

**CLARKE**

Halifax, Canada

**MD&A & Financial Statements**  
**2014**



Management's Discussion & Analysis

**Clarke Inc.**

December 31, 2014 and 2013

## MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion & Analysis ("MD&A") presents management's view of the financial position and performance of Clarke Inc. ("Clarke" or the "Company") for the year ended December 31, 2014 compared with the year ended December 31, 2013. The following disclosures and associated consolidated financial statements are presented in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with the information disclosed within the consolidated financial statements and notes thereto for the year ended December 31, 2014 and the Company's Annual Information Form ("AIF"), including the risk factors described therein, available on SEDAR at [www.sedar.com](http://www.sedar.com). This MD&A provides an overall discussion, followed by analyses of the performance of the Company's major reportable segments (*see note 22 to the consolidated financial statements for the year ended December 31, 2014*). The MD&A is prepared as at February 23, 2014 (unless otherwise stated). All dollar amounts are shown in millions of Canadian dollars unless otherwise indicated.

### OVERVIEW & STRATEGY

Clarke is an investment company. Our objective is to maximize shareholder value. While not the perfect metric, we believe that Clarke's book value per share, together with the dividends paid to shareholders, is an appropriate measure of our success in maximizing shareholder value over time.

We attempt to maximize shareholder value by allocating capital to investments that we believe will generate high returns and reallocating capital over time as needed. In doing this, Clarke's goal is to identify investments that are either undervalued or are underperforming and may be in need of positive change. These investments may be companies, securities or other assets such as real estate, and they may be public entities or private entities. We do not believe in limiting ourselves to specific types of investments. From time to time, Clarke will invest passively in a security where it believes the security is undervalued and there is no need for change or where it believes the security is undervalued but that the management team in place at the underlying company is doing an appropriate job to reduce the undervaluation. More often, Clarke will seek active involvement in the governance and/or management of the company in which it invests. In these cases, Clarke will have acquired the security with a view of changes that could be made to improve the underlying company's performance and maximize the company's value. When Clarke believes that an investee company has implemented appropriate changes and/or the value of the investee company has reached or exceeded its intrinsic value, Clarke may sell its investment. Clarke generally invests in industries that have hard assets, including manufacturing, industrial, energy and real estate businesses.

We view our investments as businesses. The rules applicable to the drafting of this MD&A may require us to call these investments "reportable segments", combine multiple investments together in a single "reportable segment" and discuss these investments as if we operated them ourselves. While we are sometimes involved in the management of our investee companies, we rather speak of them as owners and not as operators. From time to time, we will exclude certain details for competitive reasons.

## KEY EVENTS – 2014

During 2014 the Company grew book value per share by \$4.25 (51%) and returned \$0.40 per share to shareholders in the form of dividends paid. In addition, the Company spent \$12.5 million during the year repurchasing 1,243,846 of our common shares (“Common Shares”), all at a discount to book value. Our book value per share at the end of the year was \$12.57 while our share price was \$10.00.

The following were certain key events during 2014:

- The Company completed the sale of its truckload, less-than-truckload and freight logistics businesses (the “Freight Transport Business”) to TransForce Inc. (“TransForce”) for total consideration of \$100.5 million. We realized a gain on sale of \$66.4 million.
- The Company completed the sale of Gestion Jerico Inc. (“Jerico”), the business that made up its Commercial Tanks & Home Heating segment, to TerraVest Capital Inc. (“Terravest”). We received \$24.9 million for our 75% equity interest in Jerico in the form of a 6.50% promissory note with a three year term. We realized a gain on sale of \$4.7 million. During the year, Terravest repaid \$5.9 million of the promissory note leaving an outstanding principal balance of \$19.0 million.
- The Company redeemed the remaining \$30.2 million principal amount of its 2018 convertible debentures (the “Debentures”) using cash on hand. The Company no longer has any debentures outstanding.
- Clarke concluded its proxy contest with Sherritt International Corporation (“Sherritt”). Clarke commenced a proxy contest against Sherritt in early 2014 with the goal of replacing three directors with nominees of Clarke and promoting various changes in Sherritt’s governance, operations and capital allocation. Although we were not successful in obtaining representation on Sherritt’s board, our investment in Sherritt was a financial success. We sold our shares following the results of the proxy contest and realized a gain of \$17.5 million and an IRR of 68% on our investment in Sherritt.
- Holloway Lodging Corporation (“Holloway”) acquired all of the outstanding shares of Royal Host Inc. (“Royal Host”). As a shareholder of Royal Host, Clarke received cash of \$6.1 million and 610,977 Holloway shares on closing of the acquisition. Following the completion of this transaction, Clarke acquired an additional 6,263,839 shares of Holloway and at year-end owned approximately 35% of Holloway’s outstanding shares.
- The Company sold its investment in Supremex Inc. (“Supremex”) for gross proceeds of \$38.0 million. Our profit since holding this investment (including distributions and dividends received) was \$5.6 million

## KEY EVENTS – SUBSEQUENT TO 2014 YEAR END

On January 27, 2015, the Company completed a substantial issuer bid (“SIB”) by purchasing 665,330 Common Shares at a purchase price of \$9.50 per Common Share.

On February 3, 2015, the Company completed the sale of the *MV Shamrock*, a container ship included in its Transportation segment, for net proceeds of US\$4.6 million (Cdn. \$5.7 million).

On February 4, 2015, the Company purchased an additional 1,000,000 shares of Holloway for \$5.25 per share.

On February 10, 2015, the Company received a distribution from one of its private investment funds in the amount of US\$0.9 million (Cdn. \$1.1 million).

On February 23, 2015, the Company’s Board of Directors announced the first quarter dividend of \$0.10 per Common Share payable on April 10, 2015 to shareholders of record at the end of business on March 31, 2015.

## OUTLOOK

Throughout 2013 and 2014 Clarke sold a number of investments with a view to realizing the value that exists in the Company's assets. Two of the investments we sold in the last 24 months were Bonnett's Energy Corp. and Highkelly Drilling Inc. Both of these businesses were leaders in their respective fields and had conservative capital structures. These sales proved timely as we realized attractive profits and reduced our exposure to the oil and gas industry prior to the recent downturn. Given the recent declines in oil and gas prices and the negative impact expected on related service businesses, we are seeking new investments in the oil and gas service industry.

As a result of our various investment sales, Clarke has eliminated substantially all of its debt and built a significant cash balance. At year-end, Clarke had \$76.1 million of cash on hand (net of all debt) representing 39% of our market capitalization. We continue to seek new investments that can deliver attractive returns in coming years. We are beginning to see opportunities in the oil and gas industry as valuations have come down in response to the decline and uncertainty in global oil prices. Investment opportunities outside of the oil and gas industry have been more limited in our view due to generally high valuations. We will remain disciplined in deploying our capital as that capital retains option value while it is in our hands.

In addition to seeking new investments, we intend to continue working with our two major investee companies to maximize their business values. We believe there is significant opportunity for each of Terravest and Holloway to continue acquiring complementary businesses and hotels, respectively, at accretive prices. Each of these companies remains undervalued in our view.

Finally, we continue to view our Common Shares as undervalued. As long as this situation exists, we will continue to repurchase our Common Shares as it is the equivalent of buying a dollar for a fraction of that amount. We repurchased 1,243,846 Common Shares under our normal course issuer bid ("NCIB") in 2014 and 665,330 shares under our SIB in early 2015, all at a discount to our book value per share.

## RESULTS OF OPERATIONS

Highlights of the consolidated financial statements for the last three completed fiscal years are as follows:

<i>(in millions, except per share amounts)</i>	<b>Year ended December 31, 2014</b>	Year ended December 31, 2013	Year ended December 31, 2012
	\$	\$	\$
Realized and unrealized gains (losses) on investments	<b>29.3</b>	38.8	(7.5)
Dividend income	<b>6.6</b>	5.9	3.1
Revenue and other income*	<b>19.8</b>	8.2	9.6
Income (loss) from continuing operations	<b>43.2</b>	37.2	(16.6)
Income from discontinued operations attributable to equity holders of the Company**	<b>59.4</b>	15.5	15.6
Net income (loss) attributable to equity holders of the Company	<b>102.6</b>	52.7	(1.0)
Comprehensive income attributable to equity holders of the Company	<b>99.5</b>	58.9	2.4
Basic earnings per share (“EPS”)			
Income (loss) from continuing operations	<b>2.23</b>	2.24	(0.98)
Income from discontinued operations	<b>3.06</b>	0.93	0.93
Net income (loss)	<b>5.29</b>	3.17	(0.05)
Diluted EPS			
Income (loss) from continuing operations	<b>1.85</b>	1.61	(0.98)
Income from discontinued operations	<b>2.45</b>	0.62	0.93
Net income (loss)	<b>4.30</b>	2.23	(0.05)
Total assets	<b>256.5</b>	298.4	229.9
Long-term financial liabilities	<b>2.4</b>	66.1	***19.9
Cash dividends declared per share	<b>0.50</b>	0.34	0.12
Book value per share	<b>12.57</b>	8.32	5.15

\*Revenue and other income includes pension recovery/expense, interest income, gains on sale of fixed assets, foreign exchange gains/losses, gains on convertible debenture redemptions and repurchases and revenue from the Transportation segment.

\*\*Non-IFRS measure determined by deducting non-controlling interest from income from discontinued operations. Income from discontinued operations includes the results and the gain on sale of the Freight Transport Business and Jerico.

\*\*\*Not included in long-term financial liabilities for the year ended December 31, 2012 is \$62.3 million principal amount of Debentures that was included in current liabilities.

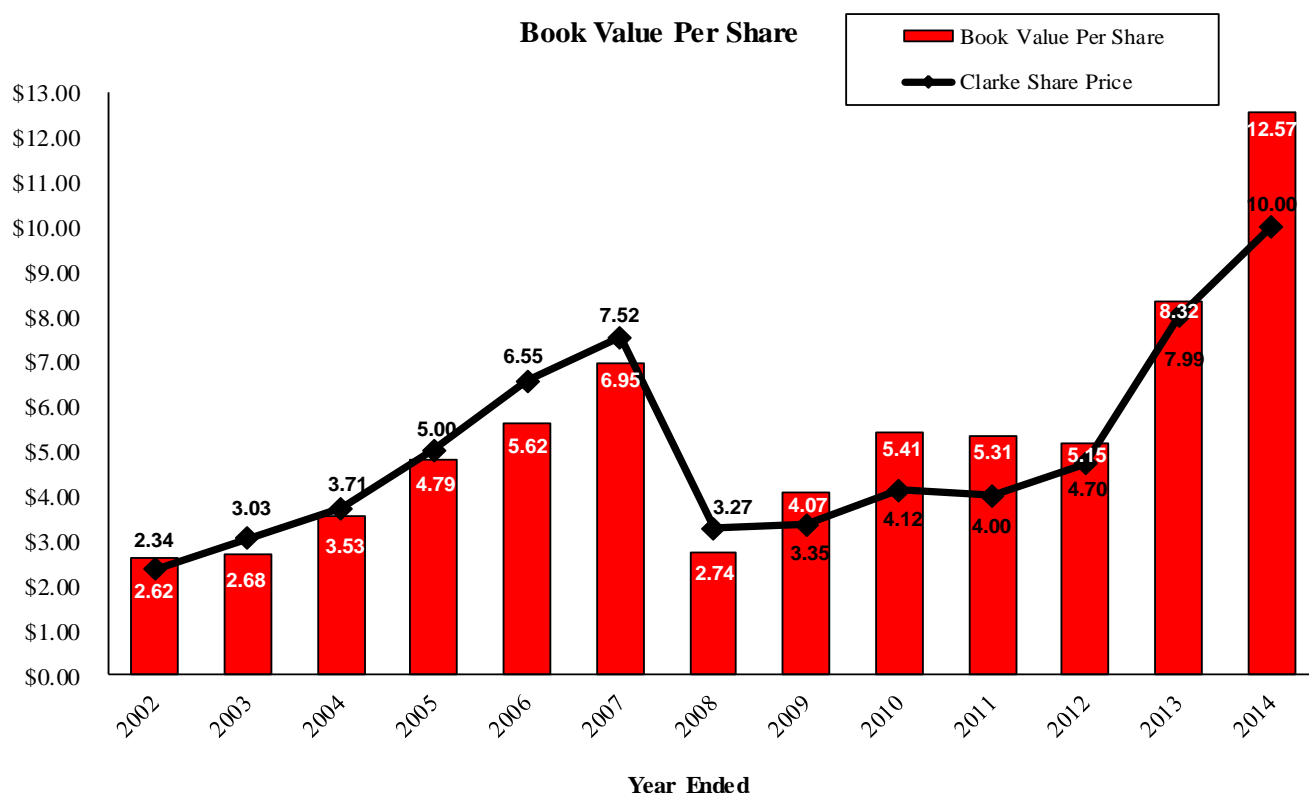
Net income attributable to equity holders of the Company for the year ended December 31, 2014 was \$102.6 million compared with net income of \$52.7 million in 2013. This represents the highest net income generated in a twelve month annual period in the Company’s history. During the year ended December 31, 2014, the Company had unrealized gains on its investments of \$46.6 million compared to unrealized gains of \$25.9 million in 2013. The Company had realized losses on its investments of \$17.4 million for the year ended December 31, 2014 compared with realized gains of \$12.9 million in 2013. Further discussion on these unrealized and realized gains/losses is below in the “Investment Segment” section of this MD&A.

During the year ended December 31, 2014, the Company completed the sale of its Freight Transport Business and Jerico resulting in gains on sale of subsidiaries of \$71.1 million, included in income from discontinued operations.

On January 1, 2014, upon the sale of the Freight Transport Business, all active members of the Pension Plan for the Employees of Clarke Inc. and of the Clarke Group Pension Plan who were employees of that business stopped accruing service and salary increases for future periods which resulted in a curtailment gain of \$3.3 million and is included in the consolidated statements of earnings for the year ended December 31, 2014.

The Company’s book value per share as at December 31, 2014 was \$12.57, an increase of \$4.25, or 51%, per share since December 31, 2013. This increase was due to the gain recognized on the sale of the Freight Transport Business, the significant increases in the market value of the Company’s marketable securities and the net gains on the sale of investments in the year. Although the Company’s book value has increased significantly in recent years and in large part consists of cash and marketable securities, the Company’s shares continue to trade at a meaningful discount to their book value.

The following graph represents the book value per share of Clarke, compared to public market price per share for the thirteen years ended December 31, 2014.



\* Information for the years ended 2002 and 2003 is as at March of the following year. In 2004 the Company's year end was changed to December.

## SEGMENT REPORTING

### Investment segment

The Investment segment represents the Company's marketable securities portfolio as well as long-term private investment funds and debt investments. Results of operations for the year ended December 31, 2014, compared to the year ended December 31, 2013 in the Company's Investment segment are as follows:

	Year ended December 31, 2014	Year ended December 31, 2013
	\$	\$
Revenue and other income:		
Investment and other income	39.6	40.6
Intercompany management revenue*	0.8	1.8
	<b>40.4</b>	42.4
Expenses	1.2	0.6
Net income before income taxes	<b>39.2</b>	41.8
Net income before intercompany revenue and income taxes	<b>38.4</b>	40.0

\*Intercompany management revenue is eliminated upon consolidation.



The Investment segment performed well in the years ended December 31, 2014 and 2013 due to the increase in market prices of the publicly-traded securities we own and gains earned upon the sale of various investments. During the year ended December 31, 2014, we sold our shares of Sherritt and our remaining shares of Vitran Corporation Inc. (“Vitran”) upon the completion of TransForce’s acquisition of Vitran. These two sales generated realized gains on investments of \$18.5 million. The Company also had realized losses in 2014 on the sale of our Royal Host and Supremex shares amounting to \$35.9 million. While we sold our shares of these two companies at a premium to their market price in recent years and have collected distributions/dividends on these investments over the years, the sale price was substantially below the Company’s acquisition cost in 2007 and 2008 and therefore was a disappointment for Clarke.

The breakdown of the change in the Company’s marketable securities portfolio is as follows:

	Year ended December 31, 2014 \$
Marketable securities – beginning of year	129.4
Purchases	44.3
Proceeds on sale	(113.1)
Realized and unrealized gains on marketable securities	28.7
Marketable securities – end of year	89.3

The Company received dividends of \$6.6 million for the year ended December 31, 2014 compared to \$5.9 million in 2013. This increase is mainly due to an increase in dividends paid by Supremex and Terravest.

The Company’s marketable securities portfolio included the following investments:

	December 31, 2014				December 31, 2013			
	Shares or face value	Market Price \$	Market value \$'000	%	Shares or face value	Market Price \$	Market value \$'000	%
Energy Securities Portfolio	N/A	N/A	2,647	2.9	N/A	N/A	10,860	8.4
Holloway	6,874,815	6.00	41,249	46.2	—	—	—	—
Holloway 6.25% Convertible Debentures (DB) *†	11,604,000	0.875	10,154	11.4	11,347,000	0.898	10,185	7.9
Holloway 7.50% Convertible Debentures (DB.A) *	6,232,000	0.970	6,045	6.8	6,232,000	0.910	5,671	4.4
Terravest	5,000,000	5.85	29,250	32.7	4,021,008	4.53	18,215	14.1
Supremex	—	—	—	—	13,094,200	2.07	27,105	20.9
Sherritt	—	—	—	—	12,420,000	3.72	46,202	35.7
Royal Host	—	—	—	—	6,109,768	1.35	8,248	6.4
Vitran	—	—	—	—	418,837	6.87	2,877	2.2
Carrying value of marketable securities			89,345	100.0			129,363	100.0

\*These convertible debentures were in the name of Royal Host as at December 31, 2013. Following Holloway’s acquisition of Royal Host Holloway formally assumed the debentures.

† Effective October 31, 2014, Holloway combined its two series of 6.25% convertible debentures into a single series of convertible debentures. These have been combined in the prior year for comparative purposes.

## Summary of investee performance

**Energy Basket:** Following the precipitous decline in oil prices in the fourth quarter, we started to acquire select securities of companies engaged in the oil and gas business. There are many marginal operators in the oil and gas industry that will not (or at least ought not to) survive the present downturn; these companies may have acquired marginal properties, paid too high a price for mediocre properties, operated with too high a cost structure or borrowed too heavily. We believe there may be opportunities to acquire these companies at very depressed prices and assist in their restructuring. There are also several fundamentally good companies with solid balance sheets and business models that are being valued at distressed prices even though they are not distressed; investing in these companies is compelling.

Our present intention is to acquire both debt and equity securities of companies engaged in the oil and gas industry that we believe are attractively valued and offer the potential for significant capital appreciation in the future. Many of these investments will be passive and we do not plan to disclose these investments unless they become material on an individual basis to Clarke.

**Holloway:** Following its acquisition of Royal Host in July 2014, Holloway's share price increased significantly before declining along with oil prices towards the end of 2014. We believe the share price decline is unjustified and that Holloway is significantly undervalued at both its year-end price of \$6.00 and its recent trading price of \$5.84. Holloway's acquisition of Royal Host was timely as it diversified the company's cash flow out of oil and gas markets and into Ontario and the Maritimes which should benefit from reduced energy prices and the weaker Canadian dollar. On both a cap rate and asset basis, Holloway is the cheapest publicly-traded hotel company in Canada yet it has a much stronger balance sheet and much better operating margins than its peers.

What we like about Holloway is its constant focus on maximizing free cash flow and shareholder value. For instance, to date in 2015, Holloway announced the sale of two properties at cap rates below 3.0% and the acquisition of another property at a cap rate in excess of 11.0%; these transactions are immediately accretive to shareholders on a cash flow basis.

In our third quarter report, we commented on the flawed dividend-focused business model that many publicly-traded hotel companies have adopted. These comments proved prescient as early 2015 witnessed one Canadian hotel company reduce its dividend by 44% with a corresponding share price decline. We see no such thing occurring with Holloway which currently has a low payout ratio and even has capacity to meaningfully increase its dividend should it wish to do so.

**Terravest:** During 2014 Terravest completed the acquisitions of Jerico, a manufacturer of tanks and vessels, and NWP Industries, a manufacturer of oil and gas processing equipment. In our view, each of these acquisitions was compelling and well-executed. In the case of Jerico, Terravest purchased a stable business that has no correlation with the oil and gas market. In the case of NWP Industries, Terravest acquired a company that complemented its existing RJV Gas Services business and offered significant synergies.

Terravest's most recent quarter was our first look at Terravest's results with the inclusion of both newly acquired subsidiaries. The results were impressive and highlight the impact of the new subsidiaries as well as the integration efforts of management. Jerico's contribution was especially strong resulting from increased demand in their residential and propane businesses. These results help reinforce our view that management's disciplined approach to acquisitions is creating value.

The drastic decline in oil prices has caused many oil and gas producers and service companies to slash their capital budgets and reduce or eliminate their dividends. We find it fascinating just how many business models were built on the assumption of ever increasing oil prices. Warren Buffet once said "...you only find out who's swimming naked when the tide goes out." He was referring to insurance policy risk, but it applies equally well to the situation the oil industry is currently experiencing.

We feel Terravest is in a much stronger position than many of its peers due to its strong balance sheet, reasonable payout ratio and its timely diversification into the tanks and vessels business. While Terravest's oil and gas focused subsidiaries may experience cyclical declines in activity levels, the company is well-positioned to execute on its value maximization strategy and take advantage of opportunities that result from the current industry environment.

**Supremex:** During the fourth quarter, Clarke sold its investment in Supremex, receiving gross proceeds of \$38.0 million. While the company continues to transition its revenues from envelopes to packaging products, we are uncertain as to (i) the pace of the decline of the company's core envelope business, and (ii) how quickly the company's new packaging business can grow to replace any envelope declines. Ultimately, we believe that we can deploy our capital more profitably in other investments.

## Transportation segment

The Transportation segment consists of the Company's ferry and international shipping operations. Previously, this segment also included the Freight Transport Business which was sold on January 1, 2014.

Results of operations for the year ended December 31, 2014 compared to the year ended December 31, 2013 in the Company's Transportation segment are as follows:

	Year ended December 31, 2014	Year ended December 31, 2013
	\$	\$
Revenue	7.6	7.8
Expenses	6.2	6.0
Adjusted EBITDA*	1.4	1.8
Impairment of fixed assets	1.2	—
Depreciation and amortization	0.8	1.0
Interest expense	0.2	0.2
Net income (loss) before income taxes	(0.8)	0.6

\* *Non-IFRS measure. See definitions of non-IFRS measures on page 17.*

Revenue and Adjusted EBITDA generated by the ferry and international shipping operations in 2014 was fairly consistent with that of 2013. In late 2014, the Company entered into an agreement to sell the *MV Shamrock*, the vessel used in its international shipping operations. Subsequent to the end of 2014, we closed the sale of this vessel and received net proceeds from the sale of US\$4.6 million (Cdn. \$5.7 million). As a result of the sale, we impaired the value of the assets used in the Company's international shipping operations by \$1.2 million which is included on the consolidated statements of earnings for the year ended December 31, 2014. The Company acquired the *MV Shamrock* at a tax lien auction in 2004 in the belief that (i) the vessel's replacement cost was substantially higher than the Company's purchase price, and (ii) the day rates for the vessel were attractive and were likely to generate an attractive cash flow yield. Following the financial crisis, day rates for the vessel were halved and have never fully recovered. While the vessel's replacement cost remains higher than the price the Company paid for the vessel, day rates have remained weak and the vessel's cash flow contribution to the Company is minimal. We believe that selling the vessel and redeploying the funds generated from its sale to other investments is the best course of action.

## Other segment

The Other segment consists of owned real estate, our IT services business, our treasury and executive functions, our pension plans and the interest payable on our Debentures (which were fully redeemed in 2014).

During the year ended December 31, 2014, the Company sold a property in Kitchener, Ontario for net proceeds of \$2.1 million, resulting in a gain on sale of \$1.6 million. Also during the year ended December 31, 2014, one of Clarke's joint venture companies sold real estate that was retained from a prior business. This real estate was sold for \$2.5 million of which Clarke's share was \$1.3 million. This transaction is disclosed for accounting purposes as '*equity in earnings of joint ventures*'. This resulted in equity in earnings in the amount of \$0.5 million and concludes all operations in this entity.

## Assets by segment

The table below shows a breakdown by segment of the Company's assets of continuing operations as at December 31, 2014, 2013 and 2012:

	December 31, 2014		December 31, 2013		December 31, 2012	
	\$'000	%	\$'000	%	\$'000	%
Investment	133.8	52.2	137.2	54.1	70.2	30.5
Transportation*	8.2	3.2	8.3	3.3	53.0	23.1
Commercial Tanks & Home Heating**	—	—	60.5	23.8	45.7	19.9
Other	114.5	44.6	47.7	18.8	61.0	26.5
<b>Total</b>	<b>256.5</b>	<b>100.0</b>	<b>253.7</b>	<b>100.0</b>	<b>229.9</b>	<b>100.0</b>

\*The December 31, 2012 asset balance in the Transportation segment includes the Freight Transport Business that was sold during the first quarter of 2014 and is included in assets of discontinued operations for the year ended December 31, 2013.

\*\*The company sold its Commercial Tanks & Home Heating segment during 2014.

## RESULTS OF DISCONTINUED OPERATIONS

On January 1, 2014, Clarke completed the sale of the Freight Transport Business. The Company received cash proceeds of \$100.5 million on the sale which included an estimated net working capital adjustment. As a result of this transaction, included in income from discontinued operations for the year ended December 31, 2014, is a gain on sale of subsidiary of \$66.4 million. The Company recorded the net assets of the Freight Transport Business as assets and liabilities of discontinued operations for the year ended December 31, 2013 and the results of this business have been reclassified as net income from discontinued operations for the year ended December 31, 2013.

On February 15, 2014, the Company completed the sale of Jerico. Jerico formed the Company's Commercial Tanks & Home Heating segment. The Company received \$24.9 million for its 75% equity interest in Jerico in the form of a 6.50% promissory note with a three year term. Prior to the end of 2014 Terravest repaid \$5.9 million of the promissory note leaving an outstanding principal balance of \$19.0 million. We expect the remainder of the promissory note to be repaid prior to its maturity date. As a result of this transaction, included in income from discontinued operations for the year ended December 31, 2014, is a gain on sale of subsidiary of \$4.7 million. The results of Jerico have been reclassified as net income from discontinued operations for the year ended December 31, 2014 and 2013.

As a result of the above, the Company had net income from discontinued operations of \$59.4 million for the year ended December 31, 2014 compared to \$17.0 million in 2013.

## NORMAL COURSE ISSUER BIDS ("NCIB")

The directors and management are of the opinion that, from time to time, the prices of the Company's publicly-traded securities may not reflect their intrinsic value and, therefore, purchasing such securities may be a worthwhile use of funds and in the best interests of the Company and its security holders.

In May 2013, Clarke announced that it had received approval from the TSX to conduct a NCIB to purchase for cancellation up to 834,115 Common Shares, representing 5% of the issued and outstanding Common Shares as at that date. The NCIB commenced on May 22, 2013 and was terminated on May 21, 2014. During 2014 Clarke repurchased 217,900 Common Shares under this NCIB.

In May 2014, Clarke announced that it had received approval from the TSX to conduct a NCIB to purchase for cancellation up to 1,025,946 Common Shares, representing 5% of the issued and outstanding Common Shares as at that date. The NCIB commenced on May 27, 2014 and Clarke repurchased all 1,025,946 Common Shares permitted by the fourth quarter.

In November 2014, Clarke announced that its Board of Directors had authorized a NCIB to purchase for cancellation through the facilities of the OTC Markets up to 974,649 of its outstanding Common Shares, representing approximately 5% of the currently outstanding Common Shares of Clarke. The NCIB commenced on November 27, 2014 and will terminate on November 26, 2015 unless terminated earlier by the Company.

In May 2013, Clarke announced that it had received approval from the TSX to conduct a NCIB to purchase for cancellation up to \$6.1 million principal amount of the 2018 Debentures, representing 10% of the public float of the 2018 Debentures as at that date. The NCIB commenced on May 22, 2013 and was terminated on May 21, 2014. During 2014 Clarke repurchased \$0.5 million Debentures under this NCIB.

## **OUTSTANDING SHARE DATA**

At February 23, 2015, the Company had:

- An unlimited number of Common Shares authorized and 18,827,647 Common Shares outstanding; and
- An unlimited number of First and Second Preferred Shares authorized and none outstanding.

## **LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2014, the Company's net cash position of continuing operations (a non-IFRS measure representing cash and cash equivalents less short-term indebtedness) was \$79.1 million compared to a net short-term debt position of \$42.3 million at December 31, 2013. This increase in cash is a result of the proceeds received on the sale of the Freight Transport Business during the first quarter of 2014 and net marketable security sales throughout 2014. At February 23, 2014, the Company's net cash position was approximately \$77.0 million.

### **Cash flow from operating activities**

Cash provided by operating activities was \$6.7 million for the year ended December 31, 2014, compared to \$0.6 million provided by operations for the year ended December 31, 2013. This increase is mainly due to higher dividends and interest received on our investments. Additionally, the Company has reduced its debt to a minimal amount which has reduced interest costs from \$4.7 million in 2013 to \$1.1 million in 2014.

At December 31, 2014, working capital excluding marketable securities was \$79.0 million, compared to negative \$26.4 million at December 31, 2013. The significant improvement in net working capital is due to the sale of the Freight Transport Business and Jerico. With the sale of such businesses, the Company's working capital needs are minimal and the Company has the ability to fund any working capital needs through its cash on hand and its existing credit facilities.

### **Cash flow from investing activities**

Net cash of \$61.0 million was provided by investing activities during the year ended December 31, 2014, compared to \$10.5 million used in the year ended December 31, 2013. This was primarily due to proceeds received on net sales of investments (sales less purchases) in the amount of \$68.8 million for the year ended December 31, 2014, compared to net purchases of investments (purchases less sales) \$15.0 million for the year ended December 31, 2013. This was partially offset by net advances of notes receivable in the amount of \$10.1 million in the year ended December 31, 2014.

### **Cash flow from financing activities**

Net cash used in financing activities was \$87.4 million for the year ended December 31, 2014, compared to \$8.8 million provided in the year ended December 31, 2013. Net cash used in financing activities during the year was mainly related to the repayment of short term indebtedness in the amount of \$35.9 million, the redemption and repurchase of Debentures in the amount of \$30.7 million, the repurchase of shares in the amount of \$12.5 million and the payment of dividends in the amount of \$7.6 million. Net cash provided by financing activities for the year ended December 31, 2013 was mainly attributable to the proceeds of short term indebtedness of \$16.2 million partially offset by the payment of dividends in the amount of \$5.6 million.

### **Available capital under credit facilities**

The Company has access to credit facilities where certain of the Company's marketable securities are pledged as collateral. At December 31, 2014, \$20.0 million was available under these facilities (subject to the amount of eligible securities pledged as collateral) and nil was drawn on these facilities. Declines in the market value of pledged securities may have an adverse effect on the amount of credit available under these facilities. Funds drawn on these facilities can be transferred by the Company to business units within its corporate structure, provided the Company is in compliance with all covenant requirements under its borrowing facilities; this enables us to allocate capital to its best use.

### Cash flow from discontinued operations

Net cash provided by operating activities of discontinued operations was \$0.2 million for the year ended December 31, 2014 compared to \$20.6 million for the year ended December 31, 2013. Cash flow provided by operating activities for the current year mainly relates to the cash flow generated from Jerico for the period prior to the sale transaction. Net cash provided by investing activities of discontinued operations was \$99.3 million for the year ended December 31, 2014, compared to \$7.9 million used for the year ended December 31, 2013. The amount provided by investing activities in the current year was mainly due to the cash proceeds received on the sale of the Freight Transport Business. Net cash used in financing activities of discontinued operations was \$2.7 million for the year ended December 31, 2014 compared to \$11.7 million used in the year ended December 31, 2013. In the current year, this was primarily due to the reduction of debt in Jerico for the period prior to the sale transaction.

### Contractual obligations and capital resource requirements

The effects of commitments, events, risks and uncertainties on future performance are discussed in the sections relating to Contractual Obligations and Capital Resource Requirements.

The table below summarizes Clarke's maximum contractual obligations by due date:

Contractual obligations	Total	Less than	1 – 3 years	3 - 5 years	After 5 years
	\$	1 year	\$	\$	\$
Long-term debt	3.0	0.6	1.3	1.1	—
Operating leases	0.7	0.2	0.4	0.1	—
	3.7	0.8	1.7	1.2	—

Clarke expects to be able to fund all working capital requirements, contractual obligations, and capital expenditures from a combination of operating cash flows, existing credit facilities, and its current cash and cash equivalents position.

Clarke has several investment margin facilities with Canadian brokerage companies. The facilities permit draws of a portion of the market value of purchases of qualifying marketable securities, depending upon the type of instrument, with certain market value restrictions. At December 31, 2014, Clarke had drawn nil under these facilities (2013 – \$35.9 million) and had a total cash availability of \$20.0 million (2013 – \$39.2 million) (see note 15 to the consolidated financial statements for the year ended December 31, 2014).

### Unrecorded commitments

At December 31, 2014, Clarke continued to be a party to the following unrecorded commitments:

- Operating leases, as discussed under “Contractual Obligations and Capital Resource Requirements” above, in the annual MD&A for the year ended December 31, 2014, and in note 17 to the consolidated financial statements for the year ended December 31, 2014.
- Other commitments, as discussed in note 17 to the consolidated financial statements for the year ended December 31, 2014.

## FOURTH QUARTER

A comparison of results for the three months ended December 31, 2014, compared to three months ended December 31, 2013, is as follows:

	Three months ended December 31, 2014	Three months ended December 31, 2013
	\$	\$
<b>Revenue</b>		
Unrealized gains on investments	4.6	5.6
Realized gains (losses) on investments	(14.0)	8.7
Dividend income	1.0	1.9
Pension recovery (expense)	0.1	(2.7)
Provision of services	1.7	1.6
Other income	1.4	0.1
	(5.2)	15.2
<b>Expenses</b>		
General and administrative expenses	1.3	1.2
Cost of services provided	1.5	1.3
Depreciation and amortization	0.1	0.2
Interest expense	0.1	1.2
Income (loss) before equity in earnings of associates and joint ventures and income taxes	(8.2)	11.3
Equity in earnings of associates and joint ventures	—	0.3
Income (loss) before income taxes	(8.2)	11.6
Recovery of income taxes	(1.8)	(3.8)
Income (loss) from continuing operations	(6.4)	15.4
Income (loss) from discontinued operations, net of tax	(0.3)	6.3
Equity in earnings from discontinued operations of joint ventures, net of tax	0.1	—
Net income (loss)	(6.6)	21.7
Comprehensive income (loss)	(6.8)	24.1
Net income (loss) attributable to equity holders of the Company	(6.6)	20.9
Comprehensive income (loss) attributable to equity holders of the Company	(6.8)	23.3

Fourth quarter revenue decreased as a result of a decrease in the value of the Company's portfolio of publicly-traded securities and realized losses incurred on the sale of investments. Net realized and unrealized losses on investments for the fourth quarter of 2014 were \$9.4 million compared to gains of \$14.3 million for the same period in 2013. The Company had a loss from continuing operations of \$6.4 million in the fourth quarter of 2014 compared to income of \$15.4 in the same period in 2013. This again was largely driven by the increase in realized losses on investments during the period which is discussed above under the "Investment segment". Net income from discontinued operations for the fourth quarter of 2013 consists primarily of the results of the Freight Transport Business sold on January 1, 2014 and Jerico sold on February 15, 2014. Comprehensive loss attributable to equity holders of the Company for the fourth quarter was \$6.8 million compared to comprehensive income of \$23.3 million for the same period in 2013.

For the three months ended December 31, 2014, Clarke's basic loss per share was \$0.33, compared to basic EPS of \$1.25 for the same period in 2013.

Net cash provided by operating activities was \$1.2 million for the fourth quarter of 2014, compared to net cash used in operations of \$7.4 million in the same period in 2013. Cash flow provided by operations in the fourth quarter of 2014 was mainly due to dividends and interest received on investments and notes receivable. Cash flow used in operations in the fourth quarter of 2013 was due to an increase in net working capital driven by the settlement of security purchases in the fourth quarter that were booked in the third quarter.

Net cash provided by investment activities was \$40.1 million in the fourth quarter of 2014, compared to net cash provided of \$8.0 million in the same period in 2013. Net sales (sales less purchases) of marketable securities in the fourth quarter of 2014 totalled \$33.9 million compared to \$8.3 million in the fourth quarter of 2013. The Company also received \$5.9 million in repayments of notes receivable in the fourth quarter of 2014.

Net cash used in financing activities for the fourth quarter of 2014 was \$4.9 million compared to net cash provided of \$10.6 million for the same period in 2013. During the fourth quarter of 2014 the Company continued to use available cash to repurchase its shares and pay a quarterly dividend.

There was nil cash provided by operating activities of discontinued operations for the fourth quarter of 2014 while \$10.9 million was provided for the same period in 2013. The majority of cash flow provided by operating activities relates to the cash flow generated from the Company's former Freight Transport Business and Jerico during the period. There was nil cash provided by investing activities of discontinued operations for the fourth quarter of 2014 while \$0.2 million was used for the same period in 2013. This was due to the net purchases of fixed assets (purchases less proceeds on disposition) for the fourth quarter of 2013. There was nil cash provided by financing activities of discontinued operations for the fourth quarter of 2014 while \$21.3 million was used in 2013. This was primarily due to the repayment of credit facilities in the Freight Transport Business prior to sale.

## SUMMARY OF QUARTERLY RESULTS

Key financial information for the current and preceding seven quarters is as follows:

<i>Three months ended</i>	<b>Mar. 2013</b>	<b>June 2013</b>	<b>Sept. 2013</b>	<b>Dec. 2013</b>	<b>Mar. 2014</b>	<b>June 2014</b>	<b>Sept. 2014</b>	<b>Dec. 2014</b>
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue and other income	6.1	7.6	24.1	15.2	16.0	24.4	20.5	(5.2)
Income (loss) from continuing operations	0.8	3.6	17.4	15.4	13.3	19.9	16.4	(6.4)
Income (loss) from discontinued operations *	2.5	3.6	4.5	6.3	59.7	—	—	(0.3)
Net income (loss)	3.3	7.2	21.9	21.7	73.0	19.9	16.4	(6.6)
Other comprehensive income (loss)	2.3	—	1.6	2.4	(3.8)	(0.2)	1.1	(0.2)
Comprehensive income (loss)	5.6	7.2	23.5	24.1	69.2	19.7	17.5	(6.8)
Basic EPS from continuing operations (in dollars)	0.08	0.24	1.12	1.06	0.73	1.00	0.83	(0.32)
Diluted EPS from continuing operations (in dollars)	0.08	0.19	0.78	0.73	0.57	0.94	0.83	(0.32)
Basic EPS (in dollars)	0.19	0.43	1.30	1.25	4.01	1.00	0.83	(0.33)
Diluted EPS (in dollars)	0.16	0.31	0.89	0.87	3.03	0.94	0.83	(0.33)

\* *Income from discontinued operations mainly consists of the results from the Freight Transport Business and Jerico and the gain on sale of both subsidiaries in the first quarter of 2014.*

As seen in the table above, our results can fluctuate significantly from quarter to quarter, mainly as a result of certain accounting standards the Company follows. Under IFRS, realized and unrealized gains and losses on our publicly-traded securities are recorded in "revenue" on our consolidated statements of earnings. The Company does not believe that quarterly fluctuations in the stock prices of our investee companies necessarily reflect a change in the value of the underlying businesses in which we are invested. The value of the underlying businesses are often more stable than their stock prices reflect and often worth more than the public markets give them credit for (as evidenced by some of our recent sales). Clarke views its investments on a longer-term basis as opposed to on a quarter-to-quarter basis. These fluctuations, however, often provide us with an opportunity to invest more capital in particular investments that we like or vice-versa.



## RELATED PARTY TRANSACTIONS

The Company was party to the following related party transactions during the year ended December 31, 2014:

- The Company is a party to rental agreements with a company owned by the Executive Chairman and his immediate family member. Included in 'General and administrative expenses' is rental and other property expenses of \$0.2 million (2013 – \$0.2 million) under this agreement.
- The Company provides administrative and asset management services to two pension plans it sponsors. Included in 'Provision of services' is \$0.3 million (2013 – \$0.3 million) for services provided to the pension plans during the year.
- The Company provides information technology services to related companies. Included in 'Income from discontinued operations' is nil (2013 – \$0.3 million) for services provided during the year.
- The Company has a promissory note receivable from Terravest as a result of the sale of Jerico. The note has a three year term. Included in 'Other income' for the year ended December 31, 2014 is interest income of \$1.4 million (2013 – nil) and included in 'Income from discontinued operations' for the year ended December 31, 2014 is a gain on sale of subsidiary of \$4.7 million (2013 – nil).
- The Company has a credit facility to lend \$6.0 million to Holloway maturing on or before December 31, 2015. The facility bears interest at 7.00%. As at December 31, 2014, \$3.0 million was drawn on the facility. Included in 'Other income' for the year ended December 31, 2014 is interest income of \$0.2 million (2013 – \$0.3 million). The facility was repaid in full subsequent to December 31, 2014.
- During the year ended December 31, 2014, the Company entered into a term loan agreement with Holloway. The agreement consists of a \$17.0 million term loan that bears interest at 6.50%. The term loan does not require any principal payments until the maturity on March 31, 2016, or March 31, 2017 if the borrower requests an extension. The borrower may prepay all or part of the term loan at any time following the six month anniversary of the first loan draw. During the year ended December 31, 2014, the borrower made its first loan draw in the amount of \$16.0 million on the term loan and is included in 'Notes receivable' on the consolidated statements of financial position. Interest on this note is included in 'Other income' for the year ended December 31, 2014 in the amount of \$0.5 million (2013 – nil).
- During the year ended December 31, 2014, the Company purchased 6,263,839 shares of Holloway through the facilities of the Toronto Stock Exchange from the Company's Executive Chairman and a company owned by an immediate family member of the Company's Executive Chairman. The purchase of the shares was made for investment purposes and the Company paid \$4.50 per share.

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

Year ended December 31, 2014	Board of directors	Officers	Total
	\$	\$	\$
Salary and fees	0.1	0.4	<b>0.5</b>
Bonus	—	0.7	<b>0.7</b>
Pension value	0.9	—	<b>0.9</b>
Total	1.0	1.1	<b>2.1</b>

## FINANCIAL INSTRUMENTS

In the normal course of operations, the Company uses the following financial and other instruments:

- To generate investment returns, including investment income and capital appreciation, the Company will invest in numerous types of securities, including shares, trust units, debentures, loans, private investment funds and cash. These instruments have interest rate, market, credit and foreign exchange risk associated with them.
- To manage foreign exchange, interest rate and general market risk, the Company will use where it sees fit, futures and forward exchange contracts. These instruments may have interest, market, credit and foreign exchange risk associated with them.

As an investment company, Clarke has a significant number of financial instruments. Notes 1, 5, 6, 8, 11, 14, 15, 16, 25 and 26 to the consolidated financial statements for the year ended December 31, 2014 and the Company's AIF, provide further information on classifications in the financial statements, and risks, pertaining to the use of financial instruments by the Company.

## SIGNIFICANT EQUITY INVESTMENTS

In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company has determined that Holloway and Terravest are significant equity investees. Accordingly, we are required to disclose the following summary financial information. The summarized financial information provided is for the most recent annual period and the comparative annual period. For those reporting entities that have not yet released their annual consolidated financial statements for the current year, the prior year financial information is provided.

### Holloway

Holloway's core businesses are hotel ownership and hotel franchising. Holloway owns 35 hotels comprising 3,967 rooms and franchises over 90 locations in Canada under the Travelodge® and Thriftlodge® banners. As of December 31, 2014, Clarke owned 35.5% of the outstanding shares of Holloway, \$11.6 million face value series B convertible debentures and \$6.2 million face value series C convertible debentures.

Selected Financial Information (audited)	Year ended	Year ended
	December 31, 2013	December 31, 2012
	\$	\$
Total assets	199.4	204.6
Total liabilities	114.0	119.1
Shareholders' equity	85.4	85.5
Total revenue	60.0	58.4
Net income	4.5	19.7

### Terravest

Terravest is engaged in (i) the manufacturing of residential and commercial tanks and pressure vessels, (ii) the manufacturing of wellhead processing equipment for the oil and natural gas industry, and (iii) well servicing for the oil and natural gas industry in Southwestern Saskatchewan. As of December 31, 2014, Clarke owned 27.6% of the outstanding shares of Terravest.

Selected Financial Information (audited)	Year ended	Year ended
	September 30, 2014	September 30, 2013
	\$	\$
Total assets	171.4	71.9
Total liabilities	91.3	27.0
Shareholders' equity	80.1	44.9
Total revenue	131.6	46.9
Net income	8.9	3.9

\*Terravest changed its fiscal year-end to September 30<sup>th</sup> in 2013.

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The implementation of Canadian Securities Administrators National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings represents a continuous improvement process, which has prompted the Company to formalize existing processes and control measures and to introduce new ones. The objective of this instrument is to improve the quality, reliability, and transparency of information that is filed or submitted under securities regulation.

In accordance with this instrument, the Company has filed certificates signed by the President & Chief Executive Officer and the Chief Financial Officer that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the President & Chief Executive Officer and the Chief Financial Officer, particularly during the period in which annual filings are being prepared. These two certifying officers evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2014, and based on their evaluation, concluded that these controls and procedures were adequate and effective.

Management has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The President & Chief Executive Officer and the Chief Financial Officer have supervised Company's management in the evaluation of the design and effectiveness of the Company's internal controls over financial reporting as of the end of the period covered by the annual filings and believe the design and effectiveness to be adequate to provide such reasonable assurance using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework.

Finally, there have been no changes in the Company's disclosure controls and procedures or internal controls over financial reporting during the year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal controls over financial reporting.

## **ENVIRONMENTAL MATTERS**

The Company's businesses are exposed to the following environmental risks in conducting regular operations: (i) contamination of owned or leased property; and (ii) contamination of the environment relating to spills or leaks originating from the vessels in its Transportation segment.

The Company's businesses regularly review their operations and facilities to identify any potential environmental contamination or liability. Limited internal reviews, which may include third party environmental assessments, have been conducted at all the Company's wholly-owned real estate within the past three years. These limited reviews identified no material remediation issues and potential risks and there have been no material events arising subsequently that would indicate additional obligations.

The Company believes it and its businesses comply in all material respects with all relevant environmental laws and regulations. The Company is not aware of any material uninsured pending or proceeding actions against it or any of its businesses relating to environmental issues.

## **CAUTIONARY STATEMENT REGARDING USE OF NON-IFRS ACCOUNTING MEASURES**

This MD&A makes reference to earnings before interest, taxes, depreciation and amortization and impairment charges ("Adjusted EBITDA") and book value per share. Clarke uses Adjusted EBITDA as a measure of the performance of certain of its investee companies and operating subsidiaries as it excludes depreciation, impairments and interest charges, which are a function of the company's specific capital structure, and also excludes entity specific tax expense. Clarke uses book value per share as a measure of the performance of the Company as a whole. Book value per share is measured by dividing shareholders' equity attributable to equity holders of the Company at the date of the statement of financial position by the number of Common Shares outstanding at that date. Clarke's method of determining these amounts may differ from other companies' methods and, accordingly, these amounts may not be comparable to measures used by other companies. These amounts are not performance measures as defined under IFRS and should not be considered either in isolation of, or as a substitute for, net earnings prepared in accordance with IFRS.

## **FORWARD-LOOKING STATEMENTS**

This MD&A may contain or refer to certain forward-looking statements relating, but not limited, to the Company's expectations, intentions, plans and beliefs with respect to the Company. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "does not expect", "is expected", "budget", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", "believes", or equivalents or variations of such words and phrases, or state that certain actions, events or results, "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements include, without limitation, those with respect to the future or expected performance of the Company's investee companies, the future price and value of securities held by the Company, changes in these securities holdings, changes to the Company's hedging practices, currency fluctuations and requirements for additional capital. Forward-looking statements rely on certain underlying assumptions that, if not realized, can result in such forward-looking statements not being achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the actual results of the Company to be materially different from the historical results or from any future results expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others, the Company's investment strategy, legal and regulatory risks, general market risk, potential lack of diversification in the Company's investments, interest rates, foreign currency fluctuations, the sale of Company investments, the fact that dividends from investee companies are not guaranteed, reliance on key executives, commodity market risk, risks associated with investment in derivative instruments and other factors. With respect to the Company's Transportation segment, such risks and uncertainties include, among others, weather conditions, safety, claims and insurance, labour relations, and other factors.

Although the Company has attempted to identify important factors that could cause actions, events or results not to be as estimated or intended, there can be no assurance that forward-looking statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Other than as required by applicable Canadian securities laws, the Company does not update or revise any such forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events. Accordingly, readers should not place undue reliance on forward-looking statements.

## **SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES & THE APPLICATION OF NEW AND REVISED IFRS**

Please refer to notes 1, 2 and 3 to our consolidated financial statements for the year ended December 31, 2014 for a detailed discussion regarding our significant accounting policies, application of new and revised IFRS and application of significant accounting judgments, estimates and assumptions. Such changes are reflected in the assumptions when they occur.

### ***Allowance for credit losses***

Receivables are assessed on an individual basis. When there is no longer a reasonable expectation that a loan will be repaid, the loan is considered impaired and a specific impairment provision is recognized. The Company assesses the financial resources, future performance expectations and net realizable value of the collateral for each loan in assessing an expectation of repayment.

### ***Impairment of non-financial assets***

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. Value in use is calculated using estimated future cash flows which are discounted to their present value using a weighted average cost of capital.

### ***Taxes***

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax

authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile. As the Company assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognized.

### ***Fair value of financial instruments***

Where the fair value of financial assets and financial liabilities disclosed in the notes to the consolidated financial statements cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the disclosed fair value of financial instruments.

### ***Pension benefits***

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates.

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

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

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

IFRS 9 will replace *IAS 39 Financial instruments: recognition and measurement*. The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The Company is currently evaluating the impact of the new standard.

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

IFRS 15 replaces the previous guidance on revenue recognition and provides a framework to determine when to recognize revenue and at what amount. The new standard is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of the new standard.

### ***IAS 1 Presentation of Financial Statements***

IAS 1 amendments outline disclosure initiatives relating to materiality, ordering of the notes, subtotals, accounting policies and disaggregation with an aim of clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of the new standard.

### ***IAS 19 Employee Benefits***

IAS 19 amendment provides additional guidance on the type of bonds used in estimating the discount rate for post-employment benefits. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of the new standard.



**Clarke Inc.**

December 31, 2014 and 2013



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## Independent Auditor's Report

To the Shareholders of Clarke Inc.

We have audited the accompanying consolidated financial statements of Clarke Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of shareholders' equity and consolidated statements of cash flows for the years ended December 31, 2014 and December 31, 2013, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Clarke Inc. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

*Deloitte LLP*

Chartered Accountants  
Halifax, Nova Scotia  
February 23, 2015



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

As at December 31	2014	2013
	\$	\$
<b>ASSETS (note 14)</b>		
<b>Current</b>		
Cash and cash equivalents	79,061	1,568
Marketable securities (note 5)	89,345	129,363
Receivables (note 6)	6,704	13,414
Income taxes receivable	51	406
Prepaid expenses	290	844
Inventories (note 7)	—	15,111
<b>Total current assets</b>	<b>175,451</b>	<b>160,706</b>
Notes receivable (notes 8 and 14)	35,000	3,000
Accrued pension benefit asset (note 9)	29,823	29,659
Fixed assets and investment properties (note 10)	9,941	25,957
Investments in joint ventures and other long-term investments (note 11)	3,761	4,312
Deferred income tax assets (note 12)	2,496	14,953
Goodwill	—	9,722
Other assets (note 13)	—	5,384
<b>Total assets of continuing operations</b>	<b>256,472</b>	<b>253,693</b>
Assets of discontinued operations (note 14)	—	44,694
<b>Total assets</b>	<b>256,472</b>	<b>298,387</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (note 14)</b>		
<b>Current</b>		
Short-term indebtedness (note 15)	—	43,878
Accounts payable and accrued liabilities	4,504	9,847
Dividends payable (note 18)	1,949	—
Income taxes payable	32	280
Current portion of other long-term debt (note 16)	644	3,522
Share-based payment liability	—	254
<b>Total current liabilities</b>	<b>7,129</b>	<b>57,781</b>
Other long-term debt (note 16)	2,363	13,348
Deferred income tax liabilities (note 12)	1,882	3,314
Convertible debentures (note 16)	—	52,775
<b>Total liabilities of continuing operations</b>	<b>11,374</b>	<b>127,218</b>
Liabilities of discontinued operations (note 14)	—	16,516
<b>Total liabilities</b>	<b>11,374</b>	<b>143,734</b>
Commitments and contingencies (note 17)		
<b>Shareholders' equity</b>		
Share capital (note 18)	63,189	42,701
Retained earnings	175,574	91,783
Accumulated other comprehensive income (note 19)	6,335	9,440
Equity portion of convertible debentures (note 16)	—	2,356
Share-based payments	—	580
<b>Total shareholders' equity attributable to equity holders of the Company</b>	<b>245,098</b>	<b>146,860</b>
Non-controlling interest	—	7,793
<b>Total shareholders' equity</b>	<b>245,098</b>	<b>154,653</b>
<b>Total liabilities and shareholders' equity</b>	<b>256,472</b>	<b>298,387</b>

See accompanying notes to the consolidated financial statements

On behalf of the Board:

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

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

Years ended December 31	2014	2013
	\$	\$
<b>Revenue</b>		
Unrealized gains on investments	46,628	25,853
Realized gains (losses) on investments	(17,364)	12,949
Dividend income	6,604	5,913
Pension recovery (expense) (note 9)	3,752	(3,678)
Provision of services	8,514	8,248
Other income (note 20)	7,607	3,659
	<b>55,741</b>	<b>52,944</b>
<b>Expenses</b>		
General and administrative expenses	3,921	3,528
Cost of services provided	5,946	5,389
Impairment of fixed assets (note 10)	1,243	—
Depreciation and amortization	956	1,209
Interest expense (note 21)	1,134	4,675
	<b>13,200</b>	<b>14,801</b>
Income before equity in earnings of associates and joint ventures and income taxes	42,541	38,143
Equity in earnings of associates and joint ventures (note 11)	462	400
Income before income taxes	43,003	38,543
Provision for (recovery of) income taxes (note 12)	(247)	1,305
Income from continuing operations	43,250	37,238
Income from discontinued operations, net of tax (note 14)	59,404	16,971
Equity in earnings from discontinued operations of joint ventures, net of tax	47	—
Net income	<b>102,701</b>	<b>54,209</b>
Attributable to:		
Equity holders of the Company	102,646	52,737
Non-controlling interest	55	1,472
	<b>102,701</b>	<b>54,209</b>
<b>Basic earnings per share attributable to equity holders of the Company:</b>		
<i>(in dollars) (note 18)</i>		
Income from continuing operations	2.23	2.24
Income from discontinued operations	3.06	0.93
Net income	5.29	3.17
<b>Diluted earnings per share attributable to equity holders of the Company:</b>		
<i>(in dollars) (note 18)</i>		
Income from continuing operations	1.85	1.61
Income from discontinued operations	2.45	0.62
Net income	4.30	2.23

*See accompanying notes to the consolidated financial statements*

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

Years ended December 31	2014	2013
	\$	\$
<b>Net income</b>	<b>102,701</b>	54,209
<b>Other comprehensive income (loss), net of tax</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Remeasurement gains (losses) and effect of limit on asset ceiling on defined benefit pension plans <i>(note 9)</i>	(3,588)	5,714
<b>Total items that will not be reclassified to profit or loss</b>	<b>(3,588)</b>	5,714
<b>Items that may be reclassified subsequently to profit or loss</b>		
Unrealized gains on translation of net investment in foreign operations	483	480
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>483</b>	480
<b>Other comprehensive income (loss)</b>	<b>(3,105)</b>	6,194
<b>Comprehensive income</b>	<b>99,596</b>	60,403
Attributable to:		
Equity holders of the Company	99,541	58,931
Non-controlling interest	55	1,472
	<b>99,596</b>	60,403

*See accompanying notes to the consolidated financial statements*

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

Years ended December 31

	2014	2013
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Income from continuing operations	43,250	37,238
Adjustments for items not involving cash <i>(note 23)</i>	(33,959)	(35,738)
	9,291	1,500
Net change in non-cash working capital balances <i>(note 23)</i>	(2,562)	(883)
<b>Net cash provided by operating activities</b>	<b>6,729</b>	<b>617</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds on disposition of marketable securities and investments in associates	113,081	58,519
Purchase of marketable securities	(44,325)	(73,498)
Advances of notes receivable	(16,000)	(1,000)
Repayments of notes receivable	5,915	3,000
Proceeds on disposition of fixed assets	2,117	3,418
Purchase of fixed assets	(150)	(722)
Net purchases (return of capital) of other long-term investments	358	(173)
<b>Net cash provided by (used in) investing activities</b>	<b>60,996</b>	<b>(10,456)</b>
<b>FINANCING ACTIVITIES</b>		
Net proceeds (repayment) of short-term indebtedness	(35,906)	16,232
Redemption and repurchase of convertible debt for cancellation <i>(note 16)</i>	(30,718)	—
Repurchase of shares for cancellation <i>(note 18)</i>	(12,502)	(844)
Dividends paid <i>(note 18)</i>	(7,640)	(5,647)
Repayment of long-term debt	(644)	(644)
Debt issue costs of convertible debentures	—	(332)
<b>Net cash provided by (used in) financing activities</b>	<b>(87,410)</b>	<b>8,765</b>
Net cash used in continuing operations	(19,685)	(1,074)
Net cash provided by operating activities of discontinued operations	155	20,620
Net cash provided by (used in) investing activities of discontinued operations	99,278	(7,939)
Net cash used in financing activities of discontinued operations	(2,676)	(11,710)
<b>Net change in cash during the year</b>	<b>77,072</b>	<b>(103)</b>
Cash and cash equivalents, beginning of year	1,989	2,092
<b>Cash and cash equivalents, end of year</b>	<b>79,061</b>	<b>1,989</b>
<b>Represented by:</b>		
Cash	79,061	1,568
Cash included in assets of discontinued operations <i>(note 14)</i>	—	421

*See accompanying notes to the consolidated financial statements*

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

Years ended December 31

	2014	2013
	\$	\$
<b>Share capital</b>		
Common shares:		
Balance at beginning of year	42,701	34,249
Common shares issued upon conversion of convertible debt <i>(note 18)</i>	24,434	8,785
Common shares repurchased for cancellation <i>(note 18)</i>	(3,946)	(333)
Balance at end of year	63,189	42,701
<b>Retained earnings</b>		
Balance at beginning of year	91,783	45,204
Net income attributable to equity holders of the Company	102,646	52,737
Dividends declared <i>(note 18)</i>	(9,589)	(5,647)
Purchase price in excess of the historical book value of common shares repurchased for cancellation <i>(note 18)</i>	(8,556)	(511)
Purchase price in excess of average book value of convertible debentures redeemed or repurchased for cancellation <i>(note 16)</i>	(710)	—
Balance at end of year	175,574	91,783
<b>Accumulated other comprehensive income, net of tax <i>(note 19)</i></b>		
Balance at beginning of year	9,440	3,246
Other comprehensive income (loss)	(3,105)	6,194
Balance at end of year	6,335	9,440
<b>Equity portion of convertible debentures</b>		
Balance at beginning of year	2,356	2,662
Reduction of share conversion option upon the redemption, repurchase or conversion of convertible debentures <i>(note 16)</i>	(2,843)	(444)
Purchase price in excess of average book value of convertible debentures redeemed or repurchased for cancellation <i>(note 16)</i>	(571)	—
Deferred income tax adjustment on convertible debentures <i>(note 12)</i>	1,058	138
Balance at end of year	—	2,356
<b>Share-based payments</b>		
Balance at beginning of year	580	526
Share-based payment expense	—	54
Sale of subsidiary with share-based payments	(580)	—
Balance at end of year	—	580
<b>Total shareholders' equity attributable to equity holders of the Company</b>	<b>245,098</b>	<b>146,860</b>
<b>Non-controlling interest</b>		
Balance at beginning of year	7,793	5,442
Net income attributable to non-controlling interest	55	1,472
Dividend paid by subsidiary to non-controlling interest	(125)	(250)
Sale of subsidiary with non-controlling interest	(7,723)	—
Non-controlling interest acquired in business combination	—	1,129
Balance at end of year	—	7,793
<b>Total shareholders' equity</b>	<b>245,098</b>	<b>154,653</b>

*See accompanying notes to the consolidated financial statements*

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

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

#### **Nature of operations**

Clarke Inc. (the “Company” or “Clarke”) was incorporated on December 9, 1997 pursuant to the Canada Business Corporations Act. The head office of the Company is located at 6009 Quinpool Road, Halifax, Nova Scotia. The Company is an investment holding company with investments in a diversified group of businesses, operating primarily in Canada. The Company continuously evaluates the acquisition, retention and disposition of its investments. Changes in the mix of investments should be expected. These consolidated financial statements were approved by the Board of Directors on February 23, 2015.

#### **Basis of presentation and statement of compliance**

These consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards (“IFRS”).

These consolidated financial statements were prepared on a going concern basis under the historical cost convention, as modified by the revaluation of any financial instruments recorded at fair value. Assets of discontinued operations are carried at the lower of cost and fair value less costs to sell.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

#### **Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries. The significant subsidiaries of the Company are CKI Holdings Partnership, Quinpool Holdings Partnership, La Traverse Rivière-du-Loup – St-Siméon Limitée and Clarke Shipping Inc.

All significant intercompany transactions have been eliminated on consolidation. All subsidiaries have the same reporting year end as the Company, and all follow the same accounting policies.

#### **Cash and cash equivalents**

Cash and cash equivalents include deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less.

#### **Marketable securities, investments in associates and joint ventures**

The Company has elected to use the exemption in *IAS 28 – Investments in associates* for venture capital companies. Under this exemption, the Company may designate all investments managed in the same way at fair value through profit or loss. The Company has designated all publicly-traded securities at fair value through profit or loss, regardless of whether or not significant influence exists. In these cases, all realized and unrealized gains and losses are recorded in the consolidated statements of earnings. All private investments subject to significant influence and joint ventures are accounted for using the equity method.

## **Clarke Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

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

The Company has several investments in associates and joint ventures that are accounted for using the equity method. An associate is an entity in which the Company has significant influence and a joint venture is an entity in which the Company and another entity have joint control. Under the equity method, the investment is carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Company's share of net assets of the associate or joint venture. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment. The share of earnings or losses of the associates and joint ventures is shown on the face of the consolidated statements of earnings.

The financial statements of the associates and joint ventures are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investment in the associates and joint ventures. The Company determines at each reporting date whether there is objective evidence that the investments in the associates and joint ventures are impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the *'equity in earnings of associates and joint ventures'* in the consolidated statements of earnings.

Upon loss of significant influence over an investment, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying value upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statements of earnings.

### **Inventories**

Finished goods and raw materials are valued at the lower of cost and net realizable value. The cost of certain inventories is based on weighted average cost, and includes expenditures directly attributable to their acquisition and delivery. The cost of other inventories is determined using a first-in, first-out ("FIFO") method. Inventory costs include raw materials, direct and indirect labour and plant overheads. For manufactured inventories, including work in progress, cost also includes an appropriate share of the production overhead based on normal capacity. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The Company does not have any inventory balances as at December 31, 2014.

### **Transaction costs**

Transaction costs related to investments are expensed as incurred. Transaction costs for all other financial instruments are capitalized and for instruments with maturity dates are then amortized over the expected life of the instrument using the effective interest method.

### **Intangible assets and development costs**

Intangible assets are recorded at cost and are amortized over their estimated useful lives where the life is deemed to be finite. Intangible assets with finite lives include supply agreements and distribution networks, and are amortized on a straight-line basis over 5 years.

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

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

Intangible assets with indefinite lives are trademarks of a subsidiary and are tested for impairment annually either individually or at the cash-generating unit level. The Company's intangible assets with indefinite lives are not amortized. When the carrying amount of a cash-generating unit exceeds its fair value, any impairment of intangibles is measured by comparing the carrying value of the intangible with its implied fair value. Fair value of the cash-generating unit is measured using the recoverable amount, based on valuation multiples in like transactions or discounted cash flow. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in the consolidated statements of earnings in the year in which the expenditure is incurred. Development costs of future products prior to their introduction are capitalized and amortized over the expected life of the product when it is brought into production.

The useful lives of intangible assets are assessed annually as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of earnings.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of earnings when the asset is derecognized.

The Company does not have any intangible assets or development costs as at December 31, 2014.

### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company measures the non-controlling interest at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the acquiree, the difference is recognized in profit or loss.



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

December 31, 2014 and 2013

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operation disposed of and the portion of the cash-generating unit retained.

The Company does not have any goodwill as at December 31, 2014.

**Convertible debentures**

Convertible debentures are classified according to their liability and equity elements using the residual approach, whereby the Company estimates the fair value of the liability element and assigns the residual value of the convertible debentures to the equity element. The liability element is classified as long-term debt (or current portion of long-term debt if due within one year) and the equity element is classified as a conversion option and recorded in the equity portion of convertible debentures component of shareholders' equity. Upon conversion of debentures to common shares, a pro rata portion of the convertible debenture, conversion option, unamortized discount and debt issue costs, as well as accrued but unpaid interest, will be transferred to share capital. Upon the repurchase of debentures by the Company, a pro rata portion of the convertible debenture, conversion option, unamortized discount and debt issue costs, as well as accrued but unpaid interest, will be deducted from the purchase price and the difference reflected as a gain or loss in the consolidated statements of earnings. If any convertible debentures mature without being converted, the remaining conversion option balance will remain in shareholders' equity. The discount is amortized using the effective interest rate method over the term of the related debt. The unamortized discount is included in convertible debentures and the amortization of the discount is included in interest expense. The Company does not have any convertible debentures as at December 31, 2014.

**Revenue recognition**

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

Distributions from investments that are treated as a return of capital for income tax purposes reduce the average cost of the underlying investment. Dividend income is recorded on the ex-dividend date. For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate method.

Services revenue for the Transportation segment is recognized with the completion of transportation services, which is generally at the time of delivery.

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

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

#### **Foreign currency translation**

The Company's consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent company. Each of the Company's subsidiaries determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

##### *i) Transactions and balances*

Transactions in foreign currencies are initially recorded by the Company's subsidiaries at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. All exchange gains and losses are recorded in other income as incurred.

##### *ii) Foreign operations*

The assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their statements of earnings are translated at monthly average exchange rates. The exchange differences arising on the translation, tax charges and credits attributable to exchange differences are recognized in other comprehensive income. On disposal of a foreign operation, the component of accumulated other comprehensive income relating to that particular foreign operation is recognized in the consolidated statements of earnings.

#### **Government grants**

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Where the Company receives non-monetary grants, no amounts are recorded in the consolidated statements of earnings as the grants are for consumables in the operations of a subsidiary.

#### **Taxes**

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

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in shareholders' equity is recognized in shareholders' equity and not in the consolidated statements of earnings. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

##### **Deferred income tax**

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except:

**Clarke Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

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

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred income tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in accumulated other comprehensive income or directly in shareholders' equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

**Sales tax**

Revenues, expenses and assets are recognized net of the amount of sales tax, except:

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

December 31, 2014 and 2013

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

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables that are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statements of financial position.

**Non-current assets held for sale and discontinued operations**

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. In the consolidated statements of earnings of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes. The resulting profit or loss (after taxes) is reported separately in the consolidated statements of earnings. Fixed assets and intangible assets once classified as held for sale are not depreciated or amortized.

**Fixed assets and investment properties**

Fixed assets and investment properties are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the fixed asset. When significant parts of a fixed asset are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognized in the consolidated statements of earnings as incurred.

Depreciation is calculated over the estimated useful lives of the assets as follows:

<b>Fixed assets and investment properties</b>	<b>Years</b>	<b>Method</b>
Buildings	20 to 35	Straight-line
Computer hardware	2 to 5, 30%	Straight-line/declining balance
Furniture and equipment	8, 20%	Straight-line/declining balance
Container ship	20	Straight-line
Ferry and vessel dry dock costs	3 to 5	Straight-line
Leasehold improvements	2 to 10	Straight-line

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

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

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

#### **Leases**

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

#### **Company as a lessee**

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

#### **Company as a lessor**

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

### **Financial instruments — initial recognition and subsequent measurement**

#### **i) Financial assets**

##### **Initial recognition and measurement**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or as available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition, based on trade date.

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Company's financial assets include cash and cash equivalents, marketable securities, receivables, long-term investments and notes receivable.

##### **Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows:

##### *Notes receivable*

Notes receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Notes receivable are initially measured at fair value and are subsequently measured at amortized cost using the effective interest rate method ("EIR"), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in other income in the consolidated statements of earnings. Allowances for estimated losses from uncollectible loans are recognized on the consolidated statements of earnings when it is probable that the counterparty will be unable to pay all amounts due according to the terms of the loan.

**Clarke Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

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

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the consolidated statements of financial position at fair value with changes in fair value recognized on the face of the consolidated statements of earnings.

*Debt issue costs*

Debt issue costs are amortized using the EIR method, over the term of the related debt, and the amortization expense is included in interest expense. The unamortized amount of debt issue costs is included in the carrying value of the related debt.

*Impairment of financial assets*

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

*Financial assets carried at amortized cost*

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

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

#### **ii) Financial liabilities**

##### **Initial recognition and measurement**

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, or other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs. The Company's financial liabilities include accounts payable and accrued liabilities, short-term indebtedness, convertible debentures and other long-term debt.

##### **Subsequent measurement**

The measurement of financial liabilities depends on their classification as follows:

##### *Other financial liabilities*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statements of earnings when the liabilities are derecognized as well as through the EIR method amortization process. The EIR amortization is included in interest expense in the consolidated statements of earnings.

##### **Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of earnings.

#### **iii) Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

#### **iv) Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 26.

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

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

#### **Derivative financial instruments**

##### **Initial recognition and subsequent measurement**

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

##### **Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly-traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on forecast calculations which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. Impairment losses of continuing operations, including impairment on inventories, are recognized in the consolidated statements of earnings.

For assets excluding goodwill and intangibles with indefinite lives, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of earnings unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

##### ***Goodwill***

Goodwill is tested for impairment annually as at December 31, and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.



**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

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

#### *Intangible assets*

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31, either individually or at the CGU level, as appropriate and when circumstances indicate that the carrying value may be impaired.

The Company does not have any goodwill or intangible assets as at December 31, 2014.

#### **Provisions**

##### *General*

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of earnings net of any reimbursement.

##### *Warranty provisions*

Provisions for warranty-related costs are recognized when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

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

The Company has two defined benefit pension plans covering full-time employees who commenced employment before September 2003. For other employees, the Company has a RRSP matching pension plan. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. Remeasurement gains and losses and the effect of the limit on the asset ceiling of the defined benefit plans are included in other comprehensive income. The past service costs, current service costs, net interest on surplus and non-investment management fees are recognized as an expense in the consolidated statements of earnings.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds, as explained in note 3), less unrecognized past service costs, if any, and less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value is based on market price information and in the case of quoted securities it is the published bid price. The value of any defined benefit asset recognized is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

#### **Per share information**

Basic earnings per share are calculated based on net income attributable to equity holders of the Company using the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated based on the weighted average number of common shares that would have been outstanding during the year, including adjustments for stock options outstanding using the treasury stock method and convertible debentures using the "if-converted" method.

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

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

Under the treasury stock method: (i) the exercise of options is assumed to be at the beginning of the year, or at the time of issuance, if later; (ii) the proceeds from the exercise of options are assumed to be used to repurchase common shares at the average market price during the year, and (iii) the incremental number of shares are included in the denominator of the diluted earnings per share calculation. Exercise of these options is not assumed to occur for the purposes of computing diluted earnings per share if the effect would be anti-dilutive.

Under the “if-converted” method: (i) interest expense, net of the income tax effect, applicable to convertible financial liabilities is added back to the numerator; (ii) the convertible financial liabilities are assumed to be converted at the beginning of the period, or issue date, if later, and the resulting common shares are included in the denominator, and (iii) conversion is not assumed to occur for purposes of computing diluted earnings per share if the effect would be anti-dilutive.

### **2. APPLICATION OF NEW IFRS**

The following IFRS have been applied in the current year. There were no effects to the amounts reported in the consolidated financial statements.

#### **Amendment to IAS 36 *Impairment of assets***

The Company has applied the amendments to *IAS 36 Recoverable Amount Disclosures for Non-Financial Assets* for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a CGU to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by *IFRS 13 Fair Value Measurements*. The application of these amendments has had no material impact on the disclosures in the Company’s consolidated financial statements.

#### **IFRIC Interpretation 21 *Levies***

IFRIC 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of *IAS 37 Provisions, contingent liabilities and contingent assets*. The Company has adopted this standard effective January 1, 2014. The Company has assessed this new standard and there has been no significant impact to the consolidated financial statements from this adoption.

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

The preparation of the Company’s consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

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

#### **Judgements**

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

##### *Marketable securities*

The Company has interests in several publicly-traded marketable security investments which include share ownership and board of director positions. The Company does not own greater than fifty percent of the outstanding shares of these investments nor does it hold options or have other contractual arrangements other than convertible debentures that would lead to increased ownership. The Company does not hold a majority position on any of the boards. De facto control exists in circumstances when an entity owns less than 50% of the voting shares in another entity, but has control for reasons other than potential voting rights, contract or other statutory means. The Company does not consider de facto control to be present in any of the marketable security investments and does not consolidate these investments.

##### *Venture capital organization*

The Company has elected to use the exemption in *IAS 28 – Investments in associates* for venture capital organizations. As the standard provides no guidance on the term 'venture capital organization', the Company considered the characteristics of a venture capital organization in deciding to use the exemption. The Company holds its investments in the short to medium-term; the points of exit are actively monitored; and the investments are managed without distinguishing between investments that qualify as associates and those that do not. As such, the Company has concluded that it meets the definition of a venture capital organization and qualifies for the exemption.

##### *Deferred income tax assets*

Deferred income tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

#### **Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

##### *Allowance for credit losses*

Receivables are assessed on an individual basis. When there is no longer a reasonable expectation that a loan will be repaid, the loan is considered impaired and a specific impairment provision is recognized. The Company assesses the financial resources, future performance expectations and net realizable value of the collateral for each loan in assessing an expectation of repayment.

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

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

#### ***Taxes***

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

#### ***Impairment of non-financial assets***

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. Value in use is calculated using estimated future cash flows which are discounted to their present value using a weighted average cost of capital.

#### ***Fair value of financial instruments***

Where the fair value of financial assets and financial liabilities disclosed in the notes to the consolidated financial statements cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the disclosed fair value of financial instruments.

#### ***Pension benefits***

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details about the assumptions used are disclosed in note 9.

## Clarke Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

## 4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

IFRS 9 will replace *IAS 39 Financial instruments: recognition and measurement*. The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The Company is currently evaluating the impact of the new standard.

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

IFRS 15 replaces the previous guidance on revenue recognition and provides a framework to determine when to recognize revenue and at what amount. The new standard is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of the new standard.

### *IAS 1 Presentation of Financial Statements*

IAS 1 amendments outline disclosure initiatives relating to materiality, ordering of the notes, subtotals, accounting policies and disaggregation with an aim of clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of the new standard.

### *IAS 19 Employee Benefits*

IAS 19 amendment provides additional guidance on the type of bonds used in estimating the discount rate for post-employment benefits. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of the new standard.

## 5. MARKETABLE SECURITIES

The Company's marketable securities are classified as follows:

	2014	2013
	\$	\$
Shares at fair value through profit or loss	73,145	113,508
Convertible debentures at fair value through profit or loss	16,200	15,855
	<b>89,345</b>	129,363

Included in the Company's marketable securities balance is Holloway Lodging Corporation ("Holloway") and TerraVest Capital Inc. ("Terravest") which are investments in associates designated at fair value through profit or loss. Both investments are Canadian publicly traded companies and their summarized financial information for the period ending December 31, 2014 can be obtained in their publicly available information. As at December 31, 2014, the Company had a 35.5% equity interest in Holloway with a fair market value of \$41,249 (2013 – nil) and a 27.6% equity interest in Terravest with a fair market value of \$29,250 (2013 – \$18,215). In addition, the Company held \$17,836 in face value of Holloway's convertible debentures with a fair market value of \$16,200 as at December 31, 2014 (2013 – \$15,855).

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

December 31, 2014 and 2013

*(in thousands of Canadian dollars, except per share amounts)***6. RECEIVABLES**

The significant categories of receivables included on the consolidated statements of financial position are as follows:

	2014	2013
	\$	\$
7.0% note receivable from Holloway, maturing on December 31, 2015*	<b>3,000</b>	—
6.0% note receivable from arm's length party, maturing July 31, 2015	<b>1,500</b>	—
Accrued investment income	<b>1,202</b>	1,248
Trade accounts receivable	<b>1,002</b>	12,166
	<b>6,704</b>	13,414

\* This note had an undrawn balance of \$3,000 as at December 31, 2014 and 2013 and was repaid in full before maturity subsequent to December 31, 2014. This note was included in non-current assets as at December 31, 2013 (note 8).

Accrued investment income is comprised of dividends and interest income.

**7. INVENTORIES**

Inventories were included in the Company's former Commercial Tanks & Home Heating segment which was sold in 2014 (note 14). The significant categories of inventories included on the consolidated statements of financial position are as follows:

	2014	2013
	\$	\$
Finished goods	—	4,459
Work in progress	—	1,921
Raw materials	—	8,731
	—	15,111

Included in cost of goods sold in discontinued operations is finished goods inventory sold for the year ended December 31, 2014, of \$3,345 (2013 – \$37,681).

**8. NOTES RECEIVABLE**

The Company's notes receivables are from marketable securities and are as follows:

	2014	2013
	\$	\$
6.5% note receivable from Terravest, maturing on February 15, 2017	<b>19,000</b>	—
6.5% note receivable from Holloway, maturing on March 31, 2016	<b>16,000</b>	—
7.0% note receivable from Holloway, maturing on December 31, 2015 *	—	3,000
	<b>35,000</b>	3,000

\* This note had an undrawn balance of \$3,000 as at December 31, 2014 and 2013 and was repaid in full before maturity subsequent to December 31, 2014. This note is included in current assets as at December 31, 2013 (note 6).

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

December 31, 2014 and 2013

*(in thousands of Canadian dollars, except per share amounts)***9. EMPLOYEE FUTURE BENEFITS**

The Company has two defined benefit plans providing pensions for staff who commenced employment prior to September 1, 2003. For all other staff, the Company provides RRSP matching pension plans.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 for each year. The most recent actuarial valuation of the defined benefit pension plans for funding purposes was as of December 31, 2013.

As of January 1, 2014, upon the sale of the Freight Transport Business (note 14), all active members of the Pension Plan for the Employees of Clarke Inc. and of the Clarke Group Pension Plan who were employees of that business stopped accruing service and salary increases for future periods which resulted in a curtailment gain of \$3,326 included in the consolidated statements of earnings for the year ended December 31, 2014.

**Total cash payments**

Total cash payments for employee future benefits for the year ended December 31, 2014, consisting of cash contributed by the Company to its RRSP matching pension plans were \$110 (2013 – \$677).

**Defined benefit plan assets**

	<b>Pension benefits</b>	
	<b>2014</b>	2013
	\$	\$
<b>Fair value of plan assets:</b>		
Balance, beginning of year	<b>96,224</b>	79,219
Interest income	<b>4,460</b>	3,111
Employee contributions	<b>25</b>	138
Benefits paid	<b>(5,277)</b>	(3,013)
Non-investment management fees	<b>(427)</b>	(369)
Remeasurement gains	<b>3,647</b>	17,138
Balance, end of year	<b>98,652</b>	96,224

**Defined benefit plan obligations**

	<b>Pension benefits</b>	
	<b>2014</b>	2013
	\$	\$
<b>Accrued benefit obligation:</b>		
Balance, beginning of year	<b>48,090</b>	50,666
Current service cost	<b>458</b>	1,141
Past service costs	<b>(3,284)</b>	3,202
Employee contributions	<b>25</b>	138
Interest cost	<b>2,014</b>	2,040
Benefits paid	<b>(5,277)</b>	(3,013)
Remeasurement losses (gains)	<b>5,451</b>	(6,084)
Balance, end of year	<b>47,477</b>	48,090

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

December 31, 2014 and 2013

*(in thousands of Canadian dollars, except per share amounts)***9. EMPLOYEE FUTURE BENEFITS (CONT'D)**

Reconciliation of the funded status of the benefit plans to the amounts recorded in the consolidated financial statements is:

	Pension benefits	
	2014	2013
	\$	\$
Fair value of plan assets	98,652	96,224
Accrued benefit obligation	47,477	48,090
Funded status of plans – surplus	51,175	48,134
Cumulative impact of asset ceiling	(21,352)	(18,475)
Accrued pension benefit asset, net of impact of asset ceiling	29,823	29,659

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

	Pension benefits	
	2014	2013
	\$	\$
<b>For the years ended December 31:</b>		
Current service cost	(458)	(1,141)
Past service cost	3,284	(3,202)
Net interest on surplus	1,353	1,034
Provision for non-investment management fees	(427)	(369)
Defined benefit recovery (expense) recognized	3,752	(3,678)

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

	Pension benefits	
	2014	2013
	\$	\$
<b>For the years ended December 31:</b>		
Remeasurement gains (losses)	(1,804)	23,222
Change in amount of asset ceiling	(1,784)	(17,508)
Defined benefit recovery (expense) recognized	(3,588)	5,714

**Significant assumptions**

	2014	2013
	%	%
Accrued benefit obligation:		
Discount rate	4.00	4.80
Rate of compensation increase	4.00	3.00 – 4.00
Benefit costs for the year:		
Discount rate	4.80	4.00
Rate of compensation increase *	3.00 – 4.00	4.00

\* The rate of compensation increase in 2014 is only applicable to the two remaining active members of the Pension Plan.



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

December 31, 2014 and 2013

*(in thousands of Canadian dollars, except per share amounts)***10. FIXED ASSETS AND INVESTMENT PROPERTIES**

	Cost \$	Accumulated depreciation \$	Carrying value \$
<b>December 31, 2014</b>			
Furniture, equipment and computer hardware	250	95	155
Container ship	12,824	7,277	5,547
Ferry and vessel dry dock costs	3,605	2,922	683
Total fixed assets	16,679	10,294	6,385
Investment properties – land	167	—	167
Investment properties – buildings	5,202	1,813	3,389
Total investment properties	5,369	1,813	3,556
Total fixed assets and investment properties	22,048	12,107	9,941

	Cost \$	Accumulated depreciation \$	Carrying value \$
December 31, 2013			
Land	936	—	936
Buildings	11,864	2,194	9,670
Furniture, equipment and computer hardware	15,660	8,902	6,758
Container ship	13,642	6,843	6,799
Ferry and vessel dry dock costs	3,605	2,679	926
Leasehold improvements	1,119	983	136
Total fixed assets	46,826	21,601	25,225
Investment properties - land	266	—	266
Investment properties - buildings	978	512	466
Total investment properties	1,244	512	732
Total fixed assets and investment properties	48,070	22,113	25,957

The Company's investment properties represent land and buildings previously used in operations that are now held to earn rental income or for future resale. The fair value of investment properties has been estimated at \$4,445 at December 31, 2014 (2013 – \$2,736). Depreciation for the year ended December 31, 2014 was \$956 (2013 – \$1,209). At December 31, 2014, there were no assets under finance leases.

In the fourth quarter of 2014, the Company entered into an agreement to sell the *MV Shamrock*, a container ship included in its Transportation segment (notes 22 and 27). This resulted in an impairment of fixed assets in the amount of \$1,243 included on the consolidated statements of earnings for the year ended December 31, 2014. The impairment was required to write the asset down to its fair value based on the anticipated sales proceeds.

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

December 31, 2014 and 2013

*(in thousands of Canadian dollars, except per share amounts)***11. INVESTMENTS IN JOINT VENTURES AND OTHER LONG-TERM INVESTMENTS**

The Company had a 50% interest in SGHI Investments Ltd. (“SGHI”) and used the equity method to account for that investment. During the year ended December 31, 2014, SGHI sold land and a building for net proceeds of \$2,389. The Company’s portion of the gain realized on sale was \$396 and is included in ‘*equity in earnings of associates and joint ventures*’ on the consolidated statements of earnings for the year ended December 31, 2014. There are no further operations within this joint venture.

During the year ended December 31, 2013, the Company sold all of its shares in its investments in associates, Midlake Oil & Gas Limited and Highkelly Drilling Ltd. Proceeds on sale were \$1,000 and \$12,454, respectively, and gains of \$1,000 and \$3,370, respectively, are included in ‘*realized gains on investments*’ on the consolidated statements of earnings for the year ended December 31, 2013.

The Company’s investments in joint ventures and other long-term investments consist of equity interests as follows:

	2014	2013
	\$	\$
Investment funds designated as fair value through profit or loss	3,745	3,575
Private investments in joint ventures	16	698
Private investments in associates	—	39
	<b>3,761</b>	<b>4,312</b>

**12. INCOME TAXES**

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

	2014	2013
	\$	\$
<b>Consolidated statements of earnings</b>		
Current income tax		
Current income tax charge	146	174
Adjustments in respect of current income tax of previous year	(130)	(15)
Deferred income tax		
Relating to origination and reversal of temporary differences	5,825	8,005
Relating to the benefit of a previously unrecognized deferred income tax asset	(2)	(103)
Relating to the change in recoverable amount of a deferred income tax asset	(6,086)	(6,756)
Provision for (recovery of) income taxes reported in the consolidated statements of earnings	<b>(247)</b>	<b>1,305</b>
	2014	2013
	\$	\$
<b>Consolidated statements of shareholders’ equity</b>		
Deferred income tax related to items credited to equity:		
Reversal of temporary difference on repurchases and conversions of Debentures	(1,058)	(138)
Recovery of income taxes reported in the statements of shareholders’ equity	<b>(1,058)</b>	<b>(138)</b>

**Clarke Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

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

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

	2014	2013
	\$	\$
Provision for income taxes at statutory rate of 30.22% (2013 – 31.00%)	<b>12,996</b>	11,948
Increase (decrease) from statutory rate:		
Effect of difference in statutory rates of subsidiaries	<b>(69)</b>	39
Non-taxable component of realized and unrealized investment gains	<b>(4,931)</b>	(6,926)
Non-taxable dividend income	<b>(1,996)</b>	906
Non-deductible expenses	<b>258</b>	708
Change in recoverable amount of deferred income tax asset	<b>(6,086)</b>	(6,756)
Amounts recorded directly to equity	<b>(367)</b>	—
Amounts recorded to retained earnings from change in accounting policy	—	1,814
Other	<b>(52)</b>	(428)
Provision for (recovery of) income taxes at effective rate	<b>(247)</b>	1,305

The provision for income taxes from continuing operations for the year ended December 31, 2014, excludes the provision for income taxes from discontinued operations of \$11,990 (2013 – \$1,649), which is included in 'Income from discontinued operations, net of tax' in the consolidated statements of earnings (note 14).

Deferred income tax assets (liabilities) represent the temporary differences between the tax basis of assets and liabilities and the carrying amount of assets and liabilities for financial reporting purposes. Deferred income tax assets and liabilities are netted in the consolidated statements of financial position to the extent they relate to the same fiscal entity and taxation jurisdiction.

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

	Consolidated statements of financial position		Consolidated statements of earnings	
	2014	2013	2014	2013
	\$	\$	\$	\$
<b>Deferred income tax assets</b>				
<b>(liabilities):</b>				
Goodwill and intangible assets	<b>(57)</b>	1,652	<b>(21)</b>	674
Marketable securities	<b>800</b>	1,450	<b>(132)</b>	4,261
Fixed assets	<b>661</b>	(1,972)	<b>(944)</b>	1,047
Long-term investments	<b>(130)</b>	728	<b>165</b>	2,664
Employee future benefits	<b>(9,012)</b>	(9,194)	<b>(182)</b>	(525)
Loss carry forwards	<b>8,336</b>	19,234	—	(6,857)
Convertible debentures	—	(143)	<b>915</b>	(44)
Other	<b>16</b>	(116)	<b>(64)</b>	(74)
<b>Deferred income tax assets</b>	<b>614</b>	11,639		
<b>Deferred income tax expense (recovery)</b>			<b>(263)</b>	1,146

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

December 31, 2014 and 2013

*(in thousands of Canadian dollars, except per share amounts)***12. INCOME TAXES (CONT'D)**

Deferred income tax assets are reflected in the consolidated statements of financial position as follows:

	<b>2014</b>	2013
	\$	\$
Deferred income tax assets	<b>2,496</b>	14,953
Deferred income tax liabilities	<b>(1,882)</b>	(3,314)
<b>Deferred income tax assets (net)</b>	<b>614</b>	11,639

The ultimate realization of deferred income tax assets is dependent upon taxable profits during the periods in which those temporary differences become deductible. In concluding that it is probable that the recorded deferred income tax assets will be realized, management has relied upon existing taxable temporary differences as support for the recorded amounts.

At December 31, 2014, there was no deferred income tax liability recognized for taxable temporary differences related to undistributed profits of certain of the Company's subsidiaries as the Company is able to control and determine, whether to, and the method for distributing those profits and has determined that those taxable temporary differences will not reverse in the foreseeable future. The taxable temporary differences associated with investments in subsidiaries for which a deferred income tax liability has not been recognized aggregate to \$116,921 (2013 – \$129,918).

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

	\$
Marketable securities	<b>876</b>
Non-capital loss carry forwards	<b>409</b>
Capital loss carry forwards	<b>192</b>
<b>Total</b>	<b>1,477</b>

As at December 31, 2014, the Company had non-capital tax losses carried forward for tax purposes aggregating \$29,056 that are available for the reduction of future years' taxable income. The losses expire as follows:

	\$
<b>2030</b>	<b>20,868</b>
<b>2031</b>	<b>6,714</b>
<b>2032</b>	<b>4</b>
<b>2033</b>	<b>151</b>
<b>2034</b>	<b>1,319</b>
<b>Total</b>	<b>29,056</b>

As at December 31, 2014, the Company had capital losses carried forward for tax purposes aggregating \$1,237 that are available for the reduction of capital gains in future years. The losses do not expire.

**Clarke Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

**13. OTHER ASSETS**

Other assets as at December 31, 2013 consisted of intangibles and deferred development costs that were included in the Company's former Commercial Tanks & Home Heating segment which was sold in 2014 (note 14).

	2014	2013
	\$	\$
Intangibles	—	4,694
Deferred development costs	—	690
	—	5,384

**14. DISCONTINUED OPERATIONS**

On January 1, 2014, the Company completed the sale of its truckload, less-than-truckload and freight logistics businesses (the "Freight Transport Business") to TransForce Inc. for total cash consideration of \$100,471 including an estimated working capital adjustment. The Freight Transport Business was included in the Company's former Freight Transportation segment. Certain other subsidiaries of Clarke engaged in information technology and human resources functions were also included in the sale. The significant assets and liabilities of the Freight Transport Business were fixed assets, goodwill, long-term debt and working capital. As a result of this transaction, included in income from discontinued operations for the year ended December 31, 2014, is a gain on sale of subsidiary of \$66,433.

On February 15, 2014, the Company completed the sale of Gestion Jerico Inc. ("Jerico") to Terravest. Jerico formed the Company's Commercial Tanks & Home Heating segment. The Company received \$24,915 for its 75% equity interest in Jerico in the form of a 6.50% promissory note with a three year term. The promissory note is included in 'Notes receivable' on the consolidated statements of financial position as at December 31, 2014. The significant assets and liabilities of Jerico were fixed assets, goodwill and intangibles, long-term debt, inventory and other working capital. As a result of this transaction, included in income from discontinued operations for the year ended December 31, 2014, is a gain on sale of subsidiary of \$4,717.

The tables on the following page present the components of the Freight Transport Business and Jerico included in the consolidated financial statements as discontinued operations.

**Clarke Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

**14. DISCONTINUED OPERATIONS (CONT'D)**

	*December 31, 2013
	\$
Cash	421
Receivables	23,266
Income taxes receivable	255
Prepaid expenses	946
Deferred income tax assets	334
Fixed assets	13,334
Goodwill	6,053
Other assets	85
<b>Total assets of discontinued operations</b>	<b>44,694</b>
Short-term indebtedness	65
Accounts payable and accrued liabilities	14,004
Income taxes payable	157
Long-term debt	1,549
Deferred income tax liabilities	741
<b>Total liabilities of discontinued operations</b>	<b>16,516</b>
<b>Net assets of discontinued operations</b>	<b>28,178</b>

\* The assets and liabilities of discontinued operations as at December 31, 2013 are comprised of the Freight Transport Business as they were classified as held for sale at that time. Jerico's net assets are not included in discontinued operations as at December 31, 2013 as assets and liabilities of disposal groups are not reclassified for prior periods on the consolidated statements of financial position.

	2014	2013
	\$	\$
Gain on sale of subsidiaries	<b>71,150</b>	—
Provision of services	—	181,599
Sales of products	<b>5,805</b>	58,195
Other income (loss)	<b>(62)</b>	560
	<b>76,893</b>	240,354
Cost of services provided	—	166,808
Cost of goods sold	<b>4,001</b>	41,924
General and administrative expenses	<b>1,034</b>	7,223
Depreciation and amortization	<b>372</b>	4,493
Interest expense	<b>92</b>	1,274
Income before equity in losses of associates and income taxes	<b>71,394</b>	18,632
Equity in losses of associates	—	(12)
Income before income taxes	<b>71,394</b>	18,620
Provision for income taxes *	<b>11,990</b>	1,649
<b>Income from discontinued operations</b>	<b>59,404</b>	16,971

\* Included in 'Provision for income taxes' for the year ended December 31, 2014 is a deferred tax expense of \$11,935 on the utilization of loss carry forwards used against the gain on sale of subsidiaries and resulting in a decrease in deferred income tax assets.

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

December 31, 2014 and 2013

*(in thousands of Canadian dollars, except per share amounts)***15. SHORT-TERM INDEBTEDNESS**

The Company has a demand revolving loan of \$20,000 secured by marketable securities. The interest rate for the demand revolving loan was 3.75% at December 31, 2014 (2013 – 3.75%). The Company had drawn nil on the demand revolving loan at December 31, 2014 (2013 – \$10,199).

The Company maintains several investment accounts with various brokers. Under one broker arrangement, the Company had access to an investment margin account for purposes of financing eligible marketable securities. Any Canadian dollar financing used under this arrangement bears interest at the prime rate of a Canadian chartered bank and is collateralized by the marketable securities purchased. The interest rate was equal to 3.00% at December 31, 2014 (2013 – 3.00%). Any US dollar financing used under this arrangement bears interest at the US base rate less 1.00% and is collateralized by the marketable securities purchased. The interest rate was equal to 2.75% at December 31, 2014 (2013 – 2.75%). The Company had drawn nil on the Canadian dollar and US dollar facilities, respectively, at December 31, 2014 (2013 – \$25,002 and US\$663, respectively).

Subsidiaries of Jerico in the former Commercial Tanks & Home Heating segment had operating facilities to a maximum of \$16,000. At December 31, 2013, the Company had drawn \$7,965 and US\$7 from these facilities.

**16. CONVERTIBLE DEBENTURES & OTHER LONG-TERM DEBT**

	2014	2013
	\$	\$
Term loan, original amount of \$4,800, payable in monthly principal instalments of \$72 excluding March through May, due September 2019, bearing interest at financial institution's floating base rate plus 0.50% (5.50% as at December 31, 2014 and 2013), secured by fixed charge against ferry, <i>MV Trans-Saint-Laurent</i> , machinery, tools, vehicles, and intellectual property, with a carrying value of \$933.	3,007	3,652
6.0% convertible unsecured subordinated debentures, due December 31, 2018	—	53,884
Term loans from the former Commercial Tanks & Home Heating segment, payable in monthly principal instalments totalling \$86 at interest rates ranging from 4.00% to 5.00% as at December 31, 2013.	—	6,974
Promissory notes from the former Commercial Tanks & Home Heating segment, bearing interest at a Canadian chartered bank's prime rate plus 1.00% (4.00% as at December 31, 2013).	—	5,162
Demand loans from the former Commercial Tanks & Home Heating segment, payable in monthly principal instalments totalling \$19, at interest rates ranging from 3.25% to 5.25% as at December 31, 2013.	—	744
Other	—	338
<b>Total debt</b>	<b>3,007</b>	<b>70,754</b>
Less: current portion of other long-term debt	<b>(644)</b>	<b>(3,522)</b>
Less: discount on convertible debentures (accumulated amortization: 2013 – \$2,544)	—	(463)
Less: debt issue costs (accumulated amortization: 2013 – \$1,511)	—	(646)
	<b>2,363</b>	<b>66,123</b>
Represented by:		
Convertible debentures	—	52,775
Other long-term debt	<b>2,363</b>	<b>13,348</b>
	<b>2,363</b>	<b>66,123</b>

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

December 31, 2014 and 2013

*(in thousands of Canadian dollars, except per share amounts)***16. CONVERTIBLE DEBENTURES & OTHER LONG-TERM DEBT (CONT'D)**

The changes in convertible debenture balances are summarized as follows:

	2014	2013
	\$	\$
<b>2018 Debentures</b>		
Face value outstanding, beginning of year	53,884	62,296
Converted to common shares	(23,212)	(8,412)
Redeemed	(30,154)	—
Repurchased under NCIB	(518)	—
Face value outstanding, end of year	—	53,884

During 2013, the Company obtained approval to extend the maturity date of its 6.00% convertible unsecured subordinated debentures due December 31, 2013 (the “Debentures”) from December 31, 2013 to December 31, 2018. All other terms of the Debentures remained the same.

During 2014, the Company completed a redemption of its Debentures for an aggregate principal amount of \$30,154. The Company paid to the holders of redeemed Debentures a redemption price equal to the principal amount of the redeemed Debentures, plus accrued and unpaid interest up to, but excluding the redemption date. For the year ended December 31, 2014, this resulted in a gain on redemption included in other income of \$1,777, for the excess of the average book value of the liability over the purchase price allocated to the liability component of the debenture, a decrease to the equity portion of convertible debentures of \$549 and a decrease to retained earnings of \$376 for the excess of the purchase price allocated to the share conversion option over the average book value of the share conversion option. Furthermore, this resulted in a reduction in the share conversion option in the equity portion of convertible debentures of \$1,591.

During 2014, pursuant to normal course issuer bids (“NCIB”), the Company repurchased \$518 in principal of its issued and outstanding Debentures at a cost of \$564. For the year ended December 31, 2014, this resulted in a gain on redemption included in other income of \$31, for the excess of the average book value of the liability over the purchase price allocated to the liability component of the debenture, a decrease to equity portion of convertible debentures of \$22 and a decrease to retained earnings of \$40 for the excess of the purchase price allocated to the share conversion option over the average book value of the share conversion option. Furthermore, this resulted in a reduction in the share conversion option in the equity portion of convertible debentures of \$27.

During 2014, the debenture holders converted \$23,212 of principal of the Debentures, resulting in the issuance of 3,094,913 common shares. This resulted in a reduction in the share conversion option in the equity portion of convertible debentures of \$1,225.

The aggregate maturities of long-term debt for each of the next five twelve month periods are as follows: 2015 – \$644; 2016 – \$644; 2017 – \$644; 2018 – \$644; and 2019 – \$431.

**17. COMMITMENTS AND CONTINGENCIES****Operating lease commitments**

The Company has lease commitments related to properties for the following amounts: 2015 – \$178; 2016 – \$178; 2017 – \$178; 2018 – \$80; and 2019 – \$80. Included in each of the annual lease commitments for 2015 through 2017 is \$98 owing to a company owned by the Company’s Executive Chairman and his immediate family member.



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

December 31, 2014 and 2013

*(in thousands of Canadian dollars, except per share amounts)***17. COMMITMENTS AND CONTINGENCIES (CONT'D)****Other commitments**

The Company is party to a subscription agreement for a 0.0839% equity interest in a long-term investment. The agreement requires periodic capital contributions up to a cumulative maximum of US\$3,000. As at December 31, 2014, net capital contributions in the amount of US\$2,249 have been called by the investee, leaving an outstanding commitment of US\$751.

The Company is party to a subscription agreement for a 0.80% equity interest in a long-term investment. The agreement requires periodic capital contributions up to a cumulative maximum of \$2,500. As at December 31, 2014, net capital contributions in the amount of \$1,348 have been called by the investee, leaving an outstanding commitment of \$1,152.

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

**Contingencies**

In the normal course of business, various contingent liabilities are outstanding. These include potential claims for damages and other actions. Management believes that adequate provisions have been made and any potential settlements would not materially affect the Company's results.

**18. SHARE CAPITAL AND EARNINGS PER SHARE**

As at and for the year ended December 31	2014		2013	
	# of shares	\$	# of shares	\$
<b>Authorized</b>				
Unlimited number of common shares – no par value				
Unlimited number of First Preferred shares				
Unlimited number of Second Preferred shares				
<b>Issued</b>				
Outstanding common shares, beginning of year	17,641,910	42,701	16,682,315	34,249
Common shares issued upon conversion of Debentures during the year	3,094,913	24,434	1,121,595	8,785
Common shares repurchased for cancellation	(1,243,846)	(3,946)	(162,000)	(333)
Outstanding common shares, end of year	19,492,977	63,189	17,641,910	42,701

**Normal course issuer bid ("NCIB")**

In the year ended December 31, 2014, the Company purchased for cancellation 1,243,846 (2013 – 162,000) common shares under a NCIB at a cost of \$12,502 (2013 – \$844). The purchase price in excess of the average book value of the shares in the amount of \$8,556 (2013 – \$511) has been charged to retained earnings and \$3,946 (2013 – \$333) has been charged to share capital.

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

December 31, 2014 and 2013

*(in thousands of Canadian dollars, except per share amounts)***18. SHARE CAPITAL AND EARNINGS PER SHARE (CONT'D)****Earnings per share**

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

	2014			2013		
	Earnings \$	Weighted average shares (in thousands) #	Per share amount \$	Earnings \$	Weighted average shares (in thousands) #	Per share amount \$
Basic earnings per share	43,250	19,393	2.23	37,238	16,611	2.24
Interest, net of income taxes, on assumed conversion of convertible debentures	1,545	4,808		2,761	8,246	
Common shares issued on assumed exercising of stock options	—	—		—	21	
Diluted earnings per share	44,795	24,201	1.85	39,999	24,878	1.61

\* All potentially dilutive securities issued relate to Debentures and stock options. The Debentures were dilutive for the year ended December 31, 2014. The Debentures and stock options were dilutive for the year ended December 31, 2013.

**Dividends**

Dividends declared from January 1, 2014 to December 31, 2014 were as follows:

Declaration date	Record date	Payment date	Per share \$	Dividend \$
January 14, 2014	January 22, 2014	January 31, 2014	0.10	1,787
March 6, 2014	March 31, 2014	April 15, 2014	0.10	1,869
June 11, 2014	June 30, 2014	July 11, 2014	0.10	2,008
August 7, 2014	September 30, 2014	October 10, 2014	0.10	1,976
November 5, 2014	December 31, 2014	January 13, 2015	0.10	1,949
<b>Total</b>			<b>0.50</b>	<b>9,589</b>

Dividends declared from January 1, 2013 to December 31, 2013 were as follows:

Declaration date	Record date	Payment date	Per share \$	Dividend \$
March 19, 2013	March 28, 2013	April 15, 2013	0.06	1,001
May 14, 2013	May 31, 2013	June 14, 2013	0.08	1,331
August 12, 2013	August 30, 2013	September 13, 2013	0.10	1,655
November 8, 2013	November 29, 2013	December 13, 2013	0.10	1,660
<b>Total</b>			<b>0.34</b>	<b>5,647</b>

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

December 31, 2014 and 2013

*(in thousands of Canadian dollars, except per share amounts)***19. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The components of the Company's accumulated other comprehensive income, net of income taxes, are as follows:

	<b>2014</b>	2013
	<b>\$</b>	\$
Unrealized gains on translating financial statements of self-sustaining foreign operations	<b>505</b>	22
Remeasurement gains and effect of limit on asset ceiling on defined benefit plans	<b>5,830</b>	9,418
	<b>6,335</b>	9,440

**20. OTHER INCOME**

Other income is comprised of the following:

	<b>2014</b>	2013
	<b>\$</b>	\$
Interest and finance fees	<b>4,126</b>	873
Gains on redemption and repurchase of Debentures	<b>1,808</b>	—
Gains on disposition of fixed assets	<b>1,570</b>	2,967
Foreign exchange gains (losses)	<b>103</b>	(181)
	<b>7,607</b>	3,659

The gains on disposition of fixed assets are from the sale of land and buildings.

**21. INTEREST EXPENSE**

Interest expense is comprised of the following:

	<b>2014</b>	2013
	<b>\$</b>	\$
Interest on long-term debt	<b>1,024</b>	3,936
Interest on short-term indebtedness	<b>46</b>	498
Amortization of discount on Debentures	<b>27</b>	114
Amortization of debt issue costs	<b>37</b>	127
	<b>1,134</b>	4,675

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

December 31, 2014 and 2013

*(in thousands of Canadian dollars, except per share amounts)***22. SEGMENTED INFORMATION**

The Company operates in three reportable business segments. The Investment segment represents the Company's marketable securities portfolio, consisting of publicly traded equity and fixed income securities, long-term investments at fair value through profit or loss and notes receivable. The Transportation segment (formerly the Freight Transportation segment) consists of the Company's ferry and international shipping businesses. The Freight Transport Business from the former Freight Transportation segment for the year ended December 31, 2013, has been reclassified to discontinued operations. The Other segment consists of owned real estate, investments in joint ventures, our treasury, information technology and executive functions, the results of our pension plans and the interest payable on our Debentures, which were fully redeemed during the year ended December 31, 2014. Revenue from external customers earned in the Other segment pertains to management service fees and rental income. The Company had previously operated the Commercial Tanks & Home Heating segment but has reclassified this segment to discontinued operations. The Company operates predominantly in Canada.

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. Interest and dividend income from subsidiaries is eliminated within each segment.

The Company has identifiable assets as follows:

	2014	2013
	\$	\$
Total assets:		
Investment	133,794	137,187
Transportation	8,222	8,292
Other	114,456	47,878
Commercial Tanks & Home Heating	—	60,523
Assets of discontinued operations	—	44,694
Less: intersegment eliminations	—	(187)
	<b>256,472</b>	<b>298,387</b>
Total liabilities:		
Investment	1,612	1,214
Transportation	3,849	4,437
Other	5,913	90,069
Commercial Tanks & Home Heating	—	31,685
Liabilities of discontinued operations	—	16,516
Less: intersegment eliminations	—	(187)
	<b>11,374</b>	<b>143,734</b>
Goodwill (Commercial Tanks & Home Heating segment)	—	9,722
Assets located outside of Canada:		
Transportation	5,874	7,010
Commercial Tanks & Home Heating	—	3,060
Investments in joint ventures (Other segment)	16	698
Investments in associates (Commercial Tanks & Home Heating segment)	—	39

**Clarke Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

**22. SEGMENTED INFORMATION (CONT'D)**

2014	Investment \$	Transportation \$	Other \$	Eliminations \$	Total \$	
Revenue:						
Investment and other income	39,527	3	7,697	—	47,227	
Intersegment sales revenue	800	—	47	(847)	—	
Provision of services	46	7,632	836	—	8,514	
	40,373	7,635	8,580	(847)	55,741	
Expenses	1,146	6,212	3,344	(835)	9,867	
Impairment of fixed assets	—	1,243	—	—	1,243	
Depreciation and amortization	—	768	188	—	956	
Interest expense	—	191	943	—	1,134	
Income (loss) before equity in earnings of joint ventures and income taxes	39,227	(779)	4,105	(12)	42,541	
Equity in earnings of joint ventures	—	—	462	—	462	
Income (loss) before income taxes	39,227	(779)	4,567	(12)	43,003	
Capital expenditures, intangible asset and goodwill additions	—	—	150	—	150	
	2013	Investment \$	Transportation \$	Other \$	Eliminations \$	Total \$
Revenue:						
Investment and other income	40,491	(6)	4,211	—	44,696	
Intersegment sales revenue	1,800	—	907	(2,707)	—	
Provision of services	67	7,799	382	—	8,248	
	42,358	7,793	5,500	(2,707)	52,944	
Expenses	580	6,029	3,144	(836)	8,917	
Depreciation and amortization	—	972	237	—	1,209	
Interest expense	—	224	4,451	—	4,675	
Income (loss) before equity in earnings of associates and joint ventures and income taxes	41,778	568	(2,332)	(1,871)	38,143	
Equity in earnings of associates and joint ventures	—	—	400	—	400	
Income (loss) before income taxes	41,778	568	(1,932)	(1,871)	38,543	
Capital expenditures, intangible asset and goodwill additions	—	719	3	—	722	

**23. SUPPLEMENTAL CASH FLOW INFORMATION**

	2014 \$	2013 \$
Income taxes paid	176	3,164
Interest received	3,601	740
Interest paid	1,080	5,710

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

December 31, 2014 and 2013

*(in thousands of Canadian dollars, except per share amounts)***23. SUPPLEMENTAL CASH FLOW INFORMATION (CONT'D)**

	2014	2013
	\$	\$
<b>Adjustments for items not involving cash</b>		
Realized/unrealized gains on investments	(29,264)	(38,802)
Pension expense (recovery) (note 9)	(3,752)	3,678
Gains on disposition of fixed assets (note 20)	(1,570)	(2,967)
Equity in earnings of associates and joint ventures	(462)	(400)
Impairment of fixed assets (note 10)	1,243	—
Deferred income tax expense (recovery) (note 12)	(263)	1,146
Dividends from joint ventures	1,190	40
Gains on redemption and repurchase of Debentures (note 20)	(1,808)	—
Depreciation and amortization	956	1,209
Share-based payment expense net of share-based payments of \$391 (2013 – \$264)	(254)	141
Discount and debt issue cost amortization	64	241
Other items	(39)	(24)
	<b>(33,959)</b>	<b>(35,738)</b>

	2014	2013
	\$	\$
<b>Net changes in non-cash working capital balances</b>		
Receivables	(2,011)	(1,171)
Income taxes receivable	(21)	434
Prepaid expenses	(154)	(32)
Accounts payable and accrued liabilities	(398)	117
Income taxes payable	22	(231)
	<b>(2,562)</b>	<b>(883)</b>

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

**24. RELATED PARTY DISCLOSURES**

The Company had, other than those disclosed elsewhere in these consolidated financial statements, the following related party transactions in the normal course of operations and measured at fair value, which is the amount of consideration established and agreed to by the related parties:

- (i) The Company is a party to rental agreements with a company owned by the Executive Chairman and his immediate family member. Included in 'General and administrative expenses' is rental and other property expenses of \$187 (2013 – \$168) under this agreement. Included in 'Income from discontinued operations' is rental and other property expenses of nil (2013 – \$49) under this agreement.
- (ii) The Company provides administrative and asset management services to two pension plans it sponsors. Included in 'Provision of services' is \$341 (2013 – \$278) for services provided to the pension plans during the year.
- (iii) The Company provides information technology services to related companies. Included in 'Provision of services' is \$35 (2013 – nil) and included in 'Income from discontinued operations' is nil (2013 – \$349) for services provided during the year. Included in 'Receivables' at December 31, 2014 is \$40 and included in 'Receivables of assets of discontinued operations' at December 31, 2013 is \$34 for services provided.

## Clarke Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

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

- (iv) The Company has a promissory note receivable from Terravest, a marketable security investment, as a result of the sale of Jerico (notes 8 & 14). The note has a three year term. Included in 'Other income' for the year ended December 31, 2014 is interest income of \$1,381 (2013 – nil) and included in 'Income from discontinued operations' for the year ended December 31, 2014 is a gain on sale of subsidiary of \$4,717 (2013 – nil).
- (v) The Company has a credit facility to lend \$6,000 to Holloway, maturing on or before December 31, 2015. The facility bears interest at 7.00%. As at December 31, 2014, \$3,000 was drawn on the facility. Included in 'Other income' for the year ended December 31, 2014 is interest income of \$210 (2013 – \$325). The facility was repaid in full subsequent to December 31, 2014.
- (vi) During the year ended December 31, 2014, the Company entered into a term loan agreement with Holloway, a marketable security investment. The agreement consists of a \$17,000 term loan that bears interest at 6.50%. The term loan does not require any principal payments until the maturity on March 31, 2016, or March 31, 2017 if the borrower requests an extension. The borrower may prepay all or part of the term loan at any time following the six month anniversary of the first loan draw. During the year ended December 31, 2014, the borrower made its first loan draw in the amount of \$16,000 on the term loan and is included in 'Notes receivable' on the consolidated statements of financial position. Interest on this note is included in 'Other income' for the year ended December 31, 2014 in the amount of \$536 (2013 – nil).
- (vii) During the year ended December 31, 2014, the Company purchased 6,263,839 shares of Holloway through the facilities of the Toronto Stock Exchange from the Company's Executive Chairman and a company owned by an immediate family member of the Company's Executive Chairman. The purchase of the shares was made for investment purposes and the Company paid \$4.50 per share.

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

Year ended December 31, 2014	Board of directors	Officers	Total
	\$	\$	\$
Salary and fees	94	455	549
Bonus	—	675	675
Pension value	872	10	882
Total	966	1,140	2,106

#### 25. CAPITAL DISCLOSURES

The Company's capital consists of shareholders' equity, long-term debt and short-term loans. To maintain or adjust its capital structure, the Company may, from time to time, issue new shares, issue new debt, repurchase existing debt or shares and/or adjust the amount of dividends paid to shareholders. There were no significant changes in the Company's capital management approach from the prior year.

The Company has primary short-term loan facilities which are subject to restrictive covenants and security arrangements. The restrictive covenants are governed by a minimum current ratio (1.20:1.00) and maximum adjusted tangible net worth ratio (1.25:1.00). The adjusted bases of these ratios treat the Debentures as equity for the purposes of the restrictive covenant. For the year ended December 31, 2014, all of the restrictive covenants were met for the Company's primary short-term facilities. The Company has unrestricted access to its credit facilities subject to pledging sufficient securities as collateral. Any decline in the fair value of securities within the portfolio may limit the Company's access to the full amount of the short-term facilities.

**Clarke Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

**26. FINANCIAL INSTRUMENTS**

The Company's financial instruments at December 31, 2014 and 2013 included cash and cash equivalents, receivables, marketable securities, long-term investments, notes receivable, short-term indebtedness, accounts payable and accrued liabilities, convertible debentures and other long-term debt.

The Company's financial instruments are classified as follows:

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<b>Fair value through profit or loss</b>	<b>Other liabilities</b>
Marketable securities	Short-term indebtedness
Long-term investments, except for the investments in associates	Accounts payable and accrued liabilities
	Other long-term debt
	Convertible debentures
<b>Loans and receivables</b>	
Cash and cash equivalents	
Receivables	
Notes receivable	

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

The majority of marketable securities and long-term investments are recorded at fair value based on quoted market prices at December 31, 2014 and 2013. Securities designated as "fair value through profit or loss" are included in the consolidated statements of financial position at fair value, with any movement being recorded as an unrealized gain (loss) on investments in the consolidated statements of earnings. The carrying value of investment funds, for which there is no quoted market value and which are not publicly traded on a recognized securities exchange, are determined using the net asset value per unit as provided by the individual funds. No fair value disclosure information is available for the investments in associates as they are private companies without a quoted market price in an active market.

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

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

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

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



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

December 31, 2014 and 2013

*(in thousands of Canadian dollars, except per share amounts)***26. FINANCIAL INSTRUMENTS (CONT'D)**

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

Description	Fair Value at December 31, 2014 Using			
	Total	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs
Marketable securities	89,345	89,345	—	—
Other long-term investments	3,745	—	3,745	—
	<b>93,090</b>	<b>89,345</b>	<b>3,745</b>	<b>—</b>

The fair value of the Company's Debentures is set out below. The fair value of the Debentures at December 31, 2013 is based on the quoted market price for these securities. The fair values are not necessarily indicative of the amounts that the Company may incur in actual market transactions.

	2014		2013	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
6.0% Convertible debentures – 2018 maturity – Level 1	—	—	52,775	55,231

Differences between the carrying values and fair values of other debt instruments are not significant given that they are subject to a floating rate of interest. Level 3 fair values are based on discounted cash flows associated with the financial instrument.

**Risks associated with financial assets and liabilities**

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

**Market risk**

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

**Equity price risk**

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

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

December 31, 2014 and 2013

*(in thousands of Canadian dollars, except per share amounts)***26. FINANCIAL INSTRUMENTS (CONT'D)**

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

<b>Fair value</b>	<b>Price change</b>	<b>Estimated fair value after price change</b>	<b>After-tax impact on net income</b>
<b>\$</b>	<b>%</b>	<b>\$</b>	<b>\$</b>
<b>89,345</b>	<b>10% increase</b>	<b>98,280</b>	<b>7,550</b>
<b>89,345</b>	<b>10% decrease</b>	<b>80,410</b>	<b>(7,550)</b>

The Company manages its equity price risk by purchasing and holding securities of companies that it believes trade at a discount to their intrinsic values.

**Interest rate risk**

Interest rate risk refers to the risk that interest expense on floating rate debt will vary as a result of changes in underlying interest rates. The Company partially mitigates its exposure to interest rate fluctuations by borrowing both fixed and floating rate debt. The Company may enter into interest rate swap transactions where considered necessary to further manage interest rate exposure. At December 31, 2014, the Company had not entered into any interest rate swap transactions (2013 – nil).

At December 31, 2014, the after-tax net income effect of a 1% change in interest rates would have been \$21 on floating rate debt of \$3,007.

**Foreign exchange risk**

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

The Company has operations throughout North America, and as such is exposed to movements in the US/Canadian exchange rate. At December 31, 2014, the effect of a 20% change in the US/Canadian exchange rate on after-tax consolidated net income would have been \$30 based on a US net asset balance of US\$188.

The Company manages its exposure to foreign exchange risk by entering into forward foreign exchange contracts. At December 31, 2014 the Company did not have any forward contracts outstanding (2013 – none outstanding).

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations. The Company believes it has access to sufficient capital through cash on hand, operating cash flows and existing borrowing facilities to meet these obligations. During the year ended December 31, 2014, short-term indebtedness has decreased by \$43,878. At December 31, 2014, the Company had cash of \$79,061 and available unused facilities totalling \$20,000.

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

December 31, 2014 and 2013

*(in thousands of Canadian dollars, except per share amounts)***26. FINANCIAL INSTRUMENTS (CONT'D)**

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

	<b>Due within 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>	<b>After 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts payable and accrued liabilities	<b>4,504</b>	<b>—</b>	<b>—</b>	<b>—</b>
Other long-term debt	<b>644</b>	<b>1,288</b>	<b>1,075</b>	<b>—</b>
	<b>5,148</b>	<b>1,288</b>	<b>1,075</b>	<b>—</b>

**Credit risk**

Credit risk refers to the risk that a counterparty will fail to fulfill its obligations under a contract and, as a result, will cause the Company to suffer a loss. This risk is mitigated through credit policies that limit transactions according to counterparties' credit quality. The Company assesses the credit quality of all counterparties, taking into account their financial position, past experience and other factors. The Company established an allowance for doubtful accounts that corresponds to the credit risk of its specific customers, historical trends and economic circumstances.

The Company believes there are no significant concentrations of credit risk due to the low level of trade receivables and significant cash balance. The maximum exposure to credit risk associated with financial assets is the total carrying value of those receivables.

**27. SUBSEQUENT EVENTS**

On December 16, 2014, the Company announced its intention to commence a substantial issuer bid pursuant to which it would offer to purchase up to 2,500,000 of its outstanding common shares at a purchase price of \$9.50 per share. Subsequent to December 31, 2014, the Company announced that a total of 665,330 common shares were deposited at the expiration of the offer. Clarke took up all of the shares deposited resulting in a total purchase price of \$6,321.

On February 3, 2015, the Company completed its previously announced sale of the *MV Shamrock* for net proceeds of US\$4,605.

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