



18

ANNUAL
REPORT



PARK LAWN
CORPORATION



The largest publicly traded
Canadian-owned funeral,
cremation and cemetery provider.

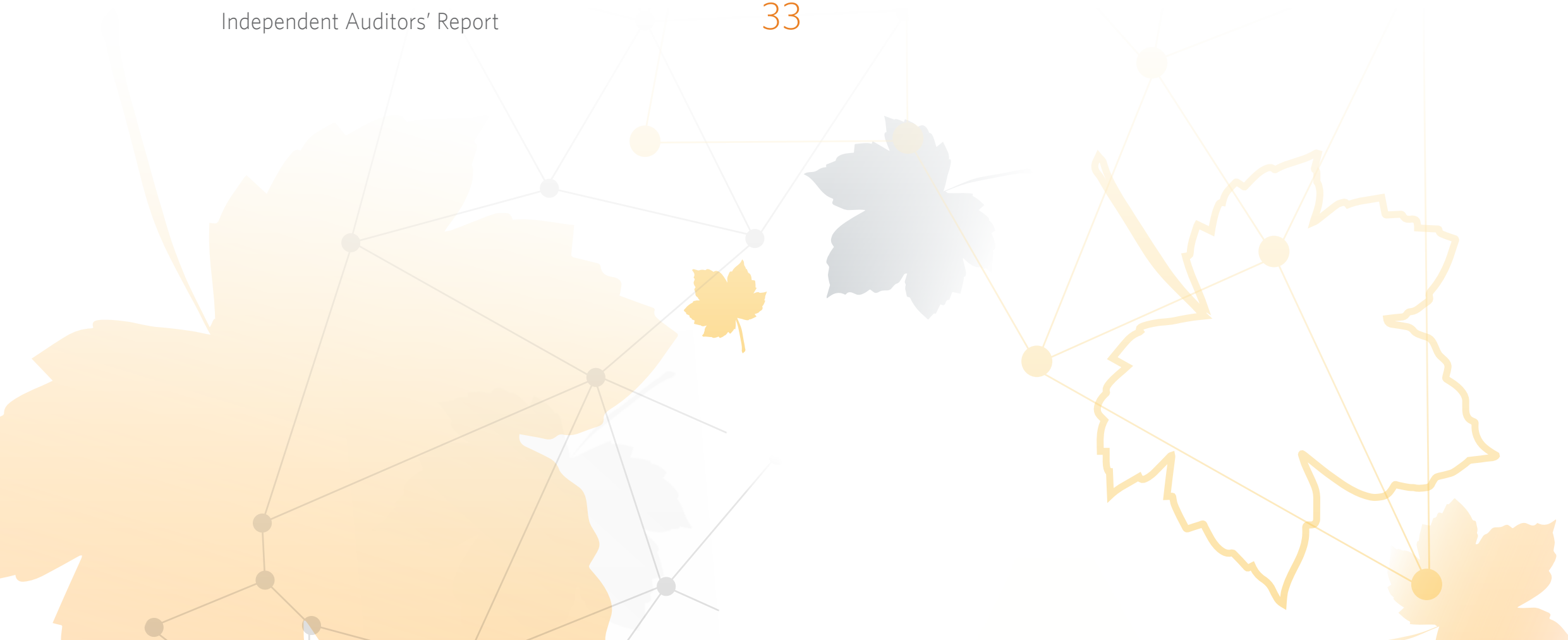
The fastest growing company
in the industry in North America.

A diverse portfolio of 214 locations
and businesses operating across
Canada and the US.

Changing the way products
and services are delivered
and how customers engage
with the marketplace.

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Citadel

Credible Cremation
Services Limited



*As of April 12, 2019



Parkland Funeral
Holdings Ltd.



*As of April 12, 2019

Message from the Chairman & CEO

Andrew Clark,
Chairman & CEO



2018 was a tremendous year for Park Lawn Corporation (PLC). Led by the acquisitions of CMS Mid-Atlantic in March and Signature Group in May, PLC established a truly North American footprint. Along the way, we confirmed our position as one of the fastest growing and most respected businesses in our industry.

In addition to our substantial growth, PLC delivered meaningful operating improvements across our portfolio of businesses, which was led by what I consider to be a “best-in-class” management team. No letter to shareholders would be complete without recognizing the tremendous efforts of our entire team. To grow exponentially, while starting the process of integrating multiple businesses and improving operating results – simultaneously – is no small feat and I wish to personally thank each one of our team members for their Herculean efforts this year. I believe we have the best culture of any company in our industry, and that culture runs through the veins of employees at all levels.

While it was a tough year – particularly in the fourth quarter – for financial markets, PLC surpassed our targets in all key financial metrics. Revenues grew by 84.9%, to \$161,421,019 while adjusted net earnings attributable to PLC Shareholders grew by 85.9% and adjusted EBITDA attributable to PLC shareholders grew by 108.7%. This represents a

20.1% and 34.9% respective increase on a fully diluted per-share basis.

We achieved all of this while maintaining our prudent approach to leverage, a practice which is deeply ingrained here at PLC.

In August, we announced a new aspirational growth target – to achieve \$100 million in pro forma, adjusted EBITDA by the end of 2022.* This target will be driven by an ambitious combination of organic growth, margin expansion and continued acquisition activity. We would not have established this goal if we did not think it was attainable, and I can assure you that myself and our entire management team are maintaining a laser-like focus on achieving this target and each of its components.

Over the last several years, Park Lawn has transformed itself many times over. We could not have done so without the unwavering support of our shareholders. I would like to thank you for your continued support and look forward to another exciting year ahead in 2019.

* The key assumptions relating to this target are set out in PLC’s Management’s Discussion & Analysis for the quarter ended June 30, 2018 under the headings “Outlook” and “Forward-Looking Information”.

2018 by the numbers

■ 2018 Total Revenue year over year

INCREASE OF 84.9%

■ 2018 Adjusted Net Earnings attributable to PLC shareholders

INCREASED BY 85.9%

■ 2018 Adjusted EBITDA attributable to PLC shareholders

INCREASE OF 108.7%

PLC Subscription Receipt Offering

Completed successful subscription receipt offering, where the deal raised over **C\$189 million** at **\$24.50** per share in May 2018.

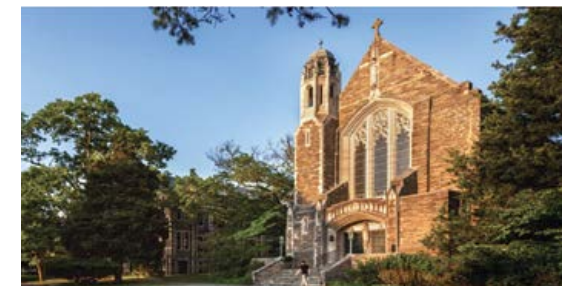


CANADA: ON, QC, MB, SK, BC

US*: ILLINOIS, KANSAS, KENTUCKY, MICHIGAN, NEW JERSEY, NEW MEXICO, NEW YORK, NORTH CAROLINA, TEXAS, MISSISSIPPI, MISSOURI, SOUTH CAROLINA, WISCONSIN

PLC OPERATES 214 LOCATIONS*,

including cemeteries, crematoria, funeral homes, chapels, planning offices and a transfer service.



NEW ADDITIONS:

- CMS Mid-Atlantic (“CMS”), which owns 7 cemeteries in the New York and New Jersey area
- Billingsley Funeral Home in Huntsville, Ontario
- Opatovsky Funeral Home, two-location business operating in Sundridge & Burk’s Falls, Ontario
- The Signature Group: 9 cemeteries, 21 funeral homes (7 on-sites) & 5 crematoria in Kansas, Mississippi, Missouri, New Mexico & Texas
- Citadel Management: 29 cemeteries & 8 funeral homes (1 on-site) in North and South Carolina
- Hansons Arbour Funeral Chapels & Crematorium, a 4 funeral home & 1 crematorium business in the Okanagan Valley, British Columbia
- Wayne Boze Funeral Home and Gateway Memorial Park, located in Waxahachie, Texas
- Wells Funeral Home and Cremation Services, two-location funeral business in Canton, North Carolina
- Cress Funeral Service: 8 funeral homes & 2 crematoria in Madison, Wisconsin**

* As of April 12, 2019.

** This acquisition closed in April 12, 2019.

Executive & Board Of Directors



ANDREW CLARK - CHAIRMAN & CEO

Andrew Clark has been a director of PLC since July 2011. Mr. Clark joined the Company as Chief Operating Officer in September 2011 after leading a group of investors in the acquisition of approximately 15% of the Company. He was appointed as the Chairman and Chief Executive Officer of the Company in July 2013. Prior to joining the Company, Mr. Clark founded a successful tourism and hospitality business which grew from only two employees in 2002, to become a leader in its field with operations and staff in the UK, Canada and the U.S. The business was ultimately merged with Canada's largest privately held travel company in 2008 and Mr. Clark was bought out in 2011. Prior to his experience in the travel industry, Mr. Clark worked in financial analysis and relationship management roles in the mid-market commercial lending business of TD Bank.

JOSEPH LEEDER - CFO/BOARD OF DIRECTORS

Joseph Leeder has been a director of PLC since April 2013, and Chief Financial Officer of PLC since July 2013. Mr. Leeder is a Chartered Accountant and was a Partner in the Toronto office of KPMG LLP from 1990 to 1997. After leaving KPMG, Mr. Leeder held the position of Chief Financial Officer at two publicly listed companies.



BRAD GREEN - PRESIDENT

Brad Green has been President of PLC since May of 2018. Mr. Green has over 12 years of experience in the funeral and cemetery profession. For the past four years, Mr. Green has served as a founder, owner and the CEO of Signature. Prior to founding Signature, he was the Executive Vice President and General Counsel of Carriage Services, Inc., wherein he completely restructured and rebuilt the legal, human resources, payroll, and training functions. Additionally, he built and led the day to day operation of the acquisition team. In addition to his industry experience, Mr. Green is a licensed attorney with an extensive legal background, including work at two international law firms and serving as the General Counsel for a large, international transportation company.

JAY DODDS - CHIEF OPERATIONS OFFICER

Jay Dodds has been Chief Operations Officer of PLC since May of 2018. Mr. Dodds has over 35 years of experience in the funeral and cemetery profession. He holds a funeral directors and embalmers license in both Texas and New Mexico. In addition, he is a certified cremation operator. Mr. Dodds served as founder, owner and President/COO of Signature. Prior to founding Signature, he was the Executive Vice President and Chief Operating Officer of another U.S. publicly traded company where he served in a senior operations leadership role for 17 years. Over his career, he has directly managed businesses in every region of the U.S. Mr. Dodds currently serves as President-Elect of the International Cemetery Cremation and Funeral Association (ICCFA), Trustee for the Funeral Service Foundation, the ICCFA Educational Foundation and a board member of the Pierce Mortuary Colleges.



JEFF PARKER - CHIEF TECHNOLOGY OFFICER

Jeff Parker joined PLC as an executive officer and Chief Technology Officer in June of 2018. He brings over 40 years of IT experience and 20 years of funeral and cemetery experience. Mr. Parker began his IT career with IBM in the late 1970s, wrote code to guide Maverick Missiles in the 1980s, joined his father in the energy industry in the 1990s, and started in the funeral and cemetery business at the urging of a friend that was providing hardware to one of the largest publicly traded death care consolidators in the industry in 1998. Mr. Parker's 20 years in the industry includes roles such as Manager of Offsite Systems, Manager of Application Development, and Director of Information Systems. He was also the principal architect of the software system that currently runs one of the largest public funeral and cemetery businesses in the U.S.



SUZANNE COWAN - VP, BUSINESS DEVELOPMENT & CORPORATE AFFAIRS

Suzanne Cowan joined PLC in March of 2016 as VP, Business Development & Corporate Affairs. Ms. Cowan brings more than 15 years of strategic communication, stakeholder relations and marketing experience in the political and broad public service sectors. Prior to joining PLC, Ms. Cowan held the position of Director of Advertising and Senior Advisor to Liberal Leader Justin Trudeau. She was previously a member of the executive team with the Ontario Energy Board and held senior roles with the Premier of Ontario and several Ministers with the Government of Canada and the Senate. Ms. Cowan has a Bachelor of Arts in International Relations from Mount Allison University and a Superior Diploma in French Studies from University Marc Bloc Strasbourg, France.

LINDA GILBERT - VP, FINANCE & ADMINISTRATION

Linda Gilbert joined PLC as the Director of Finance in September, 2014, and in March 2016 was appointed the VP, Finance and Administration. Ms. Gilbert is a chartered accountant and brings over 20 years of finance experience in public companies. Prior to joining PLC, she was an Independent Director of Envoy Capital Group and acted as a member of the Audit Committee, Compensation Committee and Nominating Committee and as Chair of the Corporate Governance Committee. She has previously held the positions of Vice President, Chief Financial Officer and Director of Finance at Envoy Communications Group Inc. Ms. Gilbert also has experience as an independent consultant and has consulted for various companies on financial management, analysis and reporting.



W. CLARK HARLOW - VP, FINANCE, USA

W. Clark Harlow joined PLC as VP, Finance-USA in May of 2018. Mr. Harlow has over 27 years of experience in various accounting and executive roles across several industries, of which 20 years have been in the funeral and cemetery profession. He joined Signature Group in 2015 as an owner and its Chief Financial Officer. Mr. Harlow had previously led the finance, accounting and M&A functions in private and publicly

LORIE JOHNSON - VP, HUMAN RESOURCES

Lorie Johnson joined PLC as VP, Human Resources in May of 2018. Ms. Johnson has over 11 years of experience in the funeral and cemetery profession, and she joined Signature in 2014 as its Chief Administrative Officer. Ms. Johnson has over 30 years of experience in all aspects of organizational administration, human resources, training and people development. In her role as VP, Human Resources, she leads, facilitates and participates in organizational development and effectiveness across an employee's full life cycle with the company. At Signature, she had oversight over all aspects of Human Resources, Training, Safety and Risk Management, as well as Administration and Information Technology. Ms. Johnson is an HRCI and SHRM certified Senior Human Resource Professional.





TIMOTHY POWERS - LEAD DIRECTOR

Timothy Powers has been a director of PLC since January 2015, Lead Independent Director since August 2016, and serves on the Human Resources & Compensation Committee, Investment Committee and is Chair of the Nominating & Governance Committee. Mr. Powers is the Vice-Chairman of Summa Strategies and the Managing Director of Abacus Data, an opinion research company, both headquartered in Ottawa. He has served as an advisor to both national and provincial party leaders, as well as federal cabinet ministers. Mr. Powers has also provided strategic advice and counsel to many of North America's top corporations and organizations. Mr. Powers is also the Chairman of Rugby Canada and was a trustee at the Centre for Addiction and Mental Health (CAMH). He has a Bachelor of Arts degree from Memorial University of Newfoundland, a Master of Arts degree (Atlantic Canada Studies) from St. Mary's University, and a Master of Sciences degree (Media and Communications) from the London School of Economics. He is a graduate of ICD-Rotman Directors Education Program and has obtained the ICD.D designation granted by the Institute of Corporate Directors. He is also one of the owners of the Dominion City Brewing Company located in Ottawa. Mr. Powers has also studied Public Sector Management at Harvard University.

STEVEN R. SCOTT - DIRECTOR

Steven R. Scott has been a director of PLC since April 2014 and serves as the Audit Committee chair. Mr. Scott is the Chairman and Chief Executive Officer of StorageVault Canada Inc. (TSXV: SVI) and an owner and Chief Executive Officer of The Access Group of Companies. He has over 20 years of experience in the ownership, acquisition, development and management of self storage, residential and commercial real estate in Canada. Mr. Scott serves as an Independent Director and Audit Committee Chair of Timbercreek Financial Corporation (TSX: TF) and as Director and Treasurer of the Canadian Self Storage Association (CSSA). He holds a Bachelor of Commerce degree and the CPA and CA designations.



JOHN WARD - DIRECTOR

John Ward has been a director of PLC since August 2013 and serves on the Audit Committee, and the Nominating & Governance Committee. Mr. Ward is a fourth generation Funeral Director and co-owner at Ward Funeral Homes Limited, a highly respected independent funeral operator in the Greater Toronto Area, and is actively involved in the funeral industry in Ontario.



WINZ MARTINA CASAGRANDE - DIRECTOR

Winz Martina Casagrande has been a director of PLC since June 2015 and serves on the Human Resources & Compensation Committee, and the Nominating and Governance Committee. Dr. Casagrande has over twenty years of experience in strategy development and implementation in real estate and financial services, with Ernst & Young and RBC-Dexia. During her eight-year tenure with Sustainalytics, a global sustainability rating firm, her focus was the growing governance practice. Her board experience includes a renewable energy start-up and a renewable energy financing company. Currently, Dr. Casagrande is Chair & CEO of a biotech start up to commercialize a breast cancer diagnostic test developed at MD Anderson Cancer Center in Houston, Texas. Dr. Casagrande holds graduate degrees in business and architecture, as well as a doctorate in Law & Economics (Governance) and is fluent German, Italian and French. She is a graduate of the ICD-Rotman Directors Education Program (ICD.D) and the Global Reporting Initiative (GRI).

PAUL G. SMITH - DIRECTOR

Paul G. Smith has been a director of PLC since May 2016 and serves on the Audit Committee, Human Resources & Compensation Committee, and Investment Committee. Over his career, Mr. Smith has held the positions of Chief Financial Officer, Chief Executive Officer, director and Chairman. He was Chair of VIA Rail Canada Inc.'s Board of Directors from 2010 to 2014 after having joined the board in September 2006 and was President and Chief Executive Officer of Equity Financial Holdings Inc. (TSX: EQI), a Canadian financial services firm he co-founded whose principal subsidiary is an OSFI-regulated deposit-taking institution. Mr. Smith is a director of several companies and, before joining the private sector, served as Executive Assistant to the Prime Minister of Canada. Mr. Smith holds a Master of Business Administration from INSEAD (France), a Master of Arts in Public Administration from Carleton University, and undergraduate degrees (Accounting, Political Science) from the University of Ottawa. Mr. Smith completed the Directors Education Program of the Institute of Corporate Directors and holds the ICD.D designation.



DEBORAH ROBINSON - DIRECTOR

Deborah Robinson has been a director of PLC since June of 2018 and serves as the chair of the Human Resources & Compensation Committee, and sits on the Nominating & Governance Committee. Ms. Robinson is the founder and President of Bay Street HR, an outsourced human resources service provider to small and mid-sized financial and professional service firms. Prior to founding Bay Street HR, Ms. Robinson was Executive Director at CIBC World Markets, where she oversaw human resources for global Investment Banking. She also held senior HR positions at Fidelity Investments and American Express in Boston and New York City. Ms. Robinson sits on the board and is the Chair of the Governance and Compensation Committee of Canada Jetlines Ltd. (TSX-V: JET). From 2014-2017 she was a Director, member of the Human Resources and Compensation Committee and member of the Corporate Governance, Risk, and Strategy Committee of VIA Rail Canada Inc. Ms. Robinson holds a Bachelor's degree and is also a graduate of the Directors Education Program of the Institute of Corporate Directors and holds the ICD.D designation.

Management discussion and analysis

For the Year Ending December 31, 2018

The following Management's Discussion and Analysis provides a review of corporate and market developments, results of operations and financial position of Park Lawn Corporation ("PLC" or the "Company") for the year ended December 31, 2018. This discussion should be read in conjunction with the consolidated financial statements for the year ended December 31, 2018 and the accompanying notes contained therein. Information contained in this Management's Discussion and Analysis is based on information available to management as of March 26, 2019.

Forward-Looking Information

All information other than statements of current and historical fact contained in this Management's Discussion and Analysis 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 Management's Discussion and Analysis includes, but is not limited to, statements regarding the Company's business, 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 that acquisition 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 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 that, 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.

2 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 Management's Discussion and Analysis 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, 2018. PLC's consolidated financial statements for the year ended December 31, 2018, 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, 2018.

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

Goodwill valuation

The Company determined its cash generating units ("CGUs") for the purpose of goodwill impairment testing as at December 31, 2018. The Company's impairment tests for goodwill and intangible assets are based on the greater of value in use calculations that use a discounted cash flow model and estimated fair value less cost to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU, using an appropriate valuation model. These calculations are corroborated by calculation multiples or other available fair value indicators. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Using a five year (and related terminal value) discounted cash flow model, the Company determines the recoverable amount by calculating the value in use. The model used average annual growth rates of approximately 2% to 3.5% and post-tax discount rates between 9.7% and 11.4%. The Company has determined that the discount rates reasonably reflect the risks associated with the cash flow projections for the CGUs.

Business combinations

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions

3 made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In certain circumstances where estimates have been made, the Company may obtain third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of certain purchase prices and accounting adjustments.

Allowances

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

Deferred commission asset

The Company defers incremental commission costs paid as a result of obtaining contracts with customers as deferred commission assets and amortizes these costs to selling and advertising expenses as the related deferred revenues are recognized. The deferred commission asset balance includes various estimates, such as estimates of the historical commission paid on certain contracts, estimates of the fulfillment time on certain contracts and estimates of the proportion of commission expense relating to current revenue streams compared to deferred revenue streams.

Estimated useful lives and depreciation of property and equipment

Depreciation of property, plant and equipment are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Consolidation

The Company's consolidated annual financial statements for the year ended December 31, 2018 include the accounts of the Company and its subsidiaries. All significant accounts and transactions between consolidated entities are eliminated. Should there be a party with a minority interest in a property that the Company controls, that minority interest is reflected as "non-controlling interest" in the consolidated annual financial statements.

Description of Non-IFRS Measures

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

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

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

The adjustments may include, but are not limited to, the after-tax impact of acquisition and integration costs, share based compensation, or gains or losses from sale of non-performing assets. Please see the "Overall Performance, Twelve and Three Months Ended December 31, 2018 - 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. Commencing in the third quarter of 2017, the Company modified the calculation of EBITDA to include an add back of the cost of cemetery property sold during each period. The cost of cemetery property is reported as "Amortization of cemetery property" in the adjustments to reconcile Net Earnings to EBITDA. EBITDA for prior periods presented in this MD&A has been restated to reflect this change in its composition. This change is intended to conform the Company's presentation of EBITDA to the presentation used by most of the Company's publicly traded competitor peer group. The Company also believes that this change results in EBITDA presenting a more accurate view of the Company's operations and performance.

- **Adjusted EBITDA** - adjusted EBITDA adjusts EBITDA for the non-recurring, one-time or noncash 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. Commencing in the third quarter of 2017, Adjusted EBITDA reflects the change noted above under the heading - "EBITDA", and Adjusted EBITDA for prior periods presented in this MD&A has been restated to reflect this change in its composition. Please see the "Quarterly Information" below for a reconciliation of the Company's earnings from operations to Adjusted EBITDA.
- **Adjusted Cash Flow** - the Company evaluates, among other things, the sustainability of its dividend on a regular basis using an Adjusted Cash Flow metric. Adjusted cash flow is defined as the Company's controlling interest in the following: earnings before income taxes, depreciation and amortization (including amortization of tangibles and intangibles and amortization of cemetery property), less cash income taxes payable, and adjusted for other non-cash income or expense items.

Please see the "Discussion of Operating Results, Twelve and Three Months Ended December 31, 2018 - 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 and its subsidiaries operated 100 cemeteries, 68 funeral homes (including 12 on-sites, where a funeral home is located on a cemetery) and 36 crematoria businesses across 5 Canadian Provinces and 12 U.S States. The Company sells its products and services both at the time of need (at-need) and on a pre-arranged basis (pre-need). Products and services include 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 death care industry continues to be a highly-fragmented market and the Company plans to continue its acquisition growth strategy where opportunities are attractive and can be integrated with our existing operations or provide an entry to new markets.

Selected Consolidated Financial Information

The table below summarizes the operating results including Adjusted Net Earnings and Adjusted EBITDA for the years ended December 31, 2018, December 31, 2017 and December 31, 2016:

For the Year Ended December 31,	2018	2017	2016
Total revenue	\$ 161,421,019	\$ 87,289,797	\$ 67,251,085
Earnings from operations	\$ 19,873,142	\$ 9,311,528	\$ 5,409,830
Net earnings, PLC shareholders	\$ 6,722,456	\$ 4,196,814	\$ 7,490,132
Adjusted Net Earnings, PLC shareholders	\$ 15,912,825	\$ 8,559,921	\$ 4,885,779
Adjusted EBITDA, PLC shareholders (see Quarterly Information)	\$ 34,702,126	\$ 16,630,310	\$ 11,076,506
Per share amounts attributable to PLC shareholders			
Net earnings - basic	\$ 0.326	\$ 0.315	\$ 0.941
Net earnings - diluted	\$ 0.325	\$ 0.314	\$ 0.939
Adjusted Net Earnings - diluted	\$ 0.770	\$ 0.641	\$ 0.612
Adjusted EBITDA - diluted (see Quarterly Information)	\$ 1.680	\$ 1.245	\$ 1.388
Weighted average shares outstanding - diluted	20,655,472	13,362,840	7,977,471
Dividends paid to shareholders	\$ 9,361,258	\$ 6,189,817	\$ 3,725,315
Cash	\$ 14,149,092	\$ 12,736,498	\$ 23,891,672
Total assets	\$ 1,020,160,226	\$ 459,081,252	\$ 290,340,791
Total non-current liabilities	\$ 597,586,890	\$ 264,884,249	\$ 181,418,165
Total debt	\$ 96,049,017	\$ 4,395,808	\$ 4,695,764
Adjusted Net Earnings and Adjusted EBITDA are non-IFRS measures. See "Description of Non-IFRS Measures".			

Revenue increased significantly over the period from 2016 through to 2018. In particular, the increase in 2018 is largely attributable to the acquisitions which occurred last year. Adjusted Net Earnings and Adjusted EBITDA, have also shown significant increases over this period.

The Company's consolidated assets have increased from \$290,340,791 as at December 31, 2016 to \$459,081,252 and \$1,020,160,226 as at December 31, 2017 and 2018, respectively. As at December 31, 2018 the Company had unrestricted cash totalling \$14,149,092 and long term debt of \$96,049,017. Approximately \$90 million of this debt relates to the revolving credit facility, and the remaining balance is for notes payables to former cemetery property owners, vendor take-back financing, non-compete agreements and vehicle and equipment loans.

The weighted average shares outstanding over this period increased largely because of equity financings completed in each year. The most recent equity financing closed in May 2018 resulting in an additional 7,745,250 shares being issued bringing the total number of issued and outstanding common shares to 23,135,315 as at December 31, 2018. The fully diluted weighted average shares outstanding increased to 20,655,472 for fiscal 2018 and 23,399,076 for the three month period ending December 31, 2018.

Management and the Board of Directors understood that the May 2018 equity financing would result in some short term dilution in earnings and cash flow per share amounts until the capital raised has been fully deployed. As a result of the May 2018 equity financing the weighted average shares outstanding for the twelve and three month periods ended December 31, 2018 increased by 7,292,632 and 7,949,916 respectively without the benefit of the capital being fully deployed for the full year.

In 2018 the Company invested approximately \$275 million (including acquisition costs) on strategic acquisitions described in more detail in the notes to the financial statements and later in this report.

Overall Performance

During 2017 and 2018 the Company completed several acquisitions in Canada and in the United States. The more significant of these being the acquisition of Signature Funeral and Cemetery Investments, LLC ("Signature") in May 2018, the acquisition of CMS Mid-Atlantic Inc. ("CMS") in March 2018, and the acquisition of Saber Management, LLC ("Saber") in August 2017. Over the period from December 31, 2016 to December 31, 2018 the Company added 66 cemetery properties, 52 funeral homes (including 12 on-sites) and 14 crematoria to its portfolio, and expanded and diversified its geographic footprint to include the states of New York, New Jersey, New Mexico, Texas, Kentucky, Kansas, Missouri, North Carolina and South Carolina and the province of British Columbia. The Company also added to the existing operations in Ontario, Manitoba and Saskatchewan.

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

As a result of these acquisitions, the Company achieved improvement in its operating results in 2018 compared to 2017. Revenue increased year over year by 84.9% to \$161,421,019 from \$87,289,797 in 2017 and revenue for the quarter ended December 31, 2018 increased by 95.2% to \$50,625,376 compared to \$25,929,795 for the same period in 2017. After adjusting for the impact of foreign exchange, revenue growth from comparable business units year over year was 6.4% and revenue growth from comparable business units in the fourth quarter of 2018 was 10.8% over the same quarter in 2017.

Net earnings attributable to PLC shareholders for the year ended December 31, 2018 were \$6,722,456 compared to \$4,196,814 for the same period in 2017 and for the three month period ended December 31, 2018 net earnings attributable to PLC shareholders were \$2,212,557 compared to \$2,257,957 for the same period in 2017. On a fully diluted per share basis, the net earnings attributable to PLC shareholders were \$0.325 and \$0.095 for the twelve and three month periods ended December 31, 2018, respectively, compared with \$0.314 and \$0.146 for the same periods in 2017.

The 2018 and the 2017 net earnings as stated have been significantly impacted by certain one-time, non-recurring or non-cash revenue and expense items that management believes should be highlighted to better explain the Company's operating performance for the periods under review on an adjusted basis. The table below summarizes the calculation of Adjusted Net Earnings and Adjusted EBITDA for the three and twelve month periods ended December 31, 2018 and 2017:

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2018	2017	2018	2017
Net earnings, PLC shareholders	\$ 2,212,557	\$ 2,257,957	\$ 6,722,456	\$ 4,196,814
Adjusted for the impact of:				
Acquisition and integration costs	2,588,144	752,923	10,384,125	4,054,265
Share based compensation	589,679	322,445	1,185,661	878,321
Foreign exchange loss	-	-	-	1,007,500
Change in fair value of contingent earn-out payments	-	36,933	110,710	(268,965)
Other expenses (income)	26,963	(574,466)	92,844	(423,384)
Tax effect on the above items	(499,578)	30,263	(2,582,971)	(884,630)
Adjusted Net Earnings, PLC shareholders	<u>\$ 4,917,765</u>	<u>\$ 2,826,055</u>	<u>\$ 15,912,825</u>	<u>\$ 8,559,921</u>
Adjusted EBITDA, PLC shareholders (see Quarterly Information)	<u>\$ 11,280,499</u>	<u>\$ 5,587,663</u>	<u>\$ 34,702,126</u>	<u>\$ 16,630,310</u>
Per share amounts attributable to PLC shareholders				
Adjusted Net Earnings - diluted	<u>\$ 0.210</u>	<u>\$ 0.183</u>	<u>\$ 0.770</u>	<u>\$ 0.641</u>
Adjusted EBITDA - diluted (see Quarterly Information)	<u>\$ 0.482</u>	<u>\$ 0.362</u>	<u>\$ 1.680</u>	<u>\$ 1.245</u>
Weighted average shares outstanding - diluted	<u>23,399,076</u>	<u>15,449,160</u>	<u>20,655,472</u>	<u>13,362,840</u>
Adjusted Net Earnings and Adjusted EBITDA are non-IFRS measures. See "Description of Non-IFRS Measures"				

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

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

During the years ended December 31, 2018 and 2017, the Company incurred expenses of \$10,384,125 and \$4,054,265, respectively. During the three month periods ended December 31, 2018 and 2017, the Company incurred expenses of \$2,588,144 and \$752,923, respectively. Most of the acquisition and integration costs in 2018 relate to the acquisition of CMS, Signature and Citadel, and the balance relates to other acquisition and integration activity. As the Company continues to expand in the U.S. market, management believes there will be opportunities for further rationalization of its operations.

- Share based payments - the Company implemented an Equity Incentive Plan ("EIP") consisting of Deferred Share Units ("DSUs") and Restricted Share Units ("RSUs") which was approved by the Company's shareholders at the annual and special meeting of shareholders on May 31, 2016. The Company recognized \$1,185,661 in non-cash share based incentive compensation expense during the year ended December 31, 2018 compared with \$878,321 for the same period in 2017 and \$589,679 during the three month period ended December 31, 2018 compared with \$322,445 for the same period in 2017. Share based incentive compensation expense can vary based on the timing of when awards are issued and forfeitures. Since the unit obligations are expected to be settled in common shares at some date in the future, the expenses are not deductible for tax purposes.

- Foreign exchange gain/loss- during the period from announcement of the Saber transaction on June 7, 2017 to the closing date of August 4, 2017 the US dollar spot rate moved from 1.3333 versus the Canadian dollar spot rate to 1.2576. In order to reduce the Company's exposure to the fluctuating exchange rates, management entered into a foreign exchange agreement on June 30, 2017 for the conversion of CDN\$32,447,500 to US\$25,000,000 (representing a hedge of half of the cash payment required at closing) at the rate of \$1.2979. The contract was settled on August 4, 2017 at the rate of \$1.2576 resulting in a loss of \$1,007,500.

- Change in fair value of contingent earn-out payments - in connection with the acquisition of MMG in 2016, the Company recorded a liability for potential contingent earn-out payments as at the acquisition date. There were no contingent payments related to MMG made for the first, second, or third earn-out period in 2016, 2017 and 2018. The fair value of the liability in connection with the contingent consideration was revalued at each reporting date and any changes in fair value of the estimated liability were recorded in the consolidated statement of earnings. As at December 31, 2018 the remaining contingent earn-out liability was written off and a gain of \$1,156,139 was included in the consolidated earnings for the year (see Note 18). The Company also recorded a goodwill impairment charge of \$1,266,849 as at December 31, 2018 (2017 - \$nil). The loss was netted against the gain from the contingent earn-out adjustment resulting in a net loss of \$110,710 in (2017 - \$268,965).

- Other income (expenses) - primarily the result of income from a one-time rebate of utility expenses recorded in the fourth quarter of 2017 for payments made in prior years totalling approximately \$650,000, offset by other one-time expenses in both years.

- 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 December 31, 2018 was \$4,917,765 or \$0.210 per share compared to \$2,826,055 or \$0.183 per share for the same period in 2017. This represents an increase of 74.0% in the Adjusted Net Earnings and an increase of 14.8% in the Adjusted Net Earnings per share over the same three month period in 2017.

Adjusted Net Earnings attributable to PLC shareholders for the year ended December 31, 2018 was \$15,912,825 or \$0.770 per share compared to \$8,559,921 or \$0.641 per share for the same period in 2017. This represents an increase of 85.9% in the Adjusted Net Earnings and an increase of 20.1% in the Adjusted Net Earnings per share over the same twelve month period in 2017.

Adjusted EBITDA attributable to PLC shareholders for the three month period ended December 31, 2018 was \$11,280,499 or \$0.482 per share compared to \$5,587,663 or \$0.362 per share for the same period in 2017. This represents an increase of 101.9% in the Adjusted EBITDA and an increase of 33.1% in the Adjusted EBITDA per share over the same three month period in 2017.

Adjusted EBITDA attributable to PLC shareholders for the year ended December 31, 2018 was \$34,702,126 or \$1.680 per share compared to \$16,630,310 or \$1.245 per share for the same period in 2017. This represents an increase of 108.7% in the Adjusted EBITDA and an increase of 34.9% in the Adjusted EBITDA per share for the same period in 2017.

As indicated above, the Company achieved significant growth in its Adjusted Net Earnings and Adjusted EBITDA in 2018 compared to 2017. At the same time, the Company was also able to deliver significant double digit growth in its per share Adjusted Net Earnings and per share Adjusted EBITDA over this period.

The significant double digit growth in the per share amounts in this reporting period, reflects the positive impact of utilizing both the capital raised by the Company in recent prospectus offerings and the capital available under the Company's revolving credit facility. Management continues to deploy this capital on important organic growth initiatives and accretive acquisitions, and continues its efforts to integrate the Company's operating businesses in order to achieve operating efficiencies and synergies that it believes will contribute to further growth in the Company's per share earnings. The Company ended 2018 with approximately \$90 million drawn on its \$225 million revolving credit facility, \$14 million of cash on hand and has a further use of the credit facility with the proposed US\$20.3 million acquisition of Cress Funeral Services Inc. announced on February 20, 2019.

Other events during the recent quarter include the following:

- The Company completed the acquisition of Wells Funeral Homes and Cremation Services (“Wells”), a two-location funeral business in Waynesville and Canton, North Carolina for a purchase price of US\$5.5 million.
- The Company completed the acquisition of all outstanding membership interests of Citadel Management LLC (“Citadel”). The acquisition expands the Company’s operations in North Carolina and marks its entry in the South Carolina market. This acquisition adds 29 cemeteries and 8 funeral homes (including 1 on-site). The purchase price was approximately US\$14.6 million including US\$1.7 million for 2 recently constructed mausoleums.
- Included in other assets is primarily a \$6.2 million secured debt investment in Humphrey Funeral Home A. W. Miles – Newbigging Chapel Limited (“Humphrey”) which is measured at fair value. The debenture bears interest at 5% and is convertible into equity of Humphrey on maturity at the option of the Company. The debenture is due on demand after a period of five years.

Subsequent to December 31, 2018 the Company also announced the following events:

- On January 18, 2019, the Company amended its existing syndicated bank financing arrangement to increase its borrowing capacity to \$225 million (\$175 million committed credit facility and additional \$50 million accordion facility). The financing arrangement has a term of five years. 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.
- On February 20, 2019 the Company announced the signing of a definitive agreement to acquire Cress, an 8-location funeral business in Madison, Wisconsin for approximately US\$20.3 million. The acquisition will be funded from PLC’s credit facility. Closing remains subject to regulatory approval which is expected in the second quarter of 2019. The acquisition of Cress expands PLC’s footprint into Wisconsin by adding 8 funeral homes and 2 crematoria to PLC’s portfolio.
- On February 22, 2019, the Company sold redundant real estate for a sale price of \$1,500,000 realizing a gain of approximately \$40,000, net of disposition costs.

Consolidated Statement of Financial Position

Current Assets & Liabilities

Current assets were \$62,920,267 at December 31, 2018 compared to \$37,115,650 at December 31, 2017. The increase was primarily due to the recent acquisitions.

Current liabilities were \$22,100,126 at December 31, 2018 compared to \$12,146,788 at December 31, 2017. The increase was primarily due to the recent acquisitions.

Net working capital at December 31, 2018 was \$40,820,141 compared to \$24,968,862 at December 31, 2017. The increase was primarily due to the recent acquisitions.

Care and Maintenance Trust Fund

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 2018, the Company contributed \$7,137,408 to the trust funds compared to \$3,675,654 during the same period in 2017. The Care and Maintenance Trust Fund assets are included in the Consolidated Statement of Financial Position at market value. As of December 31, 2018, the balance of the trust funds was \$195,927,256 compared to \$110,007,638 as at December 31, 2017. The Care and Maintenance Trust Fund assets are offset by a corresponding liability for Care and Maintenance Trusts’ Corpus. The increase in the Care and Maintenance Trust Funds is primarily due to the recent acquisitions.

Pre-Need Merchandise and Service Trust Funds

The Company maintains Pre-Need Merchandise and Service Trust Funds for the deposit of cash received for the purchase of pre-need merchandise and services to be delivered at some future date. When the merchandise is delivered and the services are performed, the Company receives the current market value for the service from the Pre-Need Merchandise and Service Trust Funds. The Pre-Need Merchandise and Service Trust Fund assets are included in the Consolidated Statement of Financial Position at market value. The assets within the trust funds had a market value at December 31, 2018 of \$157,597,312 compared to \$96,018,172 as at December 31, 2017. The Pre-Need Merchandise and Service Trust Funds are offset by a corresponding liability for Deferred Pre-Need Receipts held in trust. The increase in the Pre-Need Merchandise and Service Trust Funds is primarily due to the recent acquisitions.

Prearranged Funeral Insurance Contracts

In addition to Trust funded prearranged funeral services contracts, the Company also has prearranged funeral services contracts which are funded by insurance. As of December 31, 2018, and December 31, 2017, the current face amounts of pre-funded policies was approximately \$176 million and \$53 million, respectively. The increase in prearranged funeral insurance contracts is primarily a result of the acquisition of Signature during the second quarter of 2018. Families who have prearranged with the Company will receive a refund to the extent that the face amount of the policy exceeds the current retail value of the merchandise and services to be provided. The insurance funded contracts are not included in the consolidated financial statements as the Company is not the beneficiary of the policy. Amounts funded through insurance are available to the Company when the funeral services are performed.

Finance Assurances

The Company has entered into arrangements with certain surety companies whereby such companies agree to issue surety bonds on the Company’s behalf as financial assurance. When selling pre-need contracts, the Company may purchase surety bonds where allowed by state law. The surety bonds are used to support the Company’s pre-need cemetery merchandise sales activities, in lieu of trusting certain amounts of funds received from the customer. The amount of the bond posted is generally determined by the total amount of pre-need contract that would otherwise be required to be trusted, in accordance with state law. The obligations underlying these surety bonds are recorded as deferred revenue. At December 31, 2018 the Company had surety bonds in place having an aggregate face value of approximately \$40 million.

Liquidity and Capital Resources

The Company’s principal sources of liquidity are cash provided from operations and from the issuance of debt and equity instruments. As previously mentioned, the Company had net working capital of \$40,820,141 as at December 31, 2018.

As at June 30, 2018, the Company had a \$75 million revolving loan facility as well as an approved \$50 million accordion facility. On July 5, 2018, the Company amended its existing syndicated bank financing arrangement to increase its borrowing capacity to \$150 million (\$100 million committed credit facility and an additional \$50 million accordion facility). On January 18, 2019, the Company amended its existing syndicated bank financing arrangement to increase its borrowing capacity to \$225 million (\$175 million committed credit facility and additional \$50 million accordion facility). The credit facility has a term of five years. 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. As at December 31, 2018, the Company had approximately \$90 million outstanding on the credit facility and had \$14.1 million in cash on hand.

From December 2013 to December 2018, the Company has raised approximately \$361 million from the issuance of common shares to fund various growth initiatives. The Company may use additional share offerings as a way to fund future growth initiatives if, and when, such opportunities arise.

Discussion of Operating Results, Twelve Months Ended December 31, 2018

Total revenue for the year ended December 31, 2018 was \$161,421,019 compared with \$87,289,797 for the same period in 2017. This represents an increase of \$74,131,222 or 84.9%, over the same period in 2017.

Revenue was derived from the following sources:

	December 31, 2018	December 31, 2017
Sales	\$ 148,143,419	\$ 79,246,523
Income from care and maintenance funds	8,769,883	6,026,868
Interest and other income	4,507,717	2,016,406
	<u>\$ 161,421,019</u>	<u>\$ 87,289,797</u>

After adjusting for the impact of foreign exchange, revenue growth from comparable business units year over year was 6.4%. For acquired companies, comparable growth is calculated as the difference between 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.

The year over year revenue increase from comparable business operations was driven primarily by the cemetery operations, both in Canada and in the U.S. The increase in comparable revenue over 2017 is related to an increase in pre-need sales production, completion of cemetery property construction on previously sold cemetery property where the revenue had been deferred, expansion of cemetery inventory and opening of new cemetery property and higher revenue from trust funds. Overall, revenue from comparable funeral properties was also higher year over year.

The gross profit margin was 79.3% for the year period ended December 31, 2018 compared to 76.6% for the same period in 2017. Most of the increase in gross profit margin in 2018 is due to the inclusion of CMS and other acquired cemetery and funeral home businesses during the year. Gross margins on the traditional funeral business are higher because there is a higher proportion of service revenue than merchandise revenue on this business. Gross margins on acquired cemetery business are higher because the required contribution to care and maintenance trust funds for the states in which these companies operate is lower than other jurisdictions. Interest and other income was also higher in 2018 resulting in improved overall gross margin.

Operating expenses for the year ended December 31, 2018 totaled \$108,121,831 an increase of \$50,551,898 over the same period in 2017.

Operating costs were incurred as follows:

	December 31, 2018	December 31, 2017
General and administrative	\$55,150,563	\$25,313,541
Maintenance	26,023,728	17,440,028
Advertising and selling	23,364,745	13,554,017
Interest	2,397,134	384,026
Share based compensation expense	1,185,661	878,321
	<u>\$108,121,831</u>	<u>\$57,569,933</u>

The increase in operating expenses year over year was due primarily to the inclusion of acquired businesses. In aggregate, after adjusting for the impact of foreign exchange, the Company's general and administrative, advertising and selling, and maintenance expenses for the comparable business units for the year ended December 31, 2018 increased by approximately \$2,150,000 compared with the same period in 2017.

General and administrative expenses for comparable operations increased by approximately \$1,150,000 year over year. A significant portion of this increase relates to expenses incurred to support the Company's growth initiatives over the past year, including increased listing fees and regulatory expenses, investor relations activities, legal and audit fees, etc. The remainder of the general and administrative expense increase was incurred to support field operations of comparable business units. Selling and advertising expenses at comparable business units increased by approximately \$670,000. These expenses were incurred to support the revenue growth in the cemetery business. Maintenance expenses increased by approximately \$250,000 although certain of these expenses can be seasonal in nature and may be different in future periods and represents a nominal increase year over year.

Interest expense in 2018 was higher by \$2,013,108 as the Company is now utilizing the credit facility to fund its recent acquisitions. In addition, amortization of deferred finance costs and standby fees are higher as a result of the increase in the Company's credit facility.

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 subsidiaries, and of promoting share ownership and alignment with shareholders' interests. The EIP provides for the grant of both DSUs and RSUs. Compensation expense associated with these units for the year ended December 31, 2018 was \$1,185,661 compared to \$878,321 in 2017.

As a result of the above, earnings from operations for the year ended December 31, 2018 totaled \$19,873,142, an increase of \$10,561,614 or 113.4% over the \$9,311,528 earned during the year ended December 31, 2017.

Other income and expense items which are non-operating in nature for the year, and previously discussed, include the following:

- Acquisition and integration costs - during the year ended December 31, 2018 and 2017, the Company incurred expenses of \$10,384,125 and \$4,054,265, respectively. Most of the acquisition and integration costs in 2018 relate to the acquisition of CMS, Signature and Citadel, and the balance relates to other acquisition and integration activity. As the Company continues to expand in the U.S. market, management believes there will be opportunities for further rationalization of its operations. As previously mentioned, acquisition expenses will vary from period to period depending on the size and level of acquisition activity. Commensurate with the size and number of transactions in recent months, the acquisition and integration expenses incurred by the Company have increased in the current periods.
- Foreign exchange gain/loss- during the period from announcement of the Saber transaction on June 7, 2017 to the closing date of August 4, 2017 the US dollar spot rate moved from 1.3333 versus the Canadian dollar spot rate to 1.2576. In order to reduce the Company's exposure to the fluctuating exchange rates, management entered into a foreign exchange agreement on June 30, 2017 for the conversion of CDN\$32,447,500 to US\$25,000,000 (representing a hedge of half of the cash payment required at closing) at the rate of \$1.2979. The contract was settled on August 4, 2017 at the rate of \$1.2576 resulting in a loss of \$1,007,500.
- Change in fair value of contingent earn-out payments - in connection with the acquisition of MMG in 2016, the Company recorded a liability for potential contingent earn-out payments as at the acquisition date. There were no contingent payments related to MMG made for the first, second, or third earn-out period in 2016, 2017 and 2018. The fair value of the liability in connection with the contingent consideration was revalued at each reporting date and any changes in fair value of the estimated liability were recorded in the consolidated statement of earnings. As at December 31, 2018 the remaining contingent earn-out liability was written off and a gain of \$1,156,139 was included in the consolidated earnings for the year (see Note 18). The Company also recorded a goodwill impairment charge of \$1,266,849 as at December 31, 2018 (2017 - \$nil). The loss was netted against the gain from the contingent earn-out adjustment resulting in a net loss of \$110,710 in (2017 - \$268,965).
- Other (income) expenses - consisted primarily of a one time utility expense rebate recorded in the fourth quarter of 2017 for payments made in prior years totalling approximately \$650,000 offset by other one-time expenses on both periods.

- Income tax – represents an adjustment for the tax impact of the above noted adjustments where such items are taxable in nature.

Income tax expense for the year ended December 31, 2018 was \$2,165,882 compared to \$421,542 in 2017. The effective income tax rate in 2018 was 23.3% compared to 8.5% in 2017. The effective tax rate in 2018 is marginally lower than the expected effective tax rate of 25% because of the net impact of non-taxable dividend income from the Canadian trust funds and non deductible share based compensation. The increase in the effective tax rate year over year is primarily the result of major changes to the Internal Revenue Code of 1986 announced in December 2017 which impacted the tax treatment of exempt surplus coming from the Company's business in the U.S.

As a result of the above, the Company's after tax earnings from operations for the year ended December 31, 2018 totaled \$7,119,581 compared to \$4,520,570 for the same period in 2017.

Earnings Per Share

The weighted average diluted number of common shares outstanding for the year ended December 31, 2018 increased to 20,655,472 compared to 13,362,840 for the same period in 2017, an increase of 7,292,632 or 54.6%. The increase in outstanding shares relates to the issuance of shares pursuant to the Company's DRIP and EIP, and May 2018 prospectus offering.

Fully diluted earnings per common share attributable to PLC shareholders for the year ended December 31, 2018 was \$0.325 compared to \$0.314 for the same period in 2017. The year over year improvement in earnings per share in 2018 relates largely to the earnings from businesses acquired in 2018 as well as from other items noted below.

Adjusted Net Earnings Per Share

The 2018 and 2017 net earnings, as stated, have been significantly impacted by certain one-time, non-recurring or non-cash revenue and expense items that management believes should be highlighted to better reflect the Company's operating performance for the period under review. The table below summarizes the impact of these items for the year ended December 31, 2018 compared to 2017:

	Twelve Months Ended December 31,	
	2018	2017
Net earnings, PLC shareholders	\$ 6,722,456	\$ 4,196,814
Adjusted for the impact of:		
Acquisition and integration costs	10,384,125	4,054,265
Share based compensation	1,185,661	878,321
Foreign exchange loss	-	1,007,500
Change in fair value of contingent earn-out payments	110,710	(268,965)
Other expenses (income)	92,844	(423,384)
Tax effect on the above items	(2,582,971)	(884,630)
Adjusted Net Earnings, PLC shareholders	<u>\$ 15,912,825</u>	<u>\$ 8,559,921</u>
Adjusted EBITDA, PLC shareholders (see Quarterly Information)	<u>\$ 34,702,126</u>	<u>\$ 16,630,310</u>
Per share amounts attributable to PLC shareholders		
Adjusted Net Earnings - diluted	<u>\$ 0.770</u>	<u>\$ 0.641</u>
Adjusted EBITDA - diluted (see Quarterly Information)	<u>\$ 1.680</u>	<u>\$ 1.245</u>
Weighted average shares outstanding - diluted	<u>20,655,472</u>	<u>13,362,840</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 increased from \$8,559,921 in 2017 to \$15,912,825 in 2018. This represents an increase of 85.9% year over year. Fully diluted Adjusted Net Earnings per share for 2018 was \$0.770 compared to \$0.641 for the same period in 2017, a year over year increase of \$0.129 or 20.1%.

This double digit growth in the Adjusted Net Earnings per share in this reporting period reflects the positive impact of utilizing the capital raised by the Company from recent prospectus offerings. Management continues to deploy this capital, as well as capital available under the revolving credit facility, on important organic growth initiatives and accretive acquisitions, and it continues efforts to integrate the Company's operating businesses in order to achieve operating efficiencies and synergies that it believes will contribute to further growth in the Company's Adjusted Earnings per share.

Adjusted EBITDA Per Share

Adjusted EBITDA attributable to PLC shareholders for the year ended December 31, 2018 was \$34,702,126 or \$1.680 per share compared to \$16,630,310 or \$1.245 per share for the same period in 2017. The Adjusted EBITDA increased by 108.7% year over year and the fully diluted Adjusted EBITDA per share increased by 34.9%.

Once again, the Adjusted EBITDA per share shows significant double digit improvement this year compared to the same period in 2017 and reflects the positive impact of utilizing the capital raised by the Company from recent prospectus offerings, as discussed.

Adjusted Cash Flow

The Company uses Adjusted Cash Flow as measure of, among other things, the sustainability of its dividend. The table below summarizes the calculation of Adjusted Cash Flow from its operations for the year ended December 31, 2018 and 2017 compared to its dividend payout:

	December 31, 2018	December 31, 2017
Earnings before income taxes	\$9,285,463	\$4,942,112
Adjusted for:		
Amortization of cemetery property	6,226,705	4,162,086
Depreciation and amortization	5,673,857	2,560,341
Cash income taxes payable	(780,000)	(200,000)
Foreign exchange (gain) loss	-	1,007,500
Share based compensation	1,163,743	840,890
Change in fair value of contingent earn-out payments	110,710	(268,965)
Adjusted cash flow from operations	<u>21,680,478</u>	<u>13,043,964</u>
Less non controlling interest amounts:		
Net earnings	397,125	323,756
Depreciation and amortization	125,582	111,878
Adjusted cash flow, equity holders of PLC	<u>\$21,157,772</u>	<u>\$12,608,330</u>
Adjusted cash flow per common share-diluted	<u>\$1.024</u>	<u>\$0.944</u>
Dividends per common share	<u>\$0.456</u>	<u>\$0.456</u>
Payout ratio	<u>45%</u>	<u>48%</u>
Adjusted Cash Flow is a non-IFRS measure. See "Description of Non-IFRS Measures".		

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 (referred to as amortization of cemetery property). Also, included in earnings before income taxes for the year ended December 31, 2018 and 2017 are a non-recurring, non-cash foreign exchange loss related to the acquisition of Saber, a change in fair value of contingent payments related to the acquisition of MMG, impairment charge on goodwill, and non-cash share based compensation costs.

As calculated above, the Company’s Adjusted Cash Flow from operations was \$21,157,772 for the year ended December 31, 2018 compared to \$12,608,330 for the same period in 2017. This represents Adjusted Cash Flow per fully diluted common share of \$1.024 and \$0.944 for the year ended December 31, 2018 and 2017, respectively.

The Company paid dividends of \$0.456 per common share for the year ended December 31, 2018 and 2017. The dividends paid represent 45% and 48% of the Adjusted Cash Flow per common share for the periods ended December 31, 2018 and 2017, respectively. The payout ratios for both 2017 and 2018 were negatively impacted by the acquisition and integration costs in the respective periods.

Discussion of Operating Results, Three Months Ended December 31, 2018

Total revenue for the three month period ended December 31, 2018 was \$50,625,376 compared with \$25,929,795 in the same three month period in 2017. This represents an increase of \$24,695,581 or 95.2%, over the same period in 2017.

Revenue was derived from the following sources:

	December 31, 2018	December 31, 2017
Sales	\$ 46,627,346	\$ 23,943,362
Income from care and maintenance funds	2,611,091	1,404,169
Interest and other income	1,386,939	582,264
	<u>\$50,625,376</u>	<u>\$ 25,929,795</u>

After adjusting for the impact of foreign exchange, revenue growth from comparable business units quarter over quarter was 10.8%. 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.

The revenue increase from comparable business operations was primarily related to cemetery operations, both in Canada and in the U.S. The increase in comparable revenue from cemetery operations quarter over quarter is primarily due to an increase in pre-need sales production, completion of cemetery construction projects on previously sold cemetery property where revenue had been deferred, expansion of cemetery inventory and opening of new cemetery property and higher revenue from trust funds. Overall, revenue from comparable funeral properties was also higher quarter over quarter.

Gross profit margin was 79.2% for the three month period ended December 31, 2018 compared to 76.0% for the same period in 2017. Most of the increase in gross profit margin is due to the acquisition of CMS, Signature and various funeral home acquisitions during the year. Gross margin from the traditional funeral business is typically higher because there is a higher proportion of service revenue than merchandise revenue on this business. Gross margin coming from the acquired cemetery businesses is also higher because the required contribution to care and maintenance trust funds for the states in which these companies operate is lower than other jurisdictions. Interest and other income were also higher. The combination of these factors resulted in higher margins in the current period.

Operating expenses for the three month period ended December 31, 2018 totaled \$33,602,207, an increase of \$16,875,114 over the same period in (2017 - \$16,727,093) as indicated below:

	December 31, 2018	December 31, 2017
General and administrative	\$18,251,108	\$7,784,096
Maintenance	6,900,556	4,611,760
Advertising and selling	6,891,221	3,908,021
Interest	969,643	100,771
Share based compensation expense	589,679	322,445
	<u>\$33,602,207</u>	<u>\$16,727,093</u>

The overall increase in operating expenses year over year was due primarily to the inclusion of acquired businesses and the increased interest expense associated with higher loan balances on the credit facility. In aggregate, after adjusting for the impact of foreign exchange, the Company’s general and administrative, advertising and selling, and maintenance expenses for the comparable business units for the quarter ended December 31, 2018 increased by approximately \$860,000 compared with the same period in 2017.

General and administrative expenses from comparable operations accounted for half of this increase as additional expenses were incurred to support the Company’s growth initiatives such as increased listing fees and regulatory expenses, investor relations activities, legal and audit fees, etc. Advertising and selling expenses relating to revenue growth from comparable business accounted for the remaining increase in expenses. Maintenance expenses from comparable operations were largely in line with management expectations and consistent with the prior year, although certain of these expenses can be seasonal in nature and may be different period over period.

Interest expense was higher in the fourth quarter of 2018 by \$868,872 as the Company has utilized its credit facility to fund its recent acquisitions. As a result, amortization of deferred finance costs and standby fees are 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 subsidiaries, and of promoting share ownership and alignment with shareholders’ interests. The EIP provides for the grant of both DSUs and RSUs. Compensation expense associated with these units for the three month period ended December 31, 2018 was \$589,679 compared to \$322,445 for the same period in 2017.

As a result of the above, earnings from operations for the three month period ended December 31, 2018 totaled \$6,489,911 compared to \$2,984,817 in 2017. This represents an increase of \$3,505,094 or 117.4% year over year.

Other income and expense items which are non-operating in nature for the year, and previously discussed, include the following:

- Acquisition and integration costs - during the three month periods ended December 31, 2018 and 2017, the Company incurred expenses of \$2,588,144 and \$752,923, respectively. Most of the acquisition and integration costs in 2018 relate to the acquisition of Signature and Citadel, and the balance relates to other acquisition and integration activity. As the Company continues to expand in the U.S. market, management believes there will be opportunities for further rationalization of its operations. Acquisition expenses will vary from period to period depending on the size and level of acquisition activity.
- Other (income) expenses - consisted primarily of a one time utility expense rebate recorded in the fourth quarter of 2017 for payments made in prior years totalling approximately \$650,000 offset by other one-time expenses on both periods.

Income tax expense for the three month period ended December 31, 2018 was \$1,536,439 compared to \$415,595 for the same period in 2017. As previously mentioned, the increase is primarily the result of major changes to the Internal Revenue Code of 1986 announced in December 2017 which impacted the tax treatment of exempt surplus coming from the Company's business in the U.S.

As a result of the above, the Company's after tax earnings from operations for the three month period ended December 31, 2018 totaled \$2,338,365 compared to \$2,353,832 for the same period in 2017.

Earnings Per Share

The weighted average diluted number of common shares outstanding for the three month period ended December 31, 2018 increased to 23,399,076 compared to 15,449,160 for the same period in 2017, an increase of 7,949,916 or 51.5%. The increase in outstanding shares relates to the issuance of shares pursuant to the Company's DRIP and EIP, and May 2018 prospectus offering.

Fully diluted earnings per common share attributable to PLC shareholders for the three month period ended December 31, 2018 was \$0.095 compared to a \$0.146 for the same period in 2017. The lower earnings per share for the quarter were a result of certain items discussed below.

Adjusted Net Earnings Per Share

The 2018 and 2017 net earnings, as stated, have been significantly impacted by certain one-time, non-recurring or non-cash revenue and expense items that management believes should be highlighted to better reflect the Company's operating performance for the period under review. The table below summarizes the impact of these items for the three month period ended December 31, 2018 compared to 2017:

	Three Months Ended December 31,	
	2018	2017
Net earnings, PLC shareholders	\$ 2,212,557	\$ 2,257,957
Adjusted for the impact of:		
Acquisition and integration costs	2,588,144	752,923
Share based compensation	589,679	322,445
Change in fair value of contingent earn-out payments	-	36,933
Other expenses (income)	26,963	(574,466)
Tax effect on the above items	(499,578)	30,263
Adjusted Net Earnings, PLC shareholders	\$ 4,917,765	\$ 2,826,055
Adjusted EBITDA, PLC shareholders (see Quarterly Information)	\$ 11,280,499	\$ 5,587,663
Per share amounts attributable to PLC shareholders		
Adjusted Net Earnings - diluted	\$ 0.210	\$ 0.183
Adjusted EBITDA - diluted (see Quarterly Information)	\$ 0.482	\$ 0.362
Weighted average shares outstanding - diluted	23,399,076	15,449,160

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 increased from \$2,826,055 in 2017 to \$4,917,765 in 2018. This represents an increase of 74.0% year over year. The fully diluted Adjusted Net Earnings per share for the three month period ended December 31, 2018 was \$0.210 compared to \$0.183 for the same period in 2017, a year over year increase of \$0.027 or 14.8%.

This double digit growth in the Adjusted Net Earnings per share in this reporting period reflects the positive impact of utilizing the capital raised by the Company from recent prospectus offerings. Management continues to deploy this capital, as well as capital available under the revolving credit facility, on important organic growth initiatives and accretive acquisitions, and it continues efforts to integrate the Company's operating businesses in order to achieve operating efficiencies and synergies that it believes will contribute to further growth in the Company's Adjusted Earnings per share.

Adjusted EBITDA Per Share

Adjusted EBITDA attributable to PLC shareholders for the three month period ended December 31, 2018 was \$11,280,499 compared to \$5,587,663, an increase of \$5,692,836 or 101.9% over 2017. The fully diluted Adjusted EBITDA per share for the three month period ended December 31, 2018 was \$0.482 compared to \$0.362 for the same period in 2017, a year over year increase of \$0.120 or 33.1%.

Once again, the Adjusted EBITDA per share shows significant double digit improvement this year compared to the same period in 2017 and reflects the positive impact of utilizing the capital raised by the Company from recent prospectus offerings.

Adjusted Cash Flow

The Company uses Adjusted Cash Flow as measure of, among other things, the sustainability of its dividend. The table below summarizes the calculation of Adjusted Cash Flow from its operations for the three month period ended December 31, 2018 and 2017 compared to its dividend payout:

	Three Months Ended December 31,	
	2018	2017
Earnings before income taxes	\$ 3,874,804	\$ 2,769,427
Adjusted for:		
Amortization of cemetery property	1,573,661	1,613,629
Depreciation and amortization	1,843,704	722,927
Cash income taxes payable	370,000	(5,000)
Share based compensation	574,723	313,306
Change in fair value of contingent earn-out payments	-	36,933
Adjusted cash flow from operations	8,236,892	5,451,222
Less non controlling interest amounts:		
Net earnings	125,808	95,875
Depreciation and amortization	33,900	12,119
Adjusted cash flow, equity holders of PLC	\$8,077,185	\$5,343,228
Adjusted cash flow per common share-diluted	\$0.345	\$0.346
Dividends per common share	\$0.114	\$0.114
Payout ratio	33%	33%

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

As previously mentioned, 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 (referred to as amortization of cemetery property). Also, included in earnings before income taxes are a certain non-recurring, non-cash items that require adjusting to arrive at adjusted cash flow.

As calculated above, the Company’s Adjusted Cash Flow from operations was \$8,077,185 for the three month period ended December 31, 2018 compared to \$5,343,228 for the same period in 2017. This represents Adjusted Cash Flow per fully diluted common share of \$0.345 and \$0.346 for the three month period ended December 31, 2018 and 2017, respectively.

The Company paid dividends of \$0.114 per common share for the periods ended December 31, 2018 and 2017. The dividends paid represent 33% and 33% of the Adjusted Cash Flow per common share for the periods ended December 31, 2018 and 2017, respectively.

Quarterly Information					
	2018 Q4	2018 Q3	2018 Q2	2018 Q1	Year Ending Dec 31, 2018
Revenue	\$50,625,376	\$43,239,963	\$40,349,440	\$27,206,240	\$161,421,019
Earnings from operations	\$6,489,911	\$5,708,435	\$4,219,015	\$3,455,781	\$19,873,142
Net earnings (loss), PLC shareholders	\$2,212,557	\$3,272,770	\$(435,849)	\$1,672,978	\$6,722,456
Adjusted Net Earnings, PLC shareholders	\$4,917,765	\$4,511,495	\$3,659,838	\$2,823,727	\$15,912,825
Net earnings (loss) per share - basic, PLC shareholders	*\$0.095	*\$0.141	*(0.021)	*\$0.108	*\$0.326
Net earnings (loss) per share - diluted, PLC shareholders	*\$0.095	*\$0.141	*(0.021)	*\$0.108	*\$0.325
Adjusted Net Earnings per share - diluted, PLC shareholders	*\$0.210	*\$0.194	*\$0.180	*\$0.182	*\$0.770
Earnings from operations (per above)	6,489,911	5,708,435	4,219,015	3,455,781	19,873,142
Interest expense	969,643	624,497	553,371	249,623	2,397,134
Depreciation and amortization	1,843,704	1,625,566	1,399,521	805,066	5,673,857
Amortization of cemetery property	1,573,661	1,416,176	2,081,037	1,155,831	6,226,705
Share based compensation	589,679	99,631	249,106	247,245	1,185,661
Adjusted EBITDA, non-controlling interest	(186,099)	(177,235)	(180,981)	(110,058)	(654,373)
Adjusted EBITDA, PLC shareholders	**\$11,280,499	**\$9,297,070	**\$8,321,069	**\$5,803,488	**\$34,702,126
Adjusted EBITDA margin	***22.6%	***21.9%	***21.1%	***21.7%	***21.9%
Adjusted EBITDA per share - diluted, PLC shareholders	**\$0.482	**\$0.400	**\$0.409	**\$0.375	**\$1.680
	2017 Q4	2017 Q3	2017 Q2	2017 Q1	Year Ending Dec 31, 2017
Revenue	\$25,929,795	\$22,418,725	\$20,138,853	\$18,802,424	\$87,289,797
Earnings from operations	\$2,984,817	\$2,288,011	\$2,172,760	\$1,865,940	\$9,311,528
Net earnings (loss), PLC shareholders	\$2,257,957	\$(171,116)	\$812,444	\$1,297,529	\$4,196,814
Adjusted Net Earnings, PLC shareholders	\$2,826,055	\$2,220,369	\$1,807,640	\$1,705,857	\$8,559,921
Net earnings (loss) per share - basic, PLC shareholders	*\$0.146	*(0.011)	*\$0.072	*\$0.117	*\$0.315
Net earnings (loss) per share - diluted, PLC shareholders	*\$0.146	*(0.011)	*\$0.072	*\$0.117	*\$0.314
Adjusted Net Earnings per share - diluted, PLC shareholders	*\$0.183	*\$0.144	*\$0.160	*\$0.153	*\$0.641
Earnings from operations (per above)	2,984,817	2,288,011	2,172,760	1,865,940	9,311,528
Interest expense	100,771	92,476	92,608	98,171	384,026
Depreciation and amortization	722,927	755,788	560,456	521,170	2,560,341
Amortization of cemetery property	1,613,629	802,968	902,522	842,967	4,162,086
Share based compensation	322,445	179,681	193,356	182,839	878,321
Adjusted EBITDA, non-controlling interest	(156,926)	(87,396)	(239,976)	(181,694)	(665,992)
Adjusted EBITDA, PLC shareholders	**\$5,587,663	**\$4,031,528	**\$3,681,726	**\$3,329,393	**\$16,630,310
Adjusted EBITDA margin	***22.2%	***18.4%	***19.5%	***18.7%	***19.8%
Adjusted EBITDA per share - diluted, PLC shareholders	**\$0.362	**\$0.261	**\$0.325	**\$0.299	**\$1.245

*The sum of the quarterly net earnings attributable to equity holders of PLC per share, basic and diluted, may not equal the period amount due to the rounding and use of weighted average shares outstanding.

**Adjusted EBITDA and Adjusted EBITDA per share have been modified to include amortization of cemetery property in the 2017 quarterly results.

***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 of Directors 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 year December 31, 2018 and December 31, 2017, the Company declared dividends to shareholders totaling \$0.456 per share. The Company subsequently paid a dividend of \$0.038 for December, 2018. The following table sets forth the per share amount of monthly dividends declared and paid by the Company since January 1, 2018.

MONTH	DIVIDEND RECORD DATE	PAYMENT DATE	PER SHARE
December, 2018	December 31, 2018	January 15, 2018	0.038
November, 2018	November 30, 2018	December 14, 2018	0.038
October, 2018	October 31, 2018	November 15, 2018	0.038
September, 2018	September 30, 2018	October 15, 2018	0.038
August, 2018	August 31, 2018	September 14, 2018	0.038
July, 2018	July 31, 2018	August 15, 2018	0.038
June, 2018	June 30, 2018	July 16, 2018	0.038
May, 2018	May 31, 2018	June 15, 2018	0.038
April, 2018	April 30, 2018	May 15, 2018	0.038
March, 2018	March 31, 2018	April 16, 2018	0.038
February, 2018	February 28, 2018	March 15, 2018	0.038
January, 2018	January 31, 2018	February 15, 2018	0.038
TOTAL DIVIDENDS PER SHARE			\$0.456

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; (iii) entities controlled by key management personnel.

The Company had a contract with Nine Two Seven Limited for professional and management services which has terminated on September 1, 2017. For the year ended December 31, 2017, the Company paid a total of \$226,667 to Nine Two Seven Limited for such services provided to the Company. For the year ended December 31, 2018, the Company paid a total of \$125,000 as other compensation. Nine Two Seven Limited is owned by an officer and director of the Company. The contract with Nine Two Seven Limited was replaced by an employment contract commencing September 1, 2017.

At the annual and special meeting of shareholders held on June 18, 2013, the shareholders of the Company approved the ESLP. Amounts issued under the ESLP were as follows:

- On October 7, 2013, the Company loaned \$1,575,000 to Nine Two Seven Limited to acquire 210,000 common shares of the Company. The loan bears interest at a rate of 3.2% per annum payable upon maturity and will mature on August 27, 2023;
- On January 7, 2015, the Company loaned \$746,200 to Nine Two Seven Limited to acquire 65,000 common shares of the Company. The loan bears interest at a rate of 3.2% per annum payable upon maturity and will mature on January 7, 2025; and
- On January 7, 2015, the Company loaned \$1,258,750 to Leeder Holdings Inc. to acquire 125,000 common shares of the Company. Leeder Holding Inc. is owned by an officer and director of the Company. The loan bears interest at a rate of 3.2% per annum payable upon maturity and will mature on January 7, 2025.

Total loans outstanding under the ESLP, including accrued interest amounted to \$3,063,666 at December 31, 2018 (at December 31, 2017 - \$3,169,899). Interest income earned by the Company for the years ended December 31, 2018 and 2017 was \$97,857 and \$157,079, respectively.

At the annual and special meeting of shareholders held on May 31, 2016, the shareholders of the Company approved the EIP. Total amounts of DSUs issued to directors amounted to \$249,688 at December 31, 2018 (at December 31, 2017 - \$252,000).

Disclosure Controls and Procedures

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

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

Internal Controls over Financial Reporting

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management conducted its evaluation based on the framework set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under this framework, management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2018.

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 Signature which was acquired during the second quarter of 2018 and Citadel which was acquired during the fourth quarter of 2018.

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 new acquisitions:

	Signature December 31, 2018	Citadel December 31, 2018
Revenue	\$ 28,622,293	\$ 3,392,647
Net earnings	\$ 2,609,514	\$ 281,103
Current assets	\$ 11,359,148	\$ 7,214,953
Non-current assets	\$ 258,750,486	\$ 79,231,475
Current liabilities	\$ 4,894,289	\$ 2,063,731
Non-current liabilities	\$ 82,923,755	\$ 63,770,863

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company’s internal controls over financial reporting during Fiscal 2018 that have affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

IFRS Issued Standards Not Yet Adopted

The IASB has issued the following standards, amendments and interpretations which have not been early adopted in these consolidated financial statements. The Company is assessing the impact on its consolidated financial statements as a result of adopting the following new standards:

IFRS 16 – “Leases”, effective for annual periods beginning on or after January 1, 2019. The most significant change introduced by IFRS 16 is a single lessee accounting model, bringing leases on-balance sheet for lessees. The Company has assessed the impact that IFRS 16 will have on its consolidated financial statements, and determined that the impact will result in the addition of right-of-use asset, as well as a corresponding lease liability valued at approximately \$6.1 million, which will be reflected on the consolidated statement of financial position as at January 1, 2019.

New Accounting Policies Adopted in 2018

The Company's accounting policies are as disclosed in Note 2 of PLC's 2018 annual consolidated financial statements. There have been no material changes to PLC's accounting policies from what was disclosed at that time, with the exception of the adoption of IFRS 15 – Revenue from Contract with Customers and IFRS 9 – Financial Instruments, Classification and Measurement as disclosed in Note 2 in the Company's December 31, 2018 consolidated financial statements.

IFRS 9 – Financial Instruments, Classification and Measurement

Effective January 1, 2018, the Company adopted IFRS 9. IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also amends the requirements around hedge accounting, and introduces a single, forward-looking expected loss impairment model.

The Company has elected to apply the limited exemption in IFRS 9 paragraph 7.2.15 relating to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. The adoption of IFRS 9 had no impact on the Company's consolidated financial statements on the date of initial application. There was no change in the carrying amounts on the basis of allocation from original measurement categories under IAS 39 Financial Instruments: Recognition and Measurement to the new measurement categories under IFRS 9.

IFRS 15 – Revenue from Contracts with Customers

The Company elected to adopt IFRS15 using the modified retrospective method, with recognition of transitional adjustments in opening retained earnings on the date of initial application (January 1, 2018), without restatement of comparative figures.

The treatment of costs incurred in acquiring customer contracts is affected as IFRS 15 requires certain contract acquisition costs (such as sales commissions) to be recognized as an asset and amortized into advertising and selling expenses over time. Previously, such costs were expensed as incurred. Accordingly, a new asset has been recognized in the consolidated statements of financial position, specifically, a deferred commission asset.

The impact on the consolidated statement of financial position as at January 1, 2018 is an increase to deferred commission asset of \$15,925,918, an increase in deferred tax liability of \$4,149,238, and an increase of \$11,776,680 to opening retained earnings.

The adoption of IFRS 15 did not result in any changes in the timing of revenue recognition for the Company's goods and services.

Shares Outstanding

The authorized capital of the Company consists of an unlimited number of common shares. As at December 31, 2018, there were 23,135,315 common shares issued and outstanding, representing an increase of 7,788,583 common shares issued and outstanding since December 31, 2017. The increase in the number of common shares is the result of the issuance of shares pursuant to the Company's DRIP and May 2018 prospectus offering. As at March 26, 2019, there were 23,156,005 common shares issued and outstanding. In addition, the Company has 640,000 common shares reserved and available for grant and issuance of the EIP. Of these 640,000 common shares, 480,000 are reserved for the issuance to employees and 160,000 common shares are reserved for issuance to directors. As at December 31, 2018, 176,337 RSUs and 29,917 DSUs were awarded.

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.parklawn.com.

PARK LAWN CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Independent Auditors' Report

To the Shareholders of Park Lawn Corporation:

We have audited the consolidated financial statements of Park Lawn Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other Information

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

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
March 26, 2019

MNP
LLP

PARK LAWN CORPORATION | CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	December 31, 2018	December 31, 2017
Assets		
Current assets		
Cash	\$ 14,149,092	\$ 12,736,498
Accounts receivable	8,976,690	4,932,227
Pre-need receivables, current portion (Note 4)	26,204,444	13,480,868
Inventories, current portion (Note 5)	9,988,909	4,810,926
Prepaid expenses and other current assets	3,601,132	1,155,131
	<u>62,920,267</u>	<u>37,115,650</u>
Non-current assets		
Pre-need receivables, net of current portion (Note 4)	57,917,186	36,027,923
Inventories, net of current portion (Note 5)	71,102,414	35,701,660
Land held for development (Note 7)	28,023,925	7,433,352
Property and equipment (Note 8)	125,203,549	42,959,232
Care and maintenance trust fund investments (Note 9)	195,927,256	110,007,638
Pre-need merchandise and service trust fund investments (Note 10)	157,597,312	96,018,172
Deferred tax assets (Note 27)	4,113,646	2,982,205
Employee share loan plan (Note 28)	3,063,666	3,169,899
Goodwill and intangibles (Note 6 and 12)	281,833,941	85,962,618
Deferred financing costs (Note 15)	-	724,260
Deferred commissions (Note 2)	24,663,902	-
Other assets (Note 13)	7,793,162	978,643
	<u>957,239,959</u>	<u>421,965,602</u>
TOTAL ASSETS	<u>\$ 1,020,160,226</u>	<u>\$ 459,081,252</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 14)	\$ 20,495,554	\$ 10,177,423
Dividends payable	879,142	583,176
Current portion of long term debt (Note 15)	298,826	553,807
Current portion of notes payable (Note 16)	426,604	832,382
	<u>22,100,126</u>	<u>12,146,788</u>
Non-current liabilities		
Long-term debt, net of current portion (Note 15)	91,045,776	2,674,940
Notes payable, net of current portion (Note 16)	4,277,811	334,679
Deferred revenue (Note 17)	143,767,739	54,786,871
Deferred tax liabilities (Note 27)	4,970,996	-
Contingent payment (Note 18)	-	1,061,949
Care and maintenance trusts' corpus (Note 9)	195,927,256	110,007,638
Deferred pre-need receipts held in trust (Note 10)	157,597,312	96,018,172
	<u>597,586,890</u>	<u>264,884,249</u>
Shareholders' Equity		
Share capital (Note 20)	363,957,423	179,775,963
Contributed surplus	2,297,514	1,133,771
Accumulated other comprehensive income (loss)	21,888,697	(1,654,092)
Retained earnings	10,829,808	1,691,930
	<u>398,973,442</u>	<u>180,947,572</u>
Non-controlling interest	1,499,768	1,102,643
	<u>400,473,210</u>	<u>182,050,215</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,020,160,226</u>	<u>\$ 459,081,252</u>
Commitments and Contingencies (Note 30)		
Approved by the Board of Directors		
"Andrew Clark"	"Joseph Leeder"	
Andrew Clark - CEO, Director	Joseph Leeder - CFO, Director	
The accompanying notes are an integral part of these consolidated financial statements.		

PARK LAWN CORPORATION | CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Revenue		
Sales	\$ 148,143,419	\$ 79,246,523
Income from care and maintenance funds (Note 9)	8,769,883	6,026,868
Interest and other income	4,507,717	2,016,406
	<u>161,421,019</u>	<u>87,289,797</u>
Costs	<u>33,426,046</u>	<u>20,408,336</u>
Gross profit	<u>127,994,973</u>	<u>66,881,461</u>
Operating expenses		
General and administrative (Note 22)	55,150,563	25,313,541
Maintenance (Note 22)	26,023,728	17,440,028
Advertising and selling (Note 22)	23,364,745	13,554,017
Interest expense (Note 23)	2,397,134	384,026
Share based incentive compensation (Note 24)	1,185,661	878,321
	<u>108,121,831</u>	<u>57,569,933</u>
Earnings from operations	<u>19,873,142</u>	<u>9,311,528</u>
Acquisition and integration costs (Note 6)	(10,384,125)	(4,054,265)
Foreign exchange gain (loss) (Note 25)	-	(1,007,500)
Change in fair value of contingent payments (Note 18)	(110,710)	268,965
Other (expenses) income	(92,844)	423,384
	<u>9,285,463</u>	<u>4,942,112</u>
Earnings before income taxes	9,285,463	4,942,112
Income tax expense (Note 27)	2,165,882	421,542
Net earnings for the year	<u>\$ 7,119,581</u>	<u>\$ 4,520,570</u>
Net earnings attributable to:		
Equity holders of PLC	\$ 6,722,456	\$ 4,196,814
Non-controlling interest	397,125	323,756
	<u>\$ 7,119,581</u>	<u>\$ 4,520,570</u>
Attributable to equity holders of PLC		
Net earnings per share - basic	\$ 0.326	\$ 0.315
Net earnings per share - diluted	\$ 0.325	\$ 0.314
Weighted average number of common shares:		
- basic	20,610,121	13,335,587
- diluted	20,655,472	13,362,840
The accompanying notes are an integral part of these consolidated financial statements.		
	2018	2017
Net earnings (loss) for the year	\$ 7,119,581	\$ 4,520,570
Item of other comprehensive income to be subsequently reclassified to net income		
Foreign currency translation of foreign operations	23,542,789	(1,607,367)
Comprehensive income	<u>\$ 30,662,370</u>	<u>\$ 2,913,203</u>
The accompanying notes are an integral part of these consolidated financial statements.		

PARK LAWN CORPORATION | CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	# 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, 2017	11,095,770	\$ 92,709,116	\$ 292,881	\$ 3,632,754	\$ (46,725)	\$ 778,887	\$ 97,366,913
Dividends declared (Note 19)	-	-	-	(6,189,817)	-	-	(6,189,817)
Shares issued:							
Dividend reinvestment plan (Note 20)	13,212	231,791	-	-	-	-	231,791
Equity incentive plan (Note 25)	-	-	840,890	-	-	-	840,890
Prospectus financing, net of costs (Note 20)	4,237,750	76,976,730	-	-	-	-	76,976,730
Contingent equity consideration (Note 20)	-	9,858,326	-	-	-	-	9,858,326
Acquisition of non-controlling interest	-	-	-	52,179	-	-	52,179
Other comprehensive loss	-	-	-	-	(1,607,367)	-	(1,607,367)
Net earnings for the year	-	-	-	4,196,814	-	323,756	4,520,570
Balance at December 31, 2017	<u>15,346,732</u>	<u>\$ 179,775,963</u>	<u>\$ 1,133,771</u>	<u>\$ 1,691,930</u>	<u>\$ (1,654,092)</u>	<u>\$ 1,102,643</u>	<u>\$ 182,050,215</u>
Balance at January 1, 2018	15,346,732	\$ 179,775,963	\$ 1,133,771	\$ 1,691,930	\$ (1,654,092)	\$ 1,102,643	\$ 182,050,215
Dividends declared (Note 19)	-	-	-	(9,361,258)	-	-	(9,361,258)
Shares issued:							
Dividend reinvestment plan (Note 20)	43,333	992,914	-	-	-	-	992,914
Equity incentive plan (Note 24)	-	-	1,163,743	-	-	-	1,163,743
Prospectus financing, net of costs (Note 20)	7,745,250	183,188,546	-	-	-	-	183,188,546
Adoption of IFRS15 (Note 2)	-	-	-	11,776,680	-	-	11,776,680
Other comprehensive income	-	-	-	-	23,542,789	-	23,542,789
Net earnings for the year	-	-	-	6,722,456	-	397,125	7,119,581
Balance at December 31, 2018	<u>23,135,315</u>	<u>\$ 363,957,423</u>	<u>\$ 2,297,514</u>	<u>\$ 10,829,808</u>	<u>\$ 21,888,697</u>	<u>\$ 1,499,768</u>	<u>\$ 400,473,210</u>

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

PARK LAWN CORPORATION | CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash provided by (used in):		
Operating activities		
Net earnings for the year	\$ 7,119,581	\$ 4,520,570
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Acquisition and integration costs	10,384,125	4,054,265
Foreign exchange gain/loss relating to acquisitions and other strategic transactions	-	1,007,500
Deferred tax expense	1,394,099	9,160
Depreciation of property and equipment, investment properties and amortization of intangibles	5,673,857	2,560,341
Amortization of cemetery property	6,226,705	4,162,086
Amortization of deferred commissions	3,346,556	-
Amortization of deferred financing costs	161,873	77,958
Share based incentive compensation	1,163,743	840,890
Gain on change in fair value of contingent payments	110,710	(268,965)
Termination of lease contract	-	149,125
Changes in working capital that provided (required) cash:		
Accounts receivable	(568,707)	(2,131,639)
Net receipts on pre-need activity	(4,060,183)	(1,959,806)
Merchandise inventories	(746,550)	(1,007,286)
Prepaid expenses and other current assets	(1,199,575)	(353,524)
Deferred tax asset	-	(1,275,525)
Accounts payable and accrued liabilities	1,836,512	(2,330,391)
Cash provided by (used in) operating activities	<u>30,842,746</u>	<u>8,054,759</u>
Investing activities		
Acquisition and integration costs	(10,384,125)	(4,054,265)
Foreign exchange gain/loss relating to acquisitions and other strategic transactions	-	(1,007,500)
Receivable on sale of discontinued operations	-	60,661
Net cash on acquisitions and other strategic transactions	(257,122,738)	(76,179,735)
Additions to cemetery property	(5,666,260)	(1,578,532)
Acquisition of property and equipment	(8,220,635)	(2,822,532)
Proceeds on disposal of property and equipment	53,483	-
Acquisition of land held for development	(659,511)	(3,464,596)
Employee loan	106,233	129,428
Deferred commissions	(3,835,146)	-
Decrease (increase) in other assets	(6,735,801)	(327,472)
Cash provided by (used in) investing activities	<u>(292,464,500)</u>	<u>(89,244,543)</u>
Financing activities		
Proceeds (repayment) from loan receivable	-	123,600
Proceeds from issuance of long-term debt	90,464,654	54,427
Repayment of long-term debt	(1,901,049)	(530,605)
Proceeds (repayment) of note payable	508,611	(309,767)
Proceeds from financing, net of deferred tax	180,930,773	76,976,730
Dividend reinvestment plan	992,914	231,791
Dividends and distributions paid	(9,361,258)	(6,189,817)
Deferred financing costs	(252,593)	(460,992)
Cash paid for acquisition of non-controlling interest	-	52,179
Cash provided by (used in) financing activities	<u>261,382,052</u>	<u>69,947,546</u>
Translation adjustment on cash	<u>1,652,296</u>	<u>87,064</u>
Net increase (decrease) in cash	<u>1,412,594</u>	<u>(11,155,174)</u>
Cash, beginning of year	<u>12,736,498</u>	<u>23,891,672</u>
Cash, end of year	<u>\$ 14,149,092</u>	<u>\$ 12,736,498</u>
Supplemental disclosures:		
Income taxes paid	\$ 663,810	\$ 773,215
Interest expenses paid	\$ 2,323,418	\$ 298,595

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

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 USA. The Company is publicly traded on the TSX with the stock symbol of PLC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

These consolidated financial statements were approved by the Company’s Board of Directors on March 26, 2019.

b. Basis of presentation

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

c. Functional currency

The consolidated financial statements are presented in Canadian dollars, which is also the parent company’s functional currency. Each entity within the consolidated group determines its own functional currency and items included in the consolidated financial statements of each entity are remeasured using the functional currency.

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 operations. Non-monetary assets and liabilities that are measured at historical cost are translated using the exchange rate at the date of the transaction.

The consolidated accounts of the Company are presented in Canadian dollars. 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.

d. Basis of consolidation

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

Investment entities

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

Pre-need merchandise and service trust fund investments represent amounts set aside in both provincially and state legislated trust funds related to pre-need cemetery and funeral contracts. Care and maintenance fund investments represent amounts set aside in trust for provincially and state legislated care and maintenance fund obligations and non-legislated care and maintenance fund investments related to cemetery interment right sales. These trust

funds are SEs as defined in IFRS 12, “Disclosure of interests in other entities.” The Company assesses control over these entities in accordance with IFRS 10, “Consolidated financial statements.” In accordance with this guidance, the Company has determined that the Company is the primary beneficiary of these trusts, as the Company is exposed to the majority of variable losses and returns associated with these trusts and has the ability to affect those returns through its power over the trusts. The Company directs the investment policies of these trust funds to obtain the majority of the benefits of the activities of these trusts.

The pre-need merchandise and service trust funds are recorded at fair value. 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 and realized gains and losses, are recorded to deferred pre-need receipts held in trust and recognized as sales revenue when merchandise and services on the underlying pre-need cemetery or funeral contracts are delivered or performed, respectively. The Company is entitled to retain, in certain jurisdictions, the interest and dividends earned within the trusts as earned; these amounts are also recognized in revenue.

The care and maintenance fund investments are recorded at fair value. 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. Investment income related to the care and maintenance funds, net of amounts capitalized to the care and maintenance trusts’ corpus pursuant to provincial and state legislation, is recognized by the Company in investment and other income as earned by the funds and withdrawn by the Company as earned. The income is used to defray cemetery maintenance costs, which are expensed as incurred.

Transactions eliminated on consolidation

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

e. Earnings per share

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

f. Revenue recognition

The Company adopted IFRS 15, “Revenue from contracts with customers” on January 1, 2018, using the modified retrospective method, with recognition of transitional adjustments in opening retained earnings on the date of initial application, without restatement of comparative figures. The impact of this standard is summarized in Note 2v.

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

The Company’s performance obligations include the delivery of cemetery property interment rights and cemetery and funeral services and merchandise.

Cemetery property interment rights

For cemetery property interment rights performance obligations, control transfers to the customer when the property is developed and the interment right has been sold and can no longer be marketed or sold to another customer. In

jurisdictions that allow contracts for the sale of pre-need cemetery interment rights to be cancelled by the customer prior to burial, cancellation estimates have been provided for, based on historical experience and current trends.

Cemetery services

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

Merchandise sales

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

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

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

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

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

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

Funeral services

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

Cost of sales

Costs related to the sale of property interment rights include the property and construction costs specifically identified by project. At the completion of the project, construction costs are charged to expense when the merchandise is delivered. Costs related to cemetery and funeral merchandise and services are based on actual costs incurred.

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

Investment income – pre-need services and merchandise

Investment income is recognized at the time it is withdrawn from the pre-need services and merchandise trust fund.

Finance charges

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

Cost of sales

Costs related to the sale of property interment rights include the property and construction costs specifically identified by project. At the completion of the project, construction costs are charged to expense when the property interment right is delivered. Costs related to cemetery and funeral merchandise and services are recognized when the merchandise or services are delivered.

Deferred revenue and commissions

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

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

g. Financial instruments

The Company adopted IFRS 9, “Financial instruments, classification and measurement” on January 1, 2018, applying the limited exemption for transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. The impact of this standard is summarized in Note 2u.

Classification

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

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

Amortized cost

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

Available-for-sale

Financial instruments classified as available-for-sale financial assets are measured at fair value with changes in fair value recognized in the trust corpus on the statement of financial position. Dividend income from available-for-sale financial assets is recognized in net earnings when the Company’s right to receive payments is established. Interest income on available-for-sale financial assets, calculated using the effective interest method, is recognized in the consolidated statements of earnings and comprehensive income.

Fair value through profit or loss

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

Financial assets at fair value through other comprehensive income

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

Measurement

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

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

Impairment

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

For accounts receivable and pre-need receivables, the Company applies the simplified approach as permitted by IFRS 9. The approach that the Company has taken for accounts receivable and pre-need receivables is a provisional matrix whereby lifetime expected credit losses are recognized based on aging characterization and credit worthiness of customers. Specific provisions may be used where there is information that a specific customer’s expected credit losses has increased. On transition to the amendments made to the standard, there was not a material change in the amount of provision recognized.

ASSET/LIABILITY	CLASSIFICATION	MEASUREMENT
Cash	FVTPL	Fair value
Accounts receivable	Amortized cost	Amortized cost
Pre-need receivables	Amortized cost	Amortized cost
Pre-need merchandise and service trust fund investments	FVTPL	Fair value
Care and maintenance trust fund investments	FVTPL	Fair value
Other assets	FVTPL	Fair value
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Dividends payable	Amortized cost	Amortized cost
Long-term debt	Amortized cost	Amortized cost
Notes payable	Amortized cost	Amortized cost
Deferred pre-need receipts held in trust	FVTPL	Fair value
Care and maintenance trusts’ corpus	FVTPL	Fair value
Contingent payments	FVTPL	Fair value

h. Cash and cash equivalents

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

i. Pre-need receivables

Pre-need receivables represent installment accounts receivable due from customers related to pre-need cemetery and funeral contracts. Installment accounts receivable are recorded at amortized cost at the time a contract is signed, net of a provision for cancellations. In jurisdictions that allow contracts for these accounts to be cancelled, the Company provides a cancellation reserve for cemetery receivables. This allowance is based on an analysis of historical and future expected trends of collection and cancellation activity. For pre-need receivable impairment, the Company applies the simplified approach as permitted by IFRS 9.

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

j. Inventories

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

k. Property and equipment

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

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

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

	ANNUAL RATES
Building, cemetery and funeral	4-5%
Machine, equipment and automotive	10-30%
Cemetery improvements	5-10%
Investment properties	4%

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

Assets held under finance leases are depreciated on a declining-balance basis over their estimated useful life on the same basis as owned assets, or where shorter, over the term of the respective lease.

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

l. Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Company is the lessee under an operating lease, rent payable under an operating lease is charged to the consolidated statements of earnings and comprehensive income on a straight-line basis over the term of the relevant lease.

Assets under finance leases are recognized as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the consolidated statements of financial position as a finance lease obligation. Lease payments are apportioned between finance costs and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance costs, as well as depreciation expense on the underlying leased asset, are charged to the consolidated statements of earnings and comprehensive income.

m. Impairment of goodwill, intangibles and other long lived assets

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

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

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

n. Intangible assets

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

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

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

o. Borrowing costs

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

p. Deferred revenue

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

q. Care and maintenance trusts’ corpus

The Company recognizes liabilities with respect to care and maintenance trusts’ corpus that corresponds to the Company’s obligation to provide maintenance upkeep of its cemeteries in the future. The Company does not have a legal right to access the principal amount of the legislated care and maintenance fund investments.

r. Taxation

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

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

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

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

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

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

s. Share based incentive compensation payments

Deferred share units (a “DSU”) and restricted share units (a “RSU”) are payments settled for shares or cash, as applicable, which are measured at fair value at the grant date. For DSUs and RSUs, compensation cost is measured at the fair value of the underlying common share, and is expensed over the award’s vesting period. Compensation expense is recognized in the consolidated statements of earnings and comprehensive income with a corresponding increase in contributed surplus. At this time, the Board plans to settle DSUs and RSUs for shares and, upon the applicable settlement date, the corresponding amounts previously credited to contributed surplus are transferred to share capital. In addition, the Board plans to credit all DSUs and RSUs with dividend equivalents in the form of additional DSUs and RSUs, as applicable. Dividend equivalents shall vest in proportion to, and settle in the same manner as, the awards to which they relate. DSUs and RSUs that are dilutive as at the reporting date are considered in the calculation of diluted earnings per share.

t. Business combinations

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

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

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

The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration

that is classified as a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, with the corresponding gain or loss being recognized in the consolidated statements of earnings and comprehensive income.

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

Accounting standards adopted on January 1, 2018

u. IFRS 9 – Financial instruments, classification and measurement

Effective January 1, 2018, the Company adopted IFRS 9. IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also amends the requirements around hedge accounting, and introduces a single, forwardlooking expected loss impairment model.

The Company has elected to apply the limited exemption in IFRS 9 paragraph 7.2.15 relating to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. The adoption of IFRS 9 had no impact on the Company’s consolidated financial statements on the date of initial application. There was no change in the carrying amounts on the basis of allocation from original measurement categories under IAS 39 Financial Instruments: Recognition and Measurement to the new measurement categories under IFRS 9.

Summary of the Company’s classification and measurements of financial assets and liabilities

ASSET/LIABILITY	CLASSIFICATION	MEASUREMENT	CLASSIFICATION	MEASUREMENT
Cash	FVTPL	Fair value	Loans and receivables	Fair value
Accounts receivable	Amortized cost	Amortized cost	Loans and receivables	Amortized cost
Pre-need receivables	Amortized cost	Amortized cost	Loans and receivables	Amortized cost
Pre-need merchandise and service trust fund investments	FVTPL	Fair value	Available-for-sale	Fair value
Care and maintenance trust fund investments	FVTPL	Fair value	Available-for-sale	Fair value
Other assets	FVTPL	Fair value	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost	Other liabilities	Amortized cost
Dividends payable	Amortized cost	Amortized cost	Other liabilities	Amortized cost
Long-term debt	Amortized cost	Amortized cost	Other liabilities	Amortized cost
Notes payable	Amortized cost	Amortized cost	Other liabilities	Amortized cost
Deferred pre-need receipts held in trust	FVTPL	Fair value	Other liabilities	Fair value
Care and maintenance trusts’ corpus	FVTPL	Fair value	Other liabilities	Fair value
Contingent payments	FVTPL	Fair value	FVTPL	Fair value

v. IFRS 15 – Revenue from contracts with customers

The Company elected to adopt IFRS 15 using the modified retrospective method, with recognition of transitional adjustments in opening retained earnings on the date of initial application (January 1, 2018), without restatement of comparative figures.

The treatment of direct costs incurred in acquiring customer contracts is affected as IFRS 15 requires certain contract acquisition costs (such as sales commissions) to be recognized as an asset and amortized into advertising and selling expenses over time. Previously, such costs were expensed as incurred. In addition, a new asset has been recognized in the consolidated statements of financial position, specifically, a deferred commission asset.

The impact on the consolidated statement of financial position as at January 1, 2018 was an increase to deferred commission asset of \$15,925,918, an increase in deferred tax liability of \$4,149,238, and an increase of \$11,776,680 to opening retained earnings.

The adoption of IFRS 15 did not result in any changes in the timing of revenue recognition for the Company's goods and services.

w. Future accounting policy changes

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

IFRS 16 – “Leases”, effective for annual periods beginning on or after January 1, 2019. The most significant change introduced by IFRS 16 is a single lessee accounting model, bringing leases onbalance sheet for lessees.

The Company has assessed the impact that IFRS 16 will have on its consolidated financial statements, and determined that the impact will result in the addition of right-of-use asset, as well as a corresponding lease liability valued at approximately \$6.1 million, which will be reflected on the consolidated statement of financial position as at January 1, 2019.

3. CRITICAL ESTIMATES AND JUDGMENTS**Use of estimates**

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

i) Goodwill valuation

The Company determined its cash generating units (“CGUs”) for the purpose of goodwill impairment testing as at December 31, 2018. The Company's impairment tests for goodwill and intangible assets are based on the greater of value in use calculations that use a discounted cash flow model and estimated fair value less cost to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU, using an appropriate valuation model. These calculations are corroborated by calculation multiples

or other available fair value indicators. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Using a five year (and related terminal value) discounted cash flow model, the Company determines the recoverable amount by calculating the value in use. The model used average annual growth rates of approximately 2% to 3.5% and post-tax discount rates between 9.7% and 11.4%. The Company has determined that the discount rates reasonably reflect the risks associated with the cash flow projections for the CGUs.

ii) Business combinations

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

iii) Allowances

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

iv) Deferred commission asset

The Company defers incremental commission costs paid as a result of obtaining contracts with customers as deferred commission assets and amortizes these costs to selling and advertising expenses as the related deferred revenues are recognized. The deferred commission asset balance includes various estimates, such as estimates of the historical commission paid on certain contracts, estimates of the fulfillment time on certain contracts and estimates of the proportion of commission expense relating to current revenue streams compared to deferred revenue streams.

v) Estimated useful lives and depreciation of property and equipment

Depreciation of property, plant and equipment are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

4. PRE-NEED RECEIVABLES

	December 31, 2018	December 31, 2017
Pre-need receivables, current portion	\$ 26,204,444	\$ 13,480,868
Pre-need receivables, net of current portion	57,917,186	36,027,923
Total	<u>\$ 84,121,630</u>	<u>\$ 49,508,791</u>

The above is net of an allowance for sales returns of \$6,772,773 (at December 31, 2017 - \$5,684,949). The increase in the pre-need receivables and allowance for sales returns is primarily a result of recent acquisitions.

5. INVENTORIES

	December 31, 2018	December 31, 2017
Merchandise inventories	\$ 2,850,452	\$ 1,007,286
Cemetery lots	31,293,293	9,638,965
Crypts and niches	42,067,841	29,822,159
Construction in progress	4,879,737	44,176
Total	81,091,323	40,512,586
Current portion	9,988,909	4,810,926
Non-current portion	<u>\$ 71,102,414</u>	<u>\$ 35,701,660</u>

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

There were no inventory write-downs in either year. Inventory expensed through cost of sales during the year was as follows:

	December 31, 2018	December 31, 2017
Merchandise	\$ 15,248,386	\$ 8,359,503
Cemetery lots, crypts and niches (cost of property)	6,226,705	4,162,086
Total	<u>\$ 21,475,091</u>	<u>\$ 12,521,589</u>

The increase in cost of sales is primarily a result of recent acquisitions.

6. BUSINESS COMBINATION

Acquisitions completed in fiscal 2018

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

	Final CMS (i)	Preliminary Signature (ii)	Preliminary Citadel (iii)	Preliminary Other (iv)	Total
Assets acquired:					
Cash	\$ 1,471,869	\$ 5,203,463	\$ 612,613	\$ 112,131	\$ 7,400,076
Accounts receivable	343,184	1,583,007	1,064,904	361,662	3,352,757
Pre-need receivables	12,695,556	10,034,153	3,482,732	-	26,212,441
Inventories	25,058,801	6,996,106	4,544,884	280,841	36,880,632
Prepaid expenses and other current assets	354,364	623,617	130,573	35,596	1,144,150
Land held for development	-	18,930,407	429,655	-	19,360,062
Property and equipment	7,764,123	50,193,506	7,132,102	8,647,763	73,737,494
Care and maintenance trust fund investments	58,558,937	13,878,211	11,286,831	-	83,723,979
Pre-need merchandise and service trust fund investments	4,607,433	39,677,089	5,282,096	1,597,835	51,164,453
Deferred commissions	1,238,900	1,519,958	3,823,536	-	6,582,394
Deferred tax assets	596,700	273,556	128,220	18,592	1,017,068
Goodwill	33,592,882	92,676,465	45,051,205	8,963,790	180,284,342
Intangible assets	-	2,274,305	328,325	573,940	3,176,570
Total assets	<u>\$ 146,282,749</u>	<u>\$243,863,843</u>	<u>\$83,297,676</u>	<u>\$ 20,592,150</u>	<u>\$ 494,036,418</u>
Liabilities assumed:					
Accounts payable and accrued liabilities	\$ 1,442,552	\$ 3,836,462	\$ 2,247,390	\$ 368,182	\$ 7,894,586
Long-term debt	-	-	303,063	72,739	375,802
Notes payable	1,287,684	2,273,202	-	-	3,560,886
Deferred tax liabilities	1,035,932	-	-	145,313	1,181,245
Care and maintenance trusts' corpus	58,558,937	13,878,211	11,286,831	-	83,723,979
Deferred pre-need receipts held in trust	4,607,433	39,677,089	5,282,096	1,597,835	51,164,453
Deferred revenue	14,595,911	22,406,616	44,610,126	-	81,612,653
	<u>81,528,449</u>	<u>82,071,580</u>	<u>63,729,506</u>	<u>2,184,069</u>	<u>229,513,604</u>
Fair value of consideration transferred:					
Cash consideration	64,339,300	158,760,138	19,538,094	18,391,714	261,029,246
Working capital adjustment	415,000	3,032,125	30,076	16,367	3,493,568
	<u>64,754,300</u>	<u>161,792,263</u>	<u>19,568,170</u>	<u>18,408,081</u>	<u>264,522,814</u>
Total liabilities and considerations	<u>\$ 146,282,749</u>	<u>\$243,863,843</u>	<u>\$83,297,676</u>	<u>\$ 20,592,150</u>	<u>\$ 494,036,418</u>

PARK LAWN CORPORATION | NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(i) CMS

On March 7, 2018, the Company completed the acquisition of 100% ownership interest in the common shares of CMS Mid-Atlantic, Inc. ("CMS") for a purchase price of approximately \$65 million (US\$50 million). The purchase price was funded from PLC's credit facility.

CMS currently operates, manages and provides financial services for 6 cemeteries in New Jersey and 1 in New York. The acquisition of CMS increases the scale and expands the geographic diversification in the U.S. market.

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

Since the date of acquisition in 2018, CMS has contributed approximately \$23.4 million in revenue and \$5.6 million in net earnings in 2018. The Company has used a significant amount of judgment and simplifying assumptions in estimating the revenue and net earnings of CMS as if the business occurred at the beginning of the year. If acquired at the beginning of the year, the Company has estimated that CMS would have contributed approximately \$27.3 million in revenue and \$5.9 million in net earnings.

(ii) Signature

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

Signature's acquisition adds four new states, Kansas, Missouri, New Mexico and Mississippi into PLC's portfolio, while expanding its footprint in the Texas market. The acquisition adds 9 cemeteries, 21 funeral homes (including 7 located on cemetery sites) and 5 crematoria to PLC's portfolio. The acquisition of Signature increases the scale and geographic diversification in the U.S. market.

Since the date of acquisition in 2018, Signature has contributed approximately \$28.6 million in revenue and \$2.6 million in net earnings in 2018. The Company has used a significant amount of judgment and simplifying assumptions in estimating the revenue and net earnings of Signature as if the business occurred at the beginning of the year. If acquired at the beginning of the year, the Company has estimated that Signature would have contributed approximately \$42.9 million in revenue and \$4.7 million in net earnings.

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

(iii) Citadel

On November 1, 2018, the Company completed the acquisition of 100% ownership interest in the common shares of Citadel Management LLC ("Citadel") for a purchase price of approximately \$19.6 million (US\$14.9 million). The purchase price was funded from PLC's credit facility.

The acquisition expands the Company's operations in North Carolina and marks its entry in to the South Carolina market. The acquisition fits well with the Company's existing portfolio and provides opportunity for growth in these markets. It adds 29 cemeteries and 8 funeral homes (including 1 on-site) in North and South Carolina to the Company's portfolio.

Since the date of acquisition in 2018, Citadel has contributed approximately \$3.4 million in revenue and \$280,000 in net earnings in 2018. The Company has used a significant amount of judgment and simplifying assumptions in estimating the revenue and net earnings of Citadel as if the business occurred at the beginning of the year. If acquired at the beginning of the year, the Company has estimated that Citadel would have contributed approximately \$19.5 million in revenue and \$1.5 million in net earnings.

PARK LAWN CORPORATION | NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

(iv) Other acquisitions

During 2018, the Company completed the following acquisitions: Billingsley Funeral Home ("Billingsley"), Opatovsky Funeral Home ("Opatovsky"), Hansons Arbor Funeral Chapels & Crematorium ("Hansons"), Wayne Boze Funeral Home and Gateway Memorial Park ("Wayne Boze"), and Wells Funeral Homes and Cremation Services ("Wells"). Goodwill that arose as a result of these acquisitions was \$8,963,790.

Acquisitions completed in fiscal 2017

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, 2017:

	Final Saber (i)	Final Other (ii)	Total
Assets acquired:			
Cash	\$ 125,326	\$ 818,440	\$ 943,766
Accounts receivable	240,041	638,204	878,245
Pre-need receivables	27,989,962	-	27,989,962
Inventories	3,469,403	192,873	3,662,276
Prepaid expenses and other current assets	103,702	114,327	218,029
Property and equipment	15,703,152	5,916,624	21,619,776
Care and maintenance trust fund investments	16,680,824	-	16,680,824
Pre-need merchandise and service trust fund investment:	26,087,659	6,432,344	32,520,003
Goodwill	58,372,304	8,587,418	66,959,722
Intangible assets	-	240,000	240,000
Total assets	\$ 148,772,373	\$ 22,940,230	\$ 171,712,603
Liabilities assumed:			
Accounts payable and accrued liabilities	\$ 2,169,018	\$ 670,239	\$ 2,839,257
Long-term debt	-	93,150	93,150
Care and maintenance trusts' corpus	16,680,824	-	16,680,824
Deferred pre-need receipts held in trust	26,087,659	6,432,344	32,520,003
Deferred revenue	32,298,785	-	32,298,785
	77,236,286	7,195,733	84,432,019
Fair value of consideration transferred:			
Cash consideration	61,677,761	14,681,250	76,359,011
Contingent equity consideration	9,858,326	-	9,858,326
Deferred cash consideration	-	392,839	392,839
Working capital adjustment	-	670,408	670,408
	71,536,087	15,744,497	87,280,584
Total liabilities and considerations	\$ 148,772,373	\$ 22,940,230	\$ 171,712,603

PARK LAWN CORPORATION | NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(i) Saber

On August 4, 2017, the Company completed the acquisition of 21 of 23 properties owned by Saber Management, LLC. ("Saber") and effective September 30, 2017, the Company has completed the acquisition of the remaining 2 properties. The aggregate purchase price for the 23 acquired properties was approximately \$61.7 million (US\$49 million), subject to customary working capital adjustments, plus additional contingent consideration of up to 660,000 PLC common shares. The contingent consideration has been classified as equity and will be issued over a period of three years if certain financial hurdles are met to the extent that earnings before interest expense, taxes, depreciation and amortization, and excluding extraordinary and unusual or non-recurring income and expense, or gains or losses ("Normalized EBITDA") and amount of cash not included in the calculation of working capital at the end of measurement period ("Distributable cash test") equals or exceeds pre-established targets.

Management assessed the probability of the targets being met as virtually certain and discounted the share value to present value in order to derive a fair value \$9,858,326 (US\$7,839,000) of the contingent consideration.

The targets have been met for the first period and 218,000 common shares of the Company will be issued in 2019. In connection with this transaction, the Company has incurred transaction and integration costs to date of \$2,325,684 (\$2,322,506 in 2017).

(ii) Other acquisitions

During 2017, the Company completed the following acquisitions: Reynolds Funeral Home ("Reynolds"), Turner Family Funeral Home Inc. ("TFFH"), Jennett Funeral and Cremation Centre Ltd. ("Jennett"), Innisfil Funeral Home Limited ("Innisfil"), Providence Funeral Homes & Crematorium ("PFHC"), Credible Cremation Services Limited ("CCSL"), TCS Funeral Services ("TCS"), Vita Funeral Home ("Vita"), and Christie's Funeral Home and Crematorium ("Christie's"). Goodwill that arose as a result of these acquisitions was \$8,587,418.

7. LAND HELD FOR DEVELOPMENT

Land held for development represents land held for future cemetery, funeral and other development opportunities. At December 31, 2018 land held for development was \$28,023,925 (at December 31, 2017 - \$7,433,352). The increase is primarily a result of recent acquisitions.

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8. PROPERTY AND EQUIPMENT

	January 1, 2018	Acquired in business combinations	Additions	Disposals	Foreign currency translation	December 31, 2018
Cost:						
Land	\$ 11,394,808	17,215,049	1,030,380	(1,631)	1,460,907	\$ 31,099,513
Buildings, cemetery and funeral	25,358,253	47,440,108	4,455,378	-	4,474,395	81,728,134
Machinery, equipment and automotive	6,563,882	6,099,547	2,222,947	(211,075)	1,255,994	15,931,295
Cemetery improvements	5,476,743	2,982,790	510,656	-	641,003	9,611,192
Investment property	230,889	-	1,274	-	-	232,163
Total	49,024,575	73,737,494	8,220,635	(212,706)	7,832,299	138,602,297
Accumulated depreciation:						
Buildings, cemetery and funeral	2,318,117	-	2,206,823	-	941,120	5,466,060
Machinery, equipment and automotive	2,355,020	-	2,244,095	(159,223)	800,101	5,239,993
Cemetery improvements	1,370,602	-	901,052	-	388,624	2,660,278
Investment property	21,604	-	10,813	-	-	32,417
Total	6,065,343	-	5,362,783	(159,223)	2,129,845	13,398,748
Net Book Value	\$ 42,959,232					\$ 125,203,549

	January 1, 2017	Acquired in business combinations	Additions	Disposals	Foreign currency translation	December 31, 2017
Cost:						
Land	\$ 2,163,682	9,214,886	5,239	-	11,001	\$ 11,394,808
Buildings, cemetery and funeral	14,049,431	9,759,506	1,810,088	(71,634)	(189,138)	25,358,253
Machinery, equipment and automotive	4,280,163	1,451,134	908,555	-	(75,970)	6,563,882
Cemetery improvements	4,726,761	804,394	98,650	(77,491)	(75,571)	5,476,743
Investment property	210,599	15,865	4,425	-	-	230,889
Total	25,430,636	21,245,785	2,826,957	(149,125)	(329,678)	49,024,575
Accumulated depreciation:						
Buildings, cemetery and funeral	1,464,795	-	865,016	-	(11,694)	2,318,117
Machinery, equipment and automotive	1,416,408	-	960,822	-	(22,210)	2,355,020
Cemetery improvements	722,690	-	672,875	-	(24,963)	1,370,602
Investment property	10,643	-	10,961	-	-	21,604
Total	3,614,536	-	2,509,674	-	(58,867)	6,065,343
Net Book Value	\$ 21,816,100					\$ 42,959,232

Property and equipment depreciation expense charged to operations amounted to \$5,362,783 and \$2,509,674 in 2018 and 2017, respectively. Increase in expense is primarily due to recent acquisitions.

Included in additions at December 31, 2018 are \$3,692,898 of additions at Canadian cemeteries and funeral sites (at December 31, 2017 - \$2,013,246) and \$4,527,737 of additions at U.S. cemeteries (at December 31, 2017 - \$813,711).

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 in 2018 and 2017.

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 \$8,769,883 and \$6,026,868 in 2018 and 2017, respectively. If the income earned by the trusts should exceed eligible care and maintenance expenses incurred by the Company, the excess would be added to the capital of the trusts and would not be eligible for pay out to the Company in the future.

Care and maintenance trust fund investments consist of the following:

	Fair Value		Cost	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 8,378,916	\$ 4,175,229	\$ 8,347,173	\$ 4,175,229
Equities	89,174,511	72,135,402	87,964,536	65,341,806
Fixed income	72,700,781	15,662,249	74,154,689	15,214,576
Alternative investments	14,043,962	11,767,987	13,415,042	11,494,472
Preferred stocks	11,629,086	6,266,771	12,288,336	5,742,057
	<u>\$ 195,927,256</u>	<u>\$ 110,007,638</u>	<u>\$ 196,169,776</u>	<u>\$ 101,968,140</u>

The fixed income component of these care and maintenance trust funds is invested in limited partnership units, mortgage loans, and medium-term government and corporate bonds which are held to maturity and earn income at fixed rates of return.

The increase in care and maintenance trust funds is primarily a result of recent acquisitions.

10. PRE-NEED MERCHANDISE AND SERVICE TRUST FUND INVESTMENTS

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

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

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

	Fair value		Cost	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 12,509,568	\$ 5,413,120	\$ 12,498,274	\$ 5,413,120
GIC's	31,783,609	30,720,956	31,783,609	30,720,956
Equities	47,915,566	20,963,689	46,317,623	20,162,068
Fixed income	49,215,235	26,780,645	49,856,323	26,773,818
Alternative investments	16,173,334	12,139,762	16,173,334	12,139,762
	<u>\$ 157,597,312</u>	<u>\$ 96,018,172</u>	<u>\$ 156,629,163</u>	<u>\$ 95,209,724</u>

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

The increase in pre-need merchandise and service trust funds is primarily a result of recent acquisitions.

11. PREARRANGED FUNERAL INSURANCE CONTRACTS

In addition to trust funded prearranged funeral services contracts, the Company also has prearranged funeral services contracts which are funded by insurance. As of December 31, 2018, the current face amount of pre-funded policies was approximately \$176 million (at December 31, 2017 - approximately \$53 million). The increase in prearranged funeral insurance contracts is primarily a result of the acquisition of Signature during the second quarter of 2018. 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.

12. GOODWILL AND INTANGIBLES

	Total
Goodwill	
Balance January 1, 2017	\$ 19,128,958
Additions	67,290,232
Foreign currency translation	(689,905)
Balance December 31, 2017	<u>\$ 85,729,285</u>
Intangibles	
Balance January 1, 2017	\$ 44,000
Additions	240,000
Amortization	(50,667)
Balance December 31, 2017	<u>\$ 233,333</u>
Goodwill and Intangibles	
Balance December 31, 2017	<u><u>\$ 85,962,618</u></u>

The changes in the carrying amount of goodwill and intangible assets at December 31, 2018 were:

	Total
Goodwill	
Balance January 1, 2018	\$ 85,729,285
Additions	180,284,342
Impairment	(1,266,849)
Foreign currency translation	13,988,334
Balance December 31, 2018	<u>\$ 278,735,112</u>
Intangibles	
Balance January 1, 2018	\$ 233,333
Additions	3,176,570
Amortization	(311,074)
Balance December 31, 2018	<u>\$ 3,098,829</u>
Goodwill and Intangibles	
Balance December 31, 2018	<u><u>\$ 281,833,941</u></u>

The increase in goodwill is primarily a result of the acquisition of CMS, Signature and Citadel in 2018.

As part of our annual recoverability testing process in 2018, the Company recognized a goodwill impairment charge of \$1,266,849. A 5% change in the pre-tax discount rate would reduce the recoverable value by approximately \$1.6 million. The impairment charge was related to MMG not meeting its EBITDA earnout target for the contingent consideration in 2018. As a result of not meeting the earnout target there was an offsetting gain on the fair value of contingent consideration of \$1,156,139 resulting in a net expense of \$110,710 as described in Note 18.

13. OTHER ASSETS

Included in other assets is primarily a \$6.2 million secured debt investment in Humphrey Funeral Home A. W. Miles - Newbigging Chapel Limited ("Humphrey") which is measured at fair value. The debenture bears interest at 5% and is convertible into equity of Humphrey on maturity at the option of the Company. The debenture is due on demand after a period of five years.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2018	December 31, 2017
Trade payables and accrued liabilities	\$ 20,387,323	\$ 10,418,339
Income taxes payable	108,231	(240,916)
	<u><u>\$ 20,495,554</u></u>	<u><u>\$ 10,177,423</u></u>

The average credit period on trade payables is 30 to 60 days in 2018 and 2017. The increase in accounts payable and accrued liabilities is primarily a result of recent acquisitions.

15. LONG-TERM DEBT

	December 31, 2018	December 31, 2017
Bank loan		
Revolving loan facility	\$ 90,300,000	\$ -
Mortgages	1,183,154	2,944,504
Finance lease obligations	676,428	284,243
Deferred financing costs	(814,980)	-
Total	<u>91,344,602</u>	<u>3,228,747</u>
Current portion	<u>298,826</u>	<u>553,807</u>
Non-current portion	<u><u>\$ 91,045,776</u></u>	<u><u>\$ 2,674,940</u></u>

Revolving loan facility

On December 15, 2017, the Company replaced its existing \$25 million revolving loan facility and \$7.5 million accordion facility with a new syndicated bank financing arrangement provided by three major Canadian banks. The revolving facility bears interest at the bankers’ acceptance rate plus 1.70%. The financing arrangement increased the Company’s borrowing capacity to \$125 million (\$75 million committed credit facility and additional \$50 million accordion facility). On July 5, 2018, the Company amended its existing syndicated bank financing arrangement to increase its borrowing capacity to \$150 million (\$100 million committed credit facility and additional \$50 million accordion facility).

At December 31, 2018, there was \$90,300,000 outstanding under the credit facility (at December 31, 2017 - \$nil). Deferred financing costs have been capitalized and are being amortized over the term of 5 years using the effective interest rate method. Deferred financing costs are offset against the debt when the Company is utilizing the credit facility, otherwise the costs are reclassified to non-current assets. At December 31, 2018, deferred financing costs of \$814,980 have been reclassified to offset debt and at December 31, 2017 deferred financing costs of \$724,260 have been classified as non-current asset.

On January 18, 2019, the Company amended its existing syndicated bank financing arrangement to increase its borrowing capacity to \$225 million (\$175 million committed credit facility and additional \$50 million accordion facility). The financing arrangement has a term of five years. 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.

Finance lease obligations

Finance leases relate to automotive equipment and are secured by the vehicles. These leases have interest rates ranging from 4.0% to 9.0% and remaining terms of 2 to 5 years. Finance lease obligations are payable as follows:

	December 31, 2018	December 31, 2017
Future minimum lease payments		
Due in less than one year	\$ 235,177	\$ 109,411
Due between one and two years	214,508	87,500
Due between two and three years	126,742	79,360
Due thereafter	146,289	36,013
Interest	(46,288)	(28,041)
Present value of minimum lease payments	<u>\$ 676,428</u>	<u>\$ 284,243</u>

Debt covenants

The Company has provided covenants to certain of its lenders. The Company was in compliance with all of its covenants in 2018 and 2017.

Summary of principal repayments by year

	2019	2020	2021	2022	2023	Thereafter	Total
Revolving loan facility	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 90,300,000	\$ 90,300,000
Mortgages	79,397	82,310	85,566	88,831	92,220	754,830	1,183,154
Finance lease obligations	219,429	200,424	118,557	88,087	34,851	15,080	676,428
	<u>298,826</u>	<u>282,734</u>	<u>204,123</u>	<u>176,918</u>	<u>127,071</u>	<u>91,069,910</u>	<u>92,159,582</u>
Deferred financing costs	-	-	-	-	-	(814,980)	(814,980)
Total	<u>\$ 298,826</u>	<u>\$ 282,734</u>	<u>\$ 204,123</u>	<u>\$ 176,918</u>	<u>\$ 127,071</u>	<u>\$ 90,254,930</u>	<u>\$ 91,344,602</u>

16. NOTES PAYABLE

	December 31, 2018	December 31, 2017
DeMarco funeral home note	\$ -	\$ 800,000
Deferred cash consideration	334,679	367,061
Note payable	1,760,241	-
Vendor take back note	2,609,495	-
Total	<u>4,704,415</u>	<u>1,167,061</u>
Current portion	<u>426,604</u>	<u>832,382</u>
Non current portion	<u>\$ 4,277,811</u>	<u>\$ 334,679</u>

DeMarco funeral home note

On November 10, 2016, the Company purchased vacant land held for development. In consideration for the purchase the Company had issued an unsecured, non-interest bearing note, with no fixed terms of repayment. On August 8, 2018 the Company exchanged the note for the land.

Deferred cash consideration

As part of the purchase of PFHC-CCSL, the Company will be making additional payments of \$500,000 to be paid over ten years. The deferred cash payment is repayable in monthly installments of \$4,167. The estimated present value of the deferred cash consideration was calculated at \$392,839 at February 1, 2017.

Note payable

The Company has an outstanding note payable 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 to reflect an imputed interest rate of 5%. The note is nonrecourse and can be cancelled by either party. The discounted fair value of the note is reflected at December 31, 2018.

Vendor take back note

The Company has outstanding notes payable to third parties. These notes payable have interest rates ranging from 4.7% to 6.0% and remaining terms of 4 to 9 years.

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:

	December 31, 2018	December 31, 2017
Cemetery merchandise, lots, crypts, and niches	\$ 93,076,458	\$ 40,811,330
Cemetery and funeral services	50,691,281	13,975,541
Total	<u>\$ 143,767,739</u>	<u>\$ 54,786,871</u>

The increase in deferred revenue is primarily a result of recent acquisitions.

18. CONTINGENT PAYMENT

MMG

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

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

The fair value of the liability in connection with the contingent consideration was revalued at each reporting date and any changes in fair value of the estimated liability were recorded in the consolidated statements of earnings and comprehensive income. Included in the change in fair value was a goodwill charge of \$1,266,849 (2017 - \$nil) offset by a gain on the adjustment of the fair value of consideration of \$1,156,139 (2017 - \$268,965) (see Note 12).

19. DIVIDENDS

The Company declares and pays cash dividends on a monthly basis to shareholders. The total amount of dividends declared by the Company for the years ended December 31, 2018 and 2017 was \$9,361,258 or \$0.456 per share and \$6,189,817 or \$0.456 per share, respectively. The monthly dividend was \$0.038 per share in all periods.

20. 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

	Number of Common Shares	Amount
Balance December 31, 2016	11,095,770	\$ 92,709,116
Shares issued pursuant to:		
Dividend reinvestment plan (i)	13,212	231,791
Prospectus financing, net of costs (ii)	4,237,750	76,976,730
Contingent equity consideration (iii)	-	9,858,326
Balance December 31, 2017	<u>15,346,732</u>	<u>179,775,963</u>
Shares issued pursuant to:		
Dividend reinvestment plan (i)	43,333	992,914
Prospectus financing, net of costs (ii)	7,745,250	183,188,546
Balance December 31, 2018	<u>23,135,315</u>	<u>\$ 363,957,423</u>

(i) Dividend reinvestment plan

On October 13, 2015, the Company announced the implementation of a dividend reinvestment plan ("DRIP"). The DRIP allows eligible shareholders of PLC to reinvest their cash dividends into additional common shares of PLC, which will be issued from treasury or purchased on the open market on the applicable dividend payment date. If common shares are issued from treasury, the price at which such common shares are issued will be the volume weighted trading price of the Company's common shares over the five business days immediately preceding such dividend payment date less a discount, if any, of up to 5%, at the Company's election. The Company has determined to set the initial discount for purchases under the DRIP at 3%. The Company may, subject to the terms of the DRIP, alter or eliminate any discount at any time. For the year ended December 31, 2018, 43,333 common shares were issued under the DRIP (for the year ended December 31, 2017 - 13,212).

(ii) Prospectus financings

On June 27, 2017, the Company completed a bought deal short form prospectus offering of 4,237,750 common shares at a price of \$19.00 per common share for a total of gross proceeds of \$80,517,250, including the exercise in full of the over-allotment option. The net proceeds from the sale of common shares were used partially to fund the cash portion of the purchase price for the acquisition of Saber and for strategic growth initiatives including acquisitions and for general corporate purposes. The issuance included transaction costs of \$3,540,520 inclusive of \$183,750 after tax in management compensation.

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

(iii) Contingent equity consideration

In connection with the Saber acquisition the Company will be making additional contingent consideration of up to 660,000 PLC common shares. The contingent consideration has been classified as equity.

The 660,000 PLC common shares will be issued over a period of three years if certain financial hurdles are met. The contingent consideration has been valued at \$9,858,326 (US\$7,839,000). The targets have been met for the first period and 218,000 PLC's common shares will be issued in 2019.

21. CAPITAL MANAGEMENT

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

22. COSTS AND OPERATING EXPENSES BY NATURE

	December 31, 2018	December 31, 2017
Personnel expenses	\$ 60,752,005	\$ 37,574,730
Cost of sales - merchandise inventories, cemetery lots, crypts and niches (Note 5)	21,475,091	12,521,589
Cost of sales - contributions to care and maintenance trust funds	6,274,040	3,926,608
Maintenance	12,393,172	6,896,544
Advertising and selling	6,918,814	2,128,310
Depreciation of property and equipment, amortization of intangibles (Notes 8 and 12)	5,673,857	2,560,341
Others	25,663,764	11,986,121
Total of costs, operating, general and administrative, maintenance, advertising and selling expenses	<u>\$ 139,150,743</u>	<u>\$ 77,594,243</u>

Personnel expenses include salaries, wages, commissions and incentive compensation. The increase in costs and operating expenses is primarily a result of recent acquisitions.

23. INTEREST EXPENSE

	December 31, 2018	December 31, 2017
Interest on:		
Revolving loan facility	\$ 1,921,605	\$ -
Mortgages	107,588	161,333
Other debt	211,504	120,458
Interest capitalized to construction	(5,436)	-
Amortization of finance fees and transaction costs	161,873	102,235
Total	<u>\$ 2,397,134</u>	<u>\$ 384,026</u>

24. 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.

The EIP provides flexibility to the Company to grant equity-based incentive awards in the form of DSUs and RSUs. The maximum number of common shares reserved for issuance under the EIP is 640,000 common shares of the Company. Of those 640,000 common shares, 480,000 are reserved for issuance to employees and 160,000 common shares are reserved for issuance to directors.

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

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

Deferred share units

Directors are required to receive at least 50% of their annual board retainers in the form of DSUs, although they may elect to receive a greater percentage pursuant to the terms of the EIP. A DSU is a unit equivalent in value to a common share credited by means of a bookkeeping entry in the books of the Company. The number of DSUs granted is determined by the five-day volume weighted average trading price (the "Market Price"), but their value is tied to the then trading price of PLC's common shares. Upon settlement (typically on termination of service), holders will receive, in respect of each vested DSU, one fully paid and nonassessable 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 Corporation and are outstanding. Each dividend equivalent represents one common share.

	December 31, 2018	December 31, 2017
Outstanding, beginning of the year	19,984	6,278
Awarded	9,458	13,384
Dividend equivalents	475	322
Outstanding, end of the year	<u>29,917</u>	<u>19,984</u>

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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 nonassessable 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 Corporation and are outstanding. Each dividend equivalent represents one common share. None of the awarded and outstanding RSUs has vested.

	December 31, 2018	December 31, 2017
Outstanding, beginning of the year	104,165	62,331
Awarded	85,885	39,956
Forfeited	(16,297)	-
Dividend equivalents	2,584	1,878
Outstanding, end of the year	176,337	104,165

The compensation expense in respect of DSUs and RSUs was \$1,185,661 in 2018 and \$878,321 in 2017, and the counterpart has been reflected in contributed surplus. Management plans to settle all DSUs and RSUs by issuing shares. When the DSUs and RSUs are settled for shares, the amounts previously credited to contributed surplus are transferred to share capital.

25. FOREIGN EXCHANGE GAIN AND LOSS

In connection with the acquisition of Saber, the Company entered into a foreign exchange agreement with National Bank on June 30, 2017 for the conversion of \$32,447,500 to US\$25,000,000 at the rate of \$1.2979. The contract had been settled on August 4, 2017 at the rate of \$1.2576 resulting in a loss of \$1,007,500.

26. OTHER INCOME (EXPENSES)

Other income (expenses) primarily consisted of a water rebate recorded in the fourth quarter of 2017, for payments made in prior years for approximately \$650,000 offset by other one-time expenses.

27. INCOME TAXES

Income taxes

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

	December 31, 2018	December 31, 2017
Current tax expense	\$ 771,783	\$ 412,382
Deferred tax expense	1,394,099	9,160
Total	\$ 2,165,882	\$ 421,542

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The reconciliation of the difference between the income tax expense using the statutory tax rate and the effective tax rate for the years ended December 31, 2018 and 2017 is as follows:

	December 31, 2018	December 31, 2017
Earnings before income taxes	\$ 9,285,463	\$ 4,942,112
Combined Canadian federal and provincial statutory rates	26.50%	26.50%
Income taxes based on combined Canadian statutory income tax rates	\$ 2,460,648	\$ 1,309,660
Difference in foreign tax rates	42,854	30,750
Tax rate changes and other adjustments	100,994	277,082
Share based compensation and other non-deductible expenses	308,392	137,830
Non-taxable exempt surplus dividend	-	(935,900)
Impact of non-taxable dividend income	(613,415)	(492,620)
Change in tax benefits not recognized	-	94,740
Tax exempt entities	(133,591)	-
Income tax (recovery) expense	\$ 2,165,882	\$ 421,542

Deferred tax assets and liabilities

	December 31, 2018	December 31, 2017
Deferred Tax Assets (Liabilities)- Canada		
Non-capital losses carried forward-Canada	\$ 2,238,726	\$ 1,335,280
Share issuance and finance costs	3,127,994	1,962,570
Other deferred tax and intangible assets	-	271,697
Property and equipment	(1,253,074)	(638,759)
Net deferred income tax asset	\$ 4,113,646	\$ 2,930,788
Deferred Tax Assets (Liabilities) - US		
Net operating losses carried forward	\$ 2,303,339	\$ -
Pre-need sales adjustment	1,569,265	1,294,370
Other deferred tax assets	772,720	189,679
Deferred revenue	907,577	-
Property and equipment	(1,203,951)	(106,788)
Tax exempt entities	(361,488)	-
Inventories	(1,241,490)	-
Goodwill and intangibles	(3,074,759)	(1,325,853)
Deferred commission	(4,642,209)	-
Net deferred income tax asset (liability)	\$ (4,970,996)	\$ 51,408

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

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Movement in net deferred tax asset - Canada

	December 31, 2018	December 31, 2017
Balance at the beginning of the year	\$ 2,930,788	\$ 1,753,721
Recognized in profit/loss	(546,904)	143,330
Recognized in equity	2,257,773	1,275,564
Goodwill	(528,011)	(241,827)
Balance at the end of the year	<u>\$ 4,113,646</u>	<u>\$ 2,930,788</u>

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

Movement in net deferred tax asset (liability) - US

	December 31, 2018	December 31, 2017
Balance at the beginning of the year	\$ 51,408	\$ (37,881)
Recognized in profit/loss	(847,194)	89,289
Recognized in equity	(4,403,336)	-
Goodwill	228,126	-
Balance at the end of the year	<u>\$ (4,970,996)</u>	<u>\$ 51,408</u>

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

2026	\$ 24,701
2028	93,388
2031	27,125
2032	13,008
2033	405
2034	5,049
2036	1,971,738
2037	3,038,977
2038	2,892,780
	<u>\$ 8,067,171</u>

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28. RELATED PARTY TRANSACTIONS AND BALANCES

Management fees

The Company had a contract with Nine Two Seven Limited for professional and management services which has terminated on September 1, 2017. For the year ended December 31, 2017, the Company paid a total of \$226,667 to Nine Two Seven Limited for such services provided to the Company. For the year ended December 31, 2018, the Company paid a total of \$125,000 as other compensation. Nine Two Seven Limited is owned by an officer and director of the Company. The contract with Nine Two Seven Limited was replaced by an employment contract commencing September 1, 2017. The compensation paid is included in key management compensation discussed below.

Employee share loan plan

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

Amounts issued under the ESLP were as follows:

- On October 7, 2013, the Company loaned \$1,575,000 to Nine Two Seven Limited to acquire 210,000 common shares of the Company. The loan bears interest at a rate of 3.2% per annum payable upon maturity and will mature on August 27, 2023;
- On January 7, 2015, the Company loaned \$746,200 to Nine Two Seven Limited to acquire 65,000 common shares of the Company. The loan bears interest at a rate of 3.2% per annum payable upon maturity and will mature on January 7, 2025; and
- On January 7, 2015, the Company loaned \$1,258,750 to Leeder Holdings Inc. to acquire 125,000 common shares of the Company. Leeder Holding Inc. is owned by an officer and director of the Company. The loan bears interest at a rate of 3.2% per annum payable upon maturity and will mature on January 7, 2025.

Total loans outstanding under the ESLP, including accrued interest amounted to \$3,063,666 at December 31, 2018 (at December 31, 2017 - \$3,169,899). Interest income earned by the Company for the years ended December 31, 2018 and 2017 was \$97,857 and \$157,079, respectively.

At the annual and special meeting of shareholders held on May 31, 2016, the shareholders of the Company approved the EIP. Total amounts of DSUs issued to directors amounted to \$249,688 at December 31, 2018 (at December 31, 2017 - \$252,000).

Key management compensation

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

	December 31, 2018	December 31, 2017
Directors' fees and management compensation	<u>\$ 2,401,971</u>	<u>\$ 1,196,375</u>

29. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Fair value of financial instruments

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

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; and
- Level 3 includes inputs for the assets or liability that are not based on observable market data.

As at December 31, 2018, the fair value of the care and maintenance and pre-need merchandise and service trust funds and related liabilities are valued under Level 1, Level 2 and Level 3.

The fair value hierarchy under which trust assets are valued is as follows:

Care and maintenance trust fund investments at December 31, 2018

		Level 1	Level 2	Level 3	
			Valuation	Valuation	
			technique -	technique - non-	
			observable market	observable market	
	Cost	Quoted market price	inputs	inputs	Total fair value
Cash and cash equivalents	\$ 8,347,173	\$ 8,378,916	\$ -	\$ -	\$ 8,378,916
Equities	87,964,536	88,941,462	-	233,049	89,174,511
Fixed income	74,154,689	16,672,475	43,062,095	12,966,211	72,700,781
Alternative investments	13,415,042	-	-	14,043,962	14,043,962
Preferred stocks	12,288,336	11,629,086	-	-	11,629,086
	<u>\$ 196,169,776</u>	<u>\$ 125,621,939</u>	<u>\$ 43,062,095</u>	<u>\$ 27,243,222</u>	<u>\$ 195,927,256</u>

Care and maintenance trust fund investments at December 31, 2017

		Level 1	Level 2	Level 3	
			Valuation	Valuation	
			technique -	technique - non-	
			observable market	observable market	
	Cost	Quoted market price	inputs	inputs	Total fair value
Cash and cash equivalents	\$ 4,175,229	\$ 4,175,229	\$ -	\$ -	\$ 4,175,229
Equities	65,341,806	71,926,161	-	209,241	72,135,402
Fixed income	15,214,576	11,153,277	1,654,982	2,853,990	15,662,249
Alternative investments	11,494,472	-	-	11,767,987	11,767,987
Preferred stocks	5,742,057	6,266,771	-	-	6,266,771
	<u>\$ 101,968,140</u>	<u>\$ 93,521,438</u>	<u>\$ 1,654,982</u>	<u>\$ 14,831,218</u>	<u>\$ 110,007,638</u>

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

		Level 1	Level 2	Level 3	
			Valuation	Valuation	
			technique -	technique - non-	
			observable market	observable market	
	Cost	Quoted market price	inputs	inputs	Total fair value
Cash and cash equivalents	\$ 12,498,274	\$ 12,509,568	\$ -	\$ -	\$ 12,509,568
GIC's	31,783,609	31,783,609	-	-	31,783,609
Equities	46,317,623	47,915,566	-	-	47,915,566
Fixed income	49,856,323	39,226,898	9,988,337	-	49,215,235
Alternative investments	16,173,334	-	-	16,173,334	16,173,334
	<u>\$ 156,629,163</u>	<u>\$ 131,435,641</u>	<u>\$ 9,988,337</u>	<u>\$ 16,173,334</u>	<u>\$ 157,597,312</u>

Pre-need merchandise and service trust fund investments at December 31, 2017

		Level 1	Level 2	Level 3	
			Valuation	Valuation	
			technique -	technique - non-	
			observable market	observable market	
	Cost	Quoted market price	inputs	inputs	Total fair value
Cash and cash equivalents	\$ 5,413,120	\$ 5,413,120	\$ -	\$ -	\$ 5,413,120
GIC's	30,720,956	30,720,956	-	-	30,720,956
Equities	20,162,068	20,963,689	-	-	20,963,689
Fixed income	26,773,818	21,761,632	5,019,013	-	26,780,645
Alternative investments	12,139,762	-	-	12,139,762	12,139,762
	<u>\$ 95,209,724</u>	<u>\$ 78,859,397</u>	<u>\$ 5,019,013</u>	<u>\$ 12,139,762</u>	<u>\$ 96,018,172</u>

(i) Credit risk

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

In the opinion of management, none of the amounts comprising accounts receivable, pre-need receivables, other assets and ESLP were considered impaired, except as provided for as bad debt expenses. The Company provides an allowance for losses based on a review of the current aging of receivables, historical experience, current and future and short-term business conditions, and management judgment. As at December 31, 2018, the allowance for doubtful accounts was \$2,593,921 (at December 31, 2017 - \$525,324). The increase in allowance for doubtful accounts is primarily a result of recent acquisitions. The Company's exposure to credit risk on the ESLP is minimized as the Company's shares including rights to dividends payable on such shares, are pledged as security on the loans.

(ii) Investment risk

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

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

(iii) Liquidity risk

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

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

(iv) Market risk

Pre-need merchandise and service trust funds

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

Perpetual Care trust funds

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

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

(v) Foreign exchange risk

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

All the financial instruments within the Canadian entities are in Canadian dollars and within the US entities are in US dollars. Therefore, the Company is not exposed to foreign exchange risk.

The Company does have exposure to the U.S. dollar with respect to amounts repatriated to Canada to fund its interest and principal repayments on its credit facility and to fund its dividend payments. The Company regularly reviews its currency hedging strategy and makes its decision based on market conditions. As at December 31, 2018 the Company did not have any foreign currency hedges in place.

(vi) Interest rate risk

Interest rate risk on trust investments

In the opinion of management, the Company has an acceptable level of interest rate risk with respect to the trust fund investments as the majority of the investments bearing interest are invested in fixed rate securities with varying maturities and an average period to maturity of 5 years or less. There has been no change in the Company’s risk exposure and processes for risk management and measurement from 2017. The Company believes that a 1% increase or decrease in the variable market interest rate would not affect Company earnings from pre-need merchandise and service trusts or the perpetual care trust funds.

Interest rate on revolving loan facility

The Company has a revolving loan facility, that bears interest at the bankers’ acceptance rate plus 1.70%. Based on the loan balances at December 31, 2018, a 1% increase or decrease in the variable market interest rate would have an impact of approximately \$900,000. The Company has the ability to convert the loan facility to a fixed term.

30. COMMITMENTS AND CONTINGENCIES

Office lease

The Company has leased office space in Canada and USA. The terms of the leases range from 1 year to 10 years. Future remaining minimum lease payments as at December 31, 2018 are as follows:

2019	1,467,279
2020	1,200,568
2021	1,047,881
2022	529,189
2023	447,919
Thereafter	1,866,706
Total	\$ 6,559,542

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.

31. SEGMENTED INFORMATION

IFRS 8 "Operating Segments" defines an operating segment as i) a component of an entity that engages in business activities from which it may earn revenues and incur expenses; ii) 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 iii) for which discrete financial information is available.

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

Geographic information

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

	December 31, 2018	December 31, 2017
Canada	\$ 193,440,060	\$ 183,014,019
United States	763,799,899	238,951,583
Total	<u>\$ 957,239,959</u>	<u>\$ 421,965,602</u>

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

	December 31, 2018	December 31, 2017
Revenue:		
Sales:		
Canada	\$ 38,270,886	\$ 34,164,305
United States	109,872,533	45,082,218
Total sales	<u>148,143,419</u>	<u>79,246,523</u>
Income from care and maintenance funds:		
Canada	4,332,957	3,784,999
United States	4,436,926	2,241,869
Total income from care and maintenance funds	<u>8,769,883</u>	<u>6,026,868</u>
Interest and other income:		
Canada	609,983	568,954
United States	3,897,734	1,447,452
Total interest and other income	<u>4,507,717</u>	<u>2,016,406</u>
Total revenue:		
Canada	43,213,826	38,518,258
United States	118,207,193	48,771,539
Total Revenue	<u>\$ 161,421,019</u>	<u>\$ 87,289,797</u>

32. SUBSEQUENT EVENTS

On January 18, 2019, the Company amended its existing syndicated bank financing arrangement to increase its borrowing capacity to \$225 million (\$175 million committed credit facility and additional \$50 million accordion facility). The financing arrangement has a term of five years. 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.

On February 20, 2019 the Company announced the signing of a definitive agreement to acquire Cress Funeral Service Inc. ("Cress"), an 8-location funeral business in Madison, Wisconsin for approximately US\$20.3 million. The acquisition will be funded from PLC's credit facility. Closing remains subject to regulatory approval which is expected in the second quarter of 2019. The acquisition of Cress expands PLC's footprint into Wisconsin by adding 8 funeral homes and 2 crematoria to PLC's portfolio. The initial accounting for the business acquisition is not yet complete at the time these consolidated financial statements are approved by the Board of Directors. As such, certain disclosures required under IFRS 3 in respect of the above acquisition cannot be made.

On February 22, 2019, the Company sold a property owned by TCS for a sale price of \$1,500,000 realizing a gain of approximately \$40,000, net of disposition costs.

32. COMPARATIVE FIGURES

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

- Reclassification of \$331,017, in maintenance expenses to costs to better reflect the nature of the labour costs. Direct labour costs for performing cemetery services are included in costs.
- Reclassification of dividend reinvestment plan from operating activities to financing activities in the consolidated statements of cash flows, to better reflect changes in cash.
- Reclassification of movements in merchandise inventory to operating activities from investing activities in the consolidated statements of cash flows, to better reflect changes in cash.

PARK LAWN CORPORATION

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Chief Executive Officer

Joseph Leeder,
Chief Financial Officer

Brad Green,
President

Jay Dodds,
Chief Operations Officer

Jeff Parker,
Chief Technology Officer

Suzanne Cowan,
VP, Business Development &
Corporate Affairs

Linda Gilbert,
VP, Finance & Administration

W. Clark Harlow
VP, Finance, USA

Lorie Johnson,
VP, Human Resources

Incorporating Jurisdiction

Ontario

Financial Year End

December 31

Auditor

MNP LLP

Share Quotation

The shares of Park Lawn Corporation
are quoted on the TSX under the symbol PLC.

Annual Meeting

Thursday, May 30, 2019
10:00 a.m. at Goodmans LLP
333 Bay Street, Suite 3400
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