

## **PARK LAWN COMPANY LIMITED**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As at and for the Quarters Ended March 31, 2019 and 2018

#### **Introduction**

The following Management Discussion and Analysis ("MD&A") covers the operations, financial position and operating results of Park Lawn Company Limited (the "Company" or "Park Lawn") as at and for the quarters ended March 31, 2019, and March 31, 2018, and is intended to help readers better understand the operations and key financial results, as they are, in our opinion, at the date of this report. The MD&A has been prepared in accordance with National Instrument 51-102F1, Continuous Disclosure Obligations, and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2018, and the accompanying notes. Information contained in this management's discussion and analysis is based on information available to management as of May 24, 2019.

Additional information relating to Park Lawn Company Limited is filed at SEDAR at [www.sedar.com](http://www.sedar.com) and at CSE at [www.thecse.com](http://www.thecse.com) or can be obtained by contacting Investor Relations, Park Lawn Company Limited, 21 St. Clair Ave East, Suite 1001, Toronto, ON, M4T 1L9.

The Company reports its annual and quarterly consolidated financial statements and other financial information in accordance with International Financial Reporting Standards ("IFRS") and the recommendation of the International Financial Reporting Committee ("IFRIC") and as issued and effective or as issued and early adopted for all periods and dates reported as of May 24, 2019, the date the Board of Directors approved these statements.

These statements are essentially forward-looking and are subject to risks and uncertainties, as described in the "Risks and Uncertainties" section below. Actual results, levels of activity, performance or achievements could differ materially from those projected, discussed or contemplated herein and are dependent upon on a number of factors, including the approval of the application for an amendment to the City of Toronto Official Plan and Zoning Bylaw for the Company's 2.9 acre parcel of land ("the Land"), of which the Company holds a 20% interest, as at December 31, 2018, following the sale of 80% of its interest in the Land to a third-party developer in January, 2016.

During its 2016 and 2017 fiscal years, the Company invested a portion of its cash in four highly-liquid, short term investments, which the Company continued to hold throughout its 2018 fiscal year. These investments are more fully described in Note 6 to its December 31, 2018, consolidated financial statements. During its 2018 fiscal year, the Company invested a portion of its cash in three third-party entities as more fully described in Note 7 to its December 31, 2018, consolidated financial statements. It is Management's intention to hold these latter instruments with the goal of long-term capital appreciation. The IFRS accounting policies adopted by the Company with respect to these investments are also described in that Note.

Unless otherwise noted, all amounts in this MD&A are presented in Canadian funds, which is the functional currency of the Company.

Park Lawn Company Limited shares are listed on the Canadian Securities Exchange (CSE) under the symbol PRL.

## *Forward-looking Statements*

*This MD&A contains forward-looking statements and information within the meaning of applicable securities legislation. These forward-looking statements reflect management's current beliefs and are based on assumptions and information currently available to the management of the Company. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "forecast", "outlook", "potential", "continue", "should", "likely", or the negative of these terms or other comparable terminology. Although management believes that the anticipated future results, performance, or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, readers should not place undue reliance on forward-looking statements and information, because they involve assumptions, known and unknown risks, uncertainties, and other factors that may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance, or achievements expressed or implied by such forward-looking statements and information. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements and information include, but are not limited to, general and local economic conditions; and risk matters noted in the Overview; Impairment Testing of Property; Business Environment and Outlook; and, Risks and Uncertainties sections of this MD&A. The Company undertakes no obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by law.*

## **Overview**

Park Lawn Company Limited ("the Company") ("Park Lawn") owns a 20% interest in the 2.9 acre parcel of land at 57 Linelle Street, Toronto, Ontario, holds a vendor take back mortgage from Mattamy Development Corporation ("Mattamy") in the amount of \$4,920,000, and, as at December 31, 2016, owned 262,092 shares ("the Shares") of Park Lawn Corporation. As discussed below, during its 2018 fiscal year, the Company sold 15,000 of those shares resulting in gains for accounting and income tax purposes, and held an aggregate of 37,092 Shares as at December 31, 2018 and March 31, 2019. The mortgage take back matures in the first fiscal quarter of the Company's 2020 year end. Consequently, the interim consolidated statements of financial position report this instrument as a current asset as at March 31, 2019.

On January 6, 2016 the Company announced that it had completed the transaction with Mattamy Development Corporation ("Mattamy"). The parties entered into an agreement for the development of the Company's property ("the Land") located at 57 Linelle Street, Toronto. Mattamy acquired an 80% interest in the land for \$8.2 million. 30% of the purchase price was paid in cash upon closing with an additional 10% payable and paid in cash within 120 days of closing. For the balance of 60%, the Company has taken back a mortgage for up to three years. Interest is payable on the mortgage at 4.8% per year, with, no interest payable for 18 months subsequent to completion of the transaction, and 4.8% per annum thereafter, commencing July 2017. Under the terms of the transaction, Mattamy made four cash payments to the Company totaling \$236,160 (2017 - two, \$118,403) during the year ended December 31, 2018, and another cash payment during the most recent fiscal quarter of \$59,525. The Company has retained a 20% interest in the Land and has entered into a co-ownership agreement with Mattamy. The co-owners' agreement contemplates the development of the land for low-rise (i.e. single family homes) residential development. Under this agreement, Mattamy will be responsible for managing the approval process, site servicing and sale and construction of the units.

The Company and Mattamy will divide profits from the development with the Company receiving 20% and Mattamy 80%. Based upon terms of the agreement with Mattamy and current market conditions, management of Park Lawn could receive total pretax income of \$8.7 million to over \$11 million from the project. The sale to Mattamy resulted in a pre-tax accounting, net of commissions and related costs, of \$5,806,496. As a result of the Company's transaction with Mattamy, the Company has retained a 20% interest in its land held for development. As a partner in the future development of the Land, the Company is required to fund its share of the development costs, currently estimated at \$3,580,000, of which PLCL would be responsible for 20%, or \$716,000. As at December 31, 2018, Mattamy has made a cash call of \$119,901, which the Company paid in November 2018, and which has been added to the carry value of the Land Held for Development in the Company's December 31, 2018, consolidated financial statements.

With the January 6, 2016 sale and the assumption by Mattamy of responsibility for the management and completion of the approval process for rezoning of the Land for low-rise (i.e. town house) residential development with the City of Toronto, management believes that the Company is no longer subject to material risk associated with this particular residential real estate development in Toronto. In the future, the Company may enter into additional real estate developments and again become subject to those risks.

Prior to the end of its second 2016 fiscal quarter, the Company held a subordinated, secured promissory note ("the Note") due from Park Lawn Limited Partnership ("PLLP"), with a principal of \$5,096,498, bearing interest at 5.5% per annum. During the Company's third fiscal quarter of 2016, this note was settled, with the Company receiving a cash payment of \$1,000,000 and the issuance of 262,092 shares ("the Shares") of Park Lawn Corporation ("PLC"). The value of those shares on the TSX-V on the date of settlement of the Note was approximately \$15.11 per share, resulting in a pre-tax accounting and capital loss of \$136,288. From the date of settlement, the PLC shares were subject to a holding period of six months. During its fiscal 2017 year, the Company sold 210,000 PLC shares. On March 27, 2018 the Company sold 15,000 of its PLC shares for proceeds of \$27.00 per share before commissions. As at March 31, 2019, the market value of the Company's remaining holding of 37,092 shares was \$25.43 per share.

On May 23, 2017, the Company announced that it would be conducting a Normal Course Issuer Bid ("NCIB"). Under this first NCIB, the Company will purchase up to 49,303 shares representing up to 10% of the public float of the currently issued and outstanding shares of the Company. During the year ended December 31, 2017, the Company had purchased 49,303 of its outstanding shares and all shares purchased have been cancelled.

On June 13, 2018, the Company announced that it would be conducting an NCIB. Under the second NCIB, the Company would purchase 44,672 shares representing up to 10% of the public float of the currently issued and outstanding shares of the Company. During the year ended December 31, 2018, the Company had purchased 44,672 of its outstanding shares and all shares purchased have been cancelled.

Other than the NCIBs, there was no change in the Company's approach to capital management during the year ended December 31, 2018 and the quarter ended March 31, 2019.

## **Consolidation**

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries (including Kening Properties Limited and Westside Cemetery Holdings Limited). All significant accounts and transactions between consolidated entities are eliminated. Should there be a party

with a minority interest in a property that the Company controls, that minority interest would be reflected as “Non-controlling interest” in the consolidated statements of financial position.

## Financial Statements and Accounting Principles

The Company’s significant accounting policies are summarized in Note 2 to its consolidated financial statements. There have been no changes in significant accounting policies from the Company’s 2018 audited annual financial statements. In addition, there has been no change in the Company’s financial instrument risks and policies except as discussed in Note 4 to those statements.

The following Management Discussion and Analysis provides a review of corporate and market developments, results of operations and financial position for the quarter ended March 31, 2019, with comparative information. Information contained in this Management Discussion and Analysis is based on information available to management as of May 24, 2019.

## Results of Operations

For the fiscal quarter ended March 31, 2019, total revenue from continuing operations was \$145,386 (March 31, 2018 - \$84,135). The primary sources of the Company’s operating revenue were interest earned on its short-term investments and cash on deposit in an aggregate amount of \$81,632 (March 31, 2018 – \$16,870), interest earned on the Mattamy mortgage vendor take back of \$59,525 (March 31, 2018- \$59,525), and dividends paid by Park Lawn Corporation of \$4,229 (March 31, 2018 - \$5,939). The increase in earnings on Park Lawns short-term investments was due to better returns on the funds that comprise those investments and such returns will vary from reporting period to reporting period. The decrease in dividend revenue was a direct result of the sale of 15,000 Shares during 2018 as discussed elsewhere in this MD&A. Expenses for the fiscal quarter ended March 31, 2019, were \$127,293 (March 31, 2018 - \$129,322), a net decrease of \$2,029.

The table below presents a comparative analysis of the Company’s operating expenses.

	3 months ended March 31, 2019	3 months ended March 31, 2018	Dollar Increase/ (Decrease)	Percentage Increase/ (Decrease)
Management and professional	\$ 114,863	\$ 116,237	\$ (1,374)	-1%
Office and general	12,430	13,084	(654)	-5%
<b>TOTAL</b>	<b>\$ 127,293</b>	<b>\$ 129,322</b>	<b>\$ (2,028)</b>	<b>-2%</b>

As at March 31, 2019, the market value of the remaining 37,092 PLC shares was \$25.43 per share resulting in an unrealized gain on the value of the PLC shares of \$87,908 during the most recent quarter over the value at December 31, 2018.

Net and comprehensive income before income tax for the fiscal quarter ended March 31, 2019, was \$106,001 (March 31, 2018 – (\$197,196)).

Current income tax expense for the fiscal quarter ended March 31, 2019 was \$18,750 (March 31, 2018 - \$98,000). Deferred income tax (recovery) expense was \$11,183 (March 31, 2018 – (\$53,500) recovery). An analysis of the Company's income taxes to statutory rates as to its current and deferred income tax expenses is presented in Note 12 to the interim consolidated financial statements as at and for the quarters ended March 31, 2019 and 2018.

Net and comprehensive income after tax income tax expense was \$76,068 for the Company's fiscal quarter ended March 31, 2019 (March 31, 2018 - \$152,696).

### **Consolidated Balance Sheet: Liquidity, Assets, Liabilities and Capital Resources**

Current assets increased by \$4,719,647 from December 31, 2018 to March 31, 2019. The net increase is due principally to the inclusion in current assets of the vendor take back mortgage of \$4,920,000 maturing in early 2020, an increase in the PLC share value of \$87,908, and an increase in the value of short-term investments of \$72,641. This increase was offset by a decrease in cash in the bank of \$357,577 (due primarily to the payment, in February 2019, of \$263,557, represented the Company's current income tax liability for 2018, and the increase in the Company's investment in Slate), a decrease in accounts receivable comprising HST of \$1,706, and a decrease in prepaid expense of \$1,620. Long-term investments increased by \$40,032 reflecting an additional contribution in the Company's investment in Slate Canadian Real Estate Opportunity Fund LP ("Slate") as discussed in Note 7 to the March 31, 2019, interim consolidated financial statements.

The Company's largest asset and largest financial instrument assets comprises its Vendor Mortgage Take Back receivable for the property in which it retains an undivided 20% interest - 57 Linelle Street, Toronto, Ontario. The Mortgage Take Back becomes due and payable to the Company in the first quarter of its 2020 fiscal year. To date, Mattamy has met all interest repayment requirements under the agreement in full (See Note 10 to the most recent audited annual and unaudited interim consolidated financial statements).

Current liabilities decreased by \$162,889 from December 31, 2018 to March 31, 2019 due principally to a decrease in income taxes payable of \$190,057, in accounts payable of \$2,765 and offset by an increase in deferred income taxes of \$29,333.

The Company's net working capital increased from \$5,249,484 at December 31, 2018 to \$10,132,020 at March 31, 2019, an increase of \$4,882,536 as a result of the factors discussed above. Retained earnings increased \$76,068 from December 31, 2018 to March 31, 2019.

### **Related Party Transactions - Management Contract and Key Executive Compensation**

The Company has a contract ("the Agreement") with Scotchbrook Holdings Inc. for consulting services related to development, and other company real estate matters. During the period ended March 31, 2019, the Company paid \$102,766 (March 31, 2018 - \$102,766) to Scotchbrook Holdings Inc. under the Agreement. Scotchbrook Holdings Inc. is a company controlled by a director and an officer of the Company. Under the terms of the Agreement, the Company had previously announced that the Agreement would terminate at the end of the Company's 2018 fiscal year (i.e. within a "three-year notice period"). On November 23, 2018, the Board of Directors approved the extension of the Management Agreement between the Company and Scotchbrook Holdings Limited for an additional two years commencing on January 1, 2019, and under the same terms and conditions as the current agreement.

## **Disclosure Controls and Procedures**

Pursuant to Multi-Lateral Instrument 52-109, which requires certification of disclosure in an issuer's annual and interim filings, the President and the Vice President and Treasurer have evaluated the effectiveness of the Company's internal disclosure controls and procedures for the Company's fiscal quarter ended March 31, 2019, and have concluded that the Company's disclosure controls and procedures are designed effectively to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed and reported within the time specified in those rules.

In addition, the President and the Vice-President and Treasurer have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with IFRS. The internal controls are not expected to prevent and detect all misstatements due to error or fraud. There have been no changes in the Company's internal controls over financial reporting that have materially affected or are reasonably likely to affect the Company's internal controls over financial reporting for the fiscal quarter ended March 31, 2019.

## **IFRS Issued Standards**

The International Accounting Standards Board ("IASB") issued the following standards, amendments and interpretations as at the date that the Board of Directors approved this Management's Discussion and Analysis, which the Company has adopted.

- IFRS 16, Leases – Effective for annual periods beginning on or after January 1, 2019. The most significant change introduced by IFRS 16 is a single lessee accounting model, bringing leases on-balance sheet for lessees. Adoption of this standard by the Company on January 1, 2019 has not had a material effect.
- IFRS 3, Business Combinations - Effective for annual periods beginning on or after January 1, 2020 with early adoption available. This amendment to IFRS 3 clarifies the definition of a business and assists entities in determining whether an acquisition is a business combination of an acquisition of a group of assets. The amendment emphasizes that the output of a business is to provide goods and services and also provides supplementary guidance. The Company will adopt the provisions of this amendment prospectively in its 2020 fiscal year. Management does not expect adoption of this amendment to have a material effect.

## **Business Environment and Outlook**

On January 6, 2016 the Company completed the following transaction with Mattamy Development Corporation ("Mattamy"). The parties entered into an agreement (the "Agreement") for the development of Company's property ("the Land") located at 57 Linelle Street, Toronto. Mattamy acquired an 80% interest in the Land for \$8.2 million, 40% of which, under the agreement, was paid to the Company in cash during the first two quarters of 2016. Of the outstanding balance of the selling price, \$4,920,000, the Company received a vendor take back mortgage the proceeds of which are payable in cash to the Company within three years of closing.

Interest is payable on the mortgage to the Company at 4.8% per annum, with no interest payable until July 2017. Interest of \$59,525 in respect of the Mortgage was received in cash during the Company's fiscal quarter ended March 31, 2019 (\$263,160 – year ended December 31, 2018; March 31, 2018 - \$59,525). The facility matures in the Company's first fiscal quarter of 2020. To date, Management has not determined its investment plan for the principal due, subject to comments below.

The Company has retained a 20% interest in the land and has entered into a co-ownership agreement with Mattamy. The co-owners agreement contemplates the development of the land for low rise residential development. Under this agreement, Mattamy will be responsible for managing the approval process, site servicing and sale and construction of the units. The Company and Mattamy will divide profits from the development with 20% going to the Company and 80% to Mattamy. Park Lawn Company Limited estimates that it could receive total income of \$8.7 million to over \$11 million from the project.

As a partner in the future development of the Land, the Company is required to fund its share of the development costs, currently estimated at \$3,580,000, of which PLCL would be responsible for 20%, or \$716,000. As at December 31, 2018, Mattamy has made a cash call of \$119,901, which the Company paid in November 2018, and which has been added to the carry value of the Land Held for Development on the accompanying statements of financial position.

As at the date that the Board of Directors approved this Management's Discussion and Analysis, management intends to invest the majority of its excess cash and cash equivalents in short- and long-term investments and may continue to invest a portion of the Company's excess cash in longer term investments that are within the Company's financial instrument risk-acceptance criteria. (See Note 4 to the condensed interim consolidated financial statements for the quarters ended March 31, 2019 and 2018.)

## **Subsequent Events**

### *Slate Canadian Real Estate Opportunity Fund LP*

During May 2019, the Company invested an additional \$28,939 cash in Slate Canadian Real Estate Opportunity Fund L.P., bringing the Company's total cash investment in this entity to \$362,247.

## **Risks and Uncertainties**

As of January 6, 2016, Mattamy Development Corporation has assumed responsibility for the management and completion of the approval process with regard to the Land with the City of Toronto.

The Company does not consider there to be a significant credit risk for its investments based on investment grade ratings and performance criteria used in selecting these investments and monitoring of the price of shares of Park Lawn Corporation to the date that the Board of Directors approved the accompanying financial statements and none of the counterparties to these instruments have been in default of their obligations.

Reference should also be made to Note 4 to the Company's condensed interim consolidated financial statements for the quarters ended March 31, 2019 and 2018.

## **Shares Outstanding**

The authorized and issued capital stock of the Company comprises an unlimited number of common shares. 1,036,025 common shares are issued and outstanding as at March 31, 2019.

## **Additional Information**

Additional information relating to Park Lawn Company Limited is filed at SEDAR at [www.sedar.com](http://www.sedar.com) and at CNSX at [www.thecse.com](http://www.thecse.com) or can be obtained by contacting Investor Relations, Park Lawn Company Limited, 21 St. Clair Ave East, Suite 1001, Toronto, ON, M4T 1L9.