

FAMILY MEMORIALS INC.
Consolidated Financial Statements
For the years ended
December 31, 2016 and 2015

Contents

| | |
|--|------|
| INDEPENDENT AUDITOR’S REPORT | 2-3 |
| CONSOLIDATED FINANCIAL STATEMENTS | |
| Consolidated Statements of Financial Position | 4 |
| Consolidated Statements of Changes in Shareholders’ Deficiency | 5 |
| Consolidated Statements of Operations and Comprehensive Loss | 6 |
| Consolidated Statements of Cash Flows | 7 |
| Notes to Consolidated Financial Statements | 8-33 |



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Independent Auditor's Report

To the Shareholders of Family Memorials Inc.

We have audited the accompanying consolidated financial statements of Family Memorials Inc. (the "Corporation"), which comprise the consolidated statement of financial position as at December 31, 2016 and 2015, 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. as at December 31, 2016 and 2015, 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 \$2,011,106 during the year ended December 31, 2016 (2015 - \$1,875,319) and, as of that date, has an accumulated deficit of \$12,061,897 (2015 - \$10,050,791) and a working capital deficiency of \$9,508,589 (2015 - \$8,914,831). 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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
May 1, 2017

FAMILY MEMORIALS INC.

4

Consolidated Statements of Financial Position

| As at December 31 | 2016 | 2015 |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT | | |
| Cash and cash equivalents | \$ 194,495 | \$ 129,912 |
| Cash not available for use (Note 5) | 23,988 | 24,134 |
| Trade and other receivables (Note 6) | 369,182 | 468,853 |
| Inventory (Note 7) | 2,122,696 | 2,372,902 |
| Income taxes receivable | 15,643 | 15,643 |
| Prepaid expenses | 287,351 | 358,432 |
| | 3,013,355 | 3,369,876 |
| NON CURRENT | | |
| Trust fund assets (Note 8) | 433,716 | 420,832 |
| Property, plant and equipment (Note 9) | 1,329,813 | 1,356,530 |
| Intangibles (Note 10) | 1,871,453 | 2,078,650 |
| Goodwill (Note 11) | 702,157 | 1,463,157 |
| | \$ 7,350,494 | \$ 8,689,045 |
| LIABILITIES AND SHAREHOLDERS' DEFICIENCY | | |
| CURRENT | | |
| Trade and other payables (Note 12) | \$ 4,763,029 | \$ 3,997,448 |
| Customer deposits | 1,994,603 | 2,330,602 |
| Deferred revenue | 118,315 | 118,315 |
| Current portion of obligations under finance lease (Note 13) | 19,136 | 23,043 |
| Current portion of debentures (Note 14) | 5,242,000 | 5,770,151 |
| Debenture interest payable | 384,861 | 45,148 |
| | 12,521,944 | 12,284,707 |
| NON CURRENT | | |
| Obligations under finance lease (Note 13) | 7,728 | 26,864 |
| Liability for pre-need and perpetual care (Note 8) | 426,481 | 414,027 |
| | 12,956,153 | 12,725,598 |
| SHAREHOLDERS' DEFICIENCY | | |
| Share capital (Note 16) | 5,208,159 | 4,758,159 |
| Equity component – convertible debenture | 317,523 | 317,523 |
| Contributed surplus | 930,556 | 938,556 |
| Deficit | (12,061,897) | (10,050,791) |
| | (5,605,659) | (4,036,553) |
| | \$ 7,350,494 | \$ 8,689,045 |
| Going concern (Note 2) | | |
| Subsequent event (Note 11) | | |

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.

5

Consolidated Statements of Changes in Shareholders' Deficiency

| | Share capital | | | Contributed surplus \$ | Deficit \$ | Total equity \$ |
|-------------------------------------|---------------------|------------------|-----------------|------------------------------|---------------------|-----------------------|
| | Number of shares | Amount \$ | Debenture \$ | | | |
| Balance at December 31, 2014 | 39,723,603 | 4,643,159 | 317,523 | 938,556 | (8,175,472) | (2,276,234) |
| Debenture conversion (Note 14) | 605,262 | 115,000 | - | - | - | 115,000 |
| Total comprehensive loss | - | - | - | - | (1,875,319) | (1,875,319) |
| Balance at December 31, 2015 | 40,328,865 | 4,758,159 | 317,523 | 938,556 | (10,050,791) | (4,036,553) |
| Issuance of shares | 3,400,000 | 170,000 | - | - | - | 170,000 |
| Shares issued in lieu of dividend | 8,000,000 | 280,000 | - | (8,000) | - | 272,000 |
| Total comprehensive loss | - | - | - | - | (2,011,106) | (2,011,106) |
| Balance at December 31, 2016 | 51,728,865 | 5,208,159 | 317,523 | 930,556 | (12,061,897) | (5,605,659) |

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

FAMILY MEMORIALS INC.

6

Consolidated Statements of Operations and Comprehensive Loss

| For the years ended December 31 | 2016 | 2015 |
|---|-----------------------|-----------------------|
| Sales | \$ 11,241,657 | \$ 11,939,389 |
| Cost of sales | 6,318,073 | 6,454,475 |
| Gross profit | 4,923,584 | 5,484,914 |
| Expenses | | |
| Administration | 820,069 | 750,318 |
| Advertising and promotion | 168,205 | 244,785 |
| Amortization of intangible assets | 212,197 | 217,030 |
| Depreciation of property, plant and equipment | 146,757 | 166,660 |
| Employee costs | 2,507,481 | 2,766,757 |
| Financing costs | 1,095,982 | 1,566,923 |
| Occupancy costs | 988,634 | 994,746 |
| Professional fees | 185,902 | 111,435 |
| | 6,125,227 | 6,818,654 |
| Net loss from operations | (1,201,643) | (1,333,740) |
| Interest income | 4,337 | 7,801 |
| Goodwill impairment (Note 11) | (761,000) | (498,000) |
| Loss on sale of cemetery property and property, plant and equipment | (52,800) | (51,380) |
| Loss for the year before income taxes | (2,011,106) | (1,875,319) |
| Deferred income tax recovery (Note 15) | - | - |
| Income taxes (Note 15) | - | - |
| Net loss and comprehensive loss | \$ (2,011,106) | \$ (1,875,319) |
| Loss per share | | |
| Basic loss per share | \$ 0.043 | \$ 0.046 |
| Diluted loss per share (Note 20) | \$ 0.043 | \$ 0.046 |
| Weighted average number of shares outstanding | 47,285,577 | 40,170,826 |

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

FAMILY MEMORIALS INC.

7

Consolidated Statements of Cash Flows

| For the years ended December 31 | 2016 | 2015 |
|--|-------------------|--------------------|
| Cash flows used in operating activities | | |
| Net loss for the year | \$ (2,011,106) | \$ (1,875,319) |
| Items not requiring an outlay of cash | | |
| Accretion on debentures | 178,349 | 695,777 |
| Depreciation of property, plant and equipment | 146,757 | 166,660 |
| Amortization of intangible assets | 212,197 | 217,030 |
| Loss on sale/disposal of cemetery property and property, plant and equipment | 52,800 | 51,380 |
| Impairment of goodwill | 761,000 | 498,000 |
| Shares issued in lieu of dividends (Note 14) | 272,000 | - |
| Interest expense on debentures | 630,382 | 729,471 |
| | 242,379 | 482,999 |
| Changes in non-cash working capital | | |
| Decrease in trade and other receivables | 99,671 | 43,492 |
| Decrease (increase) in inventory | 250,206 | (32,353) |
| Decrease (increase) in prepaid expenses | 71,083 | (13,734) |
| Increase in trade and other payables | 765,580 | 2,214,932 |
| Increase (decrease) in customer deposits | (335,999) | 22,481 |
| Decrease in deferred revenue | - | (9,029) |
| | 850,541 | 2,225,789 |
| Income tax received | - | 82 |
| Cash provided by operating activities | 1,092,920 | 2,708,870 |
| Cash flow from financing activities | | |
| Issuance of shares for cash | 170,000 | - |
| Repayment of debenture debt | (706,500) | (1,821,639) |
| Repayment of capital lease obligations | (23,043) | (42,702) |
| Cash not available for use | 146 | (9,700) |
| Cash held in trust | (430) | 436 |
| Interest paid on debentures | (290,670) | (784,336) |
| Cash used in financing activities | (850,497) | (2,657,941) |
| Cash flow from investing activities | | |
| Proceeds on disposal of cemetery property and property, plant and equipment | - | 19,000 |
| Purchase of property, plant and equipment | (172,840) | (43,066) |
| Purchase of intangible assets | (5,000) | (58,667) |
| Cash provided by (used in) investing activities | (177,840) | (82,733) |
| Increase (decrease) in cash and cash equivalents | 64,583 | (31,804) |
| Cash, beginning of year | 129,912 | 161,716 |
| Cash, end of year | \$ 194,495 | \$ 129,912 |

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 601 Squier St., Thunder Bay, Ontario, Canada P7B 4A7.

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 a going 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 consolidated 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 May 1, 2017.

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 Remco Memorials Ltd., raise new financing, increase awareness with its 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 \$12,061,897 (2015 - \$10,050,791) and has a working capital deficit of \$9,508,589 (2015 - \$8,914,831). 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.

2. BASIS OF PRESENTATION (cont'd)**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 Corporation and its wholly-owned subsidiaries, Grajack Industries Ltd., Somerville Memorials Ltd., R.H. Verduyn Granite Company Ltd., Barber Monuments Limited and Stratford Memorials Limited.

Subsidiaries are 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 intercompany 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. The Corporation holds no cash equivalents in fiscal 2016 or 2015.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Property, Plant and Equipment (cont'd)

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 - 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(i) Impairment of Non-financial Assets (cont'd)****(i) Cash generating units**

When it is not possible to estimate the recoverable amount of an individual asset, the Corporation 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 of disposal 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(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, trust fund assets, and trade and other receivables 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(m) Financial Instruments (cont'd)****(ii) Financial liabilities and compound financial instruments**

The Corporation's financial liabilities include trade and other payables, customer deposits, obligations under capital lease, debentures and debenture interest payable. 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 16. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(o) Income Taxes (cont'd)**

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 feed 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(r) Leases (cont'd)**

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 Policies and Disclosures**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, 2018 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:

(i) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(u) Changes in Accounting Policies and Disclosures (cont'd)****New Standards, Amendments and Interpretations Not Yet Adopted (cont'd)****(ii) 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.

(iii) 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.

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) 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.

(b) 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.

(c) Impairment of Goodwill

The Corporation tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 3. The Corporation 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.

(d) 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 at December 31, 2016 consists of a \$20,000 (2015 - \$20,000) security required by the province of Alberta's Cemetery Act and \$3,988 (2015 - \$4,134) held in trust for customers who have pre-paid for services.

6. TRADE AND OTHER RECEIVABLES

| | 2016 | | 2015 | |
|------------------------------|-------------|-----------------|-------------|----------|
| Trade receivables | \$ | 365,234 | \$ | 455,825 |
| Allowance for doubtful debts | | (22,676) | | (16,260) |
| Other receivables | | 26,624 | | 29,288 |
| | \$ | 369,182 | \$ | 468,853 |

Movements in the allowance for doubtful debts are as follows:

| | 2016 | | 2015 | |
|--|-------------|---------------|-------------|----------|
| Opening balance | \$ | 16,260 | \$ | 28,425 |
| Bad debts | | 7,057 | | 9,109 |
| Bad debts recovered | | - | | (21,274) |
| Receivables written off as uncollectible | | (641) | | - |
| | \$ | 22,676 | \$ | 16,260 |

7. INVENTORY

The components of inventory are as follows:

| | 2016 | | 2015 | |
|------------------|-------------|------------------|-------------|-----------|
| Resale | \$ | 1,273,864 | \$ | 1,375,205 |
| Work in progress | | 94,409 | | 147,229 |
| Display | | 754,423 | | 850,468 |
| | \$ | 2,122,696 | \$ | 2,372,902 |

The direct cost of inventory included in cost of goods sold for the period ended December 31, 2016 amounted to approximately \$2,330,035 (2015 - \$2,137,000). During the year inventories of approximately \$58,740 (2015 - \$6,000) were written down and recognized as an expense in the statements of operations and comprehensive loss.

8. TRUST FUND ASSETS

| | 2016 | | 2015 | |
|---|-------------|------------------|-------------|-----------|
| Money market funds | \$ | 433,716 | \$ | 420,832 |
| Liability for pre-need and perpetual care | | (426,481) | | (414,027) |
| Net trust balance | \$ | 7,235 | \$ | 6,805 |

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 \$ |
|---------------------------------|--------------------|-------------------|------------------------|-------------------------|----------------|------------------------------------|---------|-------------------------------|-----------|
| Cost | | | | | | | | | |
| Balance, January 1, 2015 | 208,449 | 22,708 | 677,324 | 1,220,351 | 394,121 | 50,000 | 16,991 | 186,780 | 2,776,724 |
| Additions | 2,321 | - | 40,745 | - | - | - | - | - | 43,066 |
| Disposals | - | - | (82,800) | - | - | - | - | - | (82,800) |
| Balance, December 31, 2015 | 210,770 | 22,708 | 635,269 | 1,220,351 | 394,121 | 50,000 | 16,991 | 186,780 | 2,736,990 |
| Balance, January 1, 2016 | 210,770 | 22,708 | 635,269 | 1,220,351 | 394,121 | 50,000 | 16,991 | 186,780 | 2,736,990 |
| Additions | - | - | 152,620 | - | - | - | - | 20,220 | 172,840 |
| Disposals | - | - | (72,000) | - | - | - | - | - | (72,000) |
| Balance, December 31, 2016 | 210,770 | 22,708 | 715,889 | 1,220,351 | 394,121 | 50,000 | 16,991 | 207,000 | 2,837,830 |
| Accumulated depreciation | | | | | | | | | |
| Balance, January 1, 2015 | 143,693 | 13,943 | 126,331 | 535,546 | 347,531 | 5,569 | 13,890 | 39,717 | 1,226,220 |
| Depreciation | 18,724 | 2,348 | 55,453 | 48,339 | 9,618 | 4,279 | 620 | 27,279 | 166,660 |
| Disposals | - | - | (12,420) | - | - | - | - | - | (12,420) |
| Balance, December 31, 2015 | 162,417 | 16,291 | 169,364 | 583,885 | 357,149 | 9,848 | 14,510 | 66,996 | 1,380,460 |
| Balance, January 1, 2016 | 162,417 | 16,291 | 169,364 | 583,885 | 357,149 | 9,848 | 14,510 | 66,996 | 1,380,460 |
| Depreciation | 13,871 | 1,719 | 51,316 | 42,636 | 6,933 | 3,867 | 557 | 25,858 | 146,757 |
| Disposals | - | - | (19,200) | - | - | - | - | - | (19,200) |
| Balance, December 31, 2016 | 176,288 | 18,010 | 201,480 | 626,521 | 364,082 | 13,715 | 15,067 | 92,854 | 1,508,017 |
| Net book value | | | | | | | | | |
| December 31, 2015 | 48,353 | 6,417 | 465,905 | 636,466 | 36,972 | 40,152 | 2,481 | 119,784 | 1,356,530 |
| December 31, 2016 | 34,482 | 4,698 | 514,409 | 593,830 | 30,039 | 36,285 | 1,924 | 114,146 | 1,329,813 |

10. INTANGIBLES

Total intangibles are comprised of the following:

| | Customer relationships | Brand | Imonument software | Total |
|-----------------------------------|-----------------------------------|-------------------|-------------------------------|---------------------|
| Cost | | | | |
| Balance, January 1, 2015 | \$ 1,496,000 | \$ 593,821 | \$ 481,394 | \$ 2,571,215 |
| Additions | - | - | 90,143 | 90,143 |
| Government grant received | - | - | (31,476) | (31,476) |
| Balance, December 31, 2015 | \$ 1,496,000 | \$ 593,821 | \$ 540,061 | \$ 2,629,882 |
| Balance, January 1, 2016 | \$ 1,496,000 | \$ 593,821 | \$ 540,061 | \$ 2,629,882 |
| Additions | - | - | 5,000 | 5,000 |
| Balance, December 31, 2016 | \$ 1,496,000 | \$ 593,821 | \$ 545,061 | \$ 2,634,882 |
| Accumulated amortization | | | | |
| Balance, January 1, 2015 | \$ 174,533 | \$ - | \$ 159,669 | \$ 334,202 |
| Amortization | 149,604 | - | 67,426 | 217,030 |
| Balance, December 31, 2015 | \$ 324,137 | \$ - | \$ 227,095 | \$ 551,232 |
| Balance, January 1, 2016 | \$ 324,137 | \$ - | \$ 227,095 | \$ 551,232 |
| Amortization | 149,604 | - | 62,593 | 212,197 |
| Balance, December 31, 2016 | \$ 473,741 | \$ - | \$ 289,688 | \$ 763,429 |
| Net book value | | | | |
| December 31, 2015 | \$ 1,171,863 | \$ 593,821 | \$ 312,966 | \$ 2,078,650 |
| December 31, 2016 | \$ 1,022,259 | \$ 593,821 | \$ 255,373 | \$ 1,871,453 |

11. GOODWILL

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

| | Ontario operations | Western Canada operations | Total |
|----------------------------|-----------------------|---------------------------------|--------------|
| Cost | | | |
| Balance, January 1, 2015 | \$ 1,976,644 | \$ 470,513 | \$ 2,447,157 |
| Additions | - | - | - |
| Balance, December 31, 2015 | \$ 1,976,644 | \$ 470,513 | \$ 2,447,157 |
| | | | |
| Balance, January 1, 2016 | \$ 1,976,644 | \$ 470,513 | \$ 2,447,157 |
| Additions | - | - | - |
| Balance, December 31, 2016 | \$ 1,976,644 | \$ 470,513 | \$ 2,447,157 |
| | | | |
| Impairment | | | |
| Balance, January 1, 2015 | \$ 280,000 | \$ 206,000 | \$ 486,000 |
| Impairment | 498,000 | - | 498,000 |
| Balance, December 31, 2015 | \$ 778,000 | \$ 206,000 | \$ 984,000 |
| | | | |
| Balance, January 1, 2016 | \$ 778,000 | \$ 206,000 | \$ 984,000 |
| Impairment | 761,000 | - | 761,000 |
| Balance, December 31, 2016 | \$ 1,539,000 | \$ 206,000 | \$ 1,745,000 |
| | | | |
| Net book value | | | |
| December 31, 2015 | \$ 1,198,644 | \$ 264,513 | \$ 1,463,157 |
| December 31, 2016 | \$ 437,644 | \$ 264,513 | \$ 702,157 |

The Ontario operations are comprised of Grajack Industries Ltd. (“Grajack”), R.H. Verduyn Granite Corporation Ltd. (“Verduyn”), Barber Monuments Limited (“Barber”), Stratford Memorials Ltd. (“Stratford”) and imonument operations. The Western Canada operations are comprised of Somerville Memorials Ltd. and Remco Memorials, a division of Family Memorials Inc.

Subsequent to the year end, on April 13, 2017, the Company sold certain operating assets of Verduyn, Barber and Stratford (comprised of display inventories, property, plant and equipment and goodwill) for gross proceeds of \$975,000.

11. GOODWILL (cont'd)

The Corporation is required to test, on annual basis, whether goodwill has suffered an impairment. For the Western Canada CGU, the recoverable amount was determined using the value in use method. In previous years, for the Ontario Operations CGU the recoverable amount was determined using the value in use method. As a result of the sale of certain assets for Verduyn, Barber and Stratford, the recoverable amount of those operations was determined on a Fair Value less costs for disposal basis.

Utilization of the Value in Use 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. The values assigned to the key assumptions represent management's assessment of future trends and are based on both external sources and internal sources (historical data). If future growth and results of the Western operations differ significantly from management's current best estimates, it is possible that it could have an adverse impact on the estimated recoverable amounts of those operations, including the amounts of allocated goodwill.

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.

| | Sales growth forecasted in 2017 year | Average growth for years 2018 through 2021 | Terminal growth beyond 2021 |
|---------------------------|--|--|--------------------------------|
| Western Canada operations | 7.5% | 2.0% | 2.0% |

The pre-tax discount rate used for the Western Canada operation in conjunction with the Value in Use impairment test was:

| | |
|--------------------------|----------------------|
| Western Canada operation | 23.2% (2015 - 24.1%) |
|--------------------------|----------------------|

The Fair Value less costs for disposal method for the Ontario operations CGU was based on the gross selling price of \$975,000 less professional and other costs related to the disposal of those assets for net proceeds of \$883,775. The expected net cash flows from the operations related to the Verduyn, Barber, and Stratford operations from December 31, 2016 up to the subsequent date of disposal were added to the recoverable amount. The overall recoverable amount of the entire Ontario operations CGU was approximately \$1,508,000. It was determined that the recoverable amount of the Ontario operations CGU was in excess of the carrying value and a goodwill impairment loss of \$761,000 was recorded for the 2016 fiscal year (2015 - \$498,000).

12. TRADE AND OTHER PAYABLES

The components of trade and other payables are as follows:

| | 2016 | | 2015 | |
|---------------------------|------|-----------|------|-----------|
| Trade payables | \$ | 1,344,276 | \$ | 1,357,182 |
| Due to director (Note 17) | | 2,550,000 | | 1,806,000 |
| GST/HST and other taxes | | 406,601 | | 517,465 |
| Other accruals | | 462,152 | | 316,801 |
| | \$ | 4,763,029 | \$ | 3,997,448 |

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 | |
|---|------------------------|-----------|---|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Under 1 year | \$ 19,632 | \$ 23,660 | \$ 19,136 | \$ 23,043 |
| Between 1 and 5 years | 8,382 | 27,898 | 7,728 | 26,864 |
| Over 5 years | - | - | - | - |
| Minimum lease payments | 28,014 | 51,558 | 26,864 | 49,907 |
| Future finance costs | (1,150) | (1,651) | - | - |
| Present value of minimum lease payments | \$ 26,864 | \$ 49,907 | \$ 26,864 | \$ 49,907 |

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 5.99% to 6.24%.

14. DEBENTURES

| | 2016 | 2015 |
|--|--------------|--------------|
| 10% convertible debenture, semi-annual interest payments only on June 15th and December 15th in each year. | | |
| In 2016, amended to 15% maturing March 31, 2017 | \$ 5,242,000 | \$ 5,242,000 |
| 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 Corporation in each quarter ending March 31st, June 30th, September 30th and December 31st, maturing January 2016 | - | 706,500 |
| | | 5,948,500 |
| Less: unamortized transaction costs | - | 178,349 |
| | | 5,770,151 |
| Less: current portion | 5,242,000 | 5,770,151 |
| Long term portion | \$ - | - |

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 12% debenture has been fully repaid during the year.

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 Corporation 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 Corporation and its subsidiaries. In June, 2015, a debenture holder converted \$115,000 of debenture units for 605,262 shares. During 2016, the terms of the debentures were modified with the consent from in excess of 66-2/3% of the holders of the debenture to remove the requirement to pay an interest installment on December 15, 2016 and change the maturity date to December 15, 2016, and increased the interest rate to 15%. A further modification was made to change the maturity date to March 31, 2017. Subsequent to year end, the debenture matured and the Company is reviewing various financing options.

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 Corporation on June 2, 2016 if the Corporation has not commenced paying a quarterly dividend of at least \$0.005 per common share on or prior to June 1, 2016. If the Corporation 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. In lieu of a dividend, 8,000,000 shares were issued to debenture holders on June 2, 2016 in accordance with terms of the debenture (see Note 16). The debentures are secured by a mortgage, charge and security interest on all assets of the Corporation 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 17).

The Corporation has repaid principal amounts totaling \$706,500 during 2016 (2015 - \$1,821,639) as per the terms of the 12% debenture.

15. INCOME TAXES

| | 2016 | 2015 |
|---|--------------|--------------|
| Expected combined federal and provincial tax rate | 26.5% | 26.5% |
| Expected income tax recovery at statutory rate | \$ (532,943) | \$ (496,960) |
| Decrease in taxes resulting from: | | |
| Permanent differences | 294,691 | 124,311 |
| Expired losses | - | 71,835 |
| Change in valuation allowance | 238,252 | 300,814 |
| | \$ - | \$ - |

The applicable statutory tax rate is 26.5% (2015 - 26.5%). The Corporation's applicable tax rate is the Canadian combined rates applicable in the jurisdictions in which the Corporation operates.

| Deferred tax assets | 2016 | 2015 |
|---------------------------------|--------------|--------------|
| Tax losses carried forward | \$ 2,364,740 | \$ 2,102,671 |
| Finance leases | 7,120 | 13,226 |
| Share issuance costs | 107,349 | 125,060 |
| Total deferred tax assets | 2,479,209 | 2,240,957 |
| Unrecognized deferred tax asset | (2,479,209) | (2,240,957) |
| | \$ - | \$ - |

| Deferred tax liabilities | 2016 | 2015 |
|------------------------------|-----------|-----------|
| Goodwill | \$ 11,346 | \$ 11,037 |
| Intangibles | 428,261 | 467,906 |
| Property plant and equipment | 29,761 | 99,555 |
| | 469,368 | 578,498 |
| Loss carried forward | (469,368) | (578,498) |
| | \$ - | \$ - |

The Corporation has non-capital losses carried forward for income tax purposes totaling \$10,694,747. Of these losses, \$1,771,199, 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, 2016 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, 2026 | \$ 1,057,011 |
| Thereafter | 9,637,736 |
| | \$ 10,694,747 |

16. SHARE CAPITAL AND STOCK OPTIONS

Authorized:

Unlimited number of common voting shares

| Shares issued | 2016 | | 2015 | |
|---|------------------|--------------|------------------|--------------|
| | Number of shares | Amount | Number of shares | Amount |
| Balance beginning of year | 40,328,865 | \$ 4,758,159 | 39,723,603 | \$ 4,643,159 |
| Shares issued for conversion of 10% debenture | - | - | 605,262 | 115,000 |
| Issuance of shares | 3,400,000 | 170,000 | - | - |
| Shares issued in lieu of dividend | 8,000,000 | 280,000 | - | - |
| Balance, end of year | 51,728,865 | \$ 5,208,159 | 40,328,865 | \$ 4,758,159 |

In June 2015, a holder of 10% convertible secured debentures converted to common shares in accordance with the terms of the debentures.

On April 27, 2016, 3,400,000 shares of the Corporation were issued for gross proceeds of \$170,000. The proceeds of the private placement were used for general working capital.

On June 2, 2016, 8,000,000 shares of the Corporation were issued in accordance with terms of the 12% debenture agreement that allowed for shares to be issued in lieu of a dividend (see Note 14).

(a) 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, 2016 and 2015, the Corporation had no outstanding stock options issued to directors, officers, management consultants and employees pursuant to the Corporation's stock-based compensation plan, all having expired in 2014.

16. SHARE CAPITAL AND STOCK OPTIONS (cont'd)

(b) Agent Options

| | 2016 | | 2015 | |
|----------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Beginning balance | 1,993,140 | \$ 0.120 | 1,993,140 | \$ 0.120 |
| Granted | - | - | - | - |
| Expired | 1,993,140 | 0.120 | - | - |
| Balance, end of year | - | \$ - | 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 expired 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 expired 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. No options have been exercised and all have expired during the year.

17. 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. (Note 14).

From 2013 to 2016, a company controlled by a director of the Corporation advanced \$2,600,000 (2015 - \$1,865,000) to the Corporation of which \$50,000 (2015 - \$59,000) has been repaid. The advance is recorded in trade and other payables; which is due on demand and there are no interest charges associated with the advance (Note 12).

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.

| | 2016 | 2015 |
|-----------------------|------------|------------|
| Salaries and benefits | \$ 287,172 | \$ 309,496 |

18. 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:

| | 2016 | 2015 |
|-----------------------------------|---------------------|---------------------|
| Debentures | \$ 5,242,000 | \$ 5,770,151 |
| Equity | (5,605,659) | (4,036,553) |
| Cash and cash equivalents | (194,495) | (129,912) |
| Total capital (deficiency) | \$ (558,154) | \$ 1,603,686 |

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 Corporation on June 2, 2016 if the Corporation has not commenced paying a quarterly dividend of at least \$0.005 per common share on or prior to June 1, 2016. If the Corporation 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 Corporation did not declare and pay a dividend in June 2016, hence 8,000,000 shares were issued to the debenture holders (see Notes 14 and 16).

19. 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 management 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.

19. FINANCIAL INSTRUMENTS (cont'd)

(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, 2016.

| Trade and other receivables | 2016 | 2015 |
|-----------------------------|------------|------------|
| Current | \$ 78,925 | \$ 142,440 |
| 31-60 days | 77,789 | 75,421 |
| 61-90 days | 28,726 | 32,401 |
| 91-120 days | 26,378 | 46,753 |
| Over 120 | 157,364 | 171,838 |
| Total | \$ 369,182 | \$ 468,853 |

(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.

19. FINANCIAL INSTRUMENTS (cont'd)

(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:

| December 31, 2015 | Due within 1 year | Due between 1 and 5 years | Due after 5 years |
|---------------------------------|------------------------------|--------------------------------------|------------------------------|
| Trade and other payables | \$ 3,997,448 | \$ - | \$ - |
| Debenture interest payable | 290,669 | - | - |
| Customer deposits | 2,330,602 | - | - |
| Obligations under finance lease | 23,660 | 27,898 | - |
| Debentures | 5,948,500 | - | - |
| | \$ 12,590,879 | \$ 27,898 | \$ - |

| December 31, 2016 | Due within 1 year | Due between 1 and 5 years | Due after 5 years |
|---------------------------------|------------------------------|--------------------------------------|------------------------------|
| Trade and other payables | \$ 4,763,029 | \$ - | \$ - |
| Debenture interest payable | 384,861 | - | - |
| Customer deposits | 1,994,603 | - | - |
| Obligations under finance lease | 19,136 | 7,728 | - |
| Debentures | 5,242,000 | - | - |
| | \$ 12,403,629 | \$ 7,728 | \$ - |

(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 Corporation 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 Corporation's valuation techniques.

19. FINANCIAL INSTRUMENTS (cont'd)

(e) Fair Value of Financial Assets and Liabilities (cont'd)

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 current or prior 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, 2016 and 2015.

| | Fair value hierarchy level | \$ Carrying values | 2016 \$ Fair values | \$ Carrying values | 2015 \$ Fair values |
|---------------------------------|----------------------------|--------------------|---------------------|--------------------|---------------------|
| Assets | | | | | |
| Loans and receivables | | | | | |
| Cash and cash equivalents | 1 | 194,495 | 194,495 | 129,912 | 129,912 |
| Cash not available for use | 1 | 23,988 | 23,988 | 24,134 | 24,134 |
| Trade and other receivables | 2 | 369,182 | 369,182 | 468,853 | 468,853 |
| Liabilities | | | | | |
| Amortized cost | | | | | |
| Trade and other payables | 2 | 4,763,029 | 4,763,029 | 3,997,448 | 3,997,448 |
| Obligations under finance lease | 2 | 26,864 | 26,864 | 49,907 | 49,907 |
| Debentures | 2 | 5,242,000 | 5,242,000 | 5,770,151 | 5,770,151 |

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

The fair value of the obligations under finance lease was 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.

20. DILUTED LOSS PER SHARE

The Corporation has not included the effects of 29,122,222 (2015 – 27,589,475) common shares issuable upon the conversion of the convertible debentures. In June 2016, 8,000,000 shares were issued under the rights agreement of the 12% debenture and are included in the loss per share calculation. The 1,993,140 agent options from prior years have expired and have no effect on diluted loss per share.

21. 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:

| | 2016 | 2015 |
|-----------------------|---------------------|---------------------|
| Under 1 year | \$ 576,325 | \$ 560,086 |
| Between 1 and 5 years | 1,350,947 | 1,724,282 |
| | \$ 1,927,272 | \$ 2,284,368 |

Lease payments recognized as an expense during the year amounted to \$598,462 (2015 - \$644,781).

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

22. 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 - 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 72% (2015 - 72%) of its revenue from this region.