Clarke Inc.

June 30, 2020 and 2019

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (in thousands of Canadian dollars)

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

See accompanying notes to the interim condensed consolidated financial statements

On behalf of the Board:

/s/ George Armoyan
Director

/s/ Blair Cook
Director

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF EARNINGS

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

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

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Unaudited (in thousands of Canadian dollars)

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

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

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

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Unaudited (in thousands of Canadian dollars)

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

See accompanying notes to the interim condensed consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Clarke Inc. (the "Company") was incorporated on December 9, 1997 pursuant to the Canada Business Corporations Act. The head office of the Company is located at 145 Hobsons Lake Drive, Halifax, Nova Scotia. The Company is an investment holding company with investments in a diversified group of businesses, operating primarily in Canada. The Company continuously evaluates the acquisition, retention and disposition of its investments. Changes in the mix of investments should be expected. These interim condensed consolidated financial statements were approved by the Board of Directors on August 11, 2020.

Basis of presentation and statement of compliance

These interim condensed consolidated financial statements for the three and six months ended June 30, 2020, were prepared in accordance with IAS 34, *Interim Financial Reporting*. The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2019. These interim condensed consolidated financial statements for the three and six months ended June 30, 2020 should be read together with the annual consolidated financial statements for the year ended December 31, 2019.

Principles of consolidation

The interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries. The significant subsidiaries of the Company are La Traverse Rivière-du-Loup – St-Siméon Limitée and Holloway Lodging Corporation ("Holloway"). All intercompany transactions have been eliminated on consolidation. All subsidiaries have the same reporting year end as the Company, and all follow the same accounting policies.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

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

3. MARKETABLE SECURITIES

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

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

4. EMPLOYEE FUTURE BENEFITS

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

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

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

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

4. EMPLOYEE FUTURE BENEFITS (CONT'D)

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

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

Significant assumptions

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

5. PROPERTY AND EQUIPMENT

Six months ended June 30, 2020	**Land $**	**Buildings and components $**	**Ferry and vessel dry dock costs $**	**Furniture, fixtures and equipment $**	**Right-of-use assets $**	**Renovations in progress $**	**Total $**
Beginning balance	30,546	164,359	411	12,975	1,032	3,275	212,598
Additions	—	97	—	513	—	63	673
Disposals	—	—	—	(11)	—	—	(11)
Revaluations *(note 2)*	(2,820)	(15,980)	—	—	—	—	(18,800)
Depreciation	—	(3,578)	(176)	(1,875)	(78)	—	(5,707)
Ending balance	**27,726**	**144,898**	**235**	**11,602**	**954**	**3,338**	**188,753**

Valuation	27,726	147,641	—	—	—	—	175,367
Cost	—	—	4,657	16,593	1,144	3,338	25,732
Accumulated depreciation	—	(2,743)	(4,422)	(4,991)	(190)	—	(12,346)
Net book value	**27,726**	**144,898**	**235**	**11,602**	**954**	**3,338**	**188,753**

6. LONG-TERM DEBT

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

7. SHARE CAPITAL AND EARNINGS PER SHARE

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

Earnings per share

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

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

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

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

NCIB

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

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

8. SHARE-BASED PAYMENTS

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

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

9. INVESTMENT AND OTHER INCOME (LOSS)

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

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

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

10. INCOME TAXES

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

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

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

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

11. RELATED PARTY DISCLOSURES

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

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

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

12. SUPPLEMENTAL CASH FLOW INFORMATION (CONT'D)

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

13. SEGMENTED INFORMATION

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

Transactions between the segments are recorded at fair value, which is the amount of consideration established and agreed to by management of the segments. Reconciling items represent inter-segment eliminations for services provided between segments.

The Company operates predominantly in Canada, with the exception of three investment properties in the United States. Hotel revenue and provision of services was all generated by continuing operations in Canada for the three and six months ended June 30, 2020 and 2019.

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

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

13. SEGMENTED INFORMATION (CONT'D)

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

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

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

14. FINANCIAL INSTRUMENTS

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

Liquidity risk

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

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

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

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

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

14. FINANCIAL INSTRUMENTS (CONT'D)

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

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

Credit risk

Credit risk refers to the risk that a counterparty will fail to fulfill its obligations under a contract and, as a result, will cause the Company to suffer a loss. This risk is mitigated through credit policies that limit transactions according to counterparties' credit quality. The Company assesses the credit quality of all counterparties, considering their financial position, past experience and other factors. The maximum exposure to credit risk associated with financial assets is the total carrying value of the receivables and loans receivable.

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