CLARKE

Halifax, Canada

Quarterly Report
June 30, 2020 and 2019

Management's Discussion & Analysis

Clarke Inc.

June 30, 2020 and 2019

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion & Analysis ("MD&A") presents management's view of the financial position and performance of Clarke Inc. ("Clarke" or the "Company") for the three and six months ended June 30, 2020 compared with the three and six months ended June 30, 2019. The following information is derived from the Company's unaudited interim condensed consolidated financial statements which are prepared 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 six months ended June 30, 2020, available on SEDAR at www.sedar.com. This MD&A provides an overall discussion, followed by analyses of the performance of the Company's major investments. The MD&A is prepared as at August 11, 2020 (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.

SECOND QUARTER REVIEW AND OUTLOOK

During the second quarter of 2020, the Company's book value per Common Share increased by $0.34 or 4.2%. The increase can primarily be ascribed to (i) unrealized gains on our marketable securities in the amount of $12.9 million, or $0.80 per Common Share, (ii) a decrease in the after-tax value of our pension plan surplus in the amount of $1.9 million, or $0.12 per Common Share, and (iii) losses in our operating businesses and corporate overhead in an amount of $6.0 million, or $0.37 per Common Share. Our book value per Common Share at the end of the second quarter was $8.41 while our Common Share price was $5.25.

COVID-19

The spread of COVID-19, consumer and business perceptions of the danger of COVID-19 and Canadian and provincial government responses to COVID-19 have affected Clarke materially and adversely during the first two quarters of 2020. Oil prices collapsed, impacting oil and gas producer capex budgets and, therefore, Trican Well Service Ltd. ("Trican"). Business and leisure travel collapsed, impacting Holloway Lodging Corporation ("Holloway"). Even day-to-day commuting and travel collapsed, which impacted Clarke's ferry business, including a five and half week postponement to the opening of the season.

At some point, business lockdowns and travel bans will be lifted, economic activity will resume, and our businesses will recover. But, when this occurs and how long it takes for business levels to normalize remain highly uncertain. In mid-March, as the impact of COVID-19 on business levels became apparent, we took immediate and drastic action at our businesses to safeguard employee and customer safety, ensure financial liquidity, reduce and/or defer expenses and minimize cash burn. Although we believe the impact of COVID-19 will be temporary, we expect to generate negative cash flow at Holloway, and our ferry business until the economy "opens up" again. The world will need energy once again, a large portion of this will be provided from oil or natural gas and Trican will be best positioned in Canada to help oil and gas producers complete their wells. People will still want or need to travel, and Holloway will accommodate guests. And cars, trucks and passengers will need to cross the St. Lawrence River and our ferry operation will remain an efficient way of doing so.

Holloway Lodging Corporation

The last four months have been a very challenging operating environment. We are hopeful that the worst of the downturn is behind us, however there is still significant uncertainty throughout the economy, and particularly in both the tourism and hospitality sectors.

The gradual easing of regional travel restrictions and some provinces permitting larger gatherings should have a positive impact on our business. Toward the end of the second quarter, and since, we have seen small signs of improvement. More companies are allowing their employees to travel, hospitals are expanding services they had previously curtailed and Canadians are vacationing at home. While these are all positive signs, the return to normal levels of demand remains distant. Certain travel and quarantine restrictions – particularly in the Atlantic provinces and the Territories – are continuing to impact travel within Canada.

We continue to work on the pre-construction phase of the redevelopment of our Ottawa hotel site and are evaluating several potential renovation, rebranding, and repurposing opportunities.

Trican Well Service Ltd.

The second quarter of 2020 was one we would all like to forget. The combined impact of COVID-19 and the Saudi/Russia price war led to some truly dismal results. From negative WTI pricing to rig and spread counts in complete free fall, 2020 is proving to be an extremely unpredictable and challenging year.

These difficult times only serve to reinforce our view on Trican. The company’s strong balance sheet shines all the brighter while some competitors struggle to remain solvent. We have said before that consolidation or bankruptcy may be required to improve industry fundamentals, and we are starting to see this materialize.

Although we still believe Trican to be significantly undervalued, we note that its stock price has recovered more quickly than competitors since the March decline. Perhaps this is a sign that the market is starting to see some of the value that we see in this company.

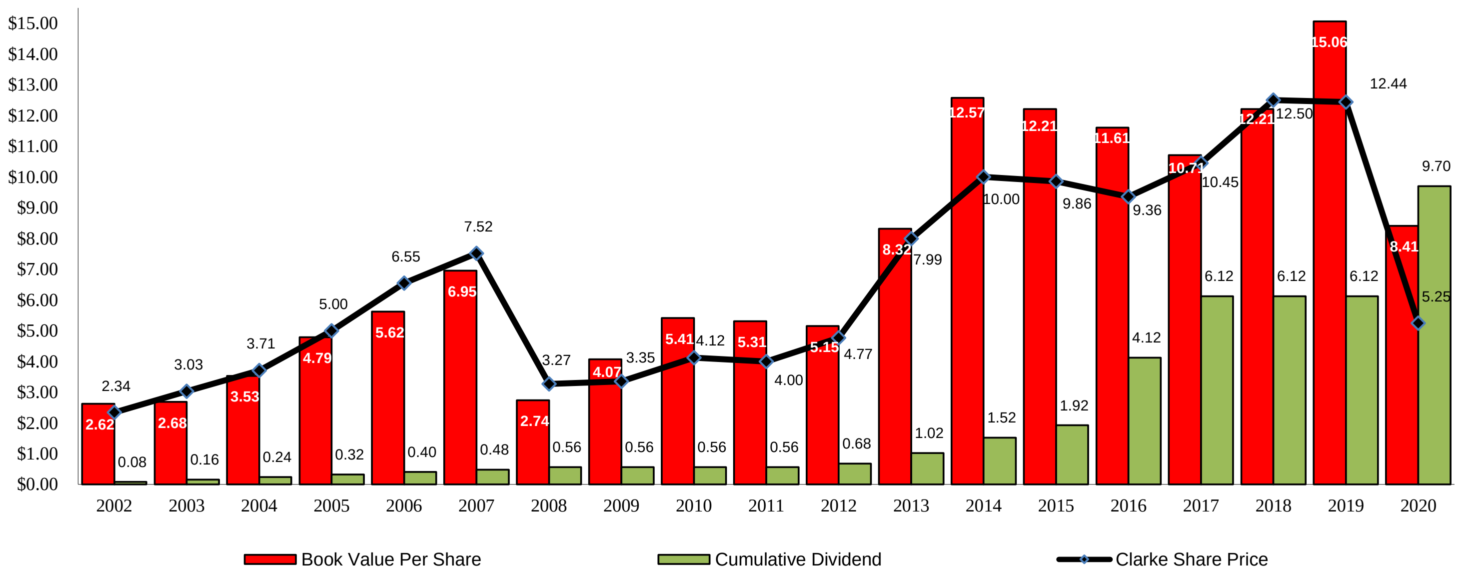
Real Estate and Corporate

We currently own three vacant office buildings in Houston, TX totalling approximately 435,000sf. We acquired these properties far below the cost at which they can be replaced, and we are actively working to redevelop and/or lease these properties. We also own a vacant parcel of land in Moncton, NB.

We currently have $65 million of debt at the Clarke corporate level and $138 million of debt on a consolidated basis. We have availability under our corporate and subsidiary credit lines of $14.7 million (although our borrowing bases may decline due to the impact of COVID-19).

BOOK VALUE PER SHARE

The Company's book value per share at June 30, 2020 was $8.41, a decrease of $6.65 per Common Share since December 31, 2019. The following graph shows Clarke's book value per share, share price and cumulative dividends paid since 2002 (the year the present Executive Chairman joined the Company).



** Information for the years ended 2002 and 2003 is as at March of the following year. In 2004 the Company's year-end was changed to December. All other information is for the years ended December 31 and as at June 30, 2020.*

RESULTS OF OPERATIONS

Highlights of the interim condensed consolidated financial statements for the three and six months ended June 30, 2020 compared to the three and six months ended June 30, 2019 are as follows:

(in millions, except per share amounts)	**Three months ended June 30, 2020 $**	Three months ended June 30, 2019 $	**Six months ended June 30, 2020 $**	Six months ended June 30, 2019 $
Hotel and management services	**3.8**	21.1	**17.6**	36.9
Provision of services	**0.6**	2.0	**0.8**	2.2
Bargain purchase	**—**	—	**—**	22.1
Investment and other income (loss)*	**13.1**	(2.2)	**(41.4)**	15.2
Net income (loss) attributable to equity holders of the Company	**6.9**	(1.6)	**(46.2)**	35.5
Comprehensive income (loss) attributable to equity holders of the Company	**4.4**	(5.0)	**(50.4)**	31.3
Basic earnings (loss) per share ("EPS")	**0.43**	(0.13)	**(2.85)**	2.93
Diluted EPS	**0.38**	(0.13)	**(2.85)**	2.91
Total assets	**286.3**	433.8	**286.3**	433.8
Long-term financial liabilities	**98.7**	109.3	**98.7**	109.3
Book value per share	**8.41**	14.79	**8.41**	14.79

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

The net income (loss) attributable to equity holders of the Company for the three and six months ended June 30, 2020 was $6.9 million and ($46.2), respectively, compared to ($1.6) million and $35.5 million for the same periods in 2019. During the three and six months ended June 30, 2020, the Company had unrealized gains on its investments of $12.9 million and unrealized losses of $52.1 million, respectively, compared to unrealized losses of $3.3 million and unrealized gains of $0.7 million for the same periods in 2019. The Company had realized gains on its investments of nil and $29.0 million, respectively, for the three and six months ended June 30, 2020 compared with realized gains of nil and $12.5 million for the same periods in 2019. The Company recorded a bargain purchase gain of $22.1 million during the six months ended June 30, 2019 as a result of the acquisition of control of Holloway.

SEGMENT REPORTING

The table below shows a breakdown by segment of the Company's holdings as at June 30, 2020 based on total assets. The Other category is not a segment and is disclosed for reconciliation purposes. It consists of our treasury and executive functions, the results of our pension plans and the interest payable on our convertible debentures.

	June 30, 2020		December 31, 2019	
Segment	**$**	**%**	$	%
Investment	**48.6**	**17.0**	131.2	32.7
Hospitality	**214.5**	**74.9**	238.5	59.4
Other	**23.2**	**8.1**	32.0	8.0
Intercompany elimination	**—**	**—**	(0.5)	(0.1)
Total	**286.3**	**100.0**	401.2	100.0

Investment segment

The Company's investment segment is comprised of securities, a ferry business, and vacant office buildings in Houston, TX. During the three and six months ended June 30, 2020, the Company had unrealized gains on its investments of $12.9 million and unrealized losses of $52.1 million, respectively, compared to unrealized losses of $3.3 million and unrealized gains of $0.7 million for the same periods in 2019. The Company had realized gains on its investments of nil and $29.0 million, respectively, for the three and six months ended June 30, 2020 compared with realized gains of nil and $12.5 million for the same periods in 2019. The Company's equity holdings did not generate dividends during the three and six months ended June 30, 2020, compared with dividends of $0.5 million and $1.1 million earned for the same periods in 2019.

At June 30, 2020, the Company owned 34,961,900 shares of Trican with a value of $28.7 million. During the first quarter of 2020, Clarke's investment in the common shares of Terravest were disposed of through the dividend-in-kind and all other public company securities were sold.

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

	Six months ended June 30, 2020 $
Securities – beginning of period	**111.7**
Proceeds on sale	**(1.8)**
Net realized and unrealized losses on securities	**(23.1)**
Disposal of Terravest common shares by dividend-in-kind	**(58.1)**
Securities – end of period	**28.7**

There were no material developments with our office buildings in Houston during the quarter. 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 the ferry business during the quarter other than a significant reduction in revenue due to the delayed opening of the season as a result of the state of emergency due to the pandemic. The ferry normally begins its operating season at the start of the second quarter. This year we opened in the latter half of May.

Hospitality segment

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

	Three months ended June 30, 2020 $	Three months ended June 30, 2019 $	**Six months ended June 30, 2020 $**	Six months ended June 30, 2019 $
Hotel operations	**3.8**	21.1	**17.6**	36.9
Investment and other income (loss), net of hotel revaluations	**0.1**	0.5	**(18.5)**	0.7
Total revenue and other income (loss)	**3.9**	21.6	**(0.9)**	37.6
Less:				
Hotel operating expenses	**2.9**	14.3	**12.6**	25.0
General and administrative expenses	**0.1**	0.2	**0.3**	0.9
Property taxes and insurance	**1.1**	1.2	**2.2**	2.2
Selling costs on property and equipment sales	**—**	0.3	**—**	1.2
Share-based payment expense	**—**	—	**—**	0.4
Depreciation and amortization	**2.6**	3.4	**5.5**	6.1
Interest expense	**0.8**	2.2	**1.6**	3.9
Loss before income taxes	**(3.6)**	—	**(23.1)**	(2.1)

The second quarter was the first full quarter since the beginning of the COVID-19 pandemic. Hotel occupancy declined significantly compared to the prior year, while our average daily rate was less impacted. For the quarter, revenue dropped by nearly 80% compared to the same period in 2019 on a same-hotel basis. Occupancy increased slightly in June and again in July compared to April and May but remains well below normal levels.

We temporarily closed six of our hotels in March as a result of COVID-19. As of today, all of these hotels have reopened. We have adapted our operations in response to COVID-19, including substantially curtailing food and beverage operations, suspending certain amenities, and implementing enhanced cleaning procedures.

Staffing has been substantially reduced, corporate positions have been eliminated, and wage reductions have been implemented. Furthermore, throughout the organization we have received funding from several government programs – the largest being the Canadian Emergency Wage Subsidy – and other less significant programs for rental income, operating costs, cancelled events, and sector support. Despite the adjusted staffing levels and significant cost containment initiatives that we implemented, these efforts could not offset the unprecedented revenue decline in the quarter.

OUTSTANDING SHARE DATA

At August 11, 2020, the Company had:

- An unlimited number of Common Shares authorized and 15,795,234 Common Shares outstanding;
- An unlimited number of First and Second Preferred Shares authorized and none outstanding; and
- 150,000 options to acquire Common Shares outstanding, none of which are vested and exercisable.

LIQUIDITY AND CAPITAL RESOURCES

During the six months ended June 30, 2020, the Company's net short term debt position (a non-IFRS measure representing short-term indebtedness net of cash and cash equivalents) increased $6.3 million and is $33.9 million as at June 30, 2020. This decrease in cash is largely a result of repurchasing Common Shares during the first two quarters.

Cash flow from operating activities

Cash used in operating activities was $3.5 million for the six months ended June 30, 2020, compared to $3.2 million provided during the same period in 2019. The cash from operating activities is driven mainly by the hospitality and ferry operations as well as interest received during the period.

At June 30, 2020, working capital excluding securities was negative $41.7 million, compared to $36.5 at December 31, 2019. The Company has the ability to fund any working capital needs through its cash on hand and its existing credit facilities.

Cash flow from investing activities

Cash provided by investing activities was $4.9 million for the six months ended June 30, 2020, compared to $8.2 million used during the same period in 2019. Net cash provided by investing activities during the period was a result of proceeds from the sale of marketable securities of $1.8 million and collections of loans receivable of $4.1 million, offset by additions of equipment and investment properties of $1.1 million. Net cash used investing activities during the six months ended June 30, 2019 was a result of net purchases of investments of $22.4 million, and the purchase of investment properties of $17.5 million, offset by proceeds from the sale of hotel properties of $28.6 million and the after-tax pension surplus distribution of $1.2 million.

Cash flow from financing activities

Cash used in financing activities was $3.5 million for the six months ended June 30, 2020, compared to $0.5 million used during the same period in 2019. Net cash used in financing activities during the period was related to the repurchase of Common Shares of $6.7 million, and the repayment of long-term debt of $0.9 million, offset by the net proceeds of short-term borrowings of $4.2 million. Net cash used in financing activities during the six months ended June 30, 2019 was related to the repayment of long-term debt of $10.7 million, and the repurchase of Common Shares of $3.2 million, offset by net proceeds on short-term borrowings of $14.3 million.

Available capital under credit facilities

The Company has access to credit facilities where certain of the Company's securities are pledged as collateral, and Holloway has access to two revolving credit facilities. At June 30, 2020, $44.2 million was available under these facilities and $34.3 million was drawn on these facilities resulting in available unused facilities totaling $9.9 million. Declines in the market value of pledged securities may have an adverse effect on the amount of credit available under these facilities.

SUMMARY OF QUARTERLY RESULTS

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

Three months ended	**Sep. 2018 $**	**Dec. 2018 $**	**Mar. 2019 $**	**Jun. 2019 $**	**Sep. 2019 $**	**Dec. 2019 $**	**Mar. 2020 $**	**Jun. 2020 $**
Revenue and other income (loss)	8.8	(8.2)	55.7	20.5	21.3	22.8	(40.6)	17.5
Net income (loss)	6.2	(9.8)	36.5	0.6	(3.6)	5.7	(53.1)	6.9
Other comprehensive income (loss)	21.2	(2.4)	(0.8)	(3.5)	(0.4)	5.2	(1.7)	(2.5)
Comprehensive income (loss)	27.4	(12.2)	35.7	(2.9)	(4.0)	10.9	(54.8)	4.4
Basic EPS (in dollars)	0.49	(0.79)	3.06	(0.13)	(0.24)	0.36	(3.26)	0.43
Diluted EPS (in dollars)	0.49	(0.79)	3.04	(0.13)	(0.24)	0.34	(3.26)	0.38

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 values of the underlying businesses are often more stable than their stock prices reflect. Clarke views its investments on a longer-term basis as opposed to on a quarter-to-quarter basis. These fluctuations, however, often provide us with an opportunity to invest more capital in particular investments that we like or vice-versa. Our results have also fluctuated significantly since the first quarter of 2019 as a result of consolidating Holloway's results with ours. Holloway's business is seasonal in nature and the results fluctuate throughout the year. The revenues are generally highest in the third quarter due to increased leisure travel during the summer months. While certain expenses fluctuate according to occupancy levels, other expenses such as property taxes, insurance and interest are fixed and are incurred evenly throughout the year.

SIGNIFICANT EQUITY INVESTMENTS

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

Trican

Trican is an oilfield services company with considerable operations in pressure pumping, coil tubing and cementing as well as numerous other service lines. As of June 30, 2020, Clarke owned 13.1% of the outstanding shares of Trican.

Selected Financial Information			**June 30, 2020** **$**	December 31, 2019 $
Total assets			**614.9**	926.5
Total liabilities			**(62.8)**	(185.4)
Shareholders' equity			**552.1**	741.1
	Three months ended June 30, 2020 **$**	Three months ended June 30, 2019 $	**Six months ended June 30, 2020** **$**	Six months ended June 30, 2019 $
Total revenue	**28.4**	105.2	**220.2**	342.8
Net loss	**(28.7)**	(29.0)	**(183.7)**	(35.9)

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, 6, 7, 12, 13, 14, 15 and 25 to the consolidated financial statements for the year ended December 31, 2019 and the Company's 2019 AIF, provide further information on classifications in the financial statements, and risks, pertaining to the use of financial instruments by the Company. Notes 2 and 14 to the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020 also provide further information on the risks and uncertainties of estimates, liquidity, and credit as a result of COVID-19.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the President & Chief Executive Officer and the Chief Financial Officer, particularly during the period in which annual filings are being prepared. 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.

There have been no changes in the Company's disclosure controls and procedures or internal controls over financial reporting during the three months ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal controls over financial reporting.

RELATED PARTY TRANSACTIONS

The Company was party to related party transactions during the six months ended June 30, 2020. 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, 2019 and Note 11 of the interim condensed consolidated financial statements for the three and six months ended June 30, 2020.

ENVIRONMENTAL MATTERS

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

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

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

CAUTIONARY STATEMENT REGARDING USE OF NON-IFRS ACCOUNTING MEASURES

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

FORWARD-LOOKING STATEMENTS

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

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

Clarke Inc.
June 30, 2020 and 2019

Clarke Inc.
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Unaudited (in thousands of Canadian dollars)

	June 30, 2020 **$**	December 31, 2019 $
ASSETS		
Current		
Cash and cash equivalents	**450**	2,530
Marketable securities *(note 3)*	**28,662**	111,683
Receivables	**2,336**	3,941
Inventories	**193**	207
Income taxes receivable	**344**	—
Prepaid expenses	**911**	672
Current portion of loans receivable	**1,575**	5,175
Total current assets	**34,471**	124,208
Accrued pension benefit asset *(note 4)*	**22,025**	28,555
Property and equipment *(note 5)*	**188,753**	212,598
Investment properties	**21,104**	19,876
Loans receivable	**1,872**	2,379
Deferred income tax assets	**17,698**	13,222
Other assets	**372**	354
Total assets	**286,295**	401,192
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Short-term indebtedness *(note 3)*	**34,301**	30,061
Accounts payable and accrued liabilities	**7,247**	7,856
Income taxes payable	**—**	148
Accrued interest on convertible debentures	**530**	530
Current portion of long-term debt *(note 6)*	**5,461**	10,448
Total current liabilities	**47,539**	49,043
Convertible debentures *(note 3)*	**50,866**	50,866
Long-term debt *(note 6)*	**46,916**	42,418
Lease obligations	**936**	999
Deferred income tax liabilities	**6,810**	8,279
Total liabilities	**153,067**	151,605
Shareholders' equity		
Share capital *(note 7)*	**93,741**	98,051
Contributed surplus	**7,466**	7,302
Retained earnings (deficit)	**(1,892)**	104,511
Accumulated other comprehensive income	**33,913**	38,149
Share-based payments *(note 8)*	**—**	1,574
Total shareholders' equity	**133,228**	249,587
Total liabilities and shareholders' equity	**286,295**	401,192

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 June 30, 2020 $	Three months ended June 30, 2019 $	**Six months ended June 30, 2020 $**	Six months ended June 30, 2019 $
Revenue and other income				
Hotel and management services	**3,794**	21,094	**17,572**	36,923
Provision of services	**603**	2,038	**761**	2,216
Bargain purchase	**—**	—	**—**	22,108
Investment and other income (loss) *(note 9)*	**13,134**	(2,171)	**(41,381)**	15,158
	17,531	20,961	**(23,048)**	76,405
Expenses				
Hotel operating expenses	**3,476**	14,379	**13,795**	25,487
Cost of services provided	**556**	1,372	**1,343**	2,032
General and administrative expenses	**473**	818	**1,125**	1,568
Property taxes and insurance	**1,049**	1,226	**2,180**	2,176
Selling costs on property and equipment sales	**—**	333	**—**	1,217
Share-based payment expense *(note 8)*	**12**	—	**27**	445
Depreciation	**2,763**	3,477	**5,723**	6,338
Interest expense and accretion on debt	**1,697**	2,401	**3,564**	4,237
	10,026	24,006	**27,757**	43,500
Income (loss) before income taxes	**7,505**	(3,045)	**(50,805)**	32,905
Provision for (recovery of) income taxes *(note 10)*	**578**	(3,607)	**(4,610)**	(3,924)
Net income (loss)	**6,927**	562	**(46,195)**	36,829
Attributable to:				
Equity holders of the Company	**6,927**	(1,592)	**(46,195)**	35,508
Non-controlling interest	**—**	2,154	**—**	1,321
	6,927	562	**(46,195)**	36,829
Basic earnings (loss) per share attributable to equity holders of the Company: *(in dollars) (note 7)*	**0.43**	(0.13)	**(2.85)**	2.93
Diluted earnings (loss) per share attributable to equity holders of the Company: *(in dollars) (note 7)*	**0.38**	(0.13)	**(2.85)**	2.91

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 June 30, 2020 $	Three months ended June 30, 2019 $	**Six months ended June 30, 2020 $**	Six months ended June 30, 2019 $
Net income (loss)	**6,927**	562	**(46,195)**	36,829
Other comprehensive loss				
Items that will not be reclassified to income or loss				
Remeasurement losses on defined benefit pension plans, net of income tax recovery of $737 and $1,865 for the three and six months ended June 30, 2020 (2019 – $1,316 and $1,638) *(note 4)*	**(1,916)**	(3,267)	**(4,848)**	(4,073)
Items that may be reclassified subsequently to income or loss				
Unrealized gains (losses) on translation of net investment in foreign operations, net of income tax expense (recovery) of $(159) and $217 for the three and six months ended June 30, 2020 (2019 – $(92) and $(92))	**(615)**	(241)	**612**	(241)
Other comprehensive loss	**(2,531)**	(3,508)	**(4,236)**	(4,314)
Comprehensive income (loss)	**4,396**	(2,946)	**(50,431)**	32,515
Attributable to:				
Equity holders of the Company	**4,396**	(4,982)	**(50,431)**	31,312
Non-controlling interest	**—**	2,036	**—**	1,203
	4,396	(2,946)	**(50,431)**	32,515

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

	Six months ended June 30, 2020 $	Six months ended June 30, 2019 $
OPERATING ACTIVITIES		
Net income (loss)	**(46,195)**	36,829
Adjustments for items not involving cash *(note 12)*	**43,589**	(31,033)
	(2,606)	5,796
Net change in non-cash working capital balances *(note 12)*	**(882)**	(2,586)
Net cash provided by (used in) operating activities	**(3,488)**	3,210
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities	**1,832**	3,613
Purchase of marketable securities	**—**	(26,041)
Proceeds on disposition of property and equipment	**—**	28,595
Purchase of property and equipment	**(706)**	(3,545)
Additions to investment properties	**(388)**	(17,458)
Collections of loans receivable	**4,142**	4,513
Distribution of pension plan surplus, net of tax	**—**	1,159
Cash acquired on business combination	**—**	906
Other	**—**	51
Net cash provided by (used in) investing activities	**4,880**	(8,207)
FINANCING ACTIVITIES		
Repurchase of shares for cancellation *(note 7)*	**(6,678)**	(3,195)
Net proceeds of short-term indebtedness	**4,240**	14,251
Repayment of long-term debt	**(971)**	(10,749)
Principal payments of lease obligation	**(63)**	—
Dividends paid by subsidiary to non-controlling interest	**—**	(534)
Repurchase of shares by subsidiary from non-controlling interest	**—**	(239)
Net cash used in financing activities	**(3,472)**	(466)
Net change in cash during the period	**(2,080)**	(5,463)
Cash and cash equivalents, beginning of period	**2,530**	7,002
Cash and cash equivalents, end of period	**450**	1,539

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Unaudited (in thousands of Canadian dollars)

	Six months ended June 30, 2020 $	Six months ended June 30, 2019 $
Share capital		
Common shares:		
Balance at beginning of period	**98,051**	39,826
Common shares repurchased for cancellation *(note 7)*	**(4,310)**	(796)
Balance at end of period	**93,741**	39,030
Contributed surplus		
Balance at beginning of period	**7,302**	—
Book value in excess of purchase price of common shares repurchased for cancellation *(note 7)*	**164**	—
Balance at end of period	**7,466**	—
Retained earnings (deficit)		
Balance at beginning of period	**104,511**	70,994
Net income (loss) attributable to equity holders of the Company	**(46,195)**	35,508
Dividends declared *(note 3)*	**(58,120)**	—
Purchase price in excess of the book value of common shares repurchased for cancellation *(note 7)*	**(2,532)**	(2,399)
Residual balance of previously expensed equity-settled stock options *(note 8)*	**444**	—
Balance at end of period	**(1,892)**	104,103
Accumulated other comprehensive income		
Balance at beginning of period	**38,149**	37,628
Other comprehensive loss attributable to equity holders of the Company	**(4,236)**	(4,196)
Balance at end of period	**33,913**	33,432
Share-based payments		
Balance at beginning of period	**1,574**	1,545
Cash settlement of share-based payments *(note 8)*	**(1,130)**	—
Reclassification to retained earnings of residual balance of previously expensed equity-settled stock options *(note 8)*	**(444)**	—
Balance at end of period	**—**	1,545
Total shareholders' equity attributable to equity holders of the Company	**133,228**	178,110
Non-controlling interest		
Balance at beginning of period	**—**	—
Non-controlling interest acquired in a business combination	**—**	69,760
Net income attributable to non-controlling interest	**—**	1,321
Other comprehensive loss attributable to non-controlling interest	**—**	(118)
Dividend declared by subsidiary to non-controlling interest	**—**	(534)
Repurchase by subsidiary of shares owned by non-controlling interest	**—**	(239)
Stock options of subsidiary exercised by non-controlling interest	**—**	25
Balance at end of period	**—**	70,215
Total shareholders' equity	**133,228**	248,325

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 August 11, 2020.

Basis of presentation and statement of compliance

These interim condensed consolidated financial statements for the three and six months ended June 30, 2020, 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, 2019. These interim condensed consolidated financial statements for the three and six months ended June 30, 2020 should be read together with the annual consolidated financial statements for the year ended December 31, 2019.

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 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. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In March 2020, the World Health Organization declared a global pandemic related to the virus known as COVID-19. The continued spread of COVID-19 and the actions being taken by governments, businesses, and individuals to limit this pandemic have adversely impacted the Company's operations, particularly the hotel and ferry operations. This has resulted in significant economic uncertainty, of which the potential impact on our future financial results is difficult to reliably measure. The Company began to feel the impact of COVID-19 in its hotel occupancy levels commencing in mid-March 2020. The Company initially closed six of its hotels to streamline and manage costs and delayed the commencement of its ferry season. As at June 30, 2020, three of the temporarily closed hotels were reopened, and three more were re-opened subsequent to the end of the quarter. The ferry business began its season halfway through the quarter. The Company is actively monitoring the situation and will continue to respond as the impact of the pandemic evolves.

Due to the decline in hotel operations, the Company performed a revaluation analysis on 15 of its hotels during the prior quarter and recorded a revaluation loss in the amount of $18,800. Revaluations were not taken on two hotels which were not expected to see a material decline in operations. The Company expects a recovery over time of its hotel operations, and as such, had used a five-year discounted cashflow model to assess fair value. This approach was a change from the capitalized income model typically used by the Company as it more accurately factored in a recovery of financial results and cashflows over a future timeframe. The revaluation model was prepared internally. The source of the discount and terminal capitalization rates used were consistent with those used as part of the Holloway purchase price allocation recorded in the three months ended March 31, 2019. These rates were obtained from an independent third party and have been risk-adjusted in the analysis to reflect the impact of COVID-19 on the hospitality industry.

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

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

Key factors of estimation uncertainty used in the internal model included the cashflow forecasts, the discount rates, and the terminal capitalization rates. The discount rates ranged from 9.5% – 13.0% and the capitalization rates ranged from 9.0% – 11.0%. The cashflow forecasts were performed on a hotel-by-hotel basis. The forecast in year one of the model was consistent with the Company's updated operational forecast. In years two through five of the internal models, cashflows were based on a gradual recovery as a function of the respective historical results. If the discount rates had been 0.25% higher/lower, the estimated fair value would result in a change of $1,300 to property and equipment and the revaluation of hotel properties. If the terminal capitalization rates had been 0.25% higher/lower, the estimated fair value would result in a change of $2,300 to property and equipment and the revaluation of hotel properties. No additional revaluations were recorded during the three months ended June 30, 2020. The fair value of the Company's property and equipment will continue to be closely monitored as the COVID-19 pandemic evolves. As clarity on the Company's outlook is obtained, additional revaluation increases, or decreases may be required.

The Company has not recorded a fair value adjustment on its investment properties as the COVID-19 pandemic has not had a material impact on the operations or expected cashflows of these assets. The Company will continue to monitor the results of these assets in future periods to determine if a fair value adjustment is required. The impact of COVID-19 on the Company's financial instruments, including its liquidity risk and credit risk is disclosed in note 14.

3. MARKETABLE SECURITIES

On March 25, 2020, the Company completed a dividend-in-kind on its common shares in the form of a pro rata distribution of the 5,386,440 common shares of TerraVest Industries Inc. ("Terravest") that it owned. The dividend was paid to shareholders of the Company of record at the close of business on March 18, 2020 in the amount of $58,120, which was the closing price of Terravest common shares on the record date. The Board of Directors of the Company determined the fair market value of the dividend to be $5.49 per Clarke common share when the dividend was announced. In accordance with the Fourth Amended and Restated Trust Indenture governing the Company's unsecured subordinated convertible debentures, the conversion price of the debentures was reduced by the fair market value of the dividend of $5.49 and was $13.74 as at June 30, 2020. The Company also reduced the exercise price of outstanding stock options by $5.49 (note 8).

The common shares of Terravest were pledged as collateral against the Company's demand revolving loan. As a result of the disposition of the Terravest common shares, the availability on that loan was reduced by $20,000. The lender also removed the current ratio covenant as a requirement for the facility.

4. EMPLOYEE FUTURE BENEFITS

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

	June 30, 2020	December 31, 2019
	$	$
Fair value of plan assets	**75,649**	81,044
Accrued benefit obligation	**(53,624)**	(52,489)
Funded status of plans – accrued pension benefit asset	**22,025**	28,555

The defined benefit pension recovery recognized in the interim consolidated statements of earnings for the three and six months ended June 30, 2020 was $124 and $183 (2019 – $71 and $141).

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

4. EMPLOYEE FUTURE BENEFITS (CONT'D)

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

	Three months ended June 30, 2020 $	Three months ended June 30, 2019 $	**Six months ended June 30, 2020 $**	Six months ended June 30, 2019 $
Net remeasurement losses	**(2,653)**	(4,583)	**(6,713)**	(5,711)
Deferred income tax recovery	**737**	1,316	**1,865**	1,638
Defined benefit expense recognized	**(1,916)**	(3,267)	**(4,848)**	(4,073)

Significant assumptions

	June 30, 2020 %	December 31, 2019 %
Accrued benefit obligation – discount rate	**2.75**	3.10
Benefit costs for the period – expected return on plan assets	**3.10**	3.40

5. PROPERTY AND EQUIPMENT

Six months ended June 30, 2020	**Land $**	**Buildings and components $**	**Ferry and vessel dry dock costs $**	**Furniture, fixtures and equipment $**	**Right-of-use assets $**	**Renovations in progress $**	**Total $**
Beginning balance	30,546	164,359	411	12,975	1,032	3,275	212,598
Additions	—	97	—	513	—	63	673
Disposals	—	—	—	(11)	—	—	(11)
Revaluations *(note 2)*	(2,820)	(15,980)	—	—	—	—	(18,800)
Depreciation	—	(3,578)	(176)	(1,875)	(78)	—	(5,707)
Ending balance	**27,726**	**144,898**	**235**	**11,602**	**954**	**3,338**	**188,753**
Valuation	27,726	147,641	—	—	—	—	175,367
Cost	—	—	4,657	16,593	1,144	3,338	25,732
Accumulated depreciation	—	(2,743)	(4,422)	(4,991)	(190)	—	(12,346)
Net book value	**27,726**	**144,898**	**235**	**11,602**	**954**	**3,338**	**188,753**

6. LONG-TERM DEBT

During the six months ended June 30, 2020, the Company received approval from several lenders to defer principal repayments of long-term debt and interest on certain term loans and mortgages. The Company requested the deferrals to improve short-term cash flows in response to the global pandemic. As a result, the Company reclassified $861 of principal repayments from current to long-term and capitalized $467 of deferred interest to long-term debt.

7. SHARE CAPITAL AND EARNINGS PER SHARE

	June 30, 2020		December 31, 2019	
	# of shares	**$**	# of shares	$
Common shares				
Outstanding common shares, beginning of period	**16,571,184**	**98,051**	12,285,888	39,826
Common shares repurchased for cancellation	**(728,266)**	**(4,310)**	(514,159)	(1,768)
Common shares issued pursuant to an acquisition	**—**	**—**	4,799,455	59,993
Outstanding common shares, end of period	**15,842,918**	**93,741**	16,571,184	98,051

Earnings per share

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

	Three months ended June 30, 2020			Three months ended June 30, 2019		
	Earnings $	**Weighted average shares (in thousands) #**	**Per share amount $**	Loss $	Weighted average shares (in thousands) #	Per share amount $
Basic earnings (loss) per share	**6,927**	**16,154**	**0.43**	(1,592)	12,047	(0.13)
Interest, net of income taxes, on assumed conversion of convertible debentures	**569**	**3,702**		—	—	
Diluted earnings (loss) per share	**7,496**	**19,856**	**0.38**	(1,592)	12,047	(0.13)

	Six months ended June 30, 2020			Six months ended June 30, 2019		
	Loss $	**Weighted average shares (in thousands) #**	**Per share amount $**	Earnings $	Weighted average shares (in thousands) #	Per share amount $
Basic earnings (loss) per share	**(46,195)**	**16,231**	**(2.85)**	35,508	12,128	2.93
Common shares issued on assumed exercising of stock options	**—**	**—**		—	92	
Diluted earnings (loss) per share	**(46,195)**	**16,231**	**(2.85)**	35,508	12,220	2.91

All potentially dilutive securities issued relate to stock options and convertible debentures for the three and six months ended June 30, 2020 and stock options for the three and six months ended June 30, 2019. The convertible debentures were dilutive for the three months ended June 30, 2020, and anti-dilutive for the six months ended June 30, 2020, and the stock options were anti-dilutive for the three months ended June 30, 2020 and 2019 and dilutive for the six months ended June 30, 2019.

NCIB

In the six months ended June 30, 2020, the Company purchased for cancellation 728,266 (2019 – 245,459) common shares under a NCIB at a cost of $6,678 (2019 – $3,195). The purchase price in excess of the historical book value of the shares in the amount of $2,532 (2019 – $2,399) has been charged to retained earnings, $164 (2019 – nil) has been added to contributed surplus and $4,310 (2019 – $796) has been charged to share capital.

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

8. SHARE-BASED PAYMENTS

	Six months ended June 30, 2020	**Weighted Average Exercise Price**	Six months ended June 30, 2019	Weighted Average Exercise Price
	#	**$**	#	$
Outstanding, beginning of period	**425,000**	**10.69**	250,000	8.19
Exercised	**(250,000)**	**8.19**	—	—
Forfeited	**(25,000)**	**14.26**	—	—
Outstanding, end of period	**150,000**	**8.77**	250,000	8.19
Exercisable	—	—	250,000	8.19

The outstanding options as at June 30, 2020 were granted in 2019 with an original exercise price of $14.26 per option. Following the dividend-in-kind (note 3), the exercise price was reduced by $5.49 per option, resulting in a modified exercise price of $8.77 per option. The options exercised during the six months ended June 30, 2020 were settled in cash, and the Company changed the measurement of share-based payments from the equity-settled method to the cash-settled method accordingly. The compensation expense for options outstanding during the three and six months ended June 30, 2020 was $12 and $27 under the new method. The associated share-based payment liability is included in accounts payable and accrued liabilities on the interim consolidated statement of financial position as at June 30, 2020.

9. INVESTMENT AND OTHER INCOME (LOSS)

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

	Three months ended June 30, 2020	Three months ended June 30, 2019	**Six months ended June 30, 2020**	Six months ended June 30, 2019
	$	$	**$**	$
Unrealized gains (losses) on investments	**12,935**	(3,259)	**(52,078)**	723
Realized gains on investments	—	—	**29,008**	12,519
Revaluation of hotel properties	—	—	**(18,800)**	—
Dividend income	—	549	—	1,111
Interest income	**115**	217	**267**	472
Pension recovery *(note 4)*	**124**	71	**183**	141
Insurance proceeds, net of clean-up and other costs	**(5)**	949	**14**	949
Loss on disposal of assets	—	(527)	**(11)**	(527)
Foreign exchange gains (losses)	**(35)**	(171)	**36**	(230)
	13,134	(2,171)	**(41,381)**	15,158

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

10. INCOME TAXES

The provision for (recovery of) income taxes consists of:

	Three months ended June 30, 2020 $	Three months ended June 30, 2019 $	**Six months ended June 30, 2020 $**	Six months ended June 30, 2019 $
Current	**(70)**	62	**(313)**	274
Deferred	**648**	(3,669)	**(4,297)**	(4,198)
Provision for (recovery of) income taxes	**578**	(3,607)	**(4,610)**	(3,924)

As at June 30, 2020, the Company had non-capital losses carried forward for tax purposes of $38,069 (December 31, 2019 – $16,535) in Canada and US$7,198 (December 31, 2019 – US$6,374) in the United States and capital losses carried forward for tax purposes of $811 (December 31, 2019 – $9,365). Certain deferred income tax assets have not been recognized:

	June 30, 2020 $	December 31, 2019 $
Marketable securities	**1,913**	—
Property and equipment	**814**	—
Non-capital and capital loss carry forwards	**5,637**	1,485
Total	**8,364**	1,485

11. RELATED PARTY DISCLOSURES

During the six months ended June 30, 2020, the Company sold marketable securities through the facilities of the Toronto Stock Exchange to a company controlled by the Executive Chairman and his immediate family member. The sale was made for investment purposes and the Company received net proceeds of $569.

12. SUPPLEMENTAL CASH FLOW INFORMATION

Adjustments for items not involving cash	**Six months ended June 30, 2020 $**	Six months ended June 30, 2019 $
Realized/unrealized losses (gains) on investments *(note 9)*	**23,070**	(13,242)
Depreciation	**5,723**	6,338
Revaluation of hotel properties *(notes 2 and 9)*	**18,800**	—
Deferred income tax recovery *(note 10)*	**(4,297)**	(4,198)
Share-based payment expense *(note 8)*	**27**	445
Amortization of fair value increments from acquisition	**(90)**	(155)
Accretion on debt	**105**	161
Unrealized foreign exchange losses (gains)	**(44)**	123
Pension recovery *(note 4)*	**(183)**	(141)
Loss on disposal of assets *(note 9)*	**11**	527
Capitalized deferred interest *(note 6)*	**467**	—
Bargain purchase gain	**—**	(22,108)
Selling costs on property and equipment sales	**—**	1,217
	43,589	(31,033)

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

12. SUPPLEMENTAL CASH FLOW INFORMATION (CONT'D)

Net changes in non-cash working capital balances	**Six months ended June 30, 2020 $**	Six months ended June 30, 2019 $
Receivables	**1,605**	(3,012)
Inventories	**14**	71
Income taxes receivable	**(344)**	44
Prepaid expenses	**(239)**	(765)
Accounts payable and accrued liabilities	**(640)**	2,353
Income taxes payable	**(148)**	(14)
Accrued interest on convertible debentures	**—**	(184)
Settlement of share-based liability	**(1,130)**	(1,079)
	(882)	(2,586)

13. SEGMENTED INFORMATION

The Company operates in two reportable business segments. The Investment segment represents the Company's marketable securities portfolio, consisting of publicly traded equity securities at fair value through profit or loss, the Company's ferry business, and the Company's vacant office buildings included in investment properties. During the three months ended March 31, 2020, the office buildings were transferred from the Hospitality segment to the Investment segment as a result of the Company redefining its operating segments following the completion of recent transactions. The Hospitality segment consists of the Company's ownership and operation of hotels. The Other category is not a segment and is disclosed for reconciliation purposes. The Other category consists of our treasury and executive functions, the results of our pension plans and the interest payable on our debentures. Revenue from external customers earned in the Other category pertains primarily to management service fees.

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. Hotel revenue and provision of services was all generated by continuing operations in Canada for the three and six months ended June 30, 2020 and 2019.

Three months ended June 30, 2020	**Investment $**	**Hospitality $**	**Other $**	**Eliminations $**	**Total $**
Revenue and other income:					
Hotel revenue and provision of services	**448**	**3,794**	**165**	**(10)**	**4,397**
Investment and other income	**12,936**	**75**	**123**	**—**	**13,134**
	13,384	**3,869**	**288**	**(10)**	**17,531**
Operating expenses before the undernoted	**1,174**	**4,076**	**314**	**(10)**	**5,554**
Share-based payment expense	**—**	**—**	**12**	**—**	**12**
Depreciation and amortization	**90**	**2,652**	**21**	**—**	**2,763**
Interest expense	**18**	**780**	**899**	**—**	**1,697**
Income (loss) before income taxes	**12,102**	**(3,639)**	**(958)**	**—**	**7,505**

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

13. SEGMENTED INFORMATION (CONT'D)

Six months ended June 30, 2020	**Investment $**	**Hospitality $**	**Other $**	**Eliminations $**	**Total $**
Revenue and other income:					
Hotel revenue and provision of services	**448**	**17,572**	**337**	**(24)**	**18,333**
Investment and other income (loss)	**(23,069)**	**(18,498)**	**186**	**—**	**(41,381)**
	(22,621)	**(926)**	**523**	**(24)**	**(23,048)**
Operating expenses before the undernoted	**2,572**	**15,137**	**758**	**(24)**	**18,443**
Share-based payment expense	**—**	**—**	**27**	**—**	**27**
Depreciation and amortization	**179**	**5,501**	**43**	**—**	**5,723**
Interest expense	**44**	**1,587**	**1,933**	**—**	**3,564**
Loss before income taxes	**(25,416)**	**(23,151)**	**(2,238)**	**—**	**(50,805)**
Assets	**48,630**	**214,499**	**23,176**	**(10)**	**286,295**
Liabilities	**3,287**	**75,729**	**74,061**	**(10)**	**153,067**
Capital expenditures	**388**	**673**	**—**	**—**	**1,061**
Assets located outside of Canada	**18,412**	**—**	**—**	**—**	**18,412**

Three months ended June 30, 2019	Investment $	Hospitality $	Other $	Eliminations $	Total $
Revenue and other income:					
Hotel revenue and provision of services	1,891	21,094	161	(14)	23,132
Investment and other income (loss)	789	526	(26)	(3,460)	(2,171)
	2,680	21,620	135	(3,474)	20,961
Operating expenses before the undernoted	1,846	15,690	273	(14)	17,795
Selling costs on property and equipment sales	—	333	—	—	333
Depreciation and amortization	89	3,388	—	—	3,477
Interest expense	42	2,171	188	—	2,401
Income (loss) before income taxes	703	38	(326)	(3,460)	(3,045)

Six months ended June 30, 2019	Investment $	Hospitality $	Other $	Eliminations $	Total $
Revenue and other income:					
Hotel revenue and provision of services	1,891	36,923	357	(32)	39,139
Bargain purchase gain	22,108	—	—	—	22,108
Investment and other income	22,863	761	44	(8,510)	15,158
	46,862	37,684	401	(8,542)	76,405
Operating expenses before the undernoted	2,490	28,127	678	(32)	31,263
Selling costs on property and equipment sales	—	1,217	—	—	1,217
Share-based payment expense	—	445	—	—	445
Depreciation and amortization	177	6,160	1	—	6,338
Interest expense	84	3,874	279	—	4,237
Income (loss) before income taxes	44,111	(2,139)	(557)	(8,510)	32,905
Assets	182,982	281,280	27,997	(58,453)	433,806
Liabilities	3,868	154,604	27,009	—	185,481
Capital expenditures	—	3,545	—	—	3,545
Assets located outside of Canada	17,020	—	—	—	17,020

14. FINANCIAL INSTRUMENTS

As a response to the effects of COVID-19 on operations, the Company reassessed liquidity and credit risk with a specific focus on available financing for ongoing cash flows and the ability to collect on loans and other receivables.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations. The Company believes it has access to sufficient capital through cash on hand, operating cash flows and existing or other borrowing facilities to meet these obligations. The Company monitors and forecasts its cash balances and cash flows generated from operations to meet its required obligations. Cash flow forecasting for the Hospitality segment is performed at the hotel level and aggregated at head office. During the second quarter, the Company reduced the maximum borrowing capacity of one of its credit facilities from $45,000 to $20,000 for the purpose of reducing borrowing costs on redundant availability in excess of the credit facility's borrowing base calculation. At June 30, 2020, the Company had cash of $450 and available unused facilities totalling $9,937.

Management estimates that current liquidities and forecasted cash flows will be sufficient to meet the Company's obligations, commitments, and budgeted expenditures for the next twelve months. However, the Company has certain existing financial ratios to meet with respect to its long-term debt and credit facilities, which it may not be in compliance with as at the third and fourth quarters. The Company is in negotiations with its lenders to obtain the necessary waivers. Management has no reasonable basis to believe that such negotiations will not result in the required covenant waivers. At June 30, 2020, all of the financial ratios measured on a quarterly basis were in compliance, except for a credit facility and mortgage payable held with one lender. A waiver was obtained from the lender before June 30, 2020. As at June 30, 2020, the mortgage payable of $22,294 is presented on the interim consolidated statement of financial position as long-term with the exception of the current portion of $1,037 which is presented as current, and the credit facility of $8,000 is presented as current.

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

- The Company has initiated a company-wide cost and capital expenditure reduction program.
- We are proactively working with our lenders on the easement of financial covenants and the modification of borrowing base determination calculations.
- We obtained various deferrals of both interest and principal on our loans and mortgages payable.
- We obtained payment term deferrals from several vendors.
- We worked with the holders of our loans receivable to collect payment in advance of the respective maturity dates.
- We applied for the Canada Emergency Wage Subsidy ("CEWS") and have accrued total subsidies of $2,019 as at June 30, 2020, all of which has been collected in full subsequent to the end of the quarter. The CEWS is presented on the interim consolidated statements of earnings net of hotel operating expenses, cost of services provided and general and administrative expenses. We expect to continue to apply for the CEWS for the remaining periods available through the subsidy.

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

14. 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	**34,301**	**—**	**—**	**—**
Accounts payable and accrued liabilities	**7,247**	**—**	**—**	**—**
Convertible debentures interest	**3,179**	**3,179**	**2,119**	**—**
Convertible debentures	**—**	**—**	**50,866**	**—**
Long-term debt	**5,461**	**39,136**	**5,150**	**2,369**
Interest on long-term debt	**1,908**	**2,679**	**539**	**189**
	52,096	**44,994**	**58,674**	**2,558**

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 amount of receivables presented on the consolidated statements of financial position of $2,336 is net of expected credit losses of $168. 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 five loans receivable in the amount of $3,447 obtained through the respective sales of previously owned assets. The Company has performed an analysis of the expected credit losses on these loans receivable considering both the financial condition of the borrowers and independent, industry-specific credit loss projections due to the pandemic. No expected credit losses on the loans receivable have been recorded as a result of this analysis. During the six months ended June 30, 2020, the Company collected $4,142 of its loans receivable and subsequent to June 30, 2020, the Company collected an additional $1,050.

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