

**CLARKE**  
Halifax, Canada

**MD&A & Financial Statements**  
**2015**



Management's Discussion & Analysis

**Clarke Inc.**

December 31, 2015 and 2014

## 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, 2015 compared with the year ended December 31, 2014. 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, 2015 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 investments. The MD&A is prepared as at February 23, 2016 (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. 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 – 2015

During 2015, the Company's book value per share decreased by \$0.36 or 2.9%, mainly as a result of unrealized losses on our investment holdings and dividends of \$0.40 per share paid to shareholders, offset by the accretive effect of repurchasing shares below book value. Our book value per share at the end of the year was \$12.21 while our share price was \$9.86.

The following were certain key events during 2015:

- The Company repurchased 3,866,802 of its common shares ("Common Shares") at an average purchase price of \$10.34 per Common Share pursuant to two substantial issuer bid ("SIB") and its normal course issuer bid ("NCIB"). All of the repurchases were completed at a discount to the Company's book value per share.
- The Company completed the sale of its container vessel, the *MV Shamrock*, for net proceeds of US\$4.6 million (Cdn. \$5.6 million).
- Each of Holloway Lodging Corporation ("Holloway") and Terravest Capital Inc. ("Terravest") repaid in full their loans owing to Clarke. The repayments totalled \$35.0 million.
- The Company entered into a loan agreement to advance up to US\$2.8 million to fund the construction of a 17-unit townhome development in Atlanta, Georgia. During the year this loan was partially funded. Clarke has a further interest in this development by way of a separate royalty agreement linked to the sale of each townhome.

Subsequent to year-end, on February 23, 2016, the Company's Board of Directors declared the 2016 first quarter dividend of \$0.10 per Common Share payable on April 8, 2016 to shareholders of record at the end of business on March 31, 2016.

## **OUTLOOK**

As a result of our various investment sales in recent years, Clarke eliminated substantially all of its debt and built a cash balance of \$79.1 million at the beginning of 2015. During the year, Clarke deployed \$99.0 million of cash, consisting of \$44.9 million of investment purchases, \$40.0 million of share repurchases, \$7.0 million of dividends paid to shareholders and \$7.1 million in loan advances while also receiving \$45.6 million in loan repayments and \$7.5 million on the sale of investments. At December 31, 2015, our cash balance was \$42.1 million representing 27% of Clarke's market capitalization.

During the year, the market value of our securities portfolio declined \$15.5 million. This can be attributed to lower securities prices for Holloway (\$7.0 million) and our energy basket (\$12.9 million) offset by an increase in Terravest's share price (\$5.0 million). We believe the securities we own remain undervalued.

Most of the companies we have invested in are exposed to the oil and gas industry in some manner. In the case of our energy basket companies, this exposure is complete whereas in the case of other companies such as Holloway and Terravest, this exposure is partial only. Given the state of the oil and gas industry, we expect many of these companies' share prices to remain depressed for some time and we would not be surprised to see them fall farther. However, this situation is transitory in nature in our view as the amount of oil the world needs simply cannot be produced indefinitely at recent prices without bankrupting the producing entities. Therefore, we look at the year past as a time of planting investment seeds that will offer rewards in coming years.

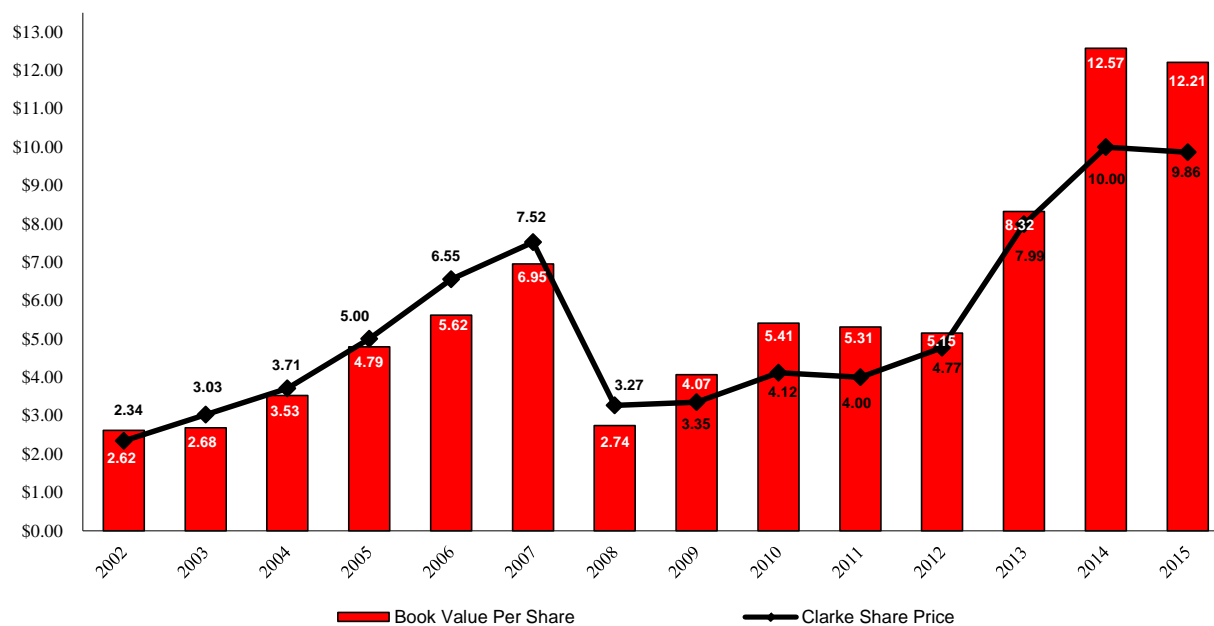
The Company repurchased 3,866,802 Common Shares in 2015 at an average cost of \$10.34 per share and at a total cost of \$40.0 million. All of these shares were repurchased at less than our book value per share and less than management's view of our intrinsic value per share. As we believe that our investment holdings will appreciate in value in coming years (particularly as the oil and gas markets normalize), we believe that these repurchases will benefit shareholders.

We continue to see limited investment opportunities outside of the oil and gas industry due to generally high valuations, although valuations appear to have moderated somewhat in recent months. We remain on the lookout. We will remain disciplined in deploying our capital as that capital retains option value while it is in our hands.

## BOOK VALUE PER SHARE

The Company's book value per share at December 31, 2015 was \$12.21, a decrease of \$0.36 per share since December 31, 2014. This decrease was mainly due to unrealized losses on our investment holdings of \$15.5 million, partially offset by the repurchase of Common Shares at a discount to book value per share.

The following graph shows Clarke's book value per share and share price since 2002 (the year the present Executive Chairman joined the Company).



\* 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. All other information is for the years ended December 31.

## 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<br/>December 31, 2015</b> | Year ended<br>December 31, 2014 | Year ended<br>December 31, 2013 |
|---|---|---------------------------------|---------------------------------|
|   | \$                                      | \$                              | \$                              |
| Realized and unrealized gains (losses) on investments                               | <b>(14.7)</b>                           | 29.3                            | 38.8                            |
| Dividend income   | <b>3.7</b>                              | 6.6                             | 5.9                             |
| Interest income   | <b>2.7</b>                              | 4.1                             | 0.9                             |
| Revenue and other income*   | <b>8.9</b>                              | 15.7                            | 7.3                             |
| Income (loss) from continuing operations  | <b>(11.1)</b>                           | 43.2                            | 37.2                            |
| Income from discontinued operations attributable to equity holders of the Company** | —                                       | 59.4                            | 15.5                            |
| Net income (loss) attributable to equity holders of the Company                     | <b>(11.1)</b>                           | 102.6                           | 52.7                            |
| Comprehensive income (loss) attributable to equity holders of the Company           | <b>(8.8)</b>                            | 99.5                            | 58.9                            |
| Basic earnings (loss) per share (“EPS”)   |   |                                 |                                 |
| Income (loss) from continuing operations  | <b>(0.66)</b>                           | 2.23                            | 2.24                            |
| Income from discontinued operations   | —                                       | 3.06                            | 0.93                            |
| Net income (loss)   | <b>(0.66)</b>                           | 5.29                            | 3.17                            |
| Diluted EPS   |   |                                 |                                 |
| Income (loss) from continuing operations  | <b>(0.66)</b>                           | 1.85                            | 1.61                            |
| Income from discontinued operations   | —                                       | 2.45                            | 0.62                            |
| Net income (loss)   | <b>(0.66)</b>                           | 4.30                            | 2.23                            |
| Total assets  | <b>198.9</b>                            | 256.5                           | 298.4                           |
| Long-term financial liabilities   | <b>1.7</b>                              | 2.4                             | 66.1                            |
| Cash dividends declared per share   | <b>0.40</b>                             | 0.50                            | 0.34                            |
| Book value per share  | <b>12.21</b>                            | 12.57                           | 8.32                            |

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

\*\*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.

Net loss attributable to equity holders of the Company for the year ended December 31, 2015 was \$11.1 million compared with net income of \$102.6 million in 2014. The significant net income earned for the year ended December 31, 2014 was due to the sale of the Company’s freight transport business and its interest in Jerico, which resulted in gains on sale of \$71.1 million. Also during 2014, substantially all active members of the Company’s pension plans stopped accruing service and salary increases for future periods which resulted in a curtailment gain of \$3.3 million.

During the year ended December 31, 2015, the Company had unrealized losses on its investments of \$15.5 million compared to unrealized gains of \$46.6 million in 2014. The Company had realized gains on its investments of \$0.8 million for the year ended December 31, 2015 compared with realized losses of \$17.4 million in 2014. Further discussion on these gains and losses is set out under “Investment Holdings” below.

## INVESTMENT HOLDINGS

The Company owns securities, interests in two private equity funds, loans and a ferry business.

The Company’s equity holdings generated dividends of \$3.7 million in the year ended December 31, 2015 compared to \$6.6 million in 2014. This decrease is mainly due to the sale of our investment in Supremex Inc.

The Company’s debt and cash holdings generated interest income of \$2.7 million in the year ended December 31, 2015 compared to \$4.1 million in 2014. This decrease is mainly due to the repayment of loans and sales of publicly-traded debentures in 2015.

## Securities Portfolio

The Company's securities portfolio consisted of the following investments:

|  | December 31, 2015       |                       |                           |       | December 31, 2014       |                       |                           |       |
|--|-------------------------|-----------------------|---------------------------|-------|-------------------------|-----------------------|---------------------------|-------|
|  | Shares or<br>face value | Market<br>Price<br>\$ | Market<br>value<br>\$'000 | %     | Shares or<br>face value | Market<br>Price<br>\$ | Market<br>value<br>\$'000 | %     |
| Energy Securities Portfolio              | N/A                     | N/A                   | 24,076                    | 21.2  | N/A                     | N/A                   | 2,647                     | 2.9   |
| Holloway shares                          | 7,874,815               | 5.01                  | 39,453                    | 34.8  | 6,874,815               | 6.00                  | 41,249                    | 46.2  |
| Holloway 6.25%<br>Convertible Debentures | 11,584,000              | 0.86                  | 9,962                     | 8.8   | 11,604,000              | 0.875                 | 10,154                    | 11.4  |
| Holloway 7.50%<br>Convertible Debentures | —                       | —                     | —                         | —     | 6,232,000               | 0.970                 | 6,045                     | 6.8   |
| Keck Seng Investments Ltd.               | 4,292,000               | 1.14                  | 4,893                     | 4.3   | —                       | —                     | —                         | —     |
| Terravest shares                         | 5,000,000               | 6.84                  | 34,200                    | 30.2  | 5,000,000               | 5.85                  | 29,250                    | 32.7  |
| Undisclosed investment                   | N/A                     | N/A                   | 785                       | 0.7   | —                       | —                     | —                         | —     |
| Carrying value of securities             |                         |                       | 113,369                   | 100.0 |                         |                       | 89,345                    | 100.0 |

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

|   | Year ended<br>December 31, 2015<br>\$ |
|---|---------------------------------------|
| Securities – beginning of year  | 89.3                                  |
| Purchases   | 44.9                                  |
| Proceeds on sale  | (7.5)                                 |
| Realized and unrealized losses on securities (including foreign exchange gains) | (13.3)                                |
| Securities – end of year  | 113.4                                 |

***Energy Basket:*** Following the precipitous decline in oil prices in the fourth quarter of 2014, we started to acquire select securities of companies related to the oil and gas industry. We believe that recent oil prices (low-\$30 range per WTI barrel) are too low to warrant substantial investment in replacing existing production or developing new production (as well as being too low for many oil companies to stay solvent) and that the dramatic decline in oil prices will lead to some increase in the demand for oil. Our belief is that the confluence of these factors will, over time, lead to higher oil prices and higher security prices for well positioned companies, including those in our energy basket. While many oil and gas related assets deserve to trade at distressed valuations, there are also numerous assets that are trading at distressed valuations undeservedly. Reinforcing this view is that most recent acquisitions of public companies or a substantial portion of public company assets have occurred at prices substantially above the companies' security prices. We believe the securities in our energy basket fall into the latter group of undeservedly cheap securities.

Our present intention is to continue acquiring 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. Our preference with respect to further securities purchases is to purchase (i) well-priced equity securities rather than well-priced debt securities, and (ii) securities of oil service firms rather than E&P firms. During the fourth quarter we acquired \$2.4 million of securities, all of which were additional purchases of existing energy investments. At the end of the fourth quarter, our energy basket consisted of securities in six energy related companies.



**Holloway:** Like most other companies with operations in Western Canada, Holloway has been affected by declining energy prices. However, we believe the current share price decline overlooks several positive developments at the company. In particular, Holloway has completed the upgrading and rebranding of its two largest hotels, the Doubletree® hotel in London, Ontario (formerly the Hilton® hotel) and the Holiday Inn® hotel in Ottawa, Ontario (formerly the non-branded Chimo hotel). In our view, the incremental net operating income of these two hotels should offset any declines in net operating income associated with the Western Canadian hotels. In addition, because each of these hotels is located in a metropolitan market that attracts low capitalization rates, the improvement in these properties can result in substantial value creation at the company. Additionally, Holloway has been actively repurchasing its shares and debentures in the open market, which should positively affect securityholders over time. Holloway continues to be the cheapest publicly-traded hotel company in Canada yet it has a much stronger balance sheet and much better operating margins than its peers.

**Terravest:** In 2015 Terravest performed very well despite having approximately 50% of its business exposed to the Western Canadian energy industry. The company's strong performance was largely a result of strong demand for its fuel containment products and large backlogs in its oil and gas related businesses. We expect that in 2016 Terravest's Western Canadian businesses will start to feel the effects of the prolonged oil downturn. That being said, we believe this downturn will present Terravest with ample opportunity to grow its portfolio of businesses, particularly oil and gas related businesses, at very attractive prices. We note that in the most recent quarter Terravest acquired the assets of a specialized tank manufacturer in Western Canada by way of purchasing the company's secured debt. This is an example of the type of opportunistic acquisitions we expect the oil downturn to present and of which Terravest to take advantage. Despite the weak energy industry in Canada Terravest continues to generate strong cash flow and repay debt. The company remains undervalued in our view and any further opportunistic transactions will only strengthen this view.

#### **Other Investments**

We currently have \$3.2 million invested in two private equity funds, which management considers to be legacy investments. We also own a passenger/car ferry operating on the St. Lawrence River under contract with the Government of Québec since 1973. There were no material developments with these assets during the year.

During the year, the Company completed the sale of the *MV Shamrock* and received net proceeds of US\$4.6 million (Cdn. \$5.6 million) resulting in a gain on sale of \$0.6 million for the year ended December 31, 2015.

#### **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.

On February 15, 2014, the Company completed the sale of Jerico. 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 2015 this promissory note was repaid in full. 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.

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. There were no discontinued operations in 2015.

#### **NORMAL COURSE ISSUER BIDS**

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

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 end of 2014.

In May 2015, Clarke announced that it had received approval from the TSX to conduct a NCIB to purchase for cancellation up to 822,430 Common Shares, representing 5% of the issued and outstanding Common Shares as at that date. The NCIB commenced on May 27, 2015 and Clarke repurchased all 822,430 Common Shares permitted by the end of 2015.

### **SUBSTANTIAL ISSUER BIDS**

In December 2014, the Company initiated a SIB, pursuant to which the Company offered to purchase for cancellation up to 2,500,000 of its issued and outstanding Common Shares at a price of \$9.50 per common share. The offer was open for acceptance until January 2015 at which time 665,330 Common Shares were tendered and taken up by the Company and cancelled.

In February 2015, the Company initiated another SIB, pursuant to which the Company offered to purchase for cancellation up to 2,000,000 of its issued and outstanding Common Shares at a price of \$10.00 per common share. The offer was open for acceptance until April 2015 at which time 2,379,042 Common Shares were tendered and taken up by the Company and cancelled.

### **OUTSTANDING SHARE DATA**

At February 23, 2016, the Company had:

- An unlimited number of Common Shares authorized and 15,626,175 Common Shares outstanding; and
- An unlimited number of First and Second Preferred Shares authorized and none outstanding.
- 500,000 options to acquire Common Shares outstanding, 166,667 of which are vested and exercisable.

### **LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2015, the Company's cash position was \$42.1 million compared to \$79.1 million at December 31, 2014. This decrease in cash is mainly a result of share repurchases and security purchases during the year.

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

Cash provided by operating activities was \$3.1 million for the year ended December 31, 2015, compared to \$5.5 million provided in 2014. This decrease was mainly due to the reduction of dividends and interest earned in 2015 compared to 2014 of \$2.9 million and \$1.4 million, respectively. This decrease was partially offset by a decrease in the Company's general and administrative expenses.

At December 31, 2015, working capital excluding securities was \$39.3 million, compared to \$79.0 million at December 31, 2014. 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 \$7.6 million was provided by investing activities during the year ended December 31, 2015, compared to \$62.2 million provided in 2014. Net cash provided by investing activities during the year was mainly a result of the net repayment of loans (proceeds less advances) to Clarke in the amount of \$38.4 million and the receipt of \$5.6 million on the sale of the *MV Shamrock*. This was partially offset by net purchases of investments (purchases less sales) in the amount of \$37.4 million during the year. Cash provided by investing activities for the year ended December 31, 2014 primarily consisted of proceeds received on net sales of investments (sales less purchases) in the amount of \$68.8 million, partially offset by net advances of notes receivable in the amount of \$10.1 million during the year.

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

Net cash used in financing activities was \$47.6 million for the year ended December 31, 2015, compared to \$87.4 million used in 2014. Net cash used in financing activities during the year was mainly related to the repurchase of Common Shares of \$40.0 million and the payment of dividends in the amount of \$7.0 million. Cash used in financing activities for the year

ended December 31, 2014 primarily consisted of the repayment of short term indebtedness in the amount of \$35.9 million, the redemption and repurchase of convertible debentures in the amount of \$30.7 million, the repurchase of Common Shares for \$12.5 million and the payment of dividends in the amount of \$7.6 million.

### Available capital under credit facilities

The Company has access to credit facilities where certain of the Company's securities are pledged as collateral. At December 31, 2015, \$29.4 million was available under these facilities 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.

### Cash flow from discontinued operations

There were no cash activities of discontinued operations during the year ended December 31, 2015. For the year ended December 31, 2014 net cash provided by operating activities of discontinued operations was \$0.2 million which related to 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 which was mainly due to the cash proceeds received on the sale of the Company's freight transport business; and net cash used in financing activities of discontinued operations was \$2.7 million and 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<br>\$ | Less than    |                   |                   |                     |
|-------------------------|-------------|--------------|-------------------|-------------------|---------------------|
|                         |             | 1 year<br>\$ | 1 – 3 years<br>\$ | 3 - 5 years<br>\$ | After 5 years<br>\$ |
| Long-term debt          | 2.4         | 0.6          | 1.3               | 0.5               | —                   |
| Operating leases        | 0.7         | 0.2          | 0.4               | —                 | 0.1                 |
|                         | 3.1         | 0.8          | 1.7               | 0.5               | 0.1                 |

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 securities, depending upon the type of instrument, with certain market value restrictions. At December 31, 2015 and 2014, Clarke had drawn nil under these facilities and had a total cash availability of \$29.4 million (2014 – \$20.0 million) (*see note 20 to the consolidated financial statements for the year ended December 31, 2015*).

### Unrecorded commitments

At December 31, 2015, 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, 2015, and in note 12 to the consolidated financial statements for the year ended December 31, 2015.
- Other commitments, as discussed in note 12 to the consolidated financial statements for the year ended December 31, 2015.

## FOURTH QUARTER

A comparison of results for the three months ended December 31, 2015, compared to three months ended December 31, 2014, is as follows:

|   | Three months ended<br>December 31, 2015 | Three months ended<br>December 31, 2014 |
|---|---|---|
|   | \$                                      | \$                                      |
| <b>Revenue</b>  |   |   |
| Unrealized gains on investments   | 6.1                                     | 4.6                                     |
| Realized losses on investments  | —                                       | (14.0)                                  |
| Dividend income   | 1.0                                     | 1.0                                     |
| Interest income   | 0.5                                     | 1.2                                     |
| Provision of services   | 1.4                                     | 1.7                                     |
| Pension recovery  | —                                       | 0.1                                     |
| Other income  | 0.3                                     | 0.2                                     |
|   | <b>9.3</b>                              | <b>(5.2)</b>                            |
| <b>Expenses</b>   |   |   |
| Cost of services provided   | 1.1                                     | 1.5                                     |
| General and administrative expenses   | 0.6                                     | 1.3                                     |
| Share-based payment expense   | 0.1                                     | —                                       |
| Depreciation and amortization   | 0.1                                     | 0.1                                     |
| Interest expense  | —                                       | 0.1                                     |
| Income (loss) before income taxes   | 7.4                                     | (8.2)                                   |
| Provision for (recovery of) income taxes                                      | 0.8                                     | (1.8)                                   |
| Income (loss) from continuing operations                                      | 6.6                                     | (6.4)                                   |
| Loss from discontinued operations, net of tax                                 | —                                       | (0.3)                                   |
| Equity in earnings from discontinued operations of joint ventures, net of tax | —                                       | 0.1                                     |
| Net income (loss) attributable to equity holders of the Company               | 6.6                                     | (6.6)                                   |
| Comprehensive income (loss) attributable to equity holders of the Company     | 9.3                                     | (6.8)                                   |

Fourth quarter revenue increased as a result of an increase in the fair value of the Company's portfolio of publicly-traded securities. Net realized and unrealized gains on investments for the fourth quarter of 2015 were \$6.1 million compared to losses of \$9.4 million for the same period in 2014. Interest income for the fourth quarter of 2015 was \$0.5 million compared to \$1.2 million for the same period in 2014 mainly due to the reduction of loans receivable and sales of publicly-traded debentures in 2015. Expenses during the fourth quarter decreased by \$1.1 million compared to the same period in 2014 mainly due to a decrease of corporate overheads. The Company had income from continuing operations of \$6.6 million in the fourth quarter of 2015 compared to a loss of \$6.4 million in the same period in 2014. This again was largely driven by the increase in unrealized gains on investments during the period. Comprehensive income for the fourth quarter was \$9.3 million compared to a comprehensive loss of \$6.8 million for the same period in 2014.

For the three months ended December 31, 2015, Clarke's basic EPS was \$0.42, compared to a basic loss per share of \$0.33 for the same period in 2014.

Net cash provided by operating activities was nominal for the fourth quarter of 2015, compared to \$1.2 million provided in the same period in 2014. Cash flow provided in the fourth quarter of 2015 by dividends and interest was mostly offset by an increase in working capital. Cash flow provided by operations in the fourth quarter of 2014 was mainly due to dividends and interest received on investments and notes receivable.

Net cash used in investment activities was \$2.1 million in the fourth quarter of 2015, compared to net cash provided of \$40.1 million in the same period in 2014. Net purchases (purchases less sales) of securities in the fourth quarter of 2015 totalled \$2.4 million compared to net sales of \$33.9 million in the fourth quarter of 2014. The Company also received \$5.9 million in repayments of loans receivable in the fourth quarter of 2014.

Net cash used in financing activities for the fourth quarter of 2015 was \$1.8 million compared to net cash used of \$4.9 million for the same period in 2014. During the fourth quarter of 2015 the Company paid its quarterly dividend.

There was no cash activities related to discontinued operations for the fourth quarter of 2015 or 2014.

## SUMMARY OF QUARTERLY RESULTS

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

| <i>Three months ended</i>                           | <b>Mar.<br/>2014</b> | <b>Jun.<br/>2014</b> | <b>Sept.<br/>2014</b> | <b>Dec.<br/>2014</b> | <b>Mar.<br/>2015</b> | <b>Jun.<br/>2015</b> | <b>Sept.<br/>2015</b> | <b>Dec.<br/>2015</b> |
|---|----------------------|----------------------|-----------------------|----------------------|----------------------|----------------------|-----------------------|----------------------|
|   | \$                   | \$                   | \$                    | \$                   | \$                   | \$                   | \$                    | \$                   |
| Revenue   | 16.0                 | 24.4                 | 20.5                  | (5.2)                | 7.4                  | 0.5                  | (16.7)                | 9.3                  |
| Income (loss) from continuing operations            | 13.3                 | 19.9                 | 16.4                  | (6.4)                | 3.6                  | (1.9)                | (19.3)                | 6.6                  |
| Income (loss) from discontinued operations *        | 59.7                 | —                    | —                     | (0.3)                | —                    | —                    | —                     | —                    |
| Net income (loss)                                   | 73.0                 | 19.9                 | 16.4                  | (6.6)                | 3.6                  | (1.9)                | (19.3)                | 6.6                  |
| Other comprehensive income (loss)                   | (3.8)                | (0.2)                | 1.1                   | (0.2)                | 1.2                  | (0.1)                | (1.5)                 | 2.7                  |
| Comprehensive income (loss)                         | 69.2                 | 19.7                 | 17.5                  | (6.8)                | 4.8                  | (2.0)                | (20.8)                | 9.3                  |
| Basic EPS from continuing operations (in dollars)   | 0.73                 | 1.00                 | 0.83                  | (0.32)               | 0.19                 | (0.12)               | (1.24)                | 0.42                 |
| Diluted EPS from continuing operations (in dollars) | 0.57                 | 0.94                 | 0.83                  | (0.32)               | 0.19                 | (0.12)               | (1.24)                | 0.42                 |
| Basic EPS (in dollars)                              | 4.01                 | 1.00                 | 0.83                  | (0.33)               | 0.19                 | (0.12)               | (1.24)                | 0.42                 |
| Diluted EPS (in dollars)                            | 3.03                 | 0.94                 | 0.83                  | (0.33)               | 0.19                 | (0.12)               | (1.24)                | 0.42                 |

\* *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. 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, 2015:

- 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 (2014 – \$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 \$0.4 million (2014 – \$0.3 million) for services provided to the pension plans during the year.
- The Company provides information technology services to related companies. Included in ‘*Provision of services*’ is \$0.4 million (2014 – nil) for services provided during the year.
- The Company had a promissory note receivable from Terravest, a security investment, as a result of the sale of Jerico. The note was repaid in full during the year. Included in ‘*Interest income*’ for the year ended December 31, 2015 is \$0.4 million (2014 – \$1.4 million) 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.
- The Company had a credit facility to lend \$6.0 million to Holloway, maturing on or before December 31, 2015, at an interest rate of 7.00%. The facility was repaid in full during the year. Included in ‘*Interest income*’ for the year ended December 31, 2015 is nil (2014 – \$0.2 million). The Company also had a term loan agreement to lend \$17.0 million to Holloway, maturing March 31, 2016, at an interest rate of 6.50%. The term loan was repaid in full during the year. Included in ‘*Interest income*’ for the year ended December 31, 2015 is \$0.3 million (2014 – \$0.5 million).

- During the year ended December 31, 2015, the Clarke pension plans, which are administered by the Company, entered into various foreign exchange contracts, due to be settled in 2016 for the purpose of hedging certain foreign currency exposure. The Clarke pension plans used Clarke's existing lending facilities to facilitate certain of these foreign exchange contracts.

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

| Year ended December 31, 2015 | Board of directors | Officers | Total      |
|------------------------------|--------------------|----------|------------|
|                              | \$                 | \$       | \$         |
| Salary and fees              | 0.1                | 0.6      | <b>0.7</b> |
| Bonus                        | —                  | 0.1      | <b>0.1</b> |
| Pension value                | 0.9                | —        | <b>0.9</b> |
| Total                        | 1.0                | 0.7      | <b>1.7</b> |

## FINANCIAL INSTRUMENTS

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

- To generate investment returns, the Company will invest in equity, debt and other securities. These instruments may have interest rate, market, credit and foreign exchange risk associated with them.
- To manage foreign exchange, interest rate and general market risk, the Company may enter into futures and forward exchange contracts. These instruments may have interest, market, credit and foreign exchange risk associated with them. As the Canadian dollar depreciated during the year, Clarke decided to hedge its foreign currency exposure on U.S. dollar denominated investments. Clarke anticipates continuing this policy for the foreseeable future.

As an investment company, Clarke has a significant number of financial instruments. Notes 1, 4, 5, 8, 11, 20, and 21 to the consolidated financial statements for the year ended December 31, 2015 and the Company's AIF dated February 23, 2016, 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 business is hotel ownership. Holloway owns 35 hotels comprising 3,967 rooms. As of December 31, 2015, Clarke owned 40.7% of the outstanding shares of Holloway and \$11.6 million principal amount of 6.25% convertible debentures.

| Selected Financial Information (audited) | Year ended<br>December 31, 2014 | Year ended<br>December 31, 2013 |
|--|---------------------------------|---------------------------------|
|  | \$                              | \$                              |
| Total assets                             | <b>382.4</b>                    | 199.4                           |
| Total liabilities                        | <b>264.5</b>                    | 114.0                           |
| Shareholders' equity                     | <b>117.9</b>                    | 85.4                            |
| Total revenue                            | <b>97.5</b>                     | 60.0                            |
| Net income                               | <b>27.3</b>                     | 4.5                             |

## 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, 2015, Clarke owned 27.7% of the outstanding shares of Terravest.

| Selected Financial Information (audited) | Year ended         | Year ended         |
|--|--------------------|--------------------|
|  | September 30, 2015 | September 30, 2014 |
|  | \$                 | \$                 |
| Total assets                             | 192.5              | 171.1              |
| Total liabilities                        | 102.2              | 91.0               |
| Shareholders' equity                     | 90.3               | 80.1               |
| Total revenue                            | 195.0              | 131.6              |
| Net income                               | 15.6               | 8.9                |

## 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, 2015, 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 GAAP. 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 (2013).

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, 2015 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 Company's ferry.

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 the Company's 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 at the date of the statement of financial position by the number of Common Shares outstanding at that date. Clarke's method of determining this amount may differ from other companies' methods and, accordingly, this amount may not be comparable to measures used by other companies. This amount is not a performance measure 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", "budgets", "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, the future price of oil and value of securities held in the Company's energy basket, 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 investment in a ferry operation, 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**

Please refer to notes 1 and 2 to our consolidated financial statements for the year ended December 31, 2015 for a detailed discussion regarding our significant accounting policies and application of significant accounting judgments, estimates and assumptions. Such changes are reflected in the assumptions when they occur.

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

Loans receivable 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.



## ***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. Further details about the assumptions used are disclosed in note 7.

## ***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.

## **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, 2018. The Company is currently evaluating the impact of the new standard.

### ***IFRS 16 Leases***

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize: 1) assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value and 2) depreciation of lease assets separately from interest on lease liabilities on the statements of earnings. The standard is effective for annual periods beginning on or after January 1, 2019. 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 has evaluated the amendment and there will be no impact to the financial statements when adopted.

### ***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 has evaluated the amendment and there will be no impact to the financial statements when adopted.

**Clarke Inc.**

December 31, 2015 and 2014



February 23, 2016

## **Independent Auditor's Report**

### **To the Shareholders of Clarke Inc.**

We have audited the accompanying consolidated financial statements of Clarke Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statements of earnings, comprehensive income (loss), cash flows and shareholders' equity for the year then ended, and the related notes, which comprise 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 audit. We conducted our audit 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 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. and its subsidiaries as at December 31, 2015 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Other matter**

The financial statements of Clarke Inc. for the year ended December 31, 2014 were audited by another auditor who expressed an unmodified opinion on those financial statements on February 23, 2015.

*(signed) "PricewaterhouseCoopers LLP"*

### **Chartered Accountants**

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*PricewaterhouseCoopers LLP  
1601 Lower Water Street, Suite 400, Halifax, Nova Scotia, Canada B3J 3P6  
T: +1 902 491 7400, F: +1 902 422 1166*

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

As at December 31

2015  
\$2014  
\$

|   | 2015<br>\$     | 2014<br>\$     |
|---|----------------|----------------|
| <b>ASSETS</b>                                     |                |                |
| <b>Current</b>                                    |                |                |
| Cash and cash equivalents                         | 42,130         | 79,061         |
| Marketable securities (note 4)                    | 113,369        | 89,345         |
| Receivables                                       | 1,100          | 2,204          |
| Prepaid expenses                                  | 78             | 290            |
| Income taxes receivable                           | 22             | 51             |
| Short-term loans receivable                       | —              | 4,500          |
| <b>Total current assets</b>                       | <b>156,699</b> | <b>175,451</b> |
| Loans receivable (note 5)                         | 1,224          | 35,000         |
| Accrued pension benefit asset (note 6)            | 32,708         | 29,823         |
| Fixed assets and investment properties (note 7)   | 4,092          | 9,941          |
| Long-term investments (note 8)                    | 3,173          | 3,761          |
| Deferred income tax assets (note 9)               | 704            | 2,496          |
| Royalty assets                                    | 344            | —              |
| <b>Total assets</b>                               | <b>198,944</b> | <b>256,472</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |                |                |
| <b>Current</b>                                    |                |                |
| Accounts payable and accrued liabilities          | 1,736          | 4,504          |
| Dividends payable (note 10)                       | 1,563          | 1,949          |
| Income taxes payable                              | 60             | 32             |
| Current portion of long-term debt (note 11)       | 644            | 644            |
| <b>Total current liabilities</b>                  | <b>4,003</b>   | <b>7,129</b>   |
| Long-term debt (note 11)                          | 1,719          | 2,363          |
| Deferred income tax liabilities (note 9)          | 2,421          | 1,882          |
| <b>Total liabilities</b>                          | <b>8,143</b>   | <b>11,374</b>  |
| Commitments and contingencies (note 12)           |                |                |
| <b>Shareholders' equity</b>                       |                |                |
| Share capital (note 10)                           | 50,654         | 63,189         |
| Retained earnings                                 | 130,431        | 175,574        |
| Accumulated other comprehensive income (note 13)  | 8,616          | 6,335          |
| Share-based payments (note 14)                    | 1,100          | —              |
| <b>Total shareholders' equity</b>                 | <b>190,801</b> | <b>245,098</b> |
| <b>Total liabilities and shareholders' equity</b> | <b>198,944</b> | <b>256,472</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

2015

2014

\$

\$

**Revenue**

|  |            |               |
|--|------------|---------------|
| Unrealized gains (losses) on investments | (15,534)   | 46,628        |
| Realized gains (losses) on investments   | 838        | (17,364)      |
| Dividend income                          | 3,669      | 6,604         |
| Interest income                          | 2,665      | 4,126         |
| Provision of services                    | 7,303      | 8,514         |
| Pension recovery (note 6)                | 99         | 3,752         |
| Other income (note 15)                   | 1,513      | 3,481         |
|  | <b>553</b> | <b>55,741</b> |

**Expenses**

|                                       |              |               |
|---------------------------------------|--------------|---------------|
| Cost of services provided             | 4,135        | 5,946         |
| General and administrative expenses   | 3,262        | 3,784         |
| Share-based payment expense (note 14) | 1,100        | 137           |
| Impairment of fixed assets (note 7)   | —            | 1,243         |
| Depreciation and amortization         | 437          | 956           |
| Interest expense (note 16)            | 132          | 1,134         |
|                                       | <b>9,066</b> | <b>13,200</b> |

|   |                 |                |
|---|-----------------|----------------|
| Income (loss) before equity in earnings of joint ventures and income taxes    | (8,513)         | 42,541         |
| Equity in earnings of joint ventures (note 8)                                 | —               | 462            |
| Income (loss) before income taxes   | (8,513)         | 43,003         |
| Provision for (recovery of) income taxes (note 9)                             | 2,556           | (247)          |
| Income (loss) from continuing operations                                      | (11,069)        | 43,250         |
| Income from discontinued operations, net of tax (note 17)                     | —               | 59,404         |
| Equity in earnings from discontinued operations of joint ventures, net of tax | —               | 47             |
| Net income (loss)   | <b>(11,069)</b> | <b>102,701</b> |

Attributable to:

|                               |                 |                |
|-------------------------------|-----------------|----------------|
| Equity holders of the Company | (11,069)        | 102,646        |
| Non-controlling interest      | —               | 55             |
|                               | <b>(11,069)</b> | <b>102,701</b> |

**Basic earnings (loss) per share attributable to equity holders of the Company:***(in dollars) (note 10)*

|  |        |      |
|--|--------|------|
| Income (loss) from continuing operations | (0.66) | 2.23 |
| Income from discontinued operations      | —      | 3.06 |
| Net income (loss)                        | (0.66) | 5.29 |

**Diluted earnings (loss) per share attributable to equity holders of the Company:***(in dollars) (note 10)*

|  |        |      |
|--|--------|------|
| Income (loss) from continuing operations | (0.66) | 1.85 |
| Income from discontinued operations      | —      | 2.45 |
| Net income (loss)                        | (0.66) | 4.30 |

*See accompanying notes to the consolidated financial statements*

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

Years ended December 31

2015  
\$2014  
\$

|  |                 |                |
|--|-----------------|----------------|
| <b>Net income (loss)</b>   | <b>(11,069)</b> | 102,701        |
| <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 6)</i>             | 2,786           | (3,588)        |
| <b>Total items that will not be reclassified to profit or loss</b>   | <b>2,786</b>    | <b>(3,588)</b> |
| <b>Items that may be or have been reclassified subsequently to profit or loss</b>  |                 |                |
| Unrealized gains on translation of net investment in foreign operations  | 521             | 483            |
| Reclassification adjustment for realized translation gains on disposal of net investment in foreign operations <i>(note 7)</i> | (1,026)         | —              |
| <b>Total items that may be or have been reclassified subsequently to profit or loss</b>  | <b>(505)</b>    | <b>483</b>     |
| <b>Other comprehensive income (loss)</b>   | <b>2,281</b>    | <b>(3,105)</b> |
| <b>Comprehensive income (loss)</b>   | <b>(8,788)</b>  | <b>99,596</b>  |
| Attributable to:   |                 |                |
| Equity holders of the Company  | (8,788)         | 99,541         |
| Non-controlling interest   | —               | 55             |
|  | <b>(8,788)</b>  | <b>99,596</b>  |

*See accompanying notes to the consolidated financial statements*

**Clarke Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands of Canadian dollars)

Years ended December 31

|  | 2015            | 2014            |
|--|-----------------|-----------------|
|  | \$              | \$              |
| <b>OPERATING ACTIVITIES</b>  |                 |                 |
| Income (loss) from continuing operations                             | (11,069)        | 43,250          |
| Adjustments for items not involving cash (note 18)                   | 16,249          | (35,149)        |
|  | 5,180           | 8,101           |
| Net change in non-cash working capital balances (note 18)            | (2,107)         | (2,562)         |
| <b>Net cash provided by operating activities</b>                     | <b>3,073</b>    | <b>5,539</b>    |
| <b>INVESTING ACTIVITIES</b>  |                 |                 |
| Proceeds on disposition of marketable securities                     | 7,543           | 113,081         |
| Purchase of marketable securities                                    | (44,927)        | (44,325)        |
| Advances of loans receivable   | (7,139)         | (16,000)        |
| Repayments of loans receivable                                       | 45,575          | 5,915           |
| Proceeds on disposition of fixed assets                              | 5,598           | 2,117           |
| Purchase of fixed assets   | (135)           | (150)           |
| Return of capital (net of purchases) of long-term investments        | 1,448           | 358             |
| Purchase of royalty assets   | (344)           | —               |
| Dividends from joint ventures  | 16              | 1,190           |
| <b>Net cash provided by investing activities</b>                     | <b>7,635</b>    | <b>62,186</b>   |
| <b>FINANCING ACTIVITIES</b>  |                 |                 |
| Repurchase of shares for cancellation (note 10)                      | (39,996)        | (12,502)        |
| Dividends paid (note 10)   | (6,999)         | (7,640)         |
| Repayment of long-term debt  | (644)           | (644)           |
| Net repayment of short-term indebtedness                             | —               | (35,906)        |
| Redemption and repurchase of convertible debt for cancellation       | —               | (30,718)        |
| <b>Net cash used in financing activities</b>                         | <b>(47,639)</b> | <b>(87,410)</b> |
| Net cash used in continuing operations                               | (36,931)        | (19,685)        |
| Net cash provided by operating activities of discontinued operations | —               | 155             |
| Net cash provided by investing activities of discontinued operations | —               | 99,278          |
| Net cash used in financing activities of discontinued operations     | —               | (2,676)         |
| <b>Net change in cash during the year</b>                            | <b>(36,931)</b> | <b>77,072</b>   |
| Cash and cash equivalents, beginning of year                         | 79,061          | 1,989           |
| <b>Cash and cash equivalents, end of year</b>                        | <b>42,130</b>   | <b>79,061</b>   |

See accompanying notes to the consolidated financial statements



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

Years ended December 31

|             |      |
|-------------|------|
| <b>2015</b> | 2014 |
| \$          | \$   |

|  | 2015            | 2014    |
|--|-----------------|---------|
|  | \$              | \$      |
| <b>Share capital</b>   |                 |         |
| Common shares:   |                 |         |
| Balance at beginning of year   | <b>63,189</b>   | 42,701  |
| Common shares issued upon conversion of convertible debt <i>(note 10)</i>  | —               | 24,434  |
| Common shares repurchased for cancellation <i>(note 10)</i>  | <b>(12,535)</b> | (3,946) |
| Balance at end of year   | <b>50,654</b>   | 63,189  |
| <b>Retained earnings</b>   |                 |         |
| Balance at beginning of year   | <b>175,574</b>  | 91,783  |
| Net income (loss) attributable to equity holders of the Company  | <b>(11,069)</b> | 102,646 |
| Dividends declared <i>(note 10)</i>  | <b>(6,613)</b>  | (9,589) |
| Purchase price in excess of the historical book value of common shares repurchased for cancellation <i>(note 10)</i> | <b>(27,461)</b> | (8,556) |
| Purchase price in excess of average book value of convertible debentures redeemed or repurchased for cancellation    | —               | (710)   |
| Balance at end of year   | <b>130,431</b>  | 175,574 |
| <b>Accumulated other comprehensive income, net of tax <i>(note 13)</i></b>   |                 |         |
| Balance at beginning of year   | <b>6,335</b>    | 9,440   |
| Other comprehensive income (loss)  | <b>2,281</b>    | (3,105) |
| Balance at end of year   | <b>8,616</b>    | 6,335   |
| <b>Share-based payments</b>  |                 |         |
| Balance at beginning of year   | —               | 580     |
| Share-based payment expense <i>(note 14)</i>   | <b>1,100</b>    | —       |
| Sale of subsidiary with share-based payments   | —               | (580)   |
| Balance at end of year   | <b>1,100</b>    | —       |
| <b>Equity portion of convertible debentures</b>  |                 |         |
| Balance at beginning of year   | —               | 2,356   |
| Reduction upon the redemption, repurchase or conversion of convertible debentures, net of tax                        | —               | (2,356) |
| Balance at end of year   | —               | —       |
| <b>Total shareholders' equity attributable to equity holders of the Company</b>                                      | <b>190,801</b>  | 245,098 |
| <b>Non-controlling interest</b>  |                 |         |
| Balance at beginning of year   | —               | 7,793   |
| Reduction upon the sale of subsidiary with non-controlling interest  | —               | (7,793) |
| Balance at end of year   | —               | —       |
| <b>Total shareholders' equity</b>  | <b>190,801</b>  | 245,098 |

*See accompanying notes to the consolidated financial statements*

## **Clarke Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 and 2014

*(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, 2016.

### **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.

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 2.

### **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 and La Traverse Rivière-du-Loup – St-Siméon Limitée. 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. The Company does not have any private investments subject to significant influence or joint ventures as at December 31, 2015.

## **Clarke Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 and 2014

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

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

### **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**

Intangible assets are initially recorded at fair value which is the consideration paid at the time of purchase. Intangible assets with finite lives are amortized over their estimated useful lives as the benefit of the intangible asset is received. The Company's intangible assets include royalty assets.

### **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 from the Company's ferry business is recognized upon provision of those services and customer acceptance of those services.

### **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.

## **Clarke Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 and 2014

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

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

### **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 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:

- 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.

**Clarke Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 and 2014

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

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

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.

**Sales tax**

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

- 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 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.

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

December 31, 2015 and 2014

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

*\*Prior to sale in 2015.*

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.

**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.

**Operating segments**

The Company operates in one reporting segment, the Investment segment, which includes investments in a diversified group of businesses, operating primarily in Canada.

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 and 2014

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

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

#### **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, loans receivable and long-term investments.

###### **Subsequent measurement**

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

###### *Loans receivable*

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans 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 interest 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.

###### *Financial assets at fair value through profit or loss*

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.

###### *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.

**Clarke Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 and 2014

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

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

*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 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.

**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, and 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.



## **Clarke Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 and 2014

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

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

### **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 21.

### **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.

## **Clarke Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 and 2014

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

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

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 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.

### **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 comprises the fair value of plan assets out of which the obligations are to be settled less the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds, as explained in note 2). 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.

### **Provisions**

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.

### **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, 2015 and 2014

*(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. 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.

#### **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. 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. 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.

**Clarke Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 and 2014

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

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

*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*

Loans receivable 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.

*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.

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 and 2014

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

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

#### *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 7.

#### *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.

### **3. 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, 2018. 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 has evaluated the amendment and there will be no impact to the consolidated financial statements when adopted.

## Clarke Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

### 3. STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONT'D)

#### IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize: 1) assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value and 2) depreciation of lease assets separately from interest on lease liabilities on the statements of earnings. The standard is effective for annual periods beginning on or after January 1, 2019. 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 has evaluated the amendment and there will be no impact to the consolidated financial statements when adopted.

### 4. MARKETABLE SECURITIES

The Company's marketable securities include publicly traded equities and convertible debentures measured at fair value through profit or loss.

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.

### 5. LOANS RECEIVABLE

The Company's loans receivables are as follows:

|  | 2015  | 2014   |
|--|-------|--------|
|  | \$    | \$     |
| 10.0% loan, maturing December 17, 2017                 | 1,224 | —      |
| 6.5% loan from Terravest, maturing February 15, 2017 * | —     | 19,000 |
| 6.5% loan from Holloway, maturing on March 31, 2016 *  | —     | 16,000 |
|  | 1,224 | 35,000 |

\* Repaid prior to maturity in 2015.

During the year ended December 31, 2015, the Company entered into a loan agreement to advance up to US\$2,750 to fund the construction of a 17 unit townhome development in Atlanta, Georgia. The loan has a stated interest rate of 10% and is secured by a second charge on land and improvements. The loan matures December 17, 2017 with an option to extend for one year. As at December 31, 2015, the loan had a face value of \$1,634 and a carrying value of \$1,224 with the difference being accreted to income over the term of the loan using the effective interest rate method.

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

December 31, 2015 and 2014

*(in thousands of Canadian dollars, except per share amounts)***6. 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, 2014.

As of January 1, 2014, upon the sale of the Freight Transport Business (note 17), all active members of the Pension Plan for the Employees of Clarke Inc. and of the Clarke Group Pension Plan (the "Clarke Pension Plans") 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, 2015, consisting of cash contributed by the Company to its RRSP matching pension plans were \$131 (2014 – \$110).

**Defined benefit plan assets**

|                                   | Pension benefits |         |
|-----------------------------------|------------------|---------|
|                                   | 2015             | 2014    |
|                                   | \$               | \$      |
| <b>Fair value of plan assets:</b> |                  |         |
| Balance, beginning of year        | 98,652           | 96,224  |
| Interest income                   | 3,899            | 4,460   |
| Employee contributions            | 2                | 25      |
| Benefits paid                     | (2,347)          | (5,277) |
| Non-investment management fees    | (542)            | (427)   |
| Remeasurement gains               | 984              | 3,647   |
| Balance, end of year              | <b>100,648</b>   | 98,652  |

**Defined benefit plan obligations**

|                                    | Pension benefits |         |
|------------------------------------|------------------|---------|
|                                    | 2015             | 2014    |
|                                    | \$               | \$      |
| <b>Accrued benefit obligation:</b> |                  |         |
| Balance, beginning of year         | 47,477           | 48,090  |
| Current service cost               | 531              | 458     |
| Past service costs                 | —                | (3,284) |
| Interest cost                      | 1,874            | 2,014   |
| Employee contributions             | 2                | 25      |
| Benefits paid                      | (2,347)          | (5,277) |
| Remeasurement losses               | 576              | 5,451   |
| Balance, end of year               | <b>48,113</b>    | 47,477  |

**Clarke Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 and 2014

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

**6. EMPLOYEE FUTURE BENEFITS (CONT'D)**

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

|   | Pension benefits |          |
|---|------------------|----------|
|   | 2015             | 2014     |
|   | \$               | \$       |
| Fair value of plan assets                                     | 100,648          | 98,652   |
| Accrued benefit obligation                                    | (48,113)         | (47,477) |
| Funded status of plans – surplus                              | 52,535           | 51,175   |
| Cumulative impact of asset ceiling                            | (19,827)         | (21,352) |
| Accrued pension benefit asset, net of impact of asset ceiling | 32,708           | 29,823   |

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

|  | Pension benefits |       |
|--|------------------|-------|
|  | 2015             | 2014  |
|  | \$               | \$    |
| <b>For the years ended December 31:</b>      |                  |       |
| Current service cost                         | (531)            | (458) |
| Past service cost                            | —                | 3,284 |
| Net interest on surplus                      | 1,172            | 1,353 |
| Provision for non-investment management fees | (542)            | (427) |
| Defined benefit recovery recognized          | 99               | 3,752 |

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

|   | Pension benefits |         |
|---|------------------|---------|
|   | 2015             | 2014    |
|   | \$               | \$      |
| <b>For the years ended December 31:</b>       |                  |         |
| Remeasurement gains (losses)                  | 408              | (1,804) |
| Change in amount of asset ceiling             | 2,378            | (1,784) |
| Defined benefit recovery (expense) recognized | 2,786            | (3,588) |

**Significant assumptions**

|                                 | 2015        | 2014        |
|---------------------------------|-------------|-------------|
|                                 | %           | %           |
| Accrued benefit obligation:     |             |             |
| Discount rate                   | 3.95        | 4.00        |
| Rate of compensation increase*  | 3.00 – 4.00 | 3.00 – 4.00 |
| Benefit costs for the year:     |             |             |
| Discount rate                   | 4.00        | 4.80        |
| Rate of compensation increase * | 3.00 – 4.00 | 3.00 – 4.00 |

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



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

December 31, 2015 and 2014

*(in thousands of Canadian dollars, except per share amounts)***7. FIXED ASSETS AND INVESTMENT PROPERTIES**

|  | Cost<br>\$ | Accumulated<br>depreciation<br>\$ | Carrying value<br>\$ |
|--|------------|-----------------------------------|----------------------|
| <b>December 31, 2015</b>                     |            |                                   |                      |
| Furniture, equipment and computer hardware   | 385        | 161                               | 224                  |
| Ferry and vessel dry dock costs              | 3,605      | 3,144                             | 461                  |
| Total fixed assets                           | 3,990      | 3,305                             | 685                  |
| Investment properties – land                 | 167        | —                                 | 167                  |
| Investment properties – buildings            | 5,202      | 1,962                             | 3,240                |
| Total investment properties                  | 5,369      | 1,962                             | 3,407                |
| Total fixed assets and investment properties | 9,359      | 5,267                             | 4,092                |
| <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                |

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. Depreciation for the year ended December 31, 2015 was \$437 (2014 – \$956). At December 31, 2015, there were no assets under finance leases.

During the year ended December 31, 2015, the Company sold its container vessel, the *MV Shamrock*. The net proceeds received were US\$4,605 and the gain on sale was \$644. Included in the gain is a reclassification adjustment of \$1,026 from accumulated other comprehensive income for realized foreign exchange translation gains on disposal of net investment in a foreign operation. The Company had taken an impairment charge of \$1,243 related to this transaction that is included on the consolidated statements of earnings for the year ended December 31, 2014.

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

December 31, 2015 and 2014

*(in thousands of Canadian dollars, except per share amounts)***8. LONG-TERM INVESTMENTS**

The Company's long-term investments consist of equity interests as follows:

|  | 2015         | 2014         |
|--|--------------|--------------|
|  | \$           | \$           |
| Investment funds designated as fair value through profit or loss | 3,173        | 3,745        |
| Private investments in joint ventures                            | —            | 16           |
|  | <b>3,173</b> | <b>3,761</b> |

The Company had a 50% interest in SGHI Investments Ltd. ("SGHI") and used the equity method to account for that joint venture. 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 joint ventures' on the consolidated statements of earnings for the year ended December 31, 2014. There are no further operations within this joint venture.

**9. INCOME TAXES**

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

|  | 2015         | 2014         |
|--|--------------|--------------|
|  | \$           | \$           |
| <b>Consolidated statements of earnings</b>   |              |              |
| Current income tax   |              |              |
| Current income tax charge  | 221          | 146          |
| Adjustments in respect of current income tax of previous year                                | 4            | (130)        |
| Deferred income tax  |              |              |
| Relating to origination and reversal of temporary differences                                | (592)        | 5,825        |
| Relating to the benefit of a previously unrecognized deferred income tax asset               | (125)        | (2)          |
| Relating to the change in recoverable amount of a deferred income tax asset                  | 3,048        | (6,086)      |
| Provision for (recovery of) income taxes reported in the consolidated statements of earnings | <b>2,556</b> | <b>(247)</b> |

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

|   | 2015         | 2014         |
|---|--------------|--------------|
|   | \$           | \$           |
| Provision for income taxes at statutory rate of 29.79% (2014 – 30.22%)                  | (2,536)      | 12,996       |
| Increase (decrease) from statutory rate:  |              |              |
| Effect of difference in statutory rates of subsidiaries                                 | 623          | (69)         |
| Non-deductible (taxable) component of realized and unrealized investment losses (gains) | 1,123        | (4,931)      |
| Non-taxable dividend income   | (988)        | (1,996)      |
| Non-deductible expenses   | 379          | 258          |
| Change in recoverable amount of deferred income tax asset                               | 3,048        | (6,086)      |
| Amounts recorded directly to equity   | 830          | (367)        |
| Other   | 77           | (52)         |
| Provision for (recovery of) income taxes at effective rate                              | <b>2,556</b> | <b>(247)</b> |

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

December 31, 2015 and 2014

*(in thousands of Canadian dollars, except per share amounts)***9. INCOME TAXES (CONT'D)**

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, which is included in 'Income from discontinued operations, net of tax' in the consolidated statements of earnings (note 17).

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 |       |
|---|---|---------|-------------------------------------|-------|
|   | 2015  | 2014    | 2015                                | 2014  |
|   | \$  | \$      | \$                                  | \$    |
| <b>Deferred income tax assets</b>             |   |         |                                     |       |
| <b>(liabilities):</b>                         |   |         |                                     |       |
| Intangible assets                             | (127)   | (57)    | 70                                  | (21)  |
| Marketable securities                         | 99  | 800     | 701                                 | (132) |
| Fixed assets                                  | 568   | 661     | 93                                  | (944) |
| Long-term investments                         | (186)   | (130)   | 56                                  | 165   |
| Employee future benefits                      | (9,744)                                       | (9,012) | 732                                 | (182) |
| Loss carry forwards                           | 7,673   | 8,336   | 663                                 | —     |
| Convertible debentures                        | —   | —       | —                                   | 915   |
| Other   | —   | 16      | 16                                  | (64)  |
| <b>Deferred income tax assets</b>             |   |         |                                     |       |
| <b>(liabilities)</b>                          | <b>(1,717)</b>                                | 614     |                                     |       |
| <b>Deferred income tax expense (recovery)</b> |   |         | <b>2,331</b>                        | (263) |

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

|   | 2015           | 2014    |
|---|----------------|---------|
|   | \$             | \$      |
| Deferred income tax assets              | 704            | 2,496   |
| Deferred income tax liabilities         | (2,421)        | (1,882) |
| <b>Deferred income tax assets (net)</b> | <b>(1,717)</b> | 614     |

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.

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

December 31, 2015 and 2014

*(in thousands of Canadian dollars, except per share amounts)***9. INCOME TAXES (CONT'D)**

At December 31, 2015, 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 \$101,074 (2014 – \$116,921).

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

|                                 | \$           |
|---------------------------------|--------------|
| Marketable securities           | 3,719        |
| Non-capital loss carry forwards | 493          |
| Capital loss carry forwards     | 313          |
| <b>Total</b>                    | <b>4,525</b> |

As at December 31, 2015, the Company had non-capital tax losses carried forward for tax purposes aggregating \$27,148 that are available for the reduction of future years' taxable income. The losses expire as follows:

|              | \$            |
|--------------|---------------|
| <b>2030</b>  | <b>18,846</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>2035</b>  | <b>114</b>    |
| <b>Total</b> | <b>27,148</b> |

As at December 31, 2015, the Company had capital losses carried forward for tax purposes aggregating \$1,225 that are available for the reduction of capital gains in future years. The losses do not expire.

**10. SHARE CAPITAL AND EARNINGS PER SHARE**

| As at and for the year ended December 31                                       | 2015        |          | 2014        |         |
|--|-------------|----------|-------------|---------|
|  | # 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                                   | 19,492,977  | 63,189   | 17,641,910  | 42,701  |
| Common shares issued upon conversion of convertible debentures during the year | —           | —        | 3,094,913   | 24,434  |
| Common shares repurchased for cancellation                                     | (3,866,802) | (12,535) | (1,243,846) | (3,946) |
| Outstanding common shares, end of year   | 15,626,175  | 50,564   | 19,492,977  | 63,189  |

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

December 31, 2015 and 2014

*(in thousands of Canadian dollars, except per share amounts)***10. SHARE CAPITAL AND EARNINGS PER SHARE (CONT'D)****Normal course issuer bid (“NCIB”)**

In the year ended December 31, 2015, the Company purchased for cancellation 822,430 (2014 – 1,243,846) common shares under a NCIB at a cost of \$9,885 (2014 – \$12,502). The purchase price in excess of the historical book value of the shares in the amount of \$7,219 (2014 – \$8,556) has been charged to retained earnings and \$2,666 (2014 – \$3,946) has been charged to share capital.

**Substantial issuer bid (“SIB”)**

In the year ended December 31, 2015, the Company completed two SIB's and purchased for cancellation 3,044,372 common shares at a cost of \$30,111 (average price of \$9.89 per share). In the year ended December 31, 2015, the purchase price in excess of the historical book value of the shares in the amount of \$20,242 has been charged to retained earnings and \$9,869 has been charged to share capital.

**Earnings per share**

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

|  | 2015       |   |                              | 2014           |   |                              |
|--|------------|---|------------------------------|----------------|---|------------------------------|
|  | Loss<br>\$ | Weighted<br>average shares<br>(in thousands)<br># | Per<br>share<br>amount<br>\$ | Earnings<br>\$ | Weighted<br>average shares<br>(in thousands)<br># | Per<br>share<br>amount<br>\$ |
| Basic earnings (loss) per share  | (11,069)   | 16,675  | (0.66)                       | 43,250         | 19,393  | 2.23                         |
| Interest, net of income taxes, on<br>assumed conversion of<br>convertible debentures | —          | —   |                              | 1,545          | 4,808   |                              |
| Diluted earnings (loss) per share  | (11,069)   | 16,675  | (0.66)                       | 44,795         | 24,201  | 1.85                         |

All potentially dilutive securities issued relate to stock options for the year ended December 31, 2015 and convertible debentures and stock options for the year ended December 31, 2014. The stock options were anti-dilutive for the years ended December 31, 2015 and 2014 and the debentures were dilutive for the year ended December 31, 2014.

**Dividends**

Dividends declared from January 1, 2015 to December 31, 2015 were as follows:

| Declaration date  | Record date        | Payment date    | Per share<br>\$ | Dividend<br>\$ |
|-------------------|--------------------|-----------------|-----------------|----------------|
| February 23, 2015 | March 31, 2015     | April 10, 2015  | 0.10            | 1,883          |
| May 6, 2015       | June 30, 2015      | July 10, 2015   | 0.10            | 1,604          |
| August 5, 2015    | September 30, 2015 | October 9, 2015 | 0.10            | 1,563          |
| November 4, 2015  | December 31, 2015  | January 8, 2016 | 0.10            | 1,563          |
| <b>Total</b>      |                    |                 | <b>0.40</b>     | <b>6,613</b>   |

## Clarke Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

#### 10. SHARE CAPITAL AND EARNINGS PER SHARE (CONT'D)

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

| Declaration date | Record date        | Payment date     | Per share<br>\$ | Dividend<br>\$ |
|------------------|--------------------|------------------|-----------------|----------------|
| 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          |
| Total            |                    |                  | 0.50            | 9,589          |

#### 11. LONG-TERM DEBT

|  | 2015<br>\$ | 2014<br>\$ |
|--|------------|------------|
| 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 minus 0.50% (4.20% as at December 31, 2015 and 5.50% as at December 31, 2014), secured by fixed charge against ferry, <i>MV Trans-Saint-Laurent</i> , machinery, tools, vehicles, and intellectual property, with a carrying value of \$461. | 2,363      | 3,007      |
| Less: current portion of other long-term debt  | (644)      | (644)      |
|  | 1,719      | 2,363      |

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

#### 12. COMMITMENTS AND CONTINGENCIES

##### Operating lease commitments

The Company has lease commitments related to properties for the following amounts: 2016 – \$213; 2017 – \$213; 2018 – \$164; and 2019 – \$67. Included in the annual lease commitments for 2016, 2017 and 2018 is \$98, \$98 and \$49, respectively, owing to a company owned by the Company's Executive Chairman and his immediate family member.

##### 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, 2015, net capital contributions in the amount of US\$2,337 have been called by the investee, leaving an outstanding commitment of US\$663.

The Company is party to a subscription agreement for a 0.31% equity interest in a long-term investment. The agreement requires periodic capital contributions up to a cumulative maximum of \$1,133. As at December 31, 2015, net capital contributions in the amount of \$878 have been called by the investee, leaving an outstanding commitment of \$255.

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.

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

December 31, 2015 and 2014

*(in thousands of Canadian dollars, except per share amounts)***12. COMMITMENTS AND CONTINGENCIES (CONT'D)****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.

**13. ACCUMULATED OTHER COMPREHENSIVE INCOME**

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

|  | <b>2015</b>  | 2014  |
|--|--------------|-------|
|  | \$           | \$    |
| Unrealized gains on translating financial statements of self-sustaining foreign operations           | —            | 505   |
| Remeasurement gains and effect of limit on asset ceiling on defined benefit plans<br><i>(note 6)</i> | <b>8,616</b> | 5,830 |
|  | <b>8,616</b> | 6,335 |

**14. SHARE-BASED PAYMENTS**

The Company has reserved 7.50% of its issued and outstanding common shares under a stock option plan for directors, officers and certain employees. As at December 31, 2015, there were 500,000 options outstanding and 166,667 were exercisable. The grant date was August 18, 2014 with an exercise price of \$12.19 per share. The options vest over a three year period and expire on August 7, 2021. There were no options exercised, cancelled or forfeited during the year ended December 31, 2015. The share-based payment expense included in the consolidated statements of earnings for the year ended December 31, 2015 was \$1,100 (2014 – \$137).

The following table shows the assumptions used to determine the share-based payments expense using the Black-Scholes option pricing model:

|                               |                |
|-------------------------------|----------------|
| Fair value per option granted | <b>\$3.40</b>  |
| Assumptions:                  |                |
| Risk-free interest rate       | <b>1.68%</b>   |
| Expected dividend yield       | <b>3.65%</b>   |
| Expected volatility           | <b>46.78%</b>  |
| Expected time until exercise  | <b>7 years</b> |
| Expected forfeiture rate      | <b>9.50%</b>   |

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

December 31, 2015 and 2014

*(in thousands of Canadian dollars, except per share amounts)***15. OTHER INCOME**

Other income is comprised of the following:

|  | <b>2015</b>  | 2014  |
|--|--------------|-------|
|  | \$           | \$    |
| Gains on disposition of fixed assets                         | <b>644</b>   | 1,570 |
| Foreign exchange gains                                       | <b>869</b>   | 103   |
| Gains on redemption and repurchase of convertible debentures | —            | 1,808 |
|  | <b>1,513</b> | 3,481 |

The gain on disposition of fixed assets for the year ended December 31, 2015 is from the sale of the *MV Shamrock* (note 7). The gain on disposition of fixed assets for the year ended December 31, 2014 is from the disposition of land and buildings.

**16. INTEREST EXPENSE**

Interest expense is comprised of the following:

|  | <b>2015</b> | 2014  |
|--|-------------|-------|
|  | \$          | \$    |
| Interest on long-term debt                         | <b>128</b>  | 1,024 |
| Interest on short-term indebtedness                | <b>4</b>    | 46    |
| Amortization of discount on convertible debentures | —           | 27    |
| Amortization of debt issue costs                   | —           | 37    |
|  | <b>132</b>  | 1,134 |

**17. DISCONTINUED OPERATIONS**

The table below presents the gain on sale of the freight transport business (\$66,433) and Gestion Jerico Inc. ("Jerico") (\$4,717) and the operating results of Jerico prior to the sale on February 15, 2014. The amounts are included as discontinued operations in the consolidated statements of earnings for the year ended December 31, 2014.

|                                     | 2014   |
|-------------------------------------|--------|
|                                     | \$     |
| Gain on sale of subsidiaries        | 71,150 |
| Sales of products                   | 5,805  |
| Other loss                          | (62)   |
|                                     | 76,893 |
| Cost of goods sold                  | 4,001  |
| General and administrative expenses | 1,034  |
| Depreciation and amortization       | 372    |
| Interest expense                    | 92     |
| Income before income taxes          | 71,394 |
| Provision for income taxes          | 11,990 |
| Income from discontinued operations | 59,404 |



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

December 31, 2015 and 2014

*(in thousands of Canadian dollars, except per share amounts)***18. SUPPLEMENTAL CASH FLOW INFORMATION**

|  | 2015           | 2014            |
|--|----------------|-----------------|
|  | \$             | \$              |
| Income taxes paid  | 215            | 176             |
| Interest received  | 3,109          | 3,601           |
| Interest paid  | 132            | 1,080           |
|  | <b>2015</b>    | <b>2014</b>     |
|  | <b>\$</b>      | <b>\$</b>       |
| <b>Adjustments for items not involving cash</b>  |                |                 |
| Realized/unrealized losses (gains) on investments  | 14,696         | (29,264)        |
| Deferred income tax expense (recovery) <i>(note 9)</i>   | 2,331          | (263)           |
| Share-based payment expense net of share-based payments of nil (2014 – \$391) <i>(note 14)</i> | 1,100          | (254)           |
| Unrealized foreign exchange gains  | (1,500)        | —               |
| Pension recovery <i>(note 6)</i>   | (99)           | (3,752)         |
| Gains on disposition of fixed assets <i>(note 15)</i>  | (644)          | (1,570)         |
| Depreciation and amortization  | 437            | 956             |
| Loan receivable accretion  | (65)           | —               |
| Equity in earnings of joint ventures   | —              | (462)           |
| Impairment of fixed assets <i>(note 7)</i>   | —              | 1,243           |
| Gains on redemption and repurchase of convertible debentures <i>(note 15)</i>                  | —              | (1,808)         |
| Discount and debt issue cost amortization <i>(note 16)</i>                                     | —              | 64              |
| Other items  | (7)            | (39)            |
|  | <b>16,249</b>  | <b>(35,149)</b> |
|  | <b>2015</b>    | <b>2014</b>     |
|  | <b>\$</b>      | <b>\$</b>       |
| <b>Net changes in non-cash working capital balances</b>  |                |                 |
| Receivables  | 1,104          | (2,011)         |
| Income taxes receivable  | 29             | (21)            |
| Prepaid expenses   | 212            | (154)           |
| Accounts payable and accrued liabilities   | (3,480)        | (398)           |
| Income taxes payable   | 28             | 22              |
|  | <b>(2,107)</b> | <b>(2,562)</b>  |

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

**19. 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 \$233 (2014 – \$200) under this agreement.
- (ii) The Company provides administrative and asset management services to two pension plans it sponsors. Included in 'Provision of services' is \$361 (2014 – \$341) for services provided to the pension plans during the year.

## Clarke Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

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

- (iii) The Company provides information technology services to related companies. Included in 'Provision of services' is \$439 (2014 – \$35) for services provided during the year. Included in 'Receivables' at December 31, 2015 is \$38 (2014 – \$40) for services provided.
- (iv) The Company had a promissory note receivable from Terravest, a marketable security investment, as a result of the sale of Jerico (notes 5 & 17). The note was repaid in full during the year. Included in 'Interest income' for the year ended December 31, 2015 is \$399 (2014 – \$1,381) and included in 'Income from discontinued operations' for the year ended December 31, 2014 is a gain on sale of subsidiary of \$4,717.
- (v) The Company had a credit facility to lend \$6,000 to Holloway, maturing on or before December 31, 2015, at an interest rate of 7.00%. The facility was repaid in full during the year. Included in 'Interest income' for the year ended December 31, 2015 is \$14 (2014 – \$210). The Company also had a term loan agreement to lend \$17,000 to Holloway, maturing March 31, 2016, at an interest rate of 6.50%. The term loan was repaid in full during the year. Included in 'Interest income' for the year ended December 31, 2015 is \$256 (2014 – \$536).
- (vi) During the year ended December 31, 2015, the Clarke Pension Plans, which are administered by the Company, entered into various foreign exchange contracts, due to be settled in 2016 for the purpose of hedging certain foreign currency exposure. The Clarke Pension Plans used Clarke's existing lending facilities to facilitate certain of these foreign exchange contracts.

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

| Year ended December 31, 2015 | Board of directors | Officers | Total        |
|------------------------------|--------------------|----------|--------------|
|                              | \$                 | \$       | \$           |
| Salary and fees              | 80                 | 590      | <b>670</b>   |
| Bonus                        | —                  | 50       | <b>50</b>    |
| Pension value                | 964                | 10       | <b>974</b>   |
| Total                        | 1,044              | 650      | <b>1,694</b> |

#### 20. 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 a demand revolving loan of \$20,000 secured by marketable securities. The interest rate for the demand revolving loan was 3.45% at December 31, 2015 (2014 – 3.75%). The Company had drawn nil on the demand revolving loan at December 31, 2015 and 2014.

The above short-term loan facility is 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). For the year ended December 31, 2015, 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, 2015 and 2014

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

## 20. CAPITAL DISCLOSURES (CONT'D)

The Company also maintains several investment accounts with various brokers. Under one broker arrangement, the Company has access to an investment margin account for purposes of financing eligible marketable securities. Any Canadian dollar financing used under this arrangement bears interest at the prime rate of a Canadian chartered bank and is collateralized by the marketable securities purchased. The interest rate was equal to 2.70% at December 31, 2015 (2014 – 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 3.00% at December 31, 2015 (2014 – 2.75%). The Company had drawn nil on the Canadian dollar and US dollar facilities, respectively, at December 31, 2015 (2014 – nil and nil, respectively).

## 21. FINANCIAL INSTRUMENTS

The Company's financial instruments at December 31, 2015 and 2014 included cash and cash equivalents, receivables, marketable securities, long-term investments, loans receivable, accounts payable and accrued liabilities and long-term debt.

The Company's financial instruments are classified as follows:

| <b>Fair value through profit or loss</b> | <b>Other liabilities</b>                 |
|--|--|
| Marketable securities                    | Accounts payable and accrued liabilities |
| Long-term investments                    | Long-term debt                           |
| <b>Loans and receivables</b>             |  |
| Cash and cash equivalents                |  |
| Receivables                              |  |
| Loans receivable                         |  |

The carrying value of cash and cash equivalents, receivables 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, 2015 and 2014. 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.

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, 2015 and 2014

*(in thousands of Canadian dollars, except per share amounts)***21. 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, 2015 Using |   |  |  |
|-----------------------|---------------------------------------|---|--|--|
|                       | Total                                 | Level 1<br>Quoted prices in active<br>markets for identical<br>assets | Level 2<br>Significant other<br>observable<br>inputs | Level 3<br>Significant<br>unobservable<br>inputs |
| Marketable securities | 113,369                               | 113,369   | —  | —  |
| Loans receivable      | 1,244                                 | —   | —  | 1,244  |
| Long-term investments | 3,173                                 | —   | 3,173  | —  |
|                       | 117,786                               | 113,369   | 3,173  | 1,244  |

Differences between the carrying values and fair values of debt instruments are not significant given that they are subject to a floating rate of interest. Level 3 fair values are based on estimated 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.

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

| Fair value | Price change | Estimated fair value after<br>price change | After-tax impact on net income |
|------------|--------------|--|--------------------------------|
| \$         | %            | \$   | \$                             |
| 113,369    | 10% increase | 124,706                                    | 9,580                          |
| 113,369    | 10% decrease | 102,032                                    | (9,580)                        |

## Clarke Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

## 21. FINANCIAL INSTRUMENTS (CONT'D)

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, 2015, the Company had not entered into any interest rate swap transactions (2014 – nil).

At December 31, 2015, the after-tax net income effect of a 1% change in interest rates would have been \$17 on floating rate debt of \$2,363.

### 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 investments throughout North America, and as such is exposed to movements in the US/Canadian exchange rate. At December 31, 2015, the effect of a 20% change in the US/Canadian exchange rate on after-tax consolidated net income would have been \$1,944 based on a US net asset balance of US\$10,036.

The Company manages its exposure to foreign exchange risk by entering into foreign exchange contracts. At December 31, 2015, the Company had foreign exchange contracts outstanding to sell US dollars, at various rates and times throughout 2016. Unrealized losses of \$712 have been included in accounts payable and accrued liabilities on the consolidated statements of financial position and in other income on the consolidated statements of earnings as at and for the year ended December 31, 2015. The Company had no outstanding foreign exchange contracts at December 31, 2014.

## 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. At December 31, 2015, the Company had cash of \$42,130 and available unused facilities totalling \$29,372.

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

|  | Due within 1 year | 1 to 3 years | 3 to 5 years | After 5 years |
|--|-------------------|--------------|--------------|---------------|
|  | \$                | \$           | \$           | \$            |
| Accounts payable and accrued liabilities | 1,736             | —            | —            | —             |
| Dividends payable                        | 1,563             | —            | —            | —             |
| Long-term debt                           | 644               | 1,288        | 431          | —             |
|  | 3,943             | 1,288        | 431          | —             |

**Clarke Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2015 and 2014

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

### **21. FINANCIAL INSTRUMENTS (CONT'D)**

#### **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.



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