

**Clarke Inc.**

December 31, 2017 and 2016



February 13, 2018

## **Independent Auditor's Report**

### **To the Shareholders of Clarke Inc.**

We have audited the accompanying consolidated financial statements of Clarke Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of earnings, comprehensive income, cash flows and shareholders' equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Clarke Inc. and its subsidiaries as at December 31, 2017 and 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) *"PricewaterhouseCoopers LLP"*

**Chartered Professional Accountants, Licensed Public Accountants**

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

As at December 31

2017  
\$2016  
\$

	2017 \$	2016 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	20,773	6,770
Marketable securities <i>(note 4)</i>	119,419	134,821
Receivables	670	1,012
Income taxes receivable	5,710	155
Prepaid expenses	99	91
<b>Total current assets</b>	<b>146,671</b>	<b>142,849</b>
Accrued pension benefit asset <i>(note 5)</i>	10,270	30,434
Fixed assets and investment properties <i>(note 6)</i>	444	486
Long-term investments <i>(note 7)</i>	1,843	2,925
Deferred income tax assets <i>(note 8)</i>	1,420	1,069
<b>Total assets</b>	<b>160,648</b>	<b>177,763</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	1,440	1,575
Income taxes payable	127	—
Current portion of long-term debt <i>(note 10)</i>	645	644
<b>Total current liabilities</b>	<b>2,212</b>	<b>2,219</b>
Long-term debt <i>(note 10)</i>	430	1,075
Deferred income tax liabilities <i>(note 8)</i>	1,618	2,170
<b>Total liabilities</b>	<b>4,260</b>	<b>5,464</b>
Commitments <i>(note 11)</i>		
<b>Shareholders' equity</b>		
Share capital <i>(note 9)</i>	47,330	48,121
Retained earnings	89,010	116,789
Accumulated other comprehensive income	18,503	6,142
Share-based payments <i>(note 12)</i>	1,545	1,247
<b>Total shareholders' equity</b>	<b>156,388</b>	<b>172,299</b>
<b>Total liabilities and shareholders' equity</b>	<b>160,648</b>	<b>177,763</b>

*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

2017  
\$2016  
\$**Revenue**

Unrealized gains on investments	30,380	20,118
Realized gains (losses) on investments	(27,182)	121
Dividend income	3,573	3,528
Interest income	774	1,746
Provision of services	6,749	6,971
Other income (loss) (note 13)	(1,475)	252
	<b>12,819</b>	<b>32,736</b>

**Expenses**

Cost of services provided	3,923	4,071
General and administrative expenses	2,529	3,271
Share-based payment expense (note 12)	298	147
Depreciation and impairment (note 6)	232	427
Interest expense	52	76
	<b>7,034</b>	<b>7,992</b>

Income before income taxes	5,785	24,744
Provision for (recovery of) income taxes (note 8)	2,279	(662)
Net income	<b>3,506</b>	<b>25,406</b>

**Basic earnings per share:***(in dollars) (note 9)***0.24** 1.66**Diluted earnings per share:***(in dollars) (note 9)***0.24** 1.66*See accompanying notes to the consolidated financial statements*

**Clarke Inc.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***(in thousands of Canadian dollars)*

Years ended December 31

2017

2016

\$

\$

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**Net income****3,506**25,406

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**Other comprehensive income (loss)****Items that will not be reclassified to profit or loss**Remeasurement gains (losses) and effect of limit on asset ceiling on defined benefit pension plans, net of income tax expense of \$1,319 (2016 – nil) *(note 5)***12,361**

(2,474)

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**Other comprehensive income (loss)****12,361**

(2,474)

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**Comprehensive income****15,867**22,932

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*See accompanying notes to the consolidated financial statements*

**Clarke Inc.****CONSOLIDATED STATEMENTS OF CASH FLOWS***(in thousands of Canadian dollars)*

Years ended December 31	2017	2016
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net income	3,506	25,406
Adjustments for items not involving cash <i>(note 14)</i>	(3,529)	(21,057)
	(23)	4,349
Net change in non-cash working capital balances <i>(note 14)</i>	4,800	437
<b>Net cash provided by operating activities</b>	<b>4,777</b>	<b>4,786</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds on disposition of marketable securities	17,828	9,501
Purchase of marketable securities	(230)	(11,459)
Proceeds on disposition of fixed assets	2	3,600
Purchase of fixed assets <i>(note 6)</i>	(190)	(61)
Distribution of pension plan surplus, net of tax <i>(note 5)</i>	23,411	—
Return of capital (net of purchases) of long-term investments	1,125	344
Proceeds of loans receivable	—	1,717
<b>Net cash provided by investing activities</b>	<b>41,946</b>	<b>3,642</b>
<b>FINANCING ACTIVITIES</b>		
Dividends paid <i>(note 9)</i>	(29,338)	(35,918)
Repurchase of shares for cancellation <i>(note 9)</i>	(2,738)	(7,226)
Repayment of long-term debt <i>(note 10)</i>	(644)	(644)
<b>Net cash used in financing activities</b>	<b>(32,720)</b>	<b>(43,788)</b>
<b>Net change in cash during the year</b>	<b>14,003</b>	<b>(35,360)</b>
Cash and cash equivalents, beginning of year	6,770	42,130
<b>Cash and cash equivalents, end of year</b>	<b>20,773</b>	<b>6,770</b>

*See accompanying notes to the consolidated financial statements*

**Clarke Inc.****CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY***(in thousands of Canadian dollars)*

Years ended December 31	2017	2016
	\$	\$
<b>Share capital</b>		
Common shares:		
Balance at beginning of year	48,121	50,654
Common shares repurchased for cancellation <i>(note 9)</i>	(791)	(2,533)
Balance at end of year	47,330	48,121
<b>Retained earnings</b>		
Balance at beginning of year	116,789	130,431
Net income	3,506	25,406
Dividends declared <i>(note 9)</i>	(29,338)	(34,355)
Purchase price in excess of the book value of common shares repurchased for cancellation <i>(note 9)</i>	(1,947)	(4,693)
Balance at end of year	89,010	116,789
<b>Accumulated other comprehensive income</b>		
Balance at beginning of year	6,142	8,616
Other comprehensive income (loss)	12,361	(2,474)
Balance at end of year	18,503	6,142
<b>Share-based payments</b>		
Balance at beginning of year	1,247	1,100
Share-based payment expense <i>(note 12)</i>	298	147
Balance at end of year	1,545	1,247
<b>Total shareholders' equity</b>	<b>156,388</b>	<b>172,299</b>

*See accompanying notes to the consolidated financial statements*

## **Clarke Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

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

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Nature of operations**

Clarke Inc. (the “Company” or “Clarke”) was incorporated on December 9, 1997 pursuant to the Canada Business Corporations Act. The head office of the Company is located at 6009 Quinpool Road, 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 February 13, 2018.

### **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 recorded at fair value.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

### **Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries. The significant subsidiaries of the Company are CKI Holdings Partnership, Quinpool Holdings Partnership and La Traverse Rivière-du-Loup – St-Siméon Limitée. All significant 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* 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 at fair value through profit or loss, 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 method.

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

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

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

#### **Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

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. For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate method.

Services revenue from the Company's ferry business is recognized upon provision of those services and customer acceptance of those services.

#### **Foreign currency translation**

The Company's consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent company.

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, 2017. All exchange gains and losses are recorded in other income as incurred.

#### **Government grants**

Where the Company receives non-monetary grants, no amounts are recorded in the consolidated statements of earnings as the grants are for consumables in the operations of a subsidiary.

#### **Taxes**

##### **Current income tax**

Current income tax assets and liabilities for the period 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 the amount 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.

**Clarke Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

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

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

**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.

**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.

## Clarke Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

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

### Fixed assets and investment properties

Fixed assets and investment properties are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the fixed asset. When significant parts of a fixed asset 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. Depreciation is calculated over the estimated useful lives of the assets as follows:

Fixed assets and investment properties	Years	Method
Computer hardware	2 to 5, 30%	Straight-line/declining balance
Furniture and equipment	8, 20%	Straight-line/declining balance
Ferry and vessel dry dock costs	3 to 5	Straight-line

A fixed asset and any significant part of a fixed asset initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of earnings when the asset is derecognized. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Operating lease payments are recognized as an expense in the consolidated statements of earnings on a straight-line basis over the lease term.

### Operating segments

The Company operates in one reporting segment, the Investment segment, which includes investments in a diversified group of businesses, operating primarily in Canada.

## Financial instruments — initial recognition and subsequent measurement

### i) Financial assets

#### Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or as available-for-sale financial assets, 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 fair value through profit or loss, directly attributable transaction costs. The Company's financial assets include cash and cash equivalents, marketable securities, receivables and long-term investments.

**Clarke Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

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

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

**Subsequent measurement**

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss 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*

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

*Financial assets carried at amortized cost*

For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of earnings. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statements of earnings. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to interest expense in the consolidated statements of earnings.

**ii) Financial liabilities**

**Initial recognition and measurement**

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, or other financial liabilities. 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 accounts payable and accrued liabilities, and long-term debt.

**Clarke Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

*(in thousands of Canadian dollars, except per share amounts)***1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****Subsequent measurement**

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate ("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**

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 17.

**Derivative financial instruments**

The Company may use derivative financial instruments such as forward currency contracts to hedge its foreign currency risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the consolidated statements of earnings.

**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.

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

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

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

#### **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 reversal is recognized in the consolidated statements of earnings.

#### **Pensions and other post-employment benefits**

The Company has two defined benefit pension plans covering full-time employees who commenced employment before September 2003. In the prior year there were three plans, and during 2017 the Company received approval from the Nova Scotia Pension Regulation Division to terminate and wind-up one plan. For 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 2). Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value is based on market price information and in the case of quoted securities it is the published bid price. The value of any defined benefit asset recognized is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

#### **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 is 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.

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

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

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

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 repurchase 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.

### **2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Company's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these judgements, assumptions and estimates 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:

##### *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 – Investments in associates* for venture capital organizations. As the standard provides no guidance on the term 'venture capital organization', the Company considered the characteristics of a venture capital organization in deciding to use the exemption. The Company holds its investments in the short to medium-term; the points of exit are actively monitored; and the investments are managed without distinguishing between investments that qualify as associates and those that do not. As such, the Company has concluded that it meets the definition of a venture capital organization and qualifies for the exemption.

#### **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.

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

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

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

#### *Pension benefits*

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 5.

#### *Taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile. As the Company assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognized.

### **3. STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

#### ***IFRS 9 Financial Instruments: Classification and Measurement***

IFRS 9 will replace *IAS 39 Financial instruments: recognition and measurement*. The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The Company has assessed this new standard and there will be no significant impact to the consolidated financial statements when adopted.

#### ***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 replaces the previous guidance on revenue recognition and provides a framework to determine when to recognize revenue and at what amount. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company has assessed this new standard and there will be no significant impact to the consolidated financial statements when adopted.

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

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

### **3. STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONT'D)**

#### **IFRS 16 Leases**

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize: 1) assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value and 2) depreciation of lease assets separately from interest on lease liabilities on the statements of earnings. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of the new standard.

### **4. MARKETABLE SECURITIES**

The Company's marketable securities include publicly traded equities and convertible debentures measured at fair value through profit or loss. Included in the Company's marketable securities balance is Holloway Lodging Corporation ("Holloway") and TerraVest Capital Inc. ("Terravest") which are investments in associates designated at fair value through profit or loss. Both investments are Canadian publicly traded companies.

### **5. EMPLOYEE FUTURE BENEFITS**

The Company has two defined benefit plans (2016 – three 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.

During the year, the Company received approval from the Nova Scotia Pension Regulation Division to terminate and wind-up the Clarke Group Pension Plan (the "Plan"), which was administered by Clarke Inc. Following a settlement of the Plan's liabilities, the Company received a pre-tax distribution of surplus in the amount of \$29,586. Also during the year, the Company received a pre-tax distribution from a second pension plan in the amount of \$3,858 following amendments to the surplus withdrawal rules under the Quebec Supplemental Pension Plans Act (the "Act"). The amendments clarify the Act's position and requirements as to how a sponsor can make surplus withdrawals from a Quebec plan. As a result of the amendments, the cumulative impact of the asset ceiling on that plan was reversed through other comprehensive income.

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, 2014 and for the second defined benefit pension plan was as of December 31, 2015.

#### **Total cash payments**

Total cash payments for employee future benefits for the year ended December 31, 2017, consisting of cash contributed by the Company to its RRSP and defined contribution matching pension plans were \$96 (2016 – \$112).

**Clarke Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

*(in thousands of Canadian dollars, except per share amounts)***5. EMPLOYEE FUTURE BENEFITS (CONT'D)****Defined benefit plan assets**

	2017	2016
	\$	\$
<b>Fair value of plan assets</b>		
Balance, beginning of year	111,426	100,648
Interest income	3,725	3,941
Employee contributions	2	2
Benefits paid	(3,227)	(1,775)
Non-investment management fees	(477)	(498)
Remeasurement gains	5,826	9,108
Surplus distribution	(33,444)	—
Balance, end of year	83,831	111,426

**Defined benefit plan obligations**

	2017	2016
	\$	\$
<b>Accrued benefit obligation</b>		
Balance, beginning of year	49,943	48,113
Current service cost	608	571
Interest cost	1,861	1,888
Employee contributions	2	2
Benefits paid	(3,227)	(1,775)
Remeasurement losses	2,469	1,144
Balance, end of year	51,656	49,943

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

	2017	2016
	\$	\$
Fair value of plan assets	83,831	111,426
Accrued benefit obligation	(51,656)	(49,943)
Funded status of plans – surplus	32,175	61,483
Cumulative impact of asset ceiling	(21,905)	(31,049)
Accrued pension benefit asset, net of impact of asset ceiling	10,270	30,434

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

<b>For the years ended December 31:</b>	2017	2016
	\$	\$
Current service cost	(608)	(571)
Net interest on surplus	685	1,269
Provision for non-investment management fees	(477)	(498)
Defined benefit recovery (expense) recognized	(400)	200

**Clarke Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

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

**5. EMPLOYEE FUTURE BENEFITS (CONT'D)**

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

<b>For the years ended December 31:</b>	<b>2017</b>	2016
	<b>\$</b>	\$
Net remeasurement gains	<b>3,357</b>	7,964
Change in amount of asset ceiling	<b>10,323</b>	(10,438)
Deferred income tax expense	<b>(1,319)</b>	—
<b>Defined benefit recovery (expense) recognized</b>	<b>12,361</b>	(2,474)

**Significant assumptions**

	<b>2017</b>	2016
	<b>%</b>	%
Accrued benefit obligation:		
Discount rate	<b>3.40</b>	3.80
Rate of compensation increase*	<b>2.50 – 4.00</b>	2.50 – 4.00
Benefit costs for the year:		
Discount rate	<b>3.80</b>	3.95
Rate of compensation increase *	<b>2.50 – 4.00</b>	2.50 – 4.00

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

**6. FIXED ASSETS AND INVESTMENT PROPERTIES**

	<b>Furniture, equipment and computer hardware</b>	<b>Ferry and vessel dry dock costs</b>	<b>Investment properties – land</b>	<b>Investment properties – buildings</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>					
January 1, 2016	385	3,605	167	5,202	9,359
Additions	6	55	—	—	61
Disposals	—	—	—	(5,202)	(5,202)
December 31, 2016	391	3,660	167	—	4,218
Additions	16	174	—	—	190
Disposals	(261)	—	—	—	(261)
<b>December 31, 2017</b>	<b>146</b>	<b>3,834</b>	<b>167</b>	<b>—</b>	<b>4,147</b>
<b>Accumulated depreciation and impairment</b>					
January 1, 2016	161	3,144	—	1,962	5,267
Depreciation	64	219	—	—	283
Disposals	—	—	—	(1,962)	(1,962)
Impairments	144	—	—	—	144
December 31, 2016	369	3,363	—	—	3,732
Depreciation	14	218	—	—	232
Disposals	(261)	—	—	—	(261)
<b>December 31, 2017</b>	<b>122</b>	<b>3,581</b>	<b>—</b>	<b>—</b>	<b>3,703</b>
Carrying value – 2016	22	297	167	—	486
<b>Carrying value – 2017</b>	<b>24</b>	<b>253</b>	<b>167</b>	<b>—</b>	<b>444</b>

## Clarke Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

## 6. FIXED ASSETS AND INVESTMENT PROPERTIES (CONT'D)

The Company's investment properties represent land previously used in operations that are now held to earn rental income or for future resale. Depreciation for the year ended December 31, 2017 was \$232 (2016 – \$283). At December 31, 2017, there were no assets under finance leases.

During the prior year, certain equipment in the Company's former Information Technology division was written down to its fair value, which was less than its carrying value. An impairment loss of \$144 is included in the consolidated statements of earnings for the year ended December 31, 2016. The Company sold the equipment in early 2017 to a related party for a nominal amount, which was the carrying amount on the transaction date.

Also during the prior year, the Company sold a building to the Clarke Inc. Master Trust ("Master Trust") which holds the units of the pension plans administered by the Company. The proceeds received were \$3,600 and the gain on sale was \$360. This related party transaction was in the normal course of operations and measured at fair value.

## 7. LONG-TERM INVESTMENTS

The Company's long-term investments consist of two investment funds and are designated as fair value through profit or loss. The investment funds require periodic capital contributions, and as at December 31, 2017, the outstanding commitments to the funds were \$247 and US\$766, respectively.

## 8. INCOME TAXES

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

	2017	2016
	\$	\$
<b>Consolidated statements of earnings</b>		
Current income tax		
Current income tax charge	4,501	(61)
Adjustments in respect of current income tax of previous year	—	15
Deferred income tax		
Relating to origination and reversal of temporary differences	(1,641)	2,837
Relating to the change in recoverable amount of a deferred income tax asset	(581)	(3,453)
Provision for (recovery of) income taxes	2,279	(662)

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

	2017	2016
	\$	\$
Provision for income taxes at statutory rate of 28.80% (2016 – 29.56%)	1,666	7,314
Increase (decrease) from statutory rate:		
Effect of difference in statutory rates of subsidiaries	(39)	(10)
Taxable component of realized and unrealized investment gains	(353)	(3,773)
Non-taxable dividend income	(1,032)	(1,015)
Non-deductible expenses	87	821
Change in recoverable amount of deferred income tax asset	(581)	(3,453)
Amounts related to gains (losses) in defined benefit pension plans	2,626	(731)
Other	(95)	185
Provision for (recovery of) income taxes at effective rate	2,279	(662)

**Clarke Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

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

**8. INCOME TAXES (CONT'D)**

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

	Deferred income tax asset (liability) beginning of year	Recognized directly in shareholders' equity	Recognized directly in earnings	Deferred income tax asset (liability) end of year
<b>Year ended December 31, 2017</b>	\$	\$	\$	\$
Intangible assets	(195)	—	(65)	(260)
Marketable securities	19	—	1,930	1,949
Fixed assets	765	—	(83)	682
Long-term investments	(59)	—	25	(34)
Employee future benefits	(8,995)	(1,319)	7,356	(2,958)
Loss carry forwards	7,364	—	(6,941)	423
	(1,101)	(1,319)	2,222	(198)
<b>Recognized as:</b>				
Deferred income tax assets	1,069	—	351	1,420
Deferred income tax liabilities	(2,170)	(1,319)	1,871	(1,618)
	(1,101)	(1,319)	2,222	(198)

	Deferred income tax asset (liability) beginning of year	Recognized directly in shareholders' equity	Recognized directly in earnings	Deferred income tax asset (liability) end of year
Year ended December 31, 2016	\$	\$	\$	\$
Intangible assets	(127)	—	(68)	(195)
Marketable securities	99	—	(80)	19
Fixed assets	568	—	197	765
Long-term investments	(186)	—	127	(59)
Employee future benefits	(9,744)	—	749	(8,995)
Loss carry forwards	7,673	—	(309)	7,364
	(1,717)	—	616	(1,101)
<b>Recognized as:</b>				
Deferred income tax assets	704	—	365	1,069
Deferred income tax liabilities	(2,421)	—	251	(2,170)
	(1,717)	—	616	(1,101)

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 as support for the recorded amounts.

At December 31, 2017, 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 \$159,813 (2016 – \$110,505).

**Clarke Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

*(in thousands of Canadian dollars, except per share amounts)***8. INCOME TAXES (CONT'D)**

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

	\$
Marketable securities	790
Capital loss carry forwards	135
<b>Total</b>	<b>925</b>

As at December 31, 2017, the Company had non-capital losses carried forward for tax purposes of nil (2016 – \$24,915) and capital losses carried forward for tax purposes of \$2,939 (2016 – \$940).

**9. SHARE CAPITAL AND EARNINGS PER SHARE**

As at and for the year ended December 31	2017		2016	
	# of shares	\$	# of shares	\$
<b>Authorized</b>				
Unlimited number of common shares – no par value				
Unlimited number of First Preferred shares				
Unlimited number of Second Preferred shares				
<b>Issued</b>				
Outstanding common shares, beginning of year	14,844,867	48,121	15,626,175	50,654
Common shares repurchased for cancellation	(243,900)	(791)	(781,308)	(2,533)
Outstanding common shares, end of year	14,600,967	47,330	14,844,867	48,121

**Earnings per share**

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

	2017			2016		
	Earnings	Weighted average shares (in thousands)	Per share amount	Earnings	Weighted average shares (in thousands)	Per share amount
	\$	#	\$	\$	#	\$
Basic earnings per share	3,506	14,755	0.24	25,406	15,330	1.66
Common shares issued on assumed exercising of stock options	—	61		—	—	—
Diluted earnings per share *	3,506	14,816	0.24	25,406	15,330	1.66

\*All potentially dilutive securities issued relate to stock options for the years ended December 31, 2017 and 2016. The stock options were dilutive for the year ended December 31, 2017 and anti-dilutive for the year ended December 31, 2016.

**Normal course issuer bid (“NCIB”)**

In the year ended December 31, 2017, the Company purchased for cancellation 243,900 (2016 – 781,308) common shares under a NCIB at a cost of \$2,738 (2016 – \$7,226). The purchase price in excess of the historical book value of the shares in the amount of \$1,947 (2016 – \$4,693) has been charged to retained earnings and \$791 (2016 – \$2,533) has been charged to share capital.

**Clarke Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

*(in thousands of Canadian dollars, except per share amounts)***9. SHARE CAPITAL AND EARNINGS PER SHARE (CONT'D)****Dividends**

Dividends declared from January 1, 2017 to December 31, 2017 were as follows:

<b>Declaration date</b>	<b>Record date</b>	<b>Payment date</b>	<b>Per share \$</b>	<b>Dividend \$</b>
August 3, 2017	August 14, 2017	August 22, 2017	<b>2.00</b>	<b>29,338</b>
<b>Total</b>			<b>2.00</b>	<b>29,338</b>

Dividends declared from January 1, 2016 to December 31, 2016 were as follows:

<b>Declaration date</b>	<b>Record date</b>	<b>Payment date</b>	<b>Per share \$</b>	<b>Dividend \$</b>
February 23, 2016	March 31, 2016	April 8, 2016	0.10	1,563
June 10, 2016	June 16, 2016	June 27, 2016	2.00	31,249
May 5, 2016	June 30, 2016	July 15, 2016	0.10	1,543
<b>Total</b>			<b>2.20</b>	<b>34,355</b>

**10. LONG-TERM DEBT**

	<b>2017 \$</b>	<b>2016 \$</b>
Term loan, original amount of \$4,800, payable in monthly principal instalments of \$72 excluding March through May, due September 2019, bearing interest at financial institution's floating base rate minus 1.50% (3.80% as at December 31, 2017 and 3.20% as at December 31, 2016), secured by fixed charge against ferry, <i>MV Trans-Saint-Laurent</i> , machinery, tools, vehicles, and intellectual property, with a carrying value of \$253.	<b>1,075</b>	1,719
Less: current portion of long-term debt	<b>(645)</b>	(644)
	<b>430</b>	1,075

The aggregate maturities of long-term debt for each of the next two twelve month periods are as follows: 2018 – \$645, and 2019 – \$430.

**11. COMMITMENTS**

The Company has lease commitments related to properties for the following amounts: 2018 – \$179 and 2019 – \$64. Included in the annual lease commitments for 2018 is \$49 owing to a company owned by the Company's Executive Chairman and his immediate family member.

The Company provides indemnification agreements to certain employees acting on behalf of the Company including while serving on various boards of directors of the Company's investments.

**Clarke Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

*(in thousands of Canadian dollars, except per share amounts)***12. SHARE-BASED PAYMENTS**

The Company has reserved 7.50% of its issued and outstanding common shares under a stock option plan for directors, officers and certain employees. As at December 31, 2017, there were 250,000 options outstanding and exercisable. The grant date was August 18, 2014 with an original exercise price of \$12.19 per share. The current exercise price is \$8.19 per share as a result of two modifications in 2017 of \$2.00 per share each following special dividend payments. The options vest over a three year period and expire on August 7, 2021. There were no options exercised or cancelled during the year ended December 31, 2017 and 150,000 options were forfeited. The share-based payment expense included in the consolidated statements of earnings for the year ended December 31, 2017 was \$298 (2016 – \$147).

The following table shows the assumptions used to determine the original share-based payments expense and the 2017 modifications, using the Black-Scholes option pricing model:

	<b>Original issuance</b>	<b>First Modification</b>	<b>Second Modification</b>
Fair value per option granted	<b>\$3.40</b>	<b>\$2.70</b>	<b>\$3.48</b>
Assumptions:			
Risk-free interest rate	<b>1.68%</b>	<b>1.34%</b>	<b>1.70%</b>
Expected dividend yield	<b>3.65%</b>	—	—
Expected volatility	<b>46.78%</b>	<b>29.13%</b>	<b>28.52%</b>
Expected time until exercise	<b>7.0 years</b>	<b>4.5 years</b>	<b>4.0 years</b>
Expected forfeiture rate	<b>9.50%</b>	<b>9.50%</b>	<b>9.50%</b>

**13. OTHER INCOME (LOSS)**

Other income (loss) is comprised of the following:

	<b>2017</b>	2016
	<b>\$</b>	\$
Foreign exchange losses	<b>(1,077)</b>	(308)
Gains on disposition of fixed assets <i>(note 6)</i>	<b>2</b>	360
Pension recovery (expense) <i>(note 5)</i>	<b>(400)</b>	200
Other income (loss)	<b>(1,475)</b>	252

The foreign exchange loss for the year ended December 31, 2017 is primarily the result of unrealized foreign exchange losses on foreign investments. The foreign exchange loss for the year ended December 31, 2016 is primarily the result of settling foreign exchange contracts at a loss.

**14. SUPPLEMENTAL CASH FLOW INFORMATION**

	<b>2017</b>	2016
	<b>\$</b>	\$
Income taxes paid	<b>50</b>	155
Interest received	<b>980</b>	1,799
Interest paid	<b>52</b>	76

**Clarke Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

*(in thousands of Canadian dollars, except per share amounts)***14. SUPPLEMENTAL CASH FLOW INFORMATION (CONT'D)**

	2017	2016
	\$	\$
<b>Adjustments for items not involving cash</b>		
Realized/unrealized gains on investments	(3,198)	(20,239)
Deferred income tax recovery (note 8)	(2,222)	(616)
Share-based payment expense (note 12)	298	147
Unrealized foreign exchange losses (gains)	963	(89)
Pension expense (recovery) (note 5)	400	(200)
Gains on disposition of fixed assets (note 6)	(2)	(360)
Depreciation and impairment (note 6)	232	427
Loan receivable accretion	—	(127)
	<b>(3,529)</b>	<b>(21,057)</b>
	2017	2016
	\$	\$
<b>Net changes in non-cash working capital balances</b>		
Receivables (note 17)	338	92
Income taxes receivable	3,321	(133)
Prepaid expenses	(8)	(13)
Accounts payable and accrued liabilities	(135)	551
Income taxes payable	1,284	(60)
	<b>4,800</b>	<b>437</b>

All dividends received, interest and taxes are classified as cash flows from operating activities.

**15. RELATED PARTY DISCLOSURES**

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

- (i) The Company is a party to rental agreements with a company owned by the Executive Chairman and his immediate family member. Included in 'Expenses' is rental and other property expenses of \$107 (2016 – \$134) under this agreement.
- (ii) The Company provides administrative and asset management services to two pension plans it sponsors. Included in 'Revenue' is \$404 (2016 – \$385) for services provided to the pension plans during the year.
- (iii) During the year, the Company provided consulting and tax services for Holloway and Terravest which are investments in associates of the Company. Included in 'Revenue' is \$160 for the services provided.
- (iv) During the year, the Company sold marketable securities through the facilities of the Toronto Stock Exchange to the Master Trust. The sale was made for investment purposes and the Company received net proceeds of \$5,894.
- (v) During the prior year, the Company provided information technology services to related companies. Included in 'Revenue' was \$455 and included in 'Receivables' was \$49 for services provided.

## Clarke Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

#### 15. RELATED PARTY DISCLOSURES (CONT'D)

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

Year ended December 31, 2017	Board of directors	Officers	Total
	\$	\$	\$
Salary and fees	80	473	553
Bonus	—	400	400
Pension value	897	9	906
Total	977	882	1,859

#### 16. CAPITAL DISCLOSURES

The Company's capital consists of shareholders' equity, long-term debt and short-term loans. 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. There were no significant changes in the Company's capital management approach from the prior year other than the special dividend payment.

The Company has a demand revolving loan of \$20,000 secured by marketable securities. The interest rate for the demand revolving loan was 3.95% at December 31, 2017 (2016 – 3.45%). The Company had drawn nil on the demand revolving loan at December 31, 2017 and 2016. The short-term loan facility is subject to restrictive covenants and security arrangements. The restrictive covenants are governed by a minimum current ratio (1.20:1.00) and maximum adjusted tangible net worth ratio (1.25:1.00). For the year ended December 31, 2017, all of the restrictive covenants were met for the Company's primary short-term facilities. The Company has unrestricted access to its credit facilities subject to pledging sufficient securities as collateral. Due to an internal reorganization of these securities that ended subsequent to December 31, 2017, the Company's access to the facility at December 31, 2017 was nil. The reorganization was completed during the first quarter of 2018, and the Company has regained access to the \$20,000 limit. 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.

The Company also maintains several investment accounts with various brokers. Under one broker arrangement, 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 3.20% at December 31, 2017 (2016 – 2.70%). 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 4.00% at December 31, 2017 (2016 – 3.25%). The Company had drawn nil on the Canadian dollar and US dollar facilities, respectively, at December 31, 2017 and 2016.

#### 17. FINANCIAL INSTRUMENTS

The Company's financial instruments at December 31, 2017 and 2016 included cash and cash equivalents, marketable securities, receivables, long-term investments, accounts payable and accrued liabilities and long-term debt.

The Company's financial instruments are classified as follows:

Loans and receivables	Fair value through profit or loss	Other liabilities
Cash and cash equivalents	Marketable securities	Accounts payable and accrued liabilities
Receivables	Long-term investments	Long-term debt

## Clarke Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

## 17. FINANCIAL INSTRUMENTS (CONT'D)

The carrying value of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximates their fair value due to the short-term maturity of these instruments.

The majority of marketable securities and long-term investments are recorded at fair value based on quoted market prices at December 31, 2017 and 2016. Securities designated as "fair value through profit or loss" 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 carrying value of investment funds, for which there is no quoted market value and which are not publicly traded on a recognized securities exchange, are determined using the net asset value per unit as provided by the individual funds.

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

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

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

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

The following details the fair value hierarchy classification for financial instruments carried at fair value on the consolidated statements of financial position:

Description	Fair Value at December 31, 2017			
	Total	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs
Marketable securities	119,419	119,419	—	—
Long-term investments	1,843	—	1,843	—
	121,262	119,419	1,843	—

### 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.

**Clarke Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

*(in thousands of Canadian dollars, except per share amounts)***17. FINANCIAL INSTRUMENTS (CONT'D)****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 and long-term investments will vary as a result of changes in market prices of the investments. The carrying values of investments subject to equity price risk are, in almost all instances, based on quoted market prices as of the consolidated statements of financial position dates. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuations in the market price of a security may have no relation to the intrinsic value of the security. Furthermore, amounts realized in the sale of a particular security may be affected by the quantity of the security being sold.

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

Fair value	Price change	Estimated fair value after price change	After-tax impact on net income
\$	%	\$	\$
119,419	10% increase	131,361	10,222
119,419	10% decrease	107,477	(10,222)

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**

Interest rate risk refers to the risk that interest expense on floating rate debt will vary as a result of changes in underlying interest rates. The Company may enter into interest rate swap transactions where considered necessary to further manage interest rate exposure. At December 31, 2017, the Company had not entered into any interest rate swap transactions (2016 – nil). At December 31, 2017, the after-tax net income effect of a 1% change in interest rates would have been \$8 on floating rate debt of \$1,075.

**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 has investments throughout North America, and as such is exposed to movements in the US/Canadian exchange rate. At December 31, 2017, the effect of a 20% change in the US/Canadian exchange rate on after-tax consolidated net income would have been \$2,232 based on a US net asset balance of US\$12,496.

## Clarke Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

## 17. FINANCIAL INSTRUMENTS (CONT'D)

The Company manages its exposure to foreign exchange risk by entering into foreign exchange contracts. At December 31, 2017, the Company did not have any forward contracts outstanding to sell US dollars. Unrealized foreign exchange gains of nil have been included in receivables on the consolidated statements of financial position as at December 31, 2017 (2016 – \$4). Unrealized foreign exchange losses of \$4 have been recognized in other income in the consolidated statements of earnings for the year ended December 31, 2017 (2016 – \$716).

### 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. At December 31, 2017, the Company had cash of \$20,773 and available unused facilities totalling \$6,593. 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
	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,440	—	—	—
Long-term debt	645	430	—	—
	2,085	430	—	—

### 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, taking into account their financial position, past experience and other factors. The Company believes there are no significant concentrations of credit risk due to the low level of trade receivables, cash balances and available facilities. The maximum exposure to credit risk associated with financial assets is the total carrying value of those receivables.

## 18. SUBSEQUENT EVENTS

On December 7, 2017, the Company announced its intention to commence a substantial issuer bid pursuant to which it would offer to purchase up to 1,250,000 of its outstanding common shares (or such greater number of common shares that the Company may determine it will take up and pay for) at a purchase price of \$10.50 per share. Subsequent to December 31, 2017, the Company announced that a total of 1,851,579 common shares were deposited at the expiration of the offer. Clarke took up all of the shares deposited resulting in a total purchase price of \$19,442.