

PARK LAWN COMPANY LIMITED
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(UNAUDITED)

NOTICE TO READER

The management of Park Lawn Company Limited (“the Company”) is responsible for the preparation of the accompanying condensed interim consolidated financial statements. The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and are considered by management to present fairly the condensed interim consolidated financial position, financial performance and cash flows of the Company.

These condensed interim consolidated financial statements have not been reviewed by an auditor. These condensed interim consolidated financial statements are unaudited and include all adjustments, consisting of normal and recurring items that management considers necessary for a fair presentation of the condensed interim consolidated financial position, financial performance and cash flows.

“Frank Mills”

Frank Mills
President

“Larry Boland”

Larry Boland
Vice-President and Treasurer

PARK LAWN COMPANY LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)

ASSETS

	September 30, 2018	December 31, 2017
Current Assets -		
Cash (Note 6)	\$ 2,760,891	\$ 3,952,522
Accounts Receivable	2,519	23,033
Short-term Investments (Note 6)	2,608,459	2,353,671
Prepaid Expenses	3,780	2,364
Park Lawn Corporation Shares (Note 4, 11 and 15)	987,389	1,190,806
	<u>6,363,039</u>	<u>7,522,396</u>
 Vendor Mortgage Take Back - 57 Linelle Street (Note 10)	 4,920,000	 4,920,000
 Long-term Investment (Note 7)	 990,422	 -
 Land Held for Development (Note 10)	 <u>530,995</u>	 <u>530,995</u>
	<u><u>\$ 12,804,456</u></u>	<u><u>\$ 12,973,391</u></u>

LIABILITIES & SHAREHOLDERS' EQUITY

Current Liabilities -		
Accounts Payable and Accrued Liabilities	\$ 15,039	\$ 14,108
Income Taxes Payable (Note 14)	108,000	-
Deferred Income Taxes (Note 14)	101,500	80,000
	<u>224,539</u>	<u>94,108</u>
 Deferred Income Taxes Payable (Note 14)	 71,441	 242,138
 Shareholders' Equity (Note 9)		
Capital Stock	334,632	346,206
Retained Earnings	12,173,844	12,290,941
	<u>12,508,476</u>	<u>12,637,147</u>
	<u><u>\$ 12,804,456</u></u>	<u><u>\$ 12,973,391</u></u>
 Subsequent Event (Note 13)		

The accompanying notes are an integral part of these financial statements

ON BEHALF OF THE BOARD

"Frank Mills"
Frank Mills, President

"Larry Boland"
Larry Boland, Vice-President and Treasurer

PARK LAWN COMPANY LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE- AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue				
Interest earned on short-term investments (Note 10)	\$ 84,305	\$ 77,288	\$ 230,937	\$ 135,189
Dividends	4,229	11,718	14,396	56,466
	<u>88,533</u>	<u>89,006</u>	<u>245,333</u>	<u>191,656</u>
Expenses				
Office, general and administration (Note 8)	88,155	75,022	349,733	367,561
	<u>88,155</u>	<u>75,022</u>	<u>349,733</u>	<u>367,561</u>
Net and Comprehensive Income (Loss) before the Undernoted and Income Taxes	379	13,984	(104,401)	(175,905)
Gain (Loss) on PLC Shares (Note 11)	84,199	29,296	269,442	787,240
Gain (Loss) on Long-term Investment (Note 7)	-	-	37,726	-
	<u>84,199</u>	<u>29,296</u>	<u>307,168</u>	<u>787,240</u>
Net and Comprehensive Income before Income Taxes	84,577	43,280	202,768	611,335
Income Tax Expense (Recovery) (Note 14)				
Current Income Taxes	-	4,000	47,000	77,000
Deferred Income Taxes	22,000	6,000	6,000	23,000
	<u>22,000</u>	<u>10,000</u>	<u>53,000</u>	<u>100,000</u>
Net and Comprehensive Income (Loss)	<u>\$ 62,577</u>	<u>\$ 33,280</u>	<u>\$ 149,768</u>	<u>\$ 511,335</u>
Income (Loss) Per Share	<u>\$ 0.059</u>	<u>\$ 0.031</u>	<u>\$ 0.139</u>	<u>\$ 0.462</u>

The accompanying notes are an integral part of these financial statements

PARK LAWN COMPANY LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE- AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(UNAUDITED)

	Number of Shares	Capital Stock	Retained Earnings	Total
Balance at January 1, 2018	1,080,697	\$ 346,206	\$ 12,290,941	\$ 12,637,147
Net and comprehensive income for the period January 1 to March 31, 2018			152,696	152,696
Balance at March 31, 2018	1,080,697	346,206	12,443,637	12,789,843
Net and comprehensive loss for the period April 1 to June 30, 2018			(25,344)	(25,344)
Balance at June 30, 2018	1,080,697	\$ 346,206	\$ 12,418,293	\$ 12,764,499
Net and comprehensive income for the period July 1 to September 30, 2018			62,577	62,577
Normal Course Issuer Bid (Note 6)	(36,000)	(11,574)	(307,026)	(318,600)
	1,044,697	\$ 334,632	\$ 12,173,844	\$ 12,508,476
Balance at January 1, 2017				
Net and comprehensive income for the period January 1 to March 31, 2017	1,130,000	\$ 362,000	\$ 11,939,101	\$ 12,301,100
Balance at March 31, 2017			\$ 317,780	\$ 317,780
Net and comprehensive income for the period April 1 to June 30, 2017	1,130,000	362,000	12,256,880	12,618,880
Normal Course Issuer Bid	(35,200)	\$ (11,276)	\$ (283,274)	\$ (294,550)
Balance at June 30, 2017	1,094,800	\$ 350,724	\$ 12,133,882	\$ 12,484,606
Net and comprehensive income for the period July 1 to September 30, 2017			\$ 33,280	\$ 33,280
Normal Course Issuer Bid	(9,000)	\$ (2,883)	\$ (65,458)	\$ (68,341)
Balance at September 30, 2017	1,085,800	\$ 347,840	\$ 12,101,704	\$ 12,449,545

The accompanying notes are an integral part of these financial statements

PARK LAWN COMPANY LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE- AND NINE- MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cash provided by (used in) operations -				
Net Income (Loss)	\$ 62,577	\$ 33,280	\$ 149,768	\$ 511,335
Add items not requiring cash -				
Unrealized Gain (Loss) on PLC Shares				
and Long-term Investment - net	(84,199)	(29,295)	(269,442)	(784,965)
Deferred Income taxes	22,000	6,000	6,000	23,000
	<u>379</u>	<u>9,986</u>	<u>(113,674)</u>	<u>(250,631)</u>
Net Increase (Decrease) in working capital items				
Accounts Receivable	1,486	(1,317)	(32,268)	(2,841)
Income Taxes Recoverable/Payable	-	4,000	69,300	(355,000)
Accounts Payable and Accrued Liabilities	(8,035)	(671)	1,431	(671)
Prepaid Expense	(3,741)	1,766	1,416	(1,556)
	<u>(10,290)</u>	<u>3,778</u>	<u>39,879</u>	<u>(360,068)</u>
Cash provided by (used in) investment activities -				
Purchase of Long-term Investments	(750,000)	-	(912,696)	-
Proceeds from Sale of PLC Shares - Net	-	-	368,250	3,367,172
	<u>(750,000)</u>	<u>-</u>	<u>(544,446)</u>	<u>3,367,172</u>
Cash provided by (used in) financing activities -				
Repurchase of Capital Stock (Note 5)	(318,600)	(68,341)	(318,600)	(362,841)
	<u>(318,600)</u>	<u>(68,341)</u>	<u>(318,600)</u>	<u>(362,841)</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,078,512)	(54,577)	(936,841)	2,393,633
Cash and Cash Equivalents - beginning of period	<u>6,447,862</u>	<u>5,759,669</u>	<u>6,306,193</u>	<u>3,311,457</u>
Cash and Cash Equivalents - end of period (Note 6)	<u>\$ 5,369,350</u>	<u>\$ 5,705,090</u>	<u>\$ 5,369,350</u>	<u>\$ 5,705,090</u>
Supplemental Cash Flow Information:				
Interest Paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

PARK LAWN COMPANY LIMITED
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

1. NATURE OF OPERATIONS

As at December 31, 2017 and September 30, 2018, Park Lawn Company Limited (“the Company”) held a 20% interest in a 2.9 acre parcel of land (“the Land”) located at 57 Linelle Street, Toronto, Ontario (see Note 10). In addition, as at December 31, 2017 and June 30, 2018, and as a result of the Company’s sale of 80% of the Land to Mattamy Development Corporation (“Mattamy”) on January 6, 2016, the Company held a vendor take back mortgage in the amount of \$4,920,000 (see Notes 2 (c) and (d), and 10). As a result of the completion of the sale, the Company has entered into an agreement (“the Agreement”), as noted above, with Mattamy for the development of the Land.

The shares of Park Lawn Company Limited are listed on the Canadian Securities Exchange (CSE) under the symbol PRL. The Company’s head office is located at 21 St. Clair Ave East, Suite 1001, Toronto, ON, M4T 1L9.

2. SIGNIFICANT ACCOUNTING POLICIES

a) International Financial Reporting Standards (“IFRS”)

i) Basis of Presentation

Unless otherwise noted, all amounts in the accompanying condensed interim consolidated financial statements and these notes are presented in Canadian funds, which is the functional currency of the Company.

The accompanying condensed interim consolidated financial statements have been prepared on the historical cost basis with the exception of certain financial instruments that are measured at fair value, as discussed elsewhere in Note 2. Historical cost is generally based on the fair value of the consideration given in exchange for assets received.

ii) 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, 2017 which were prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

The Board of Directors approved these financial statements on November 28, 2018.

b) Principles of Consolidation

The accompanying condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries (including Kening Properties Limited and Westside Cemetery Holdings Limited). All significant accounts and transactions between consolidated entities have been eliminated. Should there be a party with a minority interest in a property that the Company controls, that minority interest would be reflected as “Non-controlling Interest” in the accompanying consolidated statements of financial position.

c) Use of Estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the consolidated statements of financial position and the reported amounts of revenues and expenses during the reporting periods. Should the underlying assumptions change, the actual amounts could differ from those estimates.

Financial statement items subject to significant management judgment as at September 30, 2018, include revenue recognition, the valuation of short- and long-term investments, the Company's investment in Park Lawn Corporation shares, land held for development and vendor take back mortgage, the completeness of accounts payable and accrued liabilities and the valuation of deferred income tax assets and liabilities. No assets have been pledged as collateral in respect of the Company's liabilities except as otherwise disclosed in the notes to the accompanying condensed interim consolidated financial statements.

Significant assumptions made by management in the preparation of the accompanying interim consolidated financial statements include:

- In prior reporting periods (i.e. prior to December 31, 2015), the ability of the Company to obtain approval from the City of Toronto for the rezoning of its land held for development from that of mausoleum to residential was materially uncertain in nature. On January 6, 2016, the Company completed the transaction with Mattamy Development Corporation (“Mattamy”) for the development of the Company's property at 57 Linelle Street, Toronto (see Notes 1 and 10). Mattamy has, as of that date, assumed responsibility for the management and completion of the approval process with the City of Toronto.

As a consequence, the consolidated statements of operations for the Company's fiscal quarter end March 31, 2016, and year ended December 31, 2016, reported a net gain upon completion of Mattamy transaction of \$5,806,496. In addition, the accompanying consolidated statements of financial position reflect a long-term vendor take back mortgage of \$4,920,000 resulting from this transaction (see Note 10).

As a result of the Company's transaction with Mattamy, the Company has retained a 20% interest in its land held for development (see Note 10). In the opinion of management, there is no indication that the Company, based upon current values for real estate in the City of Toronto, will not realize values for this asset significantly in excess of the carrying value of this asset upon eventual development of these properties by Mattamy. (See also Note 2(d.))

- As at January 1, 2017, the Company held 262,092 shares of Park Lawn Corporation (“PLC,” “the Shares,” “the PLC Shares”) which it had received, along with \$1,000,000, cash, as full and final settlement of its Note due from Park Lawn Limited Partnership (“PLLP”). (The terms of the settlement and the valuation of these shares are discussed in Note 11.) During the Company’s fiscal year ended December 31, 2017, the Company disposed of 210,000 of these shares. On March 27, 2018 the Company sold 15,000 shares of these shares at a sale price of \$27.00 per share before commissions, resulting in a remaining balance of 37,092 shares. (See Notes 2 (n)(c) and 11.) For accounting and income tax purposes, the Company recognizes gains on the Shares at the time of disposition. At the end of each reporting period, the carrying value of remaining shares is adjusted through net comprehensive income to reflect market value.
- The Company’s short-term investments comprise five funds managed by two Canadian investment firms. The value of these investments is reported in aggregate on the accompanying consolidated statements of financial position at fair value, which also approximates amortized cost, and there have been no indications of impairment in the value of these funds since acquisition.
- The Company’s long-term investments comprise an investment in a limited partnership that invests in real properties and residential developments in Canada (“Slate”) and an investment in common and preferred shares of a private company that own and operates a cold storage facility in Moncton, New Brunswick (“Maritime”). The value of the former investment is reported on the accompanying consolidated statements of financial position at fair value as adjusted for the market value of the investment at each period end. The value of the latter investment, as reported on the accompanying consolidated statements of financial position at amortized, at initial cost, adjusted for impairment losses, if any. There has been no indication of impairment in the value of either investment since acquisition.

d) Revenue Recognition

The gains on the disposal of and period end fair value adjustments in respect of the PLC Shares were and are recognized net of corresponding costs such as commissions, as applicable. (See Notes 1, 2(n)(c) and 11.) Holding gains and losses on the fair market value of the remaining PLC shares, as well as the Company’s investment in Slate (see Note 7), are recognized at the end of each reporting period. The Company recognizes revenues (i.e. interest and dividends) from its short-term investments, long-term investments and PLC Shares on the accrual basis when earned or declared, as applicable and from realized capital gains. The Company is not subject to seasonal fluctuations with regard to its revenues.

e) Income Taxes

The tax expense recognized in net and comprehensive income (loss) comprises the sum of deferred tax and current tax not recognized in other comprehensive income (loss) or directly in equity.

The tax currently payable is based on the taxable income or loss for the period. The taxable income or loss may differ from the income or loss for the period as reported in the accompanying statements of operations and comprehensive income (loss) due to the exclusion, if any, of revenue or expense items that are taxable or deductible in other periods, as well as items that are not taxable or deductible. The Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax, if any, is recognized using the liability method on differences between the carrying amounts of assets and liabilities in the accompanying financial statements and their corresponding tax bases.

Deferred tax liabilities, if any, are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the taxable temporary difference arises from the initial recognition of goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income or loss, nor the income or loss for the period reported in the accompanying statements of operations and comprehensive loss.

Deferred tax liabilities, if any, are recognized, where material, for taxable temporary differences associated with investments in subsidiaries and joint ventures, if any, except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets, if any, arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured, without discounting, at the tax rates that have been enacted or substantively enacted by the end of the reporting period and applicable in the period in which the liability is expected to be settled or the asset realized. Deferred tax liabilities are always recognized in full.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow the benefit of all or part of the asset to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable income will be available.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Changes in deferred tax assets or liabilities are recognized as a component of taxable revenue or expense in profit or loss, except where these relate to items that are recognized in other comprehensive income (loss) or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income (loss) or equity, respectively.

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established, as needed, to reduce future income tax assets to the amount that is more likely than not to be realized. Current income tax liabilities and recoveries are recognized as current liabilities and assets on the accompanying statements of financial position.

f) Earnings (Loss) per Share

Basic earnings (loss) per share is calculated on the basis of earnings (loss) attributable to the holders of common shares, divided by the weighted average number of common shares outstanding during the period. Diluted per share amounts are calculated giving effect to the potential dilution that would occur if the securities or other contracts to issue common shares are exercised or converted to common shares. Diluted loss per share is equal to basic earnings (loss) per share when the effect of dilutive securities is anti-dilutive.

g) Impairment Testing of Property

Assets that are subject to amortization, if any, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value-in-use.

To determine the value-in-use, management estimates expected future cash flows and determines a suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit ("CGU") and reflect their respective risk profiles as assessed by management. For the purpose of assessing impairment, assets are grouped at the cash-generating unit level that is the lowest level for which there are largely independent cash inflows. As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit level.

Impairment losses recognized in respect of cash generating units are allocated first to reducing the carrying amount of any goodwill allocated to the CGUs (or group of CGUs) and then to reducing the carrying amount of the other assets in the CGU (or group of CGUs) on a pro-rata basis. Long-lived assets, other than goodwill, that suffer impairment are reviewed for possible reversal of the impairment at each reporting date. For such assets, an impairment charge is reversed if the CGUs or individual asset's recoverable amount exceeds its carrying amount.

h) Cash and Cash Equivalents

Cash is comprised of cash held at Canadian chartered banks. The Company considers its short-term investments to be cash equivalents. These instruments comprise demand, near-cash interest bearing investments with their original terms to maturity of three months or fewer.

i) Net and Comprehensive Income (Loss)

Net and comprehensive income (loss) comprises net income (loss) and other comprehensive income (loss). Other comprehensive income (loss), if any, represents changes in shareholders' equity and includes foreign exchange gains and losses on the translation of the financial statements of the Company's foreign operations and would be presented as accumulated other comprehensive income (loss). The Company's earnings (loss) per share as presented on the accompanying consolidated statements of operations are based upon its net and comprehensive income (loss). However, the Company has not had material income or losses from these sources of other comprehensive income (loss).

j) Equity

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. Contributed surplus, if any, would include amounts in connection with conversion options embedded in compound financial instruments, stock-based compensation and the value of warrants. Monies paid in excess of the average stated value of the Company's common shares when such shares are repurchased for cancellation are treated as a reduction in retained earnings. The Company's retained earnings also comprise all current and prior period income and losses and dividends paid.

k) Provisions

Provisions are recognized when the Company has a present legal obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. Additionally, the Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Onerous Contracts:

A provision for onerous contracts would be recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision would be measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company would recognize any impairment loss on the assets associated with the contract.

l) Impairment - Financial Assets

Financial assets other than those carried at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset, in which the cash flows can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, a recent history of operating losses or deficiencies in operating cash flows, or the disappearance of an active market for a security.

The Company maintains an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than the full amount due on its trade receivables. The Company considers evidence of impairment for receivables at both a specific asset and a collective level. All individually significant receivables are assessed for specific impairment.

Individual overdue accounts are reviewed, and allowances are recorded, to report trade receivables at net realizable value, when it has been determined that they are not collectible in full. All individually significant receivables found not to be specifically impaired are collectively assessed for any impairment that has been incurred but not yet identified. In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses, if any, are recognized in the accompanying consolidated statements of operations and are reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss would be reversed through the same financial statements.

m) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire. Trade-date accounting is used.

At initial recognition, the Company classifies its financial instruments depending on the purpose for which the instruments were acquired, as follows:

- (a) Cash and cash equivalents (i.e. short-term investments) are presented at fair value, with changes in fair value recorded in net income (loss) at each reporting period end.
- (b) Accounts receivable and vendor mortgage take back are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's accounts receivable comprise trade receivables and are included in current assets due to their short-term nature. Accounts receivable due are initially recognized at the amount expected to be received less an allowance to reduce these assets to fair value, if any, and are subsequently measured at amortized cost. Vendor mortgage take back is presented on the accompanying consolidated statements of financial position at amortized cost, which approximates fair value given the long-term nature of this instrument, overall interest rates prevalent in the current market, and the interest rates and terms specific to that instrument, as well as management's assessment of counterparty risks. In the opinion of management, the imputed discount rate on this instrument, given the Company's incremental cost of borrowing, does not create a material difference.

- (c) At September 30, 2018, the Company's Park Lawn Corporation shares ("the PLC shares") comprise 37,092 shares of that entity which are traded on the TSX. The value of those shares on the date of their acquisition in 2016 (as described in Note 2 (c)) settlement of the Note due from PLLP was \$15.11 per share. This instrument is considered by management under IFRS to be held for trading. As the shares are traded in an active and visible market, as at June 30, 2018, these shares have been marked to market, which was in excess of cost, resulting in an unrealized gain as reported on the interim unaudited consolidated statements of operations. At each reporting period end, it is the intention of management to continue to mark these instruments to market as the Company intends to divest itself of these instruments under favorable conditions. As at September 30, 2018, the PLC shares had a closing market value of \$26.62 per share.
- (d) The Company's long-term investments in Slate and Maritime are considered by management to be available for sale under IFRS, which the Company has designated as fair-value instruments. The investments are reported at amortized cost, which management believes approximates fair market value, due to market and other conditions, at the end of each reporting period. See also Note 2 (l).
- (e) The Company's financial instrument liabilities are initially recognized at the amount expected to be paid. Subsequently, trade and other liabilities are measured at amortized cost. The Company's only financial instrument liabilities as at December 31, 2017 and September 30, 2018, comprised accounts payable and accrued liabilities.

3. FUTURE AND RECENTLY ADOPTED ACCOUNTING POLICY CHANGES

The International Accounting Standards Board ("IASB") issued the following standards, amendments and interpretations as at the date that the Board of Directors approved the accompanying the interim unaudited consolidated statements, which the Company has adopted.

- IFRS 9, Financial Instruments, Classification and Measurement ("IFRS 9") comprises 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. IFRS is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Adoption of this standard by the Company on January 1, 2017 has not had a material effect.
- IFRS 15, Revenue from Contracts with Customers - IFRS 15 replaces IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Adoption of this standard by the Company on January 1, 2017 has not had a material effect.
- IFRS 16, Leases – Effective for annual periods beginning on or after January 1, 2019. The most significant change introduced by IFRS 16 is a single lessee accounting model, bringing leases on-balance sheet for lessees. The Company is currently assessing the impact of adopting this standard on the Company's condensed interim consolidated financial statements and related note disclosures, although management of the Company does not expect adoption to have a material effect.

- IAS 7, Statement of Cash Flows – Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The amendments to IAS 7 require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Adoption of this standard by the Company on January 1, 2017 has not had a material effect.
- IAS 12, Income Taxes - Effective for annual periods beginning on or after January 1, 2017 with earlier application permitted. IAS 12 has been revised to incorporate amendments issued by IASB in January 2016. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. Adoption of this standard by the Company on January 1, 2017 has not had a material effect.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at December 31, 2017 and September 30, 2018, the Company's financial instruments comprise cash, accounts receivable, short-term investments, long-term investments, Park Lawn Corporation shares, vendor mortgage take back, and accounts payable and accrued liabilities. There is no active and visible market for instruments of these types except for cash, short-term investments, the long-term investment in Slate, and the Park Lawn Corporation shares, the valuation of each of which is discussed in Note 2(m), as is the valuation of the investment in Maritime. The fair values of the Company's financial instruments approximate their carrying values, unless otherwise noted, due to their immediate liquidity, short-term maturities or interest rates and other terms which management believes approximate those of similar instruments in the current market. Except as otherwise noted, the Company is not exposed to significant risks in relation to its financial instruments.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no changes to the Company's exposure to risks in respect of its financial instruments, and there have been no changes in respect of management's objectives, policies and processes in the management of its financial instruments from that of the prior reporting period.

The Company reached a settlement agreement with PLC and PLLP with regard to the Promissory Note Due to the Company as referred to Note 2 (c). Under the terms of this agreement, PLC made an immediate cash payment of \$1,000,000 to the Company. The balance of the settlement was paid to the Company in the form of shares ("the Share") of 262,092 PLC which were issued from PLC treasury. As a consequence of the net proceeds of settlement, the Company incurred a net accounting and income loss during the fiscal year ended December 31, 2016 of \$136,288, which was recognized in net income (loss) for the period. At the time of acquisition, management considered the Shares to be held for trading instruments.

In March 2017, the Company disposed of 75,000 of these shares at a price of \$16.50 per share prior to commissions. On April 26, 2017, the Company sold an additional 60,000 PLC shares at \$18.45 per share prior to commission and on May 9 and 12, 2017 the Company sold an additional 50,000 PLC shares in aggregate at \$20.50 per share prior to commissions. During November and December 2017, the Company sold an additional 25,000 PLC shares at an average price of \$20.51 per share prior to commissions. On March 27, 2018 the Company sold an additional 15,000 shares at a price of \$27.00 per share prior to commission. (See also Note 11.)

The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Credit risk

Concentration of credit risk relates primarily to the Company's trade receivables, as the receivables principally derive from Canadian entities. The allowance for doubtful accounts was immaterial at the reporting dates. There is no indication, as at these dates, that the debtors will not meet their obligations, except as has been provided for as bad debts during the reporting periods. Bad debt expenses were immaterial for both years. The Company manages its credit risk relating to its trade receivables through credit approval and monitoring procedures, including senior management prior approval of all rental contracts. Such approvals are based on trade information, payment history, credit rating and financial analysis, where possible.

As at September 30, 2018, no material amounts, individually or in aggregate, of accounts receivable, were due beyond their stated payment terms, and none were considered impaired. Management believes that earning trade revenues through its current channels does not represent a significant credit risk to the Company.

Investment risk

The Board of Directors of the Company regularly reviews both compliance and performance of the Company's investments in cash equivalents (i.e. short-term investments), long-term investments, Park Lawn Corporation ("PLC") shares and vendor mortgage take back. The Company does not consider there to be a significant credit risk for its investments based on investment-grade ratings and performance criteria used in selecting these investments; their liquidities or maturities; the securities held by the Company; monitoring of the price of the shares of PLC and the financial performance of Maritime; and, the returns earned and market values of the short- and long-term investments and vendor mortgage take back, to the date that the Board of Directors approved the accompanying consolidated, unaudited, interim financial statements (see Note 2(m)(b)). None of the counterparties to these instruments have been in default in respect of their obligations.

Liquidity risk

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

Management is of the view, based on historical cash flows, that there are sufficient current and future cash flows from the Company's operating activities and current- and long-term assets to sustain ongoing operations. Should contractual commitments require additional payments, management believes that the Company's current and future sources of liquidity are sufficient to cover these obligations. The Company's cash and short- and long-term investments are demand instruments, and, as at the date of the accompanying consolidated financial statements, there are no contractual restrictions on the Company's ability to sell its remaining PLC shares.

Market risk

In addition, the Company believes that its exposure to valuation risk in respect of its vendor mortgage take back is minimal (see Notes 1 and 10).

With the January 6, 2016, assumption by Mattamy of responsibility for the management and completion of the approval process with the City of Toronto for the development of the Land at 57 Linelle Street, Toronto (see Notes 1, 2(c) and 11), management believes that the Company is no longer subject to material risks associated with this particular residential real estate development in Toronto. In the future, the Company may enter into additional real estate development or other projects and become subject to those risks.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. As at September 30, 2018, the Company's exposure to variable interest rates relates to its short-term investments (see Note 6), as changes in the interest rates would affect the Company's returns on these instruments. All of the Company's other financial instruments are either non-interest bearing or bear interest at fixed rates.

Fair value Hierarchy

The following summarizes the Company's financial instruments that are carried at fair values according to the fair value hierarchy, which comprises the following levels. The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial instruments that are carried at fair value under the hierarchy comprise Park Lawn Corporation shares, which are Level 1, and its cash and cash equivalents (i.e. short-term investments) and long-term investments, which are Level 2 instruments, respectively.

Derecognition of financial instruments

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or when the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the asset. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

5. CAPITAL DISCLOSURES AND NORMAL COURSE ISSUER BIDS

The Company defines capital as the aggregate of shareholder equity and debt. The Company's equity comprises the shares of the Company subscribed by the shareholders and retained earnings. The Board of Directors manages the dividend policy and the pricing of products and services of the Company so as to ensure that there are adequate cash flows to fund the Company's operations and safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders.

The Company is currently not dependent on external financing to fund its activities. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is optimal.

Normal Course Issuer Bids

On May 23, 2017, the Company announced that it would be conducting a normal course issuer bid ("NCIB") through the facilities of the Canadian Securities Exchange. Under the NCIB, the Company would purchase for cancellation a maximum of 49,603 shares representing up to 10% of the public float of the currently issued and outstanding shares of the Company. As at December 31, 2017, the Company had purchased 49,303 of its outstanding shares and all purchased shares had been cancelled as of December 31, 2017. On December 1, 2017 the Company announced that it was cancelling the NCIB.

On June 13, 2018 the Company announced that it would be conducting a Normal Course Issuer Bid ("NCIB"). Under the NCIB, the Company will purchase up to 44,672 shares representing up to 10% of the public float of the currently issued and outstanding shares of the Company. During the quarter ended September 30, 2018, the Company had purchased 36,000 of its outstanding shares and shares purchased have been cancelled. Subsequent to that date, the Company repurchased for cancellation an additional 8,672 shares and announced that the current NCIB had been completed. (See Notes 9 and 13).

Other than the NCIBs, there was no change in the Company's approach to capital management during the three- and nine-month periods ended September 30, 2018 and 2017. The Company is not subject to externally imposed capital requirements.

6. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

As at September 30, 2018 and December 31, 2017, the Company's cash comprises cash on deposit with a Canadian chartered bank in the amount of \$2,760,891 (December 31, 2017 - \$3,952,522; September 30, 2017 - \$3,379,218). The Company's cash equivalents comprise interest bearing investments in an aggregate amount of \$2,608,459 (December 31, 2017 - \$2,353,671; September 30, 2017 - 2,325,872) in four Canadian and one United States investment funds (December 31, 2017 and September 30, 2017 - four Canadian and one US investment funds), held in Canadian dollars). The short-term investments have maturities of three or fewer months from the date of investment or reinvestment and are redeemable on demand. Due to the interest rates and other terms of these investments, management is of the opinion that the carrying value of these instruments approximates fair market value.

During the Company's fiscal quarter ended September 30, 2018, the Company earned interest of \$25,427 (2017 - \$13,223) which was reinvested in these funds, as well as interest of \$58,878 on its vendor take back in compliance with the Mattamy agreement (fiscal quarter ended September 30, 2017 - \$58,878) (see Note 10).

As at September 30, 2018, the Company's aggregate cash and cash equivalents amounted to \$5,369,351 (December 31, 2017 - \$6,306,193; September 30, 2017 - \$5,705,090).

7. LONG-TERM INVESTMENTS

Slate Canadian Real Estate Opportunity Fund LP

During the fiscal quarter ended March 31, 2018, the Company made a cash investment, net of returns of capital during the quarter, of approximately \$162,696 in Slate Canadian Real Estate Opportunity Fund L.P. (“Slate”). It is management’s intent to hold this investment with the goal of realizing long-term appreciation, and the Company currently intends to invest up to \$545,000 in this entity. As a consequence, the investment is classified as available for sale. At the end of each reporting period, the investment is reported at fair value, with gains and losses reported as a component of net and comprehensive income. As at September 30, 2018, the fair market value of the long-term investment was \$240,422. (See Note 13)

Maritime Cold Storage Ltd.

On July 18, 2018, the Company announced that it had completed a transaction to invest \$750,000 in Maritime Cold Storage Ltd. (“Maritime”), a private company that owns and operates a cold storage facility in Moncton, NB. Under the transaction, the Company acquired 10% of the outstanding Common Shares of Maritime, as well as preferred shares that entitle PLCL to cumulative dividends of 5% per year, paid quarterly, and an additional 2% cumulative dividend to be paid prior to the payment of any dividend or other proceeds to Maritime’s Common Shares.

8. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2018, the Company paid cash remuneration of \$205,533 (2017 - \$205,533) to Scotchbrook Holdings Inc. (“Scotchbrook”) for management and professional services in relation to the Company’s operations. Scotchbrook is owned by a director and an officer of the Company. These transactions were in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. During the Company’s 2016 fiscal year, and under the terms of its agreement with Scotchbrook, the Company announced that its agreement with Scotchbrook would terminate at the end of the Company’s 2018 fiscal year (i.e. within a “three-year notice period”). (See Note 13).

9. SHAREHOLDERS’ EQUITY

As at September 30, 2018, the Company’s authorized share capital comprises an unlimited number of common shares of which 1,044,697 (September 30, 2017 – 1,085,800) are issued and outstanding. This figure, weighted for share redemptions under the terms of the Company’s normal course issuer bid, forms the basis for the determination of net income (loss) per share for the Company’s quarters ended September 30, 2018 and 2017.

Reference should be made to Note 6 which describes the Company’s Normal Course Issuer Bids made during its 2018 and 2017 fiscal years. (See also Note 13.)

10. VENDOR TAKE BACK MORTGAGE AND LAND HELD FOR DEVELOPMENT

On January 6, 2016 the Company completed the following transaction with Mattamy Development Corporation (“Mattamy”). The parties entered into an agreement (the “Agreement”) for the development of Company’s property (“the Land”) located at 57 Linelle Street, Toronto. Mattamy acquired an 80% interest in the Land for \$8.2 million, 40% of which, under the agreement, was paid to the Company in cash during the first two quarters of 2016. (See Note 1.) Of the outstanding balance of the selling price, \$4,920,000, the Company received a vendor take back mortgage (“the Mortgage”) the proceeds of which are payable in cash to the Company within three years of closing. Interest is payable on the Mortgage at 4.8% per annum, with no interest payable until July 2017. Interest of \$58,878 in respect of the Mortgage was received in cash during the Company’s fiscal quarters ended September 30, 2018 and September 30, 2017.

The Company has retained a 20% interest in the Land and has entered into a co-ownership agreement with Mattamy. The co-owners’ agreement contemplates the development of the land for low-rise residential development. Under this agreement, Mattamy has assumed responsibility for managing the approval of the re-zoning process with the City of Toronto, as well as managing site servicing and the sale and construction of the units. The Company and Mattamy will divide profits from the development and sale of the land held for development with the Company receiving 20% and Mattamy 80%.

Due to the interest rate and other terms of the corresponding vendor take back agreement, management is of the opinion that the carrying value of the vendor take back mortgage approximates fair market value.

11. PARK LAWN CORPORATION SHARES

On July 28, 2016, the Company entered into an agreement with PLC that provides for repayment of the Note referred to in Note 2 (c) and 4. At that date, the Note had a par value of \$5,096,498.

On September 16, 2016, the balance of the Note due was settled with the issuance of 262,092 common shares of PLC from PLC treasury and the cash payment of \$1,000,000 to the Company. From the date of settlement, the PLC shares were subject to a holding period of six months. For income tax and IFRS purposes, these shares were initially valued on the Company’s consolidated statements of financial position at \$15.11 per share, being the closing price on the date of the closing of transaction on the TSX, resulting in a net accounting and income tax loss of approximately \$136,000. During its 2017 fiscal year, December 31, 2017 the Company sold 210,000 shares of PLC shares in aggregate. The Company realized accounting and income tax gains on the sale of these shares during the year ended December 31, 2017 of \$709,150, and unrealized net gains on the value of the PLC shares of \$301,481 (three months ended March 31, 2017 - \$446,909). For the three months ended March 31, 2018, the realized gain was \$141,600 and the unrealized gain was \$63,057).

On March 27, 2018 the Company sold 15,000 additional PLC shares for \$27.00 per share before commissions. As at September 30, 2018, the market value of the remaining 37,092 PLC shares was \$26.62 per share (June 30, 2018 - \$24.35) resulting in an unrealized gain on the value of the PLC shares of \$84,199 for the three months ended September 30, 2018 (nine months ended September 30, 2018 – unrealized gain of \$6,634 and realized gain of \$178,610).

12. INCOME TAXES

In its prior six annual fiscal years, the Company incurred non-capital losses for income tax purposes. Those losses were available to the Company to reduce the current portion of its income taxes payable, if any. The deferred income tax benefit of these losses carried forward (\$52,000 as at December 31, 2015) was not recognized in the Company's annual and quarterly consolidated financial statements until the fourth quarter of the Company's 2015 fiscal year due to the uncertainty of the Company being able to apply its non-capital losses against future non-capital earnings. In addition, at the time of the acquisition of the Land during the Company's fiscal 2002 year, the value of the Land was written down by the Company from the acquisition price of approximately \$4.189 million to approximately \$2.074 million for accounting purposes. Under the Income Tax Act (Canada) no write down was required. Due to the uncertainty of the Company being able to recover its original investment in the Land, including obtaining rezoning approval from the City of Toronto, the effect of the deferred taxable benefit of this difference was not recognized until the closing of the Mattamy transaction.

As at September 30, 2018 the valuation allowance for deferred income taxes was \$Nil (2017 - \$Nil).

The table below provides a reconciliation between the combined statutory federal and Ontario income tax rates and the Company's average effective tax rates for the nine months ended September 30, 2018 and 2017.

	September 30, 2018	September 30, 2017
Net income before incomes taxes for the period	\$ 202,768	\$ 611,335
Statutory tax rate	26.5%	26.5%
Income tax at statutory rates	<u>53,734</u>	<u>160,004</u>
Non-taxable portion of holding and capital gains on investments	(47,734)	(87,075)
Other	47,000	27,071
Income taxes (recovery) at average effective rates	<u>53,000</u>	<u>100,000</u>
Current income taxes	47,000	77,000
Deferred income taxes (recovery)	<u>6,000</u>	<u>23,000</u>
	<u>\$ 53,000</u>	<u>\$ 100,000</u>

13. SUBSEQUENT EVENTS

Normal Course Issuer Bid

During the month of October 2018, the Company completed its NCIB that it had announced June 2018 with the purchase subsequent to September 30, 2018 of a total of 8,672 of its outstanding shares at a price of \$8.85 per share, providing for the maximum number of shares under this NCIB. These shares have been cancelled. (See Note 9.)

Slate Canadian Real Estate Opportunity Fund LP

During the month of November 2018, the Company invested an additional \$144,172 cash in Slate Canadian Real Estate Opportunity Fund L.P., bringing the total investment to \$294,494 of the \$545,000 that the Company intends to commit to the Slate. (See Note 7.)

Related Party Transactions

On November 23, 2018 the Board of Directors approved the extension of the Management Agreement between the Company and Scotchbrook Holdings Limited for an additional two years commencing on January 1, 2019, and under the same terms and conditions as the current agreement. (See Note 8.)