Halifax, Canada

MD&A & Financial Statements 2019

Management's Discussion & Analysis

Clarke Inc.

December 31, 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 year ended December 31, 2019 compared with the year ended December 31, 2018. The following information is derived from the Company's consolidated financial statements which are prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with the information disclosed within the consolidated financial statements and notes thereto for the year ended December 31, 2019 and the Company's Annual Information Form ("AIF"), including the risk factors described therein, available on SEDAR at www.sedar.com. This MD&A provides an overall discussion, followed by analyses of the performance of the Company's major investments. The MD&A is prepared as at March 3, 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.

FULL YEAR REVIEW AND OUTLOOK

During 2019, the Company's book value per share increased by $2.85 or 23.3%. The increase can be ascribed to (i) positive performance from our investment portfolio, (ii) the realization of gains on the sale of a number of hotels, and (iii) an increase in the value of several hotels that we continue to own, offset by (iv) a decrease in the value of our pension plan surplus, and (v) the dilution resulting from the issuance of Common Shares as consideration for the acquisition of Holloway Lodging Corp. ("Holloway"). Our book value per Common Share at the end of the year was $15.06 while our Common Share price was $12.44.

We believe our portfolio companies are taking many positive steps to increase their long-term values, but these values have not yet been recognized or accepted by the market generally. In the case of Holloway, the sale price of almost every hotel the company sold in the last eighteen months represented a meaningful premium to the carrying value of that property prior to any revaluations related to the sales. In the case of TerraVest Industries Inc. ("Terravest"), the company generated approximately $50.0 million of EBITDA for the first time ever. And in the case of Trican Well Service Ltd. ("Trican"), the company is reducing costs, selling non-core assets, repurchasing shares and generally making decisions that will benefit shareholders once the oil and gas market improves. As a result, we believe there is meaningful value yet to be realized at our portfolio companies and by our shareholders.

We continue to focus on increasing our book value per share and closing the gap between our share price and our book value per share by having our share price increase. Subsequent to year-end, we repurchased 355,700 shares at a meaningful discount to our book value per share. We will continue to repurchase shares that trade at a material discount to our view of their intrinsic value.

Holloway

Following our acquisition of the remaining common shares of Holloway on September 30, 2019, we made a number of changes to the company's organizational structure and priorities to improve its financial performance. We streamlined our corporate staff, eliminated certain positions and consolidated certain functions with those of Clarke.

In our third quarter report, we stated that we believed there was considerable opportunity to grow Holloway's third-party hotel management business. In January 2020, we commenced a wind-down of this business, which we expect will be completed in the middle of 2020. What changed? We believe there is money to be made in the management business, but our core strength is in the operation and constant improvement of our own hotels, rather than in the administration and customer relations required by a third-party management business. Holloway's owned hotels have considerable upside from renovations, rebrandings, a general upturn in the Western Canadian economy and a renewed focus on our hotel personnel. These will be our focus for the next several quarters.

For the full-year, Holloway generated $19.8 million of net operating income and expended $5.3 million on capital expenditures. At the end of the year, Holloway owned 18 hotels with 2,229 rooms and had third party debt of $54.1 million.

We expect the performance of Holloway's properties to be affected by weak oil and gas markets. Despite this headwind, Holloway has generated positive cash flow after all debt service and maintenance capex throughout the oil and gas downturn and we expect this to continue.

Terravest

In December 2019, Terravest acquired Argo Sales Inc. ("Argo"), which manufactures oil and gas production equipment and storage tanks, similar to several of Terravest's other manufacturing businesses. As with previous acquisitions, we believe Terravest can extract significant synergies, increase Argo's EBITDA and reduce its effective acquisition multiple.

After generating approximately $50.0 million of EBITDA in its 2019 fiscal year, we believe Terravest can increase its EBITDA further, especially considering its recent acquisition (and after adjusting for the effects of IFRS 16). The company remains conservatively leveraged. This should lead to significant free cash flow. We believe the company remains undervalued.

Trican

Drilling activity in Western Canada in 2019 was substantially below the prior two years and it is likely that this weak drilling environment will persist throughout 2020. Investor sentiment towards the oilfield services sector remains miserable.

Despite the current industry environment, we believe Trican will generate positive free cash flow in 2020. Trican implemented numerous cost reduction initiatives in the second half of 2019, including multiple base consolidations, which will only be fully realized in 2020. As well, Trican accelerated the pace of its non-core asset sales, using the proceeds to repurchase shares at what we believe will, in hindsight, be very low values. For instance, during the second half of 2019, Trican sold old hydraulic fracturing equipment, its water management business and vacant real estate. The company has more non-core assets still.

As we stated last quarter, 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.

Real Estate

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.

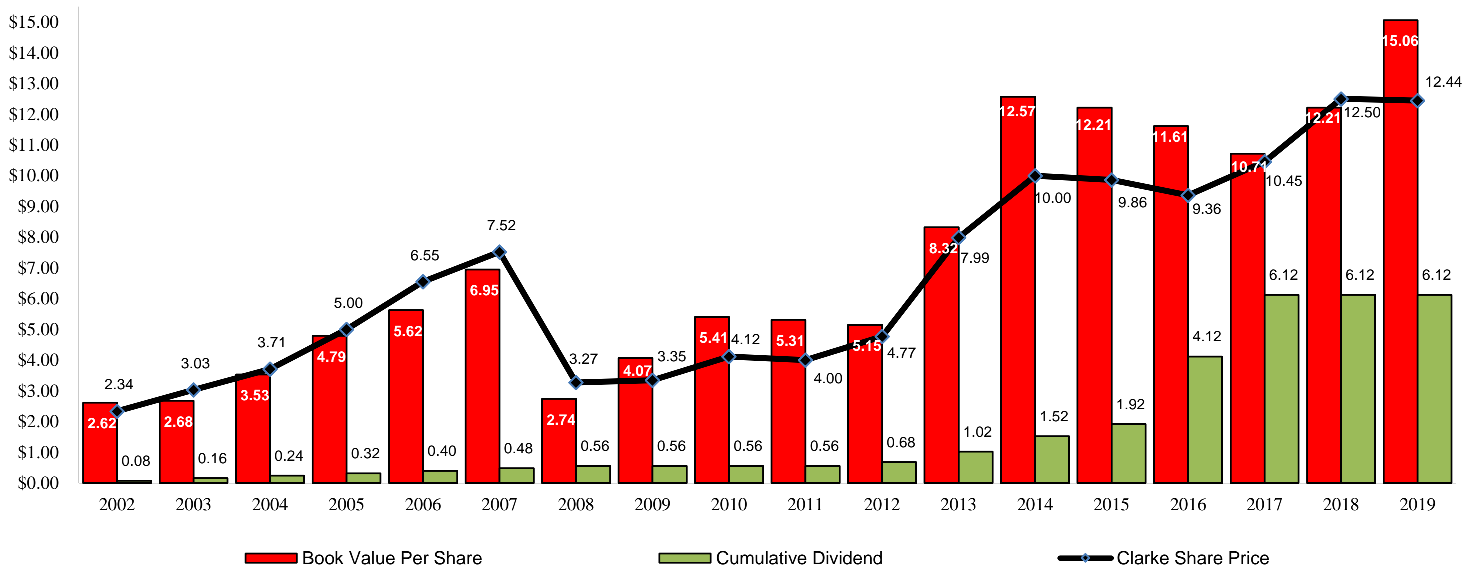
We currently have $77 million of debt at the Clarke corporate level and $134 million of debt on a consolidated basis. We have availability under our corporate and subsidiary credit lines of $61 million. We are evaluating multiple investment opportunities that fit our investment criteria. We will be patient deploying our capital.

Dividend-in-kind

On March 3, 2020, the Company announced that its Board of Directors had declared 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 that it owns. The dividend will be paid on March 25, 2020 to shareholders of the Company of record at the close of business on March 18, 2020.

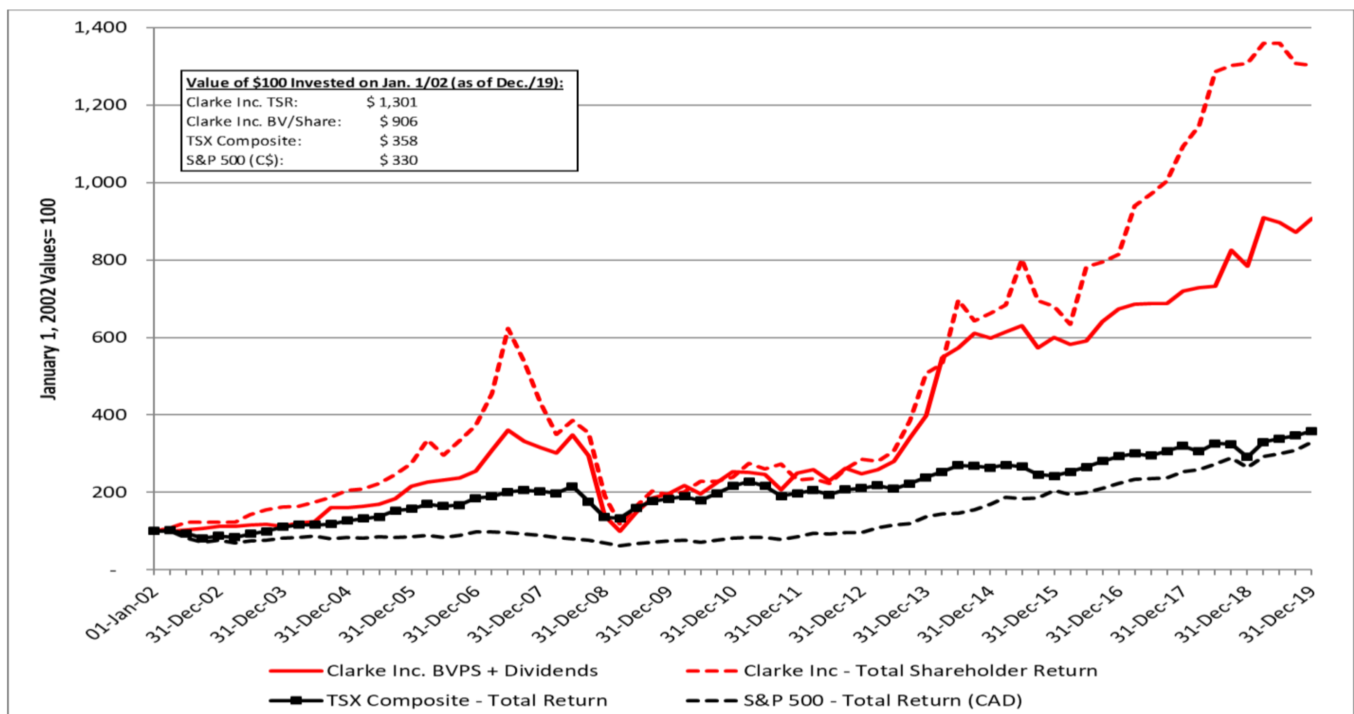
BOOK VALUE PER SHARE AND SHAREHOLDER RETURN

The Company's book value per share at December 31, 2019 was $15.06, an increase of $2.85 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.*

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

(in millions, except per share amounts)	**Year ended December 31, 2019 $**	Year ended December 31, 2018 $	Year ended December 31, 2017 $
Hotel and management services	**73.9**	—	—
Provision of services	**8.1**	7.4	6.7
Bargain purchase	**21.8**	—	—
Investment and other income (loss)*	**16.7**	(0.9)	6.5
Net income (loss) attributable to equity holders of the Company	**38.4**	(0.6)	3.5
Comprehensive income attributable to equity holders of the Company	**38.9**	18.6	15.9
Basic earnings (loss) per share ("EPS")	**2.90**	(0.04)	0.24
Diluted EPS	**2.78**	(0.04)	0.24
Total assets	**401.2**	164.1	160.6
Long-term financial liabilities	**94.3**	2.4	0.4
Cash dividends declared per share	—	—	2.00
Book value per share	**15.06**	12.21	10.71

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

Net income attributable to equity holders of the Company for the year ended December 31, 2019 was $38.4 million compared to a net loss of $0.6 million in 2018. During the year ended December 31, 2019, the Company had unrealized gains on its investments of $17.0 million compared to unrealized losses of $9.2 million in 2018. The Company had realized losses on its investments of $3.3 million for the year ended December 31, 2019 compared with realized gains of $4.0 million in 2018. The Company recorded a bargain purchase gain of $21.8 million during the year ended December 31, 2019 as a result of the acquisition of control of Holloway.

SEGMENT REPORTING

The table below shows a breakdown by segment of the Company's holdings as at December 31, 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 year information is disclosed because the Company only had one operating segment as at December 31, 2018.

	December 31, 2019	
Segment	**$**	**%**
Investment	**114.0**	**28.4**
Hospitality	**255.7**	**63.7**
Other	**32.0**	**8.0**
Intercompany elimination	**(0.5)**	**(0.1)**
Total	**401.2**	**100.0**

Investment segment

The Company owns securities and a ferry business. During 2019, the Investment segment had unrealized gains of $44.7 million compared to unrealized losses of $9.2 million in 2018. The Investment segment had realized losses on its investments of $17.6 million in 2019 compared with realized gains of $4.0 million in 2018. The Company's equity holdings generated dividends of $2.8 million in 2019 compared to $3.7 million in 2018.

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 this asset during the year.

At December 31, 2019, the Company owned 5,386,440 shares of Terravest with a value of $70.0 million, 34,961,900 shares of Trican with a value of $39.9 million and other securities with a value of $1.8 million.

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

	Year ended December 31, 2019 $
Securities – beginning of year	**120.2**
Purchases	**35.0**
Proceeds on sale	**(5.6)**
Net realized and unrealized gains on securities (net of foreign exchange losses on securities)	**27.0**
Reclassification of Holloway investment following the privatization	**(64.9)**
Securities – end of year	**111.7**

Hospitality segment

Holloway owns and operates hotels across Canada. 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 period ended December 31, 2019, since control was acquired, are below:

	Year ended December 31, 2019 $
Hotel operations	**72.8**
Management services	**1.1**
Investment income	**0.7**
Total Revenue	**74.6**
Less:	
Hotel operating expenses	**57.3**
Selling costs on property and equipment sales	**2.8**
Share-based payment expense	**0.4**
Depreciation and amortization	**11.9**
Interest expense	**7.1**
Loss before income taxes	**(4.9)**

Holloway's hotels generated $19.5 million of net operating income and $8.1 million of free cash flow in 2019. Holloway also generated $66.6 million from the sale of 13 properties. These cashflows allowed Holloway to repay $54.1 million of debt.

The weakness in the oil and gas sector had a significant impact on Holloway's hotels in the Western Canadian region through 2019. The Northern Canadian region experienced softer demand resulting from a reduction in Asian travelers. The Ontario region performed in line with the prior year on a consolidated basis, although there were variances amongst the hotels due to changes in business sources.

This past year was one of significant transition, as Holloway sold 13 properties and made the decision in early 2020 to exit the third-party hotel management business. These changes will enable Holloway to further streamline corporate overhead costs and focus exclusively on maximizing the operating performance of the hotel portfolio in the coming year. There are a number of hotels where we believe that strategic capital investments may improve performance, and we are presently working through the viability of these plans.

Another significant transition for Holloway in the year was the entrance into the US real estate market with the acquisition of three vacant office buildings in Houston, TX. There is considerable value we expect to unlock if we can successfully redevelop and/or occupy these buildings in a timely manner. While the properties are currently a net use of cash in the short term, this was anticipated, and these buildings are expected to be cash neutral at reasonably low occupancy rates.

OUTSTANDING SHARE DATA

At March 3, 2020, the Company had:

- An unlimited number of Common Shares authorized and 16,215,484 Common Shares outstanding; and
- An unlimited number of First and Second Preferred Shares authorized and none outstanding.
- 425,000 options to acquire Common Shares outstanding, 250,000 of which are vested and exercisable.

NORMAL COURSE ISSUER BIDS (“NCIB”)

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

In May 2017, Clarke announced that it had received approval from the TSX to conduct a NCIB to purchase for cancellation up to 742,243 Common Shares, representing 5% of the issued and outstanding Common Shares as at that date. The NCIB commenced on June 2, 2017 and Clarke repurchased 243,900 Common Shares by the end of 2017 and 199,100 Common Shares in 2018 prior to the expiry date of June 1, 2018.

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

In June 2019, Clarke announced that it had received approval from the TSX to conduct a NCIB to purchase for cancellation up to 602,071 Common Shares, representing 5% of the issued and outstanding Common Shares as a that date. The NCIB commenced on June 27, 2019 and will terminate on June 26, 2020. Clarke repurchased 91,200 Common Shares by the end of 2019.

SUBSTANTIAL ISSUER BIDS (“SIB”)

In December 2017, the Company initiated a SIB, pursuant to which the Company offered to purchase for cancellation up to 1,250,000 of its issued and outstanding Common Shares at a price of $10.50 per common share. The offer was open for acceptance until January 2018 at which time 1,851,579 Common Shares were tendered and taken up by the Company and cancelled.

LIQUIDITY AND CAPITAL RESOURCES

During 2019, the Company’s net short term debt position (a non-IFRS measure representing short-term indebtedness net of cash and cash equivalents) increased $28.2 million and is $27.5 million as at December 31, 2019. This decrease in cash is a result of purchasing investments during the year combined with consolidating Holloway’s short-term debt into our results.

Cash flow from operating activities

Cash provided by operating activities was $11.5 million for the year ended December 31, 2019, compared to $12.0 million for 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 year.

At December 31, 2019, working capital excluding securities was negative $36.5 million, compared to positive $6.2 million at December 31, 2018. The decrease is a result of borrowing on our facility to purchase investments during the year combined with consolidating Holloway’s short-term debt into our results. 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 $22.8 million for the year ended December 31, 2019, compared to $3.1 million used in 2018. Net cash provided by investing activities during the year was a result of proceeds from the sale of hotel properties of $66.6 million and the after-tax pension surplus distribution of $1.2 million, offset by net purchases of investments of $28.4 million, and the purchase of investment properties of $17.7 million. Net cash used investing activities during 2018 was mainly a result of net purchases of investments of $5.3 million and dry dock costs of $0.8 million in the ferry operation, offset by 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 $38.8 million for the year ended December 31, 2019, compared to $22.6 million used in 2018. Net cash used in financing activities during the year was related to the repayment of long-term debt of $27.0 million, the repurchase of Common Shares of $6.6 million, the purchase of non-controlling interests of $1.4 million, and net repayments on short-term borrowings of $2.0 million. Net cash used in financing activities during 2018 was related to the repurchase of Common Shares of $25.0 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	30.1	30.1	—	—	—
Convertible debentures	50.9	—	—	50.9	—
Long-term debt	52.9	10.4	38.7	1.1	2.7
Lease obligation	1.0	0.2	0.4	0.4	—
	134.9	40.7	39.1	52.4	2.7

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 December 31, 2019, $12.8 million was available under these facilities and $26.1 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 December 31, 2019, $48.5 million was available under these facilities and $4.0 million was drawn on these facilities. In total, $61.3 million was available on all facilities at the end of December 31, 2019 in addition to amounts drawn. *(see note 12 to the consolidated financial statements for the year ended December 31, 2019).*

Unrecorded commitments

At December 31, 2019, Clarke continued to be a party to the unrecorded commitments and contingencies as discussed in note 18 to the consolidated financial statements for the year ended December 31, 2019.

FOURTH QUARTER

A comparison of results for the three months ended December 31, 2019, compared to three months ended December 31, 2018, is as follows:

	Three months ended December 31, 2019 $	Three months ended December 31, 2018 $
Revenue		
Hotel and management services	**15.2**	—
Provision of services	**1.4**	1.4
Investment and other income (loss)	**6.2**	(9.5)
	22.8	(8.1)
Expenses		
Hotel operating expenses	**11.6**	—
Cost of services provided	**1.0**	1.1
General and administrative expenses	**1.6**	0.5
Property taxes and insurance	**1.2**	—
Depreciation	**3.0**	0.1
Interest expense and accretion on debt	**1.5**	—
Income (loss) before income taxes	**2.9**	(9.8)
Recovery of income taxes	**(2.8)**	—
Net income (loss)	**5.7**	(9.8)
Comprehensive income (loss)	**10.9**	(12.2)
Net income (loss) attributable to equity holders of the Company	**6.0**	(9.8)
Comprehensive income (loss) attributable to equity holders of the Company	**11.2**	(12.2)

Net realized and unrealized gains on investments for the fourth quarter of 2019 were $6.3 million compared to losses of $10.9 million for the same period in 2018. Dividend and interest income were $0.7 million in the fourth quarter of 2019 compared to $1.0 for the same period in 2018. General and administrative expenses during the fourth quarter of 2019 were $1.1 million higher than expenses during the same period in 2018 due to Holloway. The Company had net income attributable to equity holders of the Company of $6.0 million in the fourth quarter of 2019 compared to a net loss of $9.8 million in the same period in 2018. This was largely driven by the realized and unrealized net gains on investments during the period compared to the same period in the prior year. Comprehensive income attributable to equity holders of the Company for the fourth quarter was $11.2 million compared to a comprehensive loss of $12.2 million for the same period in 2018.

For the three months ended December 31, 2019, Clarke's basic EPS was $0.36, compared to negative $0.79 for the same period in 2018, and the diluted EPS was $0.34, compared to negative $0.79 for the same period in 2018.

Net cash used in operating activities was $0.1 million for the fourth quarter of 2019, compared to $0.7 million provided in the same period in 2018. Cash flows in the fourth quarters of 2019 and 2018 were driven mainly by the hospitality and ferry operations as well as the dividends and interest received during the periods.

Net cash used in investment activities was $2.5 million in the fourth quarter of 2019, compared to $5.6 million used in the same period in 2018. Net purchases of securities in the fourth quarter of 2019 totalled $1.8 million compared to net purchases of $5.6 million in the fourth quarter of 2018.

Net cash provided by financing activities for the fourth quarter of 2019 was $1.1 million compared to net cash used of $2.3 million for the same period in 2018. During the fourth quarter of 2019 the Company borrowed additional funds through its short-term facility to purchase securities and continued to make its regular long-term debt repayments and to repurchase shares under its NCIB.

SUMMARY OF QUARTERLY RESULTS

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

Three months ended	**Mar. 2018 $**	**Jun. 2018 $**	**Sep. 2018 $**	**Dec. 2018 $**	**Mar. 2019 $**	**Jun. 2019 $**	**Sep. 2019 $**	**Dec. 2019 $**
Revenue and other income (loss)	3.5	2.8	8.8	(8.2)	55.7	20.5	21.3	22.8
Net income (loss)	2.1	0.9	6.2	(9.8)	36.5	0.6	(3.6)	5.7
Other comprehensive income (loss)	0.2	—	21.2	(2.4)	(0.8)	(3.5)	(0.4)	5.2
Comprehensive income (loss)	2.3	0.9	27.4	(12.2)	35.7	(2.9)	(4.0)	10.9
Basic EPS (in dollars)	0.16	0.07	0.49	(0.79)	3.06	(0.13)	(0.24)	0.36
Diluted EPS (in dollars)	0.16	0.07	0.49	(0.79)	3.04	(0.13)	(0.24)	0.34

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 during 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 Terravest and Trican are significant equity investees. Accordingly, we are required to disclose the following summary financial information. The summarized financial information provided is for the most recent annual period and the comparative annual period. For those reporting entities that have not yet released their annual consolidated financial statements for the current year, the prior period financial information is provided.

Terravest

Terravest is engaged in (i) the manufacturing of residential and commercial tanks and pressure vessels, (ii) the manufacturing of storage and transportation equipment, (iii) the manufacturing of wellhead processing equipment for the oil and natural gas industry, and (iv) well servicing for the oil and natural gas industry. As of December 31, 2019, Clarke owned 29.4% of the outstanding shares of Terravest.

Selected Financial Information	**December 31, 2019 $**	September 30, 2018 $
Total assets	**331.0**	273.6
Total liabilities	**(222.1)**	(172.7)
Shareholders' equity	**108.9**	100.9
	Three months ended December 31, 2019 $	Three months ended December 31, 2018 $
Total revenue	**88.2**	79.0
Net income	**6.4**	6.1

Trican

Trican is an oilfield services company with considerable operations in pressure pumping, coil tubing and cementing as well as numerous other service lines. As of December 31, 2019, Clarke owned 12.8% of the outstanding shares of Trican.

Selected Financial Information	**Year ended December 31, 2019 $**	Year ended December 31, 2018 $
Total assets	**926.5**	1,037.8
Total liabilities	**(185.4)**	(193.7)
Shareholders' equity	**741.1**	844.1
Total revenue	**636.1**	864.5
Net loss	**(73.5)**	(232.7)

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.

RELATED PARTY TRANSACTIONS

The Company was party to the following related party transactions during the year ended December 31, 2019:

- The Company was a party to rental, information technology and tax services agreements with companies owned or partially owned by the Executive Chairman and his immediate family member. Included in *'Expenses'* is rental, IT and tax services expenses of $0.4 million (2018 – $0.1 million) under the agreements.

- The Company provides administrative and asset management services to two pension plans it sponsors. Included in *'Revenue'* is $0.5 million (2018 – $0.5 million) for services provided to the pension plans during the year.

- During the year, the Company sold marketable securities through the facilities of the 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 $3.6 million.

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

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

Year ended December 31, 2019	Board of directors $	Officers $	**Total** **$**
Salary and fees	0.1	0.4	**0.5**
Bonus	—	0.4	**0.4**
Pension value	1.1	—	**1.1**
Total	1.2	0.8	**2.0**

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the President & Chief Executive Officer and the Chief Financial Officer, particularly during the period in which annual filings are being prepared. These two certifying officers evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2019, and based on their evaluation, concluded that these controls and procedures were adequate and effective.

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

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 consolidated financial statements. Summary financial information for the company as consolidated in the financial statements of Clarke as at December 31, 2019, is as follows:

	$
Total assets	**255.7**
Total liabilities	**(62.3)**
Revenue	**74.6**
Net income	**0.7**

Finally, there have been no changes in the Company's disclosure controls and procedures or internal controls over financial reporting during the year ended December 31, 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. These limited reviews identified no material remediation issues and potential risks and there have been no material events arising subsequently that would indicate additional obligations.

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

SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Please refer to notes 1, 2 and 3 of our consolidated financial statements for the year ended December 31, 2019 for a detailed discussion regarding our significant accounting policies and application of significant accounting judgments, estimates and assumptions. Such changes are reflected in the assumptions when they occur.

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.

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.

Marketable securities

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

Venture capital organization

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

Valuation of property and equipment

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

Increases in fair value are recorded in other comprehensive income 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 and the bargain purchase gain. If the value of the comparable hotel sales had been 5% higher/lower in the purchase price allocation, the estimated fair value would result in a change of $2,800 to property and equipment and the bargain purchase gain.

During the fourth quarter of 2019, the Company revalued two of its hotels based on purchase offers. The value of one hotel increased by $6,000 and the increase was recorded through other comprehensive income. The value of the other hotel decreased by $800 and is included in investment and other income (note 20).

Fair value of investment properties

The Company's significant investment properties consist of a leased hotel property and three office buildings. The three office buildings were acquired in 2019 and due to the proximity of their respective acquisition dates, there were no fair value adjustments recorded during the year ended December 31, 2019. The fair value of the leased hotel property was determined based on the option price for the lessee to acquire the hotel. Changes to the fair value of the Company's investment properties will occur periodically, based on operating performance, economic activity, regional development opportunities and new competition in the markets in which they operate.

Investment entity

IFRS 10 includes an amendment that defines investment entities, and it allows entities to measure their subsidiaries at FVTPL instead of consolidating the results. Management has assessed the standard and determined that the Company does not meet

all criteria outlined in IFRS 10 in order for a parent to be considered an investment entity. The Company consolidates all of its controlled investments.

Taxes

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

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

Pension benefits and asset ceiling

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details about the assumptions used are disclosed in note 8. Management is also required to make certain assumptions regarding the quantification of the asset ceiling, which impacts the accrued pension benefit recorded on the consolidated statement of financial position.

CAUTIONARY STATEMENT REGARDING USE OF NON-IFRS ACCOUNTING MEASURES

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

FORWARD-LOOKING STATEMENTS

This MD&A may contain or refer to certain forward-looking statements relating, but not limited, to the Company's expectations, intentions, plans and beliefs with respect to the Company. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "does not expect", "is expected", "budgets", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", "believes", or equivalents or variations of such words and phrases, or state that certain actions, events or results, "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements include, without limitation, those with respect to the future or expected performance of the Company's investee companies, the future price and value of securities held by the Company, changes in these securities holdings, the future price of oil and value of securities held in the Company's energy basket, changes to the Company's hedging practices, currency fluctuations and requirements for additional capital. Forward-looking statements rely on certain underlying assumptions that, if not realized, can result in such forward-looking statements not being achieved. Forward-looking statements

involve known and unknown risks, uncertainties and other factors that could cause the actual results of the Company to be materially different from the historical results or from any future results expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others, the Company's investment strategy, legal and regulatory risks, general market risk, potential lack of diversification in the Company's investments, interest rates, foreign currency fluctuations, the sale of Company investments, the fact that dividends from investee companies are not guaranteed, reliance on key executives, commodity market risk, risks associated with investment in derivative instruments and other factors. With respect to the Company's investment in a ferry operation, such risks and uncertainties include, among others, weather conditions, safety, claims and insurance, labour relations, and other factors.

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

Clarke Inc.

December 31, 2019 and 2018

Independent auditor's report

To the Shareholders of Clarke Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Clarke Inc. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of earnings for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of shareholders' equity for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

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

Other information

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

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

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Professional Accountants
Halifax, Nova Scotia
March 3, 2020

Clarke Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at December 31,	**2019** **$**	2018 $
ASSETS		
Current		
Cash and cash equivalents	**2,530**	7,002
Marketable securities *(note 5)*	**111,683**	120,174
Receivables *(note 6)*	**3,941**	750
Inventories	**207**	—
Income taxes receivable	—	55
Prepaid expenses	**672**	104
Current portion of loans receivable *(note 7)*	**5,175**	—
Total current assets	**124,208**	128,085
Accrued pension benefit asset *(note 8)*	**28,555**	34,666
Property and equipment *(note 9)*	**212,598**	777
Investment properties *(note 10)*	**19,876**	167
Loans receivable *(note 7)*	**2,379**	—
Deferred income tax assets *(note 11)*	**13,222**	381
Other assets	**354**	—
Total assets	**401,192**	164,076
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Short-term indebtedness *(note 12)*	**30,061**	—
Accounts payable and accrued liabilities *(note 13)*	**7,856**	723
Income taxes payable	**148**	22
Accrued interest on convertible debentures	**530**	—
Current portion of long-term debt *(note 15)*	**10,448**	1,000
Total current liabilities	**49,043**	1,745
Convertible debentures *(note 14)*	**50,866**	—
Long-term debt *(note 15)*	**42,418**	2,444
Lease obligations *(note 2)*	**999**	—
Deferred income tax liabilities *(note 11)*	**8,279**	9,894
Total liabilities	**151,605**	14,083
Commitments and contingencies *(note 18)*		
Shareholders' equity		
Share capital *(note 19)*	**98,051**	39,826
Contributed surplus *(notes 4 and 9)*	**7,302**	—
Retained earnings	**104,511**	70,994
Accumulated other comprehensive income	**38,149**	37,628
Share-based payments *(note 17)*	**1,574**	1,545
Total shareholders' equity	**249,587**	149,993
Total liabilities and shareholders' equity	**401,192**	164,076

See accompanying notes to the consolidated financial statements

On behalf of the Board:

/s/ George Armoyan
Director

/s/ Blair Cook
Director

Clarke Inc.

CONSOLIDATED STATEMENTS OF EARNINGS

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

Years ended December 31,	**2019** **$**	2018 $
Revenue and other income		
Hotel and management services	**73,935**	—
Provision of services	**8,108**	7,395
Bargain purchase *(note 4)*	**21,798**	—
Investment and other income (loss) *(notes 16 and 20)*	**16,684**	(945)
	120,525	6,450
Expenses		
Hotel operating expenses *(note 21)*	**50,827**	—
Cost of services provided *(note 21)*	**4,401**	4,228
General and administrative expenses *(note 21)*	**4,644**	1,814
Property taxes and insurance *(note 21)*	**4,521**	—
Selling costs on property and equipment sales	**2,766**	—
Share-based payment expense *(note 17)*	**474**	—
Depreciation	**12,338**	331
Interest expense and accretion on debt *(note 22)*	**7,949**	129
	87,920	6,502
Income (loss) before income taxes	**32,605**	(52)
Provision for (recovery of) income taxes *(note 11)*	**(6,050)**	512
Net income (loss)	**38,655**	(564)
Attributable to:		
Equity holders of the Company	**38,374**	(564)
Non-controlling interest	**281**	—
	38,655	(564)
Basic earnings (loss) per share attributable to equity holders of the Company:		
(in dollars) (note 19)	**2.90**	(0.04)
Diluted earnings (loss) per share attributable to equity holders of the Company:		
(in dollars) (note 19)	**2.78**	(0.04)

See accompanying notes to the consolidated financial statements

Clarke Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian dollars)

Years ended December 31,	**2019**	2018
	$	$
Net income (loss)	**38,655**	(564)
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 $921 (2018 – expense of $7,609) *(note 8)*	**(3,855)**	19,125
Revaluation surplus, net of income tax expense of $1,254 (2018 – nil)	**4,746**	—
Items that may be reclassified subsequently to profit of loss		
Unrealized losses on translation of net investment in foreign operations, net of income tax recovery of $48 (2018 – nil) *(note 10)*	**(398)**	—
Other comprehensive income	**493**	19,125
Comprehensive income	**39,148**	18,561
Attributable to:		
Equity holders of the Company	**38,895**	18,561
Non-controlling interest	**253**	—
	39,148	18,561

See accompanying notes to the consolidated financial statements

Clarke Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

Years ended December 31,	**2019**	2018
	$	$
OPERATING ACTIVITIES		
Net income (loss)	**38,655**	(564)
Adjustments for items not involving cash *(note 23)*	**(25,643)**	6,877
	13,012	6,313
Net change in non-cash working capital balances *(note 23)*	**(1,539)**	5,644
Net cash provided by operating activities	**11,473**	11,957
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities *(note 16)*	**5,621**	4,139
Purchase of marketable securities	**(34,080)**	(9,446)
Proceeds on disposition of property and equipment	**66,566**	1
Purchase of property and equipment	**(5,248)**	(832)
Purchase of investment properties *(note 10)*	**(17,731)**	—
Proceeds on disposition of loans receivable	**5,623**	—
Distribution of pension plan surplus, net of tax *(note 8)*	**1,159**	1,216
Cash acquired on business combination *(note 4)*	**906**	—
Proceeds on disposition of long-term investments	—	1,717
Other	—	64
Net cash provided by (used in) investing activities	**22,816**	(3,141)
FINANCING ACTIVITIES		
Repurchase of shares for cancellation *(note 19)*	**(6,625)**	(24,956)
Net repayments of short-term indebtedness	**(1,988)**	—
Proceeds of long-term debt *(note 15)*	—	3,069
Repayment of long-term debt *(note 15)*	**(26,961)**	(700)
Principal payments of lease obligation	**(140)**	—
Purchase of non-controlling interests	**(1,386)**	—
Dividends paid by subsidiary to non-controlling interest	**(534)**	—
Repurchase of shares by subsidiary from non-controlling interest	**(1,127)**	—
Net cash used in financing activities	**(38,761)**	(22,587)
Net change in cash during the year	**(4,472)**	(13,771)
Cash and cash equivalents, beginning of year	**7,002**	20,773
Cash and cash equivalents, end of year	**2,530**	7,002

See accompanying notes to the consolidated financial statements

Clarke Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)

Years ended December 31,	**2019**	2018
	$	$
Share capital		
Common shares:		
Balance at beginning of year	**39,826**	47,330
Common shares repurchased for cancellation *(note 19)*	**(1,768)**	(7,504)
Common shares issued pursuant to an acquisition *(note 4)*	**59,993**	—
Balance at end of year	**98,051**	39,826
Contributed surplus		
Balance at beginning of year	—	—
Book value of non-controlling interest in excess of common shares issued as consideration *(note 4)*	**6,356**	—
Book value of non-controlling interest in excess of purchase price *(note 9)*	**946**	
Balance at end of year	**7,302**	—
Retained earnings		
Balance at beginning of year	**70,994**	89,010
Net income (loss) attributable to equity holders of the Company	**38,374**	(564)
Purchase price in excess of the book value of common shares repurchased for cancellation *(note 19)*	**(4,857)**	(17,452)
Balance at end of year	**104,511**	70,994
Accumulated other comprehensive income		
Balance at beginning of year	**37,628**	18,503
Other comprehensive income attributable to equity holders of the Company	**521**	19,125
Balance at end of year	**38,149**	37,628
Share-based payments		
Balance at beginning of period	**1,545**	1,545
Share-based payment expense *(note 17)*	**29**	—
Balance at end of year	**1,574**	1,545
Total shareholders' equity attributable to equity holders of the Company	**249,587**	149,993
Non-controlling interest		
Balance at beginning of period	—	—
Non-controlling interest acquired in a business combination *(note 4)*	**70,070**	—
Net income attributable to non-controlling interest	**281**	—
Other comprehensive loss attributable to non-controlling interest	**(28)**	—
Dividend declared by subsidiary to non-controlling interest	**(534)**	—
Repurchase by subsidiary of shares owned by non-controlling interest	**(1,127)**	—
Stock options of subsidiary exercised by non-controlling interest *(note 17)*	**25**	—
Acquisition of remaining shares of non-wholly owned subsidiaries *(notes 4 and 9)*	**(68,687)**	—
Balance at end of period	—	—
Total shareholders' equity	**249,587**	149,993

See accompanying notes to the consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Clarke Inc. (the "Company") was incorporated on December 9, 1997 pursuant to the Canada Business Corporations Act. The head office of the Company is located at 145 Hobsons Lake Drive, Halifax, Nova Scotia. The Company is an investment holding company with investments in a diversified group of businesses, operating primarily in Canada. The Company continuously evaluates the acquisition, retention and disposition of its investments. Changes in the mix of investments should be expected. These consolidated financial statements were approved by the Board of Directors on March 3, 2020.

Basis of presentation and statement of compliance

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

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Principles of consolidation

The 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.

Cash and cash equivalents

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

Marketable securities, investments in associates and long-term investments

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

Transaction costs

Transaction costs related to investments are expensed as incurred. Transaction costs for all other financial instruments are capitalized and for instruments with maturity dates are then amortized over the expected life of the instrument using the effective interest rate method ("EIR").

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

Revenue recognition

Investment and other income

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

Ferry revenue

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

Hotel revenue

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

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.

Foreign currency translation

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

Transactions in foreign currencies are initially recorded at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. There were no non-monetary assets or liabilities denominated in foreign currencies as at December 31, 2019. All foreign exchange gains and losses are recorded in other income as incurred.

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.

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

Taxes

Current income tax

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

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

Deferred income tax

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

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

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

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

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

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

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

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

Sales tax

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

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statements of financial position.

Property and equipment

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

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

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

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

As a result of 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 at the time of the accounting policy change.

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.

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

Investment properties

Investment properties are held either to earn rental income, for capital appreciation (including future re-development) or both, but not for sale in the ordinary course of business. In accordance with *IAS 40, Investment Property*, the Company changed its accounting policy from the cost model to the fair value model. Investment properties are initially measured at cost, including transaction costs, and subsequently measured at fair value for each reporting date. The difference between the fair value at the reporting date and the carrying value is recognized in the consolidated statements of earnings. Under the fair value model, investment properties are not depreciated. The investment properties acquired in the business combination 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 fair value adjustment was required.

Inventories

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

Financial instruments — initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

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

Subsequent measurement

Financial assets at FVTPL

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

Impairment of financial assets at amortized cost

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

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

ii) Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

Derecognition and modification

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of earnings.

iii) Offsetting of financial instruments

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

iv) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market last bid price, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 25.

Operating segments

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

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

Provisions

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

Convertible debentures

The convertible debentures were assumed in the business combination 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 EIR method, with interest income included in investment and other income. The debentures are both convertible by the users and redeemable by the Company (note 14). The fair value of the conversion and redemption options were evaluated upon assumption in the business combination. The fair value of the conversion option was determined to be immaterial and as such, was not bifurcated with an equity component. The economic characteristics and risks of the redemption option were determined to be closely related to those of the debentures. As such, the embedded derivative was not separated from the debentures and is not accounted for as a derivative.

Loyalty programs

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

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks of the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly-traded subsidiaries or other available fair value indicators. Impairment losses are recognized in the consolidated statements of earnings.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in the consolidated statements of earnings.

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

Per share information

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

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

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

Pensions and other post-employment benefits

The Company has two defined benefit pension plans covering full-time employees who commenced employment before September 2003. One plan is federally regulated by OSFI and the second plan is provincially regulated by Retraite Quebec. For certain other employees, the Company has a RRSP and defined contribution matching pension plan. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. Remeasurement gains and losses and the effect of the limit on the asset ceiling of the defined benefit plans are included in other comprehensive income. The past service costs, current service costs, net interest on surplus and non-investment management fees are recognized as an expense in the consolidated statements of earnings. The defined benefit asset comprises the fair value of plan assets less the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds, as explained in note 3). Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value is based on market price information and in the case of quoted securities it is the published bid price. The value of any defined benefit asset recognized is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

2. 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.

2. ADOPTION OF NEW STANDARD (CONT'D)

The Company assessed this new standard and there was no impact to the consolidated financial statements from this adoption on January 1, 2019. The Company took the practical expedient permitted by IFRS 16 to account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases. As at January 1, 2019, there were no leases with a term of more than twelve months. 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 right-of-use asset, included in property and equipment, was $731 on acquisition and the lease obligation assumed was $734. The current portion of the lease obligation is presented in accounts payable and accrued liabilities. During the year ended December 31, 2019, the Company entered into a new lease agreement for a separate office space in the amount of $413 and recorded a second lease obligation accordingly (note 9).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

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.

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.

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

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.

Marketable securities

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

Venture capital organization

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

Valuation of property and equipment

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

Increases in fair value are recorded in other comprehensive income 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%.

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

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

During the fourth quarter of 2019, the Company revalued two of its hotels based on purchase offers. The value of one hotel increased by $6,000 and the increase was recorded through other comprehensive income. The value of the other hotel decreased by $800 and is included in investment and other income (note 20).

Fair value of investment properties

The Company's significant investment properties consist of a leased hotel property and three office buildings. The three office buildings were acquired in 2019 (note 10) and due to the proximity of their respective acquisition dates, there were no fair value adjustments recorded during the year ended December 31, 2019. The fair value of the leased hotel property was determined based on the option price for the lessee to acquire the hotel. Changes to the fair value of the Company's investment properties will occur periodically, based on operating performance, economic activity, regional development opportunities and new competition in the markets in which they operate.

Investment entity

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

Estimates and assumptions

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

Taxes

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

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

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

Pension benefits and asset ceiling

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details about the assumptions used are disclosed in note 8. Management is also required to make certain assumptions regarding the quantification of the asset ceiling, which impacts the accrued pension benefit recorded on the consolidated statement of financial position.

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 FVTPL, therefore, the pre-acquisition net gain to the carrying value of the investment was nominal. As a result of this transaction, this business was accounted for as a non-wholly owned subsidiary of the Company and the results of the acquired business have been consolidated with those of the Company from January 24, 2019, with the inclusion of a 49.0% non-controlling interest until September 30, 2019.

On August 8, 2019, the Company entered into a definitive agreement (the "Arrangement Agreement") pursuant to which the Company agreed to acquire all outstanding common shares of Holloway by way of a statutory plan of arrangement under the Ontario Business Corporations Act. Under the terms of the Arrangement Agreement, Holloway shareholders, other than the Company, received 0.65 common shares of Clarke Inc. for each Holloway common share they 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 in the amount of $6,356 was charged to contributed surplus.

4. BUSINESS COMBINATION (CONT'D)

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	**(70,070)**
Net assets acquired, at fair value	**72,298**

This acquisition of control resulted in a gain on a bargain purchase in the subsidiary of $21,798, which is included in the consolidated statement of earnings for the year ended December 31, 2019. The bargain purchase was reduced by $591 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 remaining three quarters of 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 $40.

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

5. MARKETABLE SECURITIES

The Company's marketable securities include publicly traded equities measured at FVTPL. Included in the Company's marketable securities balance is TerraVest Industries Inc. ("Terravest") which is an investment in associate designated at FVTPL (note 27). Terravest is a Canadian publicly traded company.

6. RECEIVABLES

	2019 $	2018 $
Trade receivables	**3,061**	62
Less: loss allowance	**(183)**	—
Trade receivables – net	**2,878**	62
Investment income receivable	**579**	616
Receivables from credit card companies	**112**	—
Other receivables	**372**	72
	3,941	750

7. LOANS RECEIVABLE

	2019 $	2018 $
Senior secured loan	**714**	—
Vendor take-back loans	**6,840**	—
	7,554	—
Less: Current portion	**(5,175)**	—
	2,379	—

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.

The vendor take-back loans have terms ranging from one year to five years and bear interest at 5.0% with interest payable monthly to the Company.

8. EMPLOYEE FUTURE BENEFITS

The Company has two defined benefit pension plans providing pensions for staff who commenced employment prior to September 1, 2003. For all other staff, the Company provides RRSP and defined contribution matching pension plans.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 for each year. The most recent actuarial valuation of one defined benefit pension plan for funding purposes was as of December 31, 2018 and for the second defined benefit pension plan was as of December 31, 2017.

The Company amended the surplus policy of one of its pension plans during the prior year. As a result, there was no longer a cumulative asset ceiling impact, and the Company began recognizing its entire surplus on the consolidated statements of financial position. The effect of the change is included in other comprehensive income for the year ended December 31, 2018.

During the year, 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.

Total cash payments for employee future benefits for the year ended December 31, 2019, consisting of cash contributed by the Company to its RRSP and defined contribution matching pension plans were $98 (2018 – $100).

8. EMPLOYEE FUTURE BENEFITS (CONT'D)

Defined benefit plan assets

Fair value of plan assets	**2019** **$**	2018 $
Balance, beginning of year	**82,488**	83,831
Interest income	**3,091**	2,738
Employee contributions	**2**	2
Benefits paid	**(2,938)**	(2,876)
Non-investment management fees	**(364)**	(344)
Remeasurement gains	**344**	1,007
Surplus distribution	**(1,579)**	(1,870)
Balance, end of year	**81,044**	82,488

Defined benefit plan obligations

Accrued benefit obligation	**2019** **$**	2018 $
Balance, beginning of year	**47,822**	51,656
Current service cost	**649**	637
Interest cost	**1,834**	1,729
Employee contributions	**2**	2
Benefits paid	**(2,938)**	(2,876)
Remeasurement losses (gains)	**5,120**	(3,326)
Balance, end of year	**52,489**	47,822

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

	2019 **$**	2018 $
Fair value of plan assets	**81,044**	82,488
Accrued benefit obligation	**(52,489)**	(47,822)
Funded status of plans – accrued pension benefit asset	**28,555**	34,666

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

For the years ended December 31	**2019** **$**	2018 $
Current service cost	**(649)**	(637)
Net interest on surplus	**1,258**	513
Provision for non-investment management fees	**(364)**	(344)
Defined benefit recovery (expense) recognized	**245**	(468)

8. EMPLOYEE FUTURE BENEFITS (CONT'D)

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

For the years ended December 31	2019 $	2018 $
Net remeasurement gains (losses)	**(4,776)**	4,333
Change in amount of asset ceiling	**—**	22,401
Deferred income tax recovery (expense)	**921**	(7,609)
Defined benefit recovery (expense) recognized	**(3,855)**	19,125

Significant assumptions

	2019 %	2018 %
Accrued benefit obligation:		
Discount rate	**3.10**	3.90
Rate of compensation increase*	**2.50 – 4.00**	2.50 – 4.00
Benefit costs for the year:		
Discount rate	**3.90**	3.40
Rate of compensation increase *	**2.50 – 4.00**	2.50 – 4.00

** The rate of compensation increase is only applicable to the two remaining active members of the Pension Plan.*

9. PROPERTY AND EQUIPMENT

Year ended December 31, 2019	Land $	Buildings and components $	Ferry and vessel dry dock costs $	Furniture, fixtures and equipment $	Right-of-use assets $	Renovations in progress $	Total $
Beginning balance	—	—	763	14	—	—	777
Acquired in business combination	41,022	223,678	—	19,339	731	1,996	286,766
Additions	—	1,915	—	1,841	413	1,638	5,807
Disposals	(13,356)	(55,160)	—	(4,776)	—	(359)	(73,651)
Revaluations	2,880	2,320	—	—	—	—	5,200
Depreciation	—	(8,394)	(352)	(3,443)	(112)	—	(12,301)
Ending balance	**30,546**	**164,359**	**411**	**12,975**	**1,032**	**3,275**	**212,598**
Valuation	30,546	171,031	—	—	—	—	201,577
Cost	—	—	4,657	16,091	1,144	3,275	25,167
Accumulated depreciation	—	(6,672)	(4,246)	(3,116)	(112)	—	(14,146)
Net book value	**30,546**	**164,359**	**411**	**12,975**	**1,032**	**3,275**	**212,598**

As at December 31, 2019, the net book value of the Company's land and buildings and components would have been $27,666 and $162,039, respectively, had the Company used the cost model, and the net book value of property and equipment would have been $207,398.

9. PROPERTY AND EQUIPMENT (CONT'D)

On November 7, 2019, the Company acquired the common shares of the non-controlling interests in the Super 8® in St. John's, NL for $436. The book value of the non-controlling interest in excess of purchase price of $946 was recorded in contributed surplus.

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 recorded $230 in business interruption insurance (included in investment and other income) and $1,197 in property and contents insurance, net of clean-up and other costs, used to incur capital improvements during the year ended December 31, 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**

10. INVESTMENT PROPERTIES

	Buildings $	Vacant land $	Total $
Carrying value – January 1, 2019	—	167	167
Acquired in business combination	2,525	—	2,525
Additions	17,731	—	17,731
Foreign exchange impact	(547)	—	(547)
Carrying value – December 31, 2019	**19,709**	**167**	**19,876**

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$8,310. The functional currency of these foreign operations is the US dollar.

11. INCOME TAXES

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

Consolidated statements of earnings	**2019** **$**	2018 $
Current income tax		
Current income tax charge	**1,036**	(1,523)
Adjustments in respect of current income tax of previous year	**(30)**	329
Deferred income tax		
Relating to origination and reversal of temporary differences	**(3,315)**	800
Relating to the benefit of a previously unrecognized deferred income tax asset	**(3,819)**	—
Relating to the change in recoverable amount of a deferred income tax asset	**78**	906
Provision for (recovery of) income taxes	**(6,050)**	512

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

	2019 **$**	2018 $
Provision for (recovery of) income taxes at statutory rate of 28.53% (2018 – 28.56%)	**9,302**	(15)
Increase (decrease) from statutory rate:		
Effect of difference in statutory rates of subsidiaries	**1,151**	(17)
Non-taxable component of realized and unrealized investment losses (gains) and bargain purchase	**(12,848)**	541
Non-taxable dividend income	**(657)**	(968)
Non-deductible expenses	**285**	2
Benefit of previously unrecognized deferred income tax asset	**(3,741)**	906
Effect of prior year tax adjustments	**349**	32
Other	**109**	31
Provision for (recovery of) income taxes at effective rate	**(6,050)**	512

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

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

11. INCOME TAXES (CONT'D)

Year ended December 31, 2018	Deferred income tax asset (liability) beginning of year $	Recognized directly in equity $	Recognized directly in earnings $	Deferred income tax asset (liability) end of year $
Intangible assets	(260)	—	200	(60)
Marketable securities	1,949	—	(1,936)	13
Property and equipment	682	—	(294)	388
Long-term investments	(34)	—	44	10
Employee future benefits	(2,958)	(7,609)	667	(9,900)
Loss carry forwards	423	—	(387)	36
	(198)	(7,609)	(1,706)	(9,513)
Income tax assets	1,420	—	(1,039)	381
Income tax liabilities	(1,618)	(7,609)	(667)	(9,894)
	(198)	(7,609)	(1,706)	(9,513)

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

At December 31, 2019, there was no deferred income tax liability recognized for taxable temporary differences related to undistributed profits of certain of the Company's subsidiaries as the Company is able to control and determine, whether to, and the method for distributing those profits and has determined that those taxable temporary differences will not reverse in the foreseeable future. The taxable temporary differences associated with investments in subsidiaries for which a deferred income tax liability has not been recognized aggregate to $240,279 (2018 – $163,316).

As at December 31, 2019, the Company had non-capital losses carried forward for tax purposes of $16,535 (2018 – $121) in Canada and US$6,374 (2018 – nil) in the United States and capital losses carried forward for tax purposes of $9,365 (2018 – nil).

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

	2019 **$**	2018 $
Marketable securities	—	1,445
Non-capital and capital loss carry forwards	**8,278**	135
Total	**8,278**	1,580

12. 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 December 31, 2019 and 2018. 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 4.75% at December 31, 2019 (December 31, 2018 – 5.50%). The Company had drawn nil on the Canadian dollar and US dollar facilities, respectively, at December 31, 2019 and 2018.

12. SHORT-TERM INDEBTEDNESS (CONT'D)

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 December 31, 2019 and 2018. The Company had drawn $26,109 on the demand revolving loan at December 31, 2019 and nil at December 31, 2018. The Company has unrestricted access to its credit facilities subject to pledging sufficient securities as collateral, with a carrying value of $109,880 as at December 31, 2019 (2018 – $105,226). 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 December 31, 2019 of $31,446. 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 December 31, 2019, the Company had drawn $3,952 on this facility. This facility is secured by a registered charge on five hotel properties, with a carrying value of $72,051, 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 December 31, 2019, the Company had drawn nil on this facility. This facility, and a corresponding mortgage payable (note 15), are secured by a registered charge on five hotel properties, with a carrying value of $74,433. This facility is subject to an annual review and matures in May 2022. Each individual draw must be repaid within one year.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
	$	$
Trade payables	**2,688**	121
Accrued liabilities	**5,168**	602
	7,856	723

14. CONVERTIBLE DEBENTURES

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. 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 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.

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.

14. CONVERTIBLE DEBENTURES (CONT'D)

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 December 31, 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).

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

	2019 **$**
Fair value assumed on business combination	**50,917**
Amortization of fair value increment	**(51)**
Ending balance	**50,866**

15. LONG-TERM DEBT

	2019 **$**	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 1.50% for 2019 and 1.00% for 2018 (4.55% as at December 31, 2019 and 5.05% as at December 31, 2018), secured by fixed charge against ferry, *MV Trans-Saint-Laurent*, machinery, tools, vehicles, and intellectual property, with a carrying value of $446.	**2,444**	3,444
Mortgages payable, assumed in a business combination (note 4), with a face value of $50,175, bearing interest at a weighted average rate of 4.90% and maturing on various dates from February 2020 to September 2029. Individual first charges on 11 hotel properties with a carrying value of $135,082 have been pledged as security for individual mortgages.	**50,422**	—
Total long-term debt	**52,866**	3,444
Less: current portion of long-term debt	**(10,448)**	(1,000)
Long-term portion	**42,418**	2,444

The following table summarizes significant changes in long-term debt

	2019 **$**	2018 $
Total long-term debt – beginning balance	**3,444**	1,075
Assumed in business combination *(note 4)*	**76,446**	—
Proceeds from long-term debt	**—**	3,069
Repayment of long-term debt	**(26,961)**	(700)
Accretion of deferred financing fees	**308**	—
Amortization of fair value increment	**(371)**	—
Total long-term debt – ending balance	**52,866**	3,444

15. LONG-TERM DEBT (CONT'D)

During the prior year, the Company refinanced the term loan in one of its subsidiaries and received additional proceeds of $3,069 for a total new loan obligation of $4,000. The existing debt was replaced by another from the same lender on substantially different terms and treated as a derecognition of the original liability and the recognition of a new liability.

16. RELATED PARTY DISCLOSURES

The Company had the following related party transactions in the normal course of operations and measured at fair value:

(i) The Company was a party to rental, information technology and tax services agreements with companies owned or partially owned by the Executive Chairman and his immediate family member. Included in *'Expenses'* is rental, IT and tax services expenses of $394 (2018 – $110) under the agreements.

(ii) The Company provides administrative and asset management services to two pension plans it sponsors. Included in *'Revenue'* is $524 (2018 – $470) for services provided to the pension plans during the year.

(iii) During the year, 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.

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

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

Year ended December 31, 2019	Board of directors $	Officers $	**Total** **$**
Salary and fees	86	420	**506**
Bonus	—	432	**432**
Pension value	1,136	9	**1,145**
Total	1,222	861	**2,083**

17. SHARE-BASED PAYMENTS

Equity-settled

The Company has reserved 7.50% of its issued and outstanding common shares under a stock option plan for directors, officers and certain employees. As at December 31, 2019, there were 425,000 options outstanding, of which 250,000 were exercisable. There were 175,000 options granted, and there were no options exercised, cancelled or forfeited during the year ended December 31, 2019. The grant date for the 250,000 vested options was August 18, 2014 with a modified exercise price of $8.19 per share and an expiry date of August 7, 2021. The grant date for the remaining 175,000 options was November 24, 2019 with an exercise price of $14.26 per share, a vesting period of three years, and an expiry date of November 24, 2026.

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

17. SHARE-BASED PAYMENTS (CONT'D)

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

Cash-settled

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 2019.

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

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

18. COMMITMENTS AND CONTINGENCIES

As a result of the business combination during 2019, the Company assumed the following commitments and contingencies through its subsidiary:

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 December 31, 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.

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.

19. SHARE CAPITAL AND EARNINGS PER SHARE

As at and for the year ended December 31	**2019**		2018	
	# of shares	**$**	# of shares	$
Authorized				
Unlimited number of common shares – no par value				
Unlimited number of First Preferred shares				
Unlimited number of Second Preferred shares				
Issued				
Outstanding common shares, beginning of year	**12,285,888**	**39,826**	14,600,967	47,330
Common shares repurchased for cancellation	**(514,159)**	**(1,768)**	(2,315,079)	(7,504)
Common shares issued pursuant to an acquisition	**4,799,455**	**59,993**	—	—
Outstanding common shares, end of year	**16,571,184**	**98,051**	12,285,888	39,826

Earnings per share

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

	2019			2018		
	Earnings	**Weighted average shares (in thousands)**	**Per share amount**	Loss	Weighted average shares (in thousands)	Per share amount
	$	**#**	**$**	$	#	$
Basic earnings (loss) per share	**38,374**	**13,237**	**2.90**	(564)	12,630	(0.04)
Common shares issued on assumed exercising of stock options	—	**87**		—	65	
Interest, net of income taxes, on assumed conversion of convertible debentures	**579**	**674**		—		
Diluted earnings (loss) per share	**38,953**	**13,998**	**2.78**	(564)	12,695	(0.04)

All potentially dilutive securities issued relate to stock options and convertible debentures for the year ended December 31, 2019 and stock options for the year ended December 31, 2018. The stock options and convertible debentures were dilutive for the year ended December 31, 2019, and the stock options were dilutive for the year ended December 31, 2018.

During the year ended December 31, 2019, the Company purchased for cancellation 514,159 (2018 – 463,500) common shares at a cost of $6,625 (2018 – $5,514). The purchase price in excess of the historical book value of the shares in the amount of $4,857 (2018 – $4,012) has been charged to retained earnings and $1,768 (2018 – $1,502) has been charged to share capital.

During the prior year, 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.

20. INVESTMENT AND OTHER INCOME (LOSS)

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

	2019	2018
	$	$
Unrealized gains (losses) on investments	**16,992**	(9,210)
Realized gains (losses) on investments	**(3,330)**	4,057
Revaluation of hotel properties	**(800)**	—
Dividend income	**2,209**	3,735
Interest income	**964**	173
Pension recovery (expense) *(note 8)*	**245**	(468)
Insurance proceeds, net of clean-up and other costs *(note 9)*	**1,258**	—
Loss on disposal of assets *(notes 7 and 9)*	**(613)**	—
Foreign exchange gains (losses)	**(241)**	768
	16,684	(945)

21. 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:

	2019	2018
	$	$
Salaries, wages and employee benefits	**30,061**	3,559
Materials, supplies, repairs and utilities	**15,499**	1,147
Food, beverage and service costs	**4,353**	172
Royalty and franchise fees	**3,748**	—
Property taxes	**3,721**	7
Other general and administrative	**3,716**	804
Legal, audit and other professional consulting fees	**1,579**	278
Information technology and support	**862**	15
Insurance	**854**	60
	64,393	6,042

22. INTEREST EXPENSE

Interest expense is comprised of the following:

	2019	2018
	$	$
Interest on short-term indebtedness	**1,673**	8
Interest on long-term debt and convertible debentures	**5,968**	121
Accretion of long-term debt *(note 15)*	**308**	—
	7,949	129

23. SUPPLEMENTAL CASH FLOW INFORMATION

	2019 $	2018 $
Income taxes paid	**903**	832
Interest received	**566**	178
Interest paid	**7,792**	114

Adjustments for items not involving cash	**2019** $	2018 $
Realized/unrealized losses (gains) on investments *(note 20)*	**(13,662)**	5,153
Bargain purchase gain *(note 4)*	**(21,798)**	—
Depreciation	**12,338**	331
Revaluation of hotel properties	**800**	—
Selling costs on property and equipment sales	**2,766**	—
Deferred income tax expense (recovery) *(note 11)*	**(7,056)**	1,706
Share-based payment expense *(note 17)*	**474**	—
Amortization of fair value increment on convertible debentures and long-term debt *(notes 14 and 15)*	**(422)**	—
Accretion on debt *(note 15)*	**308**	—
Unrealized foreign exchange losses (gains)	**241**	(781)
Pension expense (recovery) *(note 8)*	**(245)**	468
Loss on disposal of assets *(note 20)*	**613**	—
	(25,643)	6,877

Net changes in non-cash working capital balances	**2019** $	2018 $
Receivables	**(916)**	(80)
Inventories	**233**	—
Income taxes receivable	**475**	6,309
Prepaid expenses	**413**	(5)
Accounts payable and accrued liabilities	**(607)**	(475)
Income taxes payable	**126**	(105)
Accrued interest on convertible debentures	**(184)**	—
Settlement of share-based liability *(note 17)*	**(1,079)**	
	(1,539)	5,644

24. CAPITAL DISCLOSURES

The Company's capital consists of shareholders' equity and interest-bearing debt. The objectives of the Company's capital management program are to maintain a level of capital that complies with existing debt covenants, optimizes the cost of capital, funds its business strategies, provides returns to shareholders and builds long-term shareholder value. To maintain or adjust its capital structure, the Company may, from time to time, issue new shares, issue new debt, repurchase existing debt or shares and/or adjust the amount of dividends paid to shareholders. The Company is subject to financial covenants on its short-term loan facility, certain of its mortgages payable, and revolving credit facilities in Holloway. There are restrictive covenants for the Company that are governed by a minimum current ratio (1.20:1.00), maximum adjusted tangible net worth ratio (1.25:1.00), and debt service coverage ratio to exceed various levels ranging from 1.25 – 1.40. For the year ended December 31, 2019, all of the restrictive covenants measured on an annual basis were in compliance, except for one mortgage where a waiver was obtained from the lender. That mortgage matures in 2020 and is presented as current in the consolidated statements of financial position as at December 31, 2019.

25. FINANCIAL INSTRUMENTS

The Company's financial instruments at December 31, 2019 and 2018 included cash and cash equivalents, marketable securities, receivables, loans receivable, short-term indebtedness, accounts payable and accrued liabilities, convertible debentures (including accrued interest), and long-term debt. All of the Company's financial instruments are classified at amortized cost, with the exception of marketable securities, which are classified at FVTPL.

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

Marketable securities are recorded at fair value based on quoted market prices at December 31, 2019 and 2018. Securities designated as FVTPL are included in the consolidated statements of financial position at fair value, with any movement being recorded as an unrealized gain or loss on investments in the consolidated statements of earnings.

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

Mortgages payable

The fair value is determined using internal valuation techniques which incorporate the discounted future cash flows using discount rates that reflect current market conditions for debt instruments with similar interest rates, terms and risk. The fair values do not necessarily represent the amounts the Company might pay in actual market transactions. The Company assumed the mortgages payable at fair value through the purchase price allocation during the year, therefore, the carrying value does not differ significantly from the fair value as at December 31, 2019.

Convertible debentures

The fair value of the convertible debentures is based on the quoted market price for the debentures. At December 31, 2019, the carrying value and fair value of the convertible debentures was $50,866 and $51,609, respectively.

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 December 31, 2019.

The methods and assumptions used in estimating the fair value of the Company's assets other than financial instruments, such as certain classes or property and equipment and investment properties, are described in note 3.

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.

25. FINANCIAL INSTRUMENTS (CONT'D)

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

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

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

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

	Fair Value at December 31, 2018			
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	120,174	120,174	—	—
Investment properties	167	—	—	167
	120,341	120,174	—	167

Risks associated with financial assets and liabilities

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

Market risk

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

Equity price risk

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

25. FINANCIAL INSTRUMENTS (CONT'D)

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

Fair value	Price change	Estimated fair value after price change	After-tax impact on net income
$	%	$	$
111,683	**10% increase**	**122,851**	**9,575**
111,683	**10% decrease**	**100,515**	**(9,575)**

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

Interest rate risk

The Company is exposed to interest rate risk on its lending and borrowing activities. It manages its exposure to interest rate risk by primarily using fixed rate debt or debt with a fixed-rate option, so cash flows are not impacted significantly by a change in interest rates. The weighted average interest rate on its mortgages payable is 4.90% with a weighted average maturity of 3.2 years.

The Company has several term loans, mortgages and revolving credit facilities at floating rates. At December 31, 2019, the after-tax net income effect of a 1% change in interest rates would have been $392 on floating rate debt of $54,818.

Foreign exchange risk

Foreign exchange risk refers to the risk that values of financial assets and liabilities denominated in foreign currencies in the consolidated statements of financial position of the Company will vary as a result of changes in underlying foreign exchange rates. The Company manages its exposure to foreign exchange risk by entering into foreign exchange contracts. At December 30, 2019 and 2018, the Company did not have any forward contracts outstanding to sell US dollars.

The Company has investments throughout North America, and as such is exposed to movements in the US/Canadian exchange rate. At December 31, 2019, the effect of a 20% change in the US/Canadian exchange rate on after-tax consolidated comprehensive income would have been $2,999 based on a US net asset balance of US$16,153.

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 December 31, 2019, the Company had cash of $2,530 and available unused facilities totalling $61,268.

25. 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	**30,061**	—	—	—
Accounts payable and accrued liabilities	**7,856**	—	—	—
Convertible debentures interest	**3,179**	**6,358**	**1,060**	—
Convertible debentures	—	—	**50,866**	—
Long-term debt	**10,448**	**38,711**	**1,120**	**2,340**
Interest on long-term debt	**2,106**	**3,006**	**227**	**193**
	53,650	**48,075**	**53,273**	**2,533**

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 $3,941 is net of expected credit losses. 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 $7,554 obtained through the respective sales of previously owned assets. There is no expected credit loss recorded on the loans receivable, as they are expected to be negligible.

26. SEGMENTED INFORMATION

The Company operates in two reportable business segments following the business combination in 2019. The existing Investment segment represents the Company's marketable securities portfolio, consisting of publicly traded equity securities at FVTPL, 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 10). For the year ended December 31, 2019, hotel revenue and provision of services was all generated by continuing operations in Canada.

26. SEGMENTED INFORMATION (CONT'D)

Year ended December 31, 2019	Investment $	Hospitality $	Other $	Eliminations $	Total $
Revenue and other income:					
Hotel revenue and provision of services	**7,449**	**73,935**	**723**	**(64)**	**82,043**
Bargain purchase gain	**21,798**	**—**	**—**	**—**	**21,798**
Investment and other income	**32,197**	**665**	**685**	**(16,863)**	**16,684**
	61,444	**74,600**	**1,408**	**(16,927)**	**120,525**
Operating expenses before the undernoted	**4,731**	**57,311**	**2,415**	**(64)**	**64,393**
Selling costs on property and equipment sales	**—**	**2,766**	**—**	**—**	**2,766**
Share-based payment expense	**—**	**445**	**29**	**—**	**474**
Depreciation and amortization	**355**	**11,947**	**36**	**—**	**12,338**
Interest expense	**157**	**7,072**	**1,258**	**(538)**	**7,949**
Income (loss) before income taxes	**56,201**	**(4,941)**	**(2,330)**	**(16,325)**	**32,605**
Assets	**114,050**	**255,675**	**32,015**	**(548)**	**401,192**
Liabilities	**2,901**	**62,293**	**86,959**	**(548)**	**151,605**
Capital expenditures *(note 9)*	**—**	**5,365**	**442**	**—**	**5,807**
Assets located outside of Canada *(note 10)*	**—**	**17,184**	**—**	**—**	**17,184**

27. SUBSEQUENT EVENTS

On March 3, 2020, the Company announced that its Board of Directors had declared 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 that it owns. The dividend will be paid on March 25, 2020 to shareholders of the Company of record at the close of business on March 18, 2020.

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