CLARKE

Halifax, Canada

MD&A & Financial Statements 2021

Management's Discussion & Analysis

Clarke Inc.

December 31, 2021 and 2020

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, 2021 compared with the year ended December 31, 2020. The following information is derived from the Company's consolidated financial statements which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. 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, 2021 and the Company's Annual Information Form ("AIF"), including the risk factors described therein, available on SEDAR at 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 March 2, 2022 (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, and they may be public entities or private entities. Clarke seeks 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. The Company also has a diverse and significant portfolio of direct real estate holdings across the hospitality, commercial, industrial, and residential sectors. We do not believe in limiting ourselves to specific types of investments.

FULL YEAR REVIEW AND OUTLOOK

During 2021, the Company's book value per Common Share increased by $3.28, or 29.3%. The increase can primarily be ascribed to (i) net realized and unrealized gains of $22.3 million, or $1.48 per Common Share on the Company's marketable securities, (ii) an increase in the value of our pension plan surplus in the amount of $20.5 million, or $1.36 per Common Share, and (iii) fair value adjustments on our property and equipment and investment properties, net of depreciation recorded of $4.8 million, or $0.26 per Common Share, offset by (iv) interest expense of $6.0 million, or $0.40 per Common Share. Our book value per Common Share at the end of the year was $14.48 while our Common Share price was $10.32.

COVID-19

The COVID-19 pandemic ("COVID-19" or the "Pandemic") continues to have an adverse effect on the Company's operating businesses, particularly its hotels, driven by the decline in both leisure and business travel. While still below pre-pandemic levels, revenues and operating results for our hotels are recovering and have shown significant improvement compared to 2020, particularly in the second half of 2021. We are optimistic this trend will continue in 2022 as travel restrictions are further eased in Canada and internationally.

Hotel Operations

The results for the fourth quarter were encouraging as hotel revenue increased by 69% compared to the same period in 2020. Overall, we have been pleased with the directional increase in hotel revenues as 2021 progressed as was demonstrated by hotel revenue in the second half of 2021 increasing by approximately 75% compared to the first half of 2021. Also encouraging is that several of our hotels in Alberta and British Columbia are performing at or above operating levels in 2019 before the Pandemic, driven by economic activity in the oil and gas industry in the region.

While hotel revenue was approximately 15% lower in the fourth quarter compared to the third quarter, this was expected due to anticipated seasonality declines. We continue to use all available means to mitigate the impact of lower revenue. These measures include the application for and receipt of various available federal, provincial, and territorial government grants.

We began a substantial renovation of our Sternwheeler Hotel & Conference Centre located in Whitehorse, YT, during 2021. The renovation work is ongoing, and we are excited to bring the significantly refreshed and improved asset to market upon completion in the second quarter of 2022, in time for the peak tourism season.

Marketable securities

We made significant strategic divestures of our marketable securities in the year, including divesting of 28.0 million common shares of Trican Well Service Ltd. for gross proceeds of $68.8 million and a realized gain of $30.8 million.

Real Estate and Corporate

In April 2021, the Company entered into a joint arrangement with two other partners to acquire a one-third interest in a real estate development project in downtown Montreal that is currently under construction. The building is located at 1111 Atwater Avenue (the “1111 Atwater Development” or the “Development”), the former site of the Montreal Children’s Hospital. The Development involves a 38-storey building including seniors’ housing, rental units and luxury condominiums, with extensive amenities for residents. The terms of the deal included cash consideration of approximately $21.1 million and the assumption of the Company’s share of the construction financing. Construction and marketing activities continued throughout 2021 on the Development.

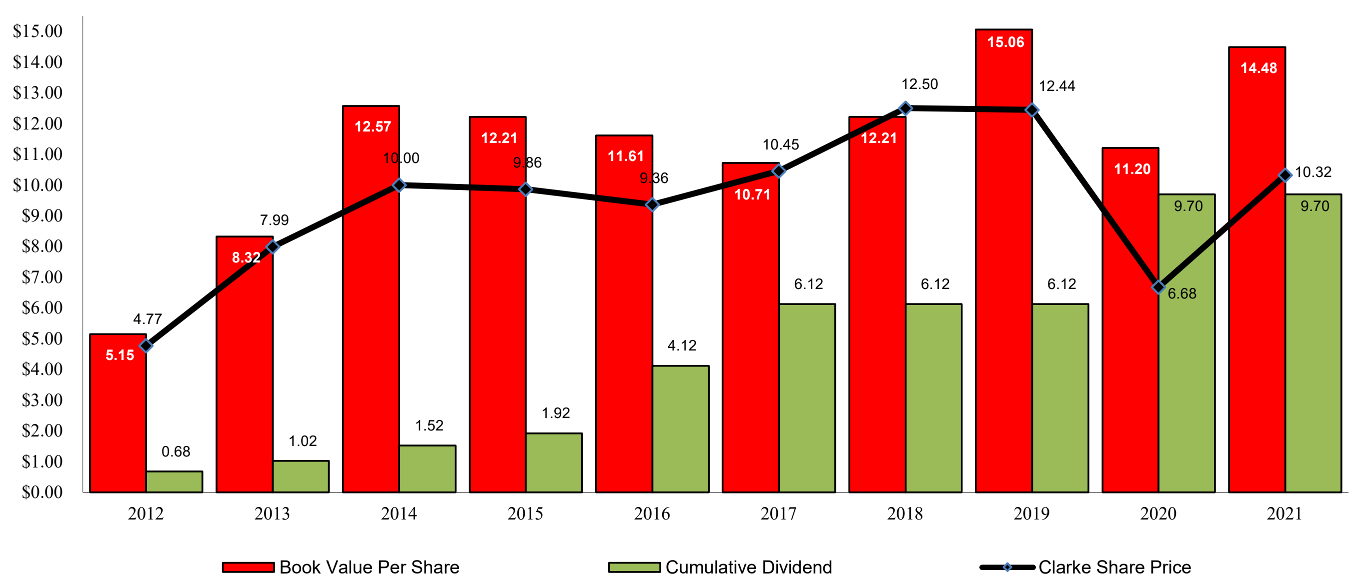
In May 2021, the Company obtained the building permit for the first phase of redevelopment on our excess land adjacent to our Ottawa, ON, Travelodge® hotel (the “Ottawa Development”) and construction commenced at the site. While the first phase of construction is underway, pre-construction activities continue for the second phase of this development. The two phases will consist of a multi-building residential apartment complex including ground-floor retail space.

We continue to own three vacant office buildings in Houston, TX totalling approximately 435,000sf. A net write-down of $2.1 million related to these properties was recognized in 2021, the result of independent appraisals performed. We acquired these properties far below the cost at which they can be replaced, and we are actively working to redevelop and/or lease these properties. We also own vacant parcels of land in Moncton, NB and Forestville, QC.

The Company has $135.8 million of debt and we have unused availability under our two credit lines of $55.0 million.

BOOK VALUE PER SHARE

The Company’s book value per share at December 31, 2021 was $14.48, an increase of $3.28 per Common Share since December 31, 2020. The following graph shows Clarke’s book value per share, share price and cumulative dividends paid over the past ten years.



RESULTS OF OPERATIONS

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

(in millions, except per share amounts)	**Year ended December 31, 2021 $**	Year ended December 31, 2020 $	Year ended December 31, 2019 $
Hotel and management services	**32.0**	30.5	73.9
Provision of services	**9.4**	4.6	8.1
Bargain purchase	**—**	—	21.8
Investment and other income (loss)*	**24.6**	(8.2)	16.7
Net income (loss)	**16.4**	(19.2)	38.4
Comprehensive income (loss)	**45.5**	(10.5)	38.9
Basic earnings (loss) per share ("EPS")	**1.12**	(1.21)	2.90
Diluted EPS	**0.96**	(1.21)	2.78
Total assets	**384.6**	311.0	401.2
Total liabilities	**176.0**	142.4	151.6
Long-term financial liabilities	**107.2**	109.7	94.3
Book value per share	**14.48**	11.20	15.06

**Investment and other income (loss) includes unrealized and realized gains and losses on assets and liabilities, fair value changes of property and equipment and investment property presented in the statement of earnings, interest income, pension expense/recovery, gains on modification of convertible debentures and foreign exchange gains/losses.*

SEGMENT REPORTING

The table below summarizes the Company's holdings as at December 31, 2021 based on total assets. The Other category is not a segment and is disclosed for reconciliation purposes. It consists of our treasury and executive functions, our pension plans and our convertible debentures.

	December 31, 2021		December 31, 2020	
Segment	**$**	**%**	$	%
Investment	**109.1**	**28.4**	68.9	32.7
Hospitality	**218.5**	**56.8**	207.8	59.4
Other	**57.0**	**14.8**	34.3	8.0
Intercompany elimination	**—**	**—**	—	(0.1)
Total	**384.6**	**100.0**	311.0	100.0

Investment segment

The Investment segment is comprised of the Company's ferry business, its marketable securities, its investment properties and its real estate inventory under development. During the year ended December 31, 2021, the Investment segment had realized gains on its investments of $31.0 million, compared with realized gains of $30.4 million in 2020. The Investment segment had unrealized losses on its investments of $8.6 million for the year ended December 31, 2021 compared to unrealized losses of $24.6 million in 2020. A summary of the change in the Company's securities portfolio is as follows:

	Year ended December 31, 2021 $
Securities – beginning of year	**46.8**
Purchases	**7.0**
Proceeds on sale	**(73.3)**
Net realized and unrealized gains on securities	**22.3**
Securities – end of year	**2.8**

Our investment properties under development and our real estate inventory under development continue to progress and these are the main source of the Investment segment's capital expenditures in the year.

The Company owns a passenger/car ferry operating on the St. Lawrence River under contract with the Government of Québec since 1973. The ferry does not operate during the first quarter of the year and completes its annual maintenance and repairs during this offseason period. We were pleased that the opening of the 2021 season commenced on April 1, 2021 and was not delayed as it was in 2020 due to the COVID-19 pandemic.

Hospitality segment

The Company owns and operates hotels across Canada. Results for the year ended December 31, 2021 compared to the year ended December 31, 2020 are as follows:

	Year ended December 31, 2021 $	Year ended December 31, 2020 $
Hotel and management services revenue	**32.0**	30.5
Investment and other income (loss)	**2.8**	(16.0)
Total revenue and other income	**34.8**	14.5
Less:		
Hotel operating expenses, general and administrative expenses, property taxes and insurance	**20.8**	24.7
Depreciation	**10.0**	10.6
Interest expense	**2.7**	3.1
Income (loss) before income taxes	**1.4**	(23.9)

Hotel revenue was $32.0 million for the year ended December 31, 2021 compared to 30.5 million in 2020. 2020's results included approximately ten weeks of pre-Pandemic operations before the material impact set in during the middle of March 2020. Every month from April onwards in 2021 had stronger results than the same month in 2020. Income before taxes was $1.4 million in the year ended December 31, 2021 compared to a loss of $23.9 million in the prior year, primarily a result of the revaluation losses of $16.5 million recorded in 2020 compared to revaluation gains of $2.3 million recorded in 2021.

On January 15, 2021, the Company sold a hotel which was leased to a third party for gross proceeds of $2.4 million. After closing costs and a vendor take-back loan receivable of $2.2 million, the net cash proceeds were $0.2 million.

OUTSTANDING SHARE DATA

At March 2, 2022, the Company had:

- An unlimited number of Common Shares authorized and 14,326,569 Common Shares outstanding;
- An unlimited number of First and Second Preferred Shares authorized and none outstanding; and
- 50,000 options to acquire Common Shares outstanding, 33,333 of which are vested and exercisable.

REPURCHASE OF COMMON SHARES

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 June 2019, Clarke announced that it had received approval from the TSX to conduct a normal course issuer bid ("NCIB") to purchase for cancellation up to 810,774 Common Shares, representing 5% of the issued and outstanding Common Shares as a that date. The NCIB commenced on June 27, 2019 and Clarke repurchased 91,200 Common Shares by the end of 2019 and 719,574 Common Shares in 2020 prior to the expiry date of June 26, 2020.

In June 2020, Clarke announced that it had received approval from the TSX to conduct a NCIB to purchase for cancellation up to 795,024 Common Shares, representing 5% of the issued and outstanding Common Shares as at that date. The NCIB commenced on June 29, 2020 and Clarke repurchased 409,301 Common Shares by the end of 2020 and 385,723 Common Shares in 2021 prior to the expiry date of June 28, 2021.

On March 22, 2021, the Company completed a substantial issuer bid by repurchasing 20,524 of its Common Shares.

In June 2021, Clarke announced that it had received approval from the TSX to conduct a NCIB to purchase for cancellation up to 733,608 Common Shares, representing 5% of the issued and outstanding Common Shares as at that date. The NCIB commenced on June 29, 2021 and will terminate on June 28, 2022. Clarke repurchased 260,200 Common Shares by the end of 2021.

LIQUIDITY AND CAPITAL RESOURCES

During 2021, the Company's net short term debt position (a non-IFRS measure representing short-term indebtedness net of cash and cash equivalents) was eliminated, and the Company had $18.4 million of cash and cash equivalents on hand as at December 31, 2021. This elimination of the Company's net short term debt position is largely a result of proceeds on the sale of marketable securities during the year.

Cash flow from operating activities

Cash used in operating activities was $7.5 million for the year ended December 31, 2021, compared to $5.9 million used during 2020. This was primarily a result of capital expenditures on the Company's real estate inventory under development for its 1111 Atwater Development. The presentation of these cashflows as "operating activities" is due to the Company's planned strategy to divest of these assets upon completion. The cashflows from these assets upon divestiture will also be presented within "operating activities".

At December 31, 2021, working capital excluding securities was negative $23.9 million, compared to negative $9.1 at December 31, 2020. The increase of this deficit is primarily attributable to a significant portion of the Company's mortgages being reclassified and presented as current liabilities at December 31, 2021 as they mature in 2022. We anticipate renewing and extending these mortgages in advance of their respective maturity dates.

The Company has the ability to fund its working capital needs through its cash on hand and its existing credit facilities.

Cash flow from investing activities

Cash provided by investing activities was $31.1 million for the year ended December 31, 2021, compared to $28.6 million provided in 2020. This was primarily the result of proceeds from the sale of marketable securities of $73.3 million, the pension surplus distribution of $1.2 million and the collection of loans receivable of $1.7 million, offset by aggregate additions of property and equipment and investment properties of $17.4 million, the Company's $21.1 million investment in the 1111 Atwater Development and purchases of marketable securities of $7.0 million. Cash provided by investing activities during the year ended December 31, 2020 was a result of proceeds from the sale of marketable securities of $12.6 million, proceeds from the sale of a hotel of $11.5 million, the pension surplus distribution of $1.2 million and the collection of loans receivable of $5.6 million, offset by aggregate additions of property and equipment and investment properties of $2.4 million.

Cash flow from financing activities

Cash used in financing activities was $7.8 million for the year ended December 31, 2021, compared to $22.5 million in 2020. This was primarily related to the repurchase of Common Shares of $5.5 million, and the repayment of short and long-term debt of $15.4 million, offset by the proceeds of long-term debt of $13.1 million. Cash used in financing activities during the year ended December 31, 2020 was related to the repurchase of Common Shares of $11.3 million, and the repayment of short and long-term debt of $23.5 million, offset by the proceeds of long-term debt of $12.5 million.

Contractual obligations and capital resource requirements

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

Contractual obligations	Total $	Less than 1 year $	1 – 3 years $	3 - 5 years $	After 5 years $
Convertible debentures	50.8	—	—	—	50.8
Long-term debt	86.5	37.9	42.0	4.9	1.7
Lease obligation	1.0	0.2	0.3	0.3	0.2
	138.3	38.1	42.3	5.2	52.7

The convertible debentures balance of $50.8 million is the face value repayment required upon maturity of the Series B Debentures. These debentures are convertible into common shares of the Company at any time at the option of the holder, and therefore the actual cash required at maturity, if any, is dependent upon the number of debentures remaining unconverted. The debentures are also redeemable, at the option of the Company, in whole or in part. The redemption price is the principal amount plus accrued and unpaid interest. The Company is required to provide at least 30 days' prior notice of the redemption.

Clarke expects to be able to fund its 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.

The Company maintains two credit facilities with Canadian chartered banks. The first credit facility is secured by three investment properties and five hotel properties. The availability is determined by a borrowing base calculation, has a maximum borrowing capacity of $40.0 million and bears interest at prime plus 1.50%, or based on a spread to banker's acceptance. The Company had not drawn on the credit facility as at December 31, 2021. The Company has a second credit facility with a maximum borrowing capacity of $15.0 million. This credit facility bears interest at prime plus 1.50%. The Company had not drawn on the credit facility as at December 31, 2021. This facility, and a corresponding mortgage payable, are secured by five hotel properties. This facility is subject to an annual review and matures September 2022. Each individual draw must be repaid within one year.

Any decline in the fair value or operations of the pledged assets may limit the Company's access to the full amount of the short-term facilities.

Unrecorded commitments

At December 31, 2021, Clarke continued to be a party to the unrecorded commitments and contingencies as discussed in note 17 to the consolidated financial statements for the year ended December 31, 2021.

FOURTH QUARTER

A comparison of results for the three months ended December 31, 2021, compared to three months ended December 31, 2020, is as follows:

	Three months ended December 31, 2021 $	Three months ended December 31, 2020 $
Revenue		
Hotel and management services	**9.3**	6.0
Provision of services	**3.5**	0.8
Investment and other income	**7.7**	20.1
	20.5	26.9
Expenses		
Operating expenses	**6.7**	4.7
Cost of services provided	**2.1**	0.9
General and administrative expenses	**0.8**	0.6
Property taxes and insurance	**0.1**	0.1
Share-based payment expense	**0.1**	0.1
Depreciation	**2.6**	2.6
Interest expense and accretion on debt	**1.4**	1.6
Income before income taxes	**6.8**	16.3
Provision for income taxes	**1.0**	1.8
Net income	**5.8**	14.5
Comprehensive income	**7.4**	29.6

Net realized and unrealized gains on investments for the fourth quarter of 2021 were $5.1 million compared to gains of $18.0 million for the same period in 2020. Revaluation gains on hotel properties were $2.3 million in the fourth quarter of 2021, equal to the amount for the same period in 2020. The Company had net income of $5.8 million in the fourth quarter of 2021 compared to net income of $14.5 million in the same period in 2020. This decrease was largely the result of significant realized and unrealized gains on investments during the prior period compared to the current year. Comprehensive income for the fourth quarter was $7.4 million compared to comprehensive income of $29.6 million for the same period in 2020.

For the three months ended December 31, 2021, Clarke's basic EPS was $0.40, compared to $0.94 for the same period in 2020, and the diluted EPS was $0.36, compared to $0.79 for the same period in 2020.

Cash used in operating activities was $3.6 million for the fourth quarter of 2021, compared to $2.3 million used in the same period in 2020. Cash flows in the fourth quarter of 2021 were driven mainly by the hospitality and ferry operations, offset by capital expenditures for real estate inventory under development related to the 1111 Atwater Development. Cash flows in the fourth quarter of 2020 were driven primarily by the hospitality and ferry operations.

Cash provided by investment activities was $25.0 million in the fourth quarter of 2021, compared to $23.1 million provided in the same period in 2020. Proceeds on the sale of investments of $37.7, net of purchases of marketable securities of $4.6 million and capital expenditures on property and equipment and investment properties of $8.6 million were the primary reasons for the cash provided in 2021, compared to total proceeds on the sale of investments and a hotel of $22.3 million in 2020.

Cash used in financing activities for the fourth quarter of 2021 was $4.5 million compared to $18.6 million for the same period in 2020. The primary use of cash in the quarter was related to repayment of long-term debt of $2.2 million and repayment of short-term indebtedness of $6.4 million, offset by proceeds of long-term debt of $4.3 million. Cash used in financing activities in the fourth quarter of 2020 was related primarily to repayment of short-term credit facilities of $26.8 million and repurchases of shares of $3.6 million, offset by proceeds of long-term debt of $12.5 million.

SUMMARY OF QUARTERLY RESULTS

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

Three months ended	Dec. 2021 $	Sept. 2021 $	Jun. 2021 $	Mar. 2021 $	Dec. 2020 $	Sep. 2020 $	Jun. 2020 $	Mar. 2020 $
Revenue and other income (loss)	20.5	18.0	13.3	14.3	26.9	23.1	17.5	(40.6)
Net income (loss)	5.8	3.5	3.1	4.1	14.5	12.5	6.9	(53.1)
Other comprehensive income (loss)	1.6	1.9	14.9	10.7	15.1	(2.1)	(2.5)	(1.7)
Comprehensive income (loss)	7.4	5.4	18.0	14.8	29.6	10.4	4.4	(54.8)
Basic EPS (in dollars)	0.40	0.24	0.21	0.27	0.94	0.79	0.43	(3.26)
Diluted EPS (in dollars)	0.36	0.16	0.20	0.25	0.79	0.67	0.38	(3.26)

As seen in the table above, our results can fluctuate significantly from quarter to quarter, in part as a result of certain accounting standards the Company follows, and as a result of fluctuations in the market prices of our securities portfolio. 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 values 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. The Company's hotel and ferry businesses are seasonal in nature and their results tend to fluctuate throughout the year. The revenues are generally highest in the third quarter due to increased leisure travel during the summer months. While certain expenses fluctuate according to revenue and operating levels, other expenses such as property taxes, insurance and interest are fixed and are incurred evenly throughout the year.

RELATED PARTY TRANSACTIONS

The Company was party to the following related party transactions during the year ended December 31, 2021:

- The Company was a party to rental and information technology agreements with companies owned by the Company's Chairman and his immediate family member. During 2021, the Company paid $0.2 million (2020 – $0.3 million) under the agreements.

- The Company provides administrative and asset management services to two pension plans it sponsors and charged $2.8 million (2020 – $0.5 million) for services provided during the year.

- During the year, the Company purchased marketable securities through the facilities of the Toronto Stock Exchange from the Clarke Inc. Master Trust (the "Master Trust"), which holds the units of the pension plans administered by the Company. The purchase totalling US$2.0 million was made for investment purposes.

- The Company provided management services to a hotel owned by the Company's Chairman and his immediate family member for management fees of $0.1 million (2020 – nil).

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

Year ended December 31, 2021	Board of directors $	Officers $	**Total $**
Salary and fees	0.1	0.5	**0.6**
Pension value	0.7	—	**0.7**
Total	0.8	0.5	**1.3**

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. Clarke may hedge its foreign currency exposure on U.S. dollar denominated investments.

As an investment company, Clarke has a significant number of financial instruments. Notes 1, 2, 3, 4, 5, 11, 12, 13, 14 and 24 to the consolidated financial statements for the year ended December 31, 2021 and the Company's 2021 AIF, provide further information on classifications in the financial statements, and risks, pertaining to the use of financial instruments by the Company, as well as further information on the risks and uncertainties of estimates, liquidity, and credit as a result of COVID-19.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

In accordance with Canadian Securities Administrators National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, 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 also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The President & Chief Executive Officer and the Chief Financial Officer have supervised Company's management in the evaluation of the design and effectiveness of the Company's internal controls over financial reporting as of the end of the period covered by the annual filings and believe the design and effectiveness to be adequate to provide such reasonable assurance using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013).

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, 2021 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. These limited reviews identified no material remediation issues or 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.

SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Please refer to notes 1 and 2 of our consolidated financial statements for the year ended December 31, 2021 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.

Valuation of property and equipment

Land and buildings and components are revalued on a sufficiently regular basis using third party offers, internal models or external appraisals, when available, so that the carrying value of an asset does not differ materially from its fair value at each reporting date. The Company has established a methodology to evaluate when circumstances indicate that the carrying amount may differ materially from its fair value, which includes significant changes in operating performance, economic activity, regional development opportunities and new competition in the markets in which each property operates.

The COVID-19 pandemic continued to adversely impact the Company's operations during 2021, particularly the hotel operations. While results have improved in 2021, there continues to be significant uncertainty regarding the duration and long-term effects of the pandemic on the economy, making the potential impact on our future financial results difficult to reliably measure.

The Company began to experience the impact of COVID-19 in its hotel occupancy levels commencing in mid-March 2020 and closed six of its hotels to streamline and manage costs. All six hotels were reopened during the second and third quarters of 2020 and all hotels remained open throughout 2021.

The Company performed a revaluation analysis on its hotels in the fourth quarter of 2021 based on management's updated outlook of future cash flows and recorded a revaluation increase of $7.5 million on eight hotels and a revaluation decrease of $0.8 million on two hotels. Property and equipment increased by $6.7 million as a result, with a net increase of $4.4 million included in the consolidated statement of comprehensive income (loss) and a net increase of $2.3 million recorded in the consolidated statement of earnings (loss). No revaluation adjustment was required for six hotels.

The fair value of 12 hotel properties was evaluated using a five-year discounted cash flow model prepared internally. Management engaged third party appraisers for assistance in determining appropriate current discount and terminal capitalization rates, specific to the markets where the Company operates its hotels. In situations where a five-year discounted cash flow model resulted in a fair value that differed significantly from the price per room metrics in recent market transactions, the Company used comparable hotel sales prices, professional judgement, and management expertise to determine the fair value.

The Company's remaining four hotels were revalued in the prior year using third party appraisals. Management concluded that, based on the recent performance of these hotels and the outlook for the coming year, the fair values at December 31, 2021 were materially consistent with those determined in the prior year. Management therefore revalued the properties to the amounts appraised in 2020 with the exception of one property, which commenced a significant renovation in 2021. The appraisal value was increased to reflect the cost of the Company's additional capital investment in this hotel during the year.

Significant assumptions used in the internal discounted cash flow models included the cash flow forecasts, the discount rates and terminal capitalization rates, and in certain situations the comparability of recent hotel sales. The discount rates ranged from 9.8% - 12.5%. The cashflow forecasts were performed on a hotel-by-hotel basis. The forecast in year one of the model was consistent with the Company's fiscal 2022 budget. In years two through five of the internal models, cash flows were based on a gradual recovery as a function of the respective historical results. If the discount rates had been 0.25% higher/lower, the estimated fair value would result in a change of $0.9 million to property and equipment and the revaluation of hotel properties. If the terminal capitalization rates had been 0.25% higher/lower, the estimated fair value would result in a change of $1.6 million to property and equipment and the revaluation of hotel properties. The fair value of the Company's property and equipment will continue to be closely monitored as the pandemic evolves, and management expects additional revaluation increases or decreases as clarity on the Company's outlook is obtained in future periods.

During the prior year, the Company used a combination of third-party appraisals, five-year discounted cash flow forecasts prepared internally, comparable hotel sales prices and professional judgement to revalue its hotel portfolio. Property and equipment was reduced by $11.2 million as a result of revaluations recorded during the year ended December 31, 2020. A reduction of $16.5 million was included in the consolidated statement of earnings (loss) and an increase of $5.3 million was included in the consolidated statement of comprehensive income (loss) during 2020.

Fair value of investment properties and investment properties under construction

The Company's significant investment properties as at December 31, 2021, consist of three office buildings, and the Ottawa Development.

The Company recorded fair value adjustments on its three office buildings during 2021. A decrease in value of $2.1 million was recorded in the statement of earnings (loss) as a result of independent appraisals. A fair value increase of $2.0 million was recorded during the year ended December 31, 2020 as a result of purchase offers received.

The finalization of a development strategy and obtaining an independent appraisal during the year triggered a revaluation of the property, resulting in a net revaluation increase of $10.3 million that is included in the consolidated statement of comprehensive income. The portion of the property attributable to the Ottawa Development was transferred to investment properties under construction immediately thereafter. The portion of property including the hotel and corresponding land remains as property and equipment.

Changes to the fair value of the Company's investment properties and investment properties under construction will occur periodically, based on operating performance, economic activity, regional development opportunities and new competition in the markets in which they operate.

Investment entity

IFRS 10, *Consolidated Financial Statements* defines investment entities, and it allows entities to measure their subsidiaries at FVTPL instead of consolidating the results. Management has assessed the standard and determined that the Company does not meet all criteria outlined in IFRS 10 in order for a parent to be considered an investment entity. The Company consolidates all of its controlled investments.

Business combinations

During 2021, the Company entered into a joint operation. The transaction was treated as a business combination in accordance with *IFRS 3 – Business combinations*. The purchase price allocation requires management to use significant estimates and assumptions, including fair value estimates of assets acquired and liabilities assumed.

While the Company uses its best estimates and assumptions as part of the purchase price allocation to accurately value the assets acquired and liabilities assumed at the business combination date, estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the measurement period, which is the earlier of the date management receives the information it requires or one year from the business combination date, adjustments are recorded to the assets acquired and liabilities assumed.

Changes in any of the assumptions or estimates used in determining the fair value of assets acquired and liabilities assumed could impact the initial amounts assigned to assets and liabilities in the purchase price allocation. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

Taxes

Deferred income tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred income tax assets should be recognized with respect to estimated future taxable income, which impacts the amount of deferred income tax assets recorded related to differences on the tax basis of assets and available non-capital losses. The estimates of future taxable income, the years when the temporary differences are expected to reverse and the tax rates in those years have an impact on the deferred income tax assets and liabilities recorded in the consolidated statements of financial position. Significant estimates and judgments are used in determining the future taxable income, which includes consideration of the history of profitability. Actual results will differ from the amounts estimated for future taxable income.

Management considers both favourable and unfavourable evidence in determining whether or not it is probable that the future economic benefits will flow to the Company and the amount of deferred income tax assets that should be recognized. In making its assessment, management considers past operating results, forecasted future operating results and economic conditions in the locations in which it operates.

Pension benefits and asset ceiling

The costs 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 the consolidated financial statements for the year ended December 31, 2021. Management is also required to make certain assumptions regarding the quantification of the asset ceiling, which impacts the accrued pension benefit recorded on the consolidated statements of financial position.

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 of the Company at the date of the statement of financial position by the number of common shares outstanding at that date. Clarke's method of determining 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.

Due to rounding, numbers presented throughout this document may not sum precisely to the totals provided.

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 by the Company, 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 hotel and ferry operations, such risks and uncertainties include, among others, weather conditions, safety, claims and insurance, uninsured losses, changes in levels of business and commercial travel and tourism, increases in the supply of accommodations in local markets, the recurring need for renovation and improvement of hotel properties, 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.

Clarke Inc.

December 31, 2021 and 2020

Clarke Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at December 31,	**2021** **$**	2020 $
ASSETS		
Current		
Cash and cash equivalents	**18,423**	2,730
Marketable securities *(note 3)*	**2,773**	46,760
Receivables *(note 4)*	**9,533**	3,707
Income taxes receivable	**—**	349
Other assets *(note 5)*	**2,135**	1,636
Asset held-for-sale *(note 6)*	**—**	2,415
Total current assets	**32,864**	57,597
Accrued pension benefit asset *(note 7)*	**54,306**	33,823
Property and equipment *(note 8)*	**178,797**	180,417
Real estate inventory under development *(note 26)*	**53,704**	—
Investment properties *(note 9)*	**48,849**	19,276
Deferred income tax assets *(note 10)*	**13,452**	18,286
Other assets *(note 5)*	**2,657**	1,627
Total assets	**384,629**	311,026
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Short-term indebtedness *(note 11)*	**—**	8,243
Accounts payable and accrued liabilities *(note 12)*	**12,906**	5,432
Income taxes payable	**3,408**	—
Current portion of long-term debt *(note 14)*	**37,751**	6,240
Total current liabilities	**54,065**	19,915
Convertible debentures *(note 13)*	**49,268**	50,754
Long-term debt *(note 14)*	**48,765**	58,056
Construction accounts payable and other liabilities *(note 12)*	**8,390**	—
Lease obligations	**730**	870
Deferred income tax liabilities *(note 10)*	**14,792**	12,827
Total liabilities	**176,010**	142,422
Commitments and contingencies *(note 17)*		
Shareholders' equity		
Share capital *(note 18)*	**85,218**	89,097
Contributed surplus	**7,302**	7,512
Retained earnings	**40,100**	25,093
Accumulated other comprehensive income	**75,999**	46,902
Total shareholders' equity	**208,619**	168,604
Total liabilities and shareholders' equity	**384,629**	311,026

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 (LOSS)

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

Years ended December 31,	**2021**	2020
	$	$
Revenue and other income *(note 2)*		
Hotel and management services	**32,000**	30,525
Provision of services	**9,395**	4,623
Investment and other income (loss) *(note 19)*	**24,603**	(8,216)
	65,998	26,932
Expenses		
Operating expenses *(note 21)*	**22,602**	22,719
Cost of services provided *(note 21)*	**3,686**	2,977
General and administrative expenses *(note 21)*	**2,506**	2,271
Property taxes and insurance *(note 21)*	**1,285**	3,249
Selling costs on property and equipment sales	**—**	23
Share-based payment expense *(note 16)*	**42**	120
Depreciation	**10,143**	11,039
Interest expense and accretion on debt *(note 20)*	**6,008**	6,912
	46,272	49,310
Income (loss) before income taxes	**19,726**	(22,378)
Expense (recovery) of income taxes *(note 10)*	**3,347**	(3,168)
Net income (loss)	**16,379**	(19,210)
Basic earnings (loss) per share:		
(in dollars) (note 18)	**1.12**	(1.21)
Diluted earnings (loss) per share:		
(in dollars) (note 18)	**0.96**	(1.21)

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,	**2021** **$**	2020 $
Net income (loss)	**16,379**	(19,210)
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Remeasurement gains (losses) on defined benefit pension plans, net of income tax *(notes 7, 10)*	**15,795**	4,795
Revaluation gain, net of income tax expense *(notes 2, 8 and 10)*	**13,410**	4,375
Items that may be reclassified subsequently to profit or loss		
Unrealized losses on translation of net investment in foreign operations, net of income tax *(note 9)*	**(108)**	(417)
Other comprehensive income	**29,097**	8,753
Comprehensive income (loss)	**45,476**	(10,457)

See accompanying notes to the consolidated financial statements

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

Years ended December 31,	**2021** **$**	2020 $
OPERATING ACTIVITIES		
Net income (loss)	**16,379**	(19,210)
Adjustments for items not involving cash *(note 22)*	**(13,979)**	17,300
	2,400	(1,910)
Additions to real estate inventory under development *(note 26)*	**(11,962)**	—
Net change in non-cash working capital balances *(note 22)*	**2,019**	(3,941)
Net cash used in operating activities	**(7,543)**	(5,851)
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities *(note 3)*	**73,333**	12,573
Purchase of marketable securities *(note 3)*	**(7,005)**	—
Contribution to joint operation, net of cash acquired *(note 26)*	**(21,083)**	—
Proceeds on disposition of property and equipment	**28**	11,543
Proceeds on disposition of assets held for sale *(note 6)*	**210**	—
Additions of property and equipment	**(6,768)**	(2,046)
Additions to investment properties *(note 9)*	**(10,628)**	(316)
Collections of loans receivable	**1,725**	5,565
Distribution of pension plan surplus *(note 7)*	**1,244**	1,247
Net cash provided by investing activities	**31,056**	28,566
FINANCING ACTIVITIES		
Repurchase of shares for cancellation *(note 18)*	**(5,461)**	(11,276)
Repurchase of convertible debentures	—	(103)
Net repayments of short-term indebtedness	**(8,243)**	(21,818)
Proceeds of long-term debt, net of financing fees *(note 14)*	**13,140**	12,500
Repayment of long-term debt *(note 14)*	**(7,116)**	(1,689)
Principal payments of lease obligation	**(140)**	(129)
Net cash used in financing activities	**(7,820)**	(22,515)
Net change in cash during the year	**15,693**	200
Cash and cash equivalents, beginning of year	**2,730**	2,530
Cash and cash equivalents, end of year	**18,423**	2,730

See accompanying notes to the consolidated financial statements

Clarke Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)

Years ended December 31,	**2021** $	2020 $
Share capital		
Common shares:		
Balance at beginning of year	**89,097**	98,051
Common shares repurchased for cancellation *(note 18)*	**(3,879)**	(8,954)
Balance at end of year	**85,218**	89,097
Contributed surplus		
Balance at beginning of year	**7,512**	7,302
Purchase price (in excess of) less than the book value of common shares repurchased for cancellation *(note 18)*	**(210)**	210
Balance at end of year	**7,302**	7,512
Retained earnings		
Balance at beginning of year	**25,093**	104,511
Net income (loss)	**16,379**	(19,210)
Dividends *(note 3)*	**—**	(58,120)
Purchase price in excess of the book value of common shares repurchased for cancellation *(note 18)*	**(1,372)**	(2,532)
Residual balance of previously expensed equity-settled stock options	**—**	444
Balance at end of year	**40,100**	25,093
Accumulated other comprehensive income		
Balance at beginning of year	**46,902**	38,149
Other comprehensive income	**29,097**	8,753
Balance at end of year	**75,999**	46,902
Share-based payments		
Balance at beginning of year	**—**	1,574
Cash settlement of share-based payments *(note 16)*	**—**	(1,130)
Reclassification to retained earnings of residual balance of previously expensed equity-settled stock options	**—**	(444)
Balance at end of year	**—**	—
Total shareholders' equity	**208,619**	168,604

See accompanying notes to the consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Clarke Inc. (the "Company") was incorporated on December 9, 1997 pursuant to the Canada Business Corporations Act. The head office of the Company is located at 145 Hobsons Lake Drive, Halifax, Nova Scotia. The Company is an investment holding company with investments in a diversified group of businesses, operating primarily in Canada. The Company continuously evaluates the acquisition, retention and disposition of its investments. Changes in the mix of investments should be expected. The Company also has a diverse and significant portfolio of direct real estate holdings across the hospitality, commercial, industrial, and residential sectors. These consolidated financial statements were approved by the Board of Directors on March 2, 2022.

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") as issued by the International Accounting Standards Board. 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, property and equipment and investment properties 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 Holloway Lodging Corporation ("Holloway") and, prior to September 1, 2020, La Traverse Rivière-du-Loup – St. Siméon Limitée ("La Traverse"). La Traverse was amalgamated with the Company effective September 1, 2020. All intercompany transactions have been eliminated on consolidation. All subsidiaries have the same reporting year end as the Company, and all follow the same accounting policies.

The consolidated financial statements also include the Company's share of the assets, liabilities, revenues and expenses of one joint operation (note 26).

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

The Company has elected to use the exemption in *IAS 28 – Investments in associates* ("IAS 28") 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 ("FVTPL"). The Company has designated all publicly-traded securities at FVTPL, 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 (loss).

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

Revenue recognition

Hotel revenue

Hotel revenue is generated from room occupancy, food and beverage services, rental and ancillary services. The Company recognizes revenue when the services are provided to the customer and payment of the transaction price is due, as there are no further performance obligations to be satisfied at that point.

Loyalty programs administered by third-party hotel brands enable guests to earn credit for points redeemable for free accommodations or other benefits at a later date. The Company effectively acts as an agent for these third-party programs. Room revenue is shown net of the cost of these loyalty programs.

Management services revenue

Management services revenue is generated from providing hotel management services to third parties. The Company recognizes revenue when the services are rendered to the customer, typically on a monthly basis and payment of the transaction price is due. The total transaction price of certain contracts includes variable consideration based on certain financial measures being achieved.

Investment management services revenue

Investment management services revenue is generated from providing investment management services to pension plans sponsored by the Company. Revenue is recognized as the services are rendered to the pension plans and payment of the transaction price is due. The total transaction price includes variable consideration based on returns achieved on the assets of the pension plans on an annual basis.

Investment and other income

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. Interest income is recorded using the effective interest rate ("EIR") for all financial instruments measured at amortized cost.

Ferry revenue

Services revenue from the Company's ferry business is recognized upon provision of those services and customer acceptance of those services, as there are no further performance obligations to be satisfied at that point. The ferry revenue is included in provision of services on the consolidated statements of earnings (loss).

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.

Transactions in foreign currencies are initially recorded 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. There were no non-monetary assets or liabilities denominated in foreign currencies as at December 31, 2021, in entities where the functional currency is Canadian dollars. All foreign exchange gains and losses are recorded in other income as incurred.

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

The assets and liabilities of subsidiaries for which the functional currency is not Canadian dollars, 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 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 (loss).

Taxes

Current income tax

Current income tax assets and liabilities for the periods 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 these amounts are those that are enacted or substantively enacted, at the reporting date in the jurisdictions 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 within 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 in respect of taxable temporary differences associated with investments in subsidiaries 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, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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 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.

Property and equipment

Depreciation of property and equipment is provided on a straight-line basis from the date assets are ready to be put into service at rates which will amortize the carrying cost less residual value of the property and equipment over their estimated useful lives. Estimated useful lives and residual values are reviewed at least annually. The estimated useful lives of property and equipment are as follows:

Property and equipment class	Useful life
Buildings and components	15 – 60 years
Furniture, fixtures, and equipment	2 – 10 years
Ferry and vessel dry dock costs	3 – 5 years
Right-of-use assets	Term of the lease

Land is not amortized. Renovations in progress are amortized once they are put into use.

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, with the exception of land and buildings and components, which are accounted for using the revaluation model. Such cost includes the cost of replacing part of the property and equipment. When significant parts of property and equipment 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 expensed as incurred.

Under the revaluation model, increases in fair value are recorded in other comprehensive income (loss) and accumulated in revaluation surplus, except to the extent that they reverse a revaluation decrease previously recorded in the consolidated statement of earnings (loss), in which case the reversal is recorded in the consolidated statement of earnings (loss). Decreases in fair value are charged against other comprehensive income and the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset, and thereafter are recorded in the consolidated statement of earnings (loss).

Land and buildings and components are carried at fair value at the date of revaluation and subsequently depreciated until the next revaluation. The Company applies the net method for adjustment upon revaluation. The net method eliminates accumulated depreciation against the carrying amount of the asset and then revalues the net carrying amount. Depreciation on the carrying amount is charged to the consolidated statement of earnings (loss).

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

Investment properties and investment properties under construction

Investment properties are held either to earn rental income, for capital appreciation (including future re-development) or both, but not for sale in the ordinary course of business. Investment properties are initially measured at cost, including transaction costs, and subsequently measured at fair value for each reporting date. The difference between the fair value at the reporting date and the carrying value is recognized in the consolidated statements of earnings (loss). Under the fair value model, investment properties are not depreciated.

Investment properties under construction include properties that will undergo activities that will take a substantial period to prepare for their intended use. Investment properties under construction are recognized at cost and subsequently remeasured to fair value at each reporting date. Costs include costs that are directly attributable to the asset, including development costs, property taxes and borrowing costs. These costs are capitalized when the activities necessary to prepare an asset for development begin and continue until the date that construction is substantially complete.

Real estate inventory under development

The Company's real estate inventory under development consists of real estate which the Company has a planned strategy to divest of upon completion. Real estate inventory under development is accounted for in accordance with IAS 2 – *Inventories*, and is measured at the lower of cost, including capitalized borrowing costs, and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale and estimated development costs to complete.

The carrying amount of real estate inventory under development is reviewed at each statement of financial position date. Adjustments needed to reduce the carrying amount of the asset to its net realizable value are recognized in the consolidated statements of earnings (loss). These assets are considered long-term when they are not expected to be realized within the next 12 months.

Financial instruments — initial recognition and subsequent measurement

i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IFRS 9 – *Financial Instruments* ("IFRS 9") are classified as financial assets at amortized cost; FVTPL; or fair value through other comprehensive income, as appropriate. The Company determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value plus, in the case of investments not at FVTPL, directly attributable transaction costs. The Company's financial assets include cash and cash equivalents, marketable securities, receivables and loans receivable. Subsequent to initial recognition, all financial assets are carried at amortized cost with the exception of marketable securities, which are carried at FVTPL.

Subsequent measurement

Financial assets at FVTPL

Financial assets at FVTPL are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statements of earnings (loss).

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

Impairment of financial assets at amortized cost

The Company's loans receivable and receivables are included in this category. The Company has elected to use the simplified approach to measure expected credit losses for its receivables which uses a lifetime expected impairment approach. Impairment provisions on receivables are based on credit risk characteristics and days past due, while impairment provisions on loans receivable are based on credit risk characteristics, collateral and speculative and non-speculative historical default rates. Receivables and loans receivable are written off when there is no reasonable expectation of recovery.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at FVTPL, or at amortized cost. 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 financial liabilities recognized at amortized cost, plus directly attributable transaction costs. The Company's financial liabilities include short-term indebtedness, accounts payable and accrued liabilities, share-based payment liabilities, construction accounts payable and other liabilities, convertible debentures and long-term debt, all of which are measured at amortized cost with the exception of share-based payment liabilities, which are measured at fair value. Share-based payment liabilities are included within accounts payable and accrued liabilities on the consolidated statements of financial position.

Subsequent measurement

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 (loss) 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 (loss).

Derecognition and modification

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, such an exchange 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 (loss). If the change of terms is not substantial and is considered a debt modification of the financial liability, the carrying amount of the existing debt liability is adjusted to reflect the revised estimated cash flow payments discounted using the original effective interest rate. The adjustment is recognized as a modification gain or loss in the consolidated statements of earnings (loss).

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 there is an unconditional and 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.

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

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 last bid price, 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 24.

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 (loss), net of any reimbursement.

Convertible debentures

The Company's Series B convertible debentures ("Debentures") are carried at amortized cost using the EIR method. The Debentures are both convertible by the holders and redeemable by the Company (note 13). The fair value of the conversion and redemption options were evaluated when the Company assumed the Debentures in a past business combination. The fair value of the conversion option was determined to be immaterial and as such, was not bifurcated with an equity component. The economic characteristics and risks of the redemption option were determined to be closely related to those of the Debentures. As such, the embedded derivative was not separated from the Debentures and is not accounted for as a derivative.

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. The 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. Impairment losses are recognized in the consolidated statements of earnings (loss).

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 the amount at which it would have been carried after recognizing depreciation had no impairment been recognized. Such a reversal is recognized in the consolidated statements of earnings (loss).

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

Per share information

Basic earnings per share is calculated based on net income using the weighted average number of common shares outstanding during the year. Diluted earnings per share is 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.

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 purchase 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) income charges, net of the income tax effect, applicable to convertible financial liabilities are 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.

Pensions and other post-employment benefits

The Company has two defined benefit pension plans covering full-time employees who commenced employment before September 2003. One plan is federally regulated by the Office of the Superintendent of Financial Institutions and one plan is provincially regulated by Retraite Québec. For certain other employees, the Company has an RRSP and defined contribution 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 (loss). The defined benefit asset comprises the fair value of plan assets 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. 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.

Assets held for sale

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. Property and equipment, once classified as held for sale, is not depreciated or amortized.

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

Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset. When the Company receives non-monetary grants, no amounts are recorded in the consolidated statements of earnings (loss) as the grants are for consumables in the Company's operations.

Joint arrangements

A joint arrangement is defined as an arrangement over which two or more parties have joint control, which is the contractually agreed sharing of control over said arrangement. This exists only when the decisions about the arrangement require the unanimous consent of the parties sharing control. There are two types of joint arrangements: joint ventures and joint operations.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Investments in joint ventures are accounted for using the equity method as described in IAS 28. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The Company recognizes its share of any assets, liabilities, revenues and expenses of the joint operation based on its ownership interest.

The Company's 1111 Atwater Avenue development (the "Project" or "1111 Atwater", described in note 26) is a joint arrangement. Joint control of the arrangement was established by the contractual requirement for unanimous agreement on major decisions relating to the Project. As the Project is not structured through a separate legal vehicle, it is classified as a joint operation under the principles of IFRS 11 – *Joint arrangements.*

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 judgements, estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods.

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.

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

Valuation of property and equipment

Land and buildings and components are revalued on a sufficiently regular basis using third party offers, internal models or external appraisals, when available, so that the carrying amount of an asset does not differ materially from its fair value at each reporting date. The Company has established a methodology to evaluate when circumstances indicate that the carrying amount may differ materially from its fair value, which includes significant changes in operating performance, economic activity, regional development opportunities and new competition in the markets in which each property operates.

The COVID-19 pandemic (the "Pandemic" or "COVID-19") continued to adversely impact the Company's operations during 2021, particularly the hotel operations. While results have improved in 2021, there continues to be significant uncertainty regarding the duration and long-term effects of the Pandemic on the economy, making the potential impact on the Company's future financial results difficult to reliably measure.

The Company began to experience the impact of COVID-19 in its hotel occupancy levels commencing in mid-March 2020 and closed six of its hotels to streamline and manage costs. All six hotels were reopened during the second and third quarters of 2020 and all hotels remained open throughout 2021.

The Company performed a revaluation analysis on its hotels in the fourth quarter of 2021 based on management's updated outlook of future cash flows and recorded a revaluation increase of $7,500 on eight hotels and a revaluation decrease of $800 on two hotels. Property and equipment increased by $6,700 as a result (note 8), with a net increase of $4,400 included in the consolidated statement of comprehensive income (loss) and a net increase of $2,300 recorded in the consolidated statement of earnings (loss). No revaluation adjustment was required for six hotels.

The fair value of 12 hotel properties was evaluated using a five-year discounted cash flow model prepared internally. Management engaged third party appraisers for assistance in determining appropriate current discount and terminal capitalization rates, specific to the markets where the Company operates its hotels. In situations where a five-year discounted cash flow model resulted in a fair value that differed significantly from the price per room metrics in recent market transactions, the Company used comparable hotel sales prices, professional judgement, and management expertise to determine the fair value.

The Company's remaining four hotels were revalued in the prior year using third-party appraisals. Management concluded that, based on the recent performance of these hotels and the outlook for the coming year, the fair values at December 31, 2021 were materially consistent with those determined in the prior year. Management therefore revalued the properties to the amounts appraised in 2020 with the exception of one property, which commenced a significant renovation in 2021. The appraisal value was increased to reflect the additional capital investment in this hotel during the year.

Significant assumptions used in the internal discounted cash flow models included the cash flow forecasts, the discount rates and terminal capitalization rates, and in certain situations the comparability of recent hotel sales. The discount rates ranged from 9.8% - 12.5%. The cashflow forecasts were performed on a hotel-by-hotel basis. The forecast in year one of the model was consistent with the Company's fiscal 2022 budget. In years two through five of the internal models, cash flows were based on a gradual recovery as a function of the respective historical results. If the discount rates had been 0.25% higher/lower, the estimated fair value would result in a change of $900 to property and equipment and the revaluation of hotel properties. If the terminal capitalization rates had been 0.25% higher/lower, the estimated fair value would result in a change of $1,600 to property and equipment and the revaluation of hotel properties. The fair value of the Company's property and equipment will continue to be closely monitored as the Pandemic evolves, and management expects additional revaluation increases or decreases as clarity on the Company's outlook is obtained in future periods.

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

During the prior year, the Company used a combination of third-party appraisals, five-year discounted cash flow forecasts prepared internally, comparable hotel sales prices and professional judgement to revalue its hotel portfolio. Property and equipment was reduced by $11,191 as a result of revaluations recorded during the year ended December 31, 2020 (note 8). A reduction of $16,491 was included in the consolidated statement of earnings (loss) and an increase of $5,300 was included in the consolidated statement of comprehensive income (loss) during 2020.

Fair value of investment properties and investment properties under construction

The Company's significant investment properties as at December 31, 2021, consist of three office buildings, and a multi-building residential rental complex under construction (the "Ottawa Development").

The Company recorded fair value adjustments on its three office buildings during 2021. A decrease in value of $2,056 was recorded in the statement of earnings (loss) as a result of independent appraisals. A fair value increase of $2,043 was recorded during the year ended December 31, 2020 as a result of purchase offers received.

Material construction activities related to the Ottawa Development on excess land adjacent to the Company's Travelodge® hotel in Ottawa, ON, began in May 2021. The finalization of a development strategy and obtaining an independent appraisal during the year triggered a revaluation of the property, resulting in a net revaluation increase of $10,297 that is included in the consolidated statement of comprehensive income. The portion of the property attributable to the Ottawa Development was transferred to investment properties under construction immediately thereafter. The portion of property including the hotel and corresponding land remains as property and equipment.

Changes to the fair value of the Company's investment properties and investment properties under construction will occur periodically, based on operating performance, economic activity, regional development opportunities and new competition in the markets in which they operate.

Investment entity

IFRS 10, *Consolidated Financial Statements* defines investment entities, and it allows entities to measure their subsidiaries at FVTPL instead of consolidating the results. Management has assessed the standard and determined that the Company does not meet all criteria outlined in IFRS 10 in order for a parent to be considered an investment entity. The Company consolidates all of its controlled investments.

Business combinations

During 2021, the Company entered into a joint operation (note 26). The transaction was treated as a business combination in accordance with *IFRS 3 – Business combinations*. The purchase price allocation requires management to use significant estimates and assumptions, including fair value estimates of assets acquired and liabilities assumed.

While the Company uses its best estimates and assumptions as part of the purchase price allocation to accurately value the assets acquired and liabilities assumed at the business combination date, estimates and assumptions are inherently uncertain and subject to refinement. As a result, during the measurement period, which is the earlier of the date management receives the information it requires or one year from the business combination date, adjustments are recorded to the assets acquired and liabilities assumed.

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

Changes in any of the assumptions or estimates used in determining the fair value of assets acquired and liabilities assumed could impact the initial amounts assigned to assets and liabilities in the purchase price allocation. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

Taxes

Deferred income tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred income tax assets should be recognized with respect to estimated future taxable income, which impacts the amount of deferred income tax assets recorded related to differences on the tax basis of assets and available non-capital losses. The estimates of future taxable income, the years when the temporary differences are expected to reverse and the tax rates in those years have an impact on the deferred income tax assets and liabilities recorded in the consolidated statements of financial position. Significant estimates and judgments are used in determining the future taxable income, which includes consideration of the history of profitability. Actual results will differ from the amounts estimated for future taxable income.

Management considers both favourable and unfavourable evidence in determining whether or not it is probable that the future economic benefits will flow to the Company and the amount of deferred income tax assets that should be recognized. In making its assessment, management considers past operating results, forecasted future operating results and economic conditions in the locations in which it operates.

Pension benefits and asset ceiling

The costs 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. Management is also required to make certain assumptions regarding the quantification of the asset ceiling, which impacts the accrued pension benefit recorded on the consolidated statements of financial position.

3. MARKETABLE SECURITIES

During the year ended December 31, 2021, the Company purchased marketable securities at a cost of $7,005 (2020 – nil) and sold marketable securities for net proceeds of $73,333 (2020 – $12,573).

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

3. MARKETABLE SECURITIES (CONT'D)

During the year ended December 31, 2020, the Company completed a dividend-in-kind on its common shares in the form of a pro rata distribution of the 5,386,440 common shares of TerraVest Industries Inc. ("Terravest") that it owned. The dividend was paid to shareholders of the Company in the amount of $58,120, which was the closing price of Terravest common shares on the record date. The Board of Directors of the Company determined the fair market value of the dividend to be $5.49 per Clarke common share when the dividend was announced. In accordance with the Fourth Amended and Restated Trust Indenture governing the Company's unsecured subordinated convertible debentures, the conversion price of the debentures was reduced by the fair market value of the dividend of $5.49 and is now $13.74.

4. RECEIVABLES

	2021 **$**	2020 $
Receivables from sales and services	**4,350**	1,218
Less: expected credit losses	**(16)**	(17)
Receivables from sales and services – net	**4,334**	1,201
Investment income receivable	**187**	59
Sales tax receivables	**1,615**	90
Government grants *(note 24)*	**2,623**	2,213
Other receivables	**774**	144
	9,533	3,707

5. OTHER ASSETS

	2021 **$**	2020 $
Other current assets		
Inventories	**78**	92
Prepaid expenses and deposits	**1,807**	819
Loans receivable	**250**	725
	2,135	1,636
Other non-current assets		
Loans receivable	**2,202**	1,250
Intangible and other assets	**455**	377
	2,657	1,627

Loans receivable have remaining terms ranging from one to five years and bear interest at a weighted average rate of 9.4%.

6. ASSET HELD-FOR-SALE

Prior to December 31, 2020, the Company entered into an agreement to sell a hotel which was leased, on a triple net basis. The sale closed on January 15, 2021 for gross proceeds of $2,430. After closing costs and a vendor take-back loan receivable of $2,205, the net cash proceeds were $210.

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

7. EMPLOYEE FUTURE BENEFITS

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 valuations of both defined benefit pension plans for funding purposes was as at December 31, 2020.

During the year, the Company received a distribution from one of its pension plans in the amount of $1,244 (2020 – $1,247) in accordance with the surplus withdrawal rules of the Quebec Supplemental Pension Plans Act.

Defined benefit plan assets

Fair value of plan assets	**2021** **$**	2020 $
Balance, beginning of year	**88,245**	81,044
Interest income	**2,146**	2,453
Employee contributions	**2**	2
Benefits paid	**(2,598)**	(2,993)
Non-investment management fees	**(360)**	(403)
Remeasurement gains	**18,171**	9,389
Surplus distribution	**(1,244)**	(1,247)
Balance, end of year	**104,362**	88,245

Defined benefit plan obligations

Accrued benefit obligation	**2021** **$**	2020 $
Balance, beginning of year	**54,422**	52,489
Current service cost	**473**	503
Interest cost	**1,340**	1,583
Employee contributions	**2**	2
Benefits paid	**(2,598)**	(2,993)
Remeasurement (gains) losses	**(3,583)**	2,838
Balance, end of year	**50,056**	54,422

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

	2021 **$**	2020 $
Fair value of plan assets	**104,362**	88,245
Accrued benefit obligation	**(50,056)**	(54,422)
Funded status of plans – accrued pension benefit asset	**54,306**	33,823

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

7. EMPLOYEE FUTURE BENEFITS (CONT'D)

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

For the years ended December 31	2021 $	2020 $
Current service cost	**(473)**	(503)
Net interest on surplus	**806**	870
Provision for non-investment management fees	**(360)**	(403)
Defined benefit expense recognized	**(27)**	(36)

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

For the years ended December 31	2021 $	2020 $
Net remeasurement gains	**21,754**	6,551
Deferred income tax expense	**(5,959)**	(1,756)
Defined benefit recovery recognized	**15,795**	4,795

Significant assumptions

	2021 %	2020 %
Accrued benefit obligation:		
Discount rate	**2.90**	2.50
Rate of compensation increase	**2.50 – 4.00**	2.50 – 4.00
Benefit costs for the year:		
Discount rate	**2.50**	3.10
Rate of compensation increase	**2.50 – 4.00**	2.50 – 4.00

The Company manages a portion of the benefit plans' investment portfolio (note 15). The Company earns administration and management fees that includes an annual performance fee if returns on plan assets exceed certain thresholds.

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

8. PROPERTY AND EQUIPMENT

Year ended December 31, 2021	**Land $**	**Buildings and components $**	**Ferry and vessel dry dock costs $**	**Furniture, fixtures and equipment $**	**Right-of-use assets $**	**Renovations in progress $**	**Total $**
Beginning balance	**31,184**	**135,033**	**59**	**9,315**	**874**	**3,952**	**180,417**
Additions	**—**	**240**	**—**	**953**	**—**	**9,713**	**10,906**
Acquired in business combination *(note 26)*	**—**	**146**	**—**	**—**	**—**	**—**	**146**
Disposals	**—**	**(4)**	**—**	**(15)**	**(259)**	**(73)**	**(351)**
Revaluations *(note 2)*	**19,605**	**(2,608)**	**—**	**—**	**—**	**—**	**16,997**
Transfers *(notes 2 and 9)*	**(10,217)**	**—**	**—**	**—**	**—**	**(8,997)**	**(19,214)**
Depreciation	**—**	**(6,684)**	**(59)**	**(3,253)**	**(108)**	**—**	**(10,104)**
Ending balance	**40,572**	**126,123**	**—**	**7,000**	**507**	**4,595**	**178,797**

Valuation	**40,572**	**127,973**	**—**	**—**	**—**	**—**	**168,545**
Cost	**—**	**—**	**4,657**	**16,935**	**738**	**4,595**	**26,925**
Accumulated depreciation	**—**	**(1,850)**	**(4,657)**	**(9,935)**	**(231)**	**—**	**(16,673)**
Net book value	**40,572**	**126,123**	**—**	**7,000**	**507**	**4,595**	**178,797**

Year ended December 31, 2020	Land $	Buildings and components $	Ferry and vessel dry dock costs $	Furniture, fixtures and equipment $	Right-of-use assets $	Renovations in progress $	Total $
Beginning balance	30,546	164,359	411	12,975	1,032	3,275	212,598
Additions	—	185	—	678	—	677	1,540
Disposals	(227)	(10,547)	—	(754)	—	—	(11,528)
Revaluations *(note 2)*	865	(12,056)	—	—	—	—	(11,191)
Depreciation	—	(6,908)	(352)	(3,584)	(158)	—	(11,002)
Ending balance	31,184	135,033	59	9,315	874	3,952	180,417

Valuation	31,184	135,033	—	—	—	—	166,217
Cost	—	—	4,657	16,013	1,143	3,952	25,765
Accumulated depreciation	—	—	(4,598)	(6,698)	(269)	—	(11,565)
Net book value	31,184	135,033	59	9,315	874	3,952	180,417

As at December 31, 2021, the net book value of the Company's land and buildings and components would have been $19,685 and $126,262, respectively, had the Company used the cost model, and the net book value of property and equipment would have been $158,049.

During the year ended December 31, 2020, Holloway sold the Best Western® hotel in Grande Prairie, AB to a company controlled by the Company's Chairman and his immediate family member for gross proceeds of $11,500. The Company recorded a revaluation gain of $609 on the consolidated statements of earnings (loss) upon the close of the transaction.

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

9. INVESTMENT PROPERTIES

	Buildings **$**	**Vacant land** **$**	**Investment properties under construction** **$**	**Total** **$**
Carrying value – January 1, 2021	**19,109**	**167**	**—**	**19,276**
Fair value adjustments	**(2,056)**	**—**	**—**	**(2,056)**
Additions	**82**	**—**	**12,322**	**12,404**
Transfers *(notes 2 and 8)*	**—**	**—**	**19,214**	**19,214**
Capitalized borrowing costs	**—**	**—**	**136**	**136**
Foreign exchange impact	**(125)**	**—**	**—**	**(125)**
Carrying value – December 31, 2021	**17,010**	**167**	**31,672**	**48,849**

	Buildings $	Vacant land $	Investment properties under construction $	Total $
Carrying value – January 1, 2020	19,709	167	—	19,876
Fair value adjustments	2,033	—	—	2,033
Additions	316	—	—	316
Foreign exchange impact	(434)	—	—	(434)
Reclassified to assets held-for-sale	(2,515)	—	—	(2,515)
Carrying value – December 31, 2020	19,109	167	—	19,276

10. INCOME TAXES

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

Consolidated statements of earnings (loss)	**2021** **$**	2020 $
Current income tax		
Current income tax charge	**3,738**	77
Adjustments in respect of current income tax of previous year	**39**	(100)
Deferred income tax		
Relating to origination and reversal of temporary differences	**892**	(7,853)
Relating to the change in recoverable amount of a deferred income tax asset	**(1,322)**	4,708
Provision (recovery) of income taxes	**3,347**	(3,168)

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

10. INCOME TAXES (CONT'D)

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

	2021	2020
	$	$
Provision (recovery) of income taxes at statutory rate of 27.14% (2020 – 27.63%)	**5,354**	(6,183)
Increase (decrease) from statutory rate:		
Effect of difference in statutory rates of subsidiaries	**49**	464
Non-taxable component of realized/unrealized investment gains	**(3,562)**	(563)
Non-deductible expenses	**15**	369
Benefit of previously unrecognized deferred income tax asset	**791**	4,708
Effect of prior year tax adjustments	**676**	(1,939)
Other	**24**	(24)
Provision (recovery) of income taxes at effective rate	**3,347**	(3,168)

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

Year ended December 31, 2021	**Deferred income tax asset (liability) beginning of year**	**Recognized directly in equity**	**Recognized directly in earnings**	**Deferred income tax asset (liability) end of year**
	$	**$**	**$**	**$**
Intangible assets	**158**	**—**	**(22)**	**136**
Marketable securities	**(4,966)**	**—**	**4,933**	**(33)**
Property and equipment	**9,620**	**(1,287)**	**(566)**	**7,767**
Employee future benefits	**(9,051)**	**(5,959)**	**215**	**(14,795)**
Long-term debt and Debentures	**284**	**—**	**(387)**	**(103)**
Losses carried forward	**9,414**	**—**	**(3,776)**	**5,638**
Other	**—**	**17**	**33**	**50**
	5,459	**(7,229)**	**430**	**(1,340)**
Deferred income tax assets	**18,286**	**(1,287)**	**(3,547)**	**13,452**
Deferred income tax liabilities	**(12,827)**	**(5,942)**	**3,977**	**(14,792)**
	5,459	**(7,229)**	**430**	**(1,340)**

Year ended December 31, 2020	Deferred income tax asset (liability) beginning of year	Recognized directly in equity	Recognized directly in earnings	Deferred income tax asset (liability) end of year
	$	$	$	$
Intangible assets	73	—	85	158
Marketable securities	(1,355)	—	(3,611)	(4,966)
Property and equipment	7,778	(873)	2,715	9,620
Employee future benefits	(8,147)	(1,756)	852	(9,051)
Long-term debt and Debentures	354	—	(70)	284
Losses carried forward	6,229	—	3,185	9,414
Other	11	—	(11)	—
	4,943	(2,629)	3,145	5,459
Deferred income tax assets	13,222	—	5,064	18,286
Deferred income tax liabilities	(8,279)	(2,629)	(1,919)	(12,827)
	4,943	(2,629)	3,145	5,459

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

10. INCOME TAXES (CONT'D)

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, expected generation of taxable income and tax planning opportunities as support for the recorded amounts.

As at December 31, 2021, there was no deferred income tax asset recognized for deductible 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 deductible temporary differences will not reverse in the foreseeable future. The deductible temporary differences associated with investments in subsidiaries for which a deferred income tax asset has not been recognized aggregate to $18,257 (2020 – deferred income tax liability of $15,654).

As at December 31, 2021, the Company had non-capital losses carried forward for tax purposes of $20,626 (2020 – $32,970) in Canada and US$11,943 (2020 – US$7,786) in the United States and capital losses carried forward for tax purposes of nil (2020 – $4,179).

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

	2021 **$**	2020 $
Property and equipment	**2,212**	2,430
Marketable securities	**—**	3,669
Non-capital and capital loss carry forwards	**3,113**	2,286
Total	**5,325**	8,386

11. SHORT-TERM INDEBTEDNESS

The Company maintains two credit facilities with Canadian chartered banks. The first credit facility is secured with the Company's marketable securities, three investment properties and five hotel properties. The availability is determined by a borrowing base calculation, has a maximum borrowing capacity of $40,000 and bears interest at prime plus 1.50%, or based on a spread to banker's acceptance. The Company had not drawn on the credit facility as at December 31, 2021 (2020 – $8,243). The aggregate carrying amount of these secured assets as at December 31, 2021 was $102,230 (2020 – $131,446).

The second credit facility has a maximum borrowing capacity of $15,000 and bears interest at prime plus 1.50%. As at December 31, 2021 and 2020, the Company had not drawn on this facility. This facility and a corresponding mortgage payable (note 14) are secured by a registered charge on five hotel properties with a carrying value of $64,400 (2020 – $52,934). This facility is subject to an annual review and matures September 2022. Each individual draw must be repaid within one year.

Any decline in the fair value or operations of the pledged assets may limit the Company's access to the full amount of the short-term facilities.

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2021	2020
	$	$
Accounts payable and accrued liabilities		
Trade payables	**4,734**	1,107
Accrued liabilities	**8,011**	4,205
Share-based payment liability	**161**	120
	12,906	5,432

Construction accounts payable and other liabilities		
Construction accounts payable	**7,573**	—
Condominium deposits	**817**	—
	8,390	—

Construction accounts payable include amounts payable and holdbacks payable to vendors that are due in more than 12 months. Condominium deposits represent advances made by purchasers of real estate inventory under development (note 26).

13. CONVERTIBLE DEBENTURES

The Company's outstanding Debentures bear interest at 6.25% payable semi-annually on April 30th and October 31st and have a face value of $50,754 as at December 31, 2021 (2020 – $50,754). The Debentures are publicly traded under the symbol CKI.DB and are convertible into 72.78 Clarke common shares per $1,000 of principal (amount not in thousands) at a conversion price of $13.74 per Clarke common share. The Company has the option to repay the principal amount of the Debentures at maturity or redeem the Debentures, in whole or in part in cash or by issuing common shares of the Company. The number of common shares to be issued is calculated by dividing the aggregate principal amount by 95% of the current market price of the Company's common shares (calculated in accordance with the indenture).

On September 20, 2021, holders of the Debentures approved an amendment to the terms of the Debentures, which extended the maturity date from February 28, 2023 to January 1, 2028, and amended the interest rate from 6.25% to 5.50% beginning on April 30, 2023. The amendment took effect on September 30, 2021. As a result of the amendment, a gain on modification of $1,445 was recognized in the consolidated statement of earnings (loss).

On March 13, 2020, the Company initiated a normal course issuer bid ("NCIB") to repurchase a maximum of $4,814 principal amount of its Debentures. The NCIB expired on March 12, 2021, and the Company had repurchased $112 principal amount as at December 31, 2020. On April 1, 2021, the Company commenced a NCIB to repurchase a maximum of $4,431 principal amount of its Debentures. The NCIB expires on March 31, 2022 and no principal had been repurchased as at December 31, 2021.

14. LONG-TERM DEBT

During the year ended December 31, 2021, two mortgages totalling $36,387 were reclassified to current on the consolidated statement of financial position, as they mature within 12 months. The Company anticipates extending these mortgages in advance of their maturity.

During the year ended December 31, 2020, the Company received approval from several lenders to defer principal repayments and interest on certain term loans and mortgages. The Company requested the deferrals to improve short-term cash flows in response to the Pandemic. As a result, the Company capitalized $648 of deferred interest to long-term debt during the year ended December 31, 2020.

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

14. LONG-TERM DEBT (CONT'D)

	2021 **$**	2020 $
Term loan, original amount of $4,000, secured by fixed charge against ferry, *MV Trans-Saint-Laurent*, machinery, tools, vehicles, and intellectual property.	**—**	2,000
Mortgages payable, with a combined face value of $44,585, bearing interest at a weighted average rate of 4.25% and maturing on various dates from September 2022 to February 2030. Individual first charges on 10 hotel properties with a carrying value of $108,989 have been pledged as security.	**44,811**	49,796
Term loan, original amount of $12,500, obtained through the Co-Lending Program within the Business Credit Availability Program, payable in monthly principal instalments of $106 which commenced in December 2021, due November 2023, bearing interest at prime plus 1.50% (3.95% as at December 31, 2021), secured by a second lien on three investment properties and five hotel properties.	**12,394**	12,500
Construction mortgage payable, acquired in a joint operation, with a maximum borrowing limit of $166,950 with interest recapitalized up to a maximum interest reserve of $11,500. Bears interest at the 30-day Canadian Dollar Offered Rate ("CDOR") plus 2.60%, subject to a minimum interest rate of 4.25%. The interest rate at December 31, 2021 was 4.25%. To be repaid with the sale proceeds of the secured real estate in preference to the Company and its partners on 1111 Atwater (note 26).	**29,311**	—
Total long-term debt	**86,516**	64,296
Less: current portion of long-term debt	**(37,751)**	(6,240)
Long-term portion	**48,765**	**58,056**

The following table summarizes significant changes in long-term debt:

	2021 **$**	2020 $
Total long-term debt – beginning balance	**64,296**	52,866
Assumed with joint operation *(note 26)*	**15,470**	—
Proceeds from construction mortgage, net of financing fees	**13,152**	12,500
Repayment of long-term debt	**(7,116)**	(1,689)
Capitalized deferred interest	**—**	648
Deferred financing fees capitalized	**(12)**	—
Capitalized interest on construction mortgage	**701**	—
Accretion of deferred financing fees	**192**	145
Amortization of fair value increment	**(167)**	(174)
Total long-term debt – ending balance	**86,516**	64,296

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

15. 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:

(i) The Company was a party to rental and information technology agreements with companies owned by the Company's Chairman and his immediate family member. During 2021, the Company paid $239 (2020 – $301) under the agreements.

(ii) The Company provides administrative and asset management services to two pension plans it sponsors and charged $2,791 (2020 – $519) for services provided during the year.

(iii) During the year, the Company purchased marketable securities through the facilities of the Toronto Stock Exchange from the Clarke Inc. Master Trust (the "Master Trust"), which holds the units of the pension plans administered by the Company. The purchase totalling US$1,956 was made for investment purposes.

(iv) The Company provided management services to a hotel owned by the Company's Chairman and his immediate family member for fees of $119 (2020 – $10).

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

Year ended December 31, 2021	Board of directors $	Officers $	**Total** **$**
Salary and fees	99	475	**574**
Pension value	747	7	**754**
Total	846	482	**1,328**

16. 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, 2021, there were 50,000 options outstanding, of which 33,333 were exercisable.

	Year ended December 31, 2021 **#**	**Weighted Average Exercise Price** **$**	Year ended December 31, 2020 #	Weighted Average Exercise Price $
Outstanding, beginning of period	**150,000**	**8.77**	425,000	10.69
Exercised	—	—	(250,000)	8.19
Expired	**(33,333)**	**8.77**	—	—
Forfeited	**(66,667)**	**8.77**	(25,000)	14.26
Outstanding, end of period	**50,000**	**8.77**	150,000	8.77
Exercisable	**33,333**	**8.77**	50,000	8.77

The options exercised during the year ended December 31, 2020 were settled in cash, and at that time the Company changed the measurement of share-based payments from the equity-settled method to the cash-settled method accordingly. The compensation expense for options outstanding during the year ended December 31, 2021 was $42 (2020 – $120).

17. COMMITMENTS AND CONTINGENCIES

Commitments

Under the terms of the Company's hotel franchise agreements, which expire at various dates through to 2036, franchise fees are due to franchise companies on 15 of the Company's 16 hotels. The franchise fees paid to franchisors are a function of hotel revenue.

Contingencies

In the course of the Company's hospitality services, it is involved in administrative proceedings, litigations and claims. In September 2015, the subsidiary was served with a personal injury claim in the Alberta Court of Queen's Bench seeking over $10,000 in damages. The Company believes the claims are without merit, there are valid defences to any actions or the outcomes will not have a material impact on the consolidated statements of financial position or results of operations. The Company intends to fully defend its interests and take all other action available to it. The outcome of the claims is subject to future court proceedings, and it is not practicable to determine an estimate of the possible financial effect, if any, at this time with sufficient reliability. Accordingly, no amounts have been recorded related to these claims.

18. SHARE CAPITAL AND EARNINGS PER SHARE

As at and for the year ended December 31	**2021**		2020	
	# of shares	**$**	# of shares	$
Authorized				
Unlimited number of common shares – no par value				
Unlimited number of First Preferred shares				
Unlimited number of Second Preferred shares				
Issued				
Outstanding common shares, beginning of year	**15,057,892**	**89,097**	16,571,184	98,051
Common shares repurchased for cancellation	**(645,923)**	**(3,879)**	(1,513,292)	(8,954)
Outstanding common shares, end of year	**14,411,969**	**85,218**	15,057,892	89,097

Earnings per share

	2021			2020		
	Earnings	**Weighted average shares (in thousands)**	**Per share amount**	Loss	Weighted average shares (in thousands)	Per share amount
	$	**#**	**$**	$	#	$
Basic earnings (loss) per share	**16,379**	**14,673**	**1.12**	(19,210)	15,899	(1.21)
Interest, net of income taxes, on assumed conversion of Debentures	**2,283**	**3,694**		—	—	
Gain, net of accretion and tax, on modification of Debentures	**(998)**	**—**		—	—	
Diluted earnings (loss) per share	**17,664**	**18,367**	**0.96**	(19,210)	15,899	(1.21)

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

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

All potentially dilutive securities issued relate to the Company's stock options and Debentures. The stock options were antidilutive for the years ended December 31, 2021 and 2020, and the Debentures were dilutive for the year ended December 31, 2021 and antidilutive for the year ended December 31, 2020.

Common share purchases

During the year ended December 31, 2021, the Company purchased for cancellation 645,923 (2020 – 1,513,292) common shares at a cost of $5,461 (2020 – $11,276). The purchase price in excess of the historical book value of the shares in the amount of $1,372 (2020 – $2,532) has been charged to retained earnings, $210 was charged to contributed surplus (2020 – $210 added to contributed surplus) and $3,879 (2020 – $8,954) has been charged to share capital. The common share repurchases in the current year were completed under the Company's substantial issuer bid and an NCIB, and the repurchases in the prior year were completed under an NCIB and a share restructuring, described below.

Share restructuring

During the year ended December 31, 2020, the Company completed a consolidation and subsequent share split of its common shares in order to eliminate a large number of small and odd-lot shareholders (the "Share Restructuring"). The basis of the consolidation of common shares was one post-consolidation common share for each 1,000 pre-consolidation common share. Holders of fewer than 1,000 common shares who did not increase their holdings to 1,000 or more common shares prior to the consolidation date ceased to hold common shares and were paid cash consideration equal to the number of pre-consolidation shares held, multiplied by an amount equal to the volume weighted average trading price of the common shares for the twenty trading days preceding the consolidation. Immediately following the consolidation, the remaining common shares were split on the basis of 1,000 post-split common shares for each one post-consolidation common share. The end result was that those shareholders who held 1,000 or more common shares prior to the Share Restructuring would retain the same number of shares afterwards.

The Company paid $2,038 in cash consideration for 363,893 common shares, or $5.60 per common share, during the year ended December 31, 2020 as part of the Share Restructuring.

19. INVESTMENT AND OTHER INCOME (LOSS)

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

	2021 **$**	2020 $
Unrealized losses on investments	**(8,646)**	(24,585)
Realized gains on investments	**30,959**	30,354
Revaluation gain (loss) on hotel properties	**2,300**	(16,491)
Fair value adjustment on investment properties	**(2,023)**	2,070
Interest income	**753**	438
Pension expense *(note 7)*	**(27)**	(36)
Gain (loss) on disposal of assets	**(184)**	44
Gain on modification of Debentures	**1,445**	—
Foreign exchange gains (losses)	**26**	(19)
Gain on repurchase of Debentures	**—**	9
	24,603	(8,216)

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

20. INTEREST EXPENSE

Interest expense is comprised of the following:

	2021	2020
	$	$
Interest on short-term indebtedness	**88**	1,193
Interest on long-term debt and Debentures	**5,666**	5,558
Accretion	**254**	161
	6,008	6,912

21. EXPENSES BY NATURE

A summary of operating expenses, costs of services provided, general and administrative expenses, and property taxes and insurance is presented below:

	2021	2020
	$	$
Salaries, wages and employee benefits, net of government assistance of $6,448 (2020 – $6,174)	**10,370**	11,496
Materials, supplies, repairs and utilities	**10,835**	10,101
Food, beverage and service costs	**1,374**	1,696
Royalty and franchise fees	**1,843**	1,573
Property taxes, net of government assistance of $1,574 (2020 – $380)	**1,157**	2,583
Other general and administrative, net of government assistance of nil (2020 – $371)	**2,197**	1,474
Professional fees	**1,623**	978
Information technology and support	**552**	663
Insurance, net of government assistance of $525 (2020 – $125)	**128**	666
	30,079	31,230

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

22. SUPPLEMENTAL CASH FLOW INFORMATION

Adjustments for items not involving cash	**2021** **$**	2020 $
Realized/unrealized gains on investments *(note 19)*	**(22,313)**	(5,769)
Depreciation	**10,143**	11,039
Revaluation of hotel properties *(note 8)*	**(2,300)**	16,491
Fair value adjustment on investment properties *(note 9)*	**2,056**	(2,070)
Deferred income tax recovery *(note 10)*	**(430)**	(3,145)
Share-based payment expense *(note 16)*	**42**	120
Amortization of fair value increments from acquisition	**(167)**	(174)
Accretion on long-term debt and convertible debentures	**254**	145
Unrealized foreign exchange (gains) losses	**(30)**	9
Pension expense *(note 7)*	**27**	36
Loss (gain) on disposal of assets *(note 19)*	**184**	(44)
Gain on repurchase of convertible debentures	**—**	(9)
Capitalized deferred interest *(note 14)*	**—**	648
Selling costs on property and equipment sales	**—**	23
Gain on modification of convertible debentures *(note 13)*	**(1,445)**	—
	(13,979)	17,300

Net changes in non-cash working capital balances	**2021** **$**	2020 $
Receivables	**(3,663)**	234
Income taxes receivable	**349**	(349)
Other assets	**(276)**	(32)
Accounts payable and accrued liabilities	**2,201**	(2,516)
Income taxes payable	**3,408**	(148)
Settlement of share-based liability *(note 16)*	**—**	(1,130)
	2,019	(3,941)

	2021 **$**	2020 $
Income taxes paid	**350**	182
Interest received	**490**	236
Interest paid	**5,813**	6,169

23. CAPITAL DISCLOSURES

The Company's capital consists of shareholders' equity and interest-bearing debt. The objectives of the Company's capital management program are to maintain a level of capital that complies with existing debt covenants, optimizes the cost of capital, funds its business strategies, provides returns to shareholders and builds long-term shareholder value. 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. The Company is subject to financial covenants on its short-term credit facilities, and certain of its mortgages payable and term loans. There are restrictive covenants for the Company that are governed by a maximum adjusted tangible net worth ratio (1.25:1.00), and debt service coverage ratio to exceed various levels ranging from 1.20 – 1.40. For the year ended December 31, 2021, all of the restrictive covenants measured on an annual basis were in compliance.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The methods and assumptions used in estimating the fair value of mortgages payable, convertible debentures and the share-based liability are as follows:

Mortgages payable

The fair value is determined using internal valuation techniques which incorporate the discounted future cash flows using discount rates that reflect current market conditions for debt instruments with similar interest rates, terms and risk. The fair values do not necessarily represent the amounts the Company might pay in actual market transactions. The carrying value and fair value of the Company's outstanding mortgages payables at December 31, 2021 was $86,516 and $86,902, respectively.

Convertible debentures

The fair value of the convertible debentures is based on the quoted market price for the debentures. As at December 31, 2021, the carrying value and fair value of the convertible debentures was $49,268 and $51,211, respectively.

Share-based payment liability

The fair value is determined using the quoted market price for the shares of the Company, the Black-Scholes option pricing model and internal valuation techniques which incorporates the Company's historic share price in calculating volatility.

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.

The following details the fair value hierarchy classification for the Company's assets carried at fair value on the consolidated statements of financial position:

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

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

		Fair value at December 31, 2021		
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Marketable securities	**2,773**	**2,773**	**—**	**—**
Property and equipment	**166,695**	**—**	**—**	**166,695**
Investment properties	**48,849**	**—**	**—**	**48,849**
	218,317	**2,773**	**—**	**215,544**

		Fair value at December 31, 2020		
Description	Total	Level 1	Level 2	Level 3
Marketable securities	46,760	46,760	—	—
Property and equipment	166,217	—	—	166,217
Investment properties	19,276	—	—	19,276
	232,253	46,760	—	185,493

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, 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. 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 will vary as a result of changes in market prices of the investments. The carrying values of investments subject to equity price risk are based on quoted market prices as of the consolidated statements 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 price change**	**After-tax impact on net income**
$	**%**	**$**	**$**
2,773	**10% increase**	**3,050**	**243**
2,773	**10% decrease**	**2,496**	**(243)**

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.

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

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

Interest rate risk

The Company is exposed to interest rate risk on its lending and borrowing activities. It manages its exposure to interest rate risk by primarily using fixed rate debt or debt with a fixed-rate option, so cash flows are not impacted significantly by a change in interest rates. The weighted average interest rate on its mortgages payable and term loan is 4.21% with a weighted average maturity of 2.1 years.

The Company has a term loan, mortgages and revolving credit facilities at floating rates. As at December 31, 2021, the after-tax, annualized net income effect of a 1% change in interest rates would have been $304 on floating rate debt of $41,943.

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 the opportunity to manage its exposure to foreign exchange risk by entering into foreign exchange contracts. As at December 30, 2021 and 2020, the Company did not have any forward contracts outstanding to sell US dollars.

The Company has investments throughout North America, and as such is exposed to movements in the US/Canadian exchange rate. As at December 31, 2021, the effect of a 5% change in the US/Canadian exchange rate on after-tax consolidated comprehensive income would have been $109, related primarily to marketable securities held by the Company.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations. The Company believes it has access to sufficient capital through cash on hand, operating cash flows and existing or other borrowing facilities to meet these obligations. The Company monitors and forecasts its cash balances and cash flows generated from operations to meet its required obligations. Cash flow forecasting for the Hospitality segment is performed at the hotel level and aggregated at head office. During the year, the Company amended one of its credit facilities to add an unencumbered hotel as security to increase the borrowing limit by $5,000. As at December 31, 2021, the Company had cash of $18,423 and available unused facilities totaling $55,000.

The following table shows the current timing of contractual payments of the Company's liabilities:

	Due within 1 year	1 to 3 years	3 to 5 years	After 5 years
	$	$	$	$
Accounts payable and accrued liabilities	12,377	—	—	—
Convertible debentures interest	3,172	5,773	5,583	3,257
Convertible debentures	—	—	—	50,754
Lease obligations	189	290	256	174
Long-term debt	37,860	42,016	4,945	1,695
Interest on long-term debt	2,068	1,041	218	103
Construction accounts payable	—	7,573	—	—
	55,666	56,693	11,002	55,983

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

Management estimates that current liquidities and forecasted cash flows will be sufficient to meet the Company's obligations, commitments and budgeted expenditures for the next 12 months. The Company has certain existing financial ratios to meet with respect to its long-term debt and credit facilities. As at December 31, 2021, all of the financial ratios were in compliance.

The Company continues to take the following actions to support its liquidity position in response to the Pandemic:

- During 2020, the Company initiated a company-wide cost and capital expenditure reduction program. We have continued to seek opportunities for cost reduction in the current year.
- During 2021, the Company extended the maturity date of its publicly-traded convertible debentures to January 1, 2028, and lowered the interest rate from 6.25% to 5.50% starting April 1, 2023.
- The Company has recognized $9,282 of federal, provincial and territorial government grants in the consolidated statements of earnings (loss) for the year ended December 31, 2021 (2020 – $7,374). Grants totalling $8,547 (2020 – $7,374) are presented as a reduction to operating expenses, cost of services provided, property taxes and insurance and general and administrative expenses and $735 (2020 – $324) is presented in hotel and management services revenue.

Credit risk

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

Listings of trade receivables in the Hospitality segment are reviewed by and discussed with hotel operations personnel on a monthly basis. The Company also has loans receivable obtained through the respective sales of previously owned assets. The Company has performed an analysis of the expected credit losses on these loans receivable considering both the financial condition of the borrowers and independent, industry-specific credit loss projections due to the Pandemic. No expected credit losses on the loans receivable have been recorded as a result of this analysis.

25. SEGMENTED INFORMATION

The Company operates in two reportable business segments. The Investment segment represents the Company's marketable securities portfolio, its ferry business, its investment properties and its real estate inventory under development. The Hospitality segment consists of the Company's ownership and operation of hotels. The Other category is not a segment and is disclosed for reconciliation purposes. The Other category consists of the Company's treasury and executive functions, its pension plans and its Debentures. Revenue in the Other category pertains primarily to investment management fees.

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

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

25. SEGMENTED INFORMATION (CONT'D)

Year ended December 31, 2021	**Investment $**	**Hospitality $**	**Other $**	**Eliminations $**	**Total $**
Revenue and other income:					
Hotel revenue and provision of services	**6,505**	**32,000**	**2,906**	**(16)**	**41,395**
Investment and other income (loss)	**20,554**	**2,793**	**1,256**	**—**	**24,603**
	27,059	**34,793**	**4,162**	**(16)**	**65,998**
Operating expenses before the undernoted	**7,372**	**20,783**	**1,940**	**(16)**	**30,079**
Share-based payment expense	**—**	**—**	**42**	**—**	**42**
Depreciation and amortization	**129**	**9,975**	**39**	**—**	**10,143**
Interest expense	**64**	**2,685**	**3,259**	**—**	**6,008**
Income (loss) before income taxes	**19,494**	**1,350**	**(1,118)**	**—**	**19,726**
Assets	**109,111**	**218,476**	**57,042**	**—**	**384,629**
Liabilities	**39,789**	**67,270**	**68,951**	**—**	**176,010**
Capital expenditures *(notes 8 and 9)*	**22,590**	**6,768**	**—**	**—**	**29,358**
Assets located outside of Canada *(note 9)*	**17,348**	**—**	**—**	**—**	**17,348**

Year ended December 31, 2020	Investment $	Hospitality $	Other $	Eliminations $	Total $
Revenue and other income:					
Hotel revenue and provision of services	4,004	30,525	658	(39)	35,148
Investment and other income (loss)	7,839	(16,027)	(28)	—	(8,216)
	11,843	14,498	630	(39)	26,932
Operating expenses before the undernoted	5,214	24,718	1,346	(39)	31,239
Share-based payment expense	—	—	120	—	120
Depreciation and amortization	358	10,595	86	—	11,039
Interest expense	81	3,116	3,715	—	6,912
Income (loss) before income taxes	6,190	(23,931)	(4,637)	—	(22,378)
Assets	68,904	207,785	34,351	(14)	311,026
Liabilities	3,089	66,210	73,137	(14)	142,422
Capital expenditures *(notes 8 and 9)*	316	1,517	23	—	1,856
Assets located outside of Canada *(note 9)*	19,109	—	—	—	19,109

The Company operates predominantly in Canada, with the exception of three investment properties located in the United States (note 9). All material hotel revenue and provision of services was generated by continuing operations in Canada for the years ended December 31, 2021 and 2020.

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

26. JOINT OPERATION

On April 21, 2021, the Company entered into a co-ownership agreement ("COA") with two other co-investors to acquire a one-third interest in a real estate development project under construction. The Project is located at 1111 Atwater Avenue in downtown Montreal, QC, and involves a 38-storey building including seniors' housing, rental units, and luxury condominiums. The terms of the deal included cash consideration of $21,121 and the assumption of the Company's share of the construction financing. The Company holds the right to exit the COA for consideration equal to the Company's investment plus a 6.0% return. This right expires on April 20, 2022.

Below is the purchase price allocation representing the Company's share of the identified assets and liabilities at April 21, 2021:

	$
Cash	**38**
Receivables	**1,565**
Other assets	**330**
Real estate inventory under development	**40,554**
Property and equipment	**146**
Accounts payable and accrued liabilities	**(3,567)**
Construction accounts payable and accrued liabilities	**(2,475)**
Construction mortgage payable *(note 14)*	**(15,470)**
Net assets acquired, at fair value	**21,121**

Construction costs of $13,150, representing the Company's one-third share, were capitalized to real estate inventory under development subsequent to acquisition in the year ended December 31, 2021, including borrowing costs of $701.

Included in the consolidated statement of earnings (loss) for the year ended December 31, 2021, is $728 of operating expenses related to the joint operation. Had the Company been a party to the joint operation since the beginning of 2021, $847 of operating expenses would have been recognized.

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