

FAMILY MEMORIALS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2015

Date of this Report – April 28, 2016

The following discussion and analysis of financial condition, results of operations of Family Memorials Inc. (FAM) should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015. Those financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

Forward – looking Statements

Certain information and statements contained in this document contain forward-looking statements that involve a number of known and unknown risks, uncertainties and other factors including but not limited to, population demographics, mortality rates and seasonality. These factors may cause actual results to differ from those anticipated in the companies forward looking statements.

Overview

The Corporation is a Canadian public company operating in the death care industry retailing monuments and memorials through its wholly owned subsidiaries and with agency and sales agreements with funeral homes. The Corporation currently operates in western Canada and southern Ontario. The Corporation trades on the TSX venture exchange under the symbol “FAM”.

Highlights for the Period

- Gross margins increased by **1.15%** from **44.4%** to **45.9%**
- The Corporation made a principal payments of **\$1,821,639** on the 12% debenture
- Normalized EBITDA of **\$624,674** (2014-\$457,509) an increase of **36.5%** over previous year, chart shown on page 5
- Integrated Regina showroom into head office facility

Results for the year exceeded managements’ forecasts due to synergies achieved with manufacturing facilities and realignment of Remco Memorials after acquisition. Operating results are analyzed in greater detail below under **Review of Operations**.

Selected Annual Information

	2015	2014	2013	2012	2011	2010	2009
	\$	\$	\$	\$	\$	\$	\$
Sales	11,939,389	12,694,668	3,676,434	2,992,429	1,921,550	2,238,774	2,121,611
Gross margin	5,484,914	5,641,539	1,227,648	1,192,651	659,847	771,765	751,756
Expenses	6,818,654	7,415,156	3,244,675	2,355,044	1,703,577	1,368,007	1,323,396
Loss from operations for the year	1,333,740	1,773,620	2,107,027	1,162,393	1,043,730	596,242	571,640
Interest income	7,801	1,536	10,243	10,817	12,294	-	-
Gain on acquisition	-	-	1,574,185	-	-	-	-
Loss for the year before taxes	1,875,319	2,018,778	432,599	1,151,576	1,031,436	596,242	571,640
Income taxes	-	-	4,104	-	(20,208)	-	(5,318)
Deferred income tax recovery	-	685,908	99,250	-	-	-	-
Total comprehensive loss	1,875,319	1,332,870	337,453	1,257,576	1,011,228	596,242	566,322
Impairment charge	498,000	280,000	-	106,000	-	-	33,333
Basic loss per share	0.046	.033	0.008	0.0291	0.0260	0.0185	0.0244
Diluted earnings per share*	-	-	-	-	-	-	-
Total assets	8,689,045	9,552,857	12,887,581	4,238,878	5,076,401	1,977,188	1,931,518
Long Term liabilities	440,891	5,469,885	8,676,991	4,323,113	4,096,648	675,000	675,000
Cash Dividends paid	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Review of Operations

Operating results for the fourth quarter of 2015 are summarized below on a comparative basis with the quarterly results for the past seven quarters. It is important to recognize that the Corporation's revenue recognition policy (Note 3(j) in the Corporation's 2015 consolidated financial statements) preclude the recognition of sales revenue until the requirements of the contract have been substantially completed or the monument has been installed in the cemetery.

	three months ended December 31		Dollar Change	% Change
	2015	2014		
Sales	\$ 2,677,453	\$ 2,882,259	\$ (204,806)	(7.6)
Cost of Sales	\$ 1,709,201	\$ 2,095,399	\$ (386,198)	(22.6)
Gross Margin	\$ 968,252	\$ 786,860	\$ 181,392	18.7
Gross Margin %	36.2%	27.3%		
Expenses	\$ 1,676,443	\$ 1,926,603	\$ (250,160)	(14.9)
Loss from operations	\$ 708,191	\$ 1,139,203	\$ (431,012)	(60.8)
Basic Gain (loss) per share	\$ (0.046)	\$ (0.0287)	\$ -	-
Diluted loss per share *	\$ -	\$ -	\$ -	-

*Diluted per share figures are not presented as the effect on loss per share would be anti-dilutive

Summary of Operating Results

	2015	2015	2015	2015	2014	2014	2014	2014
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
					\$	\$	\$	\$
Sales	2,677,453	4,932,765	4,184,258	144,913	2,882,259	5,385,607	4,282,640	144,162
Cost of Sales	1,709,201	2,498,429	2,159,787	87,058	2,095,399	2,807,574	2,026,945	123,214
Gross Margin	968,252	2,434,336	2,024,471	57,855	786,860	2,578,033	2,255,695	20,948
Gross Margin %	36.1	49.4	48.4	39.9	27.3	47.87	52.67	14.53
Expenses	1,676,433	1,605,940	1,723,723	1,812,558	1,931,792	1,921,563	1,812,928	1,748,873
Gain (Loss) from operations	(708,181)	828,396	300,748	(1,754,703)	(1,144,932)	656,470	442,767	(1,727,925)
Other income	7,608	60	45	88	(28,808)	19,140	1,460	9,744
Goodwill impairment	(498,000)	-	-	-	(280,000)	-	-	-
Gain (Loss) on sale of ppe	(70,380)	-	19,000	-	(2,423)	41,458	-	(5,729)
Deferred income tax recovered	-	-	-	-	685,908	-	-	-
Income taxes	-	-	-	-	-	-	-	-
Comprehensive Gain (Loss)	(1,268,953)	828,456	319,793	(1,754,615)	(770,255)	717,068	444,227	(1,723,910)
Earnings (loss) per share	(0.038)	0.021	0.0072	(0.0442)	(.0289)	0.0142	0.0111	(0.0434)
Diluted earnings per share	-	-	-	-	-	-	-	-

Seasonality

Historically, the Corporation's operations have experienced certain seasonal patterns. Generally, our 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 accept memorials during winter months when the ground is frozen because they cannot be properly set under those conditions

Sales

The operating results summarized above show that fourth quarter sales in 2015 decreased from \$2,882,259 to \$2,677,453 a decrease of \$204,806 or 7.0 % over fourth quarter 2014. Annual corporate sales decreased from \$12,694,668 to \$11,939,389 a decrease of \$755,279 or 5.9%.

Gross Margin

Gross margin for Q4 2015 was \$968,252 which is \$181,392 or 18% more than the \$786,860 reported in Q4 2014. When expressed as a percentage of sales the gross margin for the quarter increased from 27.3% to 36.1% or 8.7 percentage points.

Expenses

Year over year expenses decreased from **\$7,415,156** to **\$6,818,654** a decrease of **\$596,502** or **8.0%**. This cost decrease is due to mainly to lower financing costs as debenture debt was repaid each quarter.

- a) Administration – Expenses decreased from **\$822,844** in 2014 to **\$739,055** in 2015, a decrease of **\$83,789**. The decrease is attributed to decreases in filing fees, investor relations, and travel costs.
- b) Advertising & Promotion – Expenses decreased from **\$256,770** in 2014 to **\$244,785**, a decrease of **\$11,985**. The decrease is due to more focused advertising in 2015.
- c) Employee costs – Expenses decreased from **\$2,786,659** in 2014 to **\$2,766,757** in 2015 a decrease of **\$19,902**. The increase is attributed to general staffing changes.
- d) Financing costs – In 2015, **\$1,566,923** was recorded as interest expense for debenture expenses as compared to **\$1,722,624** in 2014, a decrease of **\$205,701** which is directly related to the quarterly repayment of debenture debt.
- e) Occupancy costs – Expenses for 2014 were **\$1,078,222** as compared to **\$994,746** for 2015, a decrease of **\$83,476**. This decrease can be attributed to the integration of Regina retail location into head office and manufacturing facilities in Regina.
- f) Professional fees – Expenditures for professional fees decreased from **\$228,825** in 2014 to **\$111,435** in 2015 a decrease of **\$117,390**. As there were no acquisitions or major disposals in 2015, the company did not incur any additional professional fees as they had in the prior year.
- g) Other – Amortization expenses and imonument equipment costs decreased from **\$469,212** in 2014 to **\$394,953** in 2015 a decrease of **\$74,259**.

Net Income

The Corporation reported a net loss of **\$1,875,319** compared to **\$1,332,870**. The increase in the loss is a combination of recognition of **\$498,000** in goodwill impairment, and **\$51,380** loss on sale of property, plant and equipment offset by **\$596,502** in decreased operating expenses and financing costs.

Other Intangibles

The intangible assets represent the Corporation's investment in imonument, a web based application that provides provide funeral homes with access to customized software that will enable them to become full service providers and retail monuments directly to their customers. Due to the innovative functionality of the software, the project qualified for two development grants. As of December 31, 2015 the Corporation recorded a net development cost of **\$312,966**. Development costs are being amortized over a five year period using the straight-line method, evaluated annually to confirm the carrying value.

During 2014 a detailed analysis of intangible assets acquired with the purchase of Remco Memorials established a customer relationship valued at \$1,496,000 and a brand value of \$593,821. The customer relationship intangible is being amortized over a ten year period, using the straight-line method. As at December 31, 2015 the net intangible assets related to the Remco Memorials acquisition is **\$1,765,684**.

Transactions with Related Parties

An Officer of the Corporation advanced \$1,865,000 to the Corporation of which \$59,000 has been repaid. The advance is recorded in accounts payable; there are no repayment terms or interest charges associated with the advance.

Included in salaries and benefits expense is remuneration of the key management personnel of the Corporation, which includes directors and officers of the Corporation. For the period ended December 31, 2015, remuneration of \$309,496 included \$309,496 salaries and cash-based compensation and \$ nil of stock-based compensation costs (December 31, 2014 - \$374,001 and \$ nil, respectively).

Contractual Obligations and Indebtedness

The Corporation's consolidated contractual obligations relate to long-term-debt and lease payments as summarized below:

December 31, 2015	Due within 1 year	Due between 1 year and 5 years	Due after 5 years
	\$	\$	\$
Operating leases	560,086	1,724,282	1,847,104
Capital leases	23,660	27,898	-
Debentures	5,948,500	-	-
	<u>6,532,246</u>	<u>6,239,672</u>	<u>-</u>

The Corporation had no other indebtedness or off-balance sheet obligations as at December 31, 2015.

Normalized EBITDA

For the years ended December 31	2015	2014
Net loss for the year	\$ (1,875,319)	\$ (1,332,870)
Adjustments:		
Accretion on debentures	695,777	821,527
Depreciation of property, plant and equipment	166,660	216,959
Amortization of intangible assets	217,030	240,010
Loss (gain) on sale of cemetery property and property, plant and equipment	51,380	(33,306)
Impairment of goodwill	498,000	280,000
Deferred taxes	-	(685,908)
Interest expense on debentures	729,471	951,097
	<u>482,999</u>	<u>457,509</u>
Unusual financing costs incurred	141,675	-
Normalized EBITDA	<u>624,674</u>	<u>457,509</u>

Deferred Income Tax Assets

Income taxes recoverable are not recorded in the Corporation's consolidated financial statements as there is no current indication that they may be utilized to reduce future income tax. The Corporation's income tax losses carried forward total \$10,117,621. These income tax losses can be used to offset future income tax liabilities as disclosed in Note 15 to the Corporation's consolidated financial statements for the year ended December 31, 2015.

Liquidity and Capital Resources**Cash and cash equivalents**

As at December 31, 2015 the Corporation's cash and cash equivalents totaled **\$129,912** compared to \$161,716 at December 31, 2014.

The Corporation's cash position decreased during the period by **\$31,804** as disclosed on the Corporation's consolidated statement of cash flows for the year ended December 31, 2015 as follows:

Cash flows used in operation activities	\$	482,999
Changes in non-cash working capital	\$	2,225,789
Income tax received	\$	82
<hr/>		
Cash provided by operating activities	\$	2,708,871
Cash flows from financing activities (net)	\$	(2,657,941)
Cash flows generated by investing activities	\$	(82,734)
<hr/>		
(Decrease) in cash during period	\$	(31,804)
Cash and cash equivalents, beginning of year	\$	161,716
<hr/>		
Cash and cash equivalents, end of the year	\$	129,912

The Corporation's working capital decreased during the year by **\$5,945,092** as compared to its working capital position at December 31, 2014 of \$(2,969,739).

Capital disclosures

Financial assets and financial liabilities are recognized on the Consolidated Statement of Financial Position when the Corporation becomes a party to the contractual provisions of a financial instrument. All financial instruments are required to be measured at fair value on initial recognition. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities are added or deducted from the fair value of the financial assets or liabilities, as appropriate on initial recognition.

Management of capital

The Corporation's objectives when managing 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 on going ability to execute the Strategic Plan.

Capital components

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. As the following schedule depicts, presently 45% of the capital is derived from shareholder value and 55% from debt.

Capital components	Dec 31, 2015	% of total	Dec 31, 2014	% of total
Debentures	\$ 5,770,151	48.96	\$ 7,077,013	55.07
Equity component debenture	\$ 317,523	2.69	\$ 317,523	2.49
Share capital	\$ 4,758,159	40.39	\$ 4,643,159	35.06
Contributed surplus	\$ 938,556	7.96	\$ 938,556	7.38
Net capital under management	\$ 11,784,389	100.00	\$ 12,976,251	100.00

Working capital components

As noted below, working capital decreased by \$5,945,092 from the previous year due to adjustments in cash, inventory, accounts receivable, accounts payable, debenture interest payable and classification of debentures as current liabilities at year end.

Comparable working capital components

	Dec 31, 2015	Dec 31, 2014	Increase/(decrease) in working capital
Cash	\$ 129,912	\$ 161,716	\$ (31,804)
Cash not available for use	\$ 24,134	\$ 14,434	\$ 9,700
Accounts receivable	\$ 468,853	\$ 512,345	\$ (43,492)
Inventory	\$ 2,372,902	\$ 2,340,549	\$ 32,353
Income taxes receivable	\$ 15,643	\$ 15,725	\$ (82)
Prepaid expenses	\$ 358,432	\$ 344,698	\$ 13,734
Accounts payable	\$ (3,997,448)	\$ (1,782,516)	\$ (2,214,932)
Customer deposits	\$ (2,330,602)	\$ (2,308,121)	\$ (22,481)
Deferred revenue	\$ (118,315)	\$ (127,344)	\$ 9,029
Current portion capital lease	\$ (23,043)	\$ (42,702)	\$ 19,659
Current portion of debenture	\$ (5,770,151)	\$ (1,998,510)	\$ (3,771,641)
Debenture interest payable	\$ (45,148)	\$ (100,013)	\$ 54,865
	\$ (8,914,831)	\$ (2,969,739)	\$ (5,945,092)

Future outlook

Management remains confident that the strategy of growth through the integration of acquisitions and the implementation of additional funeral homes continue to be the means of increasing shareholder value and profitability of the corporation.

The Corporation continues to aggressively explore acquisition opportunities and perform its due diligence. Several properties have been reviewed that meet the selection criteria as evidenced by the purchase of Remco Memorials Ltd. on October 31, 2013. The acquisition of Remco Memorials the largest monument retailer in western Canada is in keeping with our vision to be the largest monument retailer in Canada.

The risks associated with these potential acquisitions are the same as those listed with past acquisitions plus the additional risk associated with the requirement for the Corporation to raise the necessary capital to fund future acquisitions.

Changes in Accounting Policies

International Financial Reporting Standards – IFRS

These financial statements have been prepared in accordance with IFRS.

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 losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were not 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, 2018. The Corporation is in the process of evaluating the impact of the new standard.

IFRS 16, Leases

IFRS 16 eliminates the classification by a lessee of leases as either operating or finance. Instead all leases are treated in a similar way to finance leases in accordance with IAS 17. Under IFRS 16, leases are recorded on the balance sheet by recognising a liability for the present value of its obligation to make future lease payments with an asset (comprised of the amount of the lease liability plus certain other amounts) either being disclosed separately in the statement of financial position (within right-of-use assets) or together with property, plant and equipment.

The most significant effect of the new requirements will be an increase in recognized lease assets and financial liabilities.

There are some exemptions. IFRS 16 contains options which do not require a lessee to recognize assets and liabilities for a) short term leases (i.e. leases of 12 months or less, including the effect of any extension options) and b) leases of low-value assets (for example, a lease of a personal computer).

IFRS 16 clarifies that a lessee separates lease components and service components of a contract, and applies the lease accounting requirements only to the lease components. IFRS 16 applies to annual periods commencing on or after January 1, 2019. The Corporation is in the process of evaluating the impact of the new standard.

IAS 1, Disclosure Initiative

In December 2014, the International Accounting Standards Board (IASB) has issued Disclosure Initiative (Amendments to IAS 1) as part of a wider project to improve the presentation of, and disclosures in, IFRS financial statements.

The amendments made to a number of aspects of IAS 1 Presentation of Financial Statements which include materiality, line items in primary financial statements, notes to the financial statements, accounting policies and equity accounted investments. The amendments are effective for annual periods beginning on or after 1 January 2016. The Corporation is in the process of evaluating the impact of the new standard.

Financial Instruments

The Corporation's financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable, loan payable and customer deposits. Due to their short term nature or capacity of prompt liquidation, the carrying amounts of these financial instruments approximate their fair market value.

Other Matters

Legal

There are no legal matters outstanding as of the date of this management discussion and analysis.

Share Capital

As at December 31, 2015, the Corporation had issued 40,328,865 common shares. There were no outstanding stock options issued to directors, officers, management consultants and employees.

Disclosure Controls and Internal Controls over Financial Reporting**Management's Report on Disclosure Controls and Procedures**

Disclosure controls and procedures have been designed to provide reasonable assurance that all material information related to the Corporation is identified and communicated on a timely basis. Management of the Corporation, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, is responsible for the design and operations of disclosure controls and internal control over financial reporting. There have been no changes in the Corporation's disclosure controls and procedures during the period ended December 31, 2015.

Internal Control over Financial Reporting

The Corporation's management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and presentation of financial statements for external purposes in accordance with generally accepted accounting principles. However, the Corporation's management believe that due to inherent limitations, internal control over financial reporting may not prevent or detect all misstatements and fraud or on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There have been no changes in the Corporation's internal control over financial reporting during the period ended December 31, 2015 that have materially affected or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Cautionary Statements

This management's discussion and analysis is prepared as of December 1, 2015 and should be read in conjunction with the audited consolidated financial statements of the Corporation as at and for the year ended December 31, 2015 both of which have been approved by the Audit Committee and the Board of Directors.

Readers should be aware that historical results are not necessarily indicative of future performance. As well, this analysis and discussion contains forward-looking statements that reflect the Corporation's current expectations as well as projections about its future operations. These future expectations and projections are subject to substantial risks, uncertainties and other factors including, but not limited to: availability of financing, ability to identify and acquire profitable new locations, and ability to attract knowledgeable and capable location managers and staff. Readers are cautioned that actual performance may differ materially from estimated performance based upon the forward-looking statements. Readers are cautioned that forward-looking statements speak only as of the date of this management discussion and analysis. The Corporation has no intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Additional information relevant to the Corporation's activities can be found on SEDAR at on SEDAR at www.sedar.com.