CLARKE

Halifax, Canada

MD&A & Financial Statements 2020

Management's Discussion & Analysis

Clarke Inc.

December 31, 2020 and 2019

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion & Analysis ("MD&A") presents management's view of the financial position and performance of Clarke Inc. ("Clarke" or the "Company") for the year ended December 31, 2020 compared with the year ended December 31, 2019. The following information is derived from the Company's consolidated financial statements which are prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with the information disclosed within the consolidated financial statements and notes thereto for the year ended December 31, 2020 and the Company's Annual Information Form ("AIF"), including the risk factors described therein, available on SEDAR at www.sedar.com. This MD&A provides an overall discussion, followed by analyses of the performance of the Company's major investments. The MD&A is prepared as at March 2, 2021 (unless otherwise stated). All dollar amounts are shown in millions of Canadian dollars unless otherwise indicated.

OVERVIEW & STRATEGY

Clarke is an investment company. Our objective is to maximize shareholder value. While not the perfect metric, we believe that Clarke's book value per share, together with the dividends paid to shareholders, is an appropriate measure of our success in maximizing shareholder value over time.

We attempt to maximize shareholder value by allocating capital to investments that we believe will generate high returns and reallocating capital over time as needed. In doing this, Clarke's goal is to identify investments that are either undervalued or are underperforming and may be in need of positive change. These investments may be companies, securities or other assets such as real estate, and they may be public entities or private entities. We do not believe in limiting ourselves to specific types of investments. Clarke seeks active involvement in the governance and/or management of the company in which it invests. In these cases, Clarke will have acquired the security with a view of changes that could be made to improve the underlying company's performance and maximize the company's value. When Clarke believes that an investee company has implemented appropriate changes and/or the value of the investee company has reached or exceeded its intrinsic value, Clarke may sell its investment. Clarke generally invests in industries that have hard assets, including manufacturing, industrial, energy and real estate businesses.

FULL YEAR REVIEW AND OUTLOOK

During 2020, the Company's book value per Common Share decreased by $3.86, or 25.6%. The decrease can primarily be ascribed to (i) the distribution to shareholders of the Company's shares of TerraVest Industries Inc. ("Terravest") with a value at the time of distribution in the amount of $58.1 million, or $3.58 per Common Share, (ii) a net revaluation loss of certain hotels owned by Holloway Lodging Corporation ("Holloway") in the amount of $12.1 million, or $0.73 per Common Share, (iii) losses in our operating businesses and corporate overhead in an amount of $12.1 million, or $0.73 per Common Share, offset by (iv) repurchasing our Common Shares at prices below our book value per share in the amount of $11.3 million, or $0.35 per Common Share, (v) net realized/unrealized gains on our marketable securities in the amount of $5.8 million, or $0.35 per Common Share, (vi) an increase in the after-tax value of our pension plan surplus in the amount of $4.8 million, or $0.29 per Common Share, and (vii) a fair value increase of certain office buildings owned by Holloway in the amount of $2.0 million, or $0.12 per Common Share. Our book value per Common Share at the end of the year was $11.20 while our Common Share price was $6.68.

During the fourth quarter, the Company, through its wholly-owned subsidiary, Holloway, sold the Best Western® in Grande Prairie, Alberta to a company controlled by Clarke's Executive Chairman and his immediate family member (the "Purchasing Company") for consideration of $11.5 million. The transaction constituted a "related party transaction" pursuant to Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions ("MI 61-101"). The Company was exempt from the requirements to obtain a formal valuation and minority shareholder approval in connection with the sale in reliance on the exemptions contained in sections 5.5(a) and 5.7(1)(a) of MI 61-101, respectively, as the fair market value of the transaction did not exceed 25% of the Company's market capitalization. The transaction was reviewed and approved by the board of directors of the Company, excluding Mr. George Armoyan, the Executive Chairman of the Purchasing Company, who abstained from voting on the matter.

Subsequent to December 31, 2020, the Company announced its intention to commence a substantial issuer bid pursuant to which it would offer to purchase up to 1,150,000 of its outstanding common shares (or such greater number of common shares that the Company may determine it will take up and pay for) at a purchase price of $7.00 per share. The aggregate purchase price pursuant to the offer will be $8.1 million if all common shares are purchased.

COVID-19

The spread of COVID-19, consumer and business perceptions of the danger of COVID-19 and Canadian and provincial government responses to COVID-19 have affected the Company materially and adversely during 2020. The impact has been particularly strong on the hotel and ferry businesses due to the decline in business and leisure travel and even day-to-day commuting.

Economic activity has been resuming throughout the second half of the year, and our businesses are beginning to recover. How long it takes for business levels to normalize remains highly uncertain. In mid-March, as the impact of COVID-19 on business levels became apparent, we took immediate and drastic action at our businesses to safeguard employee and customer safety, ensure financial liquidity, reduce and/or defer expenses and minimize cash burn. We do not expect to generate significant positive cash flow at Holloway or our ferry business until the travel and leisure industries return to more normal economic levels.

Holloway Lodging Corporation

The percentage decline of our revenue compared to the prior year in the fourth quarter was consistent with the decline we experienced in the third quarter. This implies that the situation has not further eroded, but has stabilized, albeit at a very low level. We believe that demand will increase from here, but the recovery will be volatile, and the pace of improved results could vary significantly between markets. As jurisdictions cycle between raising and lowering alert levels, we have adapted operations quickly, and positioned ourselves to take advantage of an eventual recovery. While all of our hotels have remained open since six were closed initially, we have had various food and beverage operations close sporadically due to regional restrictions and low business levels. While the recent emergence of several COVID-19 variants is a new threat, the planned vaccination program does offer hope for a return to more traditional business patterns.

We continue to work on the pre-construction phase of the redevelopment of our Ottawa hotel site and we engaged a general contactor in the fourth quarter. We expect the construction phase to commence in 2021.

Trican Well Service Ltd. (“Trican”)

Our patience was rewarded in the fourth quarter of 2020. Boosted by vaccine developments and a substantial rally in commodities, Trican shares gained nearly 46% in the quarter. We took this opportunity and reduced our position by about one fifth of our total holdings, divesting roughly 7 million common shares of Trican.

We maintain an optimistic view on the sector, with recovery in energy prices hopefully translating into E&P Capex spending. We believe that a recovery in demand for oil field services, coupled with reduced and idled supply, will result in sector-wide tailwinds in 2021.

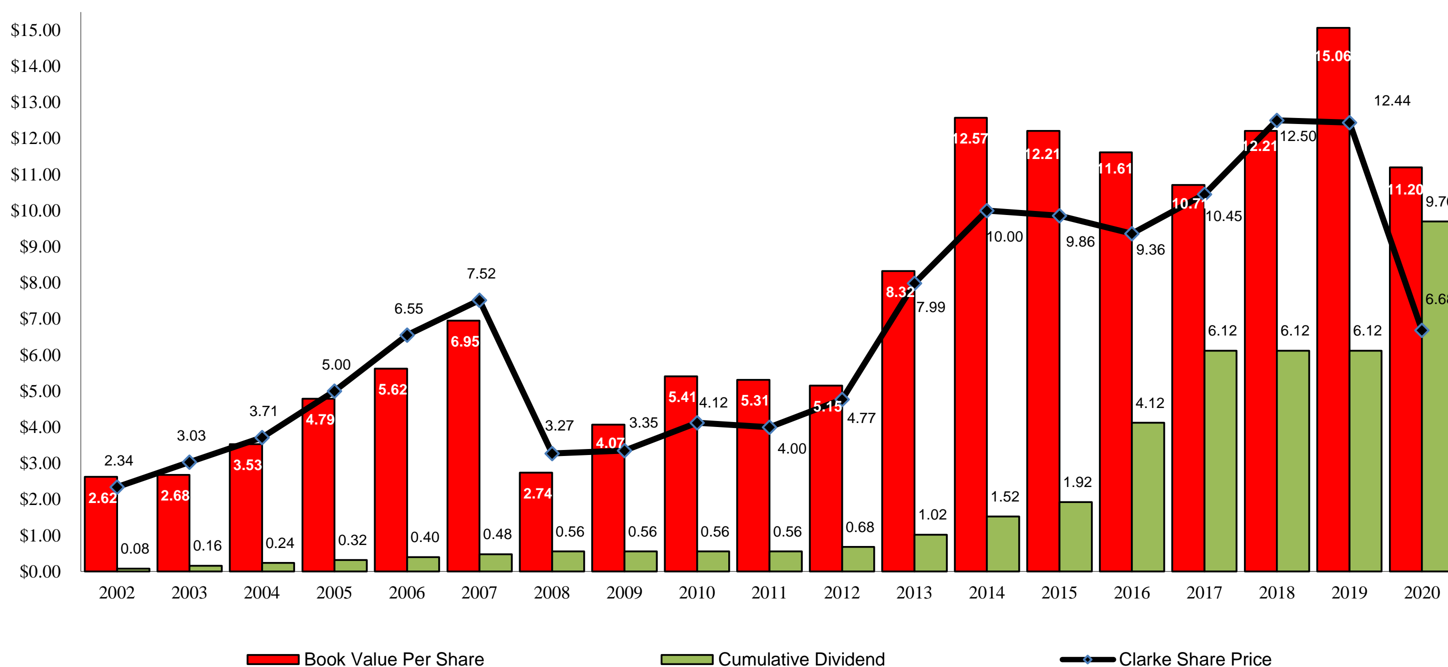
Real Estate and Corporate

We currently own three vacant office buildings in Houston, TX totalling approximately 435,000sf. We acquired these properties far below the cost at which they can be replaced, and we are actively working to redevelop and/or lease these properties. During the year, we recorded a fair value adjustment increase on two of these properties for a total of $2.0 million as a result of unsolicited purchase offers. We also own a vacant parcel of land in Moncton, NB.

We currently have $51 million of debt at the Clarke corporate level and $115 million of debt on a consolidated basis. We have availability under our corporate and subsidiary credit lines of $46 million (although our borrowing bases may decline due to the impact of COVID-19). During the fourth quarter, we amended our credit facilities with our primary lender to establish incremental, long-term liquidity to the Company.

BOOK VALUE PER SHARE

The Company's book value per share at December 31, 2020 was $11.20, a decrease of $3.86 per Common Share since December 31, 2019. The following graph shows Clarke's book value per share, share price and cumulative dividends paid since 2002 (the year the present Executive Chairman joined the Company).



** Information for the years ended 2002 and 2003 is as at March of the following year. In 2004 the Company's year-end was changed to December. All other information is for the years ended December 31.*

RESULTS OF OPERATIONS

Highlights of the consolidated financial statements for the last three completed fiscal years are as follows:

(in millions, except per share amounts)	**Year ended December 31, 2020 $**	Year ended December 31, 2019 $	Year ended December 31, 2018 $
Hotel and management services	**30.5**	73.9	—
Provision of services	**4.6**	8.1	7.4
Bargain purchase	—	21.8	—
Investment and other income (loss)*	**(8.2)**	16.7	(0.9)
Net income (loss) attributable to equity holders of the Company	**(19.2)**	38.4	(0.6)
Comprehensive income attributable to equity holders of the Company	**(10.5)**	38.9	18.6
Basic earnings (loss) per share ("EPS")	**(1.21)**	2.90	(0.04)
Diluted EPS	**(1.21)**	2.78	(0.04)
Total assets	**311.0**	401.2	164.1
Long-term financial liabilities	**109.7**	94.3	2.4
Book value per share	**11.20**	15.06	12.21

**Investment and other income (loss) include unrealized/realized gains/losses on investments, hotel revaluations and property fair value adjustments, dividend and interest income, pension recovery/expense, insurance proceeds, gains/losses on disposal of assets, foreign exchange gains/losses, and gains on repurchase of convertible debentures.*

Net loss attributable to equity holders of the Company for the year ended December 31, 2020 was $19.2 million compared to net income of $38.4 million in 2019. During the year ended December 31, 2020, the Company had unrealized losses on its investments of $24.6 million compared to unrealized gains of $17.0 million in 2019. The Company had realized gains on its investments of $30.4 million for the year ended December 31, 2020 compared with realized losses of $3.3 million in 2019. The Company recorded a bargain purchase gain of $21.8 million during the year ended December 31, 2019 as a result of the acquisition of control of Holloway.

SEGMENT REPORTING

The table below summarizes the Company's holdings as at December 31, 2020 based on total assets. The Other category is not a segment and is disclosed for reconciliation purposes. It consists of our treasury and executive functions, the results of our pension plans and the interest payable on our convertible debentures.

	December 31, 2020		December 31, 2019	
Segment	**$**	**%**	$	%
Investment	**68.9**	**22.2**	131.5	32.7
Hospitality	**207.8**	**66.8**	238.2	59.4
Other	**34.3**	**11.0**	32.0	8.0
Intercompany elimination	**—**	**—**	(0.5)	(0.1)
Total	**311.0**	**100.0**	401.2	100.0

Investment segment

The Company's investment segment is comprised of securities, a ferry business, and vacant office buildings in Houston, TX. During the year ended December 31, 2020, the Investment segment had unrealized losses on its investments of $24.6 million compared to unrealized gains of $44.7 million in 2019. The Investment segment had realized gains on its investments of $30.4 million for the year ended December 31, 2020 compared with realized losses of $17.6 million in 2019. The Company's equity holdings generated dividends of nil in 2020 compared to $2.8 million in 2019.

At December 31, 2020, the Company owned 28,000,000 shares of Trican with a value of $46.8 million. During the first quarter of 2020, Clarke's investment in the common shares of Terravest were disposed of through the dividend-in-kind and all other public company securities were sold. During 2020, the Company generated total proceeds of $12.6 million from the sale of marketable securities, compared to total proceeds of $5.6 million in 2019.

A summary of the change in the Company's securities portfolio is as follows:

	Year ended December 31, 2020 $
Securities – beginning of year	**111.7**
Proceeds on sale	**(12.6)**
Net realized and unrealized gains on securities	**5.8**
Disposal of Terravest common shares by dividend-in-kind	**(58.1)**
Securities – end of year	**46.8**

There were no material developments with our office buildings in Houston during the year aside from the fair value adjustment of $2.0 million. We also own a passenger/car ferry operating on the St. Lawrence River under contract with the Government of Québec since 1973. During 2020, we experienced a significant reduction in revenue due to the delayed opening of the season as a result of the state of emergency due to the pandemic. The ferry normally begins its operating season at the start of the second quarter. This year we opened in the latter half of May. There were no other material developments with the ferry business during the year.

Hospitality segment

Holloway owns and operates hotels across Canada. We began to consolidate Holloway's results into our own results after acquiring control by obtaining 51% of Holloway's outstanding shares in early 2019. We acquired the remaining outstanding shares of Holloway on September 30, 2019 to increase our ownership to 100%. Holloway's results for the year ended December 31, 2020 compared to the year ended December 31, 2019 are as follows:

	Year ended December 31, 2020 $	Year ended December 31, 2019 $
Hotel operations	**30.5**	73.9
Investment and other income (loss), net of hotel revaluations	**(16.0)**	0.7
Total revenue and other income	**14.5**	74.6
Less:		
Hotel operating expenses, corporate expenses, property taxes and insurance	**24.7**	55.5
Selling costs on property and equipment sales	**—**	2.8
Share-based payment expense	**—**	0.4
Depreciation	**10.6**	11.9
Interest expense	**3.1**	7.1
Loss before income taxes	**(23.9)**	(3.1)

Hotel occupancy in the fourth quarter declined significantly compared to the prior year and declined by a modest amount from our third quarter levels which traditionally produces the greatest demand due to summer leisure travel. Our fourth quarter revenue and occupancy levels remain significantly above our second quarter results driven by the reopening of our closed hotels and the gradual reopening of certain parts of the economy. Nonetheless, the revenue decline has made for a very difficult quarter.

We continue to use all available means to mitigate the impact of lower revenue. These measures include significant staffing reductions in both hotel operations and corporate departments, availing to the Canadian Emergency Wage Subsidy, Canadian Emergency Rent Subsidy and other government programs and reducing operating expenses across all areas of our business.

OUTSTANDING SHARE DATA

At March 2, 2021, the Company had:

- An unlimited number of Common Shares authorized and 15,049,792 Common Shares outstanding;
- An unlimited number of First and Second Preferred Shares authorized and none outstanding; and
- 150,000 options to acquire Common Shares outstanding, 50,000 of which are vested and exercisable.

NORMAL COURSE ISSUER BIDS ("NCIB")

The directors and management are of the opinion that, from time to time, the prices of the Company's Common Shares may not reflect their intrinsic value and, therefore, purchasing such Common Shares may be a worthwhile use of funds and in the best interests of the Company and its shareholders.

In June 2018, Clarke announced that it had received approval from the TSX to conduct a NCIB to purchase for cancellation up to 627,514 Common Shares, representing 5% of the issued and outstanding Common Shares as at that date. The NCIB commenced on June 8, 2018 and Clarke repurchased 264,400 Common Shares by the end of 2018 and 244,459 Common Shares in 2019 prior to the expiry date of June 7, 2019.

In June 2019, Clarke announced that it had received approval from the TSX to conduct a NCIB to purchase for cancellation up to 810,774 Common Shares, representing 5% of the issued and outstanding Common Shares as a that date. The NCIB commenced on June 27, 2019 and Clarke repurchased 91,200 Common Shares by the end of 2019 and 719,574 Common Shares in 2020 prior to the expiry date of June 26, 2020.

In June 2020, Clarke announced that it had received approval from the TSX to conduct a NCIB to purchase for cancellation up to 795,024 Common Shares, representing 5% of the issued and outstanding Common Shares as a that date. The NCIB commenced on June 29, 2020 and will terminate on June 28, 2021. Clarke repurchased 437,925 Common Shares by the end of 2020.

LIQUIDITY AND CAPITAL RESOURCES

During 2020, the Company's net short term debt position (a non-IFRS measure representing short-term indebtedness net of cash and cash equivalents) decreased $22.0 million and is $5.5 million as at December 31, 2020. This increase in cash is largely a result of proceeds on the sale of marketable securities and the Best Western hotel in Grande Prairie.

Cash flow from operating activities

Cash used in operating activities was $5.9 million for the year ended December 31, 2020, compared to $11.5 million provided during 2019. The cash from operating activities is driven mainly by the hospitality and ferry operations as well as interest received during the year.

At December 31, 2020, working capital excluding securities was negative $9.1 million, compared to negative $36.5 at December 31, 2019. The Company has the ability to fund any working capital needs through its cash on hand and its existing credit facilities.

Cash flow from investing activities

Cash provided by investing activities was $28.6 million for the year ended December 31, 2020, compared to $22.8 million provided in 2019. Net cash provided by investing activities during the year was a result of proceeds from the sale of marketable securities of $12.6 million, proceeds from the sale of a hotel of $11.5 million, the after-tax pension surplus distribution of $1.2 million and collections of loans receivable of $5.6 million, offset by additions of property and equipment and investment properties of $2.4 million. Net cash provided by investing activities during the year ended December 31, 2019 was a result of proceeds from the sale of hotel properties of $66.6 million and the after-tax pension surplus distribution of $1.2 million, offset by net purchases of investments of $28.4 million, and the purchase of investment properties of $17.7 million.

Cash flow from financing activities

Cash used in financing activities was $22.5 million for the year ended December 31, 2020, compared to $38.8 million used in 2019. Net cash used in financing activities during the year was related to the repurchase of Common Shares of $11.3 million, and the repayment of short and long-term debt of $23.5 million, offset by the proceeds of long-term debt of $12.5 million. Net cash used in financing activities during the year ended December 31, 2019 was related to the repayment of long-term debt of $27.0 million, the repurchase of Common Shares of $6.6 million, the purchase of non-controlling interests of $1.4 million, and net repayments on short-term borrowings of $2.0 million.

Contractual obligations and capital resource requirements

The effects of commitments, events, risks and uncertainties on future performance are discussed in the sections relating to Contractual Obligations and Capital Resource Requirements. The table below summarizes Clarke's maximum contractual obligations by due date:

Contractual obligations	Total $	Less than 1 year $	1 – 3 years $	3 - 5 years $	After 5 years $
Short-term indebtedness	8.2	8.2	—	—	—
Convertible debentures	50.8	—	50.8	—	—
Long-term debt	64.1	6.2	50.7	5.1	2.1
Lease obligation	0.8	0.2	0.4	0.2	—
	123.9	14.6	101.9	5.3	2.1

The convertible debentures balance of $50.8 million is the face value repayment required upon maturity of the Series B Debentures. These debentures are convertible into common shares of the Company at any time at the option of the holder, and

therefore the actual cash required at maturity, if any, is dependent upon the number of debentures remaining unconverted. The debentures are also redeemable, at the option of the Company, in whole or in part, at any time after June 2, 2020. The redemption price is the principal amount plus accrued and unpaid interest. The Company is required to provide at least 30 days' prior notice of the redemption.

Clarke expects to be able to fund all working capital requirements, contractual obligations, and capital expenditures from a combination of operating cash flows, existing credit facilities, and its current cash and cash equivalents position.

Clarke has credit and margin facilities with Canadian brokerage companies. The facilities permit draws of a portion of the market value of purchases of qualifying securities, depending upon the type of instrument, with certain market value restrictions, as well as a borrowing base calculation on five hotel properties. Holloway also has a credit facility secured by four hotel properties. At December 31, 2020, $41.6 million was available under these facilities and $8.2 million was drawn on these facilities (December 31, 2019 – $61.3 million and $30.1, respectively). Declines in the market value of pledged securities and the operations of the hotels may have an adverse effect on the amount of credit available under these facilities. *(see note 11 to the consolidated financial statements for the year ended December 31, 2020).*

Unrecorded commitments

At December 31, 2020, Clarke continued to be a party to the unrecorded commitments and contingencies as discussed in note 17 to the consolidated financial statements for the year ended December 31, 2020.

FOURTH QUARTER

A comparison of results for the three months ended December 31, 2020, compared to three months ended December 31, 2019, is as follows:

	Three months ended December 31, 2020 $	Three months ended December 31, 2019 $
Revenue		
Hotel and management services	**6.0**	15.2
Provision of services	**0.8**	1.4
Investment and other income	**20.1**	6.2
	26.9	22.8
Expenses		
Hotel operating expenses	**4.7**	11.6
Cost of services provided	**0.9**	1.0
General and administrative expenses	**0.6**	1.6
Property taxes and insurance	**0.1**	1.2
Share-based payment expense	**0.1**	—
Depreciation	**2.6**	3.0
Interest expense and accretion on debt	**1.6**	1.5
Income before income taxes	**16.3**	2.9
Provision for (recovery of) income taxes	**1.8**	(2.8)
Net income	**14.5**	5.7
Comprehensive income	**29.6**	10.9
Net income attributable to equity holders of the Company	**14.5**	6.0
Comprehensive income attributable to equity holders of the Company	**29.6**	11.2

Net realized and unrealized gains on investments for the fourth quarter of 2020 were $18.0 million compared to gains of $6.3 million for the same period in 2019. Revaluation gains on hotel properties were $2.3 million in the fourth quarter of 2020 compared to a loss of $0.8 million for the same period in 2019. General and administrative expenses during the fourth quarter of 2020 were $1.0 million lower than expenses during the same period in 2019 due to ongoing cost reductions as a result of the pandemic. The Company had net income attributable to equity holders of the Company of $14.5 million in the fourth quarter of 2020 compared to net income of $6.0 million in the same period in 2019. This was largely driven by the realized and unrealized net gains on investments during the period compared to the same period in the prior year. Comprehensive income

attributable to equity holders of the Company for the fourth quarter was $29.6 million compared to comprehensive income of $11.2 million for the same period in 2019.

For the three months ended December 31, 2020, Clarke's basic EPS was $0.94, compared to $0.36 for the same period in 2019, and the diluted EPS was $0.79, compared to $0.34 for the same period in 2019.

Net cash used in operating activities was $2.3 million for the fourth quarter of 2020, compared to $0.1 million used in the same period in 2019. Cash flows in the fourth quarters of 2020 and 2019 were driven mainly by the hospitality and ferry operations as well as interest received during the periods.

Net cash provided by investment activities was $23.1 million in the fourth quarter of 2020, compared to $2.5 million used in the same period in 2019. Proceeds on the sale of investments and a hotel in the fourth quarter of 2020 totalled $22.3 million compared to net purchases of investments of $1.8 million and property and equipment additions of $1.4 million in the fourth quarter of 2019.

Net cash used in financing activities for the fourth quarter of 2020 was $18.6 million compared to net cash provided of $1.1 million for the same period in 2019. During the fourth quarter of 2020 the Company repaid a large portion of its short-term credit facilities using proceeds from the sale of investments and the hotel and continued to purchase shares under its NCIB. This was offset by additional long-term debt proceeds of $12.5 million received during the period.

SUMMARY OF QUARTERLY RESULTS

Key financial information for the current and preceding seven quarters is as follows:

Three months ended	**Mar. 2019**	**Jun. 2019**	**Sep. 2019**	**Dec. 2019**	**Mar. 2020**	**Jun. 2020**	**Sep. 2020**	**Dec. 2020**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Revenue and other income (loss)	55.7	20.5	21.3	22.8	(40.6)	17.5	23.1	26.9
Net income (loss)	36.5	0.6	(3.6)	5.7	(53.1)	6.9	12.5	14.5
Other comprehensive income (loss)	(0.8)	(3.5)	(0.4)	5.2	(1.7)	(2.5)	(2.1)	15.1
Comprehensive income (loss)	35.7	(2.9)	(4.0)	10.9	(54.8)	4.4	10.4	29.6
Basic EPS (in dollars)	3.06	(0.13)	(0.24)	0.36	(3.26)	0.43	0.79	0.94
Diluted EPS (in dollars)	3.04	(0.13)	(0.24)	0.34	(3.26)	0.38	0.67	0.79

As seen in the table above, our results can fluctuate significantly from quarter to quarter, in part as a result of certain accounting standards the Company follows, and as a result of fluctuations in the market prices of our securities portfolio. Under IFRS, realized and unrealized gains and losses on our publicly-traded securities are recorded in "Investment and other income" on our consolidated statements of earnings. The Company does not believe that quarterly fluctuations in the stock prices of our investee companies necessarily reflect a change in the value of the underlying businesses in which we are invested. The values of the underlying businesses are often more stable than their stock prices reflect. Clarke views its investments on a longer-term basis as opposed to on a quarter-to-quarter basis. These fluctuations, however, often provide us with an opportunity to invest more capital in particular investments that we like or vice-versa. Our results have also fluctuated significantly since the first quarter of 2019 as a result of consolidating Holloway's results with ours. Holloway's business is seasonal in nature and the results fluctuate throughout the year. The revenues are generally highest in the third quarter due to increased leisure travel during the summer months. While certain expenses fluctuate according to occupancy levels, other expenses such as property taxes, insurance and interest are fixed and are incurred evenly throughout the year.

SIGNIFICANT EQUITY INVESTMENTS

In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company has determined that Trican is a significant equity investee. Accordingly, we are required to disclose the following summary financial information. The summarized financial information provided is for the most recent annual period and the comparative annual period.

Trican

Trican is an oilfield services company with considerable operations in pressure pumping, coil tubing and cementing as well as numerous other service lines. As of December 31, 2020, Clarke owned 11.0% of the outstanding shares of Trican.

Selected Financial Information	**Year ended December 31, 2020 $**	Year ended December 31, 2019 $
Total assets	**563.2**	926.5
Total liabilities	**(70.9)**	(185.4)
Shareholders' equity	**492.3**	741.1
Total revenue	**397.0**	636.1
Net loss	**(234.7)**	(73.5)

RELATED PARTY TRANSACTIONS

The Company was party to the following related party transactions during the year ended December 31, 2020:

- The Company was a party to rental, information technology and tax services agreements with companies owned or partially owned by the Executive Chairman and his immediate family member. Included in *'Expenses'* of the consolidated financial statements is rental, IT and tax services expenses of $0.3 million (2019 – $0.4 million) under the agreements.

- The Company provides administrative and asset management services to two pension plans it sponsors. Included in *'Revenue'* of the consolidated financial statements is $0.5 million (2019 – $0.5 million) for services provided to the pension plans during the year.

- During the year, the Company sold marketable securities through the facilities of the Toronto Stock Exchange to the Clarke Inc. Master Trust (the "Master Trust"), which holds the units of the pension plans administered by the Company. During the prior year, the Company sold marketable securities through the facilities of the Hong Kong Stock Exchange to the Master Trust. The sales were made for investment purposes and the Company received net proceeds of $0.6 million (2019 – $3.6 million).

- During the prior year, Holloway purchased common shares of the Company through the facilities of the Toronto Stock Exchange from the Master Trust for $2.3 million. Following the acquisition of the remaining common shares of Holloway by the Company, Holloway transferred the common shares to the Company by way of a dividend, and the common shares were cancelled.

- During the year, the Company sold the Best Western hotel in Grande Prairie, AB to a company controlled by the Executive Chairman and his immediate family member for gross proceeds of $11.5 million.

Key management consists of the directors and officers of the Company. The compensation accrued is as follows:

Year ended December 31, 2020	Board of directors $	Officers $	**Total $**
Salary and fees	—	0.5	**0.5**
Pension value	0.1	—	**0.1**
Total	0.1	0.5	**0.6**

FINANCIAL INSTRUMENTS

In the normal course of operations, the Company uses the following financial and other instruments:

- To generate investment returns, the Company will invest in equity, debt and other securities. These instruments may have interest rate, market, credit and foreign exchange risk associated with them.

- To manage foreign exchange, interest rate and general market risk, the Company may enter into futures and forward exchange contracts. These instruments may have interest, market, credit and foreign exchange risk associated with them. Clarke hedges its foreign currency exposure on U.S. dollar denominated investments. Clarke anticipates continuing this policy for the foreseeable future.

As an investment company, Clarke has a significant number of financial instruments. Notes 1, 2, 3, 4, 5, 11, 12, 13, 14 and 24 to the consolidated financial statements for the year ended December 31, 2020 and the Company's 2020 AIF, provide further information on classifications in the financial statements, and risks, pertaining to the use of financial instruments by the Company, as well as further information on the risks and uncertainties of estimates, liquidity, and credit as a result of COVID-19.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The implementation of Canadian Securities Administrators National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings represents a continuous improvement process, which has prompted the Company to formalize existing processes and control measures and to introduce new ones. The objective of this instrument is to improve the quality, reliability, and transparency of information that is filed or submitted under securities regulation.

In accordance with this instrument, the Company has filed certificates signed by the President & Chief Executive Officer and the Chief Financial Officer that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the President & Chief Executive Officer and the Chief Financial Officer, particularly during the period in which annual filings are being prepared. These two certifying officers evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2020, and based on their evaluation, concluded that these controls and procedures were adequate and effective.

Management has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The President & Chief Executive Officer and the Chief Financial Officer have supervised Company's management in the evaluation of the design and effectiveness of the Company's internal controls over financial reporting as of the end of the period covered by the annual filings and believe the design and effectiveness to be adequate to provide such reasonable assurance using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013).

Finally, there have been no changes in the Company's disclosure controls and procedures or internal controls over financial reporting during the year ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal controls over financial reporting.

ENVIRONMENTAL MATTERS

The Company's businesses are exposed to the following environmental risks in conducting regular operations: (i) contamination of owned or leased property; and (ii) contamination of the environment relating to spills or leaks originating from the Company's ferry.

The Company's businesses regularly review their operations and facilities to identify any potential environmental contamination or liability. Limited internal reviews, which may include third party environmental assessments, have been conducted at all the Company's wholly-owned real estate. These limited reviews identified no material remediation issues and potential risks and there have been no material events arising subsequently that would indicate additional obligations.

The Company believes it and its businesses comply in all material respects with all relevant environmental laws and regulations. The Company is not aware of any material uninsured pending or proceeding actions against it or any of its businesses relating to environmental issues.

SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Please refer to notes 1 and 2 of our consolidated financial statements for the year ended December 31, 2020 for a detailed discussion regarding our significant accounting policies and application of significant accounting judgments, estimates and assumptions. Such changes are reflected in the assumptions when they occur.

Valuation of property and equipment

Land and buildings and components are revalued on a sufficiently regular basis using third party offers, internal models or external appraisals, when available, so that the carrying value of an asset does not differ materially from its fair value at each reporting date. The Company has established a methodology to evaluate when circumstances indicate that the carrying amount may differ materially from its fair value, which includes significant changes in operating performance, economic activity, regional development opportunities and new competition in the markets in which each property operates.

Increases in fair value are recorded in other comprehensive income (loss) and accumulated in revaluation surplus, except to the extent that they reverse a revaluation decrease previously recorded in the consolidated statement of earnings, in which case the reversal is recorded in the consolidated statement of earnings. Decreases in fair value are charged against other comprehensive income and the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset, and thereafter are recorded in the consolidated statement of earnings.

The global pandemic related to the virus known as COVID-19 adversely impacted the Company's operations during 2020, particularly the hotel operations. This had resulted in significant economic uncertainty, of which the potential impact on our future financial results is difficult to reliably measure. The Company began to feel the impact of COVID-19 in its hotel occupancy levels commencing in mid-March 2020 and closed six of its hotels to streamline and manage costs. All six hotels were reopened during the second and third quarters. Due to the decline in hotel operations, the Company performed a revaluation analysis on its hotels during the first quarter and recorded a revaluation loss on 15 hotels in the amount of $18,800. Revaluations were not taken on two hotels which were not expected to see material declines in operations.

Using the Company's updated outlook and new information obtained regarding the future cash flows of the business the Company again performed a revaluation analysis on its hotels during the fourth quarter of 2020, and recorded a net revaluation increase in the amount of $7.0 million. Four hotel properties recorded revaluation decreases totaling $3.0 million, eleven recorded revaluation increases totaling $10.0 million and one hotel did not record a revaluation.

Property and equipment was reduced by $11.2 million as a result of the revaluations recorded during the year ended December 31, 2020. A $16.5 million reduction is included in the consolidated statement of earnings and an increase of $5.3 million is included in the consolidated statement of comprehensive income (loss).

Four hotel properties were revalued using third-party appraisals. The Company expects its hotel operations to recover over time, and as such, for those hotels without third-party appraisals, the Company used a five-year discounted cashflow model to assess fair value. This approach was a change from the capitalized income model used by the Company in the prior year as it more accurately factors in a recovery of financial results and cashflows over a future timeframe. The revaluation model was prepared internally. The source of the discount and terminal capitalization rates used were consistent with those used as part of the Holloway purchase price allocation recorded in the three months ended March 31, 2019. The rates were obtained from an independent third party and were risk-adjusted in the analysis to reflect the impact of COVID-19 on the hospitality industry, and for the specific market in which the hotel operates. In situations where a five-year discounted cashflow value resulted in a fair value which differed significantly from the price per room metrics in recent market transactions, the Company used comparable hotel sales prices, professional judgement, and management expertise to determine the fair value.

Key factors of estimation uncertainty used in the internal model included the cashflow forecasts, the discount rates and the terminal capitalization rates, and in certain situations the comparability of recent hotel sales. The discount rates ranged from 9.5% – 13.0% and the capitalization rates ranged from 9.0% – 11.0%. The cashflow forecasts were performed on a hotel-by-hotel basis. The forecast in year one of the model was consistent with the Company's fiscal 2021 budget. In years two through five of the internal models, cashflows were based on a gradual recovery as a function of the respective historical results. If the discount rates had been 0.25% higher/lower, the estimated fair value would result in a change of $0.9 million to property and equipment and the revaluation of hotel properties. If the terminal capitalization rates had been 0.25% higher/lower, the estimated fair value would result in a change of $1.5 million to property and equipment and the revaluation of hotel properties. The fair value of the Company's property and equipment will continue to be closely monitored as the pandemic evolves. As clarity on the Company's outlook is obtained, additional revaluation increases or decreases may be required.

During the prior year, the Company used a capitalized income internal model and considered hotel sales in comparable markets. The fair value models were prepared internally. Capitalization rates used were obtained from an independent third party. In the Company's internal models, each hotel's recent historical operating income was normalized for any unusual and non-recurring events and reduced by a capital expenditure reserve of 4% of revenues. A 4% capital expenditure reserve may not

have reflected actual capital expenditures for a particular hotel. A capitalization rate specific to the market in which each hotel operates was applied to the operating income. In situations where a capitalized income value resulted in a fair value which differed significantly from the price per room metrics in recent market transactions, the Company used comparable hotel sales prices, professional judgment and management expertise to determine the fair value. The fair value may not reflect the realizable value in the event a particular hotel is sold by the Company.

On the acquisition of control during the prior year, if the capitalization rate had been 0.25% higher/lower for the purpose of the purchase price allocation, the estimated fair value under the capitalized income approach would have resulted in a change of $4.5 million to property and equipment and the bargain purchase gain. If the value of the comparable hotel sales had been 5% higher/lower in the purchase price allocation, the estimated fair value would have resulted in a change of $2.8 million to property and equipment and the bargain purchase gain.

During the fourth quarter of 2019, the Company revalued two of its hotels based on purchase offers. The value of one hotel increased by $6.0 million and the increase was recorded through other comprehensive income. The value of the other hotel decreased by $0.8 million and was included in investment and other income.

Fair value of investment properties

The Company's significant investment properties consist of three office buildings as at December 31, 2020. The prior year also included a leased hotel property, which is classified as an asset held for sale for the current year. The three office buildings were acquired in 2019 and due to the proximity of their respective acquisition dates, there were no fair value adjustments recorded during the year ended December 31, 2019. A fair value adjustment of $2.0 million was recorded during the year ended December 31, 2020 as a result of purchase offers received. Changes to the fair value of the Company's investment properties will occur periodically, based on operating performance, economic activity, regional development opportunities and new competition in the markets in which they operate.

Investment entity

IFRS 10, *Consolidated Financial Statements* defines investment entities, and it allows entities to measure their subsidiaries at fair value through profit or loss ("FVTPL") instead of consolidating the results. Management has assessed the standard and determined that the Company does not meet all criteria outlined in IFRS 10 in order for a parent to be considered an investment entity. The Company consolidates all of its controlled investments.

Marketable securities

The Company has interests in publicly-traded marketable security investments. The Company does not own greater than fifty percent of the outstanding shares of these investments nor does it hold options or have other contractual arrangements that would lead to increased ownership. De facto control exists in circumstances when an entity owns less than 50% of the voting shares in another entity but has control for reasons other than potential voting rights, contract or other statutory means. The Company does not consider de facto control to be present in any of the marketable security investments and does not consolidate these investments.

Venture capital organization

The Company has elected to use the exemption in IAS 28 for venture capital companies. Under this exemption, the Company may designate all investments managed in the same way at FVTPL. The Company has designated all publicly-traded securities in which it has significant influence to be measured at FVTPL as those form part of the Company's venture capital portfolio. In these cases, all realized and unrealized gains and losses are recorded in the consolidated statements of earnings.

Business combinations

The purchase price allocation process requires management to use significant estimates and assumptions, including fair value estimates of assets acquired and liabilities assumed.

While the Company uses its best estimates and assumptions as part of the purchase price allocation process to accurately value the assets acquired and liabilities assumed at the business combination date, estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the measurement period, which is the earlier of the date management receives the information it requires or one year from the business combination date, adjustments are recorded to the assets acquired and liabilities assumed.

During the prior year, the non-controlling interest (49% ownership interest in Holloway) recognized at the acquisition date was measured using the proportionate share of the fair value of net assets of the acquiree.

Although the Company believes the assumptions and estimates made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired company and are inherently uncertain. Examples of critical estimates in valuing certain of the assets acquired and liabilities assumed include but are not limited to:

- future expected cash flows from the hotel properties and capitalization rates applied to future expected cash flows; and
- uncertain tax positions and the fair value of both current and deferred income tax related assets and liabilities assumed in connection with a business combination which are initially estimated as of the acquisition date and are re-evaluated quarterly as management continues to collect information in order to determine their estimated value, with any adjustments to preliminary estimates recorded during the measurement period.

Changes in any of the assumptions or estimates used in determining the fair value of assets acquired and liabilities assumed could impact the initial amounts assigned to assets and liabilities in the purchase price allocation. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Taxes

Deferred income tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred income tax assets should be recognized with respect to estimated future taxable income, which impacts the amount of deferred income tax assets recorded related to differences on the tax basis of assets and available non-capital losses. The estimates of future taxable income, the years when the temporary differences are expected to reverse and the tax rates in those years have an impact on the deferred income tax assets and liabilities recorded in the consolidated statements of financial position. Significant estimates and judgments are used in determining the future taxable income, which includes consideration of the history of profitability. Actual results will differ from the amounts estimated for future taxable income.

Management considers both favourable and unfavourable evidence in determining whether or not it is probable that the future economic benefits will flow to the Company and the amount of deferred income tax assets that should be recognized. In making its assessment, management considers past operating results, forecasted future operating results and economic conditions in the locations in which it operates.

Pension benefits and asset ceiling

The costs of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details about the assumptions used are disclosed in note 7 to the consolidated financial statements for the year ended December 31, 2020. Management is also required to make certain assumptions regarding the quantification of the asset ceiling, which impacts the accrued pension benefit recorded on the consolidated statements of financial position.

CAUTIONARY STATEMENT REGARDING USE OF NON-IFRS ACCOUNTING MEASURES

This MD&A makes reference to the Company's book value per share as a measure of the performance of the Company as a whole. Book value per share is measured by dividing shareholders' equity of the Company at the date of the statement of financial position by the number of Common Shares outstanding at that date. Clarke's method of determining this amount may differ from other companies' methods and, accordingly, this amount may not be comparable to measures used by other companies. This amount is not a performance measure as defined under IFRS and should not be considered either in isolation of, or as a substitute for, net earnings prepared in accordance with IFRS.

FORWARD-LOOKING STATEMENTS

This MD&A may contain or refer to certain forward-looking statements relating, but not limited, to the Company's expectations, intentions, plans and beliefs with respect to the Company. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "does not expect", "is expected", "budgets", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", "believes", or equivalents or variations of such words and phrases, or state that certain actions, events or results, "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements include, without limitation, those with respect to the future or expected performance of the Company's investee companies, the future price and value of securities held by the Company, changes in these securities holdings, the future price of oil and value of securities held in the Company's energy basket, changes to the Company's hedging practices, currency fluctuations and requirements for additional capital. Forward-looking statements rely on certain underlying assumptions that, if not realized, can result in such forward-looking statements not being achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the actual results of the Company to be materially different from the historical results or from any future results expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others, the Company's investment strategy, legal and regulatory risks, general market risk, potential lack of diversification in the Company's investments, interest rates, foreign currency fluctuations, the sale of Company investments, the fact that dividends from investee companies are not guaranteed, reliance on key executives, commodity market risk, risks associated with investment in derivative instruments and other factors. With respect to the Company's investment in a ferry operation, such risks and uncertainties include, among others, weather conditions, safety, claims and insurance, labour relations, and other factors.

Although the Company has attempted to identify important factors that could cause actions, events or results not to be as estimated or intended, there can be no assurance that forward-looking statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Other than as required by applicable Canadian securities laws, the Company does not update or revise any such forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events. Accordingly, readers should not place undue reliance on forward-looking statements.

Clarke Inc.

December 31, 2020 and 2019

Independent auditor's report

To the Shareholders of Clarke Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Clarke Inc. and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of earnings (loss) for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of shareholders' equity for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
Cogswell Tower, 2000 Barrington Street, Suite 1101, Halifax, Nova Scotia, Canada B3J 3K1
T: +1 902 491 7400, F: +1 902 422 1166

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of land and buildings and components *Refer to note 1 – Summary of significant accounting policies, note 2 – Significant accounting judgements, estimates and assumptions and note 8 – Property and equipment to the consolidated financial statements.* The total carrying value of land and buildings and components is $166.22 million as at December 31, 2020. The Company has recorded a revaluation loss of $16.49 million in the consolidated statement of earnings (loss) and a revaluation gain of $4.38 million, net of income tax expense of $0.93 million, in the consolidated statement of comprehensive income (loss) for the year ended December 31, 2020. The Company accounts for land and buildings and components ('hotels') under the revaluation model. Hotels are carried at fair value as at the date of revaluation and subsequently depreciated until the next revaluation. These assets are revalued on a sufficiently regular basis using third party offers, internal models or external appraisals, when available, so that the carrying value of an asset does not differ materially from its fair value at each reporting date. Increases in fair value are recorded in other comprehensive income (loss) and accumulated in revaluation surplus, except to the extent that they reverse a revaluation decrease previously recorded in the consolidated statement of earnings (loss), in which case the reversal is recorded in the consolidated statement of earnings (loss).	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the fair value of the hotels, which included the following: – Tested the methodology used to determine the fair value of the hotels, which includes the appropriateness of the model used. – Tested the underlying data used in the models. – Evaluated the reasonableness of significant assumptions, including the estimated five-year cash flows, by comparing them to historical results and assessing market conditions in the market in which each hotel operates. – Professionals with specialized skill and knowledge in the field of real estate valuations assisted us in assessing the appropriateness of the models and the discount and terminal capitalization rates used within the models or comparable hotel sales, as applicable. – Professionals with specialized skills and knowledge in the field of real estate valuations assisted us in assessing the reasonableness of external appraisals.

Key audit matter	How our audit addressed the key audit matter
Decreases in fair value are charged against other comprehensive income (loss) and the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset, and thereafter are recorded in the consolidated statement of earnings (loss). For internal models, the Company uses a five-year discounted cash flow model. Management prepares the model using discount and terminal capitalization rates obtained from an independent third party, which have been risk-adjusted to reflect the impact of COVID-19 on the hospitality industry. In management's five-year discounted cash flow model, the forecast in year one of the model is consistent with the Company's fiscal 2021 budget. In years two through five of the internal models, cash flows are based on a gradual recovery as a function of the respective historical results. A discount rate and terminal capitalization rate specific to the market in which each hotel operates is applied to the cash flows. If the five-year discounted cash flow model results in a fair value which differs significantly from the price per room metrics in recent market transactions, management uses comparable hotel sales to determine the fair value. Key factors of estimation uncertainty used in the internal model included the cash flow forecasts, the discount rates, the terminal capitalization rates and the comparability of recent hotel sales. We considered this a key audit matter due to the significant judgments made by management in determining the fair value of the hotels and assumptions used. This resulted in complexity and increased audit effort to evaluate the approach and the appropriateness of estimates made and rates selected by management. In addition, the audit effort involved the use of professionals with specialized skill and knowledge in the field of real estate valuations.	

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Maxime Lessard.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Halifax, Nova Scotia
March 2, 2021

Clarke Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at December 31,	**2020** **$**	2019 $
ASSETS		
Current		
Cash and cash equivalents	**2,730**	2,530
Marketable securities *(note 3)*	**46,760**	111,683
Receivables *(note 4)*	**3,707**	3,941
Inventories	**92**	207
Income taxes receivable	**349**	—
Prepaid expenses	**819**	672
Current portion of loans receivable *(note 5)*	**725**	5,175
Asset held-for-sale *(note 6)*	**2,415**	—
Total current assets	**57,597**	124,208
Accrued pension benefit asset *(note 7)*	**33,823**	28,555
Property and equipment *(note 8)*	**180,417**	212,598
Investment properties *(note 9)*	**19,276**	19,876
Loans receivable *(note 5)*	**1,250**	2,379
Deferred income tax assets *(note 10)*	**18,286**	13,222
Other assets	**377**	354
Total assets	**311,026**	401,192
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Short-term indebtedness *(note 11)*	**8,243**	30,061
Accounts payable and accrued liabilities *(note 12)*	**4,903**	7,856
Income taxes payable	**—**	148
Accrued interest on convertible debentures	**529**	530
Current portion of long-term debt *(note 14)*	**6,240**	10,448
Total current liabilities	**19,915**	49,043
Convertible debentures *(note 13)*	**50,754**	50,866
Long-term debt *(note 14)*	**58,056**	42,418
Lease obligations	**870**	999
Deferred income tax liabilities *(note 10)*	**12,827**	8,279
Total liabilities	**142,422**	151,605
Commitments and contingencies *(note 17)*		
Shareholders' equity		
Share capital *(note 18)*	**89,097**	98,051
Contributed surplus	**7,512**	7,302
Retained earnings	**25,093**	104,511
Accumulated other comprehensive income	**46,902**	38,149
Share-based payments *(note 16)*	**—**	1,574
Total shareholders' equity	**168,604**	249,587
Total liabilities and shareholders' equity	**311,026**	401,192

See accompanying notes to the consolidated financial statements

On behalf of the Board:

/s/ George Armoyan
Director

/s/ Blair Cook
Director

Clarke Inc.

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(in thousands of Canadian dollars, except per share amounts)

Years ended December 31,	**2020**	2019
	$	$
Revenue and other income *(note 2)*		
Hotel and management services	**30,525**	73,935
Provision of services	**4,623**	8,108
Bargain purchase *(note 26)*	**—**	21,798
Investment and other income (loss) *(note 19)*	**(8,202)**	16,684
	26,946	120,525
Expenses		
Hotel operating expenses *(note 20)*	**22,733**	50,827
Cost of services provided *(note 20)*	**2,977**	4,401
General and administrative expenses *(note 20)*	**2,271**	4,644
Property taxes and insurance *(note 20)*	**3,249**	4,521
Selling costs on property and equipment sales	**23**	2,766
Share-based payment expense *(note 16)*	**120**	474
Depreciation	**11,039**	12,338
Interest expense and accretion on debt *(note 21)*	**6,912**	7,949
	49,324	87,920
Income (loss) before income taxes	**(22,378)**	32,605
Recovery of income taxes *(note 10)*	**(3,168)**	(6,050)
Net income (loss)	**(19,210)**	38,655
Attributable to:		
Equity holders of the Company	**(19,210)**	38,374
Non-controlling interest	**—**	281
	(19,210)	38,655
Basic earnings (loss) per share attributable to equity holders of the Company: *(in dollars) (note 18)*	**(1.21)**	2.90
Diluted earnings (loss) per share attributable to equity holders of the Company: *(in dollars) (note 18)*	**(1.21)**	2.78

See accompanying notes to the consolidated financial statements

Clarke Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian dollars)

Years ended December 31,	**2020** **$**	2019 $
Net income (loss)	**(19,210)**	38,655
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Remeasurement gains (losses) on defined benefit pension plans, net of income tax expense of $1,756 (2019 – recovery of $921) *(note 7)*	**4,795**	(3,855)
Revaluation gain, net of income tax expense of $925 (2019 – $1,254) *(notes 2 and 8)*	**4,375**	4,746
Items that may be reclassified subsequently to profit of loss		
Unrealized losses on translation of net investment in foreign operations, net of income tax recovery of $52 (2019 – $48) *(note 9)*	**(417)**	(398)
Other comprehensive income	**8,753**	493
Comprehensive income (loss)	**(10,457)**	39,148
Attributable to:		
Equity holders of the Company	**(10,457)**	38,895
Non-controlling interest	**—**	253
	(10,457)	39,148

See accompanying notes to the consolidated financial statements

Clarke Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

Years ended December 31,	**2020** **$**	2019 $
OPERATING ACTIVITIES		
Net income (loss)	**(19,210)**	38,655
Adjustments for items not involving cash *(note 22)*	**17,300**	(25,643)
	(1,910)	13,012
Net change in non-cash working capital balances *(note 22)*	**(3,941)**	(1,539)
Net cash provided by (used in) operating activities	**(5,851)**	11,473
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities *(notes 3 and 15)*	**12,573**	5,621
Purchase of marketable securities	**—**	(34,080)
Proceeds on disposition of property and equipment	**11,543**	66,566
Additions of property and equipment	**(2,046)**	(5,248)
Additions to investment properties *(note 9)*	**(316)**	(17,731)
Collections of loans receivable	**5,565**	5,623
Distribution of pension plan surplus *(note 7)*	**1,247**	1,159
Cash acquired on business combination *(note 26)*	**—**	906
Net cash provided by investing activities	**28,566**	22,816
FINANCING ACTIVITIES		
Repurchase of shares for cancellation *(note 18)*	**(11,276)**	(6,625)
Repurchase of convertible debentures	**(103)**	—
Net repayments of short-term indebtedness	**(21,818)**	(1,988)
Proceeds of long-term debt *(note 14)*	**12,500**	—
Repayment of long-term debt *(note 14)*	**(1,689)**	(26,961)
Principal payments of lease obligation	**(129)**	(140)
Purchase of non-controlling interests	**—**	(1,386)
Dividends paid by subsidiary to non-controlling interest	**—**	(534)
Repurchase of shares by subsidiary from non-controlling interest	**—**	(1,127)
Net cash used in financing activities	**(22,515)**	(38,761)
Net change in cash during the year	**200**	(4,472)
Cash and cash equivalents, beginning of year	**2,530**	7,002
Cash and cash equivalents, end of year	**2,730**	2,530

See accompanying notes to the consolidated financial statements

Clarke Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)

Years ended December 31,	**2020** **$**	2019 $
Share capital		
Common shares:		
Balance at beginning of year	**98,051**	39,826
Common shares repurchased for cancellation *(note 18)*	**(8,954)**	(1,768)
Common shares issued pursuant to an acquisition *(note 26)*	**—**	59,993
Balance at end of year	**89,097**	98,051
Contributed surplus		
Balance at beginning of year	**7,302**	—
Book value in excess of purchase price of common shares repurchased for cancellation *(note 18)*	**210**	—
Book value of non-controlling interest in excess of common shares issued as consideration *(note 26)*	**—**	6,356
Book value of non-controlling interest in excess of purchase price	**—**	946
Balance at end of year	**7,512**	7,302
Retained earnings		
Balance at beginning of year	**104,511**	70,994
Net income (loss) attributable to equity holders of the Company	**(19,210)**	38,374
Dividends declared *(note 3)*	**(58,120)**	—
Purchase price in excess of the book value of common shares repurchased for cancellation *(note 18)*	**(2,532)**	(4,857)
Residual balance of previously expensed equity-settled stock options *(note 16)*	**444**	—
Balance at end of year	**25,093**	104,511
Accumulated other comprehensive income		
Balance at beginning of year	**38,149**	37,628
Other comprehensive income attributable to equity holders of the Company	**8,753**	521
Balance at end of year	**46,902**	38,149
Share-based payments		
Balance at beginning of year	**1,574**	1,545
Share-based payment expense	**—**	29
Cash settlement of share-based payments *(note 16)*	**(1,130)**	—
Reclassification to retained earnings of residual balance of previously expensed equity-settled stock options *(note 16)*	**(444)**	—
Balance at end of year	**—**	1,574
Total shareholders' equity attributable to equity holders of the Company	**168,604**	249,587
Non-controlling interest		
Balance at beginning of year	**—**	—
Non-controlling interest acquired in a business combination *(note 26)*	**—**	70,070
Net income attributable to non-controlling interest	**—**	281
Other comprehensive loss attributable to non-controlling interest	**—**	(28)
Dividend declared by subsidiary to non-controlling interest	**—**	(534)
Repurchase by subsidiary of shares owned by non-controlling interest	**—**	(1,127)
Stock options of subsidiary exercised by non-controlling interest *(note 16)*	**—**	25
Acquisition of remaining shares of non-wholly owned subsidiaries *(note 26)*	**—**	(68,687)
Balance at end of year	**—**	—
Total shareholders' equity	**168,604**	249,587

See accompanying notes to the consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Clarke Inc. (the "Company") was incorporated on December 9, 1997 pursuant to the Canada Business Corporations Act. The head office of the Company is located at 145 Hobsons Lake Drive, Halifax, Nova Scotia. The Company is an investment holding company with investments in a diversified group of businesses, operating primarily in Canada. The Company continuously evaluates the acquisition, retention and disposition of its investments. Changes in the mix of investments should be expected. These consolidated financial statements were approved by the Board of Directors on March 2, 2021.

Basis of presentation and statement of compliance

These consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements were prepared on a going concern basis under the historical cost convention, as modified by the revaluation of any financial instruments, property and equipment and investment properties recorded at fair value.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company'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, are disclosed in note 2.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The significant subsidiaries of the Company are Holloway Lodging Corporation ("Holloway") and, prior to September 1, 2020, La Traverse Rivière-du-Loup – St. Siméon Limitée ("La Traverse"). La Traverse was amalgamated with the Company effective September 1, 2020. All intercompany transactions have been eliminated on consolidation. All subsidiaries have the same reporting year end as the Company, and all follow the same accounting policies.

Cash and cash equivalents

Cash and cash equivalents include deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less.

Marketable securities, investments in associates and long-term investments

The Company has elected to use the exemption in *IAS 28 – Investments in associates* ("IAS 28") for venture capital companies. Under this exemption, the Company may designate all investments managed in the same way at fair value through profit or loss ("FVTPL"). The Company has designated all publicly-traded securities at FVTPL, regardless of whether or not significant influence exists. In these cases, all realized and unrealized gains and losses are recorded in the consolidated statements of earnings.

Revenue recognition

Hotel revenue

Hotel revenue is generated from room occupancy, food and beverage services, rental and ancillary services. The Company recognizes revenue when the services are provided to the customer and payment of the transaction price is due, as there are no further performance obligations to be satisfied at that point.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Loyalty programs administered by third-party hotel brands enable guests to earn credit for points redeemable for free accommodations or other benefits at a later date. The Company effectively acts as an agent for these third-party programs. Room revenue is shown net of the cost of these loyalty programs.

Management services revenue

Management services revenue is generated from providing hotel management services to third parties. The Company recognizes revenue when the services are rendered to the customer, typically on a monthly basis and payment of the transaction price is due. The total transaction price of certain contracts includes variable consideration based on certain financial measures being achieved.

Investment and other income

Distributions from investments that are treated as a return of capital for income tax purposes reduce the average cost of the underlying investment. Dividend income is recorded on the ex-dividend date. Interest income is recorded using the effective interest rate ("EIR") for all financial instruments measured at amortized cost.

Ferry revenue

Services revenue from the Company's ferry business is recognized upon provision of those services and customer acceptance of those services, as there are no further performance obligations to be satisfied at that point. The ferry revenue is included in provision of services on the consolidated statements of earnings.

Foreign currency translation

The Company's consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent company. Each of the Company's subsidiaries determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. There were no non-monetary assets or liabilities denominated in foreign currencies as at December 31, 2020, in entities where the functional currency is Canadian dollars. All foreign exchange gains and losses are recorded in other income as incurred.

The assets and liabilities of subsidiaries for which the currency is not Canadian dollars, are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their statements of earnings are translated at monthly average exchange rates. The exchange differences arising on the translation, tax charges and credits attributable to exchange differences are recognized in other comprehensive income. On disposal of a foreign operation, the component of accumulated other comprehensive income relating to that particular foreign operation is recognized in the consolidated statements of earnings.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Taxes

Current income tax

Current income tax assets and liabilities for the periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute these amounts are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in shareholders' equity is recognized in shareholders' equity and not in the consolidated statements of earnings. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred income tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in accumulated other comprehensive income or directly in shareholders' equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Sales tax

Revenues, expenses and assets are recognized net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

- Receivables and payables are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statements of financial position.

Property and equipment

Depreciation for the property and equipment is provided on a straight-line basis from the date assets are ready to be put into service at rates which will amortize the carrying cost less residual value of the property and equipment over their estimated useful lives. Estimated useful lives and residual values are reviewed at least annually. The estimated useful lives of property and equipment are as follows:

Property and equipment class	Useful life
Buildings and components	15 – 60 years
Furniture, fixtures, and equipment	2 – 10 years
Ferry and vessel dry dock costs	3 – 5 years
Right-of-use assets	Term of the lease

Land is not amortized. Renovations are amortized once they are put into use.

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, with the exception of land and buildings and components, which are stated using the revaluation model. Such cost includes the cost of replacing part of the property and equipment. When significant parts of property and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognized in the consolidated statements of earnings as incurred.

As a result of a business combination on January 24, 2019, the Company changed its accounting policy for certain asset classes from the cost model to the revaluation model during the prior year, in accordance with *IAS 16, Property, Plant and Equipment*. The change in policy is accounted for prospectively as required by *IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.*

The policy choice was by asset class, and as such, the Company had elected to change its land and buildings and components asset classes to the revaluation model. All other asset classes continued to be accounted for under the cost model. Under the revaluation model, land and buildings and components are carried at fair value at the date of revaluation and subsequently depreciated until the next revaluation. The land and buildings acquired in the business combination during the prior year were recorded at fair value through the purchase price allocation (note 26). The Company did not own any land or buildings and components prior to the business combination, therefore, no additional revaluation was required at the time of the accounting policy change.

The Company applies the net method for adjustment upon revaluation. The net method eliminates accumulated depreciation against the carrying amount of the asset and then revalues the net carrying amount. Depreciation on the carrying amount is charged to the consolidated statement of earnings.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investment properties

Investment properties are held either to earn rental income, for capital appreciation (including future re-development) or both, but not for sale in the ordinary course of business. In accordance with *IAS 40, Investment Property*, the Company changed its accounting policy from the cost model to the fair value model during the prior year. Investment properties are initially measured at cost, including transaction costs, and subsequently measured at fair value for each reporting date. The difference between the fair value at the reporting date and the carrying value is recognized in the consolidated statements of earnings. Under the fair value model, investment properties are not depreciated. The investment properties acquired in the business combination during the prior year were recorded at fair value through the purchase price allocation (note 26). The fair value of the Company's previous investment properties prior to the business combination did not differ materially from their carrying values; therefore, no fair value adjustment was required.

Inventories

Inventories consist primarily of food, beverages and other supplies. Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first in, first out method. Net realizable value is the estimated replacement cost. If the carrying value exceeds the net realizable value, a write-down is recognized in the consolidated statements of earnings.

Financial instruments — initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IFRS 9, *Financial Instruments* are classified as financial assets at amortized cost; FVTPL; or fair value through other comprehensive income, as appropriate. The Company determines the classification of its financial assets at initial recognition, based on trade date. All financial assets are recognized initially at fair value plus, in the case of investments not at FVTPL, directly attributable transaction costs. The Company's financial assets include cash and cash equivalents, marketable securities, receivables and loans receivable.

Subsequent measurement

Financial assets at FVTPL

Financial assets at FVTPL are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statements of earnings.

Impairment of financial assets at amortized cost

The Company's loans receivable and receivables are included in this category. The Company has elected to use the simplified approach to measure expected credit losses for its receivables which uses a lifetime expected impairment approach. Impairment provisions on receivables are based on credit risk characteristics and days past due, while impairment provisions on loans receivable are based on credit risk characteristics, collateral and speculative and non-speculative historical default rates. Receivables and loans receivable are written off when there is no reasonable expectation of recovery.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at FVTPL, or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of financial liabilities recognized at amortized cost, plus directly attributable transaction costs. The Company's financial liabilities include short-term indebtedness, accounts payable and accrued liabilities, convertible debentures including the accrued interest, and long-term debt and are measured at amortized cost.

Subsequent measurement

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statements of earnings when the liabilities are derecognized as well as through the EIR method amortization process. The EIR amortization is included in interest expense in the consolidated statements of earnings.

Derecognition and modification

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, such an exchange is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of earnings. If the change of terms is not substantial and is considered a debt modification of the financial liability, the carrying amount of the existing debt liability is adjusted to reflect the revised estimated cash flow payments discounted using the original effective interest rate. The adjustment is recognized as a modification gain or loss in the consolidated statement of earnings.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

iv) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market last bid price, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 24.

Operating segments

The Company operates in two reportable business segments. The Investment segment includes investments in a diversified group of businesses, operating primarily in Canada. The Hospitality segment includes the ownership and operation of hotels and the provision of hotel management services to third parties by Holloway.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of earnings, net of any reimbursement.

Convertible debentures

The convertible debentures were assumed in the business combination during the prior year and were recorded at their fair value through the purchase price allocation (note 26). Over the remaining term of the debentures, the liability will be subsequently measured at amortized cost using the EIR method, with interest income included in investment and other income. The debentures are both convertible by the users and redeemable by the Company (note 13). The fair value of the conversion and redemption options were evaluated upon assumption in the business combination. The fair value of the conversion option was determined to be immaterial and as such, was not bifurcated with an equity component. The economic characteristics and risks of the redemption option were determined to be closely related to those of the debentures. As such, the embedded derivative was not separated from the debentures and is not accounted for as a derivative.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in the consolidated statements of earnings.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount. Such a reversal is recognized in the consolidated statements of earnings.

Per share information

Basic earnings per share is calculated based on net income using the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated based on the weighted average number of common shares that would have been outstanding during the year, including adjustments for stock options outstanding using the treasury stock method and convertible debentures using the "if-converted" method.

Under the treasury stock method: (i) the exercise of options is assumed to be at the beginning of the year, or at the time of issuance, if later; (ii) the proceeds from the exercise of options are assumed to be used to purchase common shares at the average market price during the year, and (iii) the incremental number of shares are included in the denominator of the diluted earnings per share calculation. Exercise of these options is not assumed to occur for the purposes of computing diluted earnings per share if the effect would be anti-dilutive.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Under the "if-converted" method: (i) income charges, net of the income tax effect, applicable to convertible financial liabilities are added back to the numerator; (ii) the convertible financial liabilities are assumed to be converted at the beginning of the period, or issue date, if later, and the resulting common shares are included in the denominator, and (iii) conversion is not assumed to occur for purposes of computing diluted earnings per share if the effect would be anti-dilutive.

Pensions and other post-employment benefits

The Company has two defined benefit pension plans covering full-time employees who commenced employment before September 2003. One plan is federally regulated by the Office of the Superintendent of Financial Institutions and the second plan is provincially regulated by Retraite Quebec. For certain other employees, the Company has an RRSP and defined contribution matching pension plan. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. Remeasurement gains and losses and the effect of the limit on the asset ceiling of the defined benefit plans are included in other comprehensive income. The past service costs, current service costs, net interest on surplus and non-investment management fees are recognized as an expense in the consolidated statements of earnings. The defined benefit asset comprises the fair value of plan assets less the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds, as explained in note 2). Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value is based on market price information and in the case of quoted securities it is the published bid price. The value of any defined benefit asset recognized is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Property and equipment, once classified as held for sale, is not depreciated or amortized.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset. Where the Company receives non-monetary grants, no amounts are recorded in the consolidated statements of earnings as the grants are for consumables in the operations of a subsidiary.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these judgements, estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D)

Judgements, estimates and assumptions

Valuation of property and equipment

Land and buildings and components are revalued on a sufficiently regular basis using third party offers, internal models or external appraisals, when available, so that the carrying value of an asset does not differ materially from its fair value at each reporting date. The Company has established a methodology to evaluate when circumstances indicate that the carrying amount may differ materially from its fair value, which includes significant changes in operating performance, economic activity, regional development opportunities and new competition in the markets in which each property operates.

Increases in fair value are recorded in other comprehensive income (loss) and accumulated in revaluation surplus, except to the extent that they reverse a revaluation decrease previously recorded in the consolidated statement of earnings, in which case the reversal is recorded in the consolidated statement of earnings. Decreases in fair value are charged against other comprehensive income and the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset, and thereafter are recorded in the consolidated statement of earnings.

The global pandemic related to the virus known as COVID-19 adversely impacted the Company's operations during 2020, particularly the hotel operations. This had resulted in significant economic uncertainty, of which the potential impact on our future financial results is difficult to reliably measure. The Company began to feel the impact of COVID-19 in its hotel occupancy levels commencing in mid-March 2020 and closed six of its hotels to streamline and manage costs. All six hotels were reopened during the second and third quarters. Due to the decline in hotel operations, the Company performed a revaluation analysis on its hotels during the first quarter and recorded a revaluation loss on 15 hotels in the amount of $18,800. Revaluations were not taken on two hotels which were not expected to see material declines in operations.

Using the Company's updated outlook and new information obtained regarding the future cash flows of the business the Company again performed a revaluation analysis on its hotels during the fourth quarter of 2020, and recorded a net revaluation increase in the amount of $7,000. Four hotel properties recorded revaluation decreases totaling $3,000, eleven recorded revaluation increases totaling $10,000 and one hotel did not record a revaluation.

Property and equipment was reduced by $11,191 as a result of the revaluations recorded during the year ended December 31, 2020 (note 8). A $16,491 reduction is included in the consolidated statement of earnings and an increase of $5,300 is included in the consolidated statement of comprehensive income (loss).

Four hotel properties were revalued using third-party appraisals. The Company expects its hotel operations to recover over time, and as such, for those hotels without third-party appraisals, the Company used a five-year discounted cashflow model to assess fair value. This approach was a change from the capitalized income model used by the Company in the prior year as it more accurately factors in a recovery of financial results and cashflows over a future timeframe. The revaluation model was prepared internally. The source of the discount and terminal capitalization rates used were consistent with those used as part of the Holloway purchase price allocation recorded in the three months ended March 31, 2019. The rates were obtained from an independent third party and were risk-adjusted in the analysis to reflect the impact of COVID-19 on the hospitality industry, and for the specific market in which the hotel operates. In situations where a five-year discounted cashflow value resulted in a fair value which differed significantly from the price per room metrics in recent market transactions, the Company used comparable hotel sales prices, professional judgement, and management expertise to determine the fair value.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D)

Key factors of estimation uncertainty used in the internal model included the cashflow forecasts, the discount rates and the terminal capitalization rates, and in certain situations the comparability of recent hotel sales. The discount rates ranged from 9.5% – 13.0% and the capitalization rates ranged from 9.0% – 11.0%. The cashflow forecasts were performed on a hotel-by-hotel basis. The forecast in year one of the model was consistent with the Company's fiscal 2021 budget. In years two through five of the internal models, cashflows were based on a gradual recovery as a function of the respective historical results. If the discount rates had been 0.25% higher/lower, the estimated fair value would result in a change of $900 to property and equipment and the revaluation of hotel properties. If the terminal capitalization rates had been 0.25% higher/lower, the estimated fair value would result in a change of $1,500 to property and equipment and the revaluation of hotel properties. The fair value of the Company's property and equipment will continue to be closely monitored as the pandemic evolves. As clarity on the Company's outlook is obtained, additional revaluation increases or decreases may be required.

During the prior year, the Company used a capitalized income internal model and considered hotel sales in comparable markets. The fair value models were prepared internally. Capitalization rates used were obtained from an independent third party. In the Company's internal models, each hotel's recent historical operating income was normalized for any unusual and non-recurring events and reduced by a capital expenditure reserve of 4% of revenues. A 4% capital expenditure reserve may not have reflected actual capital expenditures for a particular hotel. A capitalization rate specific to the market in which each hotel operates was applied to the operating income. In situations where a capitalized income value resulted in a fair value which differed significantly from the price per room metrics in recent market transactions, the Company used comparable hotel sales prices, professional judgment and management expertise to determine the fair value. The fair value may not reflect the realizable value in the event a particular hotel is sold by the Company.

On the acquisition of control during the prior year, if the capitalization rate had been 0.25% higher/lower for the purpose of the purchase price allocation, the estimated fair value under the capitalized income approach would have resulted in a change of $4,500 to property and equipment and the bargain purchase gain. If the value of the comparable hotel sales had been 5% higher/lower in the purchase price allocation, the estimated fair value would have resulted in a change of $2,800 to property and equipment and the bargain purchase gain.

During the fourth quarter of 2019, the Company revalued two of its hotels based on purchase offers. The value of one hotel increased by $6,000 and the increase was recorded through other comprehensive income. The value of the other hotel decreased by $800 and was included in investment and other income (note 19).

Fair value of investment properties

The Company's significant investment properties consist of three office buildings as at December 31, 2020. The prior year also included a leased hotel property, which is classified as an asset held for sale for the current year. The three office buildings were acquired in 2019 and due to the proximity of their respective acquisition dates, there were no fair value adjustments recorded during the year ended December 31, 2019. A fair value adjustment of $2,043 was recorded during the year ended December 31, 2020 as a result of purchase offers received. Changes to the fair value of the Company's investment properties will occur periodically, based on operating performance, economic activity, regional development opportunities and new competition in the markets in which they operate.

Investment entity

IFRS 10, *Consolidated Financial Statements* defines investment entities, and it allows entities to measure their subsidiaries at FVTPL instead of consolidating the results. Management has assessed the standard and determined that the Company does not meet all criteria outlined in IFRS 10 in order for a parent to be considered an investment entity. The Company consolidates all of its controlled investments.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D)

Marketable securities

The Company has interests in publicly-traded marketable security investments. The Company does not own greater than fifty percent of the outstanding shares of these investments nor does it hold options or have other contractual arrangements that would lead to increased ownership. De facto control exists in circumstances when an entity owns less than 50% of the voting shares in another entity but has control for reasons other than potential voting rights, contract or other statutory means. The Company does not consider de facto control to be present in any of the marketable security investments and does not consolidate these investments.

Venture capital organization

The Company has elected to use the exemption in IAS 28 for venture capital companies. Under this exemption, the Company may designate all investments managed in the same way at FVTPL. The Company has designated all publicly-traded securities in which it has significant influence to be measured at FVTPL as those form part of the Company's venture capital portfolio. In these cases, all realized and unrealized gains and losses are recorded in the consolidated statements of earnings.

Business combinations

The purchase price allocation process requires management to use significant estimates and assumptions, including fair value estimates of assets acquired and liabilities assumed.

While the Company uses its best estimates and assumptions as part of the purchase price allocation process to accurately value the assets acquired and liabilities assumed at the business combination date, estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the measurement period, which is the earlier of the date management receives the information it requires or one year from the business combination date, adjustments are recorded to the assets acquired and liabilities assumed.

During the prior year, the non-controlling interest (49% ownership interest in Holloway) recognized at the acquisition date was measured using the proportionate share of the fair value of net assets of the acquiree.

Although the Company believes the assumptions and estimates made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired company and are inherently uncertain. Examples of critical estimates in valuing certain of the assets acquired and liabilities assumed include but are not limited to:

- future expected cash flows from the hotel properties and capitalization rates applied to future expected cash flows; and

- uncertain tax positions and the fair value of both current and deferred income tax related assets and liabilities assumed in connection with a business combination which are initially estimated as of the acquisition date and are re-evaluated quarterly as management continues to collect information in order to determine their estimated value, with any adjustments to preliminary estimates recorded during the measurement period.

Changes in any of the assumptions or estimates used in determining the fair value of assets acquired and liabilities assumed could impact the initial amounts assigned to assets and liabilities in the purchase price allocation. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D)

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Taxes

Deferred income tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred income tax assets should be recognized with respect to estimated future taxable income, which impacts the amount of deferred income tax assets recorded related to differences on the tax basis of assets and available non-capital losses. The estimates of future taxable income, the years when the temporary differences are expected to reverse and the tax rates in those years have an impact on the deferred income tax assets and liabilities recorded in the consolidated statements of financial position. Significant estimates and judgments are used in determining the future taxable income, which includes consideration of the history of profitability. Actual results will differ from the amounts estimated for future taxable income.

Management considers both favourable and unfavourable evidence in determining whether or not it is probable that the future economic benefits will flow to the Company and the amount of deferred income tax assets that should be recognized. In making its assessment, management considers past operating results, forecasted future operating results and economic conditions in the locations in which it operates.

Pension benefits and asset ceiling

The costs of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details about the assumptions used are disclosed in note 7. Management is also required to make certain assumptions regarding the quantification of the asset ceiling, which impacts the accrued pension benefit recorded on the consolidated statements of financial position.

3. MARKETABLE SECURITIES

On March 25, 2020, the Company completed a dividend-in-kind on its common shares in the form of a pro rata distribution of the 5,386,440 common shares of TerraVest Industries Inc. ("Terravest") that it owned. The dividend was paid to shareholders of the Company in the amount of $58,120, which was the closing price of Terravest common shares on the record date. The Board of Directors of the Company determined the fair market value of the dividend to be $5.49 per Clarke common share when the dividend was announced. In accordance with the Fourth Amended and Restated Trust Indenture governing the Company's unsecured subordinated convertible debentures, the conversion price of the debentures was reduced by the fair market value of the dividend of $5.49 and is now $13.74.

During the year ended December 31, 2020, the Company sold marketable securities for net proceeds of $12,573 (2019 – $5,621).

4. RECEIVABLES

	2020	2019
	$	$
Trade receivables	**1,218**	3,061
Less: expected credit losses	**(17)**	(183)
Trade receivables – net	**1,201**	2,878
Investment income receivable	**59**	579
Receivables from credit card companies	**28**	112
Government grants *(note 24)*	**2,213**	—
Other receivables	**206**	372
	3,707	3,941

5. LOANS RECEIVABLE

	2020	2019
	$	$
Senior secured loan	**700**	714
Vendor take-back loans	**1,275**	6,840
	1,975	7,554
Less: Current portion	**(725)**	(5,175)
	1,250	2,379

The vendor take-back loans have remaining terms ranging from one year to three years and bear interest at 5.0% with interest payable monthly to the Company. The senior secured loan is denominated in US dollars and bears interest at 12.0%. Interest payments are due semi-annually. The maturity date of the loan is April 30, 2027. On April 30, 2019, the Company sold US$3,450 principal amount of the US$4,000 senior secured loan receivable for net proceeds of $4,513, resulting in a loss on sale of $116.

6. ASSETS HELD-FOR-SALE

Prior to December 31, 2020, the Company entered into an agreement to sell a hotel which was leased, on a triple net basis, to a third party under a lease agreement. The lease was set to expire on January 15, 2021 and included an option for the lessee to acquire the hotel at any time during the lease period. The sale closed on January 15, 2021 for gross proceeds of $2,430. After closing costs and a vendor take-back loan receivable of $2,205, the net cash proceeds were $210. The vendor take-back loan has a term of one year and bears interest at 10%. The asset was previously classified in investment properties.

7. EMPLOYEE FUTURE BENEFITS

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 for each year. The most recent actuarial valuation of one defined benefit pension plan for funding purposes was as at December 31, 2019 and for the second defined benefit pension plan was as at December 31, 2017.

During the year, the Company received a distribution from one of its pension plans in the amount of $1,247 (2019 – $1,579) in accordance with the surplus withdrawal rules of the Quebec Supplemental Pension Plans Act.

Total cash payments for employee future benefits for the year ended December 31, 2020, consisting of cash contributed by the Company to its RRSP and defined contribution matching pension plans were $95 (2019 – $98).

Defined benefit plan assets

Fair value of plan assets	**2020** **$**	2019 $
Balance, beginning of year	**81,044**	82,488
Interest income	**2,453**	3,091
Employee contributions	**2**	2
Benefits paid	**(2,993)**	(2,938)
Non-investment management fees	**(403)**	(364)
Remeasurement gains	**9,389**	344
Surplus distribution	**(1,247)**	(1,579)
Balance, end of year	**88,245**	81,044

Defined benefit plan obligations

Accrued benefit obligation	**2020** **$**	2019 $
Balance, beginning of year	**52,489**	47,822
Current service cost	**503**	649
Interest cost	**1,583**	1,834
Employee contributions	**2**	2
Benefits paid	**(2,993)**	(2,938)
Remeasurement losses	**2,838**	5,120
Balance, end of year	**54,422**	52,489

Reconciliations of the funded status of the benefit plans to the amounts recorded on the consolidated statements of financial position are:

	2020 **$**	2019 $
Fair value of plan assets	**88,245**	81,044
Accrued benefit obligation	**(54,422)**	(52,489)
Funded status of plans – accrued pension benefit asset	**33,823**	28,555

7. EMPLOYEE FUTURE BENEFITS (CONT'D)

Elements of the defined benefit recovery (expense) recognized in the consolidated statements of earnings are as follows:

For the years ended December 31	**2020** **$**	2019 $
Current service cost	**(503)**	(649)
Net interest on surplus	**870**	1,258
Provision for non-investment management fees	**(403)**	(364)
Defined benefit recovery (expense) recognized	**(36)**	245

Elements of the defined benefit recovery (expense) recognized in other comprehensive income (loss) are as follows:

For the years ended December 31	**2020** **$**	2019 $
Net remeasurement gains (losses)	**6,551**	(4,776)
Deferred income tax recovery (expense)	**(1,756)**	921
Defined benefit recovery (expense) recognized	**4,795**	(3,855)

Significant assumptions

	2020 **%**	2019 %
Accrued benefit obligation:		
Discount rate	**2.50**	3.10
Rate of compensation increase (two remaining active members)	**2.50 – 4.00**	2.50 – 4.00
Benefit costs for the year:		
Discount rate	**3.10**	3.90
Rate of compensation increase (two remaining active members)	**2.50 – 4.00**	2.50 – 4.00

8. PROPERTY AND EQUIPMENT

Year ended December 31, 2020	**Land** **$**	**Buildings and components** **$**	**Ferry and vessel dry dock costs** **$**	**Furniture, fixtures and equipment** **$**	**Right-of-use assets** **$**	**Renovations in progress** **$**	**Total** **$**
Beginning balance	**30,546**	**164,359**	**411**	**12,975**	**1,032**	**3,275**	**212,598**
Additions	—	185	—	678	—	677	1,540
Disposals	(227)	(10,547)	—	(754)	—	—	(11,528)
Revaluations *(note 2)*	865	(12,056)	—	—	—	—	(11,191)
Depreciation	—	(6,908)	(352)	(3,584)	(158)	—	(11,002)
Ending balance	**31,184**	**135,033**	**59**	**9,315**	**874**	**3,952**	**180,417**
Valuation	31,184	135,033	—	—	—	—	166,217
Cost	—	—	4,657	16,013	1,143	3,952	25,765
Accumulated depreciation	—	—	(4,598)	(6,698)	(269)	—	(11,565)
Net book value	**31,184**	**135,033**	**59**	**9,315**	**874**	**3,952**	**180,417**

8. PROPERTY AND EQUIPMENT (CONT'D)

As at December 31, 2020, the net book value of the Company's land and buildings and components would have been $21,755 and $133,164, respectively, had the Company used the cost model, and the net book value of property and equipment would have been $169,119.

During the year, Holloway sold the Best Western® hotel in Grande Prairie, AB to a company controlled by the Executive Chairman and his immediate family member for gross proceeds of $11,500. The Company recorded a revaluation gain in the amount of $609 on the consolidated statements of earnings upon the close of the transaction.

9. INVESTMENT PROPERTIES

	Buildings **$**	**Vacant land** **$**	**Total** **$**
Carrying value – January 1, 2020	19,709	167	19,876
Fair value adjustments	2,033	—	2,033
Additions	316	—	316
Foreign exchange impact	(434)	—	(434)
Reclassified to assets held-for-sale	(2,515)	—	(2,515)
Carrying value – December 31, 2020	**19,109**	**167**	**19,276**

The Company reclassified a leased hotel to assets held-for-sale as at December 31, 2020 as a result of an agreement that was signed during the year and closed subsequent to year-end (note 6). Prior to the reclassification, a fair value adjustment loss of $10 was recorded in the consolidated statements of earnings.

As at December 31, 2020, the Company's investment properties are comprised of three office buildings in Houston, TX. During the year, the Company recorded fair value adjustments on two of the office buildings. The increase in value of $2,043 was recorded in the consolidated statements of earnings and was a result of purchase offers received during the year.

10. INCOME TAXES

The recovery of income taxes for the years ended December 31 consists of:

Consolidated statements of earnings	**2020** **$**	2019 $
Current income tax		
Current income tax charge	**77**	1,036
Adjustments in respect of current income tax of previous year	**(100)**	(30)
Deferred income tax		
Relating to origination and reversal of temporary differences	**(7,853)**	(3,315)
Relating to the benefit of a previously unrecognized deferred income tax asset	**—**	(3,819)
Relating to the change in recoverable amount of a deferred income tax asset	**4,708**	78
Recovery of income taxes	**(3,168)**	(6,050)

10. INCOME TAXES (CONT'D)

The recovery of income taxes varies from the expected provision at statutory rates for the following reasons:

	2020	2019
	$	$
Provision for (recovery of) income taxes at statutory rate of 27.63% (2019 – 28.53%)	**(6,183)**	9,302
Increase (decrease) from statutory rate:		
Effect of difference in statutory rates of subsidiaries	**464**	1,151
Non-taxable component of realized/unrealized investment gains and bargain purchase	**(563)**	(12,848)
Non-taxable dividend income	**—**	(657)
Non-deductible expenses	**369**	285
Benefit of previously unrecognized deferred income tax asset	**4,708**	(3,741)
Effect of prior year tax adjustments	**(1,939)**	349
Other	**(24)**	109
Recovery of income taxes at effective rate	**(3,168)**	(6,050)

The significant components of the Company's deferred income tax assets and liabilities are as follows:

Year ended December 31, 2020	**Deferred income tax asset (liability) beginning of year**	**Recognized directly in equity**	**Recognized directly in earnings**	**Deferred income tax asset (liability) end of year**
	$	**$**	**$**	**$**
Intangible assets	**73**	**—**	**85**	**158**
Marketable securities	**(1,355)**	**—**	**(3,611)**	**(4,966)**
Property and equipment	**7,778**	**(873)**	**2,715**	**9,620**
Employee future benefits	**(8,147)**	**(1,756)**	**852**	**(9,051)**
Convertible debentures	**354**	**—**	**(70)**	**284**
Loss carry forwards	**6,229**	**—**	**3,185**	**9,414**
Other	**11**	**—**	**(11)**	**—**
	4,943	**(2,629)**	**3,145**	**5,459**
Income tax assets	**13,222**	**—**	**5,064**	**18,286**
Income tax liabilities	**(8,279)**	**(2,629)**	**(1,919)**	**(12,827)**
	4,943	**(2,629)**	**3,145**	**5,459**

Year ended December 31, 2019	Deferred income tax asset (liability) beginning of year	Acquired in business combination	Recognized directly in equity	Recognized directly in earnings	Deferred income tax asset (liability) end of year
	$	$	$	$	$
Intangible assets	(60)	268	—	(135)	73
Marketable securities	13	21	—	(1,389)	(1,355)
Property and equipment	388	5,222	(1,206)	3,374	7,778
Employee future benefits	(9,900)	—	921	832	(8,147)
Convertible debentures	—	(343)	—	697	354
Loss carry forwards	36	2,528	—	3,665	6,229
Other	10	(11)	—	12	11
	(9,513)	7,685	(285)	7,056	4,943
Income tax assets	381	7,685	(1,206)	6,362	13,222
Income tax liabilities	(9,894)	—	921	694	(8,279)
	(9,513)	7,685	(285)	7,056	4,943

10. INCOME TAXES (CONT'D)

The ultimate realization of deferred income tax assets is dependent upon taxable profits during the periods in which those temporary differences become deductible. In concluding that it is probable that the recorded deferred income tax assets will be realized, management has relied upon existing taxable temporary differences, expected generation of taxable income and tax planning opportunities as support for the recorded amounts.

As at December 31, 2020, there was no deferred income tax liability recognized for taxable temporary differences related to undistributed profits of certain of the Company's subsidiaries as the Company is able to control and determine, whether to, and the method for distributing those profits and has determined that those taxable temporary differences will not reverse in the foreseeable future. The taxable temporary differences associated with investments in subsidiaries for which a deferred income tax liability has not been recognized aggregate to $15,654 (2019 – $240,279).

As at December 31, 2020, the Company had non-capital losses carried forward for tax purposes of $32,970 (2019 – $16,535) in Canada and US$7,786 (2019 – US$6,374) in the United States and capital losses carried forward for tax purposes of $4,787 (2019 – $9,365).

Certain deferred income tax assets have not been recognized. They are as follows:

	2020	2019
	$	$
Marketable securities	**1,842**	—
Property and equipment	**2,430**	—
Non-capital and capital loss carry forwards	**2,286**	1,840
Total	**6,558**	1,840

11. SHORT-TERM INDEBTEDNESS

The Company and Holloway each had respective credit facilities with the same Canadian chartered bank as at December 31, 2019. During 2020, the Company amended the credit facility to combine and replace the two facilities. The existing security of marketable securities, certain investment properties and a registered charge on five hotel properties remains in place as collateral for the amended credit facility. The availability is determined by a borrowing base calculation, has a maximum borrowing capacity of $40,000 and bears interest at prime plus 1.50%, or based on a spread to banker's acceptance. The Company had drawn $8,243 on the credit facility as at December 31, 2020 (2019 – $30,061). The Company has unrestricted access to its credit facility subject to pledging sufficient securities as collateral, with a carrying value of $46,760 as at December 31, 2020 (2019 – $109,880), and five hotel properties with a carrying value of $65,867 as at December 31, 2020 (2019 – $72,051). Any decline in the fair value of securities within the portfolio and the operations of the hotels may limit the Company's access to the full amount of the short-term facilities.

The Company has a second credit facility with a maximum borrowing capacity of $10,000. This credit facility bears interest at prime plus 1.50%. As at December 31, 2020 and 2019, the Company had drawn nil on this facility. This facility, and a corresponding mortgage payable (note 14), are secured by a registered charge on four hotel properties, with a carrying value of $52,934. This facility is subject to an annual review and matures September 2022. Each individual draw must be repaid within one year.

The Company also has access to an investment margin account for purposes of financing eligible marketable securities. Any Canadian dollar financing used under this arrangement bears interest at the prime rate of a Canadian chartered bank and is collateralized by the marketable securities purchased. The interest rate was equal to 2.45% as at December 31, 2020 (2019 – 3.95%). Any US dollar financing used under this arrangement bears interest at the US base rate less 1.00% and is collateralized by the marketable securities purchased. The interest rate was equal to 3.25% as at December 31, 2020 (December 31, 2019 – 4.75%). The Company had drawn nil on the Canadian dollar and US dollar facilities, respectively, as at December 31, 2020 and 2019.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020	2019
	$	$
Trade payables	**1,107**	2,688
Accrued liabilities	**3,676**	5,168
Share-based payment liability	**120**	—
	4,903	7,856

13. CONVERTIBLE DEBENTURES

On January 24, 2019, the Company assumed convertible debentures through the Holloway business combination with a fair value of $50,917 (note 26). On April 26, 2019, at a meeting of the holders of the Series B Debentures (the "Debentures"), the Company obtained approval to amend the Debentures as follows: (1) extending the maturity date by three years to February 28, 2023; (2) amending the conversion price to $12.50 per common share, being a conversion rate of 80 common shares per $1,000 principal amount of the Debentures (amount not in thousands); and (3) amending the redemption provision to, among other things, prohibit the subsidiary from redeeming the Debentures until June 1, 2020, except in connection with a change in control of Holloway resulting in the acquisition of 100% of the voting or equity interests in the subsidiary. The revised present value of the modified contractual cash flows as a result of extending the maturity date had no impact on the carrying value.

On September 30, 2019, following a meeting of the debentureholders and the acquisition of Holloway, the Company assumed the Debentures which now trade under the symbol CKI.DB. The Debentures are no longer convertible into Holloway shares and are instead convertible in 72.78 Clarke common shares per $1,000 principal amount of the Debentures (amount not in thousands) at a conversion price of $13.74 per Clarke common share.

On January 25, 2019, the Company initiated a normal course issuer bid ("NCIB") to repurchase a maximum of $4,920 principal amount of its Series B Debentures. The NCIB expired on January 24, 2020 and no principal was repurchased under the bid. On March 13, 2020, the Company initiated an NCIB to repurchase a maximum of $4,814 principal amount of its Series B Debentures. The NCIB expires on March 12, 2021, and the Company had repurchased $112 principal amount as at December 31, 2020.

The Debentures bear interest at 6.25% payable semi-annually on April 30th and October 31st and have a face value of $50,754 as at December 31, 2020 (2019 – $50,866). The Company has the option to repay the principal amount of the debentures at maturity or redeem the debentures, in whole or in part in cash or by issuing common shares of the Company. The number of common shares to be issued is calculated by dividing the aggregate principal amount by 95% of the current market price of the Company's common shares (calculated in accordance with the indenture).

14. LONG-TERM DEBT

	2020 $	2019 $
Term loan, original amount of $4,000, payable in monthly principal instalments of $111, excluding February through April, due July 2022, bearing interest at the financial institution's floating base rate minus 1.50% for 2020 and 2019 (3.05% as at December 31, 2020 and 4.55% as at December 31, 2019), secured by fixed charge against ferry, *MV Trans-Saint-Laurent*, machinery, tools, vehicles, and intellectual property, with a carrying value of $89.	**2,000**	2,444
Mortgages payable, assumed in a business combination (note 26), with a face value of $49,579, bearing interest at a weighted average rate of 4.19% and maturing on various dates from March 2021 to September 2029. Individual first charges on 10 hotel properties with a carrying value of $110,314 have been pledged as security for individual mortgages.	**49,796**	50,422
Term loan, original amount of $12,500, obtained through Co-Lending Program within the Business Credit Availability Program, payable in monthly principal instalments of $104 commencing December 2021, due November 2023, bearing interest at prime plus 1.50% (3.95% as at December 31, 2020), secured by a second lien on the same assets of the short-term credit facility (note 11).	**12,500**	—
Total long-term debt	**64,296**	52,866
Less: current portion of long-term debt	**(6,240)**	(10,448)
Long-term portion	**58,056**	42,418

The following table summarizes significant changes in long-term debt

	2020 $	2019 $
Total long-term debt – beginning balance	**52,866**	3,444
Assumed in business combination *(note 26)*	—	76,446
Proceeds from long-term debt	**12,500**	—
Repayment of long-term debt	**(1,689)**	(26,961)
Capitalized deferred interest	**648**	—
Accretion of deferred financing fees	**145**	308
Amortization of fair value increment	**(174)**	(371)
Total long-term debt – ending balance	**64,296**	52,866

During the year, the Company received approval from several lenders to defer principal repayments and interest on certain term loans and mortgages. The Company requested the deferrals to improve short-term cash flows in response to the global pandemic. As a result, the Company capitalized $648 of deferred interest to long-term debt.

15. RELATED PARTY DISCLOSURES

The Company had, other than those disclosed elsewhere in these consolidated financial statements, the following related party transactions in the normal course of operations and measured at fair value:

(i) The Company was a party to rental, information technology and tax services agreements with companies owned or partially owned by the Executive Chairman and his immediate family member. Included in *'Expenses'* is rental, IT and tax services expenses of $301 (2019 – $394) under the agreements.

(ii) The Company provides administrative and asset management services to two pension plans it sponsors. Included in *'Revenue'* is $519 (2019 – $524) for services provided to the pension plans during the year.

(iii) During the year, the Company sold marketable securities through the facilities of the Toronto Stock Exchange to the Clarke Inc. Master Trust (the "Master Trust"), which holds the units of the pension plans administered by the Company. During the prior year, the Company sold marketable securities through the facilities of the Hong Kong Stock Exchange to the Master Trust. The sales were made for investment purposes and the Company received net proceeds of $569 (2019 – $3,613).

(iv) During the prior year, Holloway purchased common shares of the Company through the facilities of the Toronto Stock Exchange from the Master Trust for $2,276. Following the acquisition of the remaining common shares of Holloway by the Company, Holloway transferred the common shares to the Company by way of a dividend and the common shares were cancelled.

Key management consists of the directors and officers of the Company. The compensation accrued is as follows:

Year ended December 31, 2020	Board of directors	Officers	**Total**
	$	$	**$**
Salary and fees	—	502	**502**
Pension value	112	9	**121**
Total	112	511	**623**

16. SHARE-BASED PAYMENTS

The Company has reserved 7.50% of its issued and outstanding common shares under a stock option plan for directors, officers and certain employees. As at December 31, 2020, there were 150,000 options outstanding, of which 50,000 were exercisable.

	Year ended December 31, 2020		Year ended December 31, 2019	
		Weighted Average Exercise Price		Weighted Average Exercise Price
	#	**$**	#	$
Outstanding, beginning of period	**425,000**	**10.69**	250,000	8.19
Granted	—	—	175,000	14.26
Exercised	**(250,000)**	**8.19**	—	—
Forfeited	**(25,000)**	**14.26**	—	—
Outstanding, end of period	**150,000**	**8.77**	425,000	10.69
Exercisable	**50,000**	**8.77**	250,000	8.19

16. SHARE-BASED PAYMENTS (CONT'D)

The outstanding options as at December 31, 2020 were granted in 2019 with an original exercise price of $14.26 per option. Following the dividend-in-kind (note 3), the exercise price was reduced by $5.49 per option, resulting in a modified exercise price of $8.77 per option. The options exercised during the year ended December 31, 2020 were settled in cash, and the Company changed the measurement of share-based payments from the equity-settled method to the cash-settled method accordingly. The compensation expense for options outstanding during the year ended December 31, 2020 was $120, which also represents the liability as at December 31, 2020. The associated share-based payment liability is included in accounts payable and accrued liabilities on the consolidated statements of financial position as at December 31, 2020.

The following table shows the assumptions used to determine the share-based payments expense using the Black-Scholes option pricing model for both issuances:

	Second Issuance 175,000 options	First Issuance 250,000 options
Fair value per option granted	**$3.23**	**$3.48**
Assumptions:		
Risk-free interest rate	**1.49%**	**1.70%**
Expected dividend yield	**—**	**—**
Expected volatility	**26.96%**	**28.52%**
Expected time until exercise	**7.0 years**	**4.0 years**
Expected forfeiture rate	**0%**	**9.50%**

On January 24, 2019, the Company assumed a share-based liability through the Holloway business combination (note 26). As a result of the acquisition of control, the unvested common share options in the subsidiary immediately vested and all options not exercised 90 days following the change of control would be terminated. At the acquisition date, the fair value of the options was $659 and was measured using the Black-Scholes option pricing model. All of the options were exercised in cash or were exercised for common shares of the subsidiary during 2019.

The following table summarizes the changes in the share-based liability for the year ended December 31, 2019:

	2019 $
Fair value assumed on business combination	**659**
Change in fair value of share-based liability	**445**
Options exercised for cash	**(1,079)**
Options exercised for shares of the subsidiary	**(25)**
Ending balance	**—**

17. COMMITMENTS AND CONTINGENCIES

Commitments

Under the terms of the hotel franchise agreements expiring at various dates through the year 2036, franchise fees (including royalty fees, reservation and marketing assessments) are due to franchise companies on 15 of the 16 hotels owned and operated by the Company as at December 31, 2020. The franchise fees paid to franchisors are calculated based on a percentage of revenue.

17. COMMITMENTS AND CONTINGENCIES (CONT'D)

Contingencies

In the course of the Company's hospitality services, it is involved in administrative proceedings, litigations and claims. In September 2015, the subsidiary was served with a personal injury claim in the Alberta Court of Queen's Bench seeking over $10,000 in damages. The Company believes the claims are without merit, there are valid defences to any actions or the outcomes will not have a material impact on the consolidated statements of financial position or results of operations. The Company intends to fully defend its interests and take all other action available to it. The outcome of the claims is subject to future court proceedings, and it is not practicable to determine an estimate of the possible financial effect, if any, at this time with sufficient reliability. Accordingly, no amounts have been recorded related to these claims.

18. SHARE CAPITAL AND EARNINGS PER SHARE

As at and for the year ended December 31	**2020**		2019	
	# of shares	**$**	# of shares	$
Authorized				
Unlimited number of common shares – no par value				
Unlimited number of First Preferred shares				
Unlimited number of Second Preferred shares				
Issued				
Outstanding common shares, beginning of year	**16,571,184**	**98,051**	12,285,888	39,826
Common shares repurchased for cancellation	**(1,513,292)**	**(8,954)**	(514,159)	(1,768)
Common shares issued pursuant to an acquisition	**—**	**—**	4,799,455	59,993
Outstanding common shares, end of year	**15,057,892**	**89,097**	16,571,184	98,051

Earnings per share

The following table reconciles the basic and diluted per share computations from continuing operations:

	2020			2019		
	Loss	**Weighted average shares (in thousands)**	**Per share amount**	Earnings	Weighted average shares (in thousands)	Per share amount
	$	**#**	**$**	$	#	$
Basic earnings (loss) per share	**(19,210)**	**15,899**	**(1.21)**	38,374	13,237	2.90
Common shares issued on assumed exercising of stock options	**—**	**—**		—	87	
Interest, net of income taxes, on assumed conversion of convertible debentures	**—**	**—**		579	674	
Diluted earnings (loss) per share	**(19,210)**	**15,899**	**(1.21)**	38,953	13,998	2.78

All potentially dilutive securities issued relate to stock options and convertible debentures for the years ended December 31, 2020 and 2019. The stock options and convertible debentures were antidilutive for the year ended December 31, 2020, and dilutive for the year ended December 31, 2019.

18. SHARE CAPITAL AND EARNINGS PER SHARE (CONT'D)

Share restructuring plan

During the year, the Company announced that it had called a special meeting of Clarke's shareholders (the "Meeting") to approve a proposed consolidation and subsequent share split of its common shares ("Common Shares") in order to eliminate a large number of small and odd-lot shareholdings ("Share Restructuring Plan").

The basis of the proposed consolidation of Common Shares was one post-consolidated Common Share for each 1,000 pre-consolidated Common Shares (the "Consolidation"). Holders of fewer than 1,000 Common Shares who did not increase their holdings to 1,000 or more Common Shares prior to the determination date would cease to hold Common Shares and would be entitled to be paid cash consideration equal to that number of pre-Consolidation Common Shares held by the holder multiplied by an amount equal to the volume weighted average trading price of the Common Shares for the twenty trading days preceding the Consolidation. Immediately following the Consolidation, the remaining Common Shares would be split on the basis of 1,000 post-split Common Shares for each 1 post-Consolidation Common Share. The end result would mean those shareholders who held 1,000 or more shares prior to the restructuring would retain the same number of shares after the restructuring.

The Share Restructuring Plan was approved at the Meeting and the Company paid $2,038 in cash consideration for 363,893 Common Shares, or $5.60 per Common Share.

Common Share purchases

During the year ended December 31, 2020, the Company purchased for cancellation, under its NCIB program and share restructuring plan, 1,513,292 (2019 – 514,159) Common Shares at a cost of $11,276 (2019 – $6,625). The purchase price in excess of the historical book value of the shares in the amount of $2,532 (2019 – $4,857) has been charged to retained earnings, $210 (2019 – nil) has been added to contributed surplus and $8,954 (2019 – $1,768) has been charged to share capital.

19. INVESTMENT AND OTHER INCOME (LOSS)

Investment and other income (loss) is comprised of the following:

	2020 **$**	2019 $
Unrealized gains (losses) on investments	**(24,585)**	16,992
Realized gains (losses) on investments	**30,354**	(3,330)
Revaluation loss of hotel properties	**(16,491)**	(800)
Fair value adjustment on investment properties	**2,070**	—
Dividend income	—	2,209
Interest income	**438**	964
Pension recovery (expense) *(note 7)*	**(36)**	245
Insurance proceeds, net of clean-up and other costs	**14**	1,258
Gain (loss) on disposal of assets	**44**	(613)
Foreign exchange losses	**(19)**	(241)
Gains on repurchase of convertible debentures	**9**	—
	(8,202)	16,684

20. EXPENSES BY NATURE

A summary of hotel operating expenses, costs of services provided, general and administrative expenses, and property taxes and insurance is presented below:

	2020 **$**	2019 $
Salaries, wages and employee benefits, net of government assistance of $6,174 (2019 – nil)	**11,496**	30,061
Materials, supplies, repairs and utilities	**10,101**	15,499
Food, beverage and service costs	**1,696**	4,353
Royalty and franchise fees	**1,573**	3,748
Property taxes, net of government assistance of $380 (2019 – nil)	**2,583**	3,721
Other general and administrative, net of government assistance of $371 (2019 – nil)	**1,474**	3,716
Legal, audit and other professional consulting fees	**978**	1,579
Information technology and support	**663**	862
Insurance, net of government assistance of $125 (2019 – nil)	**666**	854
	31,230	64,393

21. INTEREST EXPENSE

Interest expense is comprised of the following:

	2020 **$**	2019 $
Interest on short-term indebtedness	**1,193**	1,673
Interest on long-term debt and convertible debentures	**5,558**	5,968
Accretion of long-term debt	**161**	308
	6,912	7,949

22. SUPPLEMENTAL CASH FLOW INFORMATION

Adjustments for items not involving cash	**2020** **$**	2019 $
Realized/unrealized gains on investments *(note 19)*	**(5,769)**	(13,662)
Depreciation	**11,039**	12,338
Revaluation of hotel properties *(note 8)*	**16,491**	800
Fair value adjustment on investment properties *(note 9)*	**(2,070)**	—
Deferred income tax recovery *(note 10)*	**(3,145)**	(7,056)
Share-based payment expense *(note 16)*	**120**	474
Amortization of fair value increments from acquisition	**(174)**	(422)
Accretion on debt *(note 14)*	**145**	308
Unrealized foreign exchange losses	**9**	241
Pension expense (recovery) *(note 7)*	**36**	(245)
Loss (gain) on disposal of assets *(note 19)*	**(44)**	613
Gain on repurchase of convertible debentures	**(9)**	—
Capitalized deferred interest *(note 14)*	**648**	—
Selling costs on property and equipment sales	**23**	2,766
Bargain purchase gain *(note 26)*	**—**	(21,798)
	17,300	(25,643)

22. SUPPLEMENTAL CASH FLOW INFORMATION (CONT'D)

Net changes in non-cash working capital balances	2020 $	2019 $
Receivables	**234**	(916)
Inventories	**115**	233
Income taxes receivable	**(349)**	475
Prepaid expenses	**(147)**	413
Accounts payable and accrued liabilities	**(2,515)**	(607)
Income taxes payable	**(148)**	126
Accrued interest on convertible debentures	**(1)**	(184)
Settlement of share-based liability *(note 16)*	**(1,130)**	(1,079)
	(3,941)	(1,539)

	2020 $	2019 $
Income taxes paid	**182**	903
Interest received	**236**	566
Interest paid	**6,169**	7,792

23. CAPITAL DISCLOSURES

The Company's capital consists of shareholders' equity and interest-bearing debt. The objectives of the Company's capital management program are to maintain a level of capital that complies with existing debt covenants, optimizes the cost of capital, funds its business strategies, provides returns to shareholders and builds long-term shareholder value. To maintain or adjust its capital structure, the Company may, from time to time, issue new shares, issue new debt, repurchase existing debt or shares and/or adjust the amount of dividends paid to shareholders. The Company is subject to financial covenants on its short-term credit facilities, and certain of its mortgages payable and term loans. There are restrictive covenants for the Company that are governed by a maximum adjusted tangible net worth ratio (1.25:1.00), and debt service coverage ratio to exceed various levels ranging from 1.00 – 1.40. For the year ended December 31, 2020, all of the restrictive covenants measured on an annual basis were in compliance.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments as at December 31, 2020 and 2019 included cash and cash equivalents, marketable securities, receivables, loans receivable, short-term indebtedness, accounts payable and accrued liabilities, convertible debentures (including accrued interest) and long-term debt. All of the Company's financial instruments are classified at amortized cost, with the exception of marketable securities which are classified at FVTPL.

The carrying value of cash and cash equivalents, receivables, loans receivable, short-term indebtedness, and accounts payable and accrued liabilities approximates their fair value due to the short-term maturity of these instruments. The difference between the carrying values and the fair values of the Company's convertible debentures and long-term debt is not material given that the liabilities were assumed at fair value through the purchase price allocation during the prior year. For the long-term debt existing prior to the business combination, the difference between the carrying value and the fair value is not material given that the instrument is subject to a floating rate of interest that adjusts with changes to the bank rates.

Marketable securities are recorded at fair value based on quoted market prices as at December 31, 2020 and 2019. Securities designated as FVTPL are included in the consolidated statements of financial position at fair value, with any movement being recorded as an unrealized gain or loss on investments in the consolidated statements of earnings.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

The methods and assumptions used in estimating the fair value of mortgages payable, convertible debentures and the share-based liability are as follows:

Mortgages payable

The fair value is determined using internal valuation techniques which incorporate the discounted future cash flows using discount rates that reflect current market conditions for debt instruments with similar interest rates, terms and risk. The fair values do not necessarily represent the amounts the Company might pay in actual market transactions. The Company assumed the mortgages payable at fair value through the purchase price allocation during the prior year, therefore, the carrying value does not differ significantly from the fair value as at December 31, 2020.

Convertible debentures

The fair value of the convertible debentures is based on the quoted market price for the debentures. As at December 31, 2020, the carrying value and fair value of the convertible debentures was $50,754 and $49,739, respectively.

Share-based payment liability

The fair value is determined using the quoted market price for the shares of the Company, the Black-Scholes option pricing model and internal valuation techniques which incorporate the share price in calculating volatility. Volatility is calculated using the subsidiary's specific volatility based on the historical share price.

The Company uses the following hierarchy in attempting to maximize the use of observable inputs and minimize the use of unobservable inputs, primarily using market prices in active markets:

Level 1 – Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing on an ongoing basis.

Level 2 – Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable that can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following details the fair value hierarchy classification for the Company's assets carried at fair value on the consolidated statements of financial position:

	Fair value at December 31, 2020			
Description	**Total**	**Level 1 Quoted prices in active markets for identical assets**	**Level 2 Significant other observable inputs**	**Level 3 Significant unobservable inputs**
Marketable securities	**46,760**	**46,760**	—	—
Property and equipment	**166,217**	—	—	**166,217**
Investment properties	**19,276**	—	—	**19,276**
	232,253	**46,760**	—	**185,493**

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

		Fair value at December 31, 2019		
Description	Total	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs
Marketable securities	111,683	111,683	—	—
Property and equipment	194,905	—	—	194,905
Investment properties	19,876	—	—	19,876
	326,464	111,683	—	214,781

Risks associated with financial assets and liabilities

The Company is exposed to various financial risks arising from its financial assets and liabilities. These include market risk relating to equity prices, interest rates and foreign exchange rates, liquidity risk and credit risk. To manage these risks, the Company performs detailed risk assessment procedures at the individual investment level, under the framework of a global risk management philosophy.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. For the Company, market risk is comprised of equity price risk, interest rate risk and foreign exchange risk.

Equity price risk

Equity price risk refers to the risk that the fair value of marketable securities will vary as a result of changes in market prices of the investments. The carrying values of investments subject to equity price risk are based on quoted market prices as of the consolidated statements of financial position dates. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuations in the market price of a security may have no relation to the intrinsic value of the security. Furthermore, amounts realized in the sale of a particular security may be affected by the quantity of the security being sold.

The table below shows the impact to the Company on consolidated net income of a 10% increase or decrease in market prices on securities carried at market value in the consolidated statements of financial position of the Company. The selected change does not reflect what could be considered the best or worst case scenarios.

Fair value	Price change	Estimated fair value after price change	After-tax impact on net income
$	**%**	**$**	**$**
46,760	**10% increase**	**51,436**	**4,009**
46,760	**10% decrease**	**42,084**	**(4,009)**

The Company manages its equity price risk by purchasing and holding securities of companies that it believes trade at a discount to their intrinsic values.

Interest rate risk

The Company is exposed to interest rate risk on its lending and borrowing activities. It manages its exposure to interest rate risk by primarily using fixed rate debt or debt with a fixed-rate option, so cash flows are not impacted significantly by a change in interest rates. The weighted average interest rate on its mortgages payable and term loan is 4.11% with a weighted average maturity of 2.5 years.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

The Company has several term loans, mortgages and revolving credit facilities at floating rates. As at December 31, 2020, the after-tax net income effect of a 1% change in interest rates would have been $360 on floating rate debt of $49,793.

Foreign exchange risk

Foreign exchange risk refers to the risk that values of financial assets and liabilities denominated in foreign currencies in the consolidated statements of financial position of the Company will vary as a result of changes in underlying foreign exchange rates. The Company manages its exposure to foreign exchange risk by entering into foreign exchange contracts. As at December 30, 2020 and 2019, the Company did not have any forward contracts outstanding to sell US dollars.

The Company has investments throughout North America, and as such is exposed to movements in the US/Canadian exchange rate. As at December 31, 2020, the effect of a 5% change in the US/Canadian exchange rate on after-tax consolidated comprehensive income would have been $718 based on a US net asset balance of US$15,575.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations. The Company believes it has access to sufficient capital through cash on hand, operating cash flows and existing or other borrowing facilities to meet these obligations. The Company monitors and forecasts its cash balances and cash flows generated from operations to meet its required obligations. Cash flow forecasting for the Hospitality segment is performed at the hotel level and aggregated at head office. During the year, the Company reduced the maximum borrowing capacity of one of its credit facilities from $45,000 to $20,000 for the purpose of reducing borrowing costs on redundant availability in excess of the credit facility's borrowing base calculation. The Company also amended one of its credit facilities to establish incremental, long-term liquidity for the Company. As at December 31, 2020, the Company had cash of $2,730 and available unused facilities totaling $41,604.

The following table shows the timing of expected payments of current liabilities and long-term debt:

	Due within 1 year	**1 to 3 years**	**3 to 5 years**	**After 5 years**
	$	**$**	**$**	**$**
Short-term indebtedness	**8,243**	—	—	—
Accounts payable and accrued liabilities	**4,903**	—	—	—
Convertible debentures interest	**3,172**	**4,230**	—	—
Convertible debentures	—	**50,754**	—	—
Long-term debt	**6,240**	**50,668**	**5,080**	**2,091**
Interest on long-term debt	**2,507**	**2,759**	**421**	**152**
	25,065	**108,411**	**5,501**	**2,243**

Management estimates that current liquidities and forecasted cash flows will be sufficient to meet the Company's obligations, commitments and budgeted expenditures for the next twelve months. The Company has certain existing financial ratios to meet with respect to its long-term debt and credit facilities. As at December 31, 2020, all of the financial ratios measured on an annual basis were in compliance.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

In response to the pandemic, the Company has taken and continues to take the following actions to support its liquidity position:

- The Company has initiated a company-wide cost and capital expenditure reduction program.
- We are proactively working with our lenders on the easement of financial covenants and the modification of borrowing base determination calculations.
- We obtained various deferrals of both interest and principal on our loans and mortgages payable.
- We obtained payment term deferrals from several vendors.
- We worked with the holders of our loans receivable to collect payment in advance of the respective maturity dates.
- We applied for the Canada Emergency Wage Subsidy ("CEWS") and have recorded a total of $6,174 for this program in the year ended December 31, 2020. The CEWS is presented on the consolidated statements of earnings net of hotel operating expenses, cost of services provided and general and administrative expenses. We expect to continue to apply for the CEWS for the remaining periods available through the subsidy.
- We applied for the Canadian Emergency Rent Subsidy ("CERS") and various other less significant sources of federal, provincial and territorial government grants, and have recorded a total of $1,200 in the year ended December 31, 2020. There are $876 of grants presented in the consolidated statements of earnings, net of hotel operating expenses, and property taxes and insurance and $324 is presented in hotel and management services revenue. We expect to continue to apply for the CERS for the remaining periods available through the subsidy and other available funding.

Credit risk

Credit risk refers to the risk that a counterparty will fail to fulfill its obligations under a contract and, as a result, will cause the Company to suffer a loss. This risk is mitigated through credit policies that limit transactions according to counterparties' credit quality. The Company assesses the credit quality of all counterparties, considering their financial position, past experience and other factors. The maximum exposure to credit risk associated with financial assets is the total carrying value of the receivables and loans receivable.

Listings of trade receivables in the Hospitality segment are reviewed by and discussed with hotel operations personnel on a monthly basis. The Company also has three loans receivable in the amount of $1,975 obtained through the respective sales of previously owned assets. The Company has performed an analysis of the expected credit losses on these loans receivable considering both the financial condition of the borrowers and independent, industry-specific credit loss projections due to the pandemic. No expected credit losses on the loans receivable have been recorded as a result of this analysis. During the year ended December 31, 2020, the Company collected $5,565 of its loans receivable.

25. SEGMENTED INFORMATION

The Company operates in two reportable business segments. The Investment segment represents the Company's marketable securities portfolio, consisting of publicly traded equity securities at FVTPL, the Company's ferry business and the Company's vacant office buildings included in investment properties. During the first quarter of 2020, the office buildings were transferred from the Hospitality segment to the Investment segment as a result of the Company redefining its operating segments following the completion of recent transactions. The Hospitality segment consists of the Company's ownership and operation of hotels. The Other category is not a segment and is disclosed for reconciliation purposes. The Other category consists of our treasury and executive functions, the results of our pension plans and the interest payable on our debentures. Revenue from external customers earned in the Other category pertains primarily to management service fees.

25. SEGMENTED INFORMATION (CONT'D)

Transactions between the segments are recorded at fair value, which is the amount of consideration established and agreed to by management of the segments. Reconciling items represent inter-segment eliminations for services provided between segments.

Year ended December 31, 2020	**Investment $**	**Hospitality $**	**Other $**	**Eliminations $**	**Total $**
Revenue and other income:					
Hotel revenue and provision of services	**4,004**	**30,525**	**658**	**(39)**	**35,148**
Investment and other income (loss)	**7,839**	**(16,013)**	**(28)**	**—**	**(8,202)**
	11,843	**14,512**	**630**	**(39)**	**26,946**
Operating expenses before the undernoted	**5,214**	**24,732**	**1,346**	**(39)**	**31,253**
Share-based payment expense	**—**	**—**	**120**	**—**	**120**
Depreciation and amortization	**358**	**10,595**	**86**	**—**	**11,039**
Interest expense	**81**	**3,116**	**3,715**	**—**	**6,912**
Income (loss) before income taxes	**6,190**	**(23,931)**	**(4,637)**	**—**	**(22,378)**
Assets	**68,904**	**207,785**	**34,351**	**(14)**	**311,026**
Liabilities	**3,089**	**66,210**	**73,137**	**(14)**	**142,422**
Capital expenditures *(notes 8 and 9)*	**316**	**1,517**	**23**	**—**	**1,856**
Assets located outside of Canada *(note 9)*	**19,109**	**—**	**—**	**—**	**19,109**

Year ended December 31, 2019	Investment $	Hospitality $	Other $	Eliminations $	Total $
Revenue and other income:					
Hotel revenue and provision of services	7,449	73,935	723	(64)	82,043
Bargain purchase gain	21,798	—	—	—	21,798
Investment and other income	32,197	665	685	(16,863)	16,684
	61,444	74,600	1,408	(16,927)	120,525
Operating expenses before the undernoted	6,585	55,457	2,415	(64)	64,393
Selling costs on property and equipment sales	—	2,766	—	—	2,766
Share-based payment expense	—	445	29	—	474
Depreciation and amortization	355	11,947	36	—	12,338
Interest expense	157	7,072	1,258	(538)	7,949
Income (loss) before income taxes	54,347	(3,087)	(2,330)	(16,325)	32,605
Assets	131,531	238,194	32,015	(548)	401,192
Liabilities	3,606	61,588	86,959	(548)	151,605
Capital expenditures *(note 9)*	—	5,365	442	—	5,807
Assets located outside of Canada *(note 9)*	17,184	—	—	—	17,184

The Company operates predominantly in Canada, with the exception of three investment properties in the United States (note 9). Hotel revenue and provision of services was all generated by continuing operations in Canada for the years ended December 31, 2020 and 2019.

26. BUSINESS COMBINATION

On January 24, 2019, Holloway completed a substantial issuer bid ("SIB") by repurchasing 1,553,755 of its common shares. As a result, the Company owned 51.0% of the remaining common shares and acquired control of Holloway. Holloway is a hospitality company that owns and operates hotels and provides hotel management services to third parties. The transaction constituted a business combination in accordance with IFRS 3, *Business Combinations*. The Company acquired control without transferring consideration; therefore, total consideration used for the purpose of the purchase price allocation was $50,500 which was the fair value of the Clarke's investment in Holloway on the acquisition of control date using the last bid price. The cumulative unrealized gain of $14,233 was reversed and recognized as a realized gain. The Company previously recognized Holloway at FVTPL, therefore, the pre-acquisition net gain to the carrying value of the investment was nominal. As a result of this transaction, this business was accounted for as a non-wholly owned subsidiary of the Company and the results of the acquired business were consolidated with those of the Company from January 24, 2019, with the inclusion of a 49.0% non-controlling interest until September 30, 2019.

On August 8, 2019, the Company entered into a definitive agreement (the "Arrangement Agreement") pursuant to which the Company agreed to acquire all outstanding common shares of Holloway by way of a statutory plan of arrangement under the Ontario Business Corporations Act. Under the terms of the Arrangement Agreement, Holloway shareholders, other than the Company, received 0.65 common shares of Clarke Inc. for each Holloway common share they owned. On September 30, 2019, the Company completed the acquisition by issuing 4,799,455 common shares at a fair value of $59,993 for the non-controlling interest of Holloway. The difference between the common shares issued and the book value of the non-controlling interest in the amount of $6,356 was charged to contributed surplus.

Below was the purchase price allocation:

	$
Cash	906
Receivables	2,275
Inventories	440
Prepaid expenses and deposits	981
Property and equipment	286,766
Investment properties	2,525
Loans receivable	8,958
Other assets	533
Deferred income tax assets	7,685
Short-term indebtedness	(32,049)
Accounts payable and accrued liabilities	(7,182)
Accrued interest on convertible debentures	(714)
Share-based payment liability	(659)
Convertible debentures	(50,917)
Mortgages payable	(76,446)
Lease obligation	(734)
Non-controlling interest	(70,070)
Net assets acquired, at fair value	72,298

This acquisition of control resulted in a gain on a bargain purchase in the subsidiary of $21,798, which is included in the consolidated statements of earnings for the year ended December 31, 2019. Included in the consolidated statements of earnings for the year ended December 31, 2019 is revenue and other income of $74,600 and net income of $709 attributable to the additional business generated by Holloway. Had the acquisition occurred on January 1, 2019, revenue of the Company for the year ended December 31, 2019 would have been $128,129, and the net income of the Company for the year ended December 31, 2019 would have been $37,208. These pro-forma numbers represent an approximate measure of the performance of the combined group and provide a reference point for comparison in future periods.

27. SUBSEQUENT EVENTS

On January 21, 2021, the Company announced its intention to commence an SIB pursuant to which it would offer to purchase up to 1,150,000 of its outstanding Common Shares (or such greater number of common shares that the Company may determine it will take up and pay for) at a purchase price of $7.00 per share. The aggregate purchase price pursuant to the offer will be $8,050 if all common shares are purchased.

CLARKE

Clarke Inc.
Suite 106
145 Hobsons Lake Drive
Halifax, Nova Scotia
B3S 0H9

www.clarkeinc.com