361,053	224,494,986
Pre-need merchandise and service trust fund investments (Note 10)	271,537,595	257,150,385
Deferred tax assets	6,444,410	5,858,634
Goodwill and intangibles (Note 6 and 12)	470,750,636	377,410,286
Deferred commissions	33,977,789	28,191,067
Other assets (Note 13)	10,183,380	38,003,291
	<u>1,418,110,014</u>	<u>1,291,349,485</u>
TOTAL ASSETS	<u><u>\$ 1,512,912,499</u></u>	<u><u>\$ 1,374,868,888</u></u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 22)	\$ 38,230,552	\$ 31,344,065
Dividends payable	1,118,154	1,115,484
Current portion of long-term debt (Note 14)	430,764	421,074
Current portion of notes payable (Note 15)	1,490,528	1,323,036
Current portion of lease liabilities (Note 16)	1,968,790	1,831,687
	<u>43,238,788</u>	<u>36,035,346</u>
Non-current liabilities		
Long-term debt, net of current portion (Note 14)	216,932,740	173,465,316
Notes payable, net of current portion (Note 15)	9,339,154	7,368,286
Lease liabilities, net of current portion (Note 16)	4,503,409	4,682,043
Deferred tax liabilities	4,109,906	6,544,817
Deferred revenue (Note 17)	178,701,270	150,602,874
Care and maintenance trusts' corpus (Note 9)	213,361,053	224,494,986
Deferred pre-need receipts held in trust (Note 10)	271,537,595	257,150,385
	<u>898,485,127</u>	<u>824,308,707</u>
Shareholders' Equity		
Share capital (Note 19)	502,677,787	502,047,830
Contributed surplus	8,661,184	7,618,962
Accumulated other comprehensive income	55,426,485	(2,112,155)
Retained earnings	2,471,655	5,091,160
	<u>569,237,111</u>	<u>512,645,797</u>
Non-controlling interest	1,951,473	1,879,038
	<u>571,188,584</u>	<u>514,524,835</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 1,512,912,499</u></u>	<u><u>\$ 1,374,868,888</u></u>

Commitments and Contingencies (Note 24)
Subsequent Events (Note 26)

Approved by the Board of Directors

"Joseph Leeder"

Joseph Leeder - CFO, Director

"Steven Scott"

Steven Scott - Director

The accompanying notes to the condensed interim consolidated financial statements are an integral part of these condensed interim consolidated financial statements.

PARK LAWN CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(UNAUDITED)

	March 31, 2020	March 31, 2019
Revenue		
Sales	\$ 69,508,749	\$ 45,937,495
Income from care and maintenance funds (Note 9)	2,751,720	2,783,077
Interest and other income	1,728,505	1,432,413
	<u>73,988,974</u>	<u>50,152,985</u>
Cost of sales	<u>13,323,605</u>	<u>9,315,608</u>
Gross profit	<u>60,665,369</u>	<u>40,837,377</u>
Operating expenses		
General and administrative	32,886,265	18,866,345
Amortization of intangibles (Note 12)	648,483	236,948
Maintenance	7,751,489	6,787,758
Advertising and selling	7,696,113	6,768,685
Interest expense	2,389,785	1,275,841
Share based incentive compensation (Note 20)	1,407,376	627,153
	<u>52,779,511</u>	<u>34,562,730</u>
Earnings from operations	7,885,858	6,274,647
Acquisition and integration costs (Note 6)	(3,462,853)	(1,672,452)
Other (expenses) income (Note 21)	<u>(2,979,677)</u>	<u>8,640</u>
Earnings before income taxes	1,443,328	4,610,835
Income tax expense	<u>636,836</u>	<u>1,211,336</u>
Net earnings for the period	<u>\$ 806,492</u>	<u>\$ 3,399,499</u>
Net earnings attributable to:		
Equity holders of PLC	\$ 734,057	\$ 3,325,247
Non-controlling interest	<u>72,435</u>	<u>74,252</u>
	<u>\$ 806,492</u>	<u>\$ 3,399,499</u>
Attributable to equity holders of PLC		
Net earnings per share - basic	<u>\$ 0.025</u>	<u>\$ 0.141</u>
Net earnings per share - diluted	<u>\$ 0.025</u>	<u>\$ 0.141</u>
Weighted average number of common shares:		
- basic	<u>29,635,025</u>	<u>23,524,356</u>
- diluted	<u>29,684,141</u>	<u>23,622,214</u>

The accompanying notes to the condensed interim consolidated financial statements are an integral part of these condensed interim consolidated financial statements.

PARK LAWN CORPORATION**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(UNAUDITED)**

	March 31, 2020	March 31, 2019
Net earnings for the period	\$ 806,492	\$ 3,399,499
Item of other comprehensive income to be subsequently reclassified to net earnings		
Foreign currency translation of foreign operations	57,538,640	(8,189,125)
Comprehensive income (loss)	<u>\$ 58,345,132</u>	<u>\$ (4,789,626)</u>

The accompanying notes to the condensed interim consolidated financial statements are an integral part of these condensed interim consolidated financial statements.

PARK LAWN CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(UNAUDITED)

	# 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 18)	-	-	-	(2,638,985)	-	-	(2,638,985)
Shares issued:							
Dividend reinvestment plan (Note 19)	20,690	483,099	-	-	-	-	483,099
Equity incentive plan (Note 20)	-	-	530,934	-	-	-	530,934
Other comprehensive loss	-	-	-	-	(8,189,125)	-	(8,189,125)
Net earnings for the period	-	-	-	3,325,247	-	74,252	3,399,499
Balance at March 31, 2019	<u>23,156,005</u>	<u>\$ 364,440,522</u>	<u>\$ 2,828,448</u>	<u>\$ 11,516,070</u>	<u>\$ 13,699,572</u>	<u>\$ 1,574,020</u>	<u>\$ 394,058,632</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 18)	-	-	-	(3,353,562)	-	-	(3,353,562)
Shares issued:							
Dividend reinvestment plan (Note 19)	23,848	629,957	-	-	-	-	629,957
Equity incentive plan (Note 20)	46,420	-	1,042,222	-	-	-	1,042,222
Other comprehensive icome (loss)	-	-	-	-	57,538,640	-	57,538,640
Net earnings for the period	-	-	-	734,057	-	72,435	806,492
Balance at March 31, 2020	<u>29,425,112</u>	<u>\$ 502,677,787</u>	<u>\$ 8,661,184</u>	<u>\$ 2,471,655</u>	<u>\$ 55,426,485</u>	<u>\$ 1,951,473</u>	<u>\$ 571,188,584</u>

The accompanying notes to the condensed interim consolidated financial statements are an integral part of these condensed interim consolidated financial statements.

PARK LAWN CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(UNAUDITED)

	March 31, 2020	March 31, 2019
Cash provided by (used in):		
Operating activities		
Net earnings for the period	\$ 806,492	\$ 3,399,499
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Acquisition and integration costs	3,462,853	1,672,452
Deferred tax expense/asset	(636,836)	382,291
Depreciation of property and equipment, investment properties and amortization of intangibles (Note 8 and 12)	3,817,885	2,423,506
Amortization of cemetery property	1,724,752	1,309,088
Amortization of deferred commissions	767,984	644,625
Amortization of deferred financing costs (Note 14)	85,555	64,564
Interest on lease liabilities (Note 16)	80,113	60,288
Share based incentive compensation (Note 20)	1,302,651	530,934
Loss on forgiveness of loan and other non-cash amounts (Note 22)	1,511,179	-
(Gain) loss on disposal of property and equipment (Note 8)	(32,924)	(49,556)
Changes in working capital that provided (required) cash:		
Accounts receivable	1,840,929	2,068,437
Net receipts on pre-need activity	(3,192,451)	(1,987,925)
Merchandise inventories	352,662	29,331
Prepaid expenses and other current assets	(1,815,005)	(852,409)
Accounts payable and accrued liabilities	2,539,010	(57,942)
Cash provided by (used in) operating activities	12,614,850	9,637,183
Investing activities		
Acquisition and integration costs	(3,462,853)	(1,672,452)
Net cash on acquisitions and other strategic transactions (Note 6)	(39,356,889)	-
Additions to cemetery property	(2,118,525)	(1,051,687)
Acquisition of property and equipment (Note 8)	(3,741,891)	(2,925,762)
Proceeds on disposal of property and equipment (Note 8)	66,409	1,492,325
Land held for development (Note 7)	-	-
Deferred commissions	(1,219,747)	(516,196)
Decrease (increase) in other assets (Note 13)	(316,875)	443,006
Cash provided by (used in) investing activities	(50,150,371)	(4,230,766)
Financing activities		
Proceeds from issuance of long-term debt (Note 14)	44,618,491	-
Repayment of long-term debt (Note 14)	(1,114,482)	(2,024,491)
Proceeds (repayment) of note payable (Note 15)	327,860	(203,592)
Proceeds (repayment) of lease liabilities (Note 16)	(430,168)	(374,554)
Proceeds from financing, net of costs (Note 14)	-	483,099
Dividends and distributions paid (Note 19)	(2,723,605)	(2,638,985)
Deferred financing costs (Note 14)	(167,437)	(522,823)
Cash provided by (used in) financing activities	40,510,658	(5,281,346)
Translation adjustment on cash	3,664,977	195,697
Net increase (decrease) in cash	6,640,114	320,768
Cash, beginning of period	21,255,330	14,149,092
Cash, end of period	\$ 27,895,444	\$ 14,469,860
Supplemental disclosures:		
Income taxes paid	\$ 160,231	\$ 59,308
Interest expenses paid	\$ 2,160,455	\$ 1,119,208

The accompanying notes to the condensed interim consolidated financial statements are an integral part of these condensed interim consolidated financial statements.

PARK LAWN CORPORATION
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS
AS AT AND FOR THE THREE MONTHS ENDING MARCH 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 accompanying unaudited condensed interim consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”), including International Accounting Standards 34, Interim Financial Reporting (“IAS 34”), on a basis consistent with policies disclosed in the Company’s annual audited consolidated financial statements for the fiscal year ended December 31, 2019 which were prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

Certain information and footnote disclosure normally included in the consolidated annual financial statements prepared in accordance with IFRS have been omitted or are condensed. These unaudited condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended December 31, 2019.

These unaudited condensed interim consolidated financial statements are based on the accounting policies consistent with those disclosed in Note 2 to its consolidated annual financial statements for the year ended December 31, 2019.

The financial information included herein reflects all adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the periods ended March 31, 2020 and 2019 are not necessarily indicative of the results to be expected for the full year.

These unaudited condensed interim consolidated financial statements were approved by the board of directors of the Company (the “Board of Directors”) on May 12, 2020.

b. Basis of presentation

The unaudited condensed interim 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.

PARK LAWN CORPORATION
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS
AS AT AND FOR THE THREE MONTHS ENDING MARCH 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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

Pre-need trust fund

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

Care and maintenance trust fund

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

Transactions eliminated on consolidation

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

PARK LAWN CORPORATION
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS
AS AT AND FOR THE THREE MONTHS ENDING MARCH 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

d. Functional currency

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

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

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.

PARK LAWN CORPORATION
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS
AS AT AND FOR THE THREE MONTHS ENDING MARCH 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

f. Business combinations

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

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

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

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.

3. CRITICAL ESTIMATES AND JUDGMENTS

Use of estimates

The preparation of these unaudited condensed interim 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. These assumptions are disclosed in Note 3 to its consolidated annual financial statements for the year ended December 31, 2019.

Given the Company's ability to continue operating its business, no indicators of impairment were identified in relation to COVID-19. The company did not perform a goodwill and intangible asset impairment test as at March 31, 2020.

4. PRE-NEED RECEIVABLES

	March 31, 2020	December 31, 2019
Pre-need receivables, current portion	\$ 32,260,245	\$ 29,044,341
Pre-need receivables, net of current portion	69,609,357	58,015,914
Total	<u>\$ 101,869,602</u>	<u>\$ 87,060,255</u>

PARK LAWN CORPORATION
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL
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AS AT AND FOR THE THREE MONTHS ENDING MARCH 31, 2020 AND 2019

4. PRE-NEED RECEIVABLES - continued

The above is net of an allowance for sales returns of \$8,062,063 at March 31, 2020 (at December 31, 2019 - \$7,497,819).

5. INVENTORIES

	March 31, 2020	December 31, 2019 <i>(Restated, Measurement Period Adjustment - see Note 6)</i>
Merchandise inventories	\$ 4,567,973	\$ 3,068,697
Cemetery lots	44,855,932	41,100,406
Crypts and niches	45,707,520	42,816,411
Construction in progress	10,273,495	7,974,511
Total	105,404,920	94,960,025
Current portion	11,682,648	9,459,240
Non-current portion	<u>\$ 93,722,272</u>	<u>\$ 85,500,785</u>

There were no inventory write-downs in either period.

PARK LAWN CORPORATION
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL
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AS AT AND FOR THE THREE MONTHS ENDING MARCH 31, 2020 AND 2019

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 March 31, 2020:

	Preliminary Family Legacy and Harpeth Hill
Assets acquired:	
Cash	\$ 1,814,337
Pre-need receivables	5,413,093
Inventories	3,090,922
Land held for development	1,077,823
Property and equipment	12,560,571
Care and maintenance trust fund investments	10,556,556
Pre-need merchandise and service trust fund investments	13,338,370
Deferred commissions	2,501,958
Other assets	1,115,685
Goodwill	56,036,235
Intangibles	1,384,708
Total assets	<u>\$ 108,890,258</u>
Liabilities assumed:	
Accounts payable and accrued liabilities	\$ 2,268,148
Notes payables	1,327,500
Lease liabilities	183,103
Care and maintenance trusts' corpus	10,556,556
Deferred pre-need receipts held in trust	13,338,371
Deferred revenue	12,942,563
	<u>40,616,241</u>
Fair value of consideration transferred:	
Cash consideration	41,171,226
Converted promissory note	27,102,791
	<u>68,274,017</u>
Total liabilities and considerations	<u>\$ 108,890,258</u>

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 approximately \$68.3 million (US\$51.4 million), 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 of approximately \$27.1 million (US\$20.4 million) 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.

PARK LAWN CORPORATION
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL
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AS AT AND FOR THE THREE MONTHS ENDING MARCH 31, 2020 AND 2019

6. BUSINESS COMBINATIONS – continued

Acquisitions completed in fiscal 2020 – continued

Since the date of acquisition in 2020, Family Legacy and Harpeth Hills have contributed approximately \$4 million in revenue and approximately \$640,000 in net earnings in 2020. The Company has used a significant amount of judgement and simplifying assumptions in estimating the revenue and net earnings of Family Legacy and Harpeth Hills as if the business occurred at the beginning of the year. If acquired at the beginning of the year, the Company has estimated that Family Legacy and Harpeth Hills would have contributed approximately \$6 million in revenue and \$960,000 in net earnings.

The fair value allocations for Family Legacy and Harpeth Hills'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 property and equipment, land held for development, inventories, intangible assets and deferred revenue.

In relation to this acquisition, the Company spent a significant amount on legal, financial and tax due diligence, post closing audits, premiums for representation and warranty insurance, preparation of independent valuation reports to substantiate purchase price allocations and where necessary on the preparation of reports for regulatory compliance purposes.

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 Horan's purchase price allocations. 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	\$ 2,191,076	\$ 85,500,785
Goodwill and Intangibles	379,253,330	(1,843,044)	377,410,286
Deferred revenue	(150,254,842)	(348,032)	(150,602,874)
Total	\$ 312,308,197	\$ -	\$ 312,308,197

PARK LAWN CORPORATION
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL
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AS AT AND FOR THE THREE MONTHS ENDING MARCH 31, 2020 AND 2019

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 in the year ended December 31, 2019:

	Final Cress (i)	Final Baue (ii)	Final Horan (iii)	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	1,180,672	3,400,827
Inventories	167,030	3,498,082	2,493,927	2,340,772	8,499,811
Prepaid expenses and other current assets	245,749	6,829	101,527	416,508	770,613
Land held for development	-	5,765,160	-	2,032,753	7,797,913
Property and equipment	13,882,443	13,990,689	29,099,503	9,333,990	66,306,625
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	4,233,003	90,811,853
Intangibles	3,470,287	6,798,309	8,254,719	1,120,624	19,643,939
Total assets	<u>\$ 28,579,294</u>	<u>\$ 115,383,530</u>	<u>\$ 127,426,890</u>	<u>\$ 30,724,626</u>	<u>\$ 302,114,340</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	359,501	19,787,778
	<u>1,373,652</u>	<u>56,853,616</u>	<u>52,258,823</u>	<u>10,788,697</u>	<u>121,274,788</u>
Fair value of consideration transferred:					
Cash consideration	24,674,045	59,435,125	75,516,118	19,067,519	178,692,807
Deferred cash consideration	2,149,699	1,016,985	508,558	868,410	4,543,652
Working capital adjustment	381,898	(1,922,196)	(856,609)	-	(2,396,907)
	<u>27,205,642</u>	<u>58,529,914</u>	<u>75,168,067</u>	<u>19,935,929</u>	<u>180,839,552</u>
Total liabilities and considerations	<u>\$ 28,579,294</u>	<u>\$ 115,383,530</u>	<u>\$ 127,426,890</u>	<u>\$ 30,724,626</u>	<u>\$ 302,114,340</u>

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6. BUSINESS COMBINATIONS – continued

Acquisitions completed in fiscal 2019 – continued

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

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

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

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

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

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 Texas One, LLC and Journey Group Texas Two, LLC (“Journey Group”) for an aggregate total purchase price of approximately \$12.5 million (US\$9.5 million) in cash, subject to customary working capital adjustments. Journey operates three cemeteries, three funeral homes and two combination funeral home and cemetery properties in Texas. Journey’s acquisition increases PLC’s U.S. footprint and presence in Texas. The acquisition of Journey was funded with the Company’s credit facility.

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6. BUSINESS COMBINATIONS – continued

Acquisitions completed in fiscal 2019 – continued

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

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

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

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

In relation to these acquisitions, the Company spent a significant amount on legal, financial and tax due diligence, premiums for representation and warranty insurance, post closing audits, preparation of independent valuation reports to substantiate purchase price allocations and where necessary on the preparation of reports for regulatory compliance purposes.

7. LAND HELD FOR DEVELOPMENT

Land held for development represents land held for future cemetery, funeral and other development opportunities. At March 31, 2020 land held for development was valued at \$25,066,206 (at December 31, 2019 - \$22,138,968).

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8. PROPERTY AND EQUIPMENT

	January 1, 2020	Acquired in business combinations	Additions	Disposals	Foreign currency translation	March 31, 2020
Cost:						
Land	\$ 52,601,875	2,467,145	-	-	4,488,843	\$ 59,557,863
Buildings, cemetery and funeral	120,786,807	9,409,626	2,926,769	-	9,971,194	143,094,396
Machinery, equipment and automotive	22,139,088	326,260	681,110	(211,301)	1,683,345	24,618,502
Cemetery improvements	11,258,974	179,094	134,012	-	568,497	12,140,577
Right-of-use asset	8,094,221	178,446	77,419	(15,397)	389,739	8,724,428
Total	214,880,965	12,560,571	3,819,310	(226,698)	17,101,618	248,135,766
Accumulated depreciation:						
Buildings, cemetery and funeral	7,991,384	-	1,597,513	-	510,269	10,099,166
Machinery, equipment and automotive	7,110,147	-	1,013,468	(80,072)	484,380	8,527,923
Cemetery improvements	3,453,310	-	48,711	-	101,379	3,603,400
Right-of-use asset	1,740,955	-	509,710	(6,922)	204,218	2,447,961
Total	20,295,796	-	3,169,402	(86,994)	1,300,246	24,678,450
Net Book Value	\$ 194,585,169					\$ 223,457,316

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8. PROPERTY AND EQUIPMENT – continued

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

Property and equipment depreciation expense charged to operations amounted to \$3,169,402 and \$2,186,558 for the three month period ended March 31, 2020 and 2019, respectively.

Included in additions at March 31, 2020 are \$1,025,280 of additions at Canadian cemeteries and funeral sites (at December 31, 2019 - \$5,653,153) and \$2,794,030 of additions at U.S. cemeteries (at December 31, 2019 - \$9,705,539).

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.

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9. CARE AND MAINTENANCE TRUST FUND INVESTMENTS

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

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

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

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

Investment income recognized in operations amounted to \$2,751,720 and \$2,783,077 for the three month period ended March 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	
	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 11,940,750	\$ 10,306,689	\$ 11,940,750	\$ 10,302,565
Equities	84,035,708	99,989,034	99,330,517	89,206,429
Fixed income	87,269,773	81,807,889	90,424,132	79,843,248
Alternative investments	20,859,553	22,378,232	19,650,538	21,077,471
Preferred stocks	9,255,269	10,013,142	11,636,903	9,962,062
	<u>\$ 213,361,053</u>	<u>\$ 224,494,986</u>	<u>\$ 232,982,840</u>	<u>\$ 210,391,775</u>

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

The decrease is primarily a result of a decline in fair value of capital markets since December 31, 2019 offset by contributions to the trust funds and recent acquisitions.

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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. In certain jurisdictions, any surplus income earned is refunded to the customers and any deficiency of funds is absorbed by the Company by recording less revenue for supplies and services.

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

	Fair value		Cost	
	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 29,567,412	\$ 28,692,429	\$ 29,548,926	\$ 28,658,480
GIC's	29,468,507	29,753,510	29,468,507	29,753,510
Equities	77,633,767	80,151,449	80,795,794	68,352,424
Fixed income	91,498,955	79,229,148	92,375,061	77,875,056
Alternative investments	40,875,844	36,954,092	39,223,368	34,798,443
Preferred stocks	2,493,110	2,369,757	2,992,400	2,376,524
	<u>\$ 271,537,595</u>	<u>\$ 257,150,385</u>	<u>\$ 274,404,056</u>	<u>\$ 241,814,437</u>

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

The increase is primarily a result of recent acquisitions offset by a decline in fair value of capital markets since December 31, 2019.

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 March 31, 2020, the current face amount of pre-funded policies was approximately \$383 million (at December 31, 2019 – approximately \$288 million). 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 unaudited condensed interim 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.

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12. GOODWILL AND INTANGIBLES

The changes in the carrying amount of goodwill and intangible assets at March 31, 2020 were:

	March 31, 2020	December 31, 2019 <i>(Restated, Measurement Period Adjustment - see Note 6)</i>
Goodwill		
Opening balance:	\$ 354,545,982	\$ 277,981,729
Additions	56,036,235	90,811,853
Foreign currency translation	34,416,721	(14,247,600)
Closing balance:	\$ 444,998,938	\$ 354,545,982
Intangibles		
Non-compete agreements		
Opening balance:	\$ 7,695,620	\$ 7,000,881
Additions	1,384,708	4,137,175
Amortization	(648,483)	(2,811,894)
Foreign currency translation	788,026	(630,542)
Closing balance:	\$ 9,219,871	\$ 7,695,620
Brand		
Opening balance:	\$ 15,168,684	\$ -
Additions	-	15,506,763
Foreign currency translation	1,363,143	(338,079)
Closing balance:	\$ 16,531,827	\$ 15,168,684
Intangibles	\$ 25,751,698	\$ 22,864,304
Goodwill and Intangibles	\$ 470,750,636	\$ 377,410,286

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13. OTHER ASSETS

i) Prepaid expenses and other current assets

Included in prepaid expenses and other current assets is a \$6.7 million (at December 31, 2019 - \$6.5 million) promissory note to Serenity Valley Mausoleum Inc. (“Serenity Mausoleum”) and Serenity Valley P. Lawn Management Inc. (“Serenity Management”) which is measured at amortized cost. The promissory note has a maturity date and is payable in the fourth quarter of 2020. The note bears interest at 9%.

ii) Other assets

Included in other assets is a \$1.1 million (at December 31, 2019 - \$2.7 million) employee share loan plan (see Note 22).

In addition, included in other assets is a \$6.3 million (at December 31, 2019 - \$6.3 million) secured debt investment in Humphrey Funeral Home A. W. Miles – Newbigging Chapel Limited (“Humphrey”) which is measured at fair value. The debenture bears interest at 5% and is convertible into equity of Humphrey on maturity at the option of the Company. The debenture is due on demand after a period of five years. The fair value of the secured debt investment approximates the book value.

14. LONG-TERM DEBT

	March 31, 2020	December 31, 2019
Revolving loan facility	\$ 217,276,431	\$ 173,694,846
Mortgages	1,082,993	1,103,419
Other debt	926,067	928,231
Deferred financing costs	(1,921,987)	(1,840,106)
Total	217,363,504	173,886,390
Current portion	430,764	421,074
Non-current portion	<u>\$ 216,932,740</u>	<u>\$ 173,465,316</u>

Revolving loan facility

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

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14. LONG-TERM DEBT - continued

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 for June 30, 2021 and then revert to 3.5 time for September 30, 2021, and not more than 3.5 to 1.00 from September 30 and thereafter. In addition, the Company requested a temporary increase of \$25 million 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.

At March 31, 2020, there was \$217,276,431 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. At March 31, 2020, deferred financing costs were \$1,921,987 (at December 31, 2019 - \$1,840,106). At March 31, 2020, standby letters of credit issued utilized \$764,023 of the credit line (at December 31, 2019 - \$764,023).

Other debt

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

15. NOTES PAYABLE

	March 31, 2020	December 31, 2019
Notes payable	\$ 10,829,682	\$ 8,691,322
Current portion	1,490,528	1,323,036
Non-current portion	<u>\$ 9,339,154</u>	<u>\$ 7,368,286</u>

Notes payable

- i) The Company has an outstanding note payable of \$1,963,184 (at December 31, 2019 - \$1,772,984) to the former owner of a cemetery. The note calls for yearly payments of \$50,000 at 0% interest until the note matures in 2113. Payments of principal and interest are allowed to be deferred until the cemetery achieves positive cash flow. The note was discounted upon recognition to reflect an imputed interest rate of 5%. The note is nonrecourse and can be cancelled by either party.
- ii) The Company has outstanding notes payable of \$8,866,498 (at December 31, 2019 - \$6,918,338) to former owners of previously acquired businesses. These notes payable have interest rates ranging from 2% to 6% and remaining terms of 4 to 10 years.

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16. LEASE LIABILITIES

Lease liabilities relate to office space, machinery and equipment.

	March 31, 2020	December 31, 2019
Future minimum lease payments		
Due in less than one year	\$ 2,226,426	\$ 2,073,330
Due between one and two years	1,683,760	1,750,960
Due between two and three years	891,965	931,289
Due thereafter	2,595,498	2,750,802
Interest	(925,450)	(992,651)
Present value of minimum lease payments	6,472,199	6,513,730
Current portion	1,968,790	1,831,687
Non-current portion	<u>\$ 4,503,409</u>	<u>\$ 4,682,043</u>

Lease liabilities interest expense charged to operations amounted to \$80,113 and \$60,288 for the three month period ended March 31, 2020 and 2019, respectively.

17. DEFERRED REVENUE

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

	March 31, 2020	December 31, 2019
		<i>(Restated, Measurement Period Adjustment - see Note 6)</i>
Cemetery and funeral merchandise, lots, crypts, and niches	\$ 104,645,955	\$ 86,092,274
Cemetery and funeral services	74,055,315	64,510,600
Total	<u>\$ 178,701,270</u>	<u>\$ 150,602,874</u>

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18. 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 three month period ended March 31, 2020 and 2019 were \$3,353,562 or \$0.114 per share and \$2,638,985 or \$0.114 per share, respectively. The monthly dividend was \$0.038 per share in all periods.

19. 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.

Shares issued and outstanding

	<u>Common Shares</u>	<u>Amount</u>
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	34,052	-
Prospectus financing, net of costs (ii)	5,605,100	138,375,634
Contingent equity consideration (iii)	498,157	(2,415,860)
	<u>29,354,844</u>	<u>\$ 502,047,830</u>
Balance December 31, 2019	29,354,844	\$ 502,047,830
Shares issued pursuant to:		
Dividend reinvestment plan (i)	23,848	629,957
Equity incentive plan	46,420	-
	<u>29,425,112</u>	<u>502,677,787</u>
Balance March 31, 2020	29,425,112	502,677,787

(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 three month period ended March 31, 2020, 23,848 common shares were issued under the DRIP (for the year ended December 31, 2019 – 82,220).

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19. SHARE CAPITAL – continued

(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 million of outstanding indebtedness under the Company's credit facility and for strategic growth initiatives including acquisitions and for general corporate purposes. The issuance included transaction costs of \$7,355,072 inclusive of \$496,125 after tax in management compensation. The Company recognized a deferred tax asset of \$1,939,890 from the transaction costs.

(iii) Contingent equity consideration

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

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

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

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

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20. EQUITY INCENTIVE PLAN - continued

All future grants of equity-based awards will be made pursuant to the EIP and no further equity-based awards will be made pursuant to the 2014 ESLP plan. The 2014 ESLP will remain in effect only in respect of outstanding equity-based awards (see Note 22).

Deferred share units

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

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

	March 31, 2020	December 31, 2019
Outstanding, beginning of the period	36,860	30,450
Awarded	2,470	10,920
Redemptions	-	(5,091)
Dividend equivalents	159	581
Outstanding, end of the period	<u>39,489</u>	<u>36,860</u>

Restricted share units

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

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

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

Under the RSU plan, the following RSUs were granted by the Company and are outstanding. Each dividend equivalent represents one common share. 89,584 of the awarded and outstanding RSUs have vested.

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20. EQUITY INCENTIVE PLAN - continued

Restricted share units - continued

	March 31, 2020	December 31, 2019
Outstanding, beginning of the period	246,200	176,337
Awarded	78,016	98,141
Forfeited	-	-
Redemptions	(46,420)	(31,928)
Dividend equivalents	1,112	3,650
Outstanding, end of the period	<u>278,908</u>	<u>246,200</u>

Performance Share Units

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

	March 31, 2020	December 31, 2019
Outstanding, beginning of the period	61,266	-
Awarded	-	60,112
Forfeited	(21,674)	-
Dividend equivalents	213	1,154
Outstanding, end of the period	<u>39,805</u>	<u>61,266</u>

Options

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

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20. EQUITY INCENTIVE PLAN - continued

Options - continued

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

Expiry Date	Exercise Price	Opening Balance	Granted	Exercised	Expired	Forfeited	Closing Balance	Vested	Unvested
June 30, 2023	\$ 25.43	1,058,000	-	-	-	378,000	680,000	-	680,000
June 30, 2023	\$ 25.39	320,000	-	-	-	-	320,000	-	320,000
		1,378,000	-	-	-	378,000	1,000,000	-	1,000,000
Weighted Average Exercise Price	\$ 25.42	\$ -	\$ -	\$ -	\$ -	\$ 25.43	\$ 25.42	\$ -	\$ 25.42

The compensation expense in respect of EIP was \$1,407,376 for the quarter (2019 - \$627,153), and the counterpart has been reflected in contributed surplus. Management plans to settle all DSUs, RSUs, PSUs and Options by issuing shares. When the DSUs, RSUs, PSUs and Options are settled for shares, the amounts previously credited to contributed surplus are transferred to share capital.

21. OTHER INCOME (EXPENSES)

Other income (expenses) for the three month period ended March 31, 2020 and 2019 were \$(2,979,677) and \$8,640 respectively.

Other income (expenses) comprised of approximately \$900,000 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, and approximately \$400,000 in restructuring costs. The Special Committee of the Board of Directors was dissolved on May 12, 2020.

In addition, there are costs relating to the transition of Mr. Clark of approximately \$1.7 million (notwithstanding the terms of Mr. Clark's employment agreement):

- forgiveness of a \$1,665,104 loan provided by the Company to Mr. Clark;
- the forfeiture of 21,674 PSUs and immediate vesting of 10,632 PSUs which resulted in other expense of approximately \$75,000;
- the forfeiture of 378,000 options which resulted in other income of approximately \$335,000;

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21. OTHER INCOME (EXPENSES) - continued

- the payment of approximately \$93,000 in legal expenses incurred by Mr. Clark in connection with his departure and other consideration valued in the amount of approximately \$207,000.

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

22. RELATED PARTY TRANSACTIONS AND BALANCES

Employee share loan plan

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

Amounts issued under the ESLP were as follows:

- On October 7, 2013, the Company loaned \$1,575,000 to Nine Two Seven Limited to acquire 210,000 common shares of the Company. The loan 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 (see Note 21).

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

Total loans outstanding under the ESLP amounted to \$1,055,671 at March 31, 2020 (at December 31, 2019 - \$2,712,688). Interest income earned by the Company for the three month period ended March 31, 2020 and 2019 was \$8,172 and \$20,834, respectively.

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22. RELATED PARTY TRANSACTIONS AND BALANCES - continued

Key management compensation

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

	March 31, 2020	March 31, 2019
Directors' fees		
and management compensation	\$ 1,241,302	\$ 582,760
Agreement (Note 21)	1,720,734	-
	<u>\$ 2,962,036</u>	<u>\$ 582,760</u>

Directors' fees and management compensation included in share-based incentive for the three month period ended March 31, 2020 and 2019 were \$558,569 and \$180,129 respectively. At March 31, 2020, included in accounts payable and accrued liabilities are directors' fees and management compensation of \$864,970 (at December 31, 2019 - \$809,890).

23. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Fair value of financial instruments

Cash, accounts receivable, pre-need receivables, employee share loan, 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 March 31, 2020, the fair value of the secured debt investment in Humphrey's (see Note 13) is valued under Level 3.

As at March 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.

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23. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT – continued

Fair value of financial instruments – continued

The trust assets are valued as follows:

Care and maintenance trust fund investments at March 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	\$ 11,940,750	\$ 11,940,750	\$ -	\$ -	\$ -	\$ 11,940,750
Equities	99,330,517	84,035,708	-	-	-	84,035,708
Fixed income	90,424,132	64,320,710	-	9,587,614	13,361,448	87,269,773
Alternative investments	19,650,538	-	-	20,859,553	-	20,859,553
Preferred stocks	11,636,903	9,255,269	-	-	-	9,255,269
	<u>\$ 232,982,840</u>	<u>\$ 169,552,438</u>	<u>\$ -</u>	<u>\$ 30,447,167</u>	<u>\$ 13,361,448</u>	<u>\$ 213,361,053</u>

Care and maintenance trust fund investments at December 31, 2019

		Level 1	Level 2	Level 3	Amortized	
		Quoted market	Valuation	Valuation	cost	
	Cost	price	technique -	technique - non-		Total fair value
			observable	observable		
			market inputs	market inputs		
Cash and cash equivalents	\$ 10,302,565	\$ 10,306,689	\$ -	\$ -	\$ -	\$ 10,306,689
Equities	89,206,429	99,989,034	-	-	-	99,989,034
Fixed income	79,843,248	59,520,055	-	9,753,663	12,534,171	81,807,889
Alternative investments	21,077,471	-	-	22,378,232	-	22,378,232
Preferred stocks	9,962,062	10,013,142	-	-	-	10,013,142
	<u>\$ 210,391,775</u>	<u>\$ 179,828,920</u>	<u>\$ -</u>	<u>\$ 32,131,895</u>	<u>\$ 12,534,171</u>	<u>\$ 224,494,986</u>

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23. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT – continued

Fair value of financial instruments – continued

Pre-need merchandise and service trust fund investments at March 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	\$ 29,548,926	\$ 29,567,412	\$ -	\$ -	\$ -	\$ 29,567,412
GIC's	29,468,507	29,468,507	-	-	-	29,468,507
Equities	80,795,794	77,633,767	-	-	-	77,633,767
Fixed income	92,375,061	84,674,259	-	5,651,170	1,173,526	91,498,955
Alternative investments	39,223,368	-	-	40,875,844	-	40,875,844
Preferred stocks	2,992,400	2,493,110	-	-	-	2,493,110
	<u>\$ 274,404,056</u>	<u>\$ 223,837,055</u>	<u>\$ -</u>	<u>\$ 46,527,014</u>	<u>\$ 1,173,526</u>	<u>\$ 271,537,595</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	68,352,424	80,151,449	-	-	-	80,151,449
Fixed income	77,875,056	72,981,235	-	5,173,567	1,074,346	79,229,148
Alternative investments	34,798,443	-	-	36,954,092	-	36,954,092
Preferred stocks	2,376,524	2,369,757	-	-	-	2,369,757
	<u>\$ 241,814,437</u>	<u>\$ 213,948,380</u>	<u>\$ -</u>	<u>\$ 42,127,659</u>	<u>\$ 1,074,346</u>	<u>\$ 257,150,385</u>

Market risk

Pre-need merchandise and service trust funds

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

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23. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT – continued

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 equity investments. The portfolio is highly diversified and managed by professional fund managers specialized in this asset class with a long-term view on acceptable risk tolerance.

As a result of COVID-19, the Company's trusts have been and will continue to be impacted by the adverse conditions in the global financial markets. As of March 31, 2020, the Company had net unrealized losses in the care and maintenance trust funds of approximately \$19.6 million and in the preneed merchandise and service trust funds approximately \$2.9 million which represents a net unrealized loss to the original cost basis of 9.2% and 1.0% respectively. The unrealized losses in the preneed merchandise and service trust funds are muted because of higher cash positions and the Canadian GIC's. Adjusting for those items, the net unrealized loss at March 31, 2020 would have been 1.4%.

24. 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 four construction commitments totaling \$17.1 million for the construction of a funeral visitation and reception centre, funeral home, mausoleum and cemetery development.

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25. SEGMENTED INFORMATION

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

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

Geographic information

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

	March 31, 2020	December 31, 2019
Canada	\$ 186,950,023	\$ 205,799,226
United States	1,231,159,991	1,085,550,259
Total	<u>\$ 1,418,110,014</u>	<u>\$ 1,291,349,485</u>

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25. SEGMENTED INFORMATION – continued

Geographic information – continued

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

	Three Months Ended March 31,	
	2020	2019
Revenue:		
Sales:		
Canada	\$ 8,698,913	\$ 8,716,683
United States	60,809,836	37,220,812
Total sales	69,508,749	45,937,495
Income from care and maintenance funds:		
Canada	1,025,000	1,376,212
United States	1,726,720	1,406,865
Total income from care and maintenance funds	2,751,720	2,783,077
Interest and other income:		
Canada	470,025	208,302
United States	1,258,480	1,224,111
Total interest and other income	1,728,505	1,432,413
Total revenue:		
Canada	10,193,938	10,301,197
United States	63,795,036	39,851,788
Total Revenue	\$ 73,988,974	\$ 50,152,985

26. SUBSEQUENT EVENTS

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 for June 30, 2021 and then revert to 3.5 time for September 30, 2021, and not more than 3.5 to 1.00 from September 30 and thereafter. In addition, the Company requested a temporary increase of \$25 million 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.



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Quarter Ending March 31, 2020

The following Management's Discussion and Analysis ("**MD&A**") provides a review of corporate and market developments, results of operations and financial position of Park Lawn Corporation ("**PLC**" or the "**Company**") for the three month period ended March 31, 2020. This discussion should be read in conjunction with the consolidated financial statements for the year ended December 31, 2019 and the accompanying notes contained therein. Information contained in this MD&A is based on information available to management as of May 12, 2020.

Forward-Looking Information

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

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

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

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

Financial Statements and Accounting Policies

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

Description of Non-IFRS Measures

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

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

- Adjusted Net Earnings - the Company uses Adjusted Net Earnings to assist in evaluating its operating performance. The Company believes that this Non-IFRS measure provides meaningful supplemental

information to investors and other third parties regarding operating results because it excludes certain income or expense items which do not relate to operating activities of the Company's underlying business and which may not be indicative of the Company's future financial results.

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

Please see the "Overall Performance, Three Months Ended March 31, 2020 - Adjusted Net Earnings" below for a reconciliation of the Company's Net Earnings to Adjusted Net Earnings.

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

The Company's cemetery property inventory is acquired or constructed over many years, if not decades, in advance of its sale. The cash associated with this investing activity is a cash outflow in the period in which the inventory is acquired or constructed. As sales occur, the Company draws down its inventory by making a non-cash charge to cost of goods sold.

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

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

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

Please see the "Discussion of Operating Results, Three Months Ended March 31, 2020 - Adjusted Cash Flow" below for a reconciliation of the Company's earnings from operations to Adjusted Cash Flow.

Overview

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

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

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

After leadership concerns were raised to the Board in late 2019, the Board of Directors 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 million in Adjusted EBITDA 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. Andrew 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 would immediately commence a search for a new CEO and Mr. Clark would remain 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 there was 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, Andrew Clark resigned from the Board of Directors.

In North America, we are all adjusting and adapting to daily changes as a result of the COVID-19 pandemic. The outbreak of this contagious illness poses 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 immediate response was directed toward 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 safety protocols and procedures in regard to our interactions with our customers to protect the health and safety of all concerned. Where available, we implemented virtual 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, social distancing impacted the way we conduct our pre-need sales techniques such that we

are now utilizing strategies and technology to help us through the selling process under these challenging times. We also implemented work from home policies where possible to reduce the risk of our employees being exposed to the infection.

Although we cannot predict the severity or the duration of the impact of COVID-19 we know that it will have a financial impact in the coming weeks and months. With this in mind, the Company implemented contingency planning procedures in early March in an attempt 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 have also deferred or slowed the pace of a number of planned maintenance and growth capital expenditure programs until we have a clearer view on the impact of this pandemic. We have also examined our acquisition pipeline and have deferred many of these opportunities as we focus on preserving financial flexibility, although our acquisition strategy can be quickly re-activated when appropriate. In the near term we will focus on operating and completing the integration of our existing business operations.

Both the Canadian and U.S. governments have announced measures to support workers and businesses through the COVID-19 crisis. The Company has evaluated these programs and has either already taken advantage of the programs available to it or is in the process of making applications to receive the benefits. In the U.S. the Company is eligible and has taken steps under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) to defer the employer portion of certain components of the Company’s payroll related tax remittances for a period through to December 31, 2020 with one-half of the deferred amounts due by December 31, 2021 and the remaining amount of the deferred amount due by December 31, 2022. In Canada, the programs allow for a deferral of income taxes and HST payments until June 30, 2020 but more significantly the Canada Emergency Wage Subsidy (“CEWS”) program allows for qualifying companies to recover 75% of certain wages paid in March, April and May 2020. The Company has made application to recover the March 2020 amount but has not been refunded as yet.

Overall Performance

During 2020 and 2019 the Company completed several acquisitions in the United States, the more significant of these being the acquisition of Family Legacy, LLC (“**Family Legacy**”) and WG-TN and HHMG (“**Harpeth Hills**”) in January 2020, Journey Group Texas One, LLC and Journey Group Texas Two, LLC (“**Journey Group**”) in November 2019, Horan & McConaty Funeral Services, Inc. (“**Horan**”) in July 2019, The Baue Funeral Home Co. (“**Baue**”) in June 2019 and Cress Funeral Service, Inc. (“**Cress**”) in April 2019. Over the period from January 1, 2017 to March 31, 2020 the Company significantly increased its operational footprint and expanded and diversified its geographic footprint to include the states of Colorado, Illinois, Kansas, Kentucky, Mississippi, Missouri, New Jersey, New Mexico, New York, North Carolina, South Carolina, Tennessee, Texas, Wisconsin and the province of British Columbia. The Company also added to the existing operations in Ontario, Manitoba and Saskatchewan.

In addition to the cemetery and funeral operations acquired over this period, the Company also added an experienced management team and established a US support office in Houston, Texas. The Company has invested in growing and expanding its Houston office and has begun to integrate the acquired businesses by establishing regional business units to share resources more effectively, achieve best in practice sales strategies across the business units, modernize information systems, centralize human resource, risk management, legal,

finance, procurement and other support functions in order to realize cost savings and other synergies going forward.

This investment in people and corporate infrastructure will allow the Company to support the business as it moves towards its previously disclosed aspirational growth target of \$100 million in proforma Adjusted EBITDA by the end of 2022.

As a result of the above noted acquisitions, revenue in the first quarter of 2020 increased by 47.5% to \$73,988,974 from \$50,152,985 in the same period in 2019. After adjusting for the impact of foreign exchange, revenue growth from comparable business units year over year was 3.2%.

Net earnings attributable to PLC shareholders for this three-month period in 2020 were \$734,057 compared to \$3,325,247 for the same period in 2019. On a fully diluted per share basis, the net earnings attributable to PLC shareholders were \$0.025 for 2020 compared to \$0.141 for the same period in 2019.

Adjusted Net Earnings and Adjusted EBITDA

The 2020 and the 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 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 month periods ended March 31, 2020 and 2019:

	Three Months Ended March 31,	
	2020	2019
Net earnings, PLC shareholders	\$ 734,057	\$ 3,325,247
Adjusted for the impact of:		
Acquisition and integration costs	3,462,853	1,672,452
Share based compensation	1,407,376	627,153
Amortization of intangible assets	648,483	236,948
Other (income) expenses	2,979,677	(8,640)
Tax effect on the above items	(1,662,843)	(510,266)
Adjusted Net Earnings, PLC shareholders	<u>\$ 7,569,603</u>	<u>\$ 5,342,894</u>
Adjusted EBITDA, PLC shareholders (see Quarterly Information)	<u>\$ 17,090,087</u>	<u>\$ 11,736,397</u>
Per share amounts attributable to PLC shareholders		
Adjusted Net Earnings - diluted	<u>\$ 0.255</u>	<u>\$ 0.226</u>
Adjusted EBITDA - diluted (see Quarterly Information)	<u>\$ 0.576</u>	<u>\$ 0.497</u>
Weighted average shares outstanding - diluted	<u>29,684,141</u>	<u>23,622,214</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 – as previously mentioned, the Company completed a number of large and strategically significant acquisitions in 2019 and early 2020. In 2019 the Company invested approximately \$180.8 million and in January 2020 invested an additional \$68.3 million on business acquisitions. Commensurate with the size and number of transactions the acquisition and integration expenses incurred by the Company have increased in recent years.

During the three month periods ended March 31, 2020 and 2019, the Company incurred acquisition and integration related expenses of \$3,462,853 and \$1,672,452 respectively. As many of these acquisitions were material transactions, the Company incurred expenses on legal, financial and tax due diligence, post closing audits, premiums for representation and warranty insurance, preparation of independent valuation reports to substantiate purchase price allocations and where necessary on the preparation of reports for regulatory compliance purposes.

- Share based compensation - on May 31, 2019, the shareholders of the Company approved an amended and restated omnibus equity incentive plan (the “EIP”), consisting of Deferred Share Units (“DSUs”), Restricted Share Units (“RSUs”), Performance Share Units (“PSUs”), and Options to acquire common shares (“Options”). The number of common shares that may be issued by the Company upon the settlement of awards granted under the EIP shall not exceed 2,000,000. The Company has 1,000,000 Options outstanding to senior management that vest only upon the Company achieving

certain performance metrics (the “**Performance Options**”). The Company recognized \$1,407,376 in non-cash share-based compensation expense during the three month period ended March 31, 2020 compared to \$627,153 for the same period in 2019. Share based incentive compensation expense will vary based on vesting conditions and the timing of when awards are issued. Since the unit obligations are expected to be settled in common shares at some date in the future, the share-based compensation expenses are not deductible for tax purposes.

- Amortization of intangible assets – represents the amount of amortization of intangible assets acquired as a result of business combinations. The Company recognized \$648,483 in amortization expense of intangible assets during the three month period ended March 31, 2020 compared to \$236,948 for the same period in 2019. The increase in intangible assets relates primarily to non-compete agreements on recent transactions. The non-compete agreements protect the Company against competition from former owners however the amortization is a short term drag on earnings.
- Other income (expenses) – comprised of the following:
 - Approximately \$900,000 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 and other professional fees;
 - Approximately \$1.7 million relating to the transition of Mr. Clark as described in Note 21 of the financial statements and described in more detail below under Related Party Transactions.
 - Approximately \$400,000 in restructuring costs.
- Income tax – represents an adjustment for the tax impact of the above noted adjustments where such items are taxable in nature.

After reflecting the impact of the above items, Adjusted Net Earnings attributable to PLC shareholders for the three month period ended March 31, 2020 was \$7,569,603 or \$0.255 per share compared to \$5,342,894 or \$0.226 per share for the same period in 2019. This represents an increase of 41.7% in the Adjusted Net Earnings and 12.8% in the Adjusted Net Earnings per share over the same three month period in 2019.

Adjusted EBITDA attributable to PLC shareholders for the three month period ended March 31, 2020 was \$17,090,087 or \$0.576 per share compared to \$11,736,397 or \$0.497 per share for the same period in 2019. This represents an increase of 45.6% in the Adjusted EBITDA and 15.9% in the Adjusted EBITDA per share over the same three-month period in 2019.

The Adjusted EBITDA profit margin for the first quarter of 2020 was 23.3% compared to 23.7% for the same quarter in 2019. In the fourth quarter of 2019 the Adjusted EBITDA profit margin was 19.5%. At that time the Company stated that its investment in corporate related infrastructure expenses to support the recent growth in the business had been a short term drag on earnings and that management expected that the Adjusted EBITDA margins would improve as recently acquired businesses were integrated.

On January 31, 2020 the Company completed the previously announced acquisition of all the outstanding stock and membership interests of Family Legacy for a purchase price of approximately \$68.3 million (US\$51.4 million), a business with 12 locations operating in the greater Nashville, Tennessee area. At the same time, the \$27.1 million (US \$20.4 million) promissory note to Harpeth Hills was converted to acquire all of the

outstanding membership interests in Harpeth Hills, a large combination business also located in Nashville, Tennessee. The above 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.

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 \$51,563,697 as at March 31, 2020 including \$27.9 million in cash.

On November 22, 2019, the Company amended its existing syndicated bank financing arrangement to increase its borrowing capacity to \$300 million (\$250 million committed credit facility and additional \$50 million accordion facility). The credit facility has a term of five years. At March 31, 2020, the Company had \$217.3 million outstanding on the credit facility and had \$27.9 million in cash on hand for a net debt of \$189.4 million. The credit facility requires the Company to maintain a leverage ratio (defined as Adjusted Trailing EBITDA to net bank and other debt, excluding lease liabilities) of less than 3.5 times. As of March 31, 2020, the Company was in compliance with this covenant.

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 for June 30, 2021 and then revert to not more than 3.5 times from September 30, 2021 and thereafter. In addition, the Company requested a temporary increase of \$25 million in credit availability to provide additional liquidity for a period of one year commencing May 8, 2020. The lending syndicate approved both requests and it became effective May 8, 2020.

As at March 31, 2020, the Company had other debt of \$12.8 million comprised of vehicle loans, mortgages on certain funeral homes and notes payable to former business owners supporting non-compete and warranty agreements. Further, the Company had \$6.5 million in lease liabilities relating to the adoption of IFRS 16 and new leases entered in the current period.

The Company has four construction commitments totalling \$17.1 million for the construction of a funeral visitation and reception centre, funeral home, mausoleum and cemetery development.

From December 2013 to March 2020, the Company raised approximately \$505 million from the issuance of common shares to fund various growth initiatives. The Company may use additional share 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 the regulatory requirements. During the three month period ended March 31, 2020, the Company contributed \$2,032,115 to the trust funds compared to \$2,004,963 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 March 31, 2020, the balance of the trust funds was \$213,361,053 compared to \$224,494,986 as at December 31, 2019. The decrease is primarily a result of a decline in fair value of capital markets since December 31, 2019 offset by contributions to the trust funds and recent acquisitions. The Care and Maintenance Trust Fund assets are offset by a corresponding liability for Care and Maintenance Trusts' Corpus.

As of March 31, 2020, we have net unrealized losses in our Care and Maintenance Trust Funds of approximately \$19.6 million, including recent acquisitions, which represents a 9.2% net unrealized loss to our original cost basis.

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 March 31, 2020 of \$271,537,595 compared to \$257,150,385 as at December 31, 2019. The increase is primarily a result of recent acquisitions offset by a decline in fair value of capital markets 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 March 31, 2020, we have net unrealized losses in our Pre-Need Merchandise and Service Trust Funds of approximately \$2.9 million, including recent acquisitions, which represents a 1.0% net unrealized loss to our original cost basis. The unrealized losses are muted because of the higher cash positions and the Canadian GIC's. Adjusting for those items the net unrealized loss at March 31, 2020 would have been 1.4%.

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 March 31, 2020, and December 31, 2019, the current face amounts of pre-funded policies were approximately \$383 million and \$288 million, respectively. The increase in prearranged funeral insurance contracts is primarily due to recent acquisition. Families who have prearranged with the Company will receive a refund to the extent that the face amount of the policy exceeds the current retail value of the merchandise and services to be provided. The insurance funded contracts are not included in the consolidated financial statements as the Company is not the beneficiary of the policy. Amounts funded through insurance are available to the Company when the funeral services are performed.

Finance Assurances

The Company has entered into arrangements with certain surety companies whereby such companies agree to issue surety bonds on the Company's behalf as financial assurance. When selling pre-need contracts, the Company may purchase surety bonds where allowed by state law. The surety bonds are used to support the Company's pre-need cemetery merchandise sales activities, in lieu of trusting certain amounts of funds received from the customer. The amount of the bond posted is generally determined by the total amount of pre-need

contract that would otherwise be required to be trusted, in accordance with state law. The obligations underlying these surety bonds are recorded as deferred revenue. At March 31, 2020, the Company had surety bonds in place having an aggregate face value of approximately \$44.1 million.

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

Total revenue for the three-month period ended March 31, 2020 was \$73,988,974 compared to \$50,152,985 in the same period in 2019. This represents an increase of \$23,835,989 or 47.5%, over the same period in 2019.

Revenue was derived from the following sources:

	March 31, 2020	March 31, 2019
Sales	\$ 69,508,749	\$ 45,937,495
Income from care and maintenance funds	2,751,720	2,783,077
Interest and other income	1,728,505	1,432,413
	<u>\$73,988,974</u>	<u>\$ 50,152,985</u>

After adjusting for the impact of foreign exchange, revenue growth from comparable business units' year over year was 3.2%. For acquired companies, comparable growth is calculated as the difference between actual revenue achieved by each company in the financial period following acquisition compared to the revenue achieved in the corresponding financial period preceding the date of acquisition by PLC. Without adjusting for the impact of foreign exchange, revenue growth from comparable business units was 3.9%.

The revenue increase from comparable business operations was primarily related to cemetery operations in the U.S. During the quarter we experienced strong pre-need property sales coming from bulk sales programs as well as increased pre-need property and merchandise sales from certain regions in the U.S. In other regions our pre-need sales were negatively impacted by the onset of COVID-19 including certain properties in the New Jersey and Michigan markets. In Canada after a good start to the current year, our pre-need cemetery sales were marginally down year over year, and this was largely attributable to the impact of COVID-19 in March.

Revenue from comparable funeral businesses in the U.S. was also higher in 2020 offset by a small decrease in the Canadian market resulting from lower average revenue per call as a result of local legislation limiting gathering sizes and the requirement to practice social distancing.

Gross profit increased from \$40.8 million in 2019 to \$60.7 million in 2020 and gross profit margins increased to 82.0% for the three-month period ended March 31, 2020 compared to 81.4% for the same period in 2019.

Operating expenses for the three-month period ended March 31, 2020 were \$52,779,511 compared to \$34,562,730 in the same period in 2019. This represents an increase of \$18,216,781 over the same period in 2019, as indicated below:

	March 31, 2020	March 31, 2019
General and administrative, including depreciation	\$32,886,265	\$18,866,345
Amortization of intangibles	648,483	236,948
Maintenance	7,751,489	6,787,758
Advertising and selling	7,696,113	6,768,685
Interest	2,389,785	1,275,841
Share based compensation expense	1,407,376	627,153
	<u>\$52,779,511</u>	<u>\$34,562,730</u>

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

In aggregate, after adjusting for the impact of foreign exchange, the Company's general and administrative including depreciation, advertising and selling and maintenance expenses for comparable business units for the three-month period ended March 31, 2020 increased by approximately \$2.5 million compared to the same period in 2019.

General and administrative expenses for comparable business units increased by approximately \$2.8 million. Field level general and administrative expenses accounted for \$0.6 million of this increase over the first quarter of 2019. The increases in expenses at the field level relate primarily to increased people to support the growth in certain businesses post acquisition, aligning employee benefits and health insurance costs with the Company's benefit plan and other miscellaneous expense items. The balance of the year over year increase in general and administrative expenses is at the corporate level and relates to the expansion of our corporate infrastructure to support the Company's growth. This investment in our corporate infrastructure occurred during the 2019 fiscal year.

Maintenance expenses from comparable businesses increased by approximately \$0.2 million and selling and advertising costs were lowered by approximately the same amount in the current period.

Amortization of intangible assets increased by \$411,535 for the three-month period ended March 31, 2020 compared to the same period in 2019. The increase in intangible assets relates primarily to non-compete agreements on more recent transactions.

Interest expense increased by \$1,113,944 for the three-month period ended March 31, 2020 compared to the same period in 2019, primarily as the Company has utilized its credit facility to fund its recent acquisitions. Amortization of deferred finance costs associated with establishing the facility and standby fees were also higher.

The Company's EIP was established in the second quarter of 2016, as a means of compensating directors and designated employees of the Company and its subsidiaries, and of promoting share ownership and alignment

with shareholders' interests. The EIP provides for the grant of DSUs, RSUs, PSUs and Options. The plan was amended in May of 2019. Compensation expense associated with these units for the three-month period ended March 31, 2020 was \$1,407,376 compared to \$627,153 for the same period in 2019.

As a result of the above, earnings from operations for the three-month period ended March 31, 2020 totaled \$7,885,858 compared to \$6,274,647 for the same period in 2019. This represents an increase of \$1,611,211 or 25.7% year over year.

During the three-month periods ended March 31, 2020 and 2019, the Company incurred expenses of \$3,462,853 and \$1,672,452, respectively, which relates to recent acquisition activity. Acquisition expenses will vary from period to period depending on the size and level of acquisition activity. As many of these recent acquisitions were material transactions, the Company spent a significant amount on legal, financial and tax due diligence, post closing audits, premiums representation and warranty insurance, preparation of independent valuation reports to substantiate purchase price allocations and where necessary on the preparation of reports for regulatory compliance purposes.

Other expenses previously discussed include expenses relating to the work of the Special Committee, amounts paid to the former CEO and other restructuring costs. These expenses have been discussed previously and are discussed in more detail in Related Party Transactions below.

Income tax expense for the three-month period ended March 31, 2020 was \$636,836 compared to \$1,211,336 for the same period in 2019. The effective tax rate in 2020 was 44.1% 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, as well as non-taxable dividend income compared to 26.3% 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 March 31, 2020 totaled \$806,492 compared to \$3,399,499 for the same period in 2019.

Earnings Per Share

The weighted average diluted number of common shares outstanding for the three month period ended March 31, 2020 increased to 29,684,141 compared to 23,622,214 for the same period in 2019, an increase of 6,061,927 or 25.7%. The increase in outstanding shares relates primarily to the April 2019 equity offering.

Fully diluted earnings per common share attributable to PLC shareholders for the three-month period ended March 31, 2020 were \$0.025 compared to \$0.141 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 March 31, 2020 compared to the same period in 2019:

	Three Months Ended March 31,	
	2020	2019
Net earnings, PLC shareholders	\$ 734,057	\$ 3,325,247
Adjusted for the impact of:		
Acquisition and integration costs	3,462,853	1,672,452
Share based compensation	1,407,376	627,153
Amortization of intangible assets	648,483	236,948
Other (income) or expenses	2,979,677	(8,640)
Tax effect on the above items	(1,662,843)	(510,266)
Adjusted Net Earnings, PLC shareholders	<u>\$ 7,569,603</u>	<u>\$ 5,342,894</u>
Adjusted EBITDA, PLC shareholders (see Quarterly Information)	<u>\$ 17,090,087</u>	<u>\$ 11,736,397</u>
Per share amounts attributable to PLC shareholders		
Adjusted Net Earnings - diluted	<u>\$ 0.255</u>	<u>\$ 0.226</u>
Adjusted EBITDA - diluted (see Quarterly Information)	<u>\$ 0.576</u>	<u>\$ 0.497</u>
Weighted average shares outstanding - diluted	<u>29,684,141</u>	<u>23,622,214</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 March 31, 2020 increased to \$7,569,603 from \$5,342,894 during the same period in 2019. This represents an increase of 41.7% year over year. The fully diluted Adjusted Net Earnings per share for the three-month period ended March 31, 2020 was \$0.255 compared to \$0.226 for the same period in 2019, a year over year increase of \$0.029 or 12.8%.

Adjusted EBITDA Per Share

Adjusted EBITDA attributable to PLC shareholders for the three month period ended March 31, 2020 was \$17,090,087 compared to \$11,736,397, an increase of \$5,353,690 or 45.6% over 2019. The fully diluted Adjusted EBITDA per share for the three-month period ended March 31, 2020 was \$0.576 compared to \$0.497 for the same period in 2019, a year over year increase of \$0.079 or 15.9%.

Adjusted Cash Flow

The Company uses Adjusted Cash Flow as a measure of, among other things, the sustainability of its dividend. The table below summarizes the calculation of Adjusted Cash Flow from its operations for the three-month period ended March 31, 2020 and 2019 compared to its dividend payout:

	Three Months Ended December 31,	
	2020	2019
Earnings before income taxes	\$ 1,443,328	\$ 4,610,835
Adjusted for:		
Amortization of cemetery property	1,724,752	1,309,088
Depreciation and amortization	3,817,885	2,423,506
Cash income taxes payable	(120,000)	(150,000)
Share based compensation	1,302,651	606,795
Forgiveness of loan and other non-cash amounts	1,511,179	-
Adjusted cash flow from operations	9,679,795	8,800,224
Less non controlling interest amounts:		
Net earnings	72,435	74,252
Depreciation and amortization	41,695	69,440
Adjusted cash flow, equity holders of PLC	<u>\$9,565,665</u>	<u>\$8,656,532</u>
Adjusted cash flow per common share-diluted	<u>\$0.322</u>	<u>\$0.366</u>
Dividends per common share	<u>\$0.114</u>	<u>\$0.114</u>
Payout ratio	<u>35%</u>	<u>31%</u>

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

As calculated above, the Company's Adjusted Cash Flow from operations was \$9,565,665 for the three-month period ended March 31, 2020 compared to \$8,656,532 for the same period in 2019. This represents Adjusted Cash Flow per fully diluted common share of \$0.322 and \$0.366 for the three-month period ended March 31, 2020 and 2019, respectively.

The Company paid dividends of \$0.114 per common share for the three-month periods ended March 31, 2020 and 2019. The dividends paid represent 35% and 31% of the Adjusted Cash Flow per common share for the three-month periods ended March 31, 2020 and 2019, respectively.

Unaudited Quarterly Information

	2020 Q1	2019 Q4	2019 Q3	2019 Q2
Revenue	\$73,988,974	\$68,956,490	\$66,578,738	\$58,570,919
Earnings from operations	\$7,885,858	\$4,607,987	\$6,721,601	\$5,854,384
Net earnings, PLC shareholders	\$734,057	\$543,706	\$1,579,106	\$1,458,782
Adjusted Net Earnings, PLC shareholders	\$7,569,603	\$4,776,840	\$6,581,920	\$5,658,024
Net earnings per share - basic, PLC shareholders	*\$0.025	*\$0.018	*\$0.053	*\$0.049
Net earnings per share - diluted, PLC shareholders	*\$0.025	*\$0.018	*\$0.053	*\$0.049
Adjusted Net Earnings per share - diluted, PLC shareholders	*\$0.255	*\$0.160	*\$0.221	*\$0.190
Earnings from operations (per above)	7,885,858	4,607,987	6,721,601	5,854,384
Interest expense	2,389,785	1,553,732	1,462,582	1,376,255
Depreciation and amortization	3,817,885	3,879,428	3,884,364	3,272,249
Amortization of cemetery property	1,724,752	2,492,331	2,054,922	1,790,868
Share based compensation	1,407,376	934,197	1,116,805	933,333
Adjusted EBITDA, non-controlling interest	(135,569)	(70,175)	(133,277)	(213,237)
Adjusted EBITDA, PLC shareholders	\$ 17,090,087	\$ 13,397,500	\$ 15,106,997	\$ 13,013,852
Adjusted EBITDA margin	**23.3%	**19.5%	**22.9%	**22.6%
Adjusted EBITDA per share - diluted, PLC shareholders	*\$0.576	*\$0.450	*\$0.507	*\$0.438
	2019 Q1	2018 Q4	2018 Q3	2018 Q2
Revenue	\$50,152,985	\$50,625,376	\$43,239,963	\$40,349,440
Earnings from operations	\$6,274,647	\$6,489,911	\$5,708,435	\$4,219,015
Net earnings (loss), PLC shareholders	\$3,325,247	\$2,212,557	\$3,272,770	\$(435,849)
Adjusted Net Earnings, PLC shareholders	\$5,342,894	\$5,005,876	\$4,588,241	\$3,712,472
Net earnings per share - basic, PLC shareholders	*\$0.141	*\$0.095	*\$0.141	*\$(0.021)
Net earnings (loss) per share - diluted, PLC shareholders	*\$0.141	*\$0.095	*\$0.141	*\$(0.021)
Adjusted Net Earnings per share - diluted, PLC shareholders	*\$0.226	*\$0.214	*\$0.197	*\$0.182
Earnings from operations (per above)	6,274,647	6,489,911	5,708,435	4,219,015
Interest expense	1,275,841	969,643	624,497	553,371
Depreciation and amortization	2,423,506	1,843,704	1,625,566	1,399,521
Amortization of cemetery property	1,309,088	1,573,661	1,416,176	2,081,037
Share based compensation	627,153	589,679	99,631	249,106
Adjusted EBITDA, non-controlling interest	(173,838)	(186,099)	(177,235)	(180,981)
Adjusted EBITDA, PLC shareholders	\$ 11,736,397	\$ 11,280,499	\$ 9,297,070	\$ 8,321,069
Adjusted EBITDA margin	**23.7%	**22.6%	**21.9%	**21.1%
Adjusted EBITDA per share - diluted, PLC shareholders	*\$0.497	*\$0.482	*\$0.400	*\$0.409

*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 three month period ended March 31, 2020 and March 31, 2019, the Company declared dividends to shareholders totaling \$0.114 per share. The following table sets forth the per share amounts of monthly dividends declared and paid by the Company since January 1, 2020.

Month	Dividend		Per Share
	Record Date	Payment Date	
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>\$ 0.152</u>

Related Party Transactions

The Company's related parties include the following persons and entities: (i) associates, or entities which are controlled or significantly influenced by the Company; (ii) key management personnel, which are comprised of directors and officers by the Company; and (iii) entities controlled by key management personnel. The Company's policies and procedures and nature of its related party transactions have not changed materially from December 31, 2019, as described under "Related Party Transactions" in the Company's 2019 Annual MD&A. In addition, refer to Note 22 in the March 31, 2020 financial statements regarding the forgiveness of the ESLP loan in connection with the recent departure of the Company's CEO.

Effective March 31, 2020, Andrew Clark stepped down as Chief Executive Officer of the Company and J. Bradley Green was appointed Interim Chief Executive Officer 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 totals approximately \$1.7 million (notwithstanding the terms of Mr. Clark's employment agreement):

- forgiveness of a \$1,665,104 loan provided by the Company to Mr. Clark (See "Indebtedness of Directors and Officers");
- the forfeiture of all equity incentives held by Mr. Clark, other than 10,632 performance share units and 1,651 deferred share units. Since all of 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 this quarter of approximately \$260,000;
- the payment of approximately \$93,000 in legal expenses incurred by Mr. Clark in connection with his departure;

- other consideration valued in the amount of approximately \$207,000; 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 Chief Executive Officer (“**CEO**”) and Chief Financial Officer (“**CFO**”), on a timely basis so that appropriate decisions can be made regarding public disclosure.

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

Internal Controls over Financial Reporting

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

Family Legacy
and Harpeth Hills
March 31, 2020

Revenue	\$ 3,970,579
Net earnings	\$ 643,392
Current assets	\$ 6,073,636
Non-current assets	\$ 44,039,417
Current liabilities	\$ 2,671,194
Non-current liabilities	\$ 36,685,610

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during Fiscal 2020 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 March 31, 2020, there were 29,425,112 common shares issued and outstanding, representing an increase of 70,268 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 April 30, 2020, there were 29,465,399 common shares issued and outstanding. In addition, the Company has 2,000,000 common shares reserved and available for grant and issuance of the EIP. As at April 30, 2020, 39,564 DSU's, 241,603 RSUs, 29,233 PSUs and 1,000,000 Options were outstanding.

Risks

The Company faces a variety of significant and diverse risks, many of which are inherent in the business conducted by the Company. The Company's annual information form for the year ended December 31, 2019 (the "AIF") contains a detailed summary of risk factors pertaining to the Company and its business under the heading "Risk Factors", which section is hereby incorporated herein by reference. The disclosures in this MD&A are subject to the risk factors outlined in the AIF. Other risks and uncertainties that the Company does not presently consider to be material, or of which the Company is not presently aware, may become important factors that affect the Company's future financial condition and results of operations. The occurrence of any of the risks discussed in the AIF could materially and adversely affect the business, prospects, financial condition, results of operations or cash flow of the Company or the value of its common shares.

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 and we may need to temporarily reduce staffing or close certain of our facilities. The pandemic could lead to interruptions in our supply chain and temporary closures of our supplier facilities.

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 Annual Information Form, is available on SEDAR at www.sedar.com and on the Company’s website at www.parklawncorp.com.