

**FAMILY MEMORIALS INC.**  
**Consolidated Financial Statements**  
For the years ended  
December 31, 2014 and 2013

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## Independent Auditor's Report

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### To the Shareholders of Family Memorials Inc.

We have audited the accompanying consolidated financial statements of Family Memorials Inc. and its subsidiaries (the "Corporation"), which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 and the consolidated statements of operations and comprehensive loss and changes in shareholders' deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Consolidated Financial Statements

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

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Family Memorials Inc. and its subsidiaries as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

#### **Emphasis of Matter**

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Family Memorials Inc. incurred a net loss of \$1,332,870 during the year ended December 31, 2014 (2013 - \$337,453) and, as of that date, has an accumulated deficit of \$8,175,472 (2013 - \$6,842,602) and a working capital deficiency of \$2,969,739 (2013 - \$118,792). These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern.

We also draw attention to Note 21 to the consolidated financial statements, which explain that certain comparative information for the year ended December 31, 2013 has been restated.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants

April 28, 2015  
Toronto, Ontario

# FAMILY MEMORIALS INC.

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## Consolidated Statements of Financial Position

<b>As at</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		(Restated – Note 21)
<b>CURRENT</b>		
Cash and cash equivalents	\$ 161,716	\$ 569,024
Cash not available for use (Note 5)	14,434	14,429
Trade and other receivables (Note 6)	512,345	1,002,031
Inventory (Note 7)	2,340,549	3,011,016
Income taxes receivable	15,725	82,070
Prepaid expenses	344,698	356,592
	<b>3,389,467</b>	<b>5,035,162</b>
<b>NON CURRENT</b>		
Trust fund assets (Note 8)	414,716	1,031,883
Cemetery property / land improvements	-	366,830
Property, plant and equipment (Note 9)	1,550,504	1,806,623
Intangibles (Note 10)	2,237,013	2,405,926
Goodwill (Note 11)	1,961,157	2,241,157
	<b>\$ 9,552,857</b>	<b>12,887,581</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		
<b>CURRENT</b>		
Trade and other payables (Note 12)	\$ 1,782,516	\$ 1,426,219
Customer deposits	2,308,121	2,546,013
Deferred revenue	127,344	242,565
Current portion of obligations under finance lease (Note 13)	42,702	71,037
Current portion of debentures (Note 14)	1,998,510	766,047
Debenture interest payable	100,013	102,073
	<b>6,359,206</b>	<b>5,153,954</b>
<b>NON CURRENT</b>		
Obligations under finance lease (Note 13)	49,907	117,009
Debentures (Note 14)	5,012,503	6,895,300
Deferred tax (Note 15)	-	685,908
Liability for pre-need and perpetual care (Note 8)	407,475	978,774
	<b>11,829,091</b>	<b>13,830,945</b>
<b>SHAREHOLDERS' DEFICIENCY</b>		
Share capital (Note 17)	4,643,159	4,643,159
Equity component – convertible debenture	317,523	317,523
Contributed surplus (Note 16)	938,556	938,556
Deficit	(8,175,472)	(6,842,602)
	<b>(2,276,234)</b>	<b>(943,364)</b>
	<b>\$ 9,552,857</b>	<b>\$ 12,887,581</b>

Going concern (Note 2)

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

**Approved on behalf of the Board**

(Signed) "Scott Kellaway" Director

(Signed) "Robert Kellaway" Director

# FAMILY MEMORIALS INC.

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## Consolidated Statements of Changes in Shareholders' Deficiency

	Share Capital		Debenture	Contributed	Deficit	Total
	Number of	Amount	\$	Surplus	\$	Equity
	Shares	\$		\$		\$
						(Restated- Note 21)
<b>Balance at Dec. 31, 2012</b>	39,723,603	4,643,159	317,523	777,400	(6,505,149)	(767,067)
Total comprehensive loss	-	-	-	-	(337,453)	(337,453)
Debenture rights (Note 14)	-	-	-	8,000	-	8,000
Agents options (Note 17(i))	-	-	-	153,156	-	153,156
<b>Balance at Dec. 31, 2013</b>	39,723,603	4,643,159	317,523	938,556	(6,842,602)	(943,364)
Total comprehensive loss	-	-	-	-	(1,332,870)	(1,332,870)
<b>Balance at Dec. 31, 2014</b>	39,723,603	4,643,159	317,523	938,556	(8,175,472)	(2,276,234)

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

# FAMILY MEMORIALS INC.

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## Consolidated Statements of Operations and Comprehensive Loss

<b>For the years ended December 31</b>	<b>2014</b>	<b>2013</b>
		(Restated – Note 21)
<b>Sales</b>	\$ <b>12,694,668</b>	\$ 3,676,434
<b>Cost of Sales</b>	<b>7,053,132</b>	2,448,786
<b>Gross Profit</b>	<b>5,641,536</b>	1,227,648
<b>Expenses</b>		
Administration	<b>822,844</b>	343,443
Advertising and promotion	<b>256,770</b>	121,701
Amortization of intangible assets	<b>240,010</b>	65,622
Depreciation of property, plant and equipment	<b>216,959</b>	77,623
Employee costs	<b>2,786,659</b>	1,160,127
Financing costs	<b>1,772,624</b>	942,793
Imonument equipment costs	<b>12,243</b>	46,338
Occupancy costs	<b>1,078,222</b>	432,051
Professional fees	<b>228,825</b>	54,977
	<b>7,415,156</b>	3,244,675
<b>Net loss from operations</b>	<b>(1,773,620)</b>	(2,017,027)
Interest income	<b>1,536</b>	10,243
Goodwill impairment	<b>(280,000)</b>	-
Gain on sale of cemetery property and property, plant and equipment	<b>33,306</b>	-
Bargain purchase gain on acquisition (Note 21)		1,574,185
<b>Loss for the year before income taxes</b>	<b>(2,018,778)</b>	(432,599)
Deferred income tax recovery (Note 15)	<b>685,908</b>	99,250
Income taxes (Note 15)	-	(4,104)
<b>Net loss and comprehensive loss</b>	\$ <b>(1,332,870)</b>	\$ (337,453)
<b>Loss per share</b>		
Basic loss per share	\$ <b>0.033</b>	\$ 0.008
Diluted loss per share (Note 22)	<b>0.033</b>	0.008
Weighted average number of shares outstanding	<b>39,723,603</b>	39,723,603

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

# FAMILY MEMORIALS INC.

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## Consolidated Statements of Cash Flows

<b>For the years ended December 31</b>	<b>2014</b>	<b>2013</b>
<b>Cash flows used in operating activities</b>		(Restated- Note 21)
Net loss for the year	\$ (1,332,870)	\$ (337,453)
<b>Items not requiring an outlay of cash</b>		
Accretion on debentures	821,527	329,028
Depreciation of property, plant and equipment	216,959	77,623
Amortization of intangible assets	240,010	65,622
Bargain purchase gain on acquisition	-	(1,574,185)
Gain on sale of cemetery property and property, plant and equipment	(33,306)	-
Impairment of goodwill	280,000	-
Current taxes	-	(99,250)
Deferred taxes	(685,908)	4,104
Interest expense on debentures	951,097	616,227
	<b>457,509</b>	<b>(918,284)</b>
<b>Changes in non-cash working capital</b>		
Decrease in trade and other receivables	489,686	356,262
Decrease in inventory	670,467	289,017
Decrease (increase) in prepaid expenses	11,894	(58,550)
Increase in trade and other payables	356,297	267,024
Increase (decrease) in customer deposits	(237,892)	36,050
Decrease in deferred revenue	(115,221)	-
	<b>1,175,231</b>	<b>889,803</b>
Income tax received	66,345	34,925
<b>Cash provided by operating activities</b>	<b>1,699,085</b>	<b>6,444</b>
<b>Cash flow from financing activities</b>		
Repayment of debenture debt	(1,471,861)	-
Repayment of capital lease obligations	(95,437)	(10,545)
Cash paid on acquisition	-	(171,178)
Cash obtained during acquisition	-	286,766
Cash not available for use	(5)	331
Cash held in trust	45,868	(13,877)
Net proceeds from debenture	-	924,557
Interest paid on debentures	(953,157)	(537,700)
<b>Cash provided by (used in) financing activities</b>	<b>(2,474,592)</b>	<b>478,354</b>
<b>Cash flow from investing activities</b>		
Proceeds on disposal of cemetery property and property, plant and equipment	476,245	-
Purchase of property, plant and equipment	(36,949)	(18,243)
Purchase of intangible assets	(71,097)	(78,922)
<b>Cash provided by (used in) investing activities</b>	<b>368,199</b>	<b>(97,165)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(407,308)</b>	<b>387,633</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>569,024</b>	<b>181,391</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 161,716</b>	<b>\$ 569,024</b>

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

**1. NATURE OF BUSINESS**

Family Memorials Inc. (the “Corporation”) is a Canadian public company (TSXV: FAM) operating as one operating segment as a consolidator of monument and memorial retailers in the death care industry. The Corporation continues to pursue a growth strategy through acquisitions, market consolidation and the development of new sales software. The head office, which is also the registered office of the Corporation, is located at 1126 Roland Street, Thunder Bay, Ontario, Canada P7B 5M4.

**2. BASIS OF PRESENTATION****Statement of Compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), on an ongoing concern basis, under the historical cost convention.

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Corporation’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in Note 4. These consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 28, 2015.

**Going Concern**

These consolidated financial statements have been prepared on the basis of the accounting principles applicable to a going concern, which assumes that the Corporation will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. In making its assessment, management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern as described in the following paragraph. Accordingly, they do not give effect to adjustments that would be necessary should the Corporation be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business. These adjustments may be material to the consolidated financial statements.

The ability of the Corporation to continue operations is dependent upon its ability to successfully integrate and realize on operational efficiencies with its new subsidiary acquisition, Remco Memorials Ltd., raise new financing, successfully roll out its new sales software and increasing its retail network which is targeted to achieve a critical mass that will sustain positive cash flow. The outcome of these matters cannot be predicted at this time. Since inception, the Corporation has incurred a cumulative deficit of \$8,175,472 (\$6,842,602 - December 31, 2013) and has a working capital deficit of \$2,969,739 (\$118,792 – December 31, 2013). Management believes that the Corporation will be able to continue to raise additional funds when needed, has successfully integrated and realized on operational efficiencies with Remco Memorials and will implement new growth strategies and therefore has prepared these consolidated financial statements on a going concern basis. Realization values may be substantially different from the carrying values as presented in the financial statements should the Corporation be unable to continue as a going concern. It is management’s opinion that all adjustments considered

necessary for fair presentation of the results for the periods presented have been reflected in these consolidated financial statements.

**Functional and Presentation Currency**

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**(a) Principles of Consolidation**

These consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Company and its wholly-owned subsidiaries, Grajack Industries Ltd., Somerville Memorials Ltd., R.H. Verduyn Granite Company Ltd., Barber Monuments Limited; Stratford Memorials Limited and Remco Memorials Ltd.

Subsidiaries are all entities over which the Corporation has control. The Corporation controls an entity when the Corporation is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Corporation. They are deconsolidated from the date that control ceases. All inter-company transactions and balances are eliminated.

**(b) Business Combinations**

The Corporation applies the acquisition method to account for business combinations. The consideration transferred by the Corporation to obtain control of an entity is calculated as the sum of the acquisition date fair values of assets transferred, liabilities assumed and the equity interests issued by the Corporation, which includes the fair value of any assets or liabilities as a result of a contingent consideration arrangement. Acquisition costs are recognized separately from the business combination and included in profit or loss as incurred.

All identifiable assets acquired and liabilities assumed are recognized, regardless of whether they have been previously recognized in the acquiree's prior financial statements.

Goodwill is calculated as the excess of the sum of the fair value consideration over the acquisition date fair value of the identifiable net assets. If the acquisition date fair value of the identifiable net assets exceeds the sum above, the difference is recognized in profit or loss immediately.

**(c) Cash and cash equivalents**

Cash and cash equivalents are represented by cash and short term deposits with original maturities of three months or less, where the principal of the short term deposit receipts are readily accessible to the Corporation.

**(d) Accounts receivable**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Trade receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method, less an allowance for doubtful accounts based on the Corporation's knowledge of the financial condition of its customers, the aging of its receivables, the current business environment and historical experience.

**(e) Inventory**

Inventory is valued at the lower of cost and net realizable value. Cost includes the cost of the monument or marker and any applicable shipping charges. Inventory consists of items on display and items held in inventory for sale. A potential and reasonable expectation for sale exists for items within each classification. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

**(f) Property, plant and equipment**

Property, plant and equipment is initially recorded at cost being the purchase price and directly attributable cost of acquisition required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Corporation, including appropriate borrowing costs.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

Where an item of property, plant and equipment comprises significant components with different useful lives, the components are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of operations, comprehensive loss and deficit during the financial period in which they are incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within the consolidated statements of operations and comprehensive loss.

Depreciation on office furniture and equipment is calculated on a declining basis so as to write off the net costs of each asset over its expected useful life to its estimated residual value. Leasehold improvements and equipment under finance lease are depreciated over the term of the lease or the estimated useful life of the assets, whichever is the shorter. The estimated useful lives, residual values and depreciation method used are reviewed at the end of each annual reporting period, with the effect of any changes recognized on a prospective basis.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in the statement of operations, comprehensive loss and deficit.

Depreciation is provided at rates calculated to expense the assets over their estimated useful lives as follows:

Computer equipment	30% diminishing balance
Computer software	20 - 100% diminishing balance
Computerized equipment and machinery	10% diminishing balance
Equipment under finance lease	20% diminishing balance
Leasehold improvements	straight line over the estimated useful life
Motor vehicles	20 - 30% diminishing balance
Shop and office equipment	4 - 20% diminishing balance
Signage	20% diminishing balance

**(g) Intangibles**

Intangible assets with finite lives including customer relationships and imonument software are measured at cost less accumulated amortization and impairment losses. The estimated useful life and amortization method are reviewed annually with the effect of any changes in estimate being accounted for on a prospective basis. All intangible assets with finite lives are reviewed for impairment where there are indicators that the carrying value may not be recoverable.

Depreciation is provided at rates calculated to expense the assets over their estimated useful lives as follows:

Customer relationships	10 years straight-line basis
Imonument software	5 to 10 years straight-line basis

Intangible assets with an indefinite useful life, including brands, are measured at cost and are not amortized but are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

**(h) Goodwill**

Goodwill arises on the acquisition of the subsidiaries and represents the excess of the consideration transferred over the Corporation's interest in the acquisition date fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

Upon acquisition, goodwill is allocated to the applicable cash generating unit ("CGU") that is expected to benefit from the business combination synergies. Each unit represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is carried at cost less accumulated impairment losses.

**(i) Impairment of non-financial assets**

The carrying value of property, plant and equipment and intangible assets with finite lives are reviewed at the end of each reporting period to determine whether there are any indicators of impairment. If such indicators exist, then the recoverable amount of the asset is estimated. Goodwill and any intangible assets with indefinite lives are not amortized but are tested for impairment at least annually or whenever there is an indicator that the assets may be impaired.

**i) Cash generating units**

When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. The CGUs correspond to the smallest identifiable group of assets whose continuing use generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

## ii) Determining the recoverable amount

An impairment loss is recognized when the carrying amount of an asset, or of the CGU to which the assets belongs, exceeds the recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

In assessing its value in use, the estimated future cash flows are discounted to their present value utilizing a pre-tax discount rate. Discount rates are determined individually for each CGU and reflect their respective risk profiles as assessed by management. The Corporation estimates cash flows before taxes based on budgets and are extrapolated over a period of up to five years, taking into account a terminal value calculated by discounting the final year into perpetuity. The growth rate applied to the terminal values is based on management's estimate of the long term forecast of inflation.

## iii) Recognition of impairments and reversal of impairments

Impairments and reversals of impairments are recorded in profit or loss. Any impairment loss is allocated first to reduce the carrying value of any goodwill allocated to the CGU and then to the other assets of the CGU. Impairments of goodwill cannot be reversed. When an impairment loss subsequently reverses, the carrying value of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

**(j) Revenue recognition**

Revenue is recognized when the Corporation has substantially completed the requirements of a contract. Revenue from at-need contracts is recognized when the products sold are delivered.

Revenue from before-need contracts is recognized when the products sold are ready for delivery and payment in full has been received. The portion of before-need revenue relating to shipment and installation at time of need is recorded as deferred revenue and taken into income when final shipment and installation has occurred.

The Corporation has a merchandise storage program for before-need sales, whereby certain manufactured merchandise that has been fully paid by the customer is stored for the customer at their request until required for use. Merchandise is considered delivered for the purpose of revenue recognition once it has been paid for and stored at the request of the customer.

**(k) Customer deposits**

Customer deposits represent advance payments made by customers. These amounts are credited against customer invoices when sales are recorded.

**(l) Per share loss**

Basic loss per share is computed by dividing the loss for the year by the weighted average number of shares outstanding during the year.

Diluted loss per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Corporation has two categories of potentially dilutive shares: convertible debentures and stock options. Convertible debt is assumed to have been converted into ordinary shares, and net loss is adjusted to eliminate the interest expense less the tax effect. For stock options, the treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of the stock options are assumed to be used to purchase shares of the Corporation at the average market price during the year.

**(m) Financial instruments**

Financial assets and financial liabilities are recognized when the Corporation becomes party to the contractual provisions of the financial instrument. Financial assets and financial liabilities are measured initially at fair value plus directly attributable transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss. Financial assets and liabilities classified as fair value through profit or loss are initially measured at fair value and transaction costs are expensed in the consolidated statements of operations and comprehensive loss. Financial assets and liabilities are measured subsequently depending upon their classification as discussed below.

**(i) Financial assets**

Cash and cash equivalents, cash not available for use, and trade and other accounts receivable are classified as loans and receivables.

Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method, less provisions for impairment. Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Corporation will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized within administration expenses in the consolidated statements of operations and comprehensive loss. On confirmation that the trade receivable will not be collectible, the gross carrying value of the asset is written off against the associated allowance.

Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated statements of operations and comprehensive loss.

**(ii) Financial liabilities and compound financial instruments**

The Corporation's financial liabilities include trade and other payables, customer deposits, obligations under capital lease and debentures. These are classified as other financial liabilities and are measured at fair value on initial recognition, net of transactions costs and subsequently at amortized cost using the effective interest rate method.

Compound financial instruments issued by the Corporation include convertible debentures that can be converted into a fixed number of common shares, and debentures with rights offerings. The liability component of the compound financial instrument is recognized initially at fair value of a similar liability that does not have any equity conversion option or rights. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest rate method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except upon conversion, exercise or expiry.

**(iii) Offsetting financial instruments**

Financial assets and liabilities are offset when the net amount reported in the consolidated statement of financial position when the Corporation has a legally enforceable right to offset the recognized amounts and intends to either settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy or the Corporation or the counterparty.

**(n) Stock-based compensation**

The Corporation has a stock-based compensation plan ("the Stock Option Plan") which is described in Note 17. The Corporation employs the fair value based method for measurement and recognition of stock-based compensation for all stock options awarded pursuant to the Stock Option Plan. The fair value of the stock option at the grant date is measured using the Black-Scholes option-pricing model. Under the Stock Option Plan options are fully vested when they are granted and compensation expense is recognized in full at the date of grant with an equal amount recorded in contributed surplus. Any consideration paid by employees on exercise of stock options or the purchase of stock is credited to share capital plus the amounts originally recorded as contributed surplus.

**(o) Income taxes**

Income tax expense is comprised of current and deferred tax. Tax is recognized in net loss except to the extent that it relates to items recognized in other comprehensive loss directly in equity, in which case it is recognized in equity. In these cases, taxes are also recognized in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of the amount expected to be paid to the tax authorities.

Deferred tax is recognized on the temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

**(p) Government grants**

The Corporation has received government grants for development of imonument software. Government grants related to assets are recognized when there is reasonable assurance that the Corporation will comply with the conditions attached to them and the grants will be received. Government grants are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset.

**(q) Alberta pre-need trust fund**

The Corporation's Alberta Pre-Need Trust Fund was established, as required by *The Cemeteries Act of Alberta, 1999 (the "Alberta Act")* to hold funds to purchase on a pre-need basis services such as grave and crypt openings and closings.

Pursuant to the requirements of the Alberta Act, the Corporation deposits 100% of all monies received from the sale of pre-need installations and inscription fees on a pre-need basis with a trustee. When the services are performed on an as needed basis the Corporation may apply the trust funds to pay the current market value of the services. It is in the opinion of management that there are sufficient funds to cover the current market value of services to be provided.

The surplus of trust assets over trust liabilities is disclosed in Note 8. The liability for perpetual care is based on the Corporation's estimated cost of providing these services.

**(r) Leases**

Leases are classified as finance leases if substantially all risks and rewards incidental to ownership are transferred to the lessee. At the time of initial recognition, the lessee records the leased item as an asset at the lower of the fair value of the asset and the present value of the minimum lease payments. A corresponding liability to the lessor is recorded in the consolidated statement of financial position as a finance lease obligation. In subsequent periods, the asset is depreciated on a straight-line basis over the shorter of the term of the lease and the estimated useful life of the asset, and interest on the obligation is expensed through net loss.

Leases are classified as operating leases if substantially all risks and rewards incidental to ownership are not transferred to the lessee. The lease payments are recognized as an expense on a straight-line basis over the term of the lease.

**(s) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Financing costs are capitalized at interest rates relating to loans specifically raised for that purpose, or at the weighted average borrowing rate where the general pool of the Corporation's borrowings is utilized. Capitalization of borrowing costs ceases when the asset is substantially complete. Other borrowing costs are expensed in the period in which they are incurred and reported as 'financing costs' in the statements of operations and comprehensive loss.

**(t) Provisions**

Provisions, including legal claims, are recognized when the Corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as a financing cost.

**(u) Changes in accounting policy and disclosures**

**New standards, amendments and interpretations adopted in the year**

The following standards, that are applicable to the Corporation, have been adopted for the first time for the financial year beginning on or after January 1, 2014 and have no material impact on the Corporation:

**IAS 32, Financial Instruments: Presentation**

These amendments, effective January 1, 2014, relate to the application guidance in IAS 32, and clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. This amendment clarifies that the right of offset must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms.

**IAS 36, Impairment of Assets**

The IASB has amended disclosures required in relation to the recoverable amount for non-financial assets effective January 1, 2014. The amendments removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13 'Fair Value Measurement'.

**IFRIC 21, Levies**

This is an interpretation of IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', effective January 1, 2014. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized. The Corporation is not currently subjected to significant levies.

**New standards, amendments and interpretations not yet adopted**

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2015 or later years and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Corporation except for the following:

**IFRS 9, Financial Instruments**

IFRS 9, 'Financial Instruments' is part of the IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost and fair value through profit and loss or fair value through OCI. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 also relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. The standard is effective for annual periods beginning on or after January 1, 2018. The Corporation is in the process of evaluating the impact of the new standard.

**IFRS 15, Revenue from Contracts with Customers**

IFRS 15 will replace all of the revenue guidance that previously existed in IFRS. It is based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The principle of revenue recognition has moved from a transfer of risks and rewards to the transfer of control of the goods or services to the customer. IFRS 15 focuses on the transfer of control. Risks and rewards may be an indicator of when control transfers, however it will no longer be the primary basis for revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2017. The Corporation is in the process of evaluating the impact of the new standard.

**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amount of earnings, revenues and expenses during the reporting year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experiences may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets, liabilities and earnings are discussed below.

**a) Business combinations**

The Corporation applies the acquisition method of accounting to business combinations which involves the allocation of the cost of an acquisition to the underlying net assets acquired based on their respective estimated fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as an adjustment in the measurement period.

**b) Property, plant and equipment and intangibles**

Management reviews the useful lives of depreciable assets at each reporting date on the expected utility of the assets to the Corporation. Estimates are reviewed on at least an annual basis and actual results will vary.

**c) Impairment of accounts receivables**

The amount recognized as an impairment of trade and other receivables is based on management's assessment of the risks associated with each trade and other receivable with reference to losses incurred in prior periods, collection experience and the impact of the current and expected economic conditions.

**d) Impairment of goodwill**

The Corporation tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 3. The Company uses judgment in determining the grouping of assets to identify its cash generating units ("CGU") for purposes of testing for impairment of goodwill and intangible assets with indefinite lives. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's value in use and its fair value less cost to sell. Management estimates expected future cash flows for each cash generating unit based on expected future events and circumstances and discounts these cash flows to determine the value in use. Significant assumptions and estimates are involved in determining the expected future cash flows and the various risk components which comprise the discount rates. Actual results will vary from those estimated.

**e) Income taxes**

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of transacting business for which the ultimate tax determination is uncertain. The Corporation recognizes liabilities for anticipated tax audit issues based on the Corporation's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

In addition, the Corporation has recognized the benefits of certain tax losses carried forward to the extent there is sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilized.

**5. CASH NOT AVAILABLE FOR USE**

Cash restricted for use consists of a \$10,000 (2013 - \$10,000) security required by the province of Alberta's Cemetery Act and \$4,434 (2013 - \$4,429) held in trust for customers who have pre-paid for services.

## 6. TRADE AND OTHER RECEIVABLES

	2014		2013
Trade receivables	\$ 515,543	\$	579,616
Allowance for doubtful debts	(28,425)		(72,585)
Other receivables	25,227		495,000
	<b>\$ 512,345</b>	<b>\$</b>	<b>1,002,031</b>

Movements in the allowance for doubtful debts are as follows:

	2014		2013
Opening balance	\$ 72,585	\$	7,673
Bad debts	21,272		64,912
Bad debts recovered	(46,404)		-
Receivables written off as uncollectible	(19,028)		-
	<b>\$ 28,425</b>	<b>\$</b>	<b>72,585</b>

## 7. INVENTORY

The components of inventory are as follows:

	2014		2013
Resale	\$ 1,281,745	\$	1,681,665
Work in progress	145,979		366,691
Display	912,825		962,660
	<b>\$ 2,340,549</b>	<b>\$</b>	<b>3,011,016</b>

The direct cost of inventory included in cost of goods sold for the period ended December 31, 2014 amounted to approximately \$3,355,000 (2013 - \$1,410,000). During the year inventories of approximately \$50,000 (2013 - \$Nil) were written down and recognized as an expense in the statements of operations and comprehensive loss.

## 8. TRUST FUND ASSETS

	2014		2013
Money market funds	\$ 414,716	\$	1,031,883
Liability for pre-need and perpetual care	(407,475)		(978,774)
<b>Net trust balance</b>	<b>\$ 7,241</b>	<b>\$</b>	<b>53,109</b>

# FAMILY MEMORIALS INC.

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Notes to the Consolidated Financial Statements  
December 31, 2014

## 9. PROPERTY, PLANT AND EQUIPMENT

	Computer Equipment	Computer Software	Leasehold Improvements	Shop & Office Equipment	Motor Vehicles	Computerized Equipment & Machinery	Signage	Equipment under Finance Lease	Total \$
<b>Cost</b>									
Balance, January 1, 2013	130,592	7,436	70,737	518,717	375,117	-	16,991	-	1,119,590
Additions	-	3,300	-	14,943	-	-	-	-	18,243
Acquired through business combination	63,034	11,972	615,600	675,975	51,252	50,000	-	236,290	1,704,123
Disposals	-	-	(9,013)	-	-	-	-	-	(9,013)
Balance, December 31, 2013	193,626	22,708	677,324	1,209,635	426,369	50,000	16,991	236,290	2,832,943
Balance, January 1, 2014	193,626	22,708	677,324	1,209,635	426,369	50,000	16,991	236,290	2,832,943
Additions	14,823	-	-	22,126	-	-	-	-	36,949
Disposals	-	-	-	(11,410)	(32,248)	-	-	(49,510)	(93,168)
Balance, December 31, 2014	208,449	22,708	677,324	1,220,351	394,121	50,000	16,991	186,780	2,776,724
<b>Accumulated Depreciation</b>									
Balance, January 1, 2013	115,980	7,436	46,659	459,343	316,146	-	12,146	-	957,710
Depreciation	6,565	-	18,564	19,958	19,400	833	969	11,334	77,623
Disposals	-	-	(9,013)	-	-	-	-	-	(9,013)
Balance, December 31, 2013	122,545	7,436	56,210	479,301	335,546	833	13,115	11,334	1,026,320
Balance, January 1, 2014	122,545	7,436	56,210	479,301	335,546	833	13,115	11,334	1,026,320
Depreciation	21,148	6,507	70,121	56,557	22,415	4,736	775	34,700	216,959
Disposals	-	-	-	(312)	(10,430)	-	-	(6,317)	(17,059)
Balance, December 31, 2014	143,693	13,943	126,331	535,546	347,531	5,569	13,890	39,717	1,226,220
<b>Net Book Value</b>									
December 31, 2013	71,081	15,272	621,114	730,334	90,823	49,167	3,876	224,956	1,806,623
December 31, 2014	64,756	8,765	550,993	684,805	46,590	44,431	3,101	147,063	1,550,504

**10. INTANGIBLES**

Total intangibles are comprised of the following:

	<b>Customer Relationships</b>	<b>Brand</b>	<b>Imonument Software</b>	<b>Total</b>
<b>Cost</b>				
Balance, January 1, 2013	\$ -	\$ -	\$ 331,375	\$ 331,375
Additions	-	-	99,467	99,467
Acquired through business combination	1,496,000	593,821	-	2,089,821
Government grant received	-	-	(20,545)	(20,545)
Balance, December 31, 2013	1,496,000	593,821	410,297	2,500,118
Balance, January 1, 2014	1,496,000	593,821	410,297	2,500,118
Additions	-	-	71,097	71,097
Balance, December 31, 2014	\$ 1,496,000	\$ 593,821	\$ 481,394	\$ 2,571,215
<b>Accumulated Amortization</b>				
Balance, January 1, 2013	\$ -	\$ -	\$ 28,570	\$ 28,570
Amortization	-	-	65,622	65,622
Balance, December 31, 2013	-	-	94,192	94,192
Balance, January 1, 2014	-	-	94,192	94,192
Amortization	174,533	-	65,477	240,010
Balance, December 31, 2014	\$ 174,533	\$ -	\$ 159,669	\$ 334,202
<b>Net Book Value</b>				
December 31, 2013	\$ 1,496,000	\$ 593,821	\$ 316,105	\$ 2,405,926
December 31, 2014	\$ 1,321,467	\$ 593,821	\$ 321,725	\$ 2,237,013

## 11. GOODWILL

Goodwill acquired through business combinations has been allocated to two cash generating units as follows:

	2014	2013
Ontario Operations	\$ 1,696,644	\$ 1,976,644
Western Canada Operations	264,513	264,513
Balance, end of year	\$ 1,961,157	\$ 2,241,157

The Ontario operations are comprised of Grajack Industries Ltd., R.H. Verduyn Granite Corporation Ltd., Barber Monuments Limited, Stratford Memorials Ltd. and imonument operations. The Western Canada operations are comprised of Somerville Memorials Ltd. and Remco Memorials Ltd.

As a result of a delay in the full implementation of the imonument software into funeral home customer operations, the Ontario Operations CGU incurred a goodwill impairment loss of \$280,000 in the 2014 fiscal year (2013 - \$Nil). It was determined that the recoverable amount of the Western Canada CGU was above the carrying amount, indicating that there was no impairment of goodwill.

The Company's impairment analysis involves the use of an income approach that relies on estimating the net future cash flows and applying the appropriate discount rate to those future cash flows. This approach employs the following assumptions: projected sales growth, profitability, operating and administrative expenses, working capital fluctuations, sustaining capital expenditures, growth rates, as well as an appropriate discount rate. If future growth and results of the CGUs differ significantly from management's current best estimates, it is reasonably possible that this could have an adverse impact on the estimated recoverable amounts of the CGUs, including the amounts of allocated goodwill.

	Projected in 2015 year	Average in years 2016 through 2019	Terminal Beyond 2019
Ontario Operations	9%	5%	2%
Western Canada Operations	5%	3%	2%

The pre tax discount rates used for the CGUs in management's test for impairment are:

Ontario Operations	25.6% (2013 – 30%)
Western Canada Operations	28.5% (2013 – 31%)

**12. TRADE AND OTHER PAYABLES**

The components of trade and other payables are as follows:

	<b>2014</b>	2013
Trade payables	\$ <b>893,932</b>	\$ 491,390
Due to Director (Note 17)	<b>316,000</b>	366,000
GST/HST and other taxes	<b>307,502</b>	107,541
Other accruals	<b>265,082</b>	461,288
	<b>\$ 1,782,516</b>	\$ 1,426,219

The Corporation has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

**13. OBLIGATIONS UNDER FINANCE LEASE**

The future minimum lease payments under finance lease, together with the balance of the obligation under finance lease are as follows:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	<b>2014</b>	2013	<b>2014</b>	2013
Under 1 year	\$ <b>43,777</b>	\$ 72,432	\$ <b>42,702</b>	\$ 71,037
Between 1 and 5 years	<b>54,782</b>	137,815	<b>49,907</b>	117,009
Over 5 years	-	-	-	-
Minimum lease payments	<b>98,559</b>	210,247	<b>92,609</b>	188,046
Future finance costs	<b>(5,950)</b>	(22,201)	-	-
Present value of minimum lease payments	<b>\$ 92,609</b>	\$ 188,046	<b>\$ 92,609</b>	\$ 188,046

The Corporation enters into financing lease arrangements for certain of its operating equipment. The average term of the finance lease entered into is 5 years. Finance lease liabilities are secured by the related assets held under finance leases. The fair value of the finance lease liabilities is approximately equal to their carrying amount. The interest rates range from 0% to 6.24%.

## 14. DEBENTURES

	2014	2013
10% convertible debenture, semi-annual interest payments only on June 15 <sup>th</sup> and December 15 <sup>th</sup> in each year maturing June 2016	\$ 5,357,000	\$ 5,357,000
12% debenture, quarterly interest payments due January, April, July, October in each year beginning January 2014, with quarterly principal payments due March, May, August and November in each year, beginning August 2014, equal to 15% of the consolidated sales of the Company in each quarter ending March 31st, June 30th, September 30 <sup>th</sup> and December 31 <sup>st</sup> , maturing January 2016	2,528,139	4,000,000
	<b>7,885,139</b>	9,357,000
Less: unamortized transaction costs	<b>874,126</b>	1,695,653
	<b>7,011,013</b>	7,661,347
Less: current portion	<b>1,998,510</b>	766,047
	<b>\$ 5,012,503</b>	\$ 6,895,300

The convertible debenture and the 12% debenture are recorded at amortized cost using the effective interest method at rates of 17.98% and 31.41% respectively.

The convertible debentures will be redeemable by the Corporation beginning July 2014 for cash consideration consisting of the outstanding principal amount, the accrued and unpaid interest to the date of redemption and a premium of 5% of the principal amount of debenture. Each debenture will be convertible into common shares of the Company at the option of the holder at any time prior to the maturity date at a conversion price of \$0.19 per common share, being a conversion rate of 5,263.1579 common shares per \$1,000 principal amount of debentures. The debentures are secured against all assets of the Company and its subsidiaries.

The \$4,000,000 debenture was issued on October 31, 2013 consisting of 4,000 units. Each unit issued consisted of one 12% secured subordinated debenture with a principal amount of \$1,000 and 2,000 rights at a price of \$0.001 per right. Each right is convertible, for no additional consideration, into one common share of the Company on June 2, 2016 if the Company has not commenced paying a quarterly dividend of at least \$0.005 per common share on or prior to June 1, 2016. If the Company commences the paying of the dividend on or before June 1, 2016, the rights will be terminated and cancelled, whether or not the payment of the dividend ceases after the first dividend payment. The debentures are secured by a mortgage, charge and security interest on all assets of the Company and its subsidiaries, subordinated and postponed to the holders of the convertible debentures.

A Corporation controlled by a director of the Corporation participated directly in the debenture financing for a total principal amount of \$845,000 (see Note 18).

The Corporation has repaid principal amounts totalling \$1,471,861 during 2014 (2013 - \$Nil) as per the terms of the 12% debenture.

**15. INCOME TAXES**

	<b>2014</b>	2013
Expected combined federal and provincial tax rate	<b>26.5%</b>	26.5%
Expected income tax (recovery) at statutory rate	\$ <b>(534,976)</b>	\$ (114,639)
Increase (decrease) in taxes resulting from:		
Non-taxable items	-	(408,915)
Tax rate differences	-	(92,927)
Other	<b>(23,117)</b>	16,364
Change in valuation allowance	<b>(127,815)</b>	504,971
	<b>\$ (685,908)</b>	\$ (95,146)

The applicable statutory tax rate is 26.5% (2013- 26.5%). The Corporation's applicable tax rate is the Canadian combined rates applicable in the jurisdictions in which the Corporation operates.

<b>Deferred Tax Assets</b>	<b>2014</b>	2013
Tax losses carried forward	\$ <b>1,762,808</b>	\$ 2,127,539
Property, plant and equipment	-	(11,113)
Goodwill and intangibles	-	(10,365)
Deferred charges	-	(50,214)
Finance leases	<b>24,541</b>	
Share issuance costs	<b>152,793</b>	12,111
Total deferred tax assets	<b>1,940,143</b>	2,067,958
Unrecognized deferred tax asset	<b>(1,940,143)</b>	(2,067,958)
	<b>\$ -</b>	\$ -

<b>Deferred Tax Liabilities</b>	<b>2014</b>	2013
Inventory	\$ -	\$ 102,600
Trust fund assets	-	( 8,399)
Prepaid expenses	-	37,484
Goodwill	<b>10,711</b>	-
Intangibles	<b>517,128</b>	564,252
Property plant and equipment	<b>344,422</b>	373,669
Customer deposits	-	(56,515)
	<b>872,261</b>	1,031,091
Loss carried forward	<b>(872,261)</b>	(327,183)
	<b>\$ -</b>	\$ 685,908

The Corporation has non-capital losses carried forward for income tax purposes totaling \$9,885,707. \$3,291,551 of these losses have been recorded in the financial statements as a reduction of the deferred tax liability. Deferred income tax assets or recoveries are not being recognized as at December 31, 2014 as there is insufficient expectation of profits to justify recording these potential recoveries.

Unless sufficient taxable income is earned in future years, these losses will expire as follows:

December 31, 2015	\$ 271,077
Thereafter	9,614,630
	\$ 9,885,707

**16. CONTRIBUTED SURPLUS**

	<b>2014</b>	2013
Balance, beginning of year	\$ 938,556	\$ 777,400
Debenture rights (Note 14)	-	8,000
Agents options issued	-	153,156
Balance, end of year	\$ 938,556	\$ 938,556

**17. SHARE CAPITAL AND STOCK OPTIONS**

**Authorized:**

Unlimited number of common voting shares

	<b>2014</b>		2013	
	<b>No. of Shares</b>	<b>Amount</b>	No. of Shares	Amount
Balance beginning of year	<b>39,723,603</b>	\$ 4,643,159	39,723,603	\$ 4,643,159
Shares issued for cash	-	-	-	-
Balance, end of year	<b>39,723,603</b>	\$ 4,643,159	39,723,603	\$ 4,643,159

**Stock options**

Pursuant to the Corporation's stock-based compensation plan, the Board of Directors may allocate non-transferable options to purchase Common shares of the Corporation to directors, officers, management consultants and employees of the Corporation and its subsidiaries.

Under the stock-based compensation plan, the aggregate number of shares to be delivered upon the exercise of options granted thereunder may not exceed 10% of the issued Common shares of the Corporation at the time of granting the options. The aggregate number of shares to be delivered upon exercise of the options granted thereunder to any individual shall not exceed 5% of the issued Common shares of the Corporation. The options under the stock-based compensation plan are non-assignable, except in the event of death and are exercisable for a term of five years. Options granted under the stock-based compensation plan terminate within 90 days in the event that the optionee ceases to be an employee, director or officer of the Corporation or within one year after the death of such optionee. The Board of Directors may, at its sole discretion, determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist.

At December 31, 2014, the Corporation had no outstanding stock options issued to directors, officers, management consultants and employees pursuant to the Corporation's stock-based compensation plan:

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Beginning balance	<b>1,905,396</b>	<b>\$0.100</b>	1,905,396	\$0.100
Expired	<b>1,905,396</b>	-	-	-
Balance, end of year	-	-	1,905,396	\$0.100

(i) Agent Options

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Beginning balance	<b>1,993,140</b>	<b>\$0.120</b>	2,508,158	\$0.190
Granted	-	-	1,993,140	\$0.120
Expired	-	-	2,508,158	\$0.198
Balance, end of year	<b>1,993,140</b>	<b>\$0.120</b>	1,993,140	\$0.120

On October 31, 2013, as part of the Debenture, 1,828,500 Agents Options were granted. The Agent's Options have an exercise price of \$0.120 and expire on January 31, 2016. On November 15, 2013, as part of the over allotment of the Debenture offering, an additional 164,640 options were granted at an exercise price of \$0.125 and expire on February 15, 2016. The Agents Options have been calculated to have a grant date fair value of \$153,156 as determined using the Black-Scholes option pricing model based on an exercise period of 27 months, exercise price of \$0.12 and \$0.125, volatility of 123.87% and 125.12% and a risk free rate of 1.10% and 1.12%. Volatility was calculated using historical trading values of 420 days.

## 18. RELATED PARTY TRANSACTIONS

In 2011 a corporation controlled by a director of the Corporation participated directly in the \$5,357,000 convertible debenture financing for a total principal amount of \$845,000 (See note 14).

In 2013, an officer of the Corporation advanced \$375,000 to the Corporation of which \$59,000 (2013 - \$9,000) has been repaid. The advance is recorded in trade and other payables; there are no repayment terms or interest charges associated with the advance.

The Corporation entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, including directors and management.

	<b>2014</b>	2013
Salaries and benefits	<b>\$374,001</b>	\$353,816
Share-based payments	-	-
Total	<b>\$374,001</b>	\$353,816

## 19. CAPITAL MANAGEMENT

The Corporation's capital includes cash and cash equivalents, debentures and equity, which includes issued common shares, contributed surplus and deficit. The Corporation's primary objectives with respect to its capital are:

- To safeguard the Corporation's ability to continue as a going concern in order to provide returns for shareholders;
- To maintain flexibility in capital structure to ensure the ongoing ability to execute management's strategic plan.

The Corporation includes the following in the definition of capital:

	<b>2014</b>	2013
Debentures	<b>\$7,011,013</b>	\$7,661,346
Finance leases	<b>92,609</b>	188,046
Cash and cash equivalents	<b>(161,716)</b>	(569,024)
Total capital	<b>\$6,941,906</b>	\$7,280,368

Given that the Corporation has not reached the critical mass necessary to fund acquisitions and operations through cash flow, growth is contingent on additional acquisitions and organic growth. To meet these needs the Corporation may from time to time raise additional funds through borrowings or through the issuance of equity.

The Corporation has imposed capital requirements related to the October 31, 2013 debenture. Each unit issued consisted of one 12% secured subordinated debenture with a principal amount of \$1,000 and 2,000 rights at a price of \$0.001 per right. Each right is convertible, for no additional consideration, into one common share of the Company on June 2, 2016 if the Company has not commenced paying a quarterly dividend of at least \$0.005 per common share on or prior to June 1, 2016. If the Company commences the paying of the dividend on or before June 1, 2016, the rights will be terminated and cancelled, whether or not the payment of the dividend ceases after the first dividend payment.

**20. FINANCIAL INSTRUMENTS**

**General objectives, policies, and processes**

The Board of Directors has overall responsibility for the determination of the Corporation’s risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Corporation’s finance function. The Board of Directors receives quarterly reports from the Corporation’s Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The Corporation’s financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, currency risk, and interest rate risk. The Corporation manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

**(a) Credit risk**

Credit risk is the risk that a counter-party will not meet their obligations under a financial instrument or customer contract, leading to a financial loss being incurred by the Corporation. Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of cash and cash equivalents, restricted cash and trade and other receivables. Cash and cash equivalents are held with reputable Canadian financial institutions over which the risk of loss is considered remote.

The Corporation provides credit to its customers in the normal course of operations. The Corporation minimizes its credit risk associated with its accounts receivable by performing credit evaluations on customers, maintaining regular and ongoing contact with customers, routinely reviewing the status of individual accounts receivable balances and following up on overdue amounts. Concentration of credit risk with respect to accounts receivable is considered to be limited as the Corporation deals with a significant amount of customers in multiple jurisdictions.

The Corporation estimates, on a continuing basis, the probable losses on its accounts receivable and will record a provision for losses, as required, based on the estimated realizable value of the accounts. Management does not believe that there is a significant credit risk arising from any of the Corporation’s customers and the maximum exposure to loss from accounts receivable is equal to their total carrying amounts.

The following table provides information regarding the aging of financial assets that are past due as at December 31, 2014.

<b>Trade and other receivables</b>	<b>2014</b>		2013	
Current	\$	<b>203,955</b>	\$	191,372
31-60 Days		<b>79,834</b>		94,048
61-90 Days		<b>48,030</b>		583,641
91-120 Days		<b>22,674</b>		59,402
Over 120		<b>157,852</b>		73,568
<b>Total</b>	<b>\$</b>	<b>512,345</b>		<b>1,002,031</b>

**(b) Currency risk**

The Corporation does not have sales in any foreign currency; however, the US dollar influences the price of the cost of goods sold. Price fluctuations, as a result can affect the gross margin and future cash flows however, given it is an indirect influence, the impact of changing exchange rates cannot be accurately quantified. The Corporation's other financial assets and liabilities are not directly affected by a change in currency rates.

**(c) Interest risk**

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Corporation's most significant interest bearing financial instruments are its debentures which have fixed interest rates. As a result the Corporation is not subject to significant interest risk arising from its financial instruments.

**(d) Liquidity risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due.

The Corporation manages its liquidity by ensuring that there is sufficient capital to meet short and long-term business requirements, after taking into account cash flows from operations and the Corporation's holdings of cash and cash equivalents. The Corporation also strives to maintain sufficient liquidity at all times in order to participate in investment opportunities as they arise, as well as to withstand sudden adverse changes in economic circumstances.

Management forecasts cash flows for its current and subsequent fiscal years to predict future financial requirements. The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

<b>December 31, 2014</b>	<b>Due between 1 year</b>		
	<b>Due within 1 year</b>	<b>and 5 years</b>	<b>Due after 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Trade and other payables	1,475,014	-	-
Debenture interest payable	732,171	267,850	-
Customer deposits	2,308,121	-	-
Obligations under capital lease	43,177	54,782	-
Debentures	1,968,099	5,917,040	-
	<u>6,526,582</u>	<u>6,239,672</u>	<u>-</u>

  

<b>December 31, 2013</b>	<b>Due between 1 year</b>		
	<b>Due within 1 year</b>	<b>and 5 years</b>	<b>Due after 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Trade and other payables	1,318,678	-	-
Debenture interest payable	955,093	571,350	-
Customer deposits	2,546,013	-	-
Obligations under capital lease	72,432	137,815	-
Debentures	1,290,000	8,067,000	-
	<u>6,182,216</u>	<u>8,776,165</u>	<u>-</u>

**e) Fair value of financial assets and liabilities**

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Fair value hierarchy:

The Company categorizes its fair value measurements for financial assets and financial liabilities measured or disclosed at fair value according to a three level hierarchy which prioritizes the inputs used in the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the overall fair value measurement as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Level 1 and 2 during the year. The fair values of financial assets and liabilities carried at amortized cost are approximated by their carrying values.

**(f) Measurement categories**

Financial assets and liabilities have been classified into categories which determine the basis of measurement. The Corporation has financial instruments classified as loans and receivables and amortized cost financial liabilities. The following table shows the carrying value of assets and liabilities for each of these categories at December 31, 2014 and 2013.

	Fair Value Hierarchy Level	December 31, 2014		December 31, 2013	
		\$ Carrying Values	\$ Fair Values	\$ Carrying Values	\$ Fair Values
<b>Assets</b>					
<b>Loans and receivables</b>					
Cash and cash equivalents	1	161,716	161,716	569,024	569,024
Cash not available for use	1	14,434	14,434	14,429	14,429
Trade and other receivables	2	512,345	512,345	1,002,031	1,002,031
<b>Liabilities</b>					
<b>Amortized cost</b>					
Trade and other payables	2	1,766,861	1,766,861	1,426,219	1,426,219
Obligations under finance	2	92,609	92,609	188,046	188,046
Debentures	2	7,011,013	7,011,013	7,661,347	7,661,347

The carrying values of the cash and cash equivalents, cash not available for use, trade and other receivables and trade and other payables approximate their fair values due to the short term nature of these financial instruments.

The fair values of the obligations under finance lease and debentures were determined based on discounted cash flows using current borrowing rates, which approximate the Corporation's existing borrowing rates at the time the debts were entered into.

**21. RESTATEMENT OF CONSOLIDATED STATEMENTS DURING THE MEASUREMENT PERIOD AND CORRECTION OF AN ERROR**

On October 31, 2013, the Company acquired 100% of the issued and outstanding shares of Remco Memorials Ltd. ("Remco"), a manufacturer and retailer of monuments headquartered in Regina, Saskatchewan with sales locations located throughout western Canada. The acquisition was completed as part of the Company's strategy to acquire monument and memorial retailers in the death care industry.

As part of the acquisition the Corporation recognized a bargain purchase of \$488,429 in the consolidated financial statements for the year ended December 31, 2013. During the measurement period from acquisition through to October 2014 (including an error correction), the fair values of the assets and liabilities of Remco were finalized and it was determined that the bargain purchase was \$1,574,185 on the acquisition date. As a result, the net loss and comprehensive loss for the year was reduced by \$1,085,756 (representing the sum of the measurement period adjustments and error correction). The basic and diluted loss per share increased from \$0.0358 to \$0.008 as a result of the adjustments.

*Measurement period adjustments:*

During 2014 a more detailed analysis of intangible assets acquired during the business acquisition was completed resulting in the recognition of intangible assets including a customer relationship valued at \$1,496,000 and brand valued at \$593,821. The intangibles assets were valued using an income approach that relies on estimating the net future cash flows using growth rates from 3% to 5% and discount rates of 19% and 18% respectively.

The acquired brand is associated with Remco's long standing relationship with its community and has been classified as an indefinite life intangible that will not be subject to amortization. The customer relationship intangible asset will be amortized over 10 years on a straight line basis.

Subsequent to year-end, a more detailed analysis of the inventory, prepaid commissions and customer deposit accounts was completed by management. As a result there was a decrease to inventory of \$380,000, an increase of prepaid commissions of \$138,823 and an increase of customer deposits of \$209,307.

Furthermore, the deferred tax liability increased by \$401,581 as a result of the adjustments described above.

*Error correction:*

The prior year's figures have been restated to reflect a \$152,000 adjustment to the carrying value of the cemetery assets at October 31, 2013, the date of acquisition of Remco Memorials Ltd.

Pursuant to IFRS 3, Business Combinations, comparative information for prior periods presented in the financial statements has been revised to account for the above-mentioned adjustments retrospectively. An opening balance sheet as at January 1, 2013 has not been presented as the impact of the error correction did not extend beyond the comparative period presented.

The following table summarizes the final purchase price consideration, the preliminary purchase price allocation in the Corporation's 2013 consolidated financial statements and the final purchase price allocation, with the applicable recast adjustments made upon finalization during 2014.

	<b>Preliminary Allocation</b>	<b>Adjustments</b>	<b>Error Correction</b>	<b>Final Allocation</b>
	\$	\$	\$	\$
<b>Assets Acquired</b>				
Cash	286,766	-	-	286,766
Accounts receivable	580,051	-	-	580,051
Inventory	2,800,416	(380,000)	-	2,420,416
Prepaid expenses	91,192	138,823	-	230,015
Income taxes receivable	121,099	-	-	121,099
Trust fund assets	1,023,007	-	-	1,023,007
Cemetery	518,830	-	(152,000)	366,830
Property, plant and equipment	1,704,123	-	-	1,704,123
Customer relationships	-	1,496,000	-	1,496,000
Brand	-	593,821	-	593,821
<b>Liabilities Assumed</b>				
Accounts payable	(781,194)	-	-	(781,194)
Customer deposits	(2,102,490)	(209,307)	-	(2,311,797)
Deferred revenue	(242,565)	-	-	(242,565)
Term debt and capital leases	(221,472)	-	-	(221,472)
Trust fund liabilities	(983,775)	-	-	(983,775)
Other liabilities	(1,750,804)	-	-	(1,750,804)
Deferred tax liability	(383,577)	(401,581)	-	(785,158)
<b>Bargain purchase gain on acquisition</b>	(488,429)	(1,237,756)	152,000	(1,574,185)
<b>Net assets acquired</b>	171,178			171,178
<b>Consideration</b>				
Purchase price			\$	2,516,982
Closing working capital adjustments				(595,000)
Cash advanced to offset other liabilities				(1,750,804)
Cash advanced to acquire net assets			\$	171,178

As part of the purchase price agreement the Company paid other liabilities of the acquiree on October 31, 2013 (the acquisition date) totaling \$1,750,804 which were comprised of an operating line, term loans, letter of credit with a chartered bank and a specific loan payable.

Acquisition related costs of \$19,817 have been charged to administrative expenses in the consolidated statement of operations for the year ended December 31, 2013.

The fair value of trade and other receivables amounts to \$580,051 at the acquisition date and includes trade receivables with a fair value of \$527,199. The gross contractual amount for trade receivables due is \$585,655 of which \$58,456 is expected to be uncollectible.

The revenue and net loss included in the consolidated statement of operations since October 31, 2013 contributed by Remco was \$612,774 and \$379,100 respectively. Based on unaudited financial information available to management, if Remco had been acquired at January 1, 2013, revenue for the year ended December 31, 2013 relating to Remco operations would have been \$8,417,589 and the net loss would have been \$662,773.

## 22. DILUTED LOSS PER SHARE

The Corporation has not included the effects of 28,194,737 common shares issuable upon the conversion of the 10% convertible debentures, 8,000,000 common shares potentially issuable under the rights agreement of the 12% debenture and 1,993,140 agent options as their effect would be anti-dilutive.

## 23. COMMITMENTS

The Corporation leases a number of office locations under operating leases which contain various renewal options with future minimum operating lease payments as follows:

	2014	2013
Under 1 year	\$ 644,781	\$ 669,787
Between 1 and 5 years	1,902,959	2,189,200
Over 5 years	-	-
	\$ 2,547,740	\$ 2,858,987

Lease payments recognized as an expense during the year amounted to \$780,335 (2013 - \$277,167).

The Corporation is obligated to pay commissions at varying rates under the referral and agency agreements it has entered into.

## 24. COMPARATIVE FIGURES

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current period. The changes do not affect prior year income.

**25. SEASONALITY AND SEGMENTED OPERATIONS**

Historically, the Corporation's operations have experienced certain seasonal patterns. Generally, net sales have been highest in the second or third quarter and lowest in the first quarter of each year due primarily to weather. Cemeteries generally do not allow memorials to be installed during winter months when the ground is frozen or in the case of a late spring, if the ground is too wet because they cannot be properly set under those conditions, (Note 3 (h) Revenue recognition).

The Corporation is comprised of one operating segment. With the acquisition of Remco in 2013, the Corporation expanded its operations in Western Canada and currently generates approximately 75% of its revenue from this region.

**26. SUBSEQUENT EVENT**

Effective January 1, 2015, Family Memorials Inc. amalgamated with its wholly-owned subsidiary, Remco Memorials Ltd., to create Family Memorials Inc. as the ongoing corporate entity. The amalgamation was carried out to streamline the operations of the two corporate entities by combining them into one.