

Clarke Inc.

March 31, 2021 and 2020

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

	March 31, 2021	December 31, 2020
	\$	\$
ASSETS		
Current		
Cash	27,014	2,730
Marketable securities (note 5)	22,945	46,760
Receivables	3,463	3,707
Inventories	90	92
Income taxes receivable	—	349
Prepaid expenses	1,019	819
Current portion of loans receivable (note 2)	2,930	725
Asset held-for-sale (note 2)	—	2,415
Total current assets	57,461	57,597
Accrued pension benefit asset (note 3)	48,760	33,823
Property and equipment	178,112	180,417
Investment properties	19,040	19,276
Loans receivable	1,242	1,250
Deferred income tax assets (note 6)	17,063	18,286
Other assets	378	377
Total assets	322,056	311,026
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Short-term indebtedness	—	8,243
Accounts payable and accrued liabilities	7,483	4,903
Income taxes payable	320	—
Accrued interest on convertible debentures	1,322	529
Current portion of long-term debt	6,732	6,240
Total current liabilities	15,857	19,915
Convertible debentures	50,754	50,754
Long-term debt	56,973	58,056
Lease obligations	837	870
Deferred income tax liabilities (note 6)	15,022	12,827
Total liabilities	139,443	142,422
Shareholders' equity		
Share capital (note 4)	88,524	89,097
Contributed surplus	7,331	7,512
Retained earnings	29,149	25,093
Accumulated other comprehensive income	57,609	46,902
Total shareholders' equity	182,613	168,604
Total liabilities and shareholders' equity	322,056	311,026

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
	\$	\$
Revenue and other income		
Hotel and management services <i>(note 10)</i>	5,716	13,778
Provision of services	143	158
Investment and other income (loss) <i>(note 5)</i>	8,396	(54,515)
	14,255	(40,579)
Expenses		
Hotel operating expenses <i>(note 10)</i>	4,204	10,319
Cost of services provided	681	787
General and administrative expenses	663	652
Property taxes and insurance	416	1,131
Share-based payment expense	44	15
Depreciation	2,548	2,960
Interest expense and accretion on debt	1,539	1,867
	10,095	17,731
Income (loss) before income taxes	4,160	(58,310)
Provision for (recovery of) income taxes <i>(note 6)</i>	104	(5,188)
Net income (loss)	4,056	(53,122)
Basic earnings (loss) per share:		
<i>(in dollars) (note 4)</i>	0.27	(3.26)
Diluted earnings (loss) per share:		
<i>(in dollars) (note 4)</i>	0.25	(3.26)

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 March 31, 2021	Three months ended March 31, 2020
	\$	\$
Net income (loss)	4,056	(53,122)
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Remeasurement gains (losses) on defined benefit pension plans, net of income tax expense of \$4,039 (2020 – recovery of \$1,128) <i>(note 3)</i>	10,910	(2,932)
Items that may be reclassified subsequently to profit of loss		
Translation of net investment in foreign operations, net of income tax recovery of \$34 (2020 – expense of \$376)	(203)	1,227
Other comprehensive income (loss)	10,707	(1,705)
Comprehensive income (loss)	14,763	(54,827)

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, 2021	Three months ended March 31, 2020
	\$	\$
OPERATING ACTIVITIES		
Net income (loss)	4,056	(53,122)
Adjustments for items not involving cash <i>(note 7)</i>	(6,247)	52,727
	(2,191)	(395)
Net change in non-cash working capital balances <i>(note 7)</i>	1,599	(728)
Net cash used in operating activities	(592)	(1,123)
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities	34,537	1,832
Proceeds on disposition of asset held-for-sale <i>(note 2)</i>	210	—
Additions of property and equipment	(245)	(462)
Additions to investment properties	—	(74)
Collections of loans receivable	—	1,217
Net cash provided by investing activities	34,502	2,513
FINANCING ACTIVITIES		
Repurchase of shares for cancellation <i>(note 4)</i>	(754)	(4,649)
Net proceeds (repayments) of short-term indebtedness	(8,243)	2,007
Repayment of long-term debt and payment of deferred financing fees	(596)	(864)
Principal payments of lease obligation	(33)	(31)
Net cash used in financing activities	(9,626)	(3,537)
Net change in cash during the period	24,284	(2,147)
Cash, beginning of period	2,730	2,530
Cash, end of period	27,014	383

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, 2021	Three months ended March 31, 2020
	\$	\$
Share capital		
Common shares:		
Balance at beginning of period	89,097	98,051
Common shares repurchased for cancellation <i>(note 4)</i>	(573)	(2,117)
Balance at end of period	88,524	95,934
Contributed surplus		
Balance at beginning of period	7,512	7,302
Purchase price in excess of the book value of common shares repurchased for cancellation <i>(note 4)</i>	(181)	—
Balance at end of period	7,331	7,302
Retained earnings		
Balance at beginning of period	25,093	104,511
Net income (loss)	4,056	(53,122)
Dividends declared	—	(58,120)
Purchase price in excess of the book value of common shares repurchased for cancellation	—	(2,532)
Residual balance of previously expensed equity-settled stock options	—	444
Balance at end of period	29,149	(8,819)
Accumulated other comprehensive income		
Balance at beginning of period	46,902	38,149
Other comprehensive income (loss)	10,707	(1,705)
Balance at end of period	57,609	36,444
Share-based payments		
Balance at beginning of period	—	1,574
Cash settlement of share-based payments	—	(1,130)
Reclassification to retained earnings of residual balance of previously expensed equity-settled stock options	—	(444)
Balance at end of period	—	—
Total shareholders' equity	182,613	130,861

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2021 and 2020

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 7, 2021.

Basis of presentation and statement of compliance

These interim condensed consolidated financial statements for the three months ended March 31, 2021, 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, 2020. These interim condensed consolidated financial statements for the three months ended March 31, 2021 should be read together with the annual consolidated financial statements for the year ended December 31, 2020.

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 Holloway Lodging Corporation (“Holloway”) and, prior to September 1, 2020, La Traverse Rivière-du-Loup – St. Siméon Limitée (“La Traverse”). La Traverse was amalgamated with the Company effective September 1, 2020. All intercompany transactions have been eliminated on consolidation. All subsidiaries have the same reporting period end as the Company, and all follow the same accounting policies.

2. ASSET HELD-FOR-SALE

Prior to December 31, 2020, the Company entered into an agreement to sell a hotel which was leased, on a triple net basis, to a third party under a lease agreement. The sale closed on January 15, 2021 for gross proceeds of \$2,430. After closing costs and a vendor take-back loan (“VTB”) receivable of \$2,205, the net cash proceeds were \$210. The VTB has a term of one year and bears interest at 10%.

3. 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:

	March 31, 2021	December 31, 2020
	\$	\$
Fair value of plan assets	97,781	88,245
Accrued benefit obligation	(49,021)	(54,422)
Funded status of plans – accrued pension benefit asset	48,760	33,823

The defined benefit pension expense recognized in the interim consolidated statements of earnings (loss) for the three months ended March 31, 2021 was \$12 (2020 – recovery of \$59).

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2021 and 2020

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

3. EMPLOYEE FUTURE BENEFITS (CONT'D)

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
	\$	\$
Net remeasurement gains (losses)	14,949	(4,060)
Deferred income tax recovery (expense)	(4,039)	1,128
Defined benefit recovery (expense) recognized	10,910	(2,932)

Significant assumptions

	March 31, 2021	December 31, 2020
	%	%
Accrued benefit obligation – discount rate	3.25	2.50
Benefit costs for the period – expected return on plan assets	2.50	3.10

4. SHARE CAPITAL AND EARNINGS PER SHARE

	March 31, 2021		December 31, 2020	
	# of shares	\$	# of shares	\$
Common shares				
Outstanding common shares, beginning of period	15,057,892	89,097	16,571,184	98,051
Common shares repurchased for cancellation	(96,824)	(573)	(1,513,292)	(8,954)
Outstanding common shares, end of period	14,961,068	88,524	15,057,892	89,097

Earnings per share

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

	Three months ended March 31, 2021			Three months ended March 31, 2020		
	Earnings \$	Weighted average shares (in thousands) #	Per share amount \$	Loss \$	Weighted average shares (in thousands) #	Per share amount \$
Basic earnings (loss) per share	4,056	15,045	0.27	(53,122)	16,308	(3.26)
Interest, net of income taxes, on assumed conversion of convertible debentures	563	3,694		—	—	
Diluted earnings (loss) per share	4,619	18,739	0.25	(53,122)	16,308	(3.26)

**All potentially dilutive securities issued relate to the Company's stock options and convertible debentures. The stock options were anti-dilutive for the three months ended March 31, 2021. The stock options and convertible debentures were anti-dilutive for the three months ended March 31, 2020.*

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2021 and 2020

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

4. SHARE CAPITAL AND EARNINGS PER SHARE (CONT'D)

Substantial issuer bid ("SIB")

In the three months ended March 31, 2021, the Company purchased for cancellation 20,524 common shares under an SIB at a cost of \$154 (\$7.50 per common share). The purchase price in excess of the historical book value of the shares in the amount of \$32 has been charged to contributed surplus and \$122 has been charged to share capital.

Normal course issuer bid ("NCIB")

In the three months ended March 31, 2021, the Company purchased for cancellation 76,300 (2020 – 357,700) common shares under an NCIB at a cost of \$600 (2020 – \$4,649). The purchase price in excess of the historical book value of the shares in the amount of \$149 (2020 – nil) has been charged to contributed surplus, nil (2020 – \$2,532) has been charged to retained earnings, and \$451 (2020 – \$2,117) has been charged to share capital.

5. INVESTMENT AND OTHER INCOME (LOSS)

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
	\$	\$
Unrealized losses on investments	(1,952)	(65,013)
Realized gains on investments	10,229	29,008
Revaluation loss of hotel properties	—	(18,800)
Interest income	141	152
Pension recovery (expense) (note 3)	(12)	59
Insurance proceeds, net of clean-up and other costs	—	19
Loss on disposal of assets	—	(11)
Foreign exchange gains (losses)	(10)	71
	8,396	(54,515)

During the three months ended March 31, 2021, the Company sold marketable securities for net proceeds of \$34,537 (2020 – \$1,832). During the three months ended March 31, 2020, the Company recorded a revaluation loss on its property and equipment in the amount of \$18,800 as a response to the decrease in its hotel operations from COVID-19.

6. INCOME TAXES

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
	\$	\$
Current	691	(243)
Deferred	(587)	(4,945)
Provision for (recovery of) income taxes	104	(5,188)

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

Three months ended March 31, 2021 and 2020

*Unaudited (in thousands of Canadian dollars, except per share amounts)***6. INCOME TAXES (CONT'D)**

As at March 31, 2021, the Company had non-capital losses carried forward for tax purposes of \$29,681 (December 31, 2020 – \$32,970) in Canada and US\$8,079 (December 31, 2020 – US\$7,786) in the United States and capital losses carried forward for tax purposes of \$7,867 (December 31, 2020 – \$4,787).

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

	March 31, 2021	December 31, 2020
	\$	\$
Marketable securities	1,852	1,842
Property and equipment	2,454	2,430
Non-capital and capital loss carry forwards	2,301	2,286
Total	6,607	6,558

7. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31, 2021	Three months ended March 31, 2020
	\$	\$
Adjustments for items not involving cash		
Realized/unrealized losses (gains) on investments (<i>note 5</i>)	(8,277)	36,005
Depreciation	2,548	2,960
Revaluation of hotel properties	—	18,800
Deferred income tax recovery (<i>note 6</i>)	(587)	(4,945)
Share-based payment expense	44	15
Amortization of fair value increments from acquisition	(41)	(48)
Accretion on debt	46	55
Unrealized foreign exchange losses (gains)	8	(67)
Pension expense (recovery) (<i>note 3</i>)	12	(59)
Loss on disposal of assets	—	11
	(6,247)	52,727

	Three months ended March 31, 2021	Three months ended March 31, 2020
	\$	\$
Net changes in non-cash working capital balances		
Receivables	244	707
Inventories	2	6
Income taxes receivable	349	(277)
Prepaid expenses	(200)	(257)
Accounts payable and accrued liabilities	91	(424)
Income taxes payable	320	(148)
Accrued interest on convertible debentures	793	795
Settlement of share-based liability	—	(1,130)
	1,599	(728)

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

Three months ended March 31, 2021 and 2020

*Unaudited (in thousands of Canadian dollars, except per share amounts)***8. 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. 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.

Three months ended March 31, 2021	Investment \$	Hospitality \$	Other \$	Eliminations \$	Total \$
Revenue and other income:					
Hotel revenue and provision of services	—	5,715	144	—	5,859
Investment and other income (loss)	8,277	131	(12)	—	8,396
	8,277	5,846	132	—	14,255
Operating expenses before the undernoted	1,234	4,320	410	—	5,964
Share-based payment expense	—	—	44	—	44
Depreciation and amortization	23	2,465	60	—	2,548
Interest expense	14	716	809	—	1,539
Income (loss) before income taxes	7,006	(1,655)	(1,191)	—	4,160
Assets	43,045	204,170	74,841	—	322,056
Liabilities	5,385	65,843	68,215	—	139,443
Capital expenditures during the period	—	245	—	—	245
Assets located outside of Canada	18,873	—	—	—	18,873

Three months ended March 31, 2020	Investment \$	Hospitality \$	Other \$	Eliminations \$	Total \$
Revenue and other income:					
Hotel revenue and provision of services	—	13,778	172	(14)	13,936
Investment and other income (loss)	(36,005)	(18,573)	63	—	(54,515)
	(36,005)	(4,795)	235	(14)	(40,579)
Operating expenses before the undernoted	1,398	11,061	444	(14)	12,889
Share-based payment expense	—	—	15	—	15
Depreciation and amortization	89	2,849	22	—	2,960
Interest expense	26	807	1,034	—	1,867
Loss before income taxes	(37,518)	(19,512)	(1,280)	—	(58,310)
Assets	36,050	219,500	25,505	(8)	281,047
Liabilities	3,008	76,250	70,936	(8)	150,186
Capital expenditures during the period	—	363	—	—	363
Assets located outside of Canada	19,119	—	—	—	19,119

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2021 and 2020

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

8. SEGMENTED INFORMATION (CONT'D)

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 operations in Canada for the three months ended March 31, 2021 and 2020.

9. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2021, the Company purchased marketable securities through the facilities of the Toronto Stock Exchange from the Clarke Inc. Master Trust, which holds the units of the pension plans administered by the Company. The purchase totalling US\$1,956 was made for investment purposes.

10. IMPACT OF COVID-19

The global pandemic related to COVID-19 has continued to adversely impact the Company's operations during the three months ended March 31, 2021, particularly the hotel operations. The Company believes it has access to sufficient capital through cash on hand, operating cash flows and existing or other borrowing facilities to meet its obligations. As a result, no further deferrals of interest or principal on our loans and mortgages payable have been requested. As at March 31, 2021, the Company had cash of \$27,014 and available unused credit facilities totalling \$35,559.

The Company continues to have no material expected credit losses on our receivables and loans receivable.

The Company continues to apply for the Canada Emergency Wage Subsidy, the Canadian Emergency Rent Subsidy and other less significant sources of federal, provincial and territorial government grants. The Company has recorded \$2,593 in the three months ended March 31, 2021 for these various programs.

11. SUBSEQUENT EVENTS

Subsequent to March 31, 2021, the Company entered into a joint operation real estate project in Montreal, QC with two partners. The investment represents a one-third stake in the project which is currently under construction. The project involves a 38-storey building including seniors' housing and luxury condominiums. The transaction closed on April 21, 2021, and the terms included cash consideration of approximately \$21,000 and the assumption of the Company's proportionate share of the construction financing of approximately \$16,000.

Subsequent to March 31, 2021, the Company received a pre-tax distribution from one of its pension plans in the amount of \$1,244 in accordance with the surplus withdrawal rules of the Quebec Supplemental Pension Plans Act.