# 20

# Condensed Interim Consolidated Financial Statements

As at and for the nine months ending
September 30, 2020 and 2019 | Unaudited

PARK LAWN
CORPORATION

## NOTICE TO READER

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

| | |
|---|---|
| (signed) "*Paul G. Smith*" | (signed) "*Steven Scott*" |
| Paul G. Smith | Steven Scott |
| Chairman, Director | Director |

**PARK LAWN CORPORATION**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**AS AT SEPTEMBER 30, 2020 AND DECEMBER 31, 2019**
**(UNAUDITED)**

| | September 30, 2020 | December 31, 2019 *(Restated, Measurement Period Adjustment - see Note 6)* |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $ 46,074,225 | $ 21,255,330 |
| Accounts receivable | 9,903,621 | 13,819,947 |
| Pre-need receivables, current portion (Note 4) | 33,265,680 | 29,044,341 |
| Inventories, current portion (Note 5) | 12,790,402 | 9,459,240 |
| Prepaid expenses and other current assets (Note 13) | 11,587,892 | 10,253,633 |
| | 113,621,820 | 83,832,491 |
| Non-current assets | | |
| Pre-need receivables, net of current portion (Note 4) | 71,217,923 | 58,015,914 |
| Inventories, net of current portion (Note 5) | 93,801,016 | 84,946,079 |
| Land held for development (Note 7) | 34,884,226 | 24,452,997 |
| Property and equipment (Note 8) | 225,856,626 | 195,029,582 |
| Care and maintenance trust fund investments (Note 9) | 228,176,695 | 224,494,986 |
| Pre-need merchandise and service trust fund investments (Note 10) | 280,382,016 | 257,150,385 |
| Deferred tax assets | 6,660,518 | 5,858,634 |
| Goodwill and intangibles (Note 6 and 12) | 417,216,198 | 375,803,074 |
| Deferred commissions | 32,961,468 | 28,191,067 |
| Other assets (Note 6 and 13) | 9,194,986 | 38,003,291 |
| | 1,400,351,672 | 1,291,946,009 |
| TOTAL ASSETS | $ 1,513,973,492 | $ 1,375,778,500 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 25) | $ 37,718,470 | $ 31,344,066 |
| Dividends payable | 1,121,921 | 1,115,484 |
| Current portion of long-term debt (Note 14) | 367,507 | 421,074 |
| Current portion of notes payable (Note 15) | 3,266,205 | 1,323,036 |
| Current portion of lease liabilities (Note 16) | 1,844,385 | 1,831,687 |
| | 44,318,488 | 36,035,347 |
| Non-current liabilities | | |
| Long-term debt, net of current portion (Note 14) | 137,191,289 | 173,465,316 |
| Notes payable, net of current portion (Note 15) | 7,829,238 | 7,368,286 |
| Lease liabilities, net of current portion (Note 16) | 3,754,109 | 4,682,043 |
| Senior Unsecured Debentures (Note 17) | 81,746,466 | - |
| Deferred tax liabilities | 11,730,428 | 6,544,817 |
| Deferred revenue (Note 18) | 180,435,240 | 151,512,485 |
| Care and maintenance trusts' corpus (Note 9) | 228,176,695 | 224,494,986 |
| Deferred pre-need receipts held in trust (Note 10) | 280,382,016 | 257,150,385 |
| | 931,245,481 | 825,218,318 |
| **Shareholders' Equity** | | |
| Share capital (Note 20) | 504,581,266 | 502,047,830 |
| Contributed surplus | 10,003,747 | 7,618,962 |
| Accumulated other comprehensive income | 14,000,971 | (2,112,155) |
| Retained earnings | 7,780,866 | 5,091,160 |
| | 536,366,850 | 512,645,797 |
| Non-controlling interest | 2,042,673 | 1,879,038 |
| | 538,409,523 | 514,524,835 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 1,513,973,492 | $ 1,375,778,500 |

**Commitments and Contingencies** (Note 27)
**Subsequent Events** (Note 29)

**Approved by the Board of Directors**

*"Paul G. Smith"*
Paul G. Smith - Chairman, Director

*"Steven Scott"*
Steven Scott - Director

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

**PARK LAWN CORPORATION**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS**
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**
**(UNAUDITED)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Revenue** | | | | |
| Sales | $ 79,517,713 | $ 60,262,502 | $ 229,915,053 | $ 158,452,318 |
| Income from care and maintenance funds (Note 9) | 2,624,919 | 2,663,074 | 7,670,850 | 7,968,421 |
| Interest and other income (Note 22) | 1,648,995 | 3,653,162 | 4,892,360 | 8,881,903 |
| | 83,791,627 | 66,578,738 | 242,478,263 | 175,302,642 |
| **Cost of sales** | 16,029,306 | 12,534,635 | 45,466,809 | 33,198,421 |
| **Gross profit** | 67,762,321 | 54,044,103 | 197,011,454 | 142,104,221 |
| **Operating expenses** | | | | |
| General and administrative | 35,006,800 | 28,276,402 | 103,787,778 | 69,910,132 |
| Amortization of intangibles (Note 12) | 576,415 | 895,990 | 1,846,655 | 1,931,762 |
| Maintenance | 8,956,200 | 8,492,651 | 25,657,038 | 23,356,571 |
| Advertising and selling | 10,396,677 | 7,078,072 | 27,299,418 | 21,263,155 |
| Interest expense (Note 23) | 2,720,149 | 1,462,582 | 7,243,761 | 4,114,678 |
| Share based incentive compensation (Note 21) | 1,165,547 | 1,116,805 | 3,768,325 | 2,677,291 |
| | 58,821,788 | 47,322,502 | 169,602,975 | 123,253,589 |
| **Earnings from operations** | 8,940,533 | 6,721,601 | 27,408,479 | 18,850,632 |
| Acquisition and integration costs (Note 6) | (537,757) | (4,391,098) | (4,809,746) | (9,649,190) |
| Other income (expenses) (Note 24) | (491,547) | - | (3,327,640) | (68,904) |
| Earnings before income taxes | 7,911,229 | 2,330,503 | 19,271,093 | 9,132,538 |
| Income tax expense | 2,436,037 | 697,624 | 6,337,849 | 2,515,149 |
| **Net earnings for the period** | $ 5,475,192 | $ 1,632,879 | $ 12,933,244 | $ 6,617,389 |
| Net earnings attributable to: | | | | |
| Equity holders of PLC | $ 5,403,038 | $ 1,579,106 | $ 12,769,609 | $ 6,363,135 |
| Non-controlling interest | 72,154 | 53,773 | 163,635 | 254,254 |
| | $ 5,475,192 | $ 1,632,879 | $ 12,933,244 | $ 6,617,389 |
| Attributable to equity holders of PLC | | | | |
| Net earnings per share - basic | $ 0.181 | $ 0.053 | $ 0.430 | $ 0.232 |
| Net earnings per share - diluted | $ 0.180 | $ 0.053 | $ 0.428 | $ 0.231 |
| Weighted average number of common shares: | | | | |
| - basic | 29,814,306 | 29,694,199 | 29,684,349 | 27,456,602 |
| - diluted | 29,942,397 | 29,775,481 | 29,845,277 | 27,591,164 |

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

**PARK LAWN CORPORATION**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**
**(UNAUDITED)**

| | Three Months Ended September 30, 2020 | Three Months Ended September 30, 2019 | Nine Months Ended September 30, 2020 | Nine Months Ended September 30, 2019 |
|---|---|---|---|---|
| **Net earnings for the period** | $ 5,475,192 | $ 1,632,879 | $ 12,933,244 | $ 6,617,389 |
| Item of other comprehensive income to be subsequently reclassified to net earnings | | | | |
| Foreign currency translation of foreign operations | (14,671,318) | 6,530,355 | 16,113,126 | (12,894,135) |
| **Comprehensive income (loss)** | $ (9,196,126) | $ 8,163,234 | $ 29,046,370 | $ (6,276,746) |

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 NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**
**(UNAUDITED)**

| | # of Common Shares Issued and Outstanding | Share Capital | Contributed Surplus | Retained Earnings | Accumulated Other Comprehensive Income/Loss | Non Controlling Interest | Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2019 | 23,135,315 | $ 363,957,423 | $ 2,297,514 | $ 10,829,808 | $ 21,888,697 | $ 1,499,768 | $ 400,473,210 |
| Dividends declared (Note 19) | - | - | - | (9,299,891) | - | - | (9,299,891) |
| Shares issued: | | | | | | | |
| Dividend reinvestment plan (Note 20) | 63,391 | 1,597,921 | - | - | - | - | 1,597,921 |
| Equity incentive plan (Note 21) | 21,147 | - | 2,381,749 | - | - | - | 2,381,749 |
| Prospectus financing, net of costs (Note 20) | 5,605,100 | 138,375,634 | - | - | - | - | 138,375,634 |
| Contingent equity consideration | 498,157 | (2,415,860) | 1,178,375 | - | - | - | (1,237,485) |
| Other comprehensive icome (loss) | - | - | - | - | (12,894,135) | - | (12,894,135) |
| Net earnings for the period | - | - | - | 6,363,135 | - | 254,254 | 6,617,389 |
| Balance at September 30, 2019 | 29,323,110 | $ 501,515,118 | $ 5,857,638 | $ 7,893,052 | $ 8,994,562 | $ 1,754,022 | $ 526,014,392 |
| Balance at January 1, 2020 | 29,354,844 | $ 502,047,830 | $ 7,618,962 | $ 5,091,160 | $ (2,112,155) | $ 1,879,038 | $ 514,524,835 |
| Dividends declared (Note 19) | - | - | - | (10,079,903) | - | - | (10,079,903) |
| Equity incentive plan (Note 21) | - | - | 3,363,465 | - | - | - | 3,363,465 |
| Shares issued: | | | | | | | |
| Dividend reinvestment plan (Note 20) | 64,599 | 1,554,756 | - | - | - | - | 1,554,756 |
| Exercise of Equity incentive plan (Note 21) | 104,795 | 978,680 | (978,680) | - | - | - | - |
| Other comprehensive icome (loss) | - | - | - | - | 16,113,126 | - | 16,113,126 |
| Net earnings for the period | - | - | - | 12,769,609 | - | 163,635 | 12,933,244 |
| Balance at September 30, 2020 | 29,524,238 | $ 504,581,266 | $ 10,003,747 | $ 7,780,866 | $ 14,000,971 | $ 2,042,673 | $ 538,409,523 |

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 NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**
**(UNAUDITED)**

| | Three Months Ended September 30, 2020 | Three Months Ended September 30, 2019 | Nine Months Ended September 30, 2020 | Nine Months Ended September 30, 2019 |
|---|---|---|---|---|
| **Cash provided by (used in):** | | | | |
| **Operating activities** | | | | |
| Net earnings for the period | $ 5,475,192 | $ 1,632,879 | $ 12,933,244 | $ 6,617,389 |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: | | | | |
| Acquisition and integration costs | 537,757 | 4,391,098 | 4,809,746 | 9,649,190 |
| Deferred tax expense (recovery) | 2,736,849 | (122,838) | 5,457,849 | (393,187) |
| Depreciation of property and equipment, investment properties and amortization of intangibles (Note 8 and 12) | 3,964,144 | 3,884,364 | 11,700,963 | 9,580,119 |
| Amortization of cemetery property | 2,448,478 | 2,054,922 | 6,007,496 | 5,154,878 |
| Amortization of deferred commissions | 866,757 | 759,258 | 3,174,150 | 2,327,035 |
| Amortization of deferred financing costs (Note 14 and 17) | 336,134 | 75,556 | 576,682 | 208,457 |
| Interest on lease liabilities (Note 16) | 67,294 | 92,426 | 217,411 | 251,724 |
| Share based incentive compensation (Note 21) | 1,162,707 | 975,678 | 3,623,894 | 2,381,749 |
| Loss on forgiveness of loan and other non-cash amounts (Note 24) | - | - | 1,511,179 | - |
| (Gain) loss on disposal of property and equipment | - | - | (13,408) | 206,571 |
| (Gain) loss on sale of other assets | - | - | 57,624 | - |
| (Gain) loss on shares settlement | - | - | - | (179,633) |
| Changes in working capital that provided (required) cash: | | | | |
| Accounts receivable | 1,835,983 | 884,146 | 6,006,323 | 3,428,021 |
| Net receipts on pre-need activity | (777,663) | 3,447,565 | (3,545,438) | 415,738 |
| Merchandise inventories | 65,174 | (168,682) | (211,088) | (448,406) |
| Prepaid expenses and other current assets | (406,579) | 992,814 | (1,253,541) | 91,831 |
| Deferred commissions | (2,761,355) | (1,217,224) | (5,574,780) | (3,093,821) |
| Accounts payable and accrued liabilities | 3,606,005 | 3,100,670 | 3,234,976 | 2,589,279 |
| **Cash provided by (used in) operating activities** | 19,156,877 | 20,782,632 | 48,713,282 | 38,786,934 |
| **Investing activities** | | | | |
| Acquisition and integration costs | (537,757) | (4,391,098) | (4,809,746) | (9,649,190) |
| Net cash on acquisitions and other strategic transactions (Note 6) | (1,347,241) | (75,244,389) | (40,080,623) | (165,269,922) |
| Additions to cemetery property | (1,933,956) | (3,277,939) | (5,189,402) | (6,050,130) |
| Acquisition of property and equipment (Note 8) | (3,519,421) | (2,377,379) | (11,574,947) | (10,754,967) |
| Proceeds on disposal of property and equipment (Note 8) | 522,849 | 56,301 | 756,809 | 2,589,333 |
| Proceeds from sale of other assets | - | - | 942,376 | - |
| Decrease (increase) in other assets | 706,460 | (323,876) | 380,121 | (798,547) |
| **Cash provided by (used in) investing activities** | (6,109,066) | (85,558,380) | (59,575,412) | (189,933,423) |
| **Financing activities** | | | | |
| Proceeds from issuance of long-term debt (Note 14) | - | 76,890,022 | 46,400,000 | 76,955,062 |
| Repayment of long-term debt (Note 14) | (77,257,785) | (1,194,621) | (82,475,030) | (40,150,011) |
| Proceeds from senior unsecured debentures (Note 17) | 86,250,000 | - | 86,250,000 | - |
| Proceeds (repayment) of note payable (Note 15) | 1,927,061 | 1,011,883 | 1,327,446 | (135,862) |
| Proceeds (repayment) of lease liabilities (Note 16) | (413,188) | (592,673) | (1,549,646) | (1,459,998) |
| Proceeds from financing, net of costs | - | (13,383) | - | 138,375,634 |
| Dividends and distributions paid | (2,845,198) | (2,766,231) | (8,525,147) | (7,701,970) |
| Deferred financing costs | (4,614,633) | (186,841) | (5,363,917) | (749,125) |
| Cash paid to settle contingent consideration | - | - | - | (624,966) |
| **Cash provided by (used in) financing activities** | 3,046,257 | 73,148,156 | 36,063,706 | 164,508,764 |
| **Translation adjustment on cash** | (4,353,847) | (543,288) | (382,681) | (2,025,444) |
| **Net increase (decrease) in cash** | 11,740,221 | 7,829,120 | 24,818,895 | 11,336,831 |
| **Cash, beginning of period** | 34,334,004 | 17,656,803 | 21,255,330 | 14,149,092 |
| **Cash, end of period** | $ 46,074,225 | $ 25,485,923 | $ 46,074,225 | $ 25,485,923 |
| **Supplemental disclosures:** | | | | |
| Income taxes paid | $ 264,486 | $ 166,167 | $ 551,715 | $ 463,151 |
| Interest expenses paid | $ 1,536,572 | $ 1,332,320 | $ 5,597,414 | $ 3,631,294 |

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 Canada and the U.S. The Company is publicly traded on the TSX with the stock symbol of PLC.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Statement of compliance

The accompanying unaudited condensed interim consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards 34, Interim Financial Reporting ("IAS 34"), on a basis consistent with policies disclosed in the Company's annual audited consolidated financial statements for the fiscal year ended December 31, 2019 which were prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

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

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

The financial information included herein reflects all adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the periods ended September 30, 2020 and 2019 are not necessarily indicative of the results to be expected for the full year.

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

### b. Basis of presentation

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### c. Basis of consolidation

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

*Investment entities*

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

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

*Pre-need trust fund*

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

*Care and maintenance trust fund*

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

*Transactions eliminated on consolidation*

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### d. Functional currency

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

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

### e. Earnings per share

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

### f. Business combinations

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

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

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

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

## 3. CRITICAL ESTIMATES AND JUDGMENTS

*Use of estimates*

The preparation of these unaudited condensed interim consolidated financial statements requires management to make certain estimates, judgements and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported expenses during the period. Actual results could differ from these estimates. Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets, liabilities, and equity in the event that actual results differ from assumptions. These assumptions are disclosed in Note 3 to its consolidated annual financial statements for the year ended December 31, 2019.

Given the Company's ability to continue operating its business, no indicators of impairment were identified in relation to COVID-19. The company did not perform a goodwill and intangible asset impairment test as at September 30, 2020.

*Government Subsidies*

Management evaluates its best estimates of the amount of government grants recoverable at each reporting date and records as other income (expenses).

## 4. PRE-NEED RECEIVABLES

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Pre-need receivables, current portion | $ 33,265,680 | $ 29,044,341 |
| Pre-need receivables, net of current portion | 71,217,923 | 58,015,914 |
| Total | $ 104,483,603 | $ 87,060,255 |

The above is net of an allowance for sales returns of $8,066,237 at September 30, 2020 (at December 31, 2019 - $7,497,819).

## 5. INVENTORIES

| | September 30, 2020 | December 31, 2019 *(Restated, Measurement Period Adjustment - see Note 6)* |
|---|---|---|
| Merchandise inventories | $ 4,175,820 | $ 3,068,697 |
| Cemetery lots | 49,174,912 | 40,545,700 |
| Crypts and niches | 42,062,975 | 42,816,411 |
| Construction in progress | 11,177,711 | 7,974,511 |
| Total | 106,591,418 | 94,405,319 |
| Current portion | 12,790,402 | 9,459,240 |
| Non-current portion | $ 93,801,016 | $ 84,946,079 |

There were no inventory write-downs in either period.

## 6. BUSINESS COMBINATIONS

*Acquisitions completed in fiscal 2020*

The following table summarizes the statement of financial position impact on the acquisition date of the Company's business combinations that occurred in the period ended September 30, 2020:

| | Preliminary Family Legacy and Harpeth Hill |
|---|---|
| **Assets acquired:** | |
| Cash | $ 1,814,726 |
| Accounts receivable | 1,680,434 |
| Pre-need receivables | 3,913,730 |
| Inventories | 11,281,682 |
| Land held for development | 9,690,750 |
| Property and equipment | 25,121,682 |
| Care and maintenance trust fund investments | 10,556,556 |
| Pre-need merchandise and service trust fund investments | 13,338,371 |
| Deferred commissions | 1,611,771 |
| Other assets | 105,996 |
| Goodwill | 28,165,175 |
| Intangibles | 5,822,416 |
| Total assets | $ 113,103,289 |
| **Liabilities assumed:** | |
| Accounts payable and accrued liabilities | $ 2,424,722 |
| Note payable | 756,675 |
| Lease liabilities | 183,103 |
| Care and maintenance trusts' corpus | 10,556,556 |
| Deferred pre-need receipts held in trust | 13,338,370 |
| Deferred revenue | 16,845,575 |
| | 44,105,001 |
| **Fair value of consideration transferred:** | |
| Cash consideration | 40,156,875 |
| Converted promissory note | 27,102,791 |
| Deferred cash consideration | 1,178,037 |
| Working capital adjustment | 560,585 |
| | 68,998,288 |
| Total liabilites and considerations | $ 113,103,289 |

On January 31, 2020 the Company completed the acquisition of all the outstanding stock and membership interests of Family Legacy, LLC ("Family Legacy") for a purchase price of approximately $69.0 million (US$52.0 million), a business with 12 locations operating in Nashville, Tennessee, as well as all of the outstanding membership interests in WG-TN and HHMG ("Harpeth Hills") a large combination business located in Nashville, Tennessee. In connection with the Harpeth Hills acquisition, the promissory note of approximately $27.1 million (US$20.4 million) was converted to equity interest in Harpeth Hills. The above acquisition expands PLC's U.S. operations into the high-growth middle Tennessee metropolitan market by adding four combination funeral home and cemetery properties, seven stand-alone funeral homes and two stand-alone cemeteries. The transaction was funded with proceeds from PLC's existing credit facility.

## 6. BUSINESS COMBINATIONS – continued

*Acquisitions completed in fiscal 2020 – continued*

Since the date of acquisition in 2020, Family Legacy and Harpeth Hills have contributed approximately $17.0 million in revenue and approximately $2.0 million in net earnings in 2020. The Company has used a significant amount of judgement and simplifying assumptions in estimating the revenue and net earnings of Family Legacy and Harpeth Hills as if the business occurred at the beginning of the year. If acquired at the beginning of the year, the Company has estimated that Family Legacy and Harpeth Hills would have contributed approximately $19.1 million in revenue and $2.2 million in net earnings.

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

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

*Acquisitions completed in fiscal 2019*

The Company has restated the comparative figures in the consolidated statement of financial position based on the measurement period adjustments related to Horan's and Journey Group's purchase price allocations. The following tables summarize the effects of the change described above on the line items of the consolidated statement of financial position for the year ended December 31, 2019.

| | December 31, 2019 *As previously stated* | *Adjustments* | December 31, 2019 *As restated* |
|---|---|---|---|
| Accounts receivable | $ 13,506,860 | $ 313,087 | $ 13,819,947 |
| Inventories, net of current portion | 83,309,709 | 1,636,370 | 84,946,079 |
| Land held for development | 22,138,968 | 2,314,029 | 24,452,997 |
| Property and equipment | 194,585,169 | 444,413 | 195,029,582 |
| Goodwill and Intangibles | 379,253,330 | (3,450,256) | 375,803,074 |
| Deferred revenue | (150,254,842) | (1,257,643) | (151,512,485) |
| Total | $ 542,539,194 | $ - | $ 542,539,194 |

## 6. BUSINESS COMBINATIONS – continued

*Acquisitions completed in fiscal 2019 – continued*

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

| | Final Cress (i) | Final Baue (ii) | Final Horan (iii) | Final Other (iv) | Total |
|---|---|---|---|---|---|
| **Assets acquired:** | | | | | |
| Cash | $ 458,410 | $ 665,001 | $ 1,267,187 | $ - | $ 2,390,598 |
| Accounts receivable | 1,620,494 | 1,686,989 | 712,765 | - | 4,020,248 |
| Pre-need receivables | - | 1,676,528 | 543,627 | 1,199,271 | 3,419,426 |
| Inventories | 167,030 | 3,498,082 | 2,493,927 | 2,166,871 | 8,325,910 |
| Prepaid expenses and other current assets | 245,749 | 6,829 | 101,527 | 98,176 | 452,281 |
| Land held for development | - | 5,765,160 | - | 4,387,048 | 10,152,208 |
| Property and equipment | 13,882,443 | 13,990,689 | 29,099,503 | 9,786,136 | 66,758,771 |
| Care and maintenance trust fund investments | - | 4,593,840 | 1,154,349 | 4,594,806 | 10,342,995 |
| Pre-need merchandise and service trust fund investments | - | 37,777,961 | 39,775,432 | 5,390,137 | 82,943,530 |
| Deferred commissions | - | 2,829,204 | 2,274,823 | 176,991 | 5,281,018 |
| Goodwill | 8,734,881 | 36,094,938 | 41,749,031 | 2,981,778 | 89,560,628 |
| Intangibles | 3,470,287 | 6,798,309 | 8,254,719 | 736,671 | 19,259,986 |
| Total assets | $ 28,579,294 | $ 115,383,530 | $ 127,426,890 | $ 31,517,885 | $ 302,907,599 |
| **Liabilities assumed:** | | | | | |
| Accounts payable and accrued liabilities | $ 451,444 | $ 2,868,860 | $ 1,699,300 | $ 500,522 | $ 5,520,126 |
| Long-term debt | - | 78,200 | - | - | 78,200 |
| Lease liabilities | 111,904 | 157,108 | 257,828 | 130,085 | 656,925 |
| Deferred tax liabilities | 810,304 | 1,321,284 | - | - | 2,131,588 |
| Care and maintenance trusts' corpus | - | 4,593,840 | 1,154,349 | 4,594,806 | 10,342,995 |
| Deferred pre-need receipts held in trust | - | 37,777,961 | 39,775,432 | 5,390,137 | 82,943,530 |
| Deferred revenue | - | 10,056,363 | 9,371,914 | 1,284,940 | 20,713,217 |
| | 1,373,652 | 56,853,616 | 52,258,823 | 11,900,490 | 122,386,581 |
| **Fair value of consideration transferred:** | | | | | |
| Cash consideration | 24,674,045 | 59,435,125 | 75,516,118 | 18,748,985 | 178,374,273 |
| Deferred cash consideration | 2,149,699 | 1,016,985 | 508,558 | 868,410 | 4,543,652 |
| Working capital adjustment | 381,898 | (1,922,196) | (856,609) | - | (2,396,907) |
| | 27,205,642 | 58,529,914 | 75,168,067 | 19,617,395 | 180,521,018 |
| Total liabilites and considerations | $ 28,579,294 | $ 115,383,530 | $ 127,426,890 | $ 31,517,885 | $ 302,907,599 |

## 6. BUSINESS COMBINATIONS – continued

*Acquisitions completed in fiscal 2019 – continued*

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

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

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

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

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

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

iv) On November 18, 2019, the Company completed the acquisition of all the assets of two U.S. businesses, Journey Group Texas One, LLC and Journey Group Texas Two, LLC ("Journey Group") for an aggregate total purchase price of approximately $12.2 million (US$9.2 million) in cash, subject to customary working capital adjustments. Journey operates three cemeteries, three funeral homes and two combination funeral home and cemetery properties in Texas. Journey's acquisition increases PLC's U.S. footprint and presence in Texas. The acquisition of Journey was funded with the Company's credit facility.

## 6. BUSINESS COMBINATIONS – continued

*Acquisitions completed in fiscal 2019 – continued*

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

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

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

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

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

## 7. LAND HELD FOR DEVELOPMENT

Land held for development represents land held for future cemetery, funeral and other development opportunities. At September 30, 2020 land held for development was valued at $34,884,226 (at December 31, 2019 - $24,452,997).

## 8. PROPERTY AND EQUIPMENT

| | January 1, 2020 *(Restated, Measurement Period Adjustment - See Note 6)* | Acquired in business combinations | Additions | Disposals | Foreign currency translation | September 30, 2020 |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| Land | $ 52,698,436 | 8,057,925 | 21,938 | (102,868) | 1,310,879 | $ 61,986,310 |
| Buildings, cemetery and funeral | 120,933,778 | 15,969,826 | 8,040,633 | (406,230) | 2,719,734 | 147,257,741 |
| Machinery, equipment and automotive | 22,169,483 | 915,485 | 2,130,964 | (237,905) | 455,760 | 25,433,787 |
| Cemetery improvements | 11,301,600 | - | 1,381,412 | | 183,685 | 12,866,697 |
| Right-of-use asset | 8,222,081 | 178,446 | 211,896 | (270,878) | 69,040 | 8,410,585 |
| Total | 215,325,378 | 25,121,682 | 11,786,843 | (1,017,881) | 4,739,098 | 255,955,120 |
| Accumulated depreciation: | | | | | | |
| Buildings, cemetery and funeral | 7,991,384 | - | 4,729,420 | (18,055) | 65,240 | 12,767,989 |
| Machinery, equipment and automotive | 7,110,147 | - | 3,102,208 | (38,240) | 86,890 | 10,261,005 |
| Cemetery improvements | 3,453,310 | - | 497,177 | - | 60,012 | 4,010,499 |
| Right-of-use asset | 1,740,955 | - | 1,525,503 | (217,681) | 10,224 | 3,059,001 |
| Total | 20,295,796 | - | 9,854,308 | (273,976) | 222,366 | 30,098,494 |
| Net Book Value | $ 195,029,582 | | | | | $ 225,856,626 |

## 8. PROPERTY AND EQUIPMENT – continued

| | January 1, 2019 | Acquired in business combinations | Additions | Disposals | Foreign currency translation | December 31, 2019 *(Restated, Measurement Period Adjustment - See Note 6)* |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| Land | $ 31,099,513 | 24,409,311 | 145,513 | (1,367,479) | (1,588,422) | $ 52,698,436 |
| Buildings, cemetery and funeral | 83,152,117 | 36,947,328 | 7,804,831 | (2,145,248) | (4,825,250) | 120,933,778 |
| Machinery, equipment and automotive | 15,931,295 | 4,385,847 | 4,610,747 | (818,520) | (1,939,886) | 22,169,483 |
| Cemetery improvements | 9,611,192 | 362,574 | 1,441,258 | - | (113,424) | 11,301,600 |
| Right-of-use asset | 6,321,135 | 653,710 | 1,356,343 | 2,488 | (111,595) | 8,222,081 |
| Total | 146,115,252 | 66,758,770 | 15,358,692 | (4,328,759) | (8,578,577) | 215,325,378 |
| Accumulated depreciation: | | | | | | |
| Buildings, cemetery and funeral | 5,498,477 | - | 4,250,969 | (818,968) | (939,094) | 7,991,384 |
| Machinery, equipment and automotive | 5,239,993 | - | 3,497,243 | (640,564) | (986,525) | 7,110,147 |
| Cemetery improvements | 2,660,278 | - | 1,128,674 | - | (335,642) | 3,453,310 |
| Right-of-use asset | - | - | 1,770,767 | (14,191) | (15,621) | 1,740,955 |
| Total | 13,398,748 | - | 10,647,653 | (1,473,723) | (2,276,882) | 20,295,796 |
| Net Book Value | $ 132,716,504 | | | | | $ 195,029,582 |

Property and equipment depreciation expense charged to operations amounted to $9,854,308 and $7,648,357 for the nine month period ended September 30, 2020 and 2019, respectively. Property and equipment depreciation expense charged to operations amounted to $3,387,728 and $2,988,374 for the three month period ended September 30, 2020 and 2019, respectively.

Included in additions at September 30, 2020 are $4,136,929 of additions at Canadian cemeteries and funeral sites (at December 31, 2019 - $5,653,153) and $7,649,914 of additions at U.S. cemeteries and funeral sites (at December 31, 2019 - $9,705,539).

During the nine month period ended September 30, 2020, the Company sold property for a sale price of approximately $760,000 realizing a net gain of approximately $13,000.

During the nine month period ended September 30, 2019, the Company sold redundant real estate and property for a sale price of approximately $2.6 million realizing a net loss of approximately $210,000.

The gain and loss described above on the sale of property and equipment is included in other income (expenses).

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

## 9. CARE AND MAINTENANCE TRUST FUND INVESTMENTS

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

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

The principal of these trusts is recorded in the consolidated statements of financial position and represents these contributions to the trusts. The corpus generally remains in perpetuity and the income may be paid to the Company to be used exclusively for eligible care and maintenance of the cemeteries and crematoriums as defined by provincial and state regulations. Many states require capital gains and losses to be held in perpetuity in these trusts, however, certain states allow net capital gains and losses to be included in the income that is paid to the Company. Additionally, some states allow a total return distribution to the Company which may contain income, net capital appreciation, and principal.

Investment income recognized in operations amounted to $7,670,850 and $7,968,421 for the nine month period ended September 30, 2020 and 2019, respectively. Investment income recognized in operations amounted to $2,624,919 and $2,633,074 for the three month period ended September 30, 2020 and 2019, respectively. If the income earned by the trusts should exceed eligible care and maintenance expenses incurred by the Company, the excess would be added to the capital of the trusts and would not be eligible for pay out to the Company in the future.

Care and maintenance trust fund investments consist of the following:

| | Fair Value | | Cost | |
|---|---|---|---|---|
| | September 30, 2020 | December 31, 2019 | September 30, 2020 | December 31, 2019 |
| Cash and cash equivalents | $ 12,027,090 | $ 10,306,689 | $ 12,027,110 | $ 10,302,565 |
| Equities | 92,884,161 | 99,989,034 | 89,129,217 | 91,586,195 |
| Fixed income | 83,186,129 | 81,807,889 | 82,973,812 | 80,749,044 |
| Alternative investments | 21,362,806 | 22,378,232 | 19,748,628 | 21,811,104 |
| Preferred stocks | 18,716,509 | 10,013,142 | 19,257,454 | 9,962,062 |
| | $ 228,176,695 | $ 224,494,986 | $ 223,136,221 | $ 214,410,970 |

## 10. PRE-NEED MERCHANDISE AND SERVICE TRUST FUND INVESTMENTS

Pre-need merchandise and service trust funds were established as required by provincial and state regulations to hold funds paid in advance of need, to purchase when required at-need supplies and services such as funeral services, merchandise, grave and crypt openings. When the services are performed, the Company withdraws the money held in the trust funds to pay for the supplies and services

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

| | Fair value | | Cost | |
|---|---|---|---|---|
| | September 30, 2020 | December 31, 2019 | September 30, 2020 | December 31, 2019 |
| Cash and cash equivalents | $ 44,084,575 | $ 28,692,429 | $ 44,083,957 | $ 28,658,480 |
| GIC's | 29,109,096 | 29,753,510 | 29,109,096 | 29,753,510 |
| Equities | 78,644,284 | 80,151,449 | 65,522,623 | 68,353,825 |
| Fixed income | 85,044,989 | 79,229,148 | 82,148,499 | 77,875,056 |
| Alternative investments | 37,769,371 | 36,954,092 | 40,217,765 | 34,798,443 |
| Preferred stocks | 5,729,701 | 2,369,757 | 5,774,247 | 2,376,524 |
| | $ 280,382,016 | $ 257,150,385 | $ 266,856,187 | $ 241,815,838 |

## 11. PREARRANGED FUNERAL INSURANCE CONTRACTS

In addition to trust funded prearranged funeral services contracts, the Company also has prearranged funeral services contracts which are funded by insurance. As of September 30, 2020, the current face amount of pre-funded policies was approximately $370 million (at December 31, 2019 – approximately $288 million). The increase is primarily a result of recent acquisitions. Families who have prearranged with the Company will receive a refund to the extent that the face amount of the policy exceeds the current retail value of the merchandise and services to be provided. The insurance funded contracts are not included in the unaudited condensed interim consolidated financial statements as the Company is not the beneficiary of the policy. Amounts funded through insurance are available to the Company when the funeral services are performed.

## 12. GOODWILL AND INTANGIBLES

The changes in the carrying amount of goodwill and intangible assets at September 30, 2020 were:

| | September 30, 2020 | December 31, 2019 *(Restated, Measurement Period Adjustment - see Note 6)* |
|---|---|---|
| **Goodwill** | | |
| Opening balance: | $ 353,316,158 | $ 277,981,729 |
| Additions | 28,165,175 | 89,560,628 |
| Foreign currency translation | 8,634,348 | (14,226,199) |
| Closing balance: | $ 390,115,681 | $ 353,316,158 |
| **Intangibles** | | |
| **Non-compete agreements** | | |
| Opening balance: | $ 7,318,232 | $ 7,000,881 |
| Additions | 1,647,428 | 3,753,223 |
| Amortization | (1,846,655) | (2,811,894) |
| Foreign currency translation | 238,788 | (623,978) |
| Closing balance: | $ 7,357,793 | $ 7,318,232 |
| **Brand** | | |
| Opening balance: | $ 15,168,684 | $ - |
| Additions | 4,174,988 | 15,506,763 |
| Foreign currency translation | 399,052 | (338,079) |
| Closing balance: | $ 19,742,724 | $ 15,168,684 |
| **Intangibles** | $ 27,100,517 | $ 22,486,916 |
| **Goodwill and Intangibles** | $ 417,216,198 | $ 375,803,074 |

Management has reviewed the valuation of goodwill and intangibles and has not identified any indicators of impairment in the value of goodwill and intangibles.

## 13. OTHER ASSETS

*i) Prepaid expenses and other current assets*

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

*ii) Other assets*

Included in other assets is a $1.1 million (at December 31, 2019 - $2.7 million) employee share loan plan (see Note 24 and Note 25).

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

## 14. LONG-TERM DEBT

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Revolving loan facility | $ 138,000,000 | $ 173,694,846 |
| Mortgages | 1,041,676 | 1,103,419 |
| Other debt | 703,537 | 928,231 |
| Deferred financing costs | (2,186,417) | (1,840,106) |
| Total | 137,558,796 | 173,886,390 |
| Current portion | 367,507 | 421,074 |
| Non-current portion | $ 137,191,289 | $ 173,465,316 |

*Revolving loan facility*

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

## 14. LONG-TERM DEBT - continued

In March 2020, as part of the COVID-19 contingency planning process, the Company requested that its lending syndicate increase its leverage ratio from 3.5 times to 4.0 times on a temporary basis from May 8, 2020 through June 29, 2021. The leverage ratio would reduce to 3.75 times for September 30, 2021 and then revert to 3.5 time for September 30, 2021, and not more than 3.5 to 1.00 from September 30 and thereafter. In addition, the Company requested a temporary increase of $25 million in credit availability to provide additional liquidity for a period of one year commencing May 8, 2020. The lending syndicate approved both requests effective May 8, 2020. Subsequently on August 21, 2020, based on the positive performance of PLC's operations, the Company cancelled the temporary increase of $25 million.

At September 30, 2020, there was $138,000,000 outstanding under the credit facility (at December 31, 2019 - $173,694,846). Deferred financing costs have been capitalized and are being amortized over the term of 5 years using the effective interest rate method. At September 30, 2020, deferred financing costs were $2,186,417 (at December 31, 2019 - $1,840,106). At September 30, 2020, standby letters of credit issued utilized $764,023 of the credit line (at December 31, 2019 - $764,023).

*Other debt*

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

## 15. NOTES PAYABLE

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Notes payable | $ 11,095,443 | $ 8,691,322 |
| Current portion | 3,266,205 | 1,323,036 |
| Non-current portion | $ 7,829,238 | $ 7,368,286 |

*Notes payable*

*i)* The Company has an outstanding note payable of $1,895,716 (at December 31, 2019 - $1,772,984) to the former owner of real estate acquired by a cemetery. The note calls for yearly payments of $50,000 at 0% interest until the note matures in 2113. Payments of principal are allowed to be deferred until the cemetery achieves positive cash flow. The note was discounted upon recognition to reflect an imputed interest rate of 5%. The note is nonrecourse and is subject to a development agreement that can be terminated by either party after May 9, 2023. The loan can be prepaid at any time without penalty.

*ii)* The Company has outstanding notes payable of $9,199,727 (at December 31, 2019 - $6,918,338) to former owners of previously acquired businesses and related to financing of the general business insurance policies. These notes payable have interest rates ranging from 2% to 6% and remaining terms of 1 to 10 years.

## 16. LEASE LIABILITIES

Lease liabilities relate to office space, machinery and equipment.

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Future minimum lease payments | | |
| Due in less than one year | $ 2,064,395 | $ 2,073,330 |
| Due between one and two years | 1,259,741 | 1,750,960 |
| Due between two and three years | 815,982 | 931,289 |
| Due thereafter | 2,243,088 | 2,750,802 |
| Interest | (784,712) | (992,651) |
| Present value of minimum lease payments | 5,598,494 | 6,513,730 |
| Current portion | 1,844,385 | 1,831,687 |
| Non-current portion | $ 3,754,109 | $ 4,682,043 |

Lease liabilities interest expense charged to operations amounted to $217,411 and $251,724 for the nine month period ended September 30, 2020 and 2019, respectively and $67,294 and $92,426 for the three month period ended September 30, 2020 and 2019, respectively.

## 17. SENIOR UNSECURED DEBENTURES

On July 14, 2020, the Company completed a bought deal offering of Senior Unsecured Debentures ("Debentures"). A total of $75 million aggregate principal amount of Debentures were issued at a price of $1,000 per Debenture. PLC also granted the Underwriters an option to purchase up to an additional $11.25 million aggregate principal amount of Debentures, on the same terms and conditions. This option was exercised in full following the closing of the offering for total gross proceeds of $86.3 million. The issuance included transaction costs of $4.6 million inclusive of $250,000 in management compensation. The net proceeds from the offering have been used to pay down the Company's existing credit facility to free up capacity to fund potential future acquisition opportunities and for general corporate purposes.

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

## 17. SENIOR UNSECURED DEBENTURES - continued

The debentures are measured at amortized cost using the effective interest method over the life of the debenture. The balance of the debentures as at September 30, 2020 consists of the following:

| | | September 30, 2020 |
|---|---|---|
| Face value upon issuance | $ | 86,250,000 |
| Debt issuance costs | | (4,614,630) |
| Fair value of debt on initial recognition | | 81,635,370 |
| Accretion expense during the period | | 111,096 |
| Balance at the end of the period | $ | 81,746,466 |

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

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

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

Interest expense on the debentures for the period ended September 30, 2020 totaled $1,073,399 (December 31, 2019 - $nil).

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

## 18. DEFERRED REVENUE

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

| | September 30, 2020 | December 31, 2019 *(Restated, Measurement Period Adjustment - see Note 6)* |
|---|---|---|
| Cemetery and funeral merchandise, lots, crypts, and niches | $ 102,221,692 | $ 86,940,945 |
| Cemetery and funeral services | 78,213,548 | 64,571,540 |
| Total | $ 180,435,240 | $ 151,512,485 |

## 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 nine month period ended September 30, 2020 and 2019 were $10,079,903 or $0.342 per share and $9,299,891 or $0.342 per share, respectively. The total amount of dividends declared by the Company for the three month period ended September 30, 2020 and 2019 were $3,364,999 or $0.114 per share and $3,341,940 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.

## 20. SHARE CAPITAL – continued

*Shares issued and outstanding*

| | Number of Common Shares | Amount |
|---|---|---|
| Balance January 1, 2019 | 23,135,315 | $ 363,957,423 |
| Shares issued pursuant to: | | |
| Dividend reinvestment plan *(i)* | 82,220 | 2,130,633 |
| Equity incentive plan (Note 21) | 34,052 | - |
| Prospectus financing, net of costs *(ii)* | 5,605,100 | 138,375,634 |
| Contingent equity consideration *(iii)* | 498,157 | (2,415,860) |
| Balance December 31, 2019 | 29,354,844 | $ 502,047,830 |
| Shares issued pursuant to: | | |
| Dividend reinvestment plan *(i)* | 64,599 | 1,554,756 |
| Equity incentive plan (Note 21) | 104,795 | 978,680 |
| Balance September 30, 2020 | 29,524,238 | $ 504,581,266 |

*(i) Dividend reinvestment plan*

On October 13, 2015, the Company announced the implementation of a dividend reinvestment plan ("DRIP"). The DRIP allows eligible shareholders of PLC to reinvest their cash dividends into additional common shares of PLC, which will be issued from treasury or purchased on the open market on the applicable dividend payment date. If common shares are issued from treasury, the price at which such common shares are issued will be the volume weighted trading price of the Company's common shares over the five business days immediately preceding such dividend payment date less a discount, if any, of up to 5%, at the Company's election. The Company has determined to set the initial discount for purchases under the DRIP at 3%. The Company may, subject to the terms of the DRIP, alter or eliminate any discount at any time. For the nine month period ended September 30, 2020, 64,599 common shares were issued under the DRIP (for the year ended December 31, 2019 – 82,220).

*(ii) Prospectus financings*

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

## 20. SHARE CAPITAL – continued

*(iii) Contingent equity consideration*

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

## 21. EQUITY INCENTIVE PLAN

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

On June 22, 2020, the shareholders of the Company approved a second amended and restated omnibus EIP, consisting of DSUs, RSUs, Performance Share Units ("PSUs"), and Options to acquire common shares ("Options"). The number of common shares that may be issued upon the settlement of awards granted under the EIP shall not exceed 2,400,000 common shares of the Company.

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

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

All future grants of equity-based awards will be made pursuant to the EIP and no further equity-based awards will be made pursuant to the 2014 ESLP plan. The 2014 ESLP will remain in effect only in respect of outstanding equity-based awards (see Note 25).

## 21. EQUITY INCENTIVE PLAN - continued

*Deferred share units*

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

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Outstanding, beginning of the period | 36,860 | 30,450 |
| Awarded | 6,622 | 10,920 |
| Redemptions | (9,982) | (5,091) |
| Dividend equivalents | 522 | 581 |
| Outstanding, end of the period | 34,022 | 36,860 |

*Restricted share units*

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

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

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

Under the RSU plan, the following RSUs were granted by the Company and are outstanding. Each dividend equivalent represents one common share 168,040 of the awarded and outstanding RSUs have vested.

## 21. EQUITY INCENTIVE PLAN – continued

*Restricted share units – continued*

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Outstanding, beginning of the period | 246,200 | 176,337 |
| Awarded | 106,809 | 98,141 |
| Forfeited | (14,453) | - |
| Redemptions | (84,184) | (31,928) |
| Dividend equivalents | 3,421 | 3,650 |
| Outstanding, end of the period | 257,793 | 246,200 |

*Performance Share Units*

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Outstanding, beginning of the period | 61,266 | - |
| Awarded | - | 60,112 |
| Forfeited | (21,674) | - |
| Redemptions | (10,632) | - |
| Dividend equivalents | 515 | 1,154 |
| Outstanding, end of the period | 29,475 | 61,266 |

*Options*

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

## 21. EQUITY INCENTIVE PLAN - continued

*Options - continued*

On July 15, 2019 320,000 options were granted. Trading price at the time of the grant was $25.39. The fair market value of options was determined using the Black-Scholes valuation model with the following implicit assumptions: average risk-free rate of interest of 1.52%, dividend rate of 1.79%, volatility of 22.45%, forfeiture rate of 0% and an expected life of 4 years. In addition, due to non-vesting conditions the options were discounted using a cost of carry model, which assumed an estimated term of 10.8 years and risk-free rate of 1.77%. The options were then adjusted for non-vesting performance conditions with a weighted average expectancy of 38%.

On May 21, 2020 390,000 options were granted. Trading price at the time of the grant was $22.26. The fair market value of options was determined using the Black-Scholes valuation model with the following implicit assumptions: average risk-free rate of interest of 0.35%, dividend rate of 0.456%, volatility of 28.03%, forfeiture rate of 0% and an expected life of 5 years.

| Grant Date | Expiry Date | Exercise Price | 1-Jan-20 | Granted | Exercised | Expired | Forfeited | 30-Sep-20 | Vested | Unvested |
|---|---|---|---|---|---|---|---|---|---|---|
| May 30, 2019 | June 30, 2023 | $ 25.43 | 1,058,000 | - | - | - - | 378,000 | 680,000 | - | 680,000 |
| July 15, 2019 | June 30, 2023 | $ 25.39 | 320,000 | - | - | - | - | 320,000 | - | 320,000 |
| May 21, 2020 | May 21, 2025 | $ 20.98 | - | 390,000 | - | - | - | 390,000 | - | 390,000 |
| | | | 1,378,000 | 390,000 | - | - - | 378,000 | 1,390,000 | - | 1,390,000 |
| Weighted Average Exercise Price | | | $ 25.42 | $ 20.98 | $ - | $ - | $ 25.43 | $ 24.17 | $ - | $ 24.17 |

The compensation expense in respect of EIP amounted to $3,768,325 and $2,677,291 for the nine month period ended September 30, 2020 and 2019, respectively, and $1,165,547 and $1,116,805 for the three month period ended September 30, 2020 and 2019, respectively, and the counterpart has been reflected in contributed surplus. Management plans to settle all DSUs, RSUs, PSUs and Options by issuing shares. When the DSUs, RSUs, PSUs and Options are settled for shares, the amounts previously credited to contributed surplus are transferred to share capital.

## 22. INTEREST AND OTHER INCOME

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Pre-need trust realized capital gain | $ - | $ 2,060,260 | $ - | $ 4,260,700 |
| Finance charges | 1,347,190 | 1,420,552 | 3,906,931 | 3,906,786 |
| Interest income and other | 301,805 | 172,350 | 985,429 | 714,417 |
| | $ 1,648,995 | $ 3,653,162 | $ 4,892,360 | $ 8,881,903 |

The pre-need trust realized capital gain is comprised of realized capital gain from the pre-need trust fund in the state of Michigan. Included in interest income and other are finance charges on the uncollected balance of instalment accounts receivable.

## 23. INTEREST EXPENSE

| | Three Months Ended September 30, 2020 | Three Months Ended September 30, 2019 | Nine Months Ended September 30, 2020 | Nine Months Ended September 30, 2019 |
|---|---|---|---|---|
| Interest on: | | | | |
| Revolving loan facility, mortgages, other debt | $ 1,243,322 | $ 1,294,600 | $ 5,376,269 | $ 3,654,497 |
| Debentures | 1,073,399 | - | 1,073,399 | - |
| Lease liabilities | 67,294 | 92,426 | 217,411 | 251,724 |
| Amortization of deferred financing costs | 336,134 | 75,556 | 576,682 | 208,457 |
| Total | $ 2,720,149 | $ 1,462,582 | $ 7,243,761 | $ 4,114,678 |

## 24. OTHER INCOME (EXPENSES)

| | Three Months Ended September 30, 2020 | Three Months Ended September 30, 2019 | Nine Months Ended September 30, 2020 | Nine Months Ended September 30, 2019 |
|---|---|---|---|---|
| Special Committee (i) | $ - | $ - | $ (1,147,421) | $ - |
| Restructuring costs (ii) | - | - | (952,593) | - |
| Agreement (iii) | - | - | (1,720,734) | - |
| Legal costs (iv) | (491,547) | - | (491,547) | - |
| Canada Emergency Wage Subsidy CEWS (v) | - | - | 1,028,872 | - |
| Gain on share settlement (vi) | - | - | - | 179,633 |
| Loss on sale of assets (vii) | - | - | (44,217) | (206,571) |
| Other | - | - | - | (41,966) |
| | $ (491,547) | $ - | $ (3,327,640) | $ (68,904) |

(i) Special Committee costs are $1,147,421 and $nil for the nine and three month period ended September 30, 2020, respectively, relating to the Special Committee's strategic review work, corporate governance matters and executive management transition preparedness as previously referred to, including Board fees, legal, CEO search fees and other professional fees. The Special Committee of the Board of Directors was dissolved on May 12, 2020.

(ii) Restructuring costs are $952,593 and $nil for the nine and three month period ended September 30, 2020.

(iii) Agreement is comprised of costs relating to the transition of Mr. Clark of $1,720,734 (notwithstanding the terms of Mr. Clark's employment agreement) consisting of:

## 24. OTHER INCOME (EXPENSES) - continued

- forgiveness of a $1,665,104 loan provided by the Company to Mr. Clark;
- the forfeiture of 21,674 PSUs and immediate vesting of 10,632 PSUs which resulted in other expense of approximately $75,000;
- the forfeiture of 378,000 options which resulted in other income of approximately $335,000;
- the payment of approximately $93,000 in legal expenses incurred by Mr. Clark in connection with his departure and other consideration valued in the amount of approximately $207,000.

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

(iv) Legal costs are $491,547 for the nine and three month period ended September 30, 2020. Legal costs related to the departure of the former CEO, the defense of intellectual property created by the Company and the preservation and recovery of investments made or authorized by the former CEO.

(v) In the second quarter of 2020, the Company received $1,028,872 of wages subsidy under the CEWS program. During the second quarter of fiscal 2020, the Government of Canada announced the CEWS for Canadian employers whose businesses were affected by the COVID-19 pandemic. The CEWS provides a wage subsidy of up to 75% on eligible renumeration, subject to certain criteria including demonstration of revenue declines as a result of COVID-19.

(vi) Gain on share settlement relates to a gain on the Saber contract settlement of $179,633 during the second quarter of 2019 (Note 20iii).

(vii) The Company sold property and equipment and other assets resulting in a loss of approximately $40,000 and $210,000 for the nine month periods ended September 30, 2020 and 2019 respectively.

## 25. RELATED PARTY TRANSACTIONS AND BALANCES

*Employee share loan plan*

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

Amounts issued under the ESLP were as follows:

On October 7, 2013, the Company loaned $1,575,000 to Nine Two Seven Limited, to acquire 210,000 common shares of the Company. Nine Two Seven Limited is owned by a former director and officer of the Company. The loan bore interest at a rate of 3.2% per annum payable upon maturity on August 27, 2023;

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

The two loans described above were forgiven in the amount of $1,665,104 on February 17, 2020 (see Note 24).

On January 7, 2015, under the ESLP the Company loaned $1,258,750 to Leeder Holdings Inc. to acquire 125,000 common shares of the Company. Leeder Holding Inc. is owned by a former officer and director of the Company. The loan bears interest at a rate of 3.2% per annum payable upon maturity and will mature on January 7, 2025 (see Note 27).

Total loan outstanding under the ESLP, including accrued interest amounted to $1,072,288 at September 30, 2020 (at December 31, 2019 - $2,712,688). Interest income earned by the Company for the nine month period ended September 30, 2020 and 2019 was $24,790 and $63,914, respectively, and for the three month period ended September 30, 2020 and 2019 was $8,354 and $21,658, respectively.

## 25. RELATED PARTY TRANSACTIONS AND BALANCES - continued

*Key management compensation*

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Directors' fees and management compensation | $ 1,406,288 | $ 998,608 | $ 4,436,874 | $ 3,281,924 |
| Agreement (Note 21) | - | - | 1,720,734 | - |
| | $ 1,406,288 | $ 998,608 | $ 6,157,608 | $ 3,281,924 |

Directors' fees and management compensation included in share-based incentive for the nine month period ended September 30, 2020 and 2019 were $1,745,102 and $1,241,697 respectively, and for the three month period ended September 30, 2020 and 2019 were $681,432 and $411,441 respectively. At September 30, 2020, included in accounts payable and accrued liabilities are directors' fees and management compensation of $945,943 (at December 31, 2019 - $809,890).

## 26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

*Fair value of financial instruments*

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

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

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

As at September 30, 2020, the fair value of the secured debt investment in Humphrey's (see Note 13) is valued under Level 3.

As at September 30, 2020, the care and maintenance and pre-need merchandise and service trust funds and related liabilities are carried at fair value under Level 1, Level 2, Level 3 and amortized cost.

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

*Fair value of financial instruments – continued*

The trust assets are valued as follows:

Care and maintenance trust fund investments at September 30, 2020

| | Cost | Level 1<br>Quoted market price | Level 2<br>Valuation technique - observable market inputs | Level 3<br>Valuation technique - non-observable market inputs | Amortized cost | Total fair value |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | $ 12,027,110 | $ 12,027,090 | $ - | $ - | $ - | $ 12,027,090 |
| Equities | 89,129,217 | 92,884,161 | - | - | - | 92,884,161 |
| Fixed income | 82,973,812 | 61,972,033 | - | 8,833,456 | 12,380,640 | 83,186,129 |
| Alternative investments | 19,748,628 | - | - | 21,362,806 | - | 21,362,806 |
| Preferred stocks | 19,257,454 | 18,716,509 | - | - | - | 18,716,509 |
| | $ 223,136,221 | $ 185,599,793 | $ - | $ 30,196,262 | $ 12,380,640 | $ 228,176,695 |

Care and maintenance trust fund investments at December 31, 2019

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

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

*Fair value of financial instruments – continued*

Pre-need merchandise and service trust fund investments at September 30, 2020

| | Cost | Level 1 Quoted market price | Level 2 Valuation technique - observable market inputs | Level 3 Valuation technique - non-observable market inputs | Amortized cost | Total fair value |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | $ 44,083,957 | $ 44,084,575 | $ - | $ - | $ - | $ 44,084,575 |
| GIC's | 29,109,096 | 29,109,096 | - | - | - | 29,109,096 |
| Equities | 65,522,623 | 78,644,284 | - | - | - | 78,644,284 |
| Fixed income | 82,148,499 | 78,628,225 | - | 5,313,383 | 1,103,381 | 85,044,989 |
| Alternative investments | 40,217,765 | - | - | 37,769,371 | - | 37,769,371 |
| Preferred stocks | 5,774,247 | 5,729,701 | - | - | - | 5,729,701 |
| | $ 266,856,187 | $ 236,195,881 | $ - | $ 43,082,754 | $ 1,103,381 | $ 280,382,016 |

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

| | Cost | Level 1 Quoted market price | Level 2 Valuation technique - observable market inputs | Level 3 Valuation technique - non-observable market inputs | Amortized cost | Total fair value |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | $ 28,658,480 | $ 28,692,429 | $ - | $ - | $ - | $ 28,692,429 |
| GIC's | 29,753,510 | 29,753,510 | - | - | - | 29,753,510 |
| Equities | 68,353,825 | 80,151,449 | - | - | - | 80,151,449 |
| Fixed income | 77,875,056 | 72,981,235 | - | 5,173,567 | 1,074,346 | 79,229,148 |
| Alternative investments | 34,798,443 | - | - | 36,954,092 | - | 36,954,092 |
| Preferred stocks | 2,376,524 | 2,369,757 | - | - | - | 2,369,757 |
| | $ 241,815,838 | $ 213,948,380 | $ - | $ 42,127,659 | $ 1,074,346 | $ 257,150,385 |

*Market risk*

Pre-need merchandise and service trust funds

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

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

*Market risk - continued*

Perpetual Care trust funds

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

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

*Covid-19*

As a result of COVID-19, the Company's trusts have been and will continue to be impacted by the adverse conditions in the global financial markets. As of September 30, 2020, the Company had net unrealized gains in the Care and Maintenance Trust Funds of approximately $5.0 million, which represents a 2.3% net unrealized gain to the original cost basis. As of September 30, 2020, the Company had net unrealized gain in the Pre-Need Merchandise and Service Trust Funds of approximately $13.5 million, which represents a 5.1% net unrealized gain to the original cost basis. The improvement is a result of improved capital markets during the second and third quarter of 2020. The unrealized gains are muted because of the higher cash positions and the Canadian GIC's.

## 27. COMMITMENTS AND CONTINGENCIES

*Litigation*

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

## 27. COMMITMENTS AND CONTINGENCIES - continued

*Construction*

The Company has 14 construction commitments with the remaining balance of $16.1 million committed, primarily for the construction of Westminster funeral visitation and reception centre in Toronto, Ontario and for funeral homes, mausoleums and cemetery development in the United States. To date the Company has spent $16.7 million on these construction commitments.

*Commitment*

On September 8, 2020, the Company announced Joseph Leeder's retirement as Chief Financial Officer of the Company and the appointment of Daniel Millet as Chief Financial Officer of the Company, and on retirement, the Company has agreed to forgive a $1,035,750 loan provided by the Company to Mr. Leeder and the accelerated vesting of 4,878 performance share units and 4,878 restricted share units no later than December 31, 2020.

## 28. SEGMENTED INFORMATION

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

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

*Geographic information*

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Canada | $ 194,389,754 | $ 205,799,226 |
| United States | 1,205,961,918 | 1,086,146,783 |
| Total | $ 1,400,351,672 | $ 1,291,946,009 |

## 28. SEGMENTED INFORMATION – continued

*Geographic information – continued*

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

| | Three Months Ended September 30, 2020 | Three Months Ended September 30, 2019 | Nine Months Ended September 30, 2020 | Nine Months Ended September 30, 2019 |
|---|---|---|---|---|
| Revenue: | | | | |
| Sales: | | | | |
| Canada | $ 9,038,583 | $ 8,739,075 | $ 27,000,806 | $ 26,445,460 |
| United States | 70,479,130 | 51,523,427 | 202,914,247 | 132,006,858 |
| Total sales | 79,517,713 | 60,262,502 | 229,915,053 | 158,452,318 |
| Income from care and maintenance funds: | | | | |
| Canada | 1,155,000 | 1,246,999 | 3,005,000 | 3,811,639 |
| United States | 1,469,919 | 1,416,075 | 4,665,850 | 4,156,782 |
| Total income from care and maintenance funds | 2,624,919 | 2,663,074 | 7,670,850 | 7,968,421 |
| Interest and other income: | | | | |
| Canada | 301,805 | 171,837 | 985,429 | 713,904 |
| United States | 1,347,190 | 3,481,325 | 3,906,931 | 8,167,999 |
| Total interest and other income | 1,648,995 | 3,653,162 | 4,892,360 | 8,881,903 |
| Total revenue: | | | | |
| Canada | 10,495,388 | 10,157,911 | 30,991,235 | 30,971,003 |
| United States | 73,296,239 | 56,420,827 | 211,487,028 | 144,331,639 |
| Total Revenue | $ 83,791,627 | $ 66,578,738 | $ 242,478,263 | $ 175,302,642 |

## 29. SUBSEQUENT EVENTS

On October 1, 2020, the Company completed the acquisition of the assets of Bowers Funeral Service Ltd. ("Bowers"), a three-location funeral home business located in Salmon Arm, Golden and Revelstoke, British Columbia. Bowers' acquisition was funded with the cash on hand and it expands PLC's presence in British Columbia.

Subsequent to September 30, 2020, on November 2, 2020, the Company announced the acquisition of all the outstanding stock of W.R. Floyd Corp. and Floyd Properties, Inc. and a majority of the assets of W.R. Floyd Services, Inc. GRAS, LLC, Piedmont Crematory, Inc. and Floyd's Pet Cremation, LLC (collectively "J.F. Floyd"), a group of businesses located in Spartanburg and Charleston, South Carolina. J.F. Floyd acquisition adds four funeral home locations (three of which are on-sites), nine cemetery locations and one stand-alone crematory. The addition of these businesses strengthens PLC's operational footprint in South Carolina and provides a platform from which it can continue to expand into the southeast region of the U.S.