# Condensed Interim Consolidated Financial Statements

As at and for the six months ending
June 30, 2017 and 2016 | Unaudited

2017

PARK LAWN
CORPORATION

**NOTICE TO READER**

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

(signed) "*Andrew Clark*"

Andrew Clark

Chief Executive Officer

(signed) "*Joseph Leeder*"

Joseph Leeder

Chief Financial Officer

**PARK LAWN CORPORATION**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**AS AT JUNE 30, 2017 AND DECEMBER 31, 2016**
**(UNAUDITED)**

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $ 82,454,376 | $ 23,891,672 |
| Accounts receivable | 2,426,966 | 1,922,342 |
| Pre-need receivables, current portion (Note 4) | 5,931,584 | 5,591,591 |
| Inventories (Note 5) | 39,064,639 | 39,384,840 |
| Prepaid expenses and other current assets | 940,590 | 475,318 |
| Loan receivable | 124,800 | 123,600 |
| Debentures receivable | 150,000 | - |
| | 131,092,955 | 71,389,363 |
| Non-current assets | | |
| Pre-need receivables, net of current portion (Note 4) | 16,916,069 | 16,305,661 |
| Land held for development (Note 8) | 5,082,342 | 4,033,096 |
| Property and equipment (Note 9) | 25,565,595 | 21,616,144 |
| Investment properties (Note 10) | 210,462 | 199,956 |
| Care and maintenance trust fund investments (Note 11) | 90,516,131 | 87,545,830 |
| Pre-need merchandise and service trust fund investments (Note 12) | 71,665,133 | 63,881,008 |
| Deferred tax assets, net | 2,898,287 | 1,715,840 |
| Employee share plan loan | 3,169,474 | 3,299,327 |
| Debentures receivable | - | 150,000 |
| Receivable on sale of discontinued operations | 248,646 | 276,895 |
| Goodwill and intangibles (Note 6 and 13) | 27,847,143 | 19,172,958 |
| Deferred financing fee | 396,549 | 341,226 |
| Other assets | 629,590 | 413,487 |
| | 245,145,421 | 218,951,428 |
| TOTAL ASSETS | $ 376,238,376 | $ 290,340,791 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $ 8,580,471 | $ 9,830,094 |
| Dividends payable | 582,860 | 421,639 |
| Current portion of long term debt (Note 14) | 536,143 | 503,980 |
| Current portion of notes payable (Note 15) | 831,585 | 800,000 |
| | 10,531,059 | 11,555,713 |
| Non-current liabilities | | |
| Long-term debt, net of current portion (Note 14) | 2,906,823 | 3,107,795 |
| Notes payable, net of current portion (Note 15) | 382,814 | 283,989 |
| Deferred revenue (Note 16) | 25,007,048 | 25,188,834 |
| Contingent payments (Note 17) | 1,454,257 | 1,410,709 |
| Care and maintenance trusts' corpus (Note 11) | 90,516,131 | 87,545,830 |
| Deferred pre-need receipts held in trust (Note 12) | 71,665,133 | 63,881,008 |
| | 191,932,206 | 181,418,165 |
| **Shareholders' Equity** | | |
| Share capital (Note 20) | 170,016,776 | 92,709,116 |
| Contributed surplus | 641,271 | 292,881 |
| Accumulated other comprehensive loss | (989,184) | (46,725) |
| Retained earnings | 3,103,349 | 3,632,754 |
| | 172,772,212 | 96,588,026 |
| Non-controlling interest | 1,002,899 | 778,887 |
| | 173,775,111 | 97,366,913 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 376,238,376 | $ 290,340,791 |

**Commitments and Contingencies** (Note 25)

**Approved by the Board of Directors**

"*Andrew Clark*"
Andrew Clark - CEO, Director

"*Joseph Leeder*"
Joseph Leeder - CFO, Director

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

**PARK LAWN CORPORATION**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS**
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016**
**(UNAUDITED)**

| | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sales | $ 18,278,645 | $ 17,162,848 | $ 35,359,807 | $ 27,375,935 |
| Income from care and maintenance funds (Note 11) | 1,359,100 | 1,139,720 | 2,610,933 | 2,034,359 |
| Interest and other income | 501,108 | 511,295 | 970,537 | 685,873 |
| | 20,138,853 | 18,813,863 | 38,941,277 | 30,096,167 |
| **Costs** | 4,442,136 | 4,708,785 | 8,994,565 | 8,053,789 |
| **Gross profit** | 15,696,717 | 14,105,078 | 29,946,712 | 22,042,378 |
| **Operating expenses** | | | | |
| General and administrative | 5,562,447 | 4,655,264 | 10,957,573 | 7,899,490 |
| Maintenance | 4,446,524 | 4,228,867 | 8,258,229 | 5,940,717 |
| Advertising and selling | 3,229,022 | 3,423,439 | 6,125,236 | 4,914,801 |
| Interest expense (Note 14 and 15) | 92,608 | 160,553 | 190,779 | 359,199 |
| Share based incentive compensation | 193,356 | 71,615 | 376,195 | 71,615 |
| | 13,523,957 | 12,539,738 | 25,908,012 | 19,185,822 |
| **Earnings from operations** | 2,172,760 | 1,565,340 | 4,038,700 | 2,856,556 |
| Gain on sale of properties (Note 9 and 22) | - | - | - | 438,159 |
| Acquisition and integration costs (Note 6) | (941,010) | (309,283) | (1,120,075) | (780,639) |
| Foreign exchange gain (Note 18) | - | - | - | 333,871 |
| Change in fair value of contingent payments (Note 17) | (47,999) | - | (93,029) | - |
| Claim settlement (Note 23) | - | - | (66,457) | - |
| Termination of lease contract (Note 24) | (84,625) | - | (84,625) | - |
| Earnings before income taxes | 1,099,126 | 1,256,057 | 2,674,514 | 2,847,947 |
| Income tax expense | 187,523 | 108,397 | 340,529 | 263,934 |
| **Net earnings for the period** | $ 911,603 | $ 1,147,660 | $ 2,333,985 | $ 2,584,013 |
| Net earnings attributable to: | | | | |
| Equity holders of PLC | $ 812,444 | $ 1,033,465 | $ 2,109,973 | $ 2,420,081 |
| Non-controlling interest | 99,159 | 114,195 | 224,012 | 163,932 |
| | $ 911,603 | $ 1,147,660 | $ 2,333,985 | $ 2,584,013 |
| Net earnings per share - basic | | | | |
| Attributable to equity holders of PLC | $ 0.072 | $ 0.130 | $ 0.189 | $ 0.337 |
| Net earnings per share - diluted | | | | |
| Attributable to equity holders of PLC | $ 0.072 | $ 0.130 | $ 0.188 | $ 0.337 |
| Weighted average number of common shares: | | | | |
| - basic | 11,251,898 | 7,951,929 | 11,183,327 | 7,171,709 |
| - diluted | 11,320,884 | 7,953,406 | 11,240,060 | 7,173,186 |

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

**PARK LAWN CORPORATION**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016**
**(UNAUDITED)**

| | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| **Net income for the period** | $ 911,603 | $ 1,147,660 | $ 2,333,985 | $ 2,584,013 |
| Item of other comprehensive income to be subsequently reclassified to net income | | | | |
| Foreign currency translation of foreign operations | (671,813) | 53,735 | (942,459) | (865,665) |
| **Comprehensive income** | $ 239,790 | $ 1,201,395 | $ 1,391,526 | $ 1,718,348 |

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

**PARK LAWN CORPORATION**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016**
**(UNAUDITED)**

| | # of Common Shares Issued and Outstanding | Share Capital | Contributed Surplus | Retained Earnings | Accumulated Other Comprehensive Income | Non Controlling Interest | Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2016 | 5,844,272 | $ 22,883,002 | $ 2,348 | $ 306,763 | $ - | $ 562,544 | $ 23,754,657 |
| Dividends declared (Note 19) | - | - | - | (1,652,894) | - | - | (1,652,894) |
| Shares issued: | | | | | | | |
| Subscription offering, net of costs (Note 20) | 2,105,400 | 22,357,889 | - | - | - | - | 22,357,889 |
| Dividend reinvestment plan (Note 20) | 3,477 | 31,391 | - | - | - | - | 31,391 |
| Equity incentive plan | - | - | 40,046 | - | - | - | 40,046 |
| Other comprehensive loss | - | - | - | - | (865,665) | - | (865,665) |
| Net earnings for the period | - | - | - | 2,420,081 | - | 163,932 | 2,584,013 |
| Balance at June 30, 2016 | 7,953,149 | $ 45,272,282 | $ 42,394 | $ 1,073,950 | $ (865,665) | $ 726,476 | $ 46,249,437 |
| 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) | - | - | - | (2,691,557) | - | - | (2,691,557) |
| Shares issued: | | | | | | | |
| Dividend reinvestment plan (Note 20) | 4,902 | 80,427 | - | - | - | - | 80,427 |
| Equity incentive plan | - | - | 348,390 | - | - | - | 348,390 |
| Prospectus financing November 2016, net of costs (Note 20) | 4,237,750 | (76,718) | - | - | - | - | (76,718) |
| Prospectus financing June 2017, net of costs (Note 20) | - | 77,303,951 | - | - | - | - | 77,303,951 |
| Acquisition of non-controlling interest (Note 7) | - | - | - | 52,179 | - | - | 52,179 |
| Other comprehensive loss | - | - | - | - | (942,459) | - | (942,459) |
| Net earnings for the period | - | - | - | 2,109,973 | - | 224,012 | 2,333,985 |
| Balance at June 30, 2017 | 15,338,422 | $ 170,016,776 | $ 641,271 | $ 3,103,349 | $ (989,184) | $ 1,002,899 | $ 173,775,111 |

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

**PARK LAWN CORPORATION**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016**
**(UNAUDITED)**

| | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| **Cash provided by (used in):** | | | | |
| **Operating activities** | | | | |
| Net earnings for the period | $ 911,603 | $ 1,147,660 | $ 2,333,985 | $ 2,584,013 |
| Items not affecting cash: | | | | |
| Depreciation of property and equipment, investment properties and amortization of intangibles | 560,456 | 401,045 | 1,081,626 | 687,293 |
| Amortization of cemetery property | 902,522 | 1,072,792 | 1,745,489 | 1,903,282 |
| Deferred tax asset/expense | (1,154,787) | (121,865) | (1,182,447) | (668,489) |
| Loss/Gain on sale of property and assets held for sale | - | - | - | 110,250 |
| DRIP | 39,887 | 23,765 | 80,427 | 31,391 |
| Share based incentive compensation | 174,195 | 40,046 | 348,390 | 40,046 |
| Loss on change in fair value of contingent payments | 47,999 | - | 93,029 | - |
| Termination of lease contract | 149,125 | - | 149,125 | - |
| Changes in working capital: | | | | |
| Accounts receivable | 160,085 | 19,217 | 147,352 | 213,900 |
| Pre-need receivables | (255,060) | (1,176,396) | (950,401) | (845,157) |
| Inventories | 428,810 | (1,118,937) | (1,261,907) | (2,017,241) |
| Prepaid expenses and other current assets | 193,557 | 26,211 | (419,859) | (49,897) |
| Accounts payable and accrued liabilities | 636,684 | 484,158 | (1,553,661) | (2,407,162) |
| Employee loan | 128,961 | 129,272 | 129,853 | 129,737 |
| Deferred revenue | (654,954) | 2,752,716 | (181,786) | 2,912,743 |
| Insurance proceeds recoverable | - | 556,090 | - | 650,702 |
| **Cash provided by (used in) operating activities** | 2,269,083 | 4,235,774 | 559,215 | 3,275,411 |
| **Investing activities** | | | | |
| Net cash on acquisitions | (3,746,631) | (1,830,902) | (12,218,899) | (27,717,493) |
| Proceeds from sale of investment property and assets held for sale | - | 497,090 | - | 1,022,090 |
| Acquisition of land held for development | (1,049,246) | - | (1,049,246) | - |
| Acquisition of property and equipment | (1,533,846) | (2,399,443) | (2,044,415) | (2,747,413) |
| Increase/Decrease in other assets | (206,192) | 929 | (199,554) | 7,576 |
| **Cash provided by (used in) investing activities** | (6,535,915) | (3,732,326) | (15,512,114) | (29,435,240) |
| **Financing activities** | | | | |
| Loan receivable | (300) | - | (1,200) | - |
| Repayment of long-term debt | (132,454) | (712,084) | (316,386) | (981,792) |
| Repayment of note payable | (51,392) | - | (262,429) | - |
| Proceeds from issuance of long-term debt | - | 1,159,517 | 54,427 | 6,935,098 |
| Proceeds from financing, net of costs | 77,303,951 | - | 77,227,233 | 20,961,820 |
| Dividends and distributions paid | (1,426,432) | (906,563) | (2,691,557) | (1,652,894) |
| Deferred financing fee | 24,279 | - | (55,323) | 974,424 |
| Cash paid for acquisition of non-controlling interest | - | - | 52,179 | - |
| Cash held in escrow | - | - | - | 1,396,069 |
| **Cash provided by (used in) financing activities** | 75,717,652 | (459,130) | 74,006,944 | 27,632,725 |
| **Translation adjustment on cash** | (240,849) | 2,226 | (491,341) | (713,611) |
| **Net (decrease) increase in cash** | 71,209,971 | 46,544 | 58,562,704 | 759,285 |
| **Cash, beginning of period** | 11,244,405 | 877,256 | 23,891,672 | 164,515 |
| **Cash, end of period** | $ 82,454,376 | $ 923,800 | $ 82,454,376 | $ 923,800 |
| **Supplemental disclosures:** | | | | |
| Income taxes paid | $ 58,682 | $ 163,791 | $ 206,954 | $ 220,144 |
| Interest expenses paid | $ 82,907 | $ 280,839 | $ 142,221 | $ 444,836 |

The accompanying notes to the condensed interim consolidated financial statements are an integral part of these condensed interim 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 Ontario, Quebec, Manitoba, Saskatchewan, British Columbia, and Michigan, USA. The Company owns certain investment properties through its wholly-owned subsidiaries Park Lawn Limited Partnership, Park Lawn Management Services Inc., Forest Lawn Investments Inc., Services Mémorables Harmonia Inc. ("Harmonia"), Amety Ltd. ("Amety"), Parkland Ltd. ("Parkland"), Basic Funerals and Cremation Choices Inc. ("Basic"), Mundell Funeral Homes Limited ("Mundell"), the Park Lawn Cemetery Company (USA) Inc. ("Park Lawn USA"), Midwest Memorial Group, LLC ("MMG"), 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") and TCS Funeral Services ("TCS"). The Company is publicly traded on the TSX with the stock symbol of PLC.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Statement of compliance

The accompanying unaudited condensed interim consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards 34, Interim Financial Reporting ("IAS 34"), on a basis consistent with policies disclosed in the Company's annual audited consolidated financial statements for the fiscal year ended December 31, 2016 which were prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

Certain information and footnote disclosure normally included in the annual financial statements prepared in accordance with IFRS have been omitted or are condensed. These unaudited condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended December 31, 2016.

The financial information included herein reflects all adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the periods ended June 30, 2017 and 2016 are not necessarily indicative of the results to be expected for the full year.

These unaudited condensed interim consolidated financial statements were approved by the Company's Board of Directors on August 10, 2017.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### b. Functional currency

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

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 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.

### c. 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.

### d. 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. The Company is assessing the impact on its consolidated financial statements as a result of adopting the following new standards:

IFRS 9 – Financial Instruments, Classification and Measurement ("IFRS 9") contains requirements for financial assets and liabilities. IFRS 9 is part of the IASB wider project to replace IAS 39 Financial Instruments – Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. This standard will be adopted in the Company's consolidated financial statements for the year beginning January 1, 2018 and the Company has not yet considered the potential impact of the adoption of IFRS 9.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### d. Future Accounting Policy Changes - continued

IFRS 15 – "Revenue from Contracts with Customers", effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, replaces existing revenue standards and interpretations with a single standard and provides additional guidance on revenue recognition for contracts with customers. The Company will not be early adopting IFRS 15.

The Company has elected to adopt IFRS 15 using the modified retrospective approach. Under this approach, the Company will recognize transitional adjustments in retained earnings on the date of the initial application (January 1, 2018) without restating prior period results.

We expect the application of IFRS 15 will affect our consolidated financial statements with regards to the treatment of costs incurred in acquiring customer contracts. The treatment of costs incurred in acquiring customer contracts will be impacted as IFRS 15 requires certain contract acquisition costs, such as sales commissions to be recorded as an asset and amortized into expenses over time. Currently, such costs are expensed as incurred.

Although we have made progress in our implementation of IFRS 15, it is not possible to make a reliable estimate of the impact of the new standard on our consolidated financial statements as we are required to implement changes to our system and processes across the organization in order to collect the new data requirements, as well as historical information.

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. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the year beginning January 1, 2019 and has not yet considered the potential impact of the adoption of IFRS 16.

## 3. CRITICAL ESTIMATES AND JUDGMENTS

*Use of estimates*

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

i) The carrying value of goodwill and intangibles acquired from acquisitions and estimates on any applicable impairment. The Company's impairment tests for goodwill and intangible assets are based on the greater of value in use calculations that use a discounted cash flow model over a five-year period and estimated fair value less cost to sell.

## 3. CRITICAL ESTIMATES AND JUDGMENTS – continued

*Use of estimates - continued*

The value-in-use calculations employ the following key assumptions: future cash flows, growth projections including economic risk assumptions and estimates of achieving key operating metrics. The cash flows are derived from the Company's budget for the future and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. 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. The estimated fair value less cost to sell is based on assessment of comparable company multiples and precedent transactions.

ii) The purchase price allocation corresponding to completed acquisitions and the related contingent consideration.

iii) In determining the functional currency of the parent and its subsidiary companies, management considered the currency that mainly influences sales and the cost of providing goods and services in each jurisdiction in each the Company operates. The Company also considered secondary indicators including the currency in which each funds from financing activities are denominated, the currency in which funds are retained and whether the activities of the subsidiaries are carried out as an extension of the Company or if they are carried out with a degree of autonomy.

iv) In determining an allowance for sales returns the Company provides various allowances and/or cancellation reserves for cemetery receivables. These allowances are based on the analysis of historical trends and include, where applicable collection and cancellation activity.

## 4. PRE-NEED RECEIVABLES

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Pre-need receivables, current portion | $ 5,931,584 | $ 5,591,591 |
| Pre-need receivables, net of current portion | 16,916,069 | 16,305,661 |
| Total | $ 22,847,653 | $ 21,897,252 |

The above is net of an allowance for sales returns of $3,558,542 (at December 31, 2016 - $3,665,135).

Based on the review of the status of the individual pre-need receivables at the end of each reporting period, the Company's management believes that an allowance for doubtful accounts receivable is not required.

## 5. INVENTORIES

| | | June 30, 2017 | | December 31, 2016 |
|---|---|---|---|---|
| Merchandise inventories | $ | 972,496 | $ | 760,252 |
| Cemetery lots | | 9,678,908 | | 10,290,895 |
| Crypts and niches | | 28,413,235 | | 28,333,693 |
| | $ | 39,064,639 | $ | 39,384,840 |

There were no inventory write-downs in either period.

## 6. BUSINESS COMBINATION

*Reynolds-TFFH*

Effective February 1, 2017 the Company completed the acquisition of 100% ownership interest in the common shares of Reynolds Funeral Home ("Reynolds") and Turner Family Funeral Home Inc. ("TFFH"). On closing, the Company paid $4,730,000 for 100% of the common shares. The Company is in the process of assessing the fair value of the net assets acquired and, as a result, the fair value of the net assets acquired may be subject to adjustments pending completion of final valuations and post-closing adjustments. In connection with this transaction, the Company has incurred transaction and integration costs to date of $77,637 ($52,835 for the six month period ended June 30, 2017).

The table below summarizes the preliminary estimated fair value of the assets acquired and the liabilities assumed at the acquisition date. A further assessment will need to be completed by management to assess if the goodwill needs to be allocated to other tangible or intangible assets.

## 6. BUSINESS COMBINATION - continued

*Reynolds-TFFH - continued*

| | | Preliminary |
|---|---|---|
| **Assets acquired:** | | |
| Cash | $ | 63,985 |
| Accounts receivable | | 89,255 |
| Inventories | | 65,287 |
| Prepaid expenses | | 14,589 |
| Property and equipment | | 1,117,651 |
| Investment properties | | 15,865 |
| Pre-need trust fund investments | | 2,850,316 |
| Goodwill | | 3,481,141 |
| Other intangibles | | 20,000 |
| Other assets | | - |
| Total assets | $ | 7,718,089 |
| **Liabilities assumed:** | | |
| Accounts payable and accrued liabilities | $ | 44,623 |
| Long-term debt | | 93,150 |
| Deferred pre-need receipts held in trust | | 2,850,316 |
| | $ | 2,988,089 |
| **Fair value of consideration transferred:** | | |
| Cash consideration | $ | 4,730,000 |
| | $ | 4,730,000 |

Since the date of acquisition in 2017, Reynolds-TFFH has contributed $580,743 in revenue and $158,563 in net earnings for the six month period ended June 30, 2017. The Company has used a significant amount of judgment and simplifying assumptions in estimating the revenue and net earnings of Reynolds-TFFH had the business occurred at the beginning of the year. If acquired at the beginning of the year, the Company has estimated that Reynolds-TFFH would have contributed approximately $690,000 in revenue and $190,000 in net earnings.

*Jennett-Innisfil*

Effective February 1, 2017 the Company completed the acquisition of 100% ownership interest in the common shares of Jennett Funeral and Cremation Centre Ltd. ("Jennett") and Innisfil Funeral Home Limited ("Innisfil"). On closing, the Company paid $2,053,000 for 100% of the common shares. The Company is in the process of assessing the fair value of the net assets acquired and, as a result, the fair value of the net assets acquired may be subject to adjustments pending completion of final valuations and post-closing adjustments. In connection with this transaction, the Company has incurred transaction and integration costs to date of $68,685 ($44,864 for the six month period ended June 30, 2017).

## 6. BUSINESS COMBINATION - continued

*Jennett-Innisfil - continued*

The table below summarizes the preliminary estimated fair value of the assets acquired and the liabilities assumed at the acquisition date. A further assessment will need to be completed by management to assess if the goodwill needs to be allocated to other tangible or intangible assets.

| | Preliminary |
|---|---|
| **Assets acquired:** | |
| Cash | $ 88,057 |
| Accounts receivable | 129,214 |
| Inventories | 63,750 |
| Prepaid expenses | 9,443 |
| Property and equipment | 71,302 |
| Pre-need trust fund investments | 1,409,472 |
| Goodwill | 1,863,375 |
| Other intangibles | 20,000 |
| Other assets | 308 |
| Total assets | $ 3,654,921 |
| **Liabilities assumed:** | |
| Accounts payable and accrued liabilities | $ 192,449 |
| Deferred pre-need receipts held in trust | 1,409,472 |
| | $ 1,601,921 |
| **Fair value of consideration transferred:** | |
| Cash consideration | $ 2,053,000 |
| | $ 2,053,000 |

Since the date of acquisition in 2017, Jennett-Innisfil has contributed $386,471 in revenue and $44,367 in net earnings for the six month period ended June 30, 2017. The Company has used a significant amount of judgment and simplifying assumptions in estimating the revenue and net earnings of Jennet-Innisfil had the business occurred at the beginning of the year. If acquired at the beginning of the year, the Company has estimated that Jennet-Innisfil would have contributed approximately $460,000 in revenue and $53,000 in net earnings.

The purchase of the above funeral homes, Reynolds-TFFH and Jennett-Innisfil, will expand and strengthen the Company's presence in the Ontario market and the proximity to the Mundell Funeral Home in Orillia and the crematoria in the GTA makes these businesses a logical fit.

## 6. BUSINESS COMBINATION - continued

*PFHC-CCSL*

Effective February 1, 2017 the Company completed the acquisition of 100% ownership interest in the common shares of Providence Funeral Homes & Crematorium ("PFHC") and Credible Cremation Services Limited ("CCSL"). On closing, the Company paid $1,896,650 for 100% of the common shares. 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. The Company is in the process of assessing the fair value of the net assets acquired and, as a result, the fair value of the net assets acquired may be subject to adjustments pending completion of final valuations and post-closing adjustments. In connection with this transaction, the Company has incurred transaction and integration costs to date of $40,963 ($30,666 for the six month period ended June 30, 2017).

The table below summarizes the preliminary estimated fair value of the assets acquired and the liabilities assumed at the acquisition date. A further assessment will need to be completed by management to assess if the goodwill needs to be allocated to other tangible or intangible assets.

| | | Preliminary |
|---|---|---|
| **Assets acquired:** | | |
| Cash | $ | 67,217 |
| Accounts receivable | | 90,007 |
| Inventories | | 22,358 |
| Prepaid expenses | | 18,365 |
| Property and equipment | | 1,750,560 |
| Pre-need trust fund investments | | 2,172,556 |
| Goodwill | | 237,242 |
| Other intangibles | | 200,000 |
| Other assets | | 9,300 |
| Total assets | $ | 4,567,605 |
| **Liabilities assumed:** | | |
| Accounts payable and accrued liabilities | $ | 105,560 |
| Deferred pre-need receipts held in trust | | 2,172,556 |
| | $ | 2,278,116 |
| **Fair value of consideration transferred:** | | |
| Deferred cash consideration | | 392,839 |
| Cash consideration | $ | 1,896,650 |
| | $ | 2,289,489 |

## 6. BUSINESS COMBINATION - continued

*PFHC-CCSL - continued*

Since the date of acquisition in 2017, PFHC-CCSL has contributed $667,311 in revenue and $171,592 in net earnings for the six month period ended June 30, 2017. The Company has used a significant amount of judgment and simplifying assumptions in estimating the revenue and net earnings of PFHC-CCSL had the business occurred at the beginning of the year. If acquired at the beginning of the year, the Company has estimated that PFHC-CCSL would have contributed approximately $800,000 in revenue and $200,000 in net earnings.

The above acquisition is the Company's first acquisition in the British Columbia market. The Company believes this market shares similar characteristics to the other markets in which it operates in Canada.

*TCS*

Effective May 1, 2017 the Company completed the acquisition of 100% ownership interest in the common shares of TCS Funeral Services ("TCS"). On closing, the Company paid $3,660,000 for 100% of the common shares. The Company is in the process of assessing the fair value of the net assets acquired and, as a result, the fair value of the net assets acquired may be subject to adjustments pending completion of final valuations and post-closing adjustments. In connection with this transaction, the Company has incurred transaction and integration costs to date of $34,888 ($34,888 for the six month period ended June 30, 2017).

The table below summarizes the preliminary estimated fair value of the assets acquired and the liabilities assumed at the acquisition date. A further assessment will need to be completed by management to assess if the goodwill needs to be allocated to other tangible or intangible assets.

## 6. BUSINESS COMBINATION - continued

*TCS - continued*

| | | Preliminary |
|---|---|---|
| **Assets acquired:** | | |
| Cash | $ | 571,900 |
| Accounts receivable | | 315,249 |
| Inventories | | 11,986 |
| Prepaid expenses | | 3,016 |
| Property and equipment | | 337,102 |
| Goodwill | | 3,206,840 |
| Other assets | | 6,942 |
| Total assets | $ | 4,453,035 |
| **Liabilities assumed:** | | |
| Accounts payable and accrued liabilities | $ | 122,627 |
| | $ | 122,627 |
| **Fair value of consideration transferred:** | | |
| Working capital adjustment | | 670,408 |
| Cash consideration | $ | 3,660,000 |
| | $ | 4,330,408 |

Since the date of acquisition in 2017, TCS has contributed $222,620 in revenue and $28,848 in net earnings for the six month period ended June 30, 2017. The Company has used a significant amount of judgment and simplifying assumptions in estimating the revenue and net earnings of TCS had the business occurred at the beginning of the year. If acquired at the beginning of the year, the Company has estimated that TCS would have contributed approximately $660,000 in revenue and $86,000 in net earnings.

TCS is a business-to-business service provider in the funeral industry, providing outsourced embalming, transfer and other services to funeral homes, cemeteries, municipalities and hospitals across Ontario. TCS has a long track record of providing support services to the funeral industry, and the Company believes there are opportunities for synergies between TCS and the Company's existing businesses.

## 7. CAPITAL TRANSACTION

During the three month period ended March 31, 2017, the Company purchased all the remaining outstanding shares in Swan Valley Funeral Services Ltd., a subsidiary of Parkland Funeral Holdings for $273,260. In connection with the purchase, the Company assumed the mortgage loan of $54,427 and discharged the $148,260 of indebtedness owed by the vendor. In accordance with IFRS 10, Consolidated Financial Statements, the Company accounted for the acquisition of the remaining 30% as a capital transaction, since control of Swan Valley had been attained in October, 2014.

## 8. LAND HELD FOR DEVELOPMENT

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Land at Westminster Cemetery | $ 2,902,281 | $ 2,902,281 |
| Land held by Amety | 330,815 | 330,815 |
| Land at Pine Valley | 800,000 | 800,000 |
| Land at Royal York | 1,049,246 | - |
| Total | $ 5,082,342 | $ 4,033,096 |

*Land at Westminster Cemetery*

The Company owns lands adjacent to the Westminster Cemetery which is being held for future development.

*Land held by Amety*

This represents a 23 acre parcel of land acquired as part of the acquisition of Amety in 2014. The land is located in the rural southwest end of Ottawa, Ontario and is zoned Rural Commercial making it available for future cemetery use.

*Land at Pine Valley*

This represent 2.2 acre parcel of land, located in the city of Vaughan, Ontario, and is zoned Rural Commercial making it available for future cemetery use.

*Land at Royal York*

The Company purchased a residential property adjacent to its Riverside Cemetery property in Toronto for future development opportunities.

## 9. PROPERTY AND EQUIPMENT

| | January 1, 2017 | Acquired in business combinations | Additions | Disposals | Foreign currency translation | June 30, 2017 |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| Land | $ 2,163,682 | 1,427,710 | - | - | - | $ 3,591,392 |
| Buildings, cemetery and funeral | 14,049,431 | 1,501,330 | 1,441,542 | (71,634) | (99,406) | 16,821,263 |
| Machinery, equipment and automotive | 4,280,163 | 347,575 | 556,790 | - | (35,818) | 5,148,710 |
| Cemetery improvements | 4,726,761 | - | 46,083 | (77,491) | (34,630) | 4,660,723 |
| Total | 25,220,037 | 3,276,615 | 2,044,415 | (149,125) | (169,854) | 30,222,088 |
| Accumulated depreciation: | | | | | | |
| Buildings, cemetery and funeral | 1,464,795 | - | 337,414 | - | - | 1,802,209 |
| Machinery, equipment and automotive | 1,416,408 | - | 398,386 | - | - | 1,814,794 |
| Cemetery improvements | 722,690 | - | 316,800 | - | - | 1,039,490 |
| Total | 3,603,893 | - | 1,052,600 | - | - | 4,656,493 |
| Net Book Value | $ 21,616,144 | | | | | $ 25,565,595 |

| | January 1, 2016 | Acquired in business combinations | Additions | Disposals | Foreign currency translation | December 31, 2016 |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| Land | $ 1,783,513 | 380,169 | - | - | - | $ 2,163,682 |
| Buildings, cemetery and funeral | 6,257,987 | 4,884,803 | 2,932,873 | (1,446) | (24,786) | 14,049,431 |
| Machinery, equipment and automotive | 2,109,003 | 1,534,405 | 665,506 | (15,863) | (12,888) | 4,280,163 |
| Cemetery improvements | 2,957,933 | 882,512 | 903,880 | - | (17,564) | 4,726,761 |
| Total | 13,108,436 | 7,681,889 | 4,502,259 | (17,309) | (55,238) | 25,220,037 |
| Accumulated depreciation: | | | | | | |
| Buildings, cemetery and funeral | 967,587 | - | 497,280 | (72) | - | 1,464,795 |
| Machinery, equipment and automotive | 831,758 | - | 586,966 | (2,316) | - | 1,416,408 |
| Cemetery improvements | 209,099 | - | 513,591 | - | - | 722,690 |
| Total | 2,008,444 | - | 1,597,837 | (2,388) | - | 3,603,893 |
| Net Book Value | $ 11,099,992 | | | | | $ 21,616,144 |

## 9. PROPERTY AND EQUIPMENT – continued

Property and equipment depreciation expense charged to operations amounted to $1,052,600 and $675,507 for the six month period ended June 30, 2017 and 2016, respectively, and to $544,233 and $394,674 for the three month period ended June 30, 2017 and 2016, respectively. Increase in expense is primarily due to the acquisition of MMG at March 1, 2016.

Included in buildings, cemetery and funeral additions at June 30, 2017 are $467,242 of buildings additions at Westminster Cemetery (at December 31, 2016 - $26,903), $285,735 of crematorium additions (at December 31, 2016 - $282,858), $360,601 of leasehold improvements related to a new head office location (at December 31, 2016 - $nil) and $140,369 (at December 31, 2016 - $958,415) relating to the construction of the funeral home and cremation facility located in Dauphin, Manitoba which was destroyed by fire in 2014.

During the three month period ended March 31, 2016, the Company sold a property for a sale price of $550,112 realizing a gain of $548,409, net of disposition costs. The historical cost of the property and accumulated depreciation was nominal. There were no property sales during the six month period ended June 30, 2017.

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 2017 and 2016.

## 10. INVESTMENT PROPERTIES

Investment property amounted to $210,462 as at June 30, 2017 (at December 31, 2016 - $199,956). This increase relates to the investment property acquired in conjunction with business acquisition of Reynolds-TFFH (see Note 6). Investment property depreciation expense charged to operations amounted to $5,359 and $4,785 for the six month period ended June 30, 2017 and 2016, respectively, and to $2,724 and $2,871 for the three month period ended June 30, 2017 and 2016, respectively.

## 11. 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.

## 11. CARE AND MAINTENANCE TRUST FUND INVESTMENTS - continued

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

Investment income recognized in operations amounted to $2,610,933 and $2,034,359 for the six month period ended June 30, 2017 and 2016, respectively and to $1,359,100 and $1,139,720 for the three month period ended June 30, 2017 and 2016, 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 | |
|---|---|---|---|---|
| | June 30, 2017 | December 31, 2016 | June 30, 2017 | December 31, 2016 |
| Cash and cash equivalents | $ 1,692,434 | $ 3,698,407 | $ 1,692,434 | $ 3,698,407 |
| Equities | 63,918,624 | 60,633,564 | 57,001,177 | 52,111,328 |
| Fixed income | 20,882,932 | 18,084,119 | 19,801,917 | 18,145,370 |
| Preferred stocks | 4,022,141 | 5,129,740 | 3,458,183 | 4,848,126 |
| | $ 90,516,131 | $ 87,545,830 | $ 81,953,711 | $ 78,803,231 |

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.

## 12. 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 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.

## 12. PRE-NEED MERCHANDISE AND SERVICE TRUST FUND INVESTMENTS - continued

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

| | Fair value | | Cost | |
|---|---|---|---|---|
| | June 30, 2017 | December 31, 2016 | June 30, 2017 | December 31, 2016 |
| Cash and cash equivalents | $ 777,069 | $ 3,038,475 | $ 777,069 | $ 3,038,475 |
| GIC's | 33,373,740 | 26,739,188 | 33,373,740 | 26,184,879 |
| Equities | 14,596,629 | 15,554,371 | 14,561,922 | 15,861,010 |
| Fixed income | 22,917,695 | 18,548,974 | 22,923,621 | 17,605,185 |
| | $ 71,665,133 | $ 63,881,008 | $ 71,636,352 | $ 62,689,549 |

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.

## 13. GOODWILL AND INTANGIBLES

| | Total |
|---|---|
| **Goodwill** | |
| Balance January 1, 2017 | $ 19,128,958 |
| Foreign currency translation MMG | (330,746) |
| Preliminary additions: | |
| Reynolds-TFFH | 3,481,141 |
| Jennett-Innisfil | 1,863,375 |
| PFHC-CCSL | 237,242 |
| TCS | 3,206,840 |
| Balance June 30, 2017 | $ 27,586,810 |
| **Intangibles** | |
| Balance January 1, 2017 | $ 44,000 |
| Preliminary additions: | |
| Reynolds-TFFH | 20,000 |
| Jennett-Innisfil | 20,000 |
| PFHC-CCSL | 200,000 |
| Amortization | (23,667) |
| Balance June 30, 2017 | $ 260,333 |
| **Goodwill and Intangibles** | |
| Balance June 30, 2017 | $ 27,847,143 |

## 14. LONG-TERM DEBT

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Mortgages on: | | |
| Swan Valley Funeral Services Ltd. | $ 158,491 | $ 134,895 |
| Sneath and Strilchuk Funeral Services, Ltd. | 1,708,224 | 1,852,091 |
| Korban Funeral Chapel Inc. | 1,297,138 | 1,334,006 |
| Finance lease obligations | 279,113 | 290,783 |
| Total | $ 3,442,966 | $ 3,611,775 |
| Current portion | 536,143 | 503,980 |
| Non-current portion | $ 2,906,823 | $ 3,107,795 |

*Swan Valley Funeral Services Ltd.*

Parkland has secured the mortgage by a promissory note for $600,000, corporate guarantees and general security agreements. The loan bears interest at prime plus 2% and is being amortized over 10 years. The loan matures on September 30, 2022. This mortgage is repayable in monthly blended installments of $6,400. During the three month period ended March 31, 2017, as part of the purchase of the remaining shares of Swan Valley, a subsidiary of Parkland, the Company assumed an additional mortgage loan of $54,427.

*Sneath and Strilchuk Funeral Services Ltd.*

Parkland has secured the mortgage by a promissory note for $2,854,000, corporate guarantees and general security agreements. The loan bears interest at 6.2% and is being amortized over 10 years. The loan matures on September 30, 2022. This mortgage is repayable in monthly blended installments of $33,045.

*Korban Funeral Chapel*

Parkland has secured the mortgage by a promissory note for $1,400,000, corporate guarantees and general security agreements. The loan bears interest at 3.75% and is being amortized over 15 years. The loan matures on January 31, 2021. This mortgage is repayable in monthly blended installments of $10,200.

*Finance lease and car loan obligations*

Finance leases relate to automotive equipment and are secured by the vehicles. These leases have interest rates ranging from 3.0% to 12.0% and remaining terms of 2 to 5 years.

## 15. NOTES PAYABLE

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Loan from non-controlling shareholders of Parkland | $ 35,909 | $ 283,989 |
| DeMarco Funeral Home note | 800,000 | 800,000 |
| Deferred cash consideration PFHC-CCSL | 378,490 | - |
| Total | $ 1,214,399 | $ 1,083,989 |
| Current portion | 831,585 | 800,000 |
| Non current portion | $ 382,814 | $ 283,989 |

*Loan from non-controlling shareholder of Parkland*

In October 2014, as part of the purchase of the business of Parkland the Company assumed loans from the non-controlling shareholders. The loans are unsecured and subordinated to all other third party debt. As part of the purchase of the remaining shares of Swan Valley, a subsidiary of Parkland, the loan to non-controlling shareholder was discharged in full during the three month period ended March 31, 2017.

*DeMarco Funeral Home note*

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

*Deferred cash consideration PFHC-CCSL*

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.

## 16. DEFERRED REVENUE

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

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Cemetery merchandise | $ 15,751,991 | $ 15,952,409 |
| Cemetery services | 9,255,057 | 9,236,425 |
| Total | $ 25,007,048 | $ 25,188,834 |

## 17. CONTINGENT PAYMENTS

*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 ($16,657,500 USD) for 100% of the common shares.

The Company will be making 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") equals or exceeds pre-established targets. Using a discounted cash flow approach the estimated present value of the contingent payments was calculated to be $1,454,257 ($1,119,434 USD). The minimum estimated amount of contingent payments to be made in the second quarter following the applicable Earn-out Periods are 10%, 33% and 57%. There was no contingent payment made for the first earn-out period in 2016. The key assumptions used in the calculation is a three year EBITDA projection which management believes the discount rate reasonably reflects the risks associated with projections for the business.

The fair value of the liability in connection with the contingent consideration is revalued at each reporting date and any changes in fair value of the estimated liability in future periods will be recorded in the consolidated statement of earnings. There were no factors that caused management to restate the fair value of the earn-out, however since the end of the earn-out period is now one quarter closer to completion, the net present value has increased. For the period ended June 30, 2017, the Company recognized an adjustment to the fair value of the contingent consideration of ($93,029).

## 18. FOREIGN EXCHANGE GAIN

As a result of the purchase of MMG, the Company has recorded a foreign exchange gain of $333,871 for the three month period ended March 31, 2016. The gain resulted from the change in the US dollar versus Canadian dollar spot rate from the effective date of purchase March 1, 2016 and the closing date of March 8, 2016, on the liability representing the purchase consideration.

## 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 six month period ended June 30, 2017 and 2016 was $2,691,557 or $0.228 per share and $1,652,894 or $0.228 per share, respectively. For the three month period ended June 30, 2017 and 2016 it was $1,426,432 or $0.114 per share and $906,563 or $0.114 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, 2015 | 5,844,272 | $ 22,883,002 |
| Shares issued pursuant to: | | |
| Dividend Reinvestment Plan *(i)* | 9,006 | 117,134 |
| Subscription offering, net of costs *(ii)* | 2,105,400 | 22,174,139 |
| Private placement *(iii)* | 262,092 | 3,679,579 |
| Prospectus offering November 2016, net of costs *(iv)* | 2,875,000 | 43,855,262 |
| Balance December 31, 2016 | 11,095,770 | 92,709,116 |
| Shares issued pursuant to: | | |
| Dividend Reinvestment Plan *(i)* | 4,902 | 80,427 |
| Prospectus offering November 2016, net of costs *(iv)* | - | (76,718) |
| Prospectus offering June 2017, net of costs *(v)* | 4,237,750 | 77,303,951 |
| Balance June 30, 2017 | 15,338,422 | $ 170,016,776 |

*(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. As at June 30, 2017, 4,902 common shares were issued under the DRIP (at December 31, 2016 – 9,006).

## 20. SHARE CAPITAL - continued

*(ii) Subscription Offering*

In conjunction with the acquisition of MMG, the Company completed an offering of 2,105,400 subscription receipts at a price of $11.50 per subscription receipt, for total gross proceeds of $24,212,100, including the exercise in full of the over-allotment option. The net proceeds from the subscription receipt offering were released to the Company on March 8, 2016 by the escrow agent to satisfy the $16,657,500 USD purchase price. Each outstanding subscription receipt was exchanged for one common share of the Company, resulting in 2,105,400 shares and a Dividend Equivalent Payment (as defined below) of $0.076 per subscription receipt. The cash payment was equal to the aggregate amounts of dividends per share for which record dates occurred since the issuance of the subscription receipts. The issuance included transaction costs of $2,037,961 inclusive of $147,000 after tax in management compensation.

*(iii) Private Placement*

On September 16, 2016, the Company completed a private placement offering of 262,092 common shares at a price of $14.18 per common share, for total gross proceeds of $3,716,464. The issuance included transaction costs of $36,885. The common shares were issued as partial consideration for the repayment of the promissory note.

*(iv) Prospectus Offering November 2016*

On November 21, 2016, the Company completed a bought deal short form prospectus offering of 2,875,000 common shares at a price of $16.00 per common share for a total of gross proceeds of $46,000,0000, including the exercise in full of the over-allotment option. The Company used the net proceeds of the offering to repay indebtedness under the Company's credit facility, which will provide additional borrowing capacity to fund the Company's continued growth strategy, including both organic growth and acquisition opportunities, and for general corporate purposes. The issuance included transaction costs of $2,221,456 inclusive of $220,500 after tax in management compensation.

*(v) Prospectus Offering June 2017*

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 will be used partially to fund the cash portion of the purchase price for the acquisition of Saber Management, LLC ("Saber") and for strategic growth initiatives including acquisitions and for general corporate purposes. The issuance included transaction costs of $3,213,299.

In connection with this transaction the Company entered into a foreign exchange agreement with National Bank on June 30, 2017 for the conversion of $32,447,500 to $25,000,000 USD at the rate of $1.2979. The contract can be settled any time between August 1, 2017 and October 31, 2017.

As at June 30, 2017, the fair value of the foreign exchange contract is $32,477,500 (at December 31, 2016 - $nil).

## 21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

*Fair value of financial instruments*

Cash, accounts receivable, pre-need receivables, employee share loan, contingent payments, debenture receivable, receivable on sale of discontinued operations, 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 June 30, 2017, the fair value of the care and maintenance and pre-need merchandise and service trust funds and related liabilities are valued under Level 1 and Level 3.

As at June 30, 2017, the fair value of the contingent payments is valued under Level 3 (see Note 17).

## 21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT – continued

*Fair value of financial instruments – continued*

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

Care and maintenance trust fund investments at June 30, 2017

| | Cost | Level 1<br>Quoted market price | Level 2<br>Valuation technique - observable market inputs | Level 3<br>Valuation technique - non-observable market inputs | Total fair value |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 1,692,434 | $ 1,692,434 | $ - | $ - | $ 1,692,434 |
| Equities | 57,001,177 | 63,918,624 | - | - | 63,918,624 |
| Fixed income | 19,801,917 | 7,468,005 | - | 13,414,927 | 20,882,932 |
| Preferred stocks | 3,458,183 | 4,022,141 | - | - | 4,022,141 |
| | $ 81,953,711 | $ 77,101,204 | $ - | $ 13,414,927 | $ 90,516,131 |

Care and maintenance trust fund investments at December 31, 2016

| | Cost | Level 1<br>Quoted market price | Level 2<br>Valuation technique - observable market inputs | Level 3<br>Valuation technique - non-observable market inputs | Total fair value |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 3,698,407 | $ 3,698,407 | $ - | $ - | $ 3,698,407 |
| Equities | 52,111,328 | 60,633,564 | - | - | 60,633,564 |
| Fixed income | 18,145,370 | 4,832,711 | - | 13,251,408 | 18,084,119 |
| Preferred stocks | 4,848,126 | 5,129,740 | - | - | 5,129,740 |
| | $ 78,803,231 | $ 74,294,422 | $ - | $ 13,251,408 | $ 87,545,830 |

## 21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT – continued

*Fair value of financial instruments – continued*

Pre-need merchandise and service trust fund investments at June 30, 2017

| | Cost | Level 1<br>Quoted market price | Level 2<br>Valuation technique - observable market inputs | Level 3<br>Valuation technique - non-observable market inputs | Total fair value |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 777,069 | $ 777,069 | $ - | $ - | $ 777,069 |
| GIC's | 33,373,740 | 33,373,740 | - | - | 33,373,740 |
| Equities | 14,561,922 | 14,596,629 | - | - | 14,596,629 |
| Fixed income | 22,923,621 | 1,134,313 | - | 21,783,382 | 22,917,695 |
| | $ 71,636,352 | $ 49,881,751 | $ - | $ 21,783,382 | $ 71,665,133 |

Pre-need merchandise and service trust fund investments at December 31, 2016

| | Cost | Level 1<br>Quoted market price | Level 2<br>Valuation technique - observable market inputs | Level 3<br>Valuation technique - non-observable market inputs | Total fair value |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 3,038,475 | $ 3,038,475 | $ - | $ - | $ 3,038,475 |
| GIC's | 26,184,879 | 26,739,188 | - | - | 26,739,188 |
| Equities | 15,861,010 | 15,554,371 | - | - | 15,554,371 |
| Fixed income | 17,605,185 | 1,015,692 | - | 17,533,282 | 18,548,974 |
| | $ 62,689,549 | $ 46,347,726 | $ - | $ 17,533,282 | $ 63,881,008 |

## 22. GAIN ON SALE OF PROPERTIES

During the three month period ended June 30, 2016, the Company sold the asset held for sale owned by Amety for a sale price of $525,000. The asset held for sale was revalued at March 31, 2016 to reflect the sale proceeds resulting in a write down of $110,250, net of disposition costs.

## 23. CLAIM SETTLEMENT

During the first quarter of 2017, the Company settled a claim from a former employee in the amount of $66,457. The claim relates to the former Harmonia business which was sold in 2014 and was treated as discontinued operations (at December 31, 2016 - $nil).

## 24. TERMINATION OF LEASE CONTRACT

During the second quarter of 2017, the Company relocated its head office to a new location, incurring leasehold write-off expense of $84,625 (at December 31, 2016 - $nil).

## 25. COMMITMENTS AND CONTINGENCIES

*Office Lease*

The Company has leased office space in Ontario, Canada and Michigan, USA. The terms of the leases in Ontario and Michigan range from 1 year to 10 years. Future remaining minimum lease payments as at June 30, 2017 are as follows:

| | |
|---|---|
| 2017 | $ 398,084 |
| 2018 | 686,258 |
| 2019 | 531,033 |
| 2020 | 475,680 |
| 2021 | 475,680 |
| Total | $ 2,566,735 |

*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.

## 26. 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 one operating segment, which provides goods and services associated with the disposition and memorialization of remains in Canada and United States.

*Geographic information*

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

## 26. SEGMENTED INFORMATION – continued

*Geographic information – continued*

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Canada | $ 161,967,192 | $ 136,973,852 |
| United States | 83,178,229 | 81,977,576 |
| Total | $ 245,145,421 | $ 218,951,428 |

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

| | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Revenue: | | | | |
| Sales: | | | | |
| Canada | $ 8,380,213 | $ 7,192,924 | $ 16,668,482 | $ 14,253,918 |
| United States | 9,898,432 | 9,969,924 | 18,691,325 | 13,122,017 |
| Total sales | 18,278,645 | 17,162,848 | 35,359,807 | 27,375,935 |
| Income from care and maintenance funds: | | | | |
| Canada | 950,000 | 872,000 | 1,955,000 | 1,697,000 |
| United States | 409,100 | 267,720 | 655,933 | 337,359 |
| Total income from care and maintenance funds | 1,359,100 | 1,139,720 | 2,610,933 | 2,034,359 |
| Interest and other income: | | | | |
| Canada | 208,426 | 224,903 | 393,696 | 306,617 |
| United States | 292,682 | 286,392 | 576,841 | 379,256 |
| Total interest and other income | 501,108 | 511,295 | 970,537 | 685,873 |
| Total revenue | $ 20,138,853 | $ 18,813,863 | $ 38,941,277 | $ 30,096,167 |

## 27. SUBSEQUENT EVENTS

On June 7, 2017, the Company entered into a membership interest purchase agreement to acquire all of the outstanding membership interests of Saber.

On August 4, 2017, the Company announced that it has completed the acquisition of 21 of 23 properties owned by Saber. The acquisition of the remaining two properties, both of which are located in the state of Illinois, is expected to occur in the fourth quarter of 2017 following the receipt of applicable regulatory approvals.

The purchase price for the acquisition was approximately $62,315,500 (US$48,750,000) in cash, $3,772,800 (US$3,000,000) of which will be paid on closing of the two Illinois properties, subject to customary working capital adjustments, plus additional consideration of up to $12,261,600 (US$9,750,000) in PLC common shares. The additional consideration will be earned over a period of three years if certain financial hurdles are met.

The acquisition adds 19 cemeteries and 4 funeral homes in Kentucky, Illinois and Texas and further expands operations in the United States. Saber's acquisition significantly increases the number of cemeteries in the Company's portfolio, adds funeral home assets into the U.S. operations and geographically diversifies the Company's U.S. operations.

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.

## 28. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to June 30, 2017 consolidated financial statements presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Quarter Ending June 30, 2017

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 quarter ended June 30, 2017. This discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements for the quarter ended June 30, 2017 and the accompanying notes contained therein. Information contained in this Management's Discussion and Analysis is based on information available to management as of August 10, 2017.

**Forward-Looking Statements**

This Management's Discussion and Analysis may contain forward-looking statements. All statements other than statements of historical fact contained in this Management's Discussion and Analysis are forward-looking statements, including, without limitation, the Company's statements regarding its business; future development and construction; future financial position; business strategy; the death care industry; potential acquisitions; the ability of the Company to procure additional sales from new and existing customers; plans and objectives; synergies; and potential improvements in sales and gross margins. In certain cases, forward-looking statements 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. Although management of the Company believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

By their nature, forward-looking statements are inherently uncertain, are subject to risk and are based on assumptions including those discussed herein. Readers are cautioned to not place undue reliance on forward-looking statements made herein because a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. The forward-looking statements contained herein are expressly qualified in their entirety by the above cautionary statement.

The future outcomes that relate to forward-looking statements may be influenced by many factors, 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 statements 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 statements.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Such information is based on numerous assumptions regarding present and future business strategies and the environment in which the Company will operate in the future, including expected revenues, expansion plans and ability to achieve goals.

There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Forward-looking statements are 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 statements to reflect new events or circumstances except as required under applicable securities laws.

## 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 business.

The Company owns and operates cemeteries, crematoriums and funeral homes in the Ontario, Quebec, Manitoba, Saskatchewan, British Columbia and Michigan, USA. At June 30, 2017, the Company operated 34 cemeteries and mausoleums, 17 cremation facilities, and 29 funeral homes, chapels, planning offices and a transfer service. PLC's products and services, such as cemetery lots, crypts and funeral services, are sold to clients on a pre-planned basis (pre-need) or at the time of death (at-need).

The Company's growth strategy includes organic initiatives, such as build-out of inventory, and acquisitions in the highly-fragmented death care market.

## 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, 2016. There have been no changes in significant accounting policies since the Company's audited consolidated annual financial statements for the year ended December 31, 2016. In addition, there have been no changes in the Company's financial instrument risks.

*Consolidation*

The Company's consolidated annual financial statements for the year ended December 31, 2016 include the accounts of the Company and its subsidiaries Park Lawn Limited Partnership, Park Lawn Management Services Inc., Forest Lawn Management Services Inc., Amety Ltd. ("**Amety**"), Parkland Ltd. ("**Parkland**"), Services Mémorables Harmonia Inc. ("**Harmonia**"), Basic Funerals and Cremation Choices Inc. ("**Basic**"), Mundell Funeral Homes Limited ("**Mundell**") the Park Lawn Cemetery Company (USA), Inc. ("**Park Lawn USA**"), Midwest Memorial Group, LLC ("**MMG**"), 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**"), and TCS Funeral Services ("**TCS**"). 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 operating performance of the Company's operations. In this MD&A, management uses the following terms and ratios which do not have a standardized meaning under 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 operating performance. This non-IFRS measure provides meaningful supplemental information to investors and other third parties regarding operating results because it excludes certain non-cash, non-reoccurring or one time income or expense items which do not relate to operating activities, and may not be indicative of 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, Six and Three Months Ended June 30, 2017 - Adjusted Net Earnings" below for a reconciliation of the Company's earnings to Adjusted Net Earnings.

*Adjusted EBITDA*

The Company believes Adjusted EBITDA to be an important measure that allows it to assess the operating performance of its ongoing business and to compare its results to its competitors. 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. The Company defines Adjusted EBITDA as earnings from operations before interest expense, taxes, depreciation and amortization. In addition, Adjusted EBITDA excludes non-cash expenses such as share based compensation expenses and other non-recurring or one time income or expense items.

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

*Adjusted Cash Flow*

The Company evaluates, among other things, the sustainability of its dividend on a regular basis using an Adjusted Cash Flow metric, calculated as follows:

> The Company's controlling interest in the following: Earnings before income taxes + amortization of cemetery property + depreciation and amortization – cash income taxes payable and + or – other non-cash income or expense items.

The Company's inventory development can be characterized by significant capital expenditures to develop or acquire cemetery, mausoleum and niche inventory, followed by years, if not decades, of sales of said inventory. As sales occur, the Company draws down its inventory by making a non-cash charge to cost of sales which is referred to as amortization of cemetery property.

Please see the "Discussion of Operating Results, Six and Three Months Ended June 30, 2017 - Adjusted Cash Flow" below for a reconciliation of the Company's earnings from operations to Adjusted Cash Flow.

## Overall Performance

During 2016 and 2017 the Company announced several important business acquisitions. These included the acquisition of Mundell and MMG in the first quarter of 2016, the acquisition of Reynolds, TFFH, Jennett, Innisfil, PFHC, and CCSL in the first quarter of 2017, and the acquisition of TCS in the second quarter of 2017. The acquisition of MMG, which owns twenty-six cemetery properties and nine cremation facilities, and manages two cemeteries in the State of Michigan, significantly increased the number of cemeteries in the Company's portfolio and geographically diversified the Company's assets outside of Canada. The acquisition of the funeral homes and transfer service business in 2017 expanded the Company's operations in Ontario and marked the first acquisition in British Columbia.

As a result of these acquisitions, the Company achieved improvement in its operating results for the six and three month periods ended June 30, 2017 compared to 2016. Revenue increased year over year by 29.4% to $38,941,277 from $30,096,167 in 2016 and revenue for the quarter ended June 30, 2017 increased to $20,138,853 compared to $18,813,863 for the same period in 2016. Excluding the acquired businesses, revenue from the Company's comparable businesses grew 2.5% for the six month period and 1.2% for the three month period ended June 30, 2017 compared to the same periods in 2016.

At the same time, net earnings attributable to PLC shareholders for the six month period ended June 30, 2017 decreased to $2,109,973 from $2,420,081 for the same period in 2016 and for the three month period ended June 30, 2017 decreased to $812,444 from $1,033,465 for the same period in 2016. On a fully diluted per share basis, the net earnings attributable to PLC shareholders was $0.188 for the six month period ended June 30, 2017 compared with $0.337 for the same period in 2016 and for the three month period ended June 30, 2017 was $0.072 compared with $0.130 for the same period in 2016.

The 2017 and the 2016 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 six month reporting periods ended June 30, 2017 and 2016:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net earnings, PLC shareholders | $ 812,444 | $ 1,033,465 | $ 2,109,973 | $ 2,420,081 |
| Adjusted for after tax impact of: | | | | |
| Change in fair value of contingent payments | 47,999 | - | 93,029 | - |
| Acquisition costs | 941,010 | 309,283 | 1,120,075 | 780,639 |
| Sale of assets | - | - | - | (438,159) |
| Foreign exchange gain | - | - | - | (333,871) |
| Share based compensation | 193,356 | 71,615 | 376,195 | 71,615 |
| Claim settlement | - | - | 66,457 | - |
| Termination of lease contract | 84,625 | - | 84,625 | - |
| Tax effect on the above items | (271,794) | (81,960) | (336,857) | (45,846) |
| Adjusted Net Earnings, PLC shareholders | $ 1,807,640 | $ 1,332,403 | $ 3,513,497 | $ 2,454,459 |
| Adjusted EBITDA, PLC shareholders (see Quarterly Information) | $ 2,779,204 | $ 1,988,396 | $ 5,265,630 | $ 3,552,295 |
| Per share amounts attributable to PLC shareholders | | | | |
| Net earnings - basic and diluted | $ 0.072 | $ 0.130 | $ 0.188 | $ 0.337 |
| Adjusted Net Earnings - diluted | $ 0.160 | $ 0.168 | $ 0.313 | $ 0.342 |
| Adjusted EBITDA - diluted (see Quarterly Information) | $ 0.245 | $ 0.250 | $ 0.468 | $ 0.495 |
| Weighted average shares outstanding | 11,320,884 | 7,953,406 | 11,240,060 | 7,173,186 |

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

- Change in fair value of contingent payments - the $93,029 and $47,999 loss for the six and three month periods relates to the re-valuation of the contingent payment. IFRS requires that a contingent earn-out payment is to be revalued at each reporting period based on the current information. At December 31, 2016, management estimated the fair value of the contingent earn-out payment relating to the MMG acquisition to be $1,410,709. There were no factors that caused management to restate the fair value of the earn-out, however, since the end of the earn-out period is now two quarters closer to completion, the net present value has increased by $93,029 and $47,999. Accordingly, this incremental accretion to the earn out payment is treated as an expense during the current period. In compliance with IFRS, all future accretion amounts to the contingent payment, as well as any changes resulting from new information, will be recorded through the consolidated statement of earnings as either income or loss.

- 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. During the six month periods ended June 30, 2017 and 2016, the Company incurred expenses of $1,120,075 and $780,639, respectively. During the three month periods ended June 30, 2017 and 2016, the Company incurred expenses of $941,010 and $309,283, respectively. 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. The Company expects additional acquisition and integration expenses in the third quarter of 2017, relating to the closing of the Saber acquisition in August, 2017 as well as for other acquisition opportunities currently under review.

- Sale of assets - during the first quarter of 2016, the Company sold a real estate asset located in Toronto that was no longer being used in its ongoing business. During the same quarter the Company also wrote down the carrying value of another real estate asset being held for sale that was located in Ottawa. The net impact of these two transactions for the six month period ended June 30, 2016 is a gain of $438,159. There were no asset sales in six month period ended June 30, 2017.

- Foreign exchange gain – in connection with the purchase of MMG in the first quarter of 2016, the Company realized a non-taxable foreign exchange gain of $333,871. This accounting gain resulted from the change in the US dollar spot rate versus the Canadian dollar spot rate between the effective date of purchase March 1, 2016 and the closing date of March 8, 2016.

- 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 $376,195 in non-cash share based compensation expense during the six month period ended June 30, 2017 compared with $71,615 for the same period in 2016 and $193,356 during the three month period ended June 30, 2017 compared with $71,615 for the same period in 2016. 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.

- Claim settlement – during the first quarter of 2017 the Company settled a claim from a former employee in the amount of $66,457. The claim relates to the former Harmonia business which was sold in 2014 and was treated as discontinued operations.

- Termination of lease contract – during the second quarter of 2017, the Company relocated its head office to a new location, incurring an expense of $84,625 relating to the write-off of leasehold improvements at the previous location.

- Income tax – represents an adjustment for the tax impact of the above noted adjustments.

After reflecting the impact of the above items, the Adjusted Net Earnings for the six month period ended June 30, 2017 was $3,513,497 ($0.313 per share) compared to $2,454,459 ($0.342 per share) for the same period in 2016 and for the three month period ended June 30, 2017 was $1,807,640 ($0.160 per share) compared to $1,332,403 ($0.168 per share) for the same period in 2016.

Adjusted EBITDA attributable to PLC shareholders for the six month period ended June 30, 2017 was $5,265,630 ($0.468 per share) compared to $3,552,295 ($0.495 per share) for the same period in 2016 and for the three month period ended June 30, 2017 was $2,779,204 ($0.245 per share) compared to $1,988,396 ($0.250 per share) for the same period in 2016.

The Company has not yet fully deployed the capital raised in recent prospectus offerings. As a result, the per share earnings amounts will be diluted until such time as the cash has been utilized on future growth initiatives and acquisitions have been fully integrated. As at June 30, 2017, the Company had approximately $82.0 million of cash on hand and had an additional $32.5 million of bank financing available to fund future growth opportunities that may arise.

In addition to the above:

- During the second quarter the Company completed construction on the second floor of the Mausoleum of Faith at Westminster Cemetery. The second floor will add approximately 1,080 additional crypt spaces to the mausoleum. The cost of this construction was approximately $2.0 million. The mausoleum also has a third floor which will provide an additional 1,080 crypt spaces as and when needed.

- On April 28, 2017, the Company purchased a residential property adjacent to its Riverside Cemetery in Toronto for $1,049,246. The property will be used for future development opportunities.

- Effective June 1, 2017, the Company entered into a new lease in Toronto for the head office to accommodate growth initiatives.

- On June 7, 2017, the Company entered into membership interest purchase agreement to acquire all of the outstanding membership interests of Saber. On August 4, 2017 the Company announced that it has completed the acquisition of 21 of 23 properties owned by Saber. The acquisition of the remaining two properties, both of which are located in the state of Illinois, is expected to occur in the fourth quarter of 2017 following the receipt of applicable regulatory approvals. The purchase price for the acquisition was approximately $62,315,500 (US$48,750,000) in cash, $3,772,800 (US$3,000,000) of which will be paid on closing of the two Illinois properties, subject to customary working capital adjustments, plus additional consideration of up to $12,261,600 (US$9,750,000) in PLC common shares. The additional consideration will be earned over a period of three years if certain financial hurdles are met. Saber currently owns and operates 19 cemeteries and 4 funeral homes in Kentucky, Illinois and Texas.

- 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 will be used partially to fund the cash portion of the purchase price of Saber and for strategic growth initiatives including acquisitions and for general corporate purposes.

**Consolidated Statement of Financial Position**

*Current Assets & Liabilities*

Current assets were $131,092,955 at June 30, 2017 compared to $71,389,363 at December 31, 2016. The increase was primarily due to the June 2017 Prospectus Offering of $77,303,951 (net of issuance costs) offset by deployment of cash on new strategic acquisitions.

Current liabilities were $10,531,059 at June 30, 2017 compared to $11,555,713 at December 31, 2016. The decrease was primarily due to the decrease of accounts payable due to the payment of liabilities accrued at December 31, 2016 in connection with the construction of the mausoleum at Park Lawn Cemetery.

Net working capital at June 30, 2017 was $120,561,896 compared to $59,833,650 at December 31, 2016.

*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 the six month period ended June 30, 2017, the Company contributed $1,745,008 to the trust funds compared to $1,493,581 during the same period in 2016. The increase in contributions is primarily due to only owning MMG for one month in the first quarter of 2016, compared to three months for 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 June 30, 2017, the balance of the trust funds was $90,516,131 compared to $87,545,830 as at December 31, 2016. The Care and Maintenance Trust Fund assets are offset by a corresponding liability for Care and Maintenance Trusts' Corpus.

*Pre-Need Merchandise and Service Trust Funds*

The Company maintains Pre-Need Merchandise and Service Trust Funds for the deposit of cash received for the purchase of pre-need merchandise and services to be delivered at some future date. When the merchandise is delivered and the services are performed, the Company receives the current market value for the service from the Pre-Need Merchandise and Service Trust Funds. The Pre-Need Merchandise and Service Trust Fund assets are included in the Consolidated Statement of Financial Position at market value. The assets within the trust funds had a market value at June 30, 2017 of $71,665,133 compared to $63,881,008 as at December 31, 2016. 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 acquisition of Reynolds, TFFH, Jennett, Innisfil, PFHC, and CCSL.

**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 $120,561,896 as at June 30, 2017.

The Company has a $25 million revolving loan facility as well as an approved $7.5 million accordion facility which can be used to fund its growth initiatives and for general corporate purposes. At June 30, 2017, the Company had not borrowed under this facility.

Since December 2013, the Company has raised approximately $171 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, Six Months Ended June 30, 2017**

Total revenue for the six month period ended June 30, 2017 was $38,941,277, an increase of $8,845,110 or 29.4%, over the same six month period ended June 30, 2016 ($30,096,167).

Revenue was derived from the following sources:

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Sales | $ 35,359,807 | $ 27,375,935 |
| Income from care and maintenance funds | 2,610,933 | 2,034,359 |
| Interest and other income | 970,537 | 685,873 |
| | $38,941,277 | $ 30,096,167 |

The Company completed its acquisition of a 100% interest in Reynolds and TFFH effective February 1, 2017, of a 100% interest in Jennett and Innisfil effective February 1, 2017, of a 100% interest in PFHC and CCSL effective February 1, 2017, and of 100% interest in TCS effective May 1, 2017. Reynolds, TFFH, Jennett, Innisfil, PFHC, and CCSL revenue relates to the delivery of at-need funeral and cremation services and TCS revenue relates to providing support services to the funeral industry. The increase in revenue related to the acquired businesses for the six month period ended June 30, 2017 was $1,824,089.

Revenue from the remaining business units for the six month period ended June 30, 2017 was $37,117,188. Excluding two months of MMG and one month of Mundell revenue in 2017, the comparable revenue was $30,833,902 compared with $30,096,167 for the same period in 2016, an increase of $737,735, an increase of 2.5%. The increase in comparable revenue is attributable to the comparable funeral home operations which recovered from soft market conditions in 2016.

The gross profit margin was 76.9% for the six month period ended June 30, 2017 compared to 73.2% for the same six month period in 2016. There were a few factors contributing to the improved margins in 2017. Gross profit margins on new traditional funeral acquisitions are higher than margins earned on most cemetery and cremation revenue because the cost of products sold is a smaller portion of the total service provided to customers. During the six month period ended June 30, 2017, gross profit margins from the Canadian cemetery operations were also higher than the previous year as a result of product mix including the sale of private chapels in 2017 which have higher margins than standard crypt products. Investment income was also higher in 2017 resulting in higher overall gross profit margin.

Operating expenses for the six month period ended June 30, 2017 totaled $25,908,012 an increase of $6,722,190 over the same six month period in 2016 ($19,185,822) as indicated below:

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| General and administrative | $10,957,573 | $7,899,490 |
| Maintenance | 8,258,229 | 5,940,717 |
| Advertising and selling | 6,125,236 | 4,914,801 |
| Interest | 190,779 | 359,199 |
| Share based compensation expense | 376,195 | 71,615 |
| | $25,908,012 | $19,185,822 |

The increase in operating expenses year over year was primarily due to the inclusion of recent funeral home acquisitions as employees providing funeral services are included in operating expenses whereas the Company's cemetery operations have a higher amount of labour costs included in cost of goods sold.

Excluding expenses related to the acquired business units and two months of MMG and one month of Mundell expenses in the first quarter of 2017, the Company's general and administrative, advertising and selling and maintenance expenses for the comparable business units for the six month period ended June 30, 2017 increased by $653,458 compared with the same period in 2016.

General and administrative expenses increased by approximately $628,000 year over year. Approximately $280,000 of this increase relates to higher expenses in the funeral business relating to the increased revenue in 2017. An additional $138,000 relates to increased depreciation expense associated with cemetery infrastructure projects and other capital projects which were completed and put in use over the last year. The balance of the increase relates to expenses incurred in the first half of 2017 to support the Company's growth initiatives.

Maintenance expenses for comparable operations were higher in 2017 by approximately $324,000. This is primarily due to the timing of certain expenditures and management believes that the expenses will be in line with prior years over the course of 2017.

Advertising and selling expenses for comparable operations were lower in 2017 by approximately $300,000, primarily the result of lower commission expenses.

Interest expense was lower in 2017 by $168,420 as a result of the credit facility being repaid out of the proceeds obtained from the Company's equity offering in November, 2016 and the retirement of the note payable to Park Lawn Company in September, 2016.

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 six month period ended June 30, 2017 was $376,195.

As a result of the above, earnings from operations for the six month period ended June 30, 2017 totaled $4,038,700, an increase of $1,182,144 or 41.4% over the same six month period ended June 30, 2016 ($2,856,556).

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

- Change in fair value of contingent payments - the Company recorded a loss of $93,029 in change of fair value of contingent payments compared to $nil in 2016.

- Acquisition and integration costs - the Company expensed $1,120,075 in acquisition and integration costs in 2017 compared to $780,639 in 2016. As previously mentioned, acquisition expenses will vary from period to period depending on the size and level of acquisition activity. There have been a number of acquisitions in the first half of 2017 which has resulted in increased expenses. The Company expects additional acquisition and integration expenses in the third quarter of 2017, relating to the recent Saber acquisition in August, 2017 as well as for other acquisition opportunities currently under review.

- Sale of assets - during the first quarter of 2016, the Company sold a real estate asset located in Toronto that was no longer being used in its ongoing business and it wrote down the carrying value of a property held for sale. The net impact of these two transactions for the quarter ended March 31, 2016 is a gain of $438,159. There were no asset sales in the six month period ended June 30, 2017.

- Foreign exchange gain - in connection with the purchase of MMG in the first quarter of 2016, the Company realized a non-taxable foreign exchange gain of $333,871. The accounting gain resulted from the change in the US dollar spot rate versus the Canadian dollar spot rate between the effective date of purchase March 1, 2016 to the closing date of March 8, 2016.

- Share based payments - the Company recognized $376,195 in non-cash share based compensation expense during the six month period ended June 30, 2017 compared to $71,615 in 2016.

- Claim settlement – during the first quarter of 2017 the Company settled a claim from a former employee in the amount of $66,457. The claim relates to the former Harmonia business which was sold in 2014 and treated as discontinued operations.

- Termination of lease contract – during the second quarter of 2017, the Company relocated its head office to a new location, incurring an expense of $84,625 relating to the write-off of leasehold improvements at the previous location.

- Income tax – represents an adjustment for the tax impact of the above noted adjustments.

Income tax expense for the six month period ended June 30, 2017 was $340,529 compared to $263,934 for the same six month period in 2016. The Company has deferred tax assets available to shelter the cash payment of most of this income tax expense.

As a result of the above, the Company's after tax earnings from operations for the six month period ended June 30, 2017 totaled $2,333,985 compared to $2,584,013 for the same six month period in 2016.

*Earnings per Share*

The weighted average number of common shares outstanding for the six month period ended June 30, 2017 increased to 11,240,060 compared to 7,173,186 for the same six month period in 2016, an increase of 4,066,874 or 57%. The increase in outstanding shares relates to the issuance of shares pursuant to the Company's DRIP, the Private Placement associated with retiring the note payable in September 2016, and the November 2016 and June 2017 Prospectus Offerings.

Fully diluted earnings per common share attributable to equity holders of PLC for the six month period ended June 30, 2017 was $0.188 compared to $0.337 for the same six month period in 2016.

*Adjusted Earnings per Share*

The 2017 and 2016 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 six month period ended June 30, 2017 compared to 2016:

| | Six Months Ended June 30, 2017 | 2016 |
|---|---|---|
| Net earnings, PLC shareholders | $ 2,109,973 | $ 2,420,081 |
| Adjusted for the impact of: | | |
| Change in fair value of contingent payments | 93,029 | - |
| Acquisition costs | 1,120,075 | 780,639 |
| Sale of assets | - | (438,159) |
| Foreign exchange gain | - | (333,871) |
| Share based compensation | 376,195 | 71,615 |
| Claim settlement | 66,457 | - |
| Termination of lease contract | 84,625 | - |
| Tax effect on the above items | (336,857) | (45,846) |
| Adjusted Net Earnings, PLC shareholders | $ 3,513,497 | $ 2,454,459 |
| Adjusted EBITDA, PLC shareholders (see Quarterly Information) | $ 5,265,630 | $ 3,552,295 |
| Per share amounts attributable to PLC shareholders | | |
| Net earnings - basic and diluted | $ 0.188 | $ 0.337 |
| Adjusted Net Earnings - diluted | $ 0.313 | $ 0.342 |
| Adjusted EBITDA - diluted (see Quarterly Information) | $ 0.468 | $ 0.495 |
| Weighted average shares outstanding | 11,240,060 | 7,173,186 |

As indicated in the chart above, although Adjusted Net Earnings to PLC shareholders increased by 43% year over year, the fully diluted Adjusted Net Earnings per share for the six month period ended June 30, 2017 was $0.313 compared to $0.342 for the same six month period in 2016, a year over year decrease of $0.029 or 8.5%.

*Adjusted EBITDA per Share*

Adjusted EBITDA attributable to PLC shareholders for the six month period ended June 30, 2017 was $5,265,630 ($0.468 per share) compared to $3,552,295 ($0.495 per share) for the same six month period in 2016. Again, although the Adjusted EBITDA increased by 48% year over year, the fully diluted Adjusted EBITDA per share decreased by 5.5%.

*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 six month period ended June 30, 2017 and 2016 compared to its dividend payout:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| Earnings before income taxes | $2,674,514 | $2,847,947 |
| Adjusted for: | | |
| Change in fair value of contingent payments | 93,029 | - |
| Cash income taxes payable | (98,995) | (214,606) |
| Amortization of cemetery property | 1,745,489 | 1,903,282 |
| Depreciation and amortization | 1,081,626 | 687,293 |
| Foreign exchange gain | - | (333,871) |
| Share based compensation | 348,390 | 40,046 |
| Adjusted cash flow from operations | 5,844,054 | 4,930,091 |
| Less non controlling interest amounts: | | |
| Net earnings | 224,012 | 163,932 |
| Depreciation and amortization | 44,449 | 83,512 |
| Adjusted cash flow, equity holders of PLC | $5,575,593 | $4,682,647 |
| Adjusted cash flow per common share-diluted | $0.496 | $0.653 |
| Dividends per common share | $0.228 | $0.228 |
| Payout ratio | 46% | 35% |

As previously mentioned, the Company's inventory development can be characterized by significant capital expenditures to develop or acquire cemetery, mausoleum and niche inventory, followed by decades of sales of said inventory. As sales occur, the Company draws down its inventory by making a non-cash charge to its earnings (referred to as amortization of cemetery property). Also, included in earnings before income taxes for the six month period ended June 30, 2017 and 2016 are a non-recurring, non-cash foreign exchange gain and change in fair value of contingent payments relating to the acquisition of MMG and non-cash share based compensation costs.

As calculated above, the Company's Adjusted Cash Flow from operations was $5,575,593 for the six month period ended June 30, 2017 compared to $4,682,647 for the same period in 2016. This represents Adjusted Cash Flow per fully diluted common share of $0.496 and $0.653 for the six month period ended June 30, 2017 and 2016, respectively.

The Company paid dividends of $0.228 per common share for the six month periods ended June 30, 2017 and 2016. The dividends paid represent 46% and 35% of the Adjusted Cash Flow per common share for the periods ended June 30, 2017 and 2016, respectively.

The increased payout ratio is largely attributable to the increase in acquisition and integration costs in 2017 compared to 2016 and the dilutive impact of the November 2016 and June 2017 Prospectus Offerings, as previously discussed.

**Discussion of Operating Results, Three Months Ended June 30, 2017**

Total revenue for the three month period ended June 30, 2017 was $20,138,853, an increase of $1,324,990 or 7.0%, over the same three month period ended June 30, 2016 ($18,813,863).

Revenue was derived from the following sources:

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| Sales | $ 18,278,645 | $ 17,162,848 |
| Income from care and maintenance funds | 1,359,100 | 1,139,720 |
| Interest and other income | 501,108 | 511,295 |
| | $ 20,138,853 | $ 18,813,863 |

As previously mentioned, the Company completed its acquisition of a 100% interest in Reynolds and TFFH effective February 1, 2017, of a 100% interest in Jennett and Innisfil effective February 1, 2017, of a 100% interest in PFHC and CCSL effective February 1, 2017, and of 100% interest in TCS effective May 1, 2017. Reynolds, TFFH, Jennett, Innisfil, PFHC, and CCSL revenue relates to the delivery of at-need funeral and cremation services and TCS revenue relates to providing support services to the funeral industry. The increase in revenue related to the acquired businesses for the quarter ended June 30, 2017 was $1,103,320.

Revenue from the remaining business units for the quarter ended June 30, 2017 was $19,035,533 compared with $18,813,863 for the same period in 2016, an increase of $221,670, or 1.2%, period over period for the comparable businesses. The increase in comparable revenue is attributable to the funeral home operations which recovered from soft market conditions in 2016.

The gross profit margin was 77.9% for the three month period ended June 30, 2017 compared to 75.0% for the same three month period in 2016. As previously mentioned, there were a few factors contributing to the increased gross profit and improved margins in 2017. There were a few factors contributing to the improved margins in 2017. Gross profit margins on new traditional funeral acquisitions are higher than margins earned on most cemetery and cremation revenue because the cost of products sold is a smaller portion of the total service provided to customers. During the second quarter, gross profit margins from the Canadian cemetery operations were also higher than the previous year as a result of product mix including the sale of private chapels in 2017 which have higher margins than standard crypt products. Investment income was also higher in 2017 resulting in higher overall gross profit margin.

Operating expenses for the three month period ended June 30, 2017 totaled $13,523,957 an increase of $984,219 over the same three month period in 2016 ($12,539,738) as indicated below:

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| General and administrative | $5,562,447 | $4,655,264 |
| Maintenance | 4,446,524 | 4,228,867 |
| Advertising and selling | 3,229,022 | 3,423,439 |
| Interest | 92,608 | 160,553 |
| Share based compensation expense | 193,356 | 71,615 |
| | $13,523,957 | $12,539,738 |

As previously mentioned, the increase in operating expenses year over year was primarily due to the inclusion of recent acquisitions. In addition, employees providing funeral services at the funeral side of business are included in operating expenses whereas the Company's cemetery operations have a higher amount of labour costs included in cost of goods sold.

Excluding expenses related to the acquired business units, the Company's general and administrative, advertising and selling and maintenance expenses for the comparable business units for the quarter ended June 30, 2017 increased by $223,081 compared with the same period in 2016.

General and administrative expenses increased by approximately $264,000 period over period. Approximately $164,000 of this increase relates to higher expenses in the funeral business relating to the increased revenue in 2017. The remaining $100,000 relates to increased depreciation expense associated with cemetery infrastructure projects and other capital projects which were completed and put in use over the last year.

Maintenance expenses for comparable operations were higher in 2017 by approximately $195,000. This is primarily due to the timing of certain expenditures and management believes that the expenses will be in line with prior years over the course of 2017.

Advertising and selling expenses for comparable operations were lower in 2017 by approximately $235,000, primarily the result of lower commission expenses.

Interest expense was lower in 2017 by $67,945 as a result of the credit facility being repaid from the proceeds of the Company's equity offering in November, 2016 and the retirement of the note payable in September, 2016.

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 June 30, 2017 was $193,356.

As a result of the above, earnings from operations for the three month period ended June 30, 2017 totaled $2,172,760, an increase of $607,420 or 38.8% over the same three month period ended June 30, 2016 ($1,565,340).

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

- Change in fair value of contingent payments - the Company recorded a loss of $47,999 in change of fair value of contingent payments compared to $nil in 2016.

- Acquisition and integration costs - the Company expensed $941,010 in acquisition and integration costs in 2017 compared to $309,283 in 2016. As previously mentioned, acquisition expenses will vary from period to period depending on the size and level of acquisition activity. There have been a number of acquisitions in the first half of 2017 which has resulted in increased expenses. The Company expects additional acquisition and integration expenses in the third quarter of 2017, relating to the recent Saber acquisition in August, 2017 as well as for other acquisition opportunities currently under review.

- Share based payments - the Company recognized $193,356 in non-cash share based compensation expense during the quarter ended June 30, 2017.

- Termination of lease contract – during the second quarter of 2017, the Company relocated its head office to a new location, incurring an expense of $84,625 relating to the write-off of leasehold improvements at the previous location.

- Income tax – represents an adjustment for the tax impact of the above noted adjustments.

Income tax expense for the three month period ended June 30, 2017 was $187,523 compared to $108,397 for the same three month period in 2016. The Company has deferred tax assets available to shelter the cash payment of most of this income tax expense.

As a result of the above, the Company's after tax earnings from operations for the three month period ended June 30, 2017 totaled $911,603 compared to $1,147,660 for the same three month period in 2016.

*Earnings per Share*

The weighted average number of common shares outstanding for the three month period ended June 30, 2017 increased to 11,320,884 compared to 7,953,406 for the same three month period in 2016, an increase of 3,367,478. The increase in outstanding shares is because of the issuance of shares pursuant to the Company's DRIP, Private Placement associated with retiring the note payable in September 2016, and the November 2016 and June 2017 Prospectus Offerings.

Fully diluted earnings per common share attributable to equity holders of PLC for the three month period ended June 30, 2017 was $0.072 compared to $0.130 for the same three month period in 2016.

*Adjusted Earnings per Share*

The 2017 and 2016 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 June 30, 2017 compared to 2016:

| | Three Months Ended June 30, | |
|---|---|---|
| | **2017** | **2016** |
| Net earnings, PLC shareholders | $ 812,444 | $ 1,033,465 |
| Adjusted for the impact of: | | |
| Change in fair value of contingent payments | 47,999 | - |
| Acquisition costs | 941,010 | 309,283 |
| Share based compensation | 193,356 | 71,615 |
| Termination of lease contract | 84,625 | - |
| Tax effect on the above items | (271,794) | (81,960) |
| Adjusted Net Earnings, PLC shareholders | $ 1,807,640 | $ 1,332,403 |
| Adjusted EBITDA, PLC shareholders (see Quarterly Information) | $ 2,779,204 | $ 1,988,396 |
| Per share amounts attributable to PLC shareholders | | |
| Net earnings - basic and diluted | $ 0.072 | $ 0.130 |
| Adjusted Net Earnings - diluted | $ 0.160 | $ 0.168 |
| Adjusted EBITDA - diluted (see Quarterly Information) | $ 0.245 | $ 0.250 |
| Weighted average shares outstanding | 11,320,884 | 7,953,406 |

As indicated in the chart above, although Adjusted Net Earnings to PLC shareholders increased by 35.7% year over year, the fully diluted Adjusted Net Earnings per share for the three month period ended June 30, 2017 was $0.160 compared to $0.168 for the same three month period in 2016. This represents a year over year decrease of $0.008 or 4.8%.

*Adjusted EBITDA per Share*

Adjusted EBITDA attributable to PLC shareholders for the three month period ended June 30, 2017 was $2,779,204 ($0.245 per share) compared to $1,988,396 ($0.250 per share) for the same three month period in 2016. Again, although the Adjusted EBITDA increased by 39.8% period over period, the fully diluted Adjusted EBITDA per share decreased by 2.0%.

*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 June 30, 2017 and 2016 compared to its dividend payout:

| | **Three Months Ended June 30,** | |
|---|---|---|
| | **2017** | **2016** |
| Earnings before income taxes | $1,099,126 | $1,256,057 |
| Adjusted for: | | |
| Change in fair value of contingent payments | 47,999 | - |
| Cash income taxes payable | (83,797) | (136,115) |
| Amortization of cemetery property | 902,522 | 1,072,792 |
| Depreciation and amortization | 560,456 | 401,045 |
| Share based compensation | 174,195 | 40,046 |
| Adjusted cash flow from operations | 2,700,501 | 2,633,825 |
| Less non controlling interest amounts: | | |
| Net earnings | 99,159 | 114,195 |
| Depreciation and amortization | 23,553 | 45,676 |
| Adjusted cash flow, equity holders of PLC | $2,577,789 | $2,473,954 |
| Adjusted cash flow per common share-diluted | $0.228 | $0.311 |
| Dividends per common share | $0.114 | $0.114 |
| Payout ratio | 50% | 37% |

As previously mentioned, the Company's inventory development can be characterized by significant capital expenditures to develop or acquire cemetery, mausoleum and niche inventory, followed by decades of sales of said inventory. As sales occur, the Company draws down its inventory by making a non-cash charge to its earnings (referred to as amortization of cemetery property). Also, included in earnings before income taxes for the three month period ended June 30, 2017 and 2016 are a non-cash change in fair value of contingent payments relating to the acquisition of MMG and non-cash share based compensation costs.

As calculated above, the Company's Adjusted Cash Flow from operations was $2,577,789 for the three month period ended June 30, 2017 compared to $2,473,954 for the same period in 2016. This represents Adjusted Cash Flow per fully diluted common share of $0.228 and $0.311 for the three month period ended June 30, 2017 and 2016, respectively.

The Company paid dividends of $0.114 per common share for the periods ended June 30, 2017 and 2016. The dividends paid represent 50% and 37% of the Adjusted Cash Flow per common share for the periods ended June 30, 2017 and 2016, respectively.

The increased payout ratio is largely attributable to the increase in acquisition and integration costs in 2017 compared to 2016 and the dilutive impact of the November 2016 and June 2017 Prospectus Offerings, as previously discussed.

*Unaudited Quarterly Information*

| | 2017 Q2 | 2017 Q1 | *2016 Q4 | *2016 Q3 |
|---|---|---|---|---|
| Revenue | $20,138,853 | $18,802,424 | $19,816,511 | $17,338,406 |
| Earnings from operations | $2,172,760 | $1,865,940 | $1,224,100 | $1,329,173 |
| Net earnings for the period | $911,603 | $1,422,382 | $4,399,364 | $872,382 |
| Net earnings, PLC shareholders | $812,444 | $1,297,529 | $4,320,546 | $749,505 |
| Net earnings per share - basic, PLC shareholders | **$0.072 | **$0.117 | **$0.456 | **$0.094 |
| Net earnings per share - diluted, PLC shareholders | **$0.072 | **$0.117 | **$0.456 | **$0.094 |
| Earnings from operations (per above) | 2,172,760 | 1,865,940 | 1,224,100 | 1,329,173 |
| Interest expense | 92,608 | 98,171 | 66,153 | 198,699 |
| Depreciation and amortization | 560,456 | 521,170 | 490,862 | 444,326 |
| Share based compensation | 193,356 | 182,839 | 140,308 | 158,288 |
| Adjusted EBITDA, non-controlling interest | (239,976) | (181,694) | (113,106) | (170,157) |
| Adjusted EBITDA, PLC shareholders | $ 2,779,204 | $ 2,486,426 | $ 1,808,317 | $ 1,960,329 |
| Adjusted EBITDA per share - diluted, PLC shareholders | **$0.245 | **$0.224 | **$0.191 | **$0.245 |

| | *2016 Q2 | *2016 Q1 | *2015 Q4 | *2015 Q3 |
|---|---|---|---|---|
| Revenue | $18,813,863 | $11,282,305 | $7,089,293 | $7,403,455 |
| Earnings from operations | $1,565,340 | $1,291,217 | $1,117,730 | $1,166,118 |
| Net earnings for the period | $1,147,660 | $1,436,353 | $723,103 | $991,345 |
| Net earnings, PLC shareholders | $1,033,465 | $1,386,616 | $479,086 | $907,335 |
| Net earnings per share - basic, PLC shareholders | **$0.130 | **$0.217 | **$0.083 | **$0.157 |
| Net earnings per share - diluted, PLC shareholders | **$0.130 | **$0.217 | **$0.083 | **$0.157 |
| Earnings from operations (per above) | 1,565,340 | 1,291,217 | 1,117,730 | 1,166,118 |
| Interest expense | 160,553 | 198,646 | 63,049 | 48,865 |
| Depreciation and amortization | 401,045 | 286,248 | 242,417 | 170,640 |
| Share based compensation | 71,615 | - | - | - |
| Adjusted EBITDA, non-controlling interest | (210,157) | (212,212) | (352,483) | (177,903) |
| Adjusted EBITDA, PLC shareholders | $ 1,988,396 | 1,563,899 | $ 1,070,713 | $ 1,207,720 |
| Adjusted EBITDA per share - diluted, PLC shareholders | **$0.250 | **$0.245 | **$0.185 | **$0.208 |

*Certain revenues and costs have been reclassified in the 2016 and 2017 quarterly results to conform to the December 31, 2016 and 2017 consolidated financial statement presentation.
**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.

**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 six month period ended June 30, 2017 and June 30, 2016, the Company declared dividends to shareholders totaling $0.228 per share. The Company subsequently paid a dividend of $0.038 for July, 2017. The following table sets forth the per share amount of monthly dividends declared and paid by the Company since January 1, 2017.

| **Month** | **Dividend Record Date** | **Payment Date** | **Per Share** |
|---|---|---|---|
| July, 2017 | July 31, 2017 | August 15, 2017 | 0.038 |
| June, 2017 | June 30, 2017 | July 14, 2017 | 0.038 |
| May, 2017 | May 31, 2017 | June 15, 2017 | 0.038 |
| April, 2017 | April 30, 2017 | May 15, 2017 | 0.038 |
| March, 2017 | March 31, 2017 | April 14, 2017 | 0.038 |
| February, 2017 | February 28, 2017 | March 15, 2017 | 0.038 |
| January, 2017 | January 31, 2017 | February 15, 2017 | 0.038 |
| Total dividends per share | | | $ 0.266 |

**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's policies and procedures and nature of its related party transactions have not changed materially from December 31, 2016, as described under "Management Contracts": in the Company's 2016 Annual MD&A.

**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 June 30, 2017.

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 Reynolds, TFFH, Jennett, Innisfil, PFHC, and CCSL, which were acquired on February 1, 2017 and TCS which was acquired on May 1, 2017.

This scope limitation is in accordance with section 3.3(1)(b) of NI 52-109, which allows for 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:

| | Reynolds-TFFH June 30, 2017 | Jennett-Innisfil June 30, 2017 | PFHC-CCSL June 30, 2017 | TCS June 30, 2017 |
|---|---|---|---|---|
| Revenues | $ 580,743 | $ 386,471 | $ 667,311 | $ 222,620 |
| Net earnings | $ 158,563 | $ 44,367 | $ 171,592 | $ 28,848 |

| | Reynolds-TFFH June 30, 2017 | Jennett-Innisfil June 30, 2017 | PFHC-CCSL June 30, 2017 | TCS June 30, 2017 |
|---|---|---|---|---|
| Current assets | $ 500,455 | $ 322,016 | $ 425,343 | $ 924,762 |
| Non-current assets | $ 7,438,487 | $ 3,267,437 | $ 4,313,229 | $ 3,539,453 |
| Current liabilities | $ 129,106 | $ 170,803 | $ 174,553 | $ 104,959 |
| Non-current liabilities | $ 2,869,438 | $ 1,321,283 | $ 2,495,777 | $ - |

*Changes in Internal Control Over Financial Reporting*

There have been no changes in the Company's internal controls over financial reporting during Fiscal 2017 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 continues to issue new and revised IFRS. A listing of the recent accounting pronouncements promulgated by the IASB and not yet adopted by the Company is included in note 2 in the Company's December 31, 2016 consolidated financial statements and note 2 in the Company's June 30, 2017 condensed interim consolidated financial statements.

## Shares Outstanding

The authorized capital of the Company consists of an unlimited number of common shares. As at June 30, 2017, there were 15,338,422 common shares issued and outstanding, representing an increase of 4,242,652 common shares issued and outstanding since December 31, 2016. The increase in the number of common shares is the result of the issuance of shares pursuant to the Company's dividend reinvestment plan and June 2017 Prospectus Offering. As at August 10, 2017, there were 15,339,724 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 August 11, 2017, 83,865 restricted share units and 13,675 deferred share units 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.parklawncorp.com.