CLARKE

Halifax, Canada

Quarterly Report
September 30, 2019 and 2018

Management's Discussion & Analysis

Clarke Inc.

September 30, 2019 and 2018

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 three and nine months ended September 30, 2019 compared with the three and nine months ended September 30, 2018. The following disclosures and associated unaudited interim condensed consolidated financial statements are presented in accordance with IAS 34, *Interim Financial Reporting*. This interim MD&A should be read in conjunction with the information disclosed within the interim condensed consolidated financial statements and notes thereto for the three and nine months ended September 30, 2019. This MD&A is prepared as at November 12, 2019 (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.

THIRD QUARTER REVIEW AND OUTLOOK

On August 9, 2019, we announced an agreement to acquire the 49% of Holloway Lodging Corporation ("Holloway") that we did not yet own. On September 30, 2019, we completed this acquisition by issuing 4,799,455 Common Shares at a price of $12.50 per share, which was the closing price of the Company's stock that day. We also assumed Holloway's $50.9 million of convertible debentures as part of the transaction.

In the third quarter of 2019, the Company's book value per share decreased by $0.53 or 3.6%. The decrease can be ascribed to a decrease in the value of our pension plan surplus, unrealized losses on our marketable securities and the issuance of Common Shares for the remaining shares of Holloway at less than the book value of our Common Shares. Our book value per Common Share at the end of the quarter was $14.26 while our Common Share price was $12.50.

Holloway Hotels

During the third quarter, Holloway Hotels sold seven hotels for gross proceeds of $41.3 million and net proceeds of $37.9 million after closing costs and the provision of vendor-takeback mortgages. Substantially all of the net proceeds were used to repay debt. At the end of the quarter, Holloway Hotels owned 18 hotels with 2,229 rooms and had third party debt of $56.8 million.

We expect the performance of Holloway Hotels' properties to continue to be impacted by a weak Western Canadian economy and weak oil and gas markets. Despite this headwind, Holloway Hotels has generated positive cash flow after all debt service and maintenance capex throughout the oil and gas downturn and we expect this to continue. In the meantime, we continue to see value-add opportunities within Holloway's property portfolio, including several rebranding and redevelopment opportunities.

Holloway Management Services

Holloway Management Services currently provides management services to 41 hotels, including 18 hotels owned by Holloway Hotels. We believe there is considerable opportunity to grow this business in the coming years, which will add a new cash flow stream to Clarke.

TerraVest Industries Inc.

Our view of Terravest remains the same as in recent periods. We believe Terravest can generate significant free cash flow and increase its EBITDA organically and through sensible acquisitions. We believe the company remains undervalued.

Trican Well Service Ltd.

Trican's share price continued to fall during the third quarter. Drilling activity in Western Canada is substantially below the prior two years and it is possible that this weak drilling environment persists for several years. In recent weeks, the investment community has adopted the view that US drilling activity will decline in coming quarters, which has only compounded the investment community's negative sentiment towards the oilfield services sector.

Despite this industry environment, we believe Trican will generate positive free cash flow this year and we expect it to do so again next year. Further cost reductions implemented in September will help. With minimal debt, Trican has the capacity to repurchase its shares while they trade so inexpensively. The company has been doing exactly that. Trican also has many non-core or non-operating assets that it could choose to sell and redeploy the proceeds to higher return uses.

We are not invested in Trican for the current quarter or next quarter. We are invested in Trican because we believe it is trading at an exceptionally low valuation, has a rock solid balance sheet that will allow it to weather this downturn, has a solid business franchise with significant operating leverage once industry conditions improve and has many alternatives to materially increase shareholder value. Patience will be required for this investment, but we believe we will be rewarded in due course. During the third quarter, we increased our ownership in Trican by 2.0%.

Real Estate

We currently own three vacant office buildings in Houston, TX (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. We also own a vacant parcel of land in Moncton, NB.

Corporate

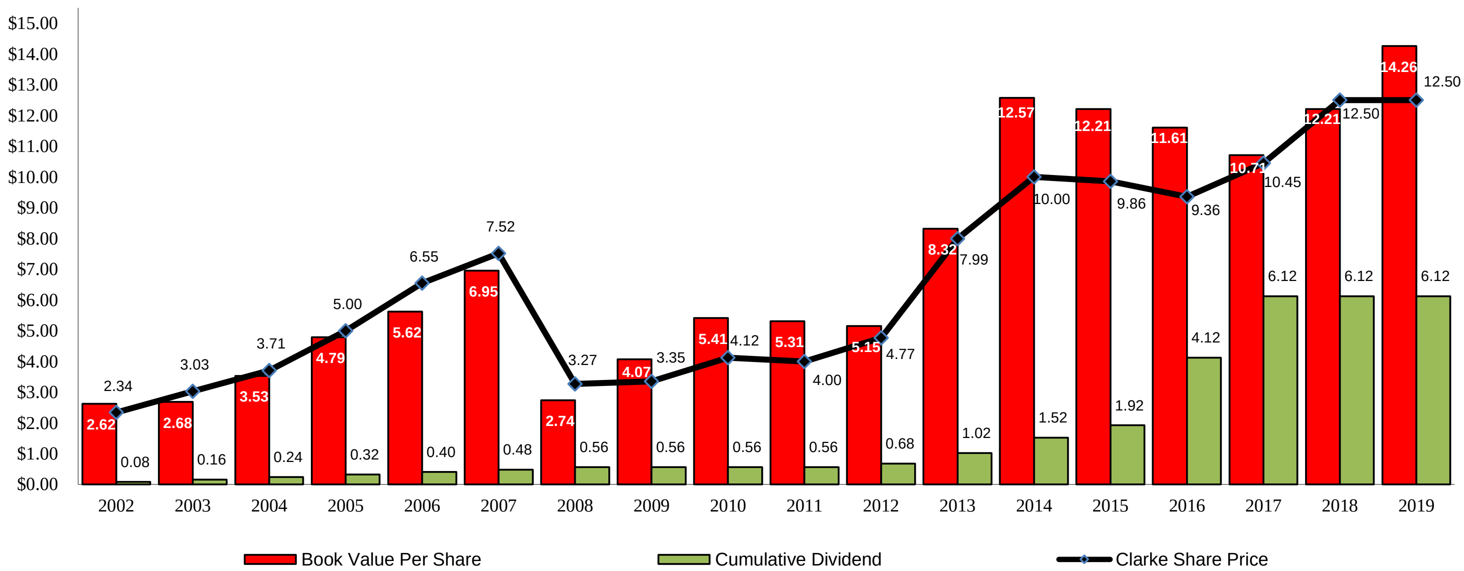
During the third quarter, we issued 4,799,455 Common Shares as part of our acquisition of Holloway. We also repurchased 230,600 Common Shares.

Our Common Shares currently trade below their book value. We do not believe this discount should persist. Our goals are to (1) increase our book value per share, and (2) close the gap between our share price and our book value per share by having our share price increase. Clarke's board and management are significant shareholders of the company, owning approximately 53% of the outstanding shares; we are aligned with our shareholders and are committed to generating attractive returns and compounding our capital.

We currently have $72 million of debt at the Clarke corporate level and $132 million of debt on a consolidated basis. We have availability under our corporate and subsidiary credit lines of $62 million. We are evaluating multiple investment opportunities that fit our investment criteria. We will be patient deploying our capital.

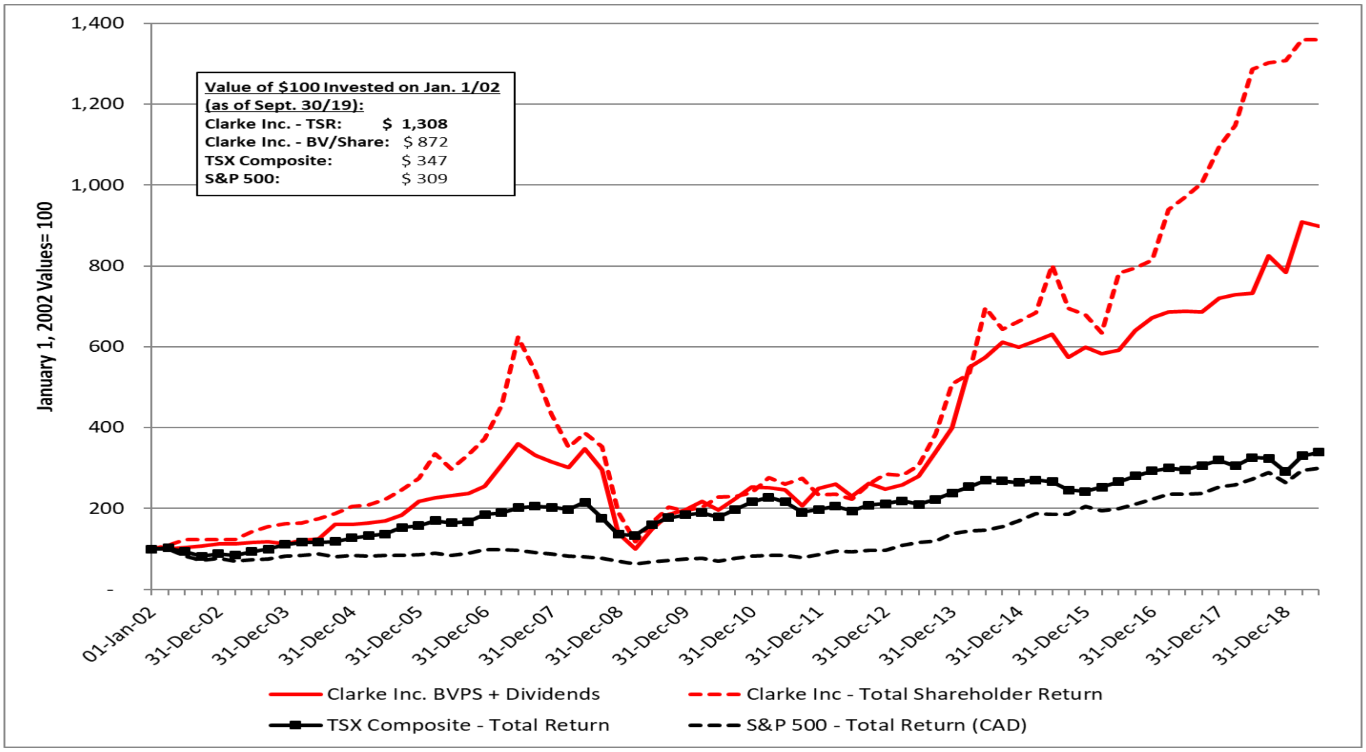
BOOK VALUE PER SHARE

The Company's book value per share at September 30, 2019 was $14.26, an increase of $2.05 per Common Share since December 31, 2018. 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 and as at September 30, 2019.*

The following graph compares the yearly change in the value of $100 invested since 2002 (the year the present Executive Chairman joined the Company) in (i) the TSX Composite Total Return Index, (ii) the S&P 500 Total Return Index, (iii) the Company based on its total shareholder return, and (iv) the Company based on the change in book value per share ("BVPS") and cumulative dividends paid.



Total shareholder return includes the reinvestment of dividends.

RESULTS OF OPERATIONS

Highlights of the interim condensed consolidated financial statements for the three and nine months ended September 30, 2019 compared to the three and nine months ended September 30, 2018 are as follows:

(in millions, except per share amounts)	**Three months ended September 30, 2019 $**	Three months ended September 30, 2018 $	**Nine months ended September 30, 2019 $**	Nine months ended September 30, 2018 $
Hotel and management services	**21.7**	—	**58.7**	—
Provision of services	**4.5**	4.1	**6.7**	6.0
Bargain purchase	—	—	**20.7**	—
Investment and other income (loss)*	**(4.9)**	4.5	**9.3**	8.4
Net income (loss) attributable to equity holders of the Company	**(2.9)**	6.2	**31.2**	9.2
Comprehensive income (loss) attributable to equity holders of the Company	**(3.3)**	27.4	**26.6**	30.6
Basic earnings (loss) per share ("EPS")	**(0.24)**	0.49	**2.58**	0.72
Diluted EPS	**(0.24)**	0.49	**2.56**	0.72
Total assets	**391.5**	180.2	**391.5**	180.2
Long-term financial liabilities	**95.3**	2.8	**95.3**	2.8
Book value per share	**14.26**	13.18	**14.26**	13.18

**Investment and other income (loss) include unrealized/realized gains/losses on investments, dividend and interest income, pension recovery/expense, losses on disposal of assets, and foreign exchange gains/losses.*

Net income (loss) attributable to equity holders of the Company for the three and nine months ended September 30, 2019 was ($2.9) million and $31.2 million, respectively, compared with 6.2 and $9.2 million for the same periods in 2018. During the three and nine months ended September 30, 2019, the Company had unrealized losses on its investments of $5.9 million and $5.2 million, respectively, compared to unrealized gains of $2.1 million and $1.7 million for the same periods in 2018. The Company had realized gains on its investments of nil and $12.5 million, respectively, for the three and nine months ended September 30, 2019, compared with $1.8 million and $4.0 million for the same periods in 2018.

SEGMENT REPORTING

The table below shows a breakdown by segment of the Company's holdings as at September 30, 2019 based on total assets. The Other category is not a segment and is disclosed for reconciliation purposes. It consists of owned real estate, our treasury and executive functions, and the results of our pension plans. No comparative period information is disclosed because the Company only had one operating segment as at December 31, 2018.

	September 30, 2019	
Segment	**$**	**%**
Investment	**106.0**	**27.1**
Hospitality	**257.1**	**65.7**
Other	**28.4**	**7.2**
Total	**391.5**	**100.0**

Investment segment

The Company owns securities and a ferry business. During the three and nine months ended September 30, 2019, the Investment segment had unrealized losses of $0.4 million and unrealized gains of $22.5 million compared to unrealized gains of $2.1 million and $1.7 million for the same periods in 2018. The Investment segment had realized losses on its investments of nil and $1.7 million for the three and nine months ended September 30, 2019 compared with gains of $1.8 million and $4.0 million for the same periods in 2018. The Company's equity holdings generated dividends of $0.5 million and $2.2 million in the three and nine months ended September 30, 2019 compared to $0.9 million and $2.8 million for the same periods in 2018.

The Company's securities portfolio consisted of the following investments:

	September 30, 2019				December 31, 2018			
	Shares	**Market Price $**	**Market value $'000**	**%**	Shares	Market Price $	Market value $'000	%
Energy Securities Portfolio	**N/A**	**N/A**	**33,154**	**32.0**	N/A	N/A	11,552	9.6
Holloway	—	—	—	—	7,952,715	6.30	50,102	41.7
Terravest	**5,386,440**	**13.08**	**70,455**	**68.0**	5,386,440	10.18	54,834	45.6
Keck Seng	—	—	—	—	4,292,000	0.86	3,686	3.1
Carrying value of securities			**103,609**	**100.0**			120,174	100.0

The breakdown of the change in the Company's securities portfolio is as follows:

	Nine months ended September 30, 2019 $
Securities – beginning of period	**120.2**
Purchases	**31.3**
Proceeds on sale	**(3.6)**
Net realized and unrealized gains on securities (net of foreign exchange losses on securities)	**20.6**
Reclassification of Holloway investment following the privatization	**(64.9)**
Securities – end of period	**103.6**

We continue to own a receivable of nominal value from a private equity fund, which is classified with our marketable securities for accounting purposes. We also own a passenger/car ferry operating on the St. Lawrence River under contract with the Government of Québec since 1973. There were no material developments with these assets during the quarter.

Hospitality segment

Holloway owns and operates hotels across Canada and provides hotel management services to third parties. In the first quarter of 2019, we began to consolidate Holloway's results into our own results after acquiring control by obtaining 51% of Holloway's outstanding shares. We acquired the remaining outstanding shares of Holloway on September 30, 2019 to increase our ownership to 100%. Holloway's results of operations at 100% for the three and nine months ended September 30, 2019 are below:

	Three months ended September 30, 2019 $	Nine months ended September 30, 2019 $
Hotel operations	**21.5**	**58.0**
Management services	**0.3**	**0.7**
Investment income	**0.3**	**0.1**
Total Revenue	**22.1**	**58.8**
Less:		
Hotel operating expenses	**15.8**	**44.3**
Selling costs on property and equipment sales	**1.5**	**2.7**
Insurance proceeds	**(0.3)**	**(1.2)**
Share-based payment expense	**—**	**0.4**
Depreciation and amortization	**3.0**	**9.1**
Interest expense	**1.9**	**5.8**
Income (loss) before income taxes	**0.2**	**(2.3)**

OUTSTANDING SHARE DATA

At November 12, 2019, the Company had:

- An unlimited number of Common Shares authorized and 16,594,484 Common Shares outstanding; and
- An unlimited number of First and Second Preferred Shares authorized and none outstanding.
- 250,000 options to acquire Common Shares outstanding, all of which are vested and exercisable.

LIQUIDITY AND CAPITAL RESOURCES

During the nine months ended September 30, 2019, the Company's net short term debt position (a non-IFRS measure representing short-term indebtedness net of cash and cash equivalents) increased $31.0 million and is $24.0 million as at September 30, 2019. This decrease in cash is a result of purchasing investments during the first three quarters combined with consolidating Holloway's short-term debt into our results.

Cash flow from operating activities

Cash provided by operating activities was $11.6 million for the nine months ended September 30, 2019, compared to $11.2 million for the same period in 2018. The cash from operating activities is driven mainly by the hospitality and ferry operations as well as the dividends and interest received during the period.

At September 30, 2019, working capital excluding securities was negative $34.2 million, compared to positive $6.2 million at December 31, 2018. 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 $24.3 million for the nine months ended September 30, 2019, compared to $2.4 million for the same period in 2018. Net cash provided by investing activities during the nine months ended September 30, 2019 was a result of proceeds from the sale of hotel properties of $66.7 million and the after-tax pension surplus distribution of $1.2 million, offset by net purchases of investments of $26.7 million, and the purchase of investment properties of $17.5 million. Net cash provided by investing activities during the same period in 2018 was mainly a result of an after-tax pension surplus distribution of $1.2 million, and proceeds of $1.7 million on the sale of a private equity investment.

Cash flow from financing activities

Cash used in financing activities was $40.0 million for the nine months ended September 30, 2019, compared to $20.3 million for the same period in 2018. Net cash used in financing activities during the period was related to the repayment of long-term debt of $25.9 million, the repurchase of Common Shares of $6.1 million, the settlement of Holloway's share-based liability of $1.1 million, and net repayments on short-term borrowings of $5.1 million. Net cash used in financing activities during the same period in 2018 was related to Common Share repurchases of $23.0 million and long-term debt repayments of $0.4 million, offset by long-term debt proceeds of $3.1 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	27.0	27.0	—	—	—
Convertible debentures	50.9	—	—	50.9	—
Long-term debt	53.9	10.5	39.6	2.4	1.4
Lease obligation	1.3	0.2	0.4	0.4	0.3
	133.1	37.7	40.0	53.7	1.7

The convertible debentures balance of $50.9 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 several investment 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. At September 30, 2019, $36.8 million was available under these facilities and $21.3 million was drawn on these facilities (December 31, 2018 – $20,000 and nil, respectively). Declines in the market value of pledged securities may have an adverse effect on the amount of credit available under these facilities. Additionally, Holloway has access to two revolving credit facilities. At September 30, 2019, $52.6 million was available under these facilities and $5.6 million was drawn on these facilities. In total, $62.5 million was available on all facilities at the end of September 30, 2019 in addition to amounts drawn. *(see note 11 to the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2019)*.

SUMMARY OF QUARTERLY RESULTS

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

Three months ended	Dec. 2017 $	Mar. 2018 $	Jun. 2018 $	Sep. 2018 $	Dec. 2018 $	Mar. 2019 $	Jun. 2019 $	Sep. 2019 $
Revenue and other income (loss)	3.1	3.5	2.8	8.8	(8.2)	55.7	20.5	21.3
Net income (loss)	(0.6)	2.1	0.9	6.2	(9.8)	36.5	0.6	(3.6)
Other comprehensive income (loss)	11.5	0.2	—	21.2	(2.4)	(0.8)	(3.5)	(0.4)
Comprehensive income (loss)	10.9	2.3	0.9	27.4	(12.2)	35.7	(2.9)	(4.0)
Basic EPS (in dollars)	(0.04)	0.16	0.07	0.49	(0.79)	3.06	(0.13)	(0.24)
Diluted EPS (in dollars)	(0.04)	0.16	0.07	0.49	(0.79)	3.04	(0.13)	(0.24)

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 "revenue" 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 value 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 over the last three quarters 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.

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, 5, 8, 11, 17 and 18 to the consolidated financial statements for the year ended December 31, 2018 and the Company's 2018 AIF, provide further information on classifications in the financial statements, and risks, pertaining to the use of financial instruments by the Company. Notes 2, 4, 5, 6, 11, 12, 13, 14 and 23 to the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2019 also provide further information on financial instruments acquired and assumed in the business combination with Holloway.

SIGNIFICANT EQUITY INVESTMENTS

In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company has determined that none of its investments qualify as significant equity investees. Holloway and Terravest were both previously disclosed as significant equity investees. Holloway no longer qualifies now that its financial results are consolidated with the Company, and Terravest no longer meets the quantitative thresholds for disclosure.

RELATED PARTY TRANSACTIONS

The Company was party to related party transactions during the nine months ended September 30, 2019. All related party transactions were in the normal course of operations and occurred at fair value. For full details of the Company's related party transactions, please refer to Note 16 of our consolidated financial statements for the year ended December 31, 2018 and Note 15 of our interim condensed consolidated financial statements for the three and nine months ended September 30, 2019.

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 of disclosure controls and procedures and the design 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. 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 Company's President & Chief Executive Officer and the Chief Financial Officer have limited the scope of design of internal controls over financial reporting for Holloway. This scope limitation is in accordance with National Instrument 52-109 section 3.3 (1) (b), which allows for an issuer to limit scope for a business it acquired not more than 365 days prior to the end of the fiscal period. Fair value of assets and liabilities upon acquisition is as stated in note 4 to the interim condensed consolidated financial statements. Summary financial information for the company as consolidated in the interim financial statements of Clarke as at September 30, 2019, is as follows:

	$
Total assets	**257.1**
Total liabilities	**67.2**
Revenue	**58.8**
Net loss	**(2.3)**

There have been no changes in the Company's disclosure controls and procedures or internal controls over financial reporting during the nine months ended September 30, 2019 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 within the past five years. 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.

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 attributable to equity holders 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.

September 30, 2019 and 2018

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (in thousands of Canadian dollars)

	September 30, 2019	December 31, 2018
	$	$
ASSETS		
Current		
Cash and cash equivalents	**2,945**	7,002
Marketable securities	**103,609**	120,174
Receivables *(note 5)*	**5,561**	750
Inventories	**296**	—
Income taxes receivable	—	55
Prepaid expenses	**1,496**	104
Current portion of loans receivable *(note 6)*	**4,175**	—
Total current assets	**118,082**	128,085
Accrued pension benefit asset *(note 7)*	**26,818**	34,666
Property and equipment *(note 8)*	**209,520**	777
Investment properties *(note 9)*	**19,971**	167
Loans receivable *(note 6)*	**4,428**	—
Deferred income tax assets	**12,342**	381
Other assets	**351**	—
Total assets	**391,512**	164,076
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Short-term indebtedness *(note 11)*	**26,979**	—
Accounts payable and accrued liabilities *(note 12)*	**9,553**	723
Income taxes payable	**283**	22
Accrued interest on convertible debentures	**1,325**	—
Current portion of long-term debt *(note 14)*	**10,546**	1,000
Total current liabilities	**48,686**	1,745
Convertible debentures *(note 13)*	**50,879**	—
Long-term debt *(note 14)*	**43,391**	2,444
Lease obligations *(note 3)*	**1,002**	—
Deferred income tax liabilities	**7,967**	9,894
Total liabilities	**151,925**	14,083
Contingencies and commitments *(note 17)*		
Shareholders' equity		
Share capital *(note 18)*	**98,276**	39,826
Contributed surplus *(note 4)*	**6,356**	—
Retained earnings	**97,630**	70,994
Accumulated other comprehensive income	**32,976**	37,628
Share-based payments	**1,545**	1,545
Total shareholders' equity attributable to equity holders of the Company	**236,783**	149,993
Non-controlling interest *(note 4)*	**2,804**	—
Total shareholders' equity	**239,587**	149,993
Total liabilities and shareholders' equity	**391,512**	164,076

See accompanying notes to the interim condensed consolidated financial statements

On behalf of the Board:

/s/ George Armoyan
Director

/s/ Blair Cook
Director

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF EARNINGS

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

	Three months ended September 30, 2019 $	Three months ended September 30, 2018 $	**Nine months ended September 30, 2019 $**	Nine months ended September 30, 2018 $
Revenue and other income				
Hotel and management services	**21,774**	—	**58,697**	—
Provision of services	**4,488**	4,105	**6,704**	6,040
Bargain purchase *(note 4)*	—	—	**20,694**	—
Investment and other income (loss) *(notes 15 and 19)*	**(4,942)**	4,493	**9,267**	8,449
	21,320	8,598	**95,362**	14,489
Expenses				
Hotel operating expenses *(note 20)*	**13,776**	—	**39,263**	—
Cost of services provided *(note 20)*	**1,337**	1,259	**3,369**	3,147
General and administrative expenses *(note 20)*	**1,449**	386	**3,017**	1,308
Property taxes and insurance *(note 20)*	**1,179**	—	**3,355**	—
Selling costs on property and equipment sales	**1,515**	—	**2,732**	—
Insurance proceeds, net of clean-up and other costs *(note 8)*	**(225)**	—	**(1,174)**	—
Share-based payment expense *(note 16)*	—	—	**445**	—
Depreciation	**3,028**	91	**9,366**	239
Interest expense and accretion on debt *(note 21)*	**2,178**	40	**6,415**	82
	24,237	1,776	**66,788**	4,776
Income (loss) before income taxes	**(2,917)**	6,822	**28,574**	9,713
Provision for (recovery of) income taxes *(note 10)*	**662**	678	**(3,262)**	523
Net income (loss)	**(3,579)**	6,144	**31,836**	9,190
Attributable to:				
Equity holders of the Company	**(2,852)**	6,144	**31,242**	9,190
Non-controlling interest	**(727)**	—	**594**	—
	(3,579)	6,144	**31,836**	9,190
Basic earnings (loss) per share attributable to equity holders of the Company: *(in dollars) (note 18)*	**(0.24)**	0.49	**2.58**	0.72
Diluted earnings (loss) per share attributable to equity holders of the Company: *(in dollars) (note 18)*	**(0.24)**	0.49	**2.56**	0.72

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Unaudited (in thousands of Canadian dollars)

	Three months ended September 30, 2019 $	Three months ended September 30, 2018 $	**Nine months ended September 30, 2019 $**	Nine months ended September 30, 2018 $
Net income (loss)	**(3,579)**	6,144	**31,836**	9,190
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss				
Remeasurement gains (losses) and effect of changes to asset ceiling on defined benefit pension plans, net of income tax recovery of $219 and $1,857 for the three and nine months ended September 30, 2019 (2018 – expense of $8,577 and $8,674) *(note 7)*	**(549)**	21,205	**(4,622)**	21,445
Items that may be reclassified subsequently to profit of loss				
Unrealized gains (losses) on translation of net investment in foreign operations, net of income tax expense of $44 and recovery of $48 for the three and nine months ended September 30, 2019 *(note 9)*	**183**	—	**(58)**	—
Other comprehensive income (loss)	**(366)**	21,205	**(4,680)**	21,445
Comprehensive income (loss)	**(3,945)**	27,349	**27,156**	30,635
Attributable to:				
Equity holders of the Company	**(3,308)**	27,349	**26,590**	30,635
Non-controlling interest	**(637)**	—	**566**	—
	(3,945)	27,349	**27,156**	30,635

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

	Nine months ended September 30, 2019 $	Nine months ended September 30, 2018 $
OPERATING ACTIVITIES		
Net income	**31,836**	9,190
Adjustments for items not involving cash *(note 22)*	**(19,372)**	(3,709)
	12,464	5,481
Net change in non-cash working capital balances *(note 22)*	**(890)**	5,739
Net cash provided by operating activities	**11,574**	11,220
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities *(note 15)*	**3,613**	4,139
Purchase of marketable securities	**(30,308)**	(3,867)
Proceeds on disposition of property and equipment	**66,663**	1
Purchase of property and equipment	**(3,835)**	(832)
Purchase of investment properties *(note 9)*	**(17,487)**	—
Proceeds on disposition of loan receivable	**4,588**	—
Distribution of pension plan surplus, net of tax *(note 7)*	**1,159**	1,216
Purchase of non-controlling interest	**(950)**	—
Cash acquired on business combination *(note 4)*	**906**	—
Proceeds on disposition of long-term investments	**—**	1,717
Other	**—**	61
Net cash provided by investing activities	**24,349**	2,435
FINANCING ACTIVITIES		
Repurchase of shares for cancellation *(note 18)*	**(6,149)**	(23,036)
Net repayments of short-term indebtedness	**(5,070)**	—
Proceeds of long-term debt	**—**	3,069
Repayment of long-term debt *(note 14)*	**(25,884)**	(366)
Settlement of share-based liability *(note 16)*	**(1,079)**	—
Principal payment of lease obligation	**(137)**	—
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	**(39,980)**	(20,333)
Net change in cash during the period	**(4,057)**	(6,678)
Cash and cash equivalents, beginning of period	**7,002**	20,773
Cash and cash equivalents, end of period	**2,945**	14,095

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Unaudited (in thousands of Canadian dollars)

	Nine months ended September 30, 2019 $	Nine months ended September 30, 2018 $
Share capital		
Common shares:		
Balance at beginning of period	**39,826**	47,330
Common shares repurchased for cancellation *(note 18)*	**(1,543)**	(7,007)
Common shares issued pursuant to an acquisition *(note 4)*	**59,993**	—
Balance at end of period	**98,276**	40,323
Contributed surplus		
Balance at beginning of period	**—**	—
Book value of non-controlling interest in excess of common shares issued as consideration *(note 4)*	**6,356**	—
Balance at end of period	**6,356**	—
Retained earnings		
Balance at beginning of period	**70,994**	89,010
Net income attributable to equity holders of the Company	**31,242**	9,190
Purchase price in excess of the book value of common shares repurchased for cancellation *(note 18)*	**(4,606)**	(16,029)
Balance at end of period	**97,630**	82,171
Accumulated other comprehensive income		
Balance at beginning of period	**37,628**	18,503
Other comprehensive income (loss) attributable to equity holders of the Company	**(4,652)**	21,445
Balance at end of period	**32,976**	39,948
Share-based payments		
Balance at beginning and end of period	**1,545**	1,545
Total shareholders' equity attributable to equity holders of the Company	**236,783**	163,987
Non-controlling interest		
Balance at beginning of period	**—**	—
Non-controlling interest acquired in a business combination *(note 4)*	**69,760**	—
Net income attributable to non-controlling interest	**594**	—
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 subsidiary *(note 4)*	**(65,886)**	—
Balance at end of period	**2,804**	—
Total shareholders' equity	**239,587**	163,987

See accompanying notes to the interim condensed 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 interim condensed consolidated financial statements were approved by the Board of Directors on November 12, 2019.

Basis of presentation and statement of compliance

These interim condensed consolidated financial statements for the three and nine months ended September 30, 2019, were prepared in accordance with IAS 34, *Interim Financial Reporting*. The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2018, except as described in notes 2 and 3. These interim condensed consolidated financial statements for the three and nine months ended September 30, 2019 should be read together with the annual consolidated financial statements for the year ended December 31, 2018.

Principles of consolidation

The interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries. The significant subsidiaries of the Company are CKI Holdings Partnership, Quinpool Holdings Partnership, 8590435 Canada Inc., La Traverse Rivière-du-Loup – St-Siméon Limitée and Holloway Lodging Corporation ("Holloway"). 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.

2. NEW ESTIMATES AND JUDGMENTS AND ACCOUNTING POLICIES RESULTING FROM BUSINESS COMBINATION

Estimates and judgments

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.

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.

2. NEW ESTIMATES AND JUDGMENTS AND ACCOUNTING POLICIES RESULTING FROM BUSINESS COMBINATION (CONT'D)

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;
- 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.

Accounting policies

Inventories

Inventories consist of linen, 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 interim consolidated statements of earnings.

Property and equipment

The accounting policy has remained the same for the Company's existing property and equipment classes of ferry and vessel dry dock costs and furniture, fixtures and equipment. Depreciation for the property and equipment acquired in the business combination 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 acquired in the business combination are as follows:

Property and equipment class	Useful life
Land lease	Term of the lease
Buildings and components	15 – 60 years
Furniture, fixtures, equipment and other	2 – 10 years
Right-of-use asset	Term of the lease

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

2. NEW ESTIMATES AND JUDGMENTS AND ACCOUNTING POLICIES RESULTING FROM BUSINESS COMBINATION (CONT'D)

As a result of the business combination on January 24, 2019, the Company changed its accounting policy for certain asset classes from the cost model to the revaluation model, 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 is by asset class, and as such, the Company has elected to change its land and buildings and components asset classes to the revaluation model. All other asset classes will continue 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 were recorded at fair value through the purchase price allocation (note 4). The Company did not own any land or buildings and components prior to the business combination, therefore, no additional revaluation was required.

The Company has elected 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 profit or loss.

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 and accumulated in revaluation surplus, except to the extent that they reverse a revaluation decrease previously charged to profit or loss, in which case the reversal is recorded in profit or loss. 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 profit or loss.

The Company uses a capitalized income internal model and considers hotel sales in comparable markets. The fair value models are prepared internally. Capitalization rates used are obtained from an independent third party. In the Company's internal models, each hotel's recent historical operating income is 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 reflect actual capital expenditures for a particular hotel. A capitalization rate specific to the market in which each hotel operates is applied to the operating income. In situations where a capitalized income value results in a fair value which differs significantly from the price per room metrics in recent market transactions, the Company uses 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.

These are level 3 fair value measurements under the fair value hierarchy. A key factor of estimation uncertainty used in the internal models was the capitalization rate, which ranged from 9.0% – 11.0%.

On the acquisition of control, 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 result in a change of $4,500 to property and equipment. If the value of the comparable hotel sales had been 5% higher/lower in the purchase price allocation, the estimated fair value would result in a change of $2,800 to property and equipment.

2. NEW ESTIMATES AND JUDGMENTS AND ACCOUNTING POLICIES RESULTING FROM BUSINESS COMBINATION (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. 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 profit or loss. Under the fair value model, investment properties are not depreciated. The investment properties acquired in the business combination were recorded at fair value through the purchase price allocation (note 4). 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 revaluation adjustment was required.

Share-based compensation

A subsidiary of the Company has a share option plan for certain employees and directors. The subsidiary accounts for share options using the fair value method. The subsidiary has a history of settling share options for cash, and as such, they are treated as a liability and are remeasured at each financial reporting date. The accounting policy has remained the same for the Company's existing share-based compensation plan.

Convertible debentures

The convertible debentures were assumed in the business combination and were recorded at their fair value through the purchase price allocation (note 4). Over the remaining term of the debentures, the liability will be subsequently measured at amortized cost using the effective interest rate method, with interest income included in investment and other income.

Revenue recognition

The accounting policy has remained the same for the Company's existing revenue streams. The following is the incremental revenue recognition policy following the business combination.

Hotel revenue

Hotel revenue is generated primarily 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.

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.

The Company determines the total transaction price, including an estimate of any variable consideration, at contract inception and reassesses this estimate at each reporting date using the most likely amount method.

2. NEW ESTIMATES AND JUDGMENTS AND ACCOUNTING POLICIES RESULTING FROM BUSINESS COMBINATION (CONT'D)

Loyalty programs

Loyalty programs administered by third-party hotel brands enable guests to earn credit for points redeemable for free accomodations 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.

Operating segments

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

Foreign currency translation

The Company's interim condensed 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.

The assets and liabilities of foreign operations 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.

3. ADOPTION OF NEW STANDARD

The following standard became applicable January 1, 2019 and the Company changed its accounting policy as a result of adopting the standard. No retrospective adjustment was necessary as a result of the new standard.

IFRS 16 *Leases*

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize: 1) assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value and 2) depreciation of lease assets separately from interest on lease liabilities on the statements of earnings. The Company assessed this new standard and there was no impact to the interim condensed consolidated financial statements from this adoption on January 1, 2019. As a result of the business combination on January 24, 2019, the Company acquired a right-of-use asset and assumed a corresponding lease obligation related to the subsidiary's head office space (note 4). The fair value of the asset on acquisition was $731 and is included in property and equipment. The fair value of the lease obligation assumed was $734. The current portion of the lease obligation is presented in accounts payable and accrued liabilities. During the three months ended September 30, 2019, the Company entered into a new lease agreement for a separate right-of-use asset in the amount of $413 and recorded a second lease obligation accordingly (note 8).

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

4. 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 constitutes a business combination in accordance with IFRS 3. 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 fair value through profit or loss, 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 have been consolidated with those of the Company from January 24, 2019, with the inclusion of a 49.0% non-controlling interest. Below is 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	**(71,174)**
Net assets acquired, at fair value	**71,194**

This acquisition of control resulted in a gain on a bargain purchase in the subsidiary of $20,694, which is included in the interim consolidated statement of earnings for the nine months ended September 30, 2019. The bargain purchase was reduced by $1,695 from the amount disclosed in the preliminary purchase price allocation for the three months ended March 31, 2019. The reduction was a result of new information obtained during the three months ended June 30, 2019 and three months ended September 30, 2019 related to the fair values of certain hotels. The other changes include a decrease to property and equipment of $740, an increase to the deferred income tax asset of $189, and an increase to non-controlling interest of $1,144.

Included in the interim consolidated statement of earnings for the three and nine months ended September 30, 2019 is revenue and other income of $22,101 and $59,454, respectively, and net a net loss of $1,528 and net income of $1,197, respectively, attributable to the additional business generated by Holloway. Had the acquisition occurred on January 1, 2019, revenue of the Company for the three and nine months ended September 30, 2019 would have been $19,379 and $99,845, respectively, and the net income (loss) of the Company for the three and nine months ended September 30, 2019 would have been ($4,993) and $28,567, respectively. 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.

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

4. BUSINESS COMBINATION (CONT'D)

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 own. 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 was charged to contributed surplus. The remaining non-controlling interest of $2,804 as at September 30, 2019 relates to a non-wholly-owned interest by Holloway in a hotel.

5. RECEIVABLES

	September 30, 2019 **$**	December 31, 2018 $
Trade receivables – net	**4,134**	62
Investment income receivable	**609**	616
Receivables from credit card companies	**386**	—
Other receivables	**432**	72
	5,561	750

6. LOANS RECEIVABLE

	September 30, 2019 **$**	December 31, 2018 $
Senior secured loan	**728**	—
Vendor take-back loans	**7,875**	—
	8,603	—
Less: Current portion	**(4,175)**	—
	4,428	—

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.

7. EMPLOYEE FUTURE BENEFITS

During the nine months ended September 30, 2019, the Company received a pre-tax distribution from one of its pension plans in the amount of $1,579 (2018 – $1,870) in accordance with the surplus withdrawal rules of the Quebec Supplemental Pension Plans Act.

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

	September 30, 2019 **$**	December 31, 2018 $
Fair value of plan assets	**81,163**	82,488
Accrued benefit obligation	**(54,345)**	(47,822)
Funded status of plans – accrued pension benefit asset	**26,818**	34,666

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

7. EMPLOYEE FUTURE BENEFITS (CONT'D)

The defined benefit pension recovery recognized in the interim consolidated statements of earnings for the three and nine months ended September 30, 2019 was $70 and $211, respectively (2018 – expense of $205 and $617, respectively).

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

	Three months ended September 30, 2019 $	Three months ended September 30, 2018 $	**Nine months ended September 30, 2019 $**	Nine months ended September 30, 2018 $
Net remeasurement gains (losses)	**(768)**	2,974	**(6,479)**	7,656
Change in amount of asset ceiling	**—**	26,808	**—**	22,463
Deferred income tax recovery (expense)	**219**	(8,577)	**1,857**	(8,674)
Defined benefit recovery (expense) recognized	**(549)**	21,205	**(4,622)**	21,445

Significant assumptions

	September 30, 2019 %	December 31, 2018 %
Accrued benefit obligation – discount rate	**2.95**	3.90
Benefit costs for the period – expected return on plan assets	**3.90**	3.40

8. PROPERTY AND EQUIPMENT

Nine months ended September 30, 2019	**Land $**	**Buildings and components $**	**Ferry and vessel dry dock costs $**	**Furniture, fixtures, equipment and other $**	**Right-of-use asset $**	**Renovations in progress $**	**Total $**
Beginning balance	—	—	763	14	—	—	777
Acquired in business combination	44,957	221,721	—	19,339	731	18	286,766
Additions	1,034	672	—	1,879	413	982	4,980
Disposals	(13,359)	(55,104)	—	(4,844)	—	(359)	(73,666)
Depreciation	—	(6,565)	(264)	(2,436)	(72)	—	(9,337)
Ending balance	**32,632**	**160,724**	**499**	**13,952**	**1,072**	**641**	**209,520**

Valuation	32,632	166,163	—	—	—	—	198,795
Cost	—	—	4,657	17,573	1,144	641	24,015
Accumulated depreciation	—	(5,439)	(4,158)	(3,621)	(72)	—	(13,290)
Net book value	**32,632**	**160,724**	**499**	**13,952**	**1,072**	**641**	**209,520**

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

8. PROPERTY AND EQUIPMENT (CONT'D)

The Super 8® in Yellowknife, NT and the Travelodge® in Sydney, NS were damaged due to a release of water into the hotels. These events resulted in insurance claims under the Company's insurance policy. The Company has incurred $1,048 on capital improvements to the hotels and has recorded $219 in business interruption insurance (included in investment and other income) and $1,174 in property and contents insurance, net of clean-up and other costs in the nine months ended September 30, 2019. The Company recorded a loss on disposal of $400 on the write-off of the building components that were damaged.

Disposals of property and equipment

Property	**Date**	**Gross proceeds $**	**Mortgage repayment $**	**Net cash proceeds $**
Days Inn®, Moncton, NB	March 6, 2019	9,000	3,624	4,056
Travelodge®, Moncton, NB	March 6, 2019	5,000	3,028	1,790
Single tenant property, Timmins, ON	March 18, 2019	1,725	—	1,648
Super 8®, Windsor, NS	March 28, 2019	5,300	2,157	2,452
Super 8®, Timmins, ON	June 18, 2019	6,500	—	5,279
Travelodge®, Timmins, ON	June 18, 2019	4,900	—	4,734
Travelodge®, Sydney, NS	July 25, 2019	5,050	3,030	1,809
Super 8®, Truro, NS	August 6, 2019	3,000	1,800	1,063
Airlane, Thunder Bay, ON	August 22, 2019	9,000	—	7,655
Travelodge®, Thunder Bay, ON	August 22, 2019	6,000	—	5,794
Holiday Inn Express®, Stellarton, NS	September 19, 2019	11,308	4,437	5,688
Travelodge®, New Glasgow, NS	September 19, 2019	2,692	2,000	600
Travelodge®, Saint John, NB	September 30, 2019	4,200	2,670	1,349
		73,675	**22,746**	**43,917**

9. INVESTMENT PROPERTIES

	Buildings $	**Vacant land $**	**Total $**
January 1, 2018	—	167	167
Additions	—	—	—
December 31, 2018	—	167	167
Acquired in business combination	2,525	—	2,525
Additions	17,487	—	17,487
Foreign exchange impact	(208)	—	(208)
Carrying value – September 30, 2019	**19,804**	**167**	**19,971**

On January 24, 2019, the Company acquired through the Holloway business combination (note 4) a hotel which is leased, on a triple net basis, to a third party under a lease agreement. The lease expires on January 15, 2021 and includes an option for the lessee to acquire the hotel at any time during the lease period.

On January 30, 2019, the Company purchased a non-performing US dollar loan receivable, secured by an office building, for US$4,800. On March 5, 2019, the Company foreclosed on the office building. On May 24, 2019, the Company purchased two office buildings in Houston, TX, for US$8,275. The functional currency of these foreign operations is the US dollar.

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

10. INCOME TAXES

The recovery of income taxes for the three and nine months ended September 30 consists of:

Interim consolidated statements of earnings	**Three months ended September 30, 2019 $**	Three months ended September 30, 2018 $	**Nine months ended September 30, 2019 $**	Nine months ended September 30, 2018 $
Current income tax				
Current income tax charge	**754**	669	**1,059**	(1,399)
Adjustments in respect of current income tax of previous period	**—**	—	**(31)**	328
Deferred income tax				
Relating to origination and reversal of temporary differences	**1,008**	825	**1,117**	2,131
Relating to the benefit of a previously unrecognized deferred income tax asset	**—**	—	**(2,862)**	—
Relating to the change in recoverable amount of a deferred income tax asset	**(1,100)**	(816)	**(2,545)**	(537)
Provision for (recovery of) income taxes	**662**	678	**(3,262)**	523

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

	Three months ended September 30, 2019 $	Three months ended September 30, 2018 $	**Nine months ended September 30, 2019 $**	Nine months ended September 30, 2018 $
Provision for income taxes at statutory rate of 28.53% (2018 – 28.80%)	**(832)**	1,965	**8,152**	2,797
Increase (decrease) from statutory rate:				
Effect of difference in statutory rates of subsidiaries	**58**	(41)	**32**	618
Non-taxable component of realized and unrealized losses (gains)	**1,962**	(185)	**(6,474)**	(960)
Non-taxable dividend income	**(182)**	(241)	**(503)**	(1,436)
Non-deductible expenses	**5**	—	**166**	1
Benefit of previously unrecognized deferred income tax asset	**—**	—	**(2,862)**	—
Change in recoverable amount of deferred income tax asset	**(1,101)**	(816)	**(2,546)**	(537)
Tax rate difference on originated temporary differences	**650**	—	**650**	—
Other	**102**	(4)	**123**	40
Provision for (recovery of) income taxes at effective rate	**662**	678	**(3,262)**	523

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

11. SHORT-TERM INDEBTEDNESS

The Company 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 3.95% at September 30, 2019 (December 31, 2018 – 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 5.25% at September 30, 2019 (December 31, 2018 – 5.50%). The Company had drawn nil on the Canadian dollar and US dollar facilities, respectively, at September 30, 2019 and December 31, 2018.

The Company also has a demand revolving loan of $40,000 secured by marketable securities. The interest rate for the demand revolving loan was 4.70% at September 30, 2019 (December 31, 2018 – 4.70%). The Company had drawn $21,345 on the demand revolving loan at September 30, 2019 and nil at December 31, 2018. The short-term loan facility is subject to restrictive covenants and security arrangements. There are restrictive covenants for the Company that are governed by a minimum current ratio (1.20:1.00) and maximum adjusted tangible net worth ratio (1.25:1.00). For the three and nine months ended September 30, 2019, all of the restrictive covenants were met for the Company's primary short-term facilities. The Company has unrestricted access to its credit facilities subject to pledging sufficient securities as collateral. Any decline in the fair value of securities within the portfolio may limit the Company's access to the full amount of the short-term facilities.

On January 24, 2019, the Company assumed credit facilities with two Canadian chartered banks through the Holloway business combination (note 4). The first credit facility has a maximum borrowing capacity at September 30, 2019 of $31,631. This credit facility's availability is determined by a borrowing base calculation and bears interest at prime plus 1.25% or based on a spread to banker's acceptance. At September 30, 2019, the Company had drawn $5,634 on this facility. This facility is secured by a registered charge on five hotel properties, is subject to an annual review and has no set expiry. The second credit facility has a maximum borrowing capacity of $21,000. This credit facility bears interest at prime plus 1.50%. At September 30, 2019, the Company had drawn nil on this facility. This facility is secured by a registered charge on five hotel properties, is subject to an annual review and matures in May 2022. Each individual draw must be repaid within one year.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2019 **$**	December 31, 2018 $
Trade payables	**3,727**	121
Accrued liabilities	**5,465**	602
Investment purchases	**361**	—
	9,553	723

13. CONVERTIBLE DEBENTURES

The change in the convertible debenture balance is summarized as follows:

	September 30, 2019 **$**
Fair value assumed on business combination	**50,917**
Amortization of fair value increment	**(38)**
Ending balance	**50,879**

13. CONVERTIBLE DEBENTURES (CONT'D)

On January 24, 2019, the Company assumed convertible debentures through the Holloway business combination with a fair value of $50,917 (note 4). 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 and except, for the 60 days following the effective date of the debenture amendments, to allow the subsidiary to redeem up to 10% of the aggregate principal amount, being approximately $5,087 aggregate principal amount, of the Debentures at a price equal to the principal amount thereof, plus accrued and unpaid interest. 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 52 Clarke common shares per $1,000 principal amount of the Debentures (amount not in thousands) at a conversion price of $19.23 per Clarke common share.

The Debentures bear interest at 6.25% payable semi-annually on April 30th and October 31st and have a face value of $50,866 at September 30, 2019. The Company has the option to repay the principal amount of the debentures at maturity or redeem the debentures, in whole or in part, not earlier than June 1, 2020 in cash or by issuing common shares of the Company ("Redemption Option"). 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).

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 expires on January 24, 2020.

14. LONG-TERM DEBT

	September 30, 2019	December 31, 2018
	$	$
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 1.00% (5.05% as at September 30, 2019 and December 31, 2018), secured by fixed charge against ferry, *MV Trans-Saint-Laurent*, machinery, tools, vehicles, and intellectual property, with a carrying value of $507.	**2,778**	3,444
Mortgages payable, assumed in a business combination (note 4), with a face value of $50,388, bearing interest at a weighted average rate of 4.90% and maturing on various dates from December 2019 to September 2029. Individual first charges on 11 hotel properties with a carrying value of $137,429 have been pledged as security for individual mortgages.	**51,159**	—
Total long-term debt	**53,937**	3,444
Less: current portion of long-term debt	**(10,546)**	(1,000)
Long-term portion	**43,391**	2,444

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

14. LONG-TERM DEBT (CONT'D)

The following table summarizes significant changes in long-term debt

	September 30, 2019 **$**	December 31, 2018 $
Total long-term debt – beginning balance	**3,444**	1,075
Assumed in business combination	**76,446**	—
Proceeds from long-term debt	**—**	3,069
Repayment of long-term debt	**(25,884)**	(700)
Accretion of deferred financing fees	**254**	—
Amortization of fair value increment	**(323)**	—
Total long-term debt – ending balance	**53,937**	3,444

15. RELATED PARTY DISCLOSURES

The Company was a party to rental agreements, information technology and tax services agreements with companies owned or partially owned by the Executive Chairman and his immediate family member. Included in *'General and administrative expenses'* for the three and nine months ended September 30, 2019, is rental, IT and tax services expenses of $142 and $350, respectively (2018 – $16 and $90, respectively) under the agreements.

During the nine months ended September 30, 2019, the Company sold marketable securities through the facilities of the Hong Kong Stock Exchange to the Clarke Inc. Master Trust (the "Master Trust"), which holds the units of the pension plans administered by the Company. The sale was made for investment purposes and the Company received net proceeds of $3,613. Also, during the nine months ended September 30, 2019, Holloway purchased securities 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, Holloway transferred the securities to the Company by way of a dividend, and the common shares were cancelled.

16. SHARE-BASED LIABILITY

On January 24, 2019, the Company assumed a share-based liability through the Holloway business combination (note 4). 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 the nine months ended September 30, 2019.

The following table summarizes the changes in the share-based liability for the nine months ended September 30, 2019:

	September 30, 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. CONTINGENCIES AND COMMITMENTS

As a result of the business combination during the nine months ended September 30, 2019, the Company has the following new contingencies and commitments through its subsidiary:

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.

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 17 of the 18 hotels owned by the Company at September 30, 2019. The franchise fees paid to franchisors for all but two hotels are calculated based on a percentage of revenue, with two hotels' fees being based on fixed annual charges.

18. SHARE CAPITAL AND EARNINGS PER SHARE

	September 30, 2019		December 31, 2018	
	# of shares	**$**	# of shares	$
Common shares				
Outstanding common shares, beginning of period	**12,285,888**	**39,826**	14,600,967	47,330
Common shares repurchased for cancellation	**(476,059)**	**(1,543)**	(2,315,079)	(7,504)
Common shares issued pursuant to an acquisition	**4,799,455**	**59,993**	—	—
Outstanding common shares, end of period	**16,609,284**	**98,276**	12,285,888	39,826

Earnings per share

The following table reconciles the basic and diluted per share computations from continuing operations attributable to equity holders of the Company:

	Three months ended September 30, 2019			Three months ended September 30, 2018		
	Loss **$**	**Weighted average shares (in thousands)** **#**	**Per share amount** **$**	Earnings $	Weighted average shares (in thousands) #	Per share amount $
Basic earnings (loss) per share	**(2,852)**	**12,063**	**(0.24)**	6,144	12,478	0.49
Common shares issued on assumed exercising of stock options	—	—		—	86	
Diluted earnings (loss) per share	**(2,852)**	**12,063**	**(0.24)**	6,144	12,564	0.49

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

	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
	Earnings **$**	**Weighted average shares (in thousands)** **#**	**Per share amount** **$**	Earnings $	Weighted average shares (in thousands) #	Per share amount $
Basic earnings per share	**31,242**	**12,106**	**2.58**	9,190	12,734	0.72
Common shares issued on assumed exercising of stock options	**—**	**91**		—	62	
Interest, net of income taxes, on assumed conversion of convertible debentures	**6**	**10**		—	—	
Diluted earnings per share	**31,248**	**12,207**	**2.56**	9,190	12,796	0.72

All potentially dilutive securities issued relate to stock options and convertible debentures for the three and nine months ended September 30, 2019 and stock options for the three and nine months ended September 30, 2018. The stock options and convertible debentures were dilutive for the nine months ended September 30, 2019, and the stock options were dilutive for the three and nine months ended September 30, 2018. The stock options and convertible debentures were anti-dilutive for the three months ended September 30, 2019.

In the nine months ended September 30, 2019, the Company purchased for cancellation 476,059 (2018 – 310,100) common shares at a cost of $6,149 (2018 – $3,594). The purchase price in excess of the historical book value of the shares in the amount of $4,606 (2018 – $2,589) has been charged to retained earnings and $1,543 (2018 – $1,005) has been charged to share capital.

During the nine months ended September 30, 2018, the Company purchased for cancellation 1,851,579 common shares under a SIB at a cost of $19,442. The purchase price in excess of the historical book value of the shares in the amount of $13,440 has been charged to retained earnings and $6,002 has been charged to share capital.

19. INVESTMENT AND OTHER INCOME (LOSS)

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

	Three months ended September 30, 2019 **$**	Three months ended September 30, 2018 $	**Nine months ended September 30, 2019** **$**	Nine months ended September 30, 2018 $
Unrealized gains (losses) on investments	**(5,904)**	2,108	**(5,181)**	1,672
Realized gains on investments	**—**	1,787	**12,519**	4,057
Dividend income	**549**	896	**1,660**	2,812
Interest income	**311**	60	**783**	110
Pension recovery (expense) *(note 7)*	**70**	(205)	**211**	(617)
Loss on disposal of assets *(notes 6 and 8)*	**(2)**	—	**(529)**	—
Foreign exchange gains (losses)	**34**	(153)	**(196)**	415
	(4,942)	4,493	**9,267**	8,449

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

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:

	Three months ended September 30, 2019	Three months ended September 30, 2018	**Nine months ended September 30, 2019**	Nine months ended September 30, 2018
	$	$	**$**	$
Salaries, wages and employee benefits	**8,074**	1,098	**22,781**	2,474
Materials, supplies, repairs and utilities	**4,117**	182	**12,005**	917
Food, beverage and service costs	**1,223**	84	**3,342**	133
Royalty and franchise fees	**1,108**	—	**2,957**	—
Property taxes	**961**	2	**2,759**	5
Other general and administrative	**982**	198	**2,606**	619
Legal, audit and other professional consulting fees	**851**	63	**1,292**	249
Information technology and support	**227**	2	**666**	11
Insurance	**198**	16	**596**	47
	17,741	1,645	**49,004**	4,455

21. INTEREST EXPENSE

Interest expense is comprised of the following:

	Three months ended September 30, 2019	Three months ended September 30, 2018	**Nine months ended September 30, 2019**	Nine months ended September 30, 2018
	$	$	**$**	$
Interest on short-term indebtedness	**528**	—	**1,637**	6
Interest on long-term debt and convertible debentures	**1,557**	40	**4,524**	76
Accretion of long-term debt *(note 14)*	**93**	—	**254**	—
	2,178	40	**6,415**	82

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

22. SUPPLEMENTAL CASH FLOW INFORMATION

Adjustments for items not involving cash	**Nine months ended September 30, 2019 $**	Nine months ended September 30, 2018 $
Realized/unrealized gains on investments *(note 19)*	**(7,338)**	(5,729)
Bargain purchase gain *(note 4)*	**(20,694)**	—
Depreciation	**9,366**	239
Selling costs on property and equipment sales	**2,732**	—
Deferred income tax expense (recovery) *(note 10)*	**(4,290)**	1,594
Share-based payment expense *(note 16)*	**445**	—
Amortization of fair value increment on convertible debentures and long-term debt *(notes 13 and 14)*	**(361)**	—
Accretion on debt *(note 14)*	**254**	—
Unrealized foreign exchange losses (gains)	**196**	(430)
Pension expense (recovery) *(note 7)*	**(211)**	617
Loss on disposal of assets *(note 19)*	**529**	—
	(19,372)	(3,709)

Net changes in non-cash working capital balances	**Nine months ended September 30, 2019 $**	Nine months ended September 30, 2018 $
Receivables	**(2,536)**	(141)
Inventories	**144**	—
Income taxes receivable	**475**	6,364
Prepaid expenses	**(411)**	(53)
Accounts payable and accrued liabilities	**566**	(461)
Income taxes payable	**261**	30
Accrued interest on convertible debentures	**611**	—
	(890)	5,739

23. FINANCIAL INSTRUMENTS

The Company’s financial instruments at September 30, 2019 and December 31, 2018 included cash and cash equivalents, marketable securities, receivables, loans receivable, short-term indebtedness, accounts payable and accrued liabilities, convertible debentures (including accrued interest), long-term debt, and lease obligations. All of the Company’s financial instruments are classified at amortized cost, with the exception of marketable securities, which are classified at fair value through profit or loss.

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, long-term debt and lease obligations is not material given that the liabilities were assumed at fair value through the purchase price allocation during the 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.

23. FINANCIAL INSTRUMENTS (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.

Convertible debentures

The convertible debentures have two components of value: the conventional debentures and the Redemption Option (note 13). The fair value of the convertible debentures is based on the quoted market price for the debentures of the subsidiary on the date of assumption. The Redemption Option has been accounted for as an embedded derivative that is required to be bifurcated from the underlying debentures, valued using an option pricing model and accounted for as a financial asset with the amount of any Redemption Option being added to the carrying value of the convertible debentures. Any change in the fair value of the Redemption Option is recorded in interest and accretion on debt in the consolidated statements of earnings. The Redemption Option was nil as at September 30, 2019.

Share-based payment liability

The fair value is determined using the quoted market price for the shares of the subsidiary, 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 base on the historical share price. The share-based payment liability was nil as at September 30, 2019.

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 financial instruments carried at fair value on the interim consolidated statements of financial position:

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

23. FINANCIAL INSTRUMENTS (CONT'D)

		Fair Value at June 30, 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	**103,609**	**103,609**	**—**	**—**

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 interim 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 interim 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**
$	**%**	**$**	**$**
103,609	**10% increase**	**113,970**	**8,882**
103,609	**10% decrease**	**93,248**	**(8,882)**

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.

23. FINANCIAL INSTRUMENTS (CONT'D)

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 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 is 4.90% with a weighted average maturity of 3 years.

The Company has several term loans, mortgages and revolving credit facilities at floating rates. At September 30, 2019, the after-tax net income effect of a 1% change in interest rates would have been $374 on floating rate debt of $52,305

Foreign exchange risk

Foreign exchange risk refers to the risk that values of financial assets and liabilities denominated in foreign currencies in the interim consolidated statements of financial position of the Company will vary as a result of changes in underlying foreign exchange rates.

The Company has investments throughout North America, and as such is exposed to movements in the US/Canadian exchange rate. At September 30, 2019, the effect of a 20% change in the US/Canadian exchange rate on after-tax consolidated net income would have been $380 based on a US net asset balance of US$2,006.

The Company manages its exposure to foreign exchange risk by entering into foreign exchange contracts. At September 30, 2019 and 2018, the Company did not have any forward contracts outstanding to sell US dollars.

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. The Company does not believe it is subject to any significant concentration of credit risk.

The amount of receivables presented on the interim consolidated statements of financial position of $5,561 is net of an expected loss allowance. 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 eight loans receivable in the amount of $8,603 obtained through the respective sales of previously owned assets. There is no loss allowance recorded on the loans receivable, as they are expected to be negligible.

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 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 in head office. At September 30, 2019, the Company had cash of $2,945 and available unused facilities totalling $62,457

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

23. FINANCIAL INSTRUMENTS (CONT'D)

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	**26,979**	—	—	—
Accounts payable and accrued liabilities	**9,553**	—	—	—
Convertible debentures interest	**3,179**	**6,358**	**2,650**	—
Convertible debentures	—	—	**50,866**	—
Long-term debt	**10,546**	**39,550**	**2,380**	**1,220**
Interest on long-term debt	**2,314**	**3,580**	**197**	**259**
	52,571	**49,488**	**56,093**	**1,479**

24. SEGMENTED INFORMATION

The Company operates in two reportable business segments following the business combination during the nine months ended September 30, 2019. The existing Investment segment represents the Company's marketable securities portfolio, consisting of publicly traded equity securities at fair value through profit or loss, and the Company's ferry business. The Hospitality segment consists of the Company's ownership and operation of hotels and the provision of hotel management services to third parties. The Other category is not a segment and is disclosed for reconciliation purposes. The Other category consists of owned real estate, our treasury and executive functions, and the results of our pension plans. Revenue from external customers earned in the Other category pertains to management service fees and rental income.

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.

The Company operates predominantly in Canada, with the exception of three investment properties in the United States (note 9). For the three and nine months ended September 30, 2019, hotel revenue and provision of services was all generated by continuing operations in Canada.

Three months ended September 30, 2019	Investment $	Hospitality $	Other $	Eliminations $	Total $
Revenue and other income:					
Hotel revenue and provision of services	**4,315**	**21,774**	**191**	**(18)**	**26,262**
Investment and other income	**2,460**	**317**	**96**	**(7,815)**	**(4,942)**
	6,775	**22,091**	**287**	**(7,833)**	**21,320**
Operating expenses before the undernoted	**1,580**	**15,773**	**406**	**(18)**	**17,741**
Selling costs on property and equipment sales	—	**1,515**	—	—	**1,515**
Net insurance proceeds	—	**(225)**	—	—	**(225)**
Depreciation and amortization	**89**	**2,926**	**13**	—	**3,028**
Interest expense	**39**	**1,944**	**195**	—	**2,178**
Income (loss) before income taxes	**5,067**	**158**	**(327)**	**(7,815)**	**(2,917)**

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

24. SEGMENTED INFORMATION (CONT'D)

Nine months ended September 30, 2019	Investment $	Hospitality $	Other $	Eliminations $	Total $
Revenue and other income:					
Hotel revenue and provision of services	**6,206**	**58,697**	**548**	**(50)**	**65,401**
Bargain purchase gain	**20,694**	**—**	**—**	**—**	**20,694**
Investment and other income	**25,323**	**129**	**140**	**(16,325)**	**9,267**
	52,223	**58,826**	**688**	**(16,375)**	**95,362**
Operating expenses before the undernoted	**3,671**	**44,299**	**1,084**	**(50)**	**49,004**
Selling costs on property and equipment sales	**—**	**2,732**	**—**	**—**	**2,732**
Net insurance proceeds	**—**	**(1,174)**	**—**	**—**	**(1,174)**
Share-based payment expense	**—**	**445**	**—**	**—**	**445**
Depreciation and amortization	**266**	**9,086**	**14**	**—**	**9,366**
Interest expense	**123**	**5,818**	**474**	**—**	**6,415**
Income (loss) before income taxes	**48,163**	**(2,380)**	**(884)**	**(16,325)**	**28,574**
Assets	**106,051**	**257,089**	**28,382**	**(10)**	**391,512**
Liabilities	**3,694**	**67,174**	**81,067**	**(10)**	**151,925**
Capital expenditures *(note 8)*	**—**	**4,572**	**408**	**—**	**4,980**
Assets located outside of Canada *(note 9)*	**—**	**17,279**	**—**	**—**	**17,279**

Clarke Inc.
Suite 405
145 Hobsons Lake Dr.
Halifax, Nova Scotia
B3S 0H9

www.clarkeinc.com