

Clarke Inc.

March 31, 2019 and 2018

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

	March 31, 2019	December 31, 2018
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	1,985	7,002
Marketable securities	107,113	120,174
Receivables (note 5)	5,483	750
Inventories	384	—
Income taxes receivable	378	55
Prepaid expenses	1,172	104
Current portion of loans receivable (note 6)	2,000	—
Total current assets	118,515	128,085
Accrued pension benefit asset (note 7)	32,029	34,666
Property and equipment (note 8)	265,091	777
Investment properties (note 9)	9,097	167
Loans receivable (note 6)	8,545	—
Deferred income tax assets	8,306	381
Other assets	495	—
Total assets	442,078	164,076
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Short-term indebtedness (note 11)	46,918	—
Accounts payable and accrued liabilities (note 12)	9,977	723
Income taxes payable	3	22
Accrued interest on convertible debentures	1,318	—
Current portion of convertible debentures (note 13 and 25)	50,904	—
Current portion of long-term debt (note 14)	11,428	1,000
Share-based payment liability (note 15)	25	—
Total current liabilities	120,573	1,745
Long-term debt (note 14)	58,878	2,444
Lease obligation (note 3)	668	—
Deferred income tax liabilities	9,472	9,894
Total liabilities	189,591	14,083
Contingencies and commitments (note 16)		
Shareholders' equity		
Share capital (note 17)	39,076	39,826
Retained earnings	106,114	70,994
Accumulated other comprehensive income	36,822	37,628
Share-based payments	1,545	1,545
Total shareholders' equity attributable to equity holders of the Company	183,557	149,993
Non-controlling interest	68,930	—
Total shareholders' equity	252,487	149,993
Total liabilities and shareholders' equity	442,078	164,076

See accompanying notes to the interim condensed consolidated financial statements

On behalf of the Board:

/s/ George Armoyan
Director/s/ Blair Cook
Director

Clarke Inc.
INTERIM CONSOLIDATED STATEMENTS OF EARNINGS
Unaudited (in thousands of Canadian dollars, except per share amounts)

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
Revenue and other income		
Hotel and management services	15,829	—
Provision of services	178	186
Bargain purchase (note 4)	22,389	—
Investment and other income (note 19)	17,329	3,101
	55,725	3,287
Expenses		
Hotel operating expenses (note 20)	11,108	—
Cost of services provided (note 20)	660	736
General and administrative expenses (note 20)	750	475
Property taxes and insurance (note 20)	950	—
Selling costs on property and equipment sales	884	—
Share-based payment expense (note 15)	445	—
Depreciation (note 8)	2,861	57
Interest expense and accretion on debt (note 21)	1,836	15
	19,494	1,283
Income before income taxes	36,231	2,004
Recovery of income taxes (note 10)	(317)	(123)
Net income	36,548	2,127
Attributable to:		
Equity holders of the Company	37,381	2,127
Non-controlling interest	(833)	—
	36,548	2,127
 Basic earnings per share attributable to equity holders of the Company:		
(in dollars) (note 17)	3.06	0.16
Diluted earnings per share attributable to equity holders of the Company:		
(in dollars) (note 17)	3.04	0.16

See accompanying notes to the interim condensed consolidated financial statements

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

	Three months ended March 31, 2019	Three months ended March 31, 2018
	\$	\$
Net income	36,548	2,127
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 \$322 (2018 – expense of \$92) (<i>note 7</i>)	(806)	227
Other comprehensive income (loss)	(806)	227
Comprehensive income	35,742	2,354
Attributable to:		
Equity holders of the Company	36,575	2,354
Non-controlling interest	(833)	—
	35,742	2,354

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
OPERATING ACTIVITIES		
Net income	36,548	2,127
Adjustments for items not involving cash (<i>note 22</i>)	(35,302)	(409)
	1,246	1,718
Net change in non-cash working capital balances (<i>note 22</i>)	(67)	2,215
Net cash provided by operating activities	1,179	3,933
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities	3,613	—
Purchase of marketable securities	(24,609)	(1,499)
Proceeds on disposition of property and equipment	18,553	—
Purchase of property and equipment (<i>note 8</i>)	(606)	(832)
Purchase of investment properties (<i>note 9</i>)	(6,405)	—
Distribution of pension plan surplus, net of tax (<i>note 7</i>)	1,159	1,216
Cash acquired on business combination (<i>note 4</i>)	906	—
Other	38	5
Net cash used in investing activities	(7,351)	(1,110)
FINANCING ACTIVITIES		
Repurchase of shares for cancellation (<i>note 17</i>)	(3,011)	(20,560)
Net proceeds of short-term indebtedness	14,869	—
Repayment of long-term debt (<i>note 14</i>)	(9,624)	(73)
Settlement of share-based liability (<i>note 15</i>)	(1,079)	—
Net cash provided by (used in) financing activities	1,155	(20,633)
Net change in cash during the period	(5,017)	(17,810)
Cash and cash equivalents, beginning of period	7,002	20,773
Cash and cash equivalents, end of period	1,985	2,963

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Unaudited (in thousands of Canadian dollars)

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
Share capital		
Common shares:		
Balance at beginning of period	39,826	47,330
Common shares repurchased for cancellation (<i>note 17</i>)	(750)	(6,340)
Balance at end of period	39,076	40,990
Retained earnings		
Balance at beginning of period	70,994	89,010
Net income attributable to equity holders of the Company	37,381	2,127
Purchase price in excess of the book value of common shares repurchased for cancellation (<i>note 17</i>)	(2,261)	(14,220)
Balance at end of period	106,114	76,917
Accumulated other comprehensive income		
Balance at beginning of period	37,628	18,503
Other comprehensive income (loss)	(806)	227
Balance at end of period	36,822	18,730
Share-based payments		
Balance at beginning and end of period	1,545	1,545
Total shareholders' equity attributable to equity holders of the Company	183,557	138,182
Non-controlling interest		
Balance at beginning of period	—	—
Non-controlling interest acquired in a business combination (<i>note 4</i>)	70,030	—
Net loss attributable to non-controlling interest	(833)	—
Dividend declared by subsidiary to non-controlling interest	(267)	—
Balance at end of period	68,930	—
Total shareholders' equity	252,487	138,182

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2019 and 2018

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Clarke Inc. (the “Company”) was incorporated on December 9, 1997 pursuant to the Canada Business Corporations Act. The head office of the Company is located at 145 Hobsons Lake Drive, Halifax, Nova Scotia. The Company is an investment holding company with investments in a diversified group of businesses, operating primarily in Canada. The Company continuously evaluates the acquisition, retention and disposition of its investments. Changes in the mix of investments should be expected. These interim condensed consolidated financial statements were approved by the Board of Directors on May 13, 2019.

Basis of presentation and statement of compliance

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

Principles of consolidation

The interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries. The significant subsidiaries of the Company are CKI Holdings Partnership, Quinpool Holdings Partnership, 8590435 Canada Inc., La Traverse Rivière-du-Loup – St-Siméon Limitée and Holloway Lodging Corporation (“Holloway”). Holloway is a subsidiary that is controlled by the Company with an ownership interest of 51.0% as at March 31, 2019. All intercompany transactions have been eliminated on consolidation. All subsidiaries have the same reporting year end as the Company, and all follow the same accounting policies.

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

Estimates and judgments

Business combinations

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

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

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

Three months ended March 31, 2019 and 2018

*Unaudited (in thousands of Canadian dollars, except per share amounts)***2. NEW ESTIMATES AND JUDGMENTS AND ACCOUNTING POLICIES RESULTING FROM BUSINESS COMBINATION (CONT'D)**

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

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

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

Accounting policies**Inventories**

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

Property and equipment

The accounting policy has remained the same for the Company's existing property and equipment classes of ferry and vessel dry dock costs and furniture, fixtures and equipment. Depreciation for the property and equipment acquired in the business combination is provided on a straight-line basis from the date assets are ready to be put into service at rates which will amortize the carrying cost less residual value of the property and equipment over their estimated useful lives. Estimated useful lives and residual values are reviewed at least annually. The estimated useful lives of property and equipment acquired in the business combination are as follows:

Property and equipment class	Useful life
Land lease	Term of the lease
Buildings and components	15 – 60 years
Furniture, fixtures and equipment	2 – 7 years
Paving	10 years
Landscaping	5 years
Signage	10 years
Computer equipment and websites	3 years

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

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2019 and 2018

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

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

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

The policy choice is by asset class, and as such, the Company has elected to change its land and building 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 building 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 and building prior to the business combination, therefore, no additional revaluation was required.

The Company has elected the net method for adjustment upon revaluation. The net method eliminates accumulated depreciation against the carrying amount of the asset and then revalues the net carrying amount. Depreciation on the carrying amount is charged to profit or loss.

Land and building components are revalued on a sufficiently regular basis using 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%.

If the capitalization rate had been 0.25% higher/lower for the purpose of the purchase price allocation, the estimated fair value under the capitalized income approach would result in a change of \$4,500 to property and equipment. If the value of the comparable hotel sales had been 5% higher/lower in the purchase price allocation, the estimated fair value would result in a change of \$2,800 to property and equipment.

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2019 and 2018

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

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

Investment properties

Investment properties are held either to earn rental income, for capital appreciation (including future re-development) or both, but not for sale in the ordinary course of business. In accordance with *IAS 40, Investment Property*, the Company changed its accounting policy from the cost model to the fair value model. Investment properties are initially measured at cost, including transaction costs, and subsequently measured at fair value for each reporting date. The difference between the fair value at the reporting date and the carrying value is recognized in profit or loss. Under the fair value model, investment properties are not depreciated. The investment properties acquired in the business combination were recorded at fair value through the purchase price allocation (note 4). The fair value of the Company's previous investment properties prior to the business combination did not differ materially from their carrying values; therefore no revaluation adjustment was required.

Share-based compensation

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

Convertible debentures

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

Revenue recognition

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

Hotel revenue

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

Management services revenue

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

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

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2019 and 2018

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

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

Loyalty programs

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

Operating segments

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

3. ADOPTION OF NEW STANDARD

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

IFRS 16 Leases

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

4. BUSINESS COMBINATION

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

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

Three months ended March 31, 2019 and 2018

*Unaudited (in thousands of Canadian dollars, except per share amounts)***4. BUSINESS COMBINATION (CONT'D)**

	\$
Cash	906
Receivables	2,275
Inventories	440
Prepaid expenses and deposits	981
Property and equipment	287,506
Investment properties	2,525
Loans receivable	8,958
Other assets	533
Deferred income tax assets	7,496
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	(70,030)
Net assets acquired, at fair value	72,889

This acquisition of control resulted in a gain on a bargain purchase in the subsidiary of \$22,389, which is included in the interim consolidated statement of earnings for the three months ended March 31, 2019.

Included in the interim consolidated statement of earnings for the three months ended March 31, 2019 is revenue and other income of \$16,064 and a net loss of \$565 attributable to the additional business generated by Holloway. Had the acquisition occurred on January 1, 2019, revenue of the Company for the three months ended March 31, 2019 would have been \$60,208, and the net income of the Company for the three months ended March 31, 2019 would have been \$33,278. 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.

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.

5. RECEIVABLES

	March 31, 2019	December 31, 2018
	\$	\$
Trade receivables – net	3,410	62
Investment income receivable	562	616
Receivables from credit card companies	795	—
Other receivables	716	72
	5,483	750

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

Three months ended March 31, 2019 and 2018

*Unaudited (in thousands of Canadian dollars, except per share amounts)***6. LOANS RECEIVABLE**

	March 31, 2019	December 31, 2018
	\$	\$
Senior secured loan (<i>note 25</i>)	5,345	—
Vendor take-back loans	5,200	—
	10,545	—
Less: Current portion	(2,000)	—
	8,545	—

The senior secured loan is denominated in US dollars (US\$4,000) and bears interest at 12.0%. Interest payments are due semi-annually. The maturity date of the loan is April 30, 2027.

One vendor take-back loan has a principal payment of \$1,000 that is due on December 17, 2019 with the balance due on the loan's maturity date of December 17, 2020. A second vendor take-back loan in the amount of \$1,000 is fully current.

7. EMPLOYEE FUTURE BENEFITS

During the three months ended March 31, 2019, the Company received a pre-tax distribution from one of its pension plans in the amount of \$1,579 (2018 – \$1,870) in accordance with the surplus withdrawal rules of the Quebec Supplemental Pension Plans Act.

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

	March 31, 2019	December 31, 2018
	\$	\$
Fair value of plan assets	84,267	82,488
Accrued benefit obligation	(52,238)	(47,822)
Funded status of plans – accrued pension benefit asset	32,029	34,666

The defined benefit pension recovery recognized in the interim consolidated statements of earnings for the three months ended March 31, 2019 was \$70 (2018 – expense of \$206).

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

	Three months ended March 31, 2019	Three months ended March 31, 2018
	\$	\$
Net remeasurement gains (losses)	(1,128)	3,148
Change in amount of asset ceiling	—	(2,829)
Deferred income tax recovery (expense)	322	(92)
Defined benefit recovery (expense) recognized	(806)	227

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2019 and 2018

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

7. EMPLOYEE FUTURE BENEFITS (CONT'D)

Significant assumptions

	March 31, 2019	December 31, 2018
	%	%
Accrued benefit obligation – discount rate	3.30	3.90
Benefit costs for the period – expected return on plan assets	3.90	3.40

8. PROPERTY AND EQUIPMENT

	Land	Buildings and components	Ferry and vessel dry dock costs	Furniture, fixtures, equipment and other	Right-of-use asset	Renovations In progress	Total
	\$	\$	\$	\$	\$	\$	\$
Valuation and cost							
January 1, 2018	—	—	3,834	146	—	—	3,980
Additions	—	—	827	5	—	—	832
Disposals	—	—	—	(1)	—	—	(1)
December 31, 2018	—	—	4,661	150	—	—	4,811
Acquired in business combination	45,067	222,351	—	19,339	731	18	287,506
Additions	17	116	—	473	—	—	606
Disposals	(4,456)	(15,389)	—	(1,092)	—	—	(20,937)
March 31, 2019	40,628	207,078	4,661	18,870	731	18	271,986
Accumulated amortization							
January 1, 2018	—	—	3,581	122	—	—	3,703
Depreciation	—	—	317	14	—	—	331
December 31, 2018	—	—	3,898	136	—	—	4,034
Depreciation	—	2,402	88	358	13	—	2,861
March 31, 2019	—	2,402	3,986	494	13	—	6,895
December 31, 2018	—	—	763	14	—	—	777
March 31, 2019	40,628	204,676	675	18,376	718	18	265,091

Disposals of property and equipment

The following four properties were sold by Holloway during the three months ended March 31, 2019 subsequent to the acquisition of control date. There were no gains or losses on sale of these properties.

Days Inn[®], Moncton, NB

On March 6, 2019, the Company sold the Days Inn hotel in Moncton, NB, for gross proceeds of \$9,000. The Company received net cash proceeds of \$4,056 after selling costs, the repayment of a \$3,624 mortgage secured by the property and the provision of a \$1,000 vendor take-back second mortgage.

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

Three months ended March 31, 2019 and 2018

*Unaudited (in thousands of Canadian dollars, except per share amounts)***8. PROPERTY AND EQUIPMENT (CONT'D)****Travelodge®, Moncton, NB**

On March 6, 2019, the Company sold the Travelodge hotel in Moncton, NB, for gross proceeds of \$5,000. The Company received net cash proceeds of \$1,790 after selling costs and the repayment of a \$3,028 mortgage secured by the property.

Single tenant property, Timmins, ON

On March 18, 2019, the Company sold its single tenant property located in Timmins, ON, for gross proceeds of \$1,725. The Company received net cash proceeds of \$1,648 after selling costs.

Super 8®, Windsor, NS

On March 28, 2019, the Company sold the Super 8 hotel in Windsor, NS, for gross proceeds of \$5,300. The Company received net cash proceeds of \$2,452 after selling costs, the repayment of a \$2,157 mortgage secured by the property and the provision of a \$500 vendor take-back second mortgage.

9. INVESTMENT PROPERTIES

	Buildings	Land	Total
	\$	\$	\$
Carrying value			
January 1, 2018	—	167	167
Additions	—	—	—
December 31, 2018	—	167	167
Acquired in business combination	2,525	—	2,525
Additions	6,405	—	6,405
Carrying value – March 31, 2019	8,930	167	9,097

On January 24, 2019, the Company acquired a lease agreement through a business combination (note 4). Under the lease agreement, a hotel is leased on a triple net basis to a third party. 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 property.

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

Three months ended March 31, 2019 and 2018

*Unaudited (in thousands of Canadian dollars, except per share amounts)***10. INCOME TAXES**

The recovery of income taxes for the three months ended March 31 consists of:

Interim consolidated statements of earnings	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
Current income tax		
Current income tax charge	212	(2,146)
Adjustments in respect of current income tax of previous period	—	328
Deferred income tax		
Relating to origination and reversal of temporary differences	918	1,830
Relating to the change in recoverable amount of a deferred income tax asset	(1,447)	(135)
Recovery of income taxes	(317)	(123)

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

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
Provision for income taxes at statutory rate of 28.56% (2018 – 28.80%)	10,347	577
Increase (decrease) from statutory rate:		
Effect of difference in statutory rates of subsidiaries	(112)	667
Non-taxable component of realized and unrealized investment gains	(9,017)	(347)
Non-taxable dividend income	(163)	(928)
Non-deductible expenses	156	1
Change in recoverable amount of deferred income tax asset	(1,447)	(135)
Other	(81)	42
Recovery of income taxes at effective rate	(317)	(123)

11. SHORT-TERM INDEBTEDNESS

The Company has a demand revolving loan of \$40,000 secured by marketable securities. The interest rate for the demand revolving loan was 4.70% at March 31, 2019 (December 31, 2018 – 4.70%). The Company had drawn \$17,777 on the demand revolving loan at March 31, 2019 and nil at December 31, 2018. The short-term loan facility is subject to restrictive covenants and security arrangements. There are restrictive covenants for the Company that are governed by a minimum current ratio (1.20:1.00) and maximum adjusted tangible net worth ratio (1.25:1.00). For the three months ended March 31, 2019, all of the restrictive covenants were met for the Company's primary short-term facilities. The Company has unrestricted access to its credit facilities subject to pledging sufficient securities as collateral. Any decline in the fair value of securities within the portfolio may limit the Company's access to the full amount of the short-term facilities.

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

Three months ended March 31, 2019 and 2018

*Unaudited (in thousands of Canadian dollars, except per share amounts)***11. SHORT-TERM INDEBTEDNESS (CONT'D)**

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 3.95% at March 31, 2019 (December 31, 2018 – 3.95%). Any US dollar financing used under this arrangement bears interest at the US base rate less 1.00% and is collateralized by the marketable securities purchased. The interest rate was equal to 5.50% at March 31, 2019 (December 31, 2018 – 5.50%). The Company had drawn nil on the Canadian dollar and US dollar facilities, respectively, at March 31, 2019 and December 31, 2018.

On January 24, 2019, the Company assumed credit facilities with two Canadian chartered banks in a business combination (note 4). The first credit facility has a maximum borrowing capacity at March 31, 2019 of \$45,000. 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 March 31, 2019, the Company had drawn \$14,141 on this facility. This facility is secured by a registered charge on nine hotel properties, is subject to an annual review and has no set expiry. The second credit facility has a maximum borrowing capacity of \$21,000. This credit facility bears interest at prime plus 1.50%. At March 31, 2019, the Company had drawn \$15,000 on this facility. This facility is secured by a registered charge on nine hotel properties, is subject to an annual review and matures in May 2022. Each individual draw must be repaid within one year.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2019	December 31, 2018
	\$	\$
Trade payables	2,613	121
Accrued liabilities	6,995	602
Investment purchases	369	—
	9,977	723

13. CONVERTIBLE DEBENTURES

On January 24, 2019, the Company assumed convertible debentures in a business combination with a fair value of \$50,917 (note 4). The Series B Debentures (HLC.DB) now have a maturity date of February 28, 2023 (note 25), bear interest at 6.25% payable semi-annually on April 30th and October 31st and have a face value of \$50,866 at March 31, 2019. The Series B Debentures can be converted at the option of the holder for \$12.50 per common shares of the subsidiary for each \$1,000 principal amount of the debentures outstanding (amounts not in thousands). The Company has the option to repay the principal amount of the debentures, in whole or in part, at maturity or redeem the debentures in whole or in part, not earlier than June 1, 2020 or prior to maturity, in cash or by issuing the number of equivalent common shares of the subsidiary ("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 Holloway's common shares (calculated in accordance with the indenture).

On January 25, 2019, the Company initiated a 12 month 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.

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

Three months ended March 31, 2019 and 2018

*Unaudited (in thousands of Canadian dollars, except per share amounts)***13. CONVERTIBLE DEBENTURES (CONT'D)**

The changes in the convertible debenture balance are summarized as follows:

	March 31, 2019
	\$
Fair value assumed on business combination	50,917
Amortization of fair value increment	(13)
Ending balance	50,904

14. LONG-TERM DEBT

	March 31, 2019	December 31, 2018
	\$	\$
Term loan, original amount of \$4,000, payable in monthly principal instalments of \$111 excluding February through April, due July 2022, bearing interest at financial institution's floating base rate minus 1.00% (5.05% as at March 31, 2019 and December 31, 2018), secured by fixed charge against ferry, <i>MV Trans-Saint-Laurent</i> , machinery, tools, vehicles, and intellectual property, with a carrying value of \$675.	3,333	3,444
Mortgages payable, assumed in a business combination (note 4), bearing interest at a weighted average rate of 4.93% and maturing on various dates from October 2019 to September 2029. Individual first charges on 16 hotel properties with a carrying value of \$168,457 have been pledged as security for individual mortgages.	66,973	—
Total long-term debt	70,306	3,444
Less: current portion of long-term debt	(11,428)	(1,000)
Long-term portion	58,878	2,444

The following table summarizes significant changes in long-term debt

	March 31, 2019	December 31, 2018
	\$	\$
Beginning balance	3,444	1,075
Assumed in business combination	76,446	—
Proceeds from long-term debt	—	3,069
Repayment of long-term debt	(9,624)	(700)
Accretion of deferred financing fees	104	—
Amortization of fair value increment	(64)	—
	70,306	3,444

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

Three months ended March 31, 2019 and 2018

*Unaudited (in thousands of Canadian dollars, except per share amounts)***15. SHARE-BASED LIABILITY**

On January 24, 2019, the Company assumed a share-based liability in a 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 will be terminated. At the acquisition date, the fair value of the options was \$659 and was measured using the Black-Scholes option pricing model. The majority of the options were exercised in cash prior to March 31, 2019 resulting in a carrying value of \$25 at the end of the quarter. The remaining options were exercised for common shares of the subsidiary subsequent to March 31, 2019.

The following table summarizes the changes in the share-based liability for the three months ended March 31, 2019:

	March 31, 2019
	\$
Fair value assumed on business combination	659
Change in fair value of share-based liability	445
Options exercised for cash	(1,079)
Ending balance	25

16. CONTINGENCIES AND COMMITMENTS

As a result of the business combination during the three months ended March 31, 2019, the Company has the following new contingencies and commitments through its subsidiary:

Contingencies

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

Commitments**Franchise agreements**

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 25 of the 27 hotels owned by the Company at March 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.

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

Three months ended March 31, 2019 and 2018

*Unaudited (in thousands of Canadian dollars, except per share amounts)***17. SHARE CAPITAL AND EARNINGS PER SHARE**

	March 31, 2019		December 31, 2018	
	# of shares	\$	# of shares	\$
Common shares				
Outstanding common shares, beginning of period	12,285,888	39,826	14,600,967	47,330
Common shares repurchased for cancellation	(231,359)	(750)	(2,315,079)	(7,504)
Outstanding common shares, end of period	12,054,529	39,076	12,285,888	39,826

NCIB

In the three months ended March 31, 2019, the Company purchased for cancellation 231,359 (2018 – 104,400) common shares under a NCIB at a cost of \$3,011 (2018 – \$1,118). The purchase price in excess of the historical book value of the shares in the amount of \$2,261 (2018 – \$780) has been charged to retained earnings and \$750 (2018 – \$338) has been charged to share capital.

SIB

During the three months ended March 31, 2018, the Company purchased for cancellation 1,851,579 common shares under a SIB at a cost of \$19,442. The purchase price in excess of the historical book value of the shares in the amount of \$13,440 has been charged to retained earnings and \$6,002 has been charged to share capital.

Earnings per share

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

	Three months ended March 31, 2019			Three months ended March 31, 2018		
	Earnings	Weighted average shares	Per share	Earnings	Weighted average shares	Per share
	\$	(in thousands)	amount	\$	(in thousands)	amount
		#	\$		#	\$
Basic earnings per share	37,381	12,211	3.06	2,127	13,141	0.16
Common shares issued on assumed exercising of stock options	—	91		—	54	
Diluted earnings per share	37,381	12,302	3.04	2,127	13,195	0.16

All potentially dilutive securities issued relate to stock options for the three months ended March 31, 2019 and 2018. The stock options were dilutive for the three months ended March 31, 2019 and 2018.

18. RELATED PARTY DISCLOSURES

During the three months ended March 31, 2019, the Company sold marketable securities through the facilities of the Hong Kong Stock Exchange to the Clarke Inc. 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.

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

Three months ended March 31, 2019 and 2018

*Unaudited (in thousands of Canadian dollars, except per share amounts)***18. RELATED PARTY DISCLOSURES (CONT'D)**

The Company was a party to rental agreements information technology and tax services agreements with companies owned or partially owned by the Executive Chairman and his immediate family member. Included in 'Expenses' for the three months ended March 31, 2019, is rental, IT and tax services expenses of \$83 (2018 – \$38) under the agreements.

19. INVESTMENT AND OTHER INCOME

Investment and other income is comprised of the following:

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
Unrealized gains on investments	3,982	2,083
Realized gains on investments	12,519	—
Dividend income	562	932
Interest income	255	26
Pension recovery (expense) (note 7)	70	(206)
Foreign exchange gains (losses)	(59)	266
	17,329	3,101

20. EXPENSES BY NATURE

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

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
Salaries, wages and employee benefits	6,088	362
Materials, supplies, repairs and utilities	3,720	536
Food, beverage and service costs	884	1
Royalty and franchise fees	781	—
Property taxes	819	2
Other	594	218
Legal, audit and other professional consulting fees	249	75
Information technology and support	202	5
Insurance	131	12
	13,468	1,211

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

Three months ended March 31, 2019 and 2018

*Unaudited (in thousands of Canadian dollars, except per share amounts)***21. INTEREST EXPENSE**

Interest expense is comprised of the following:

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
Interest on short-term indebtedness	452	5
Interest on long-term debt	1,280	10
Accretion of long-term debt (note 14)	104	—
	1,836	15

22. SUPPLEMENTAL CASH FLOW INFORMATION

Adjustments for items not involving cash	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
Realized/unrealized gains on investments (note 19)	(16,501)	(2,083)
Bargain purchase gain (note 4)	(22,389)	—
Depreciation (note 8)	2,861	57
Deferred income tax expense (recovery) (note 10)	(529)	1,695
Selling costs on property and equipment sales	884	—
Share-based payment expense (note 15)	445	—
Amortization of fair value increment on convertible debentures and long-term debt (notes 13 and 14)	(77)	—
Accretion on debt (note 14)	104	—
Unrealized foreign exchange gains	(30)	(284)
Pension expense (recovery) (note 7)	(70)	206
	(35,302)	(409)

Net changes in non-cash working capital balances	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
Receivables	(2,458)	(575)
Inventories	56	—
Income taxes receivable	97	3,441
Prepaid expenses	(87)	(32)
Accounts payable and accrued liabilities	1,740	(492)
Income taxes payable	(19)	(127)
Accrued interest on convertible debentures	604	—
	(67)	2,215

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2019 and 2018

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

23. FINANCIAL INSTRUMENTS

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

The carrying value of cash and cash equivalents, receivables, loans receivable, short-term indebtedness, share-based payment liability and accounts payable and accrued liabilities approximates their fair value due to the short-term maturity of these instruments. The difference between the carrying values and the fair values of the Company's convertible debentures, long-term debt and lease obligation is not material given that the liabilities were assumed at fair value through the purchase price allocation during the quarter. 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.

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

Mortgages payable

The fair value is determined using internal valuation techniques which incorporate the discounted future cash flows using discount rates that reflect current market conditions for debt instruments with similar interest rates, terms and risk. The fair values do not necessarily represent the amounts the Company might pay in actual market transactions.

Convertible debentures

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

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 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.

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

Three months ended March 31, 2019 and 2018

*Unaudited (in thousands of Canadian dollars, except per share amounts)***23. 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 financial instruments carried at fair value on the interim consolidated statements of financial position:

Description	Fair Value at March 31, 2019			
	Total	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs
Marketable securities	107,113	107,113	—	—
Share-based liability	25	—	25	—
Redemption Option-level 2	—	—	—	—
	107,138	107,113	25	—

Risks associated with financial assets and liabilities

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

Market risk

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

Equity price risk

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

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

Three months ended March 31, 2019 and 2018

*Unaudited (in thousands of Canadian dollars, except per share amounts)***23. 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 interim consolidated statements of financial position of the Company. The selected change does not reflect what could be considered the best or worst case scenarios.

Fair value	Price change	Estimated fair value after price change	After-tax impact on net income
\$	%	\$	\$
107,113	10% increase	117,824	9,182
107,113	10% decrease	96,402	(9,182)

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 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 4.93% with a weighted average maturity of 3.5 years.

The Company has one term loan, and one mortgage and a revolving credit facility at floating rates. At March 31, 2019, the after-tax net income effect of a 1% change in interest rates would have been \$593 on floating rate debt of \$82,938.

Foreign exchange risk

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

The Company has investments throughout North America, and as such is exposed to movements in the US/Canadian exchange rate. At March 31, 2019, the effect of a 20% change in the US/Canadian exchange rate on after-tax consolidated net income would have been \$1,300 based on a US net asset balance of US\$6,810.

The Company manages its exposure to foreign exchange risk by entering into foreign exchange contracts. At March 31, 2019 and 2018, the Company did not have any forward contracts outstanding to sell US dollars.

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 March 31, 2019, the Company had cash of \$1,985 and available unused facilities totalling \$50,921.

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

Three months ended March 31, 2019 and 2018

*Unaudited (in thousands of Canadian dollars, except per share amounts)***23. FINANCIAL INSTRUMENTS (CONT'D)**

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

	Due within 1 year	1 to 3 years	3 to 5 years	After 5 years
	\$	\$	\$	\$
Short-term indebtedness	46,918	—	—	—
Accounts payable and accrued liabilities	9,977	—	—	—
Convertible debentures interest (note 25)	3,179	—	—	—
Convertible debentures (note 25)	50,866	—	—	—
Long-term debt	8,078	11,530	47,448	2,900
Interest on long-term debt	2,436	5,388	1,533	295
	121,732	16,918	48,981	3,195

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 maximum exposure to credit risk associated with financial assets is the total carrying value of the receivables and loans receivable. The Company does not believe it is subject to any significant concentration of credit risk.

The amount of receivables presented on the interim consolidated statements of financial position of \$5,483 is net of an allowance for doubtful accounts. Listings of trade receivables in the Hospitality segment are reviewed by and discussed with hotel operations personnel on a monthly basis. The Company also has five loans receivable in the amount of \$10,545 obtained through the respective sales of previously owned assets. There is no impairment provision recorded on the loans receivable, as they are expected to be collected in full.

24. SEGMENTED INFORMATION

The Company now operates in two reportable business segments following the business combination during the three months ended March 31, 2019. The existing Investment segment represents the Company's marketable securities portfolio, consisting of publicly traded equity securities at fair value through profit or loss, and the Company's ferry business. The new 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 operations in the United States including only one investment property (note 9). For the three months ended March 31, 2019, hotel revenue and provision of services was all generated by continuing operations in Canada.

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

Three months ended March 31, 2019 and 2018

*Unaudited (in thousands of Canadian dollars, except per share amounts)***24. SEGMENTED INFORMATION (CONT'D)**

Three months ended March 31, 2019	Investment	Hospitality	Other	Eliminations	Total
	\$	\$	\$	\$	\$
Revenue and other income:					
Hotel revenue and provision of services	—	15,829	178	—	16,007
Intersegment service revenue	—	—	18	(18)	—
Bargain purchase gain	22,389	—	—	—	22,389
Investment and other income	22,074	235	70	(5,050)	17,329
	44,463	16,064	266	(5,068)	55,725
Expenses before the undernoted	612	12,469	405	(18)	13,468
Selling costs on property and equipment sales	—	884	—	—	884
Share-based payment expense	—	445	—	—	445
Depreciation and amortization	88	2,772	1	—	2,861
Interest expense	42	1,820	91	(117)	1,836
Income before income taxes	43,721	(2,326)	(231)	(4,933)	36,231
Assets	164,766	243,391	34,210	(289)	442,078
Liabilities	3,525	158,513	27,842	(289)	189,591
Capital expenditures (note 8)	—	606	—	—	606
Assets located outside of Canada (note 9)	—	2,525	—	—	2,525

25. SUBSEQUENT EVENT

On April 26, 2019, at a meeting of the holders of the Series B Debentures of Holloway, the Company obtained approval to amend the Series B Debentures as follows: (1) extend the maturity date by three years to February 28, 2023; (2) amend 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; and (3) amend the redemption provision to, among other things, prohibit the subsidiary from redeeming the debentures until June 2, 2020, except in connection with a change in control of Holloway resulting in the acquisition of 100% of the voting or equity interests in the subsidiary and except, for the 60 days following the effective date of the debenture amendments, to allow the subsidiary to redeem up to 10% of the aggregate principal amount, being approximately \$5,087 aggregate principal amount, of the debentures at a price equal to the principal amount thereof, plus accrued and unpaid interest.

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 US\$3,364.