

Clarke Inc.

September 30, 2020 and 2019

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

	September 30, 2020	December 31, 2019
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	517	2,530
Marketable securities <i>(note 3)</i>	39,500	111,683
Receivables	3,386	3,941
Inventories	167	207
Prepaid expenses	1,444	672
Current portion of loans receivable	825	5,175
Total current assets	45,839	124,208
Accrued pension benefit asset <i>(note 4)</i>	19,790	28,555
Property and equipment <i>(note 5)</i>	186,403	212,598
Investment properties <i>(note 6)</i>	22,814	19,876
Loans receivable	1,284	2,379
Deferred income tax assets	18,891	13,222
Other assets	369	354
Total assets	295,390	401,192
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Short-term indebtedness <i>(note 3)</i>	34,985	30,061
Accounts payable and accrued liabilities	5,579	7,856
Income taxes payable	89	148
Accrued interest on convertible debentures	1,324	530
Current portion of long-term debt <i>(note 7)</i>	6,293	10,448
Total current liabilities	48,270	49,043
Convertible debentures <i>(note 3)</i>	50,795	50,866
Long-term debt <i>(note 7)</i>	46,253	42,418
Lease obligations	903	999
Deferred income tax liabilities	6,586	8,279
Total liabilities	152,807	151,605
Shareholders' equity		
Share capital <i>(note 8)</i>	92,630	98,051
Contributed surplus	7,541	7,302
Retained earnings	10,589	104,511
Accumulated other comprehensive income	31,823	38,149
Share-based payments <i>(note 9)</i>	—	1,574
Total shareholders' equity	142,583	249,587
Total liabilities and shareholders' equity	295,390	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 (LOSS)
Unaudited (in thousands of Canadian dollars, except per share amounts)

	Three months ended September 30, 2020 \$	Three months ended September 30, 2019 \$	Nine months ended September 30, 2020 \$	Nine months ended September 30, 2019 \$
Revenue and other income (loss)				
Hotel and management services	6,982	21,774	24,554	58,697
Provision of services	2,996	4,488	3,757	6,704
Bargain purchase	—	—	—	20,694
Investment and other income (loss) (note 10)	13,086	(4,717)	(28,295)	10,441
	23,064	21,545	16	96,536
Expenses				
Hotel operating expenses	4,181	13,776	17,976	39,263
Cost of services provided	727	1,337	2,070	3,369
General and administrative expenses	580	1,449	1,705	3,017
Property taxes and insurance	1,008	1,179	3,188	3,355
Selling costs on property and equipment sales	—	1,515	—	2,732
Share-based payment expense (note 9)	33	—	60	445
Depreciation	2,715	3,028	8,438	9,366
Interest expense and accretion on debt	1,687	2,178	5,251	6,415
	10,931	24,462	38,688	67,962
Income (loss) before income taxes	12,133	(2,917)	(38,672)	28,574
Provision for (recovery of) income taxes (note 11)	(348)	662	(4,958)	(3,262)
Net income (loss)	12,481	(3,579)	(33,714)	31,836
Attributable to:				
Equity holders of the Company	12,481	(2,852)	(33,714)	31,242
Non-controlling interest	—	(727)	—	594
	12,481	(3,579)	(33,714)	31,836
Basic earnings (loss) per share attributable to equity holders of the Company:				
(in dollars) (note 8)	0.79	(0.24)	(2.10)	2.58
Diluted earnings (loss) per share attributable to equity holders of the Company:				
(in dollars) (note 8)	0.67	(0.24)	(2.10)	2.56

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 September 30, 2020 \$	Three months ended September 30, 2019 \$	Nine months ended September 30, 2020 \$	Nine months ended September 30, 2019 \$
Net income (loss)	12,481	(3,579)	(33,714)	31,836
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 \$560 and \$2,425 for the three and nine months ended September 30, 2020 (2019 – \$219 and \$1,857) (<i>note 4</i>)	(1,800)	(549)	(6,648)	(4,622)
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 \$(76) and \$141 for the three and nine months ended September 30, 2020 (2019 – \$44 and \$(48))	(290)	183	322	(58)
Other comprehensive loss	(2,090)	(366)	(6,326)	(4,680)
Comprehensive income (loss)	10,391	(3,945)	(40,040)	27,156
Attributable to:				
Equity holders of the Company	10,391	(3,308)	(40,040)	26,590
Non-controlling interest	—	(637)	—	566
	10,391	(3,945)	(40,040)	27,156

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

	Nine months ended September 30, 2020 \$	Nine months ended September 30, 2019 \$
OPERATING ACTIVITIES		
Net income (loss)	(33,714)	31,836
Adjustments for items not involving cash (<i>note 13</i>)	32,758	(19,372)
	(956)	12,464
Net change in non-cash working capital balances (<i>note 13</i>)	(2,556)	(1,969)
Net cash provided by (used in) operating activities	(3,512)	10,495
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities	1,832	3,613
Purchase of marketable securities	—	(30,308)
Proceeds on disposition of property and equipment	7	66,663
Purchase of property and equipment	(1,470)	(3,835)
Additions to investment properties	(393)	(17,487)
Collections of loans receivable	5,465	4,588
Distribution of pension plan surplus, net of tax	—	1,159
Cash acquired on business combination	—	906
Purchase of non-controlling interest	—	(950)
Net cash provided by investing activities	5,441	24,349
FINANCING ACTIVITIES		
Repurchase of shares for cancellation (<i>note 8</i>)	(7,714)	(6,149)
Repurchase of convertible debentures	(65)	—
Net proceeds (repayments) of short-term indebtedness	4,924	(5,070)
Repayment of long-term debt	(991)	(25,884)
Principal payments of lease obligation	(96)	(137)
Dividends paid by subsidiary to non-controlling interest	—	(534)
Repurchase of shares by subsidiary from non-controlling interest	—	(1,127)
Net cash used in financing activities	(3,942)	(38,901)
Net change in cash during the period	(2,013)	(4,057)
Cash and cash equivalents, beginning of period	2,530	7,002
Cash and cash equivalents, end of period	517	2,945

See accompanying notes to the interim condensed consolidated financial statements

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

	Nine months ended September 30, 2020 \$	Nine months ended September 30, 2019 \$
Share capital		
Common shares:		
Balance at beginning of period	98,051	39,826
Common shares repurchased for cancellation (<i>note 8</i>)	(5,421)	(1,543)
Common shares issued pursuant to an acquisition	—	59,993
Balance at end of period	92,630	98,276
Contributed surplus		
Balance at beginning of period	7,302	—
Book value in excess of purchase price of common shares repurchased for cancellation (<i>note 8</i>)	239	—
Book value of non-controlling interest in excess of common shares issued as consideration	—	6,356
Balance at end of period	7,541	6,356
Retained earnings		
Balance at beginning of period	104,511	70,994
Net income (loss) attributable to equity holders of the Company	(33,714)	31,242
Dividends declared (<i>note 3</i>)	(58,120)	—
Purchase price in excess of the book value of common shares repurchased for cancellation (<i>note 8</i>)	(2,532)	(4,606)
Residual balance of previously expensed equity-settled stock options (<i>note 9</i>)	444	—
Balance at end of period	10,589	97,630
Accumulated other comprehensive income		
Balance at beginning of period	38,149	37,628
Other comprehensive loss attributable to equity holders of the Company	(6,326)	(4,652)
Balance at end of period	31,823	32,976
Share-based payments		
Balance at beginning of period	1,574	1,545
Cash settlement of share-based payments (<i>note 9</i>)	(1,130)	—
Reclassification to retained earnings of residual balance of previously expensed equity-settled stock options (<i>note 9</i>)	(444)	—
Balance at end of period	—	1,545
Total shareholders' equity attributable to equity holders of the Company	142,583	236,783
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	—	594
Other comprehensive loss attributable to non-controlling interest	—	(28)
Dividend declared by subsidiary to non-controlling interest	—	(534)
Repurchase by subsidiary of shares owned by non-controlling interest	—	(1,127)
Stock options of subsidiary exercised by non-controlling interest	—	25
Acquisition of remaining shares of non-wholly owned subsidiary	—	(65,886)
Balance at end of period	—	2,804
Total shareholders' equity	142,812	239,587

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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 November 10, 2020.

Basis of presentation and statement of compliance

These interim condensed consolidated financial statements for the three and nine months ended September 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 nine months ended September 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 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 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 and closed six of its hotels to streamline and manage costs. All six hotels were reopened during the second and third quarters. 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 first 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.

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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. The revaluation model is updated quarterly, and no additional revaluations were recorded during the three months ended September 30, 2020. The fair value of the Company's property and equipment will continue to be closely monitored as the pandemic evolves. As clarity on the Company's outlook is obtained, additional revaluation increases, or decreases may be required.

The Company did not record a fair value adjustment on its investment properties during the first quarter as the COVID-19 pandemic had not had a material impact on the operations or expected cashflows of those assets. The impact of COVID-19 on the Company's financial instruments, including its liquidity risk and credit risk is disclosed in note 15.

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 is now \$13.74. The Company also reduced the exercise price of outstanding stock options by \$5.49 (note 9).

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:

	September 30, 2020	December 31, 2019
	\$	\$
Fair value of plan assets	73,590	81,044
Accrued benefit obligation	(53,800)	(52,489)
Funded status of plans – accrued pension benefit asset	19,790	28,555

The defined benefit pension recovery recognized in the interim consolidated statements of earnings for the three and nine months ended September 30, 2020 was \$125 and \$308 (2019 – \$70 and \$211).

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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 September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
	\$	\$	\$	\$
Net remeasurement losses	(2,360)	(768)	(9,073)	(6,479)
Deferred income tax recovery	560	219	2,425	1,857
Defined benefit expense recognized	(1,800)	(549)	(6,648)	(4,622)

Significant assumptions

	September 30, 2020	December 31, 2019
	%	%
Accrued benefit obligation – discount rate	2.70	3.10
Benefit costs for the period – expected return on plan assets	3.10	3.40

5. PROPERTY AND EQUIPMENT

Nine months ended September 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	—	137	—	603	—	293	1,033
Disposals	—	(8)	—	(9)	—	—	(17)
Revaluations (note 2)	(2,820)	(15,980)	—	—	—	—	(18,800)
Depreciation	—	(5,274)	(264)	(2,754)	(119)	—	(8,411)
Ending balance	27,726	143,234	147	10,815	913	3,568	186,403
Valuation	27,726	147,682	—	—	—	—	175,408
Cost	—	—	4,657	16,685	1,143	3,568	26,053
Accumulated depreciation	—	(4,448)	(4,510)	(5,870)	(230)	—	(15,058)
Net book value	27,726	143,234	147	10,815	913	3,568	186,403

6. INVESTMENT PROPERTIES

During the third quarter of 2020, the Company recorded fair value adjustments on two office buildings in Houston, TX. The increase in value of \$2,043 was recorded in the interim consolidated statements of earnings and was a result of purchase offers received during the quarter.

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

6. INVESTMENT PROPERTIES (CONT'D)

	Buildings	Vacant land	Total
	\$	\$	\$
Carrying value – January 1, 2020	19,709	167	19,876
Fair value adjustments	2,043	—	2,043
Additions	393	—	393
Foreign exchange impact	502	—	502
Carrying value – September 30, 2020	22,647	167	22,814

7. LONG-TERM DEBT

During the nine months ended September 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 capitalized \$648 of deferred interest to long-term debt.

8. SHARE CAPITAL AND EARNINGS PER SHARE

	September 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	(916,060)	(5,421)	(514,159)	(1,768)
Common shares issued pursuant to an acquisition	—	—	4,799,455	59,993
Outstanding common shares, end of period	15,655,124	92,630	16,571,184	98,051

Normal course issuer bid (“NCIB”)

In the nine months ended September 30, 2020, the Company purchased for cancellation 916,060 (2019 – 476,059) common shares under a NCIB at a cost of \$7,714 (2019 – \$6,149). The purchase price in excess of the historical book value of the shares in the amount of \$2,532 (2019 – \$4,606) has been charged to retained earnings, \$239 (2019 – nil) has been added to contributed surplus and \$5,421 (2019 – \$1,543) has been charged to share capital.

Earnings per share

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

	Three months ended September 30, 2020			Three months ended September 30, 2019		
	Earnings	Weighted average shares	Per share amount	Loss	Weighted average shares	Per share amount
	\$	(in thousands)	\$	\$	(in thousands)	\$
Basic earnings (loss) per share	12,481	15,765	0.79	(2,852)	12,063	(0.24)
Interest, net of income taxes, on assumed conversion of convertible debentures	574	3,697		—	—	
Diluted earnings (loss) per share	13,055	19,462	0.67	(2,852)	12,063	(0.24)

Clarke Inc.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

	Nine months ended September 30, 2020			Nine months ended September 30, 2019		
	Loss	Weighted average shares	Per share	Earnings	Weighted average shares	Per share
	\$	(in thousands)	amount	\$	(in thousands)	amount
		#	\$		#	\$
Basic earnings (loss) per share	(33,714)	16,074	(2.10)	31,242	12,106	2.58
Common shares issued on assumed exercising of stock options	—	—		—	91	
Interest, net of income taxes, on assumed conversion of convertible debentures	—	—		6	10	
Diluted earnings (loss) per share	(33,714)	16,074	(2.10)	31,248	12,207	2.56

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

9. SHARE-BASED PAYMENTS

	Nine months ended September 30, 2020		Nine months ended September 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 September 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 nine months ended September 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 nine months ended September 30, 2020 was \$33 and \$60 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 September 30, 2020.

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

Three and nine months ended September 30, 2020 and 2019

*Unaudited (in thousands of Canadian dollars, except per share amounts)***10. INVESTMENT AND OTHER INCOME (LOSS)**

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

	Three months ended September 30, 2020 \$	Three months ended September 30, 2019 \$	Nine months ended September 30, 2020 \$	Nine months ended September 30, 2019 \$
Unrealized gains (losses) on investments	10,839	(5,904)	(41,239)	(5,181)
Realized gains on investments	—	—	29,008	12,519
Revaluation of hotel properties	—	—	(18,800)	—
Fair value adjustment on investment properties	2,043	—	2,043	—
Dividend income	—	549	—	1,660
Interest income	91	311	358	783
Pension recovery (note 4)	125	70	308	211
Insurance proceeds, net of clean-up and other costs	—	225	14	1,174
Gain (loss) on disposal of assets	1	(2)	(10)	(529)
Foreign exchange gains (losses)	(19)	34	17	(196)
Gains on repurchase of convertible debentures	6	—	6	—
	13,086	(4,717)	(28,295)	10,441

11. INCOME TAXES

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

	Three months ended September 30, 2020 \$	Three months ended September 30, 2019 \$	Nine months ended September 30, 2020 \$	Nine months ended September 30, 2019 \$
Current	433	754	120	1,028
Deferred	(781)	(92)	(5,078)	(4,290)
Provision for (recovery of) income taxes	(348)	662	(4,958)	(3,262)

As at September 30, 2020, the Company had non-capital losses carried forward for tax purposes of \$33,877 (December 31, 2019 – \$16,535) in Canada and US\$7,569 (December 31, 2019 – US\$6,374) in the United States and capital losses carried forward for tax purposes of nil (December 31, 2019 – \$9,365).

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

	September 30, 2020 \$	December 31, 2019 \$
Marketable securities	1,842	—
Property and equipment	2,430	—
Non-capital and capital loss carry forwards	1,514	1,485
Total	5,786	1,485

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

Three and nine months ended September 30, 2020 and 2019

*Unaudited (in thousands of Canadian dollars, except per share amounts)***12. RELATED PARTY DISCLOSURES**

During the nine months ended September 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.

13. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine months ended September 30, 2020 \$	Nine months ended September 30, 2019 \$
Adjustments for items not involving cash		
Realized/unrealized losses (gains) on investments <i>(note 10)</i>	12,231	(7,338)
Depreciation	8,438	9,366
Revaluation of hotel properties <i>(notes 2 and 10)</i>	18,800	—
Fair value adjustment on investment properties <i>(notes 6 and 10)</i>	(2,043)	—
Deferred income tax recovery <i>(note 11)</i>	(5,078)	(4,290)
Share-based payment expense <i>(note 9)</i>	60	445
Amortization of fair value increments from acquisition	(132)	(361)
Accretion on debt	155	254
Unrealized foreign exchange losses (gains)	(17)	196
Pension recovery <i>(note 4)</i>	(308)	(211)
Loss on disposal of assets <i>(note 10)</i>	10	529
Capitalized deferred interest <i>(note 7)</i>	648	—
Gains on repurchase of convertible debentures	(6)	—
Bargain purchase gain	—	(20,694)
Selling costs on property and equipment sales	—	2,732
	32,758	(19,372)
	Nine months ended September 30, 2020 \$	Nine months ended September 30, 2019 \$
Net changes in non-cash working capital balances		
Receivables	555	(2,536)
Inventories	40	144
Income taxes receivable	—	475
Prepaid expenses	(772)	(411)
Accounts payable and accrued liabilities	(1,984)	566
Income taxes payable	(59)	261
Accrued interest on convertible debentures	794	611
Settlement of share-based liability	(1,130)	(1,079)
	(2,556)	(1,969)

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

Three and nine months ended September 30, 2020 and 2019

*Unaudited (in thousands of Canadian dollars, except per share amounts)***14. 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 first quarter of 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 (note 6). Hotel revenue and provision of services was all generated by continuing operations in Canada for the three and nine months ended September 30, 2020 and 2019.

	Investment	Hospitality	Other	Eliminations	Total
Three months ended September 30, 2020	\$	\$	\$	\$	\$
Revenue and other income:					
Hotel revenue and provision of services	2,849	6,982	155	(8)	9,978
Investment and other income	12,881	75	130	—	13,086
	15,730	7,057	285	(8)	23,064
Operating expenses before the undernoted	1,339	4,876	289	(8)	6,496
Share-based payment expense	—	—	33	—	33
Depreciation and amortization	89	2,605	21	—	2,715
Interest expense	20	772	895	—	1,687
Income (loss) before income taxes	14,282	(1,196)	(953)	—	12,133

	Investment	Hospitality	Other	Eliminations	Total
Nine months ended September 30, 2020	\$	\$	\$	\$	\$
Revenue and other income:					
Hotel revenue and provision of services	3,297	24,554	492	(32)	28,311
Investment and other income (loss)	(10,188)	(18,423)	316	—	(28,295)
	(6,891)	6,131	808	(32)	16
Operating expenses before the undernoted	3,911	20,013	1,047	(32)	24,939
Share-based payment expense	—	—	60	—	60
Depreciation and amortization	268	8,106	64	—	8,438
Interest expense	64	2,359	2,828	—	5,251
Loss before income taxes	(11,134)	(24,347)	(3,191)	—	(38,672)
Assets	61,091	213,803	20,505	(9)	295,390
Liabilities	3,489	75,413	73,914	(9)	152,807
Capital expenditures	393	1,033	—	—	1,426
Assets located outside of Canada	20,122	—	—	—	20,122

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

Three and nine months ended September 30, 2020 and 2019

*Unaudited (in thousands of Canadian dollars, except per share amounts)***14. SEGMENTED INFORMATION (CONT'D)**

	Investment	Hospitality	Other	Eliminations	Total
Three months ended September 30, 2019	\$	\$	\$	\$	\$
Revenue and other income:					
Hotel revenue and provision of services	4,315	21,774	191	(18)	26,262
Investment and other income (loss)	2,460	542	96	(7,815)	(4,717)
	6,775	22,316	287	(7,833)	21,545
Operating expenses before the undernoted	2,279	15,074	406	(18)	17,741
Selling costs on property and equipment sales	—	1,515	—	—	1,515
Depreciation and amortization	89	2,926	13	—	3,028
Interest expense	39	1,944	195	—	2,178
Income (loss) before income taxes	4,368	857	(327)	(7,815)	(2,917)
Nine months ended September 30, 2019	\$	\$	\$	\$	\$
Revenue and other income:					
Hotel revenue and provision of services	6,206	58,697	548	(50)	65,401
Bargain purchase gain	20,694	—	—	—	20,694
Investment and other income	25,323	1,303	140	(16,325)	10,441
	52,223	60,000	688	(16,375)	96,536
Operating expenses before the undernoted	4,769	43,201	1,084	(50)	49,004
Selling costs on property and equipment sales	—	2,732	—	—	2,732
Share-based payment expense	—	445	—	—	445
Depreciation and amortization	266	9,086	14	—	9,366
Interest expense	123	5,818	474	—	6,415
Income (loss) before income taxes	47,065	(1,282)	(884)	(16,325)	28,574
Assets	123,848	239,292	28,382	(10)	391,512
Liabilities	4,284	66,584	81,067	(10)	151,925
Capital expenditures	30	4,542	408	—	4,980
Assets located outside of Canada	17,279	—	—	—	17,279

15. 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 prior 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 September 30, 2020, the Company had cash of \$517 and available unused facilities totaling \$13,865.

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

Three and nine months ended September 30, 2020 and 2019

*Unaudited (in thousands of Canadian dollars, except per share amounts)***15. FINANCIAL INSTRUMENTS (CONT'D)**

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 fourth quarter. 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 September 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 September 30, 2020. As at September 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 \$1,374 which is presented as current, and the credit facility of \$10,000 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 \$4,143 for this program as at September 30, 2020. All submissions have 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.

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	34,985	—	—	—
Accounts payable and accrued liabilities	5,579	—	—	—
Convertible debentures interest	3,175	3,175	2,116	—
Convertible debentures	—	—	50,795	—
Long-term debt	6,205	38,634	5,150	2,286
Interest on long-term debt	2,057	2,303	533	174
	52,001	44,112	58,594	2,460

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.

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

15. FINANCIAL INSTRUMENTS (CONT'D)

The amount of receivables presented on the consolidated statements of financial position of \$3,386 is net of expected credit losses of \$172. 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 three loans receivable in the amount of \$2,109 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 nine months ended September 30, 2020, the Company collected \$5,465 of its loans receivable.

16. SUBSEQUENT EVENTS

Share restructuring plan

During the quarter, the Company announced that it had called a special meeting of Clarke's shareholders (the "Meeting") to approve a proposed consolidation and subsequent share split of its common shares ("Common Shares") in order to eliminate a large number of small and odd-lot shareholdings ("Share Restructuring Plan").

The basis of the proposed consolidation of Common Shares was one post-consolidated Common Share for each 1,000 pre-consolidated Common Shares (the "Consolidation"). Holders of fewer than 1,000 Common Shares who did not increase their holdings to 1,000 or more Common Shares prior to the determination date would cease to hold Common Shares and would be entitled to be paid cash consideration equal to that number of pre-Consolidation Common Shares held by the holder multiplied by an amount equal to the volume weighted average trading price of the Common Shares for the twenty trading days preceding the Consolidation. Immediately following the Consolidation, the remaining Common Shares would be split on the basis of 1,000 post-split Common Shares for each 1 post-Consolidation Common Share. The end result would mean those shareholders who held 1,000 or more shares prior to the restructuring would retain the same number of shares after the restructuring.

The Share Restructuring Plan was approved at the Meeting subsequent to September 30, 2020, and the Company paid \$2,038 in cash consideration for 363,893 Common Shares, or \$5.60 per Common Share.

Credit facility amendment and new financing

The Company and Holloway each have respective credit facilities with the same Canadian chartered bank with aggregate drawings of \$24,985 at September 30, 2020. Subsequent to the end of the quarter, the Company amended the credit facility to combine and replace the two facilities. The existing security remains in place as collateral for the amended credit facility. The availability is determined by a borrowing base calculation, has a maximum borrowing capacity of \$40,000 and bears interest at prime plus 1.50%, or based on a spread to banker's acceptance. The credit facility was amended to establish incremental, long-term liquidity to the Company.

In conjunction with the amended credit facility, the Company secured a \$12,500 term loan through this same Canadian chartered bank via the Co-Lending Program within the Business Credit Availability Program. The term loan has a three-year term, bears interest at prime plus 1.50% and is secured by a second lien on the security of the credit facility.

Pension plan surplus distribution

Subsequent to September 30, 2020, the Company received a pre-tax distribution from one of its pension plans in the amount of \$1,247 in accordance with the surplus withdrawal rules of the Quebec Supplemental Pension Plans Act.

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2020 and 2019

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

16. SUBSEQUENT EVENTS (CONT'D)

Hotel sale

Subsequent to September 30, 2020, Holloway entered into an agreement to sell the Best Western® hotel in Grande Prairie, AB to a company controlled by the Executive Chairman and his immediate family member for gross proceeds of \$11,500. The carrying value of the hotel does not materially differ from the purchase price. As such, the Company does not expect a significant impact on the consolidated statements of earnings upon the close of the transaction.