CLARKE

Halifax, Canada

MD&A and Financial Statements 2022

Management's Discussion & Analysis

Clarke Inc.

December 31, 2022 and 2021

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, 2022 compared with the year ended December 31, 2021. 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, 2022 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 8, 2023 (unless otherwise stated). All dollar amounts are shown in millions of Canadian dollars except per share amounts or unless otherwise indicated.

OVERVIEW & STRATEGY

Clarke was incorporated on December 9, 1997 pursuant to the Canada Business Corporations Act and its head office is located at 145 Hobsons Lake Drive, Halifax, Nova Scotia.

The Company is an investment and real estate company with holdings in a diversified group of businesses and across real estate sectors. The Company operates primarily in Canada. The Company continually evaluates the acquisition, retention, and disposition of its holdings and changes in its asset mix should be expected. 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 investment 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 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. Clarke generally invests in industries that have hard assets, including manufacturing, industrial, energy and real estate businesses.

REVIEW AND OUTLOOK[1]

During 2022, the Company's book value per common share increased by \$0.80, or 6%. The increase is primarily due to (i) hotel net operating income of \$20.8 million, or \$1.45 per common share, (ii) the tax-effected increase of our accrued pension assets of \$16.5 million, or \$1.14 per common share, and (iii) the after-tax impact of fair value adjustments to our property and equipment, net of depreciation recorded in the year of \$18.1 million, or \$1.26 per common share, offset by (iv) the non-cash reduction relating to the accounting treatment of the asset ceiling on our accrued pension assets, net of tax, of \$34.1 million, or \$2.36 per common share, and (v) interest and accretion of \$6.5 million, or \$0.45 per common share. Our book value per common share at the end of the year was \$15.28 while our common share price was \$12.48.

Hotel Operations

The Canadian hotel industry has generally recovered to pre-COVID-19 pandemic (the "Pandemic") revenue levels. We are pleased that both revenues and operating results for our hotels have continued to recover from the decline caused by the Pandemic.

Our hotels have showed significant improvement in 2022 – in particular, in the last six months. While it is difficult to perfectly compare pre-Pandemic results to current results due to hotel renovations, the outsourcing of certain food and beverage operations and the modification of use and/or target markets for certain assets, our revenue in both the third and fourth quarters

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[1]This MD&A refers to "book value per share" and "net operating income". These are non-IFRS measures and ratios. Refer to the "Cautionary Statement Regarding Use of Non-IFRS Accounting Measures and Ratios" section of this MD&A for more information.

has recovered to pre-Pandemic levels. Hotel revenues in the fourth quarter of 2022 outpaced the fourth quarter of 2021 by 63%. As a result of this recovery and the improved outlook, the Company revalued 16 of its hotels in the fourth quarter of 2022 for an aggregate gross increase of $32.9 million. Of this, $1.3 million was recognized in net income and $31.6 million was recognized in other comprehensive income.

We continue to proactively evaluate potential renovations and conversions of underperforming assets in an attempt to provide shareholders with the highest and best use of our hospitality assets. This has and will continue to include exploring more long-term stay offerings and potential residential conversions if these are deemed accretive to the Company.

During the second quarter, the Company acquired, through its wholly owned subsidiary Holloway Lodging Corporation ("Holloway"), the Stanford Inn & Suites in Grande Prairie, AB, for a purchase price of $11.6 million. The acquisition was the first hospitality acquisition for Holloway since 2016 – a hiatus of six years. The Stanford Inn & Suites has 206 rooms, the majority of which are kitchenette suites, and features two food and beverage outlets, a fitness center, meeting and banquet space and nearly two acres of oversized equipment and truck parking on an adjoining parcel of excess land. We are very pleased with the results of this hotel to date, and it has complimented our other Grande Prairie, AB assets.

Renovations were completed at our Sternwheeler Hotel & Conference Centre in Whitehorse, YT and we are very excited to have brought this refreshed asset to market. The renovation has re-positioned this hotel to be the premiere hotel in the market as international and domestic travel returned. The renovations, which commenced in 2021, were completed in June 2022. The positive results have been immediate and hotel revenue after the renovation were the highest since the hotel's acquisition in 2016.

Real Estate and Corporate

Construction continues on the first phase of the redevelopment of our excess land on Carling Avenue in Ottawa, ON (the "Carling Avenue Development"). While the first phase of construction is underway, pre-construction activities are also ongoing for its second phase. The two phases will consist of a multi-building residential apartment complex including ground-floor retail space. Phase one of the Carling Avenue Development consists of two residential towers with 404 rental units. While construction financing was secured in the fourth quarter of 2022, the project has been self-financed to date with cash on hand and existing credit facilities (see the "Liquidity and Capital Resources" section below).

The Company has $158.6 million of debt as of December 31, 2022 and has access to two secured, revolving credit facilities. The Company's maximum combined borrowing base under these revolving credit facilities was $55.0 million as of December 31, 2022, of which $26.1 million was drawn and $28.9 million was undrawn and available.

RESULTS OF OPERATIONS

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

	Year ended December 31, 2022 $	Year ended December 31, 2021 $	Year ended December 31, 2020 $
Hotel revenue	**54.7**	32.0	30.5
Provision of services	**9.7**	9.4	4.6
Investment and other income (loss)*	**2.8**	24.6	(8.2)
Net income (loss)	**3.2**	16.4	(19.2)
Comprehensive income (loss)	**10.1**	45.5	(10.5)
Basic earnings (loss) per share ("EPS")	**0.23**	1.12	(1.21)
Diluted EPS	**0.23**	0.96	(1.21)
Total assets	**416.1**	384.6	311.0
Total liabilities	**201.2**	176.0	142.4
Long-term financial liabilities	**62.7**	107.2	109.7
Book value per share	**15.28**	14.48	11.20

**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 and foreign exchange gains/losses.*

Net income for the year ended December 31, 2022 was $3.2 million compared to $16.4 million in 2021 and a loss of $19.2 million in 2020.

The Company's operating businesses were significantly more profitable in 2022 compared to 2021 and 2022 – in particular, the Company's hotels. Hotel revenue for the year ended December 31, 2022 was $54.7 million compared to $32.0 million and $30.5 million in 2021 and 2020, respectively. The hospitality segment's net income before taxes was $9.2 million for the year ended December 31, 2022 compared to $1.4 million in 2021 and a loss before taxes of $23.9 million in 2020. The improved results are due to the general recovery of the tourism and hotel industries from the Pandemic and the acquisition of one hotel in the year.

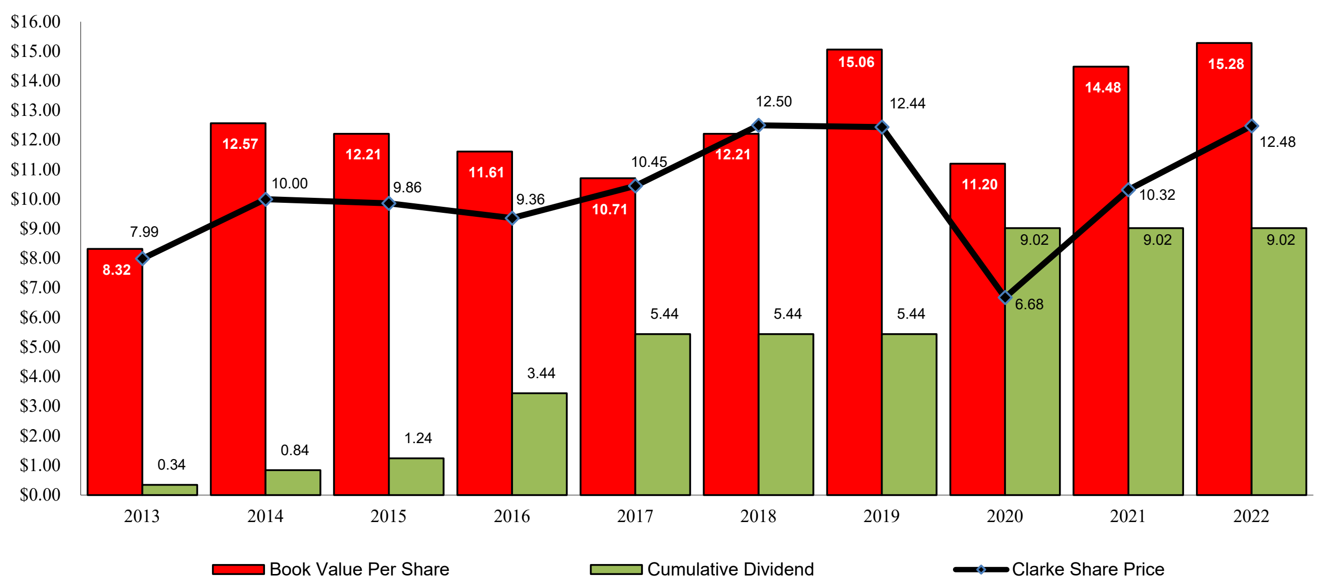
While net income for the year ended December 31, 2022 was fueled primarily by the Company's operating businesses, in 2021, net income was primarily driven by $22.3 million of net gains on the Company's marketable securities. In 2022, these gains were insignificant due to the significant liquidation of the Company's marketable securities in 2021. In 2020, the net loss was driven by both hotel revaluation losses and unrealized losses on the Company's marketable securities.

Comprehensive income for the year ended December 2022 was $10.1 million compared to $45.5 million in 2021 and a comprehensive loss of $10.5 million in 2020. In addition to the impact of the marketable securities gains in 2021, the subdued comprehensive income in the year compared to 2021 is attributable mainly to the accounting treatment of the asset ceiling on the Company's accrued pension benefit asset – primarily due to an increase in the estimated discount rate.

Clarke's basic and diluted EPS for the year ended December 31, 2022 was $0.23, compared to basic EPS of $1.12 and diluted EPS of $0.96 for the year ended December 31, 2021 and a basic and diluted loss per share of $1.21 in 2020.

BOOK VALUE PER COMMON SHARE

The Company's book value per common share at December 31, 2022 was $15.28, an increase of $0.80 since December 31, 2021. The following graph shows Clarke's book value per common share, common share price and cumulative dividends paid over the past ten years.



SEGMENT REPORTING

The table below summarizes the Company's holdings 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, 2022		December 31, 2021	
Segment	**$**	**%**	$	%
Investment	**157.6**	**37.8**	109.1	28.4
Hospitality	**227.4**	**54.7**	218.5	56.8
Other	**31.1**	**7.5**	57.0	14.8
Total	**416.1**	**100.0**	384.6	100.0

Investment segment

The Investment segment is comprised of the Company's ferry business, marketable securities, investment properties and real estate inventory under development.

The Company is a one-third partner 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"), 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. In November 2022, the Company made an additional $0.3 million investment in the 1111 Atwater Development, and exercised its right to exit the co-ownership agreement for consideration equal to the Company's aggregate investment plus a 6.0% return. The closing of the sale of the Company's interest is expected to occur on March 31, 2023.

The Carling Avenue Development and the 1111 Atwater Development are the drivers of the segment's $43.3 million of capital expenditures in 2022.

The Company owns a passenger/car ferry operating on the St. Lawrence River that has been 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 off-season period. The ferry commenced service for the season on April 14, 2022.

The Company sold its marketable securities to the Clarke Inc. Master Trust (the "Master Trust"), which holds the units of the pension plans administered by the Company in the fourth quarter for proceeds of $3.0 million. No marketable securities were held directly by the Company as of December 31, 2022.

Hospitality segment

The Company owns and operates hotels across Canada. Results for the year ended December 31, 2022 compared to the year ended December 31, 2021 are as follows:

	Year ended December 31, 2022 $	Year ended December 31, 2021 $
Hotel revenue	**54.7**	32.0
Investment and other income	**1.8**	2.8
Total revenue and other income	**56.4**	34.8
Less:		
Hotel operating expenses, general and administrative expenses, property taxes and insurance	**34.7**	20.8
Depreciation and amortization	**9.4**	10.0
Interest and accretion	**3.0**	2.7
Income before income taxes	**9.2**	1.4

Hotel revenue was $54.7 million for the year ended December 31, 2022 compared to $32.0 million in 2021. Income before income taxes was $9.2 million for the year ended December 31, 2022 compared to $1.4 million in 2021. The improved results are due to the general recovery of the hotels from the Pandemic and the acquisition of one hotel in the year. Hospitality assets increased by $8.9 million in the year, primarily due to the acquisition of one hotel and the fair value adjustments recorded.

Other

The decrease in assets of $25.9 million in this category, primarily relates to the non-cash reduction of the Company's accrued pension benefit asset due to the accounting treatment of the asset ceiling.

OUTSTANDING SHARE DATA

At March 8, 2023, the Company had:

- An unlimited number of common shares authorized and 14,062,044 common shares outstanding;
- An unlimited number of First and Second Preferred Shares authorized and none outstanding.

REPURCHASE OF COMMON SHARES

The Company periodically files normal course issuer bids ("NCIB") and substantial issuer bids ("SIB") to purchase its securities. The Board and senior management are of the opinion that, from time to time, the purchase of common shares at the prevailing market price may be a worthwhile use of funds and in the best interest of the Company and its shareholders.

A summary of the repurchases under the Company's issuer bids outstanding within fiscal 2022 and 2021 are as follows:

Bid Date	Expiry	Type	Maximum #	Repurchased #
June 29, 2020	June 28, 2021	NCIB	795,024	795,024
January 27, 2021	March 22, 2021	SIB	n/a	20,524
June 29, 2021	June 28, 2022	NCIB	733,608	451,500
June 29, 2022	June 28, 2023	NCIB	711,543	158,625*

*up to and including March 8, 2023

LIQUIDITY AND CAPITAL RESOURCES

On October 4, 2022, the Company entered into a $85.0 million credit facility with a major Canadian bank for the construction of phase one of the Carling Avenue Development. The facility is available to the Company as construction costs are incurred, bears interest at the lender's prime rate and has a three-year term. The Company has not yet drawn on this facility.

On October 13, 2022, the Company extended a loan facility comprised of a $20.2 million term loan payable and a $15.0 million revolving line of credit, which matured on September 1, 2022. The loan facility was extended for approximately one year and now matures on October 1, 2023. The term loan has a fixed interest rate of 6.55% and a 12-year amortization period. The revolving line of credit bears interest at the lender's prime rate plus 1.40%.

On October 31, 2022, the Company redeemed $15.8 million of its convertible debentures at par from the debentureholders on a pro rata basis. The cash outlay, including $0.5 million of accrued interest, was $16.2 million.

Subsequent to December 31, 2022, using available funds from its revolving credit facilities, the Company repaid a term loan of $11.0 million, which was secured by a second lien on five hotels and three investment properties.

The Company had $1.1 million of cash and cash equivalents on hand as at December 31, 2022, compared to $18.4 million as at December 31, 2021. The use of cash was primarily related to the hotel acquisition, capital additions and investment in our various real estate developments, and the partial redemption of convertible debentures offset by net borrowings of long-term debt and credit facilities.

Cash flow from operating activities

Cash provided by operating activities was $3.4 million for the year ended December 31, 2022, compared to using $7.2 million in 2021. In both 2022 and 2021, this was primarily the result of cash generated from hotel and ferry operations offset by capital expenditures on the Company's real estate inventory under development. These capital expenditure cashflows are considered operating activities because of the Company's planned strategy to divest of these assets upon completion.

At December 31, 2022, current liabilities exceeded current assets by $50.0 million, compared $21.2 million at December 31, 2021. The change is primarily attributable to the proceeds from the Company's revolving credit facilities used for the hotel acquisition and the convertible debentures redemption. The Company has the ability to fund its working capital needs through its cash on hand, its existing credit facilities and the anticipated renewals of long-term debt presented as current on the statement of financial position.

Cash flow from investing activities

Cash used in investing activities was $36.8 million for the year ended December 31, 2022, compared to providing $30.7 million in 2021. This was primarily the result of additions of property and equipment and investment properties of $31.8 million, and the acquisition of the Stanford Inn & Suites for $11.6 million. Cash provided from investing activities during the year ended December 31, 2021 was primarily the result of proceeds from the sale of marketable securities of $73.3 million, offset by additions to 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 flow from financing activities

Cash provided from financing activities was $16.1 million for the year ended December 31, 2022, compared to using $7.8 million in 2021. This was primarily due to a total draw on revolving credit facilities of $26.1 million and proceeds from long-term debt of $13.7 million offset by the partial redemption of convertible debentures of $15.8 million, repayments on long term debt of $4.0 million, and the repurchase of common shares of $3.8 million. Cash used in financing activities during the year ended December 31, 2021 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.

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	35.0	—	—	—	35.0
Long-term debt	98.4	77.7	6.6	13.0	1.1
Lease obligation	0.7	0.2	0.3	0.2	0.1
	134.1	77.9	6.9	13.2	36.2

The convertible debentures have a face value of $35.0 million and mature on January 1, 2028. 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.

The Company maintains two credit facilities with Canadian chartered banks. The borrowing capacity of the first credit facility is determined by a borrowing base calculation, subject to a maximum of $40.0 million. This credit facility bears interest at the lender's prime rate plus 1.50%, or based on a spread to banker's acceptance. As at December 31, 2022, the Company had drawn $18.1 million on this facility. The aggregate carrying amounts of the five hotels and three investment properties securing this facility is $89.1 million. The Company has a second credit facility with a maximum borrowing capacity of $15.0 million. This credit facility bears interest at the lenders prime rate plus 1.40%. As at December 31, 2022, the Company had drawn $8.0 million on this facility. This facility, and a corresponding term loan, are secured by five hotel properties with an aggregate carrying value of $76.2 million. This facility is subject to an annual review and matures in October 2023. 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.

FOURTH QUARTER

A comparison of results for the three months ended December 31, 2022, and 2021, is as follows:

	Three months ended December 31, 2022 $	Three months ended December 31, 2021 $
Revenue		
Hotel	**15.2**	9.3
Provision of services	**2.9**	3.5
Investment and other income	**1.5**	7.7
	19.6	20.5
Expenses		
Operating expenses	**10.1**	6.7
Cost of services provided	**1.3**	2.1
General and administrative expenses	**0.8**	0.9
Property taxes and insurance	**0.8**	0.1
Depreciation and amortization	**2.4**	2.6
Interest and accretion	**1.8**	1.4
Income before income taxes	**2.5**	6.8
Income taxes	**1.1**	1.0
Net income	**1.3**	5.8
Comprehensive income	**20.4**	7.4

The Company had net income of $1.3 million in the fourth quarter of 2022 compared to $5.8 million in the same period in 2021. Net realized and unrealized gains on investments for the fourth quarter of 2022 were $0.1 million compared to $5.1 million for the same period in 2021. The gains on the Company's marketable securities held in 2021 are primarily why net income in the fourth quarter of 2021 outpaced 2022 despite the significant rebound in hotel operations.

Comprehensive income for the fourth quarter was $20.4 million compared to $7.4 million for the same period in 2021. The primary driver of the increase was the revaluation of hotels due to their recovery and improved outlook.

For the three months ended December 31, 2022, Clarke's basic and diluted EPS was $0.10, compared to basic EPS of $0.40 and diluted EPS of $0.36 for the same period in 2021.

Cash used in operating activities was $0.2 million for the fourth quarter of 2022, compared to using $3.6 million in the same period in 2021. Cash flows in the fourth quarter of both 2022 and 2021 were driven mainly by the hospitality and ferry operations, offset by capital expenditures for real estate inventory under development.

Cash used in investment activities was $5.1 million in the fourth quarter of 2022, compared to providing $24.6 million in the same period in 2021. The primary reasons for the cash used in the fourth quarter 2022 were additions to the Carling Avenue Development of $8.9 million and capital expenditures of $1.4 million offset by of $5.3 million of proceeds from the disposition of loans receivable and marketable securities. Total proceeds on the sale of investments of $37.7 million, 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 drivers of the cash provided in the fourth quarter of 2021.

Cash provided by financing activities for the fourth quarter of 2022 was $4.9 million compared to using $4.5 million in the same period in 2021. The primary source of cash was related to an increase of $17.9 million in short-term indebtedness and $4.1 million of proceeds from long-term debt, which were offset by the partial redemption of convertible debentures of $15.8 million. Cash used in financing activities in the fourth quarter of 2021 was related primarily 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.

SUMMARY OF QUARTERLY RESULTS

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

Three months ended	**Dec. 2022 $**	**Sept. 2022 $**	**Jun. 2022 $**	**Mar. 2022 $**	**Dec. 2021 $**	**Sept. 2021 $**	**Jun. 2021 $**	**Mar. 2021 $**
Revenue and other income	19.6	22.2	15.1	10.2	20.5	18.0	13.3	14.3
Net income (loss)	1.3	3.9	(0.5)	(1.4)	5.8	3.5	3.1	4.1
Other comprehensive income (loss)	19.1	0.6	(20.0)	7.2	1.6	1.9	14.9	10.7
Comprehensive income (loss)	20.4	4.5	(20.5)	5.7	7.4	5.4	18.0	14.8
Basic EPS (in dollars)	0.10	0.27	(0.04)	(0.10)	0.40	0.24	0.21	0.27
Diluted EPS (in dollars)	0.10	0.25	(0.04)	(0.10)	0.36	0.16	0.20	0.25

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.

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, 2022:

- 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 2022, the Company paid $0.3 million (2021 – $0.2 million) under the agreements.
- The Company provides administrative and asset management services to two pension plans it sponsors and charged $2.2 million (2021 – $2.7 million) for services provided during the year.
- During the year, the Company sold marketable securities and loans receivable totaling $5.2 million to the Master Trust.
- In the year ended December 31, 2022, the Company provided and received non-monetary services with entities owned by the Company's Chairman and his immediate family member with a fair value of $0.2 million (2021 – $0.1 million). The Company provided hotel management services in exchange for receiving legal, tax, investment property management and construction consulting services.

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

Year ended December 31, 2022	Board of directors $	Officers $	Total $
Salary and fees	0.1	0.4	0.5
Pension value	0.8	—	0.8
Total	0.9	0.4	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.

Notes 1, 2, 3, 4, 5, 11, 12, 13, 14 and 24 to the consolidated financial statements for the year ended December 31, 2022 and the Company's 2022 AIF, provide further information on classifications in the financial statements, and risks, pertaining to the use of financial instruments by the Company.

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, 2022 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, 2022 for a detailed discussion regarding our significant accounting policies and application of significant accounting judgments, estimates and assumptions.

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 Company performed a revaluation analysis on its hotels in the fourth quarter of 2022 using third party provided capitalization rates, independent appraisals, and management's knowledge of various markets. A revaluation increase of $37.6 million was recorded among 13 hotels and a revaluation decrease of $4.7 million among three hotels. Property and equipment increased by $32.9 million as a result, with a net increase of $31.6 million recorded in the consolidated statement of comprehensive income and a net increase of $1.3 million recorded in the consolidated statement of earnings. A revaluation adjustment was not required for one hotel.

The fair value of ten hotel properties was evaluated using an income capitalization model prepared internally. Management engaged third party appraisers for assistance in determining appropriate capitalization rates, specific to the markets where the Company operates its hotels. In situations where an income capitalization 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. Five hotels were valued based on market data. Two hotels were revalued using third-party appraisals.

Fair value of investment properties and investment properties under construction

The Company's significant investment properties as at December 31, 2022, consist of three office buildings, and the Carling Avenue Development.

The Company did not require fair value adjustments on its investment properties during 2022. A fair value decrease of $2.1 million was recorded in earnings during the year ended December 31, 2021 as a result of independent appraisals.

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.

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, 2022. 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 "book value per share" and "net operating income" (or "hotel net operating income"). Book value per share and net operating income are not financial measures or ratios calculated and presented in accordance with International Financial Reporting Standards ("IFRS") and should not be considered in isolation or as a substitute to any financial measures or ratios of performance calculated and presented in accordance with IFRS. These non-IFRS financial measures and ratios are presented in this MD&A because management of Clarke believes that such measures and ratios enhance the user's understanding of our historical and current financial performance.

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. Net operating income is defined as revenue less expenses. Net operating income measures operating results before interest, depreciation, and amortization.

The following table reconciles hotel net operating income to income before taxes of the Company's hospitality segment as disclosed in the consolidated financial statements for the year ended December 31, 2022.

	Year ended December 31, 2022 $	Year ended December 31, 2021 $
Income before income taxes	**9.2**	1.4
Deduct:		
Investment and other income	**(1.8)**	(2.8)
Add:		
Non-operating corporate expenses	**1.0**	0.1
Depreciation and amortization	**9.4**	10.0
Interest and accretion	**3.0**	2.7
Hotel net operating income	**20.8**	11.3

Clarke's method of determining these amounts may differ from other companies' methods and, accordingly, these amounts may not be comparable to measures used by other companies.

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.

Consolidated Financial Statements

Clarke Inc.

December 31, 2022 and 2021

Independent auditor's report

To the Shareholders of Clarke Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Clarke Inc. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of earnings for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of shareholders' equity for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
Cogswell Tower, 2000 Barrington Street, Suite 1101, Halifax, Nova Scotia, Canada B3J 3K1
T: +1 902 491 7400, F: +1 902 422 1166

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of land and buildings and components *Refer to note 1 – Summary of significant accounting policies, note 2 – Significant accounting judgments, estimates and assumptions and note 8 – Property and equipment to the consolidated financial statements.* The total carrying amount of land and buildings and components is $209.7 million as at December 31, 2022. The Company has recorded a revaluation gain of $1.3 million in the consolidated statement of earnings and a pre-tax revaluation gain of $31.6 million in the consolidated statement of comprehensive income for the year ended December 31, 2022. The Company accounts for land and buildings and components (hotels) under the revaluation model. Hotels are carried at fair value as at the date of revaluation and subsequently depreciated until the next revaluation. These assets 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. Increases in fair value are recorded in other comprehensive income and accumulated in revaluation surplus, except to the extent that they reverse a revaluation decrease previously recorded in the consolidated statement of earnings, in which case the reversal is recorded in the consolidated statement of earnings. 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	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the fair value of the hotels, which included the following: – Tested the methodology used to determine the fair value of the hotels, which includes the appropriateness of the models used. – Tested the underlying data used in the models. – Evaluated the reasonableness of significant assumptions, including the budgeted cash flow forecasts for 2023, by comparing them to historical results and assessing market conditions in the market in which each hotel operates. – Professionals with specialized skill and knowledge in the field of real estate valuations assisted us in evaluating the appropriateness of the models and the overall capitalization rates used within the models or comparable hotel sales, as applicable. – Professionals with specialized skills and knowledge in the field of real estate valuations assisted us in assessing the reasonableness of external appraisals.

Key audit matter	How our audit addressed the key audit matter
respect of that asset, and thereafter are recorded in the consolidated statement of earnings. For internal models, the Company used an income capitalization model. Management engaged third party appraisers for assistance in determining appropriate overall capitalization rates specific to the markets the Company operates its hotels. The income capitalization models include the budgeted cash flow forecasts for 2023. If the income capitalization model results in a fair value which differs significantly from the price per room metrics in recent market transactions, management used comparable hotel sales prices to determine the fair value. As disclosed in note 2, significant assumptions used in the internal models included the budgeted cash flow forecasts for 2023, the overall capitalization rates and in certain situations, the comparability of recent hotel sales. We considered this a key audit matter due to the significant judgments made by management in determining the fair value of the hotels and significant assumptions used. This resulted in complexity and increased audit effort to evaluate the approach and the appropriateness of estimates made and rates selected by management. In addition, the audit effort involved the use of professionals with specialized skill and knowledge in the field of real estate valuations.	

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Maxime Lessard.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Halifax, Nova Scotia
March 8, 2023

Clarke Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at December 31,	**2022** **$**	2021 $
ASSETS		
Current		
Cash and cash equivalents	**1,090**	18,423
Marketable securities *(note 3)*	**—**	2,773
Receivables *(note 4)*	**8,041**	9,533
Real estate inventory under development *(note 26)*	**70,418**	—
Other assets *(note 5)*	**1,303**	2,135
Total current assets	**80,852**	32,864
Accrued pension benefit asset *(note 7)*	**28,630**	54,306
Property and equipment *(note 8)*	**221,704**	178,797
Real estate inventory under development *(note 26)*	**—**	53,704
Investment properties *(note 9)*	**80,885**	48,849
Deferred income tax assets *(note 10)*	**3,730**	13,452
Other assets *(note 5)*	**320**	2,657
Total assets	**416,121**	384,629
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Short-term indebtedness *(note 11)*	**26,086**	—
Accounts payable and other liabilities *(note 12)*	**25,310**	12,906
Income taxes payable	**2,063**	3,408
Current portion of long-term debt *(note 14)*	**77,423**	37,751
Total current liabilities	**130,882**	54,065
Convertible debentures *(note 13)*	**34,146**	49,268
Long-term debt *(note 14)*	**20,929**	48,765
Construction accounts payable and other liabilities *(note 12)*	**7,035**	8,390
Lease obligations	**560**	730
Deferred income tax liabilities *(note 10)*	**7,599**	14,792
Total liabilities	**201,151**	176,010
Commitments *(note 17)*		
Shareholders' equity		
Share capital *(note 18)*	**83,190**	85,218
Contributed surplus	**7,302**	7,302
Retained earnings	**41,579**	40,100
Accumulated other comprehensive income	**82,899**	75,999
Total shareholders' equity	**214,970**	208,619
Total liabilities and shareholders' equity	**416,121**	384,629

See accompanying notes to the consolidated financial statements

On behalf of the Board:

/s/ George Armoyan
Director

/s/ Blair Cook
Director

Clarke Inc.

CONSOLIDATED STATEMENTS OF EARNINGS

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

Years ended December 31,	**2022** **$**	2021 $
Revenue and other income		
Hotel	**54,676**	32,000
Provision of services	**9,656**	9,395
Investment and other income *(note 19)*	**2,838**	24,603
	67,170	65,998
Expenses *(note 21)*		
Operating expenses	**35,356**	22,602
Cost of services provided	**4,558**	3,686
General and administrative expenses	**2,975**	2,548
Property taxes and insurance	**2,886**	1,285
Depreciation and amortization	**9,570**	10,143
Interest and accretion *(note 20)*	**6,495**	6,008
	61,840	46,272
Income before income taxes	**5,330**	19,726
Provision for income taxes *(note 10)*	**2,104**	3,347
Net income	**3,226**	16,379
Basic earnings per share: *(note 18)*	**0.23**	1.12
Diluted earnings per share: *(note 18)*	**0.23**	0.96

See accompanying notes to the consolidated financial statements

Clarke Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

Years ended December 31,	**2022** **$**	2021 $
Net income	**3,226**	16,379
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurement gains (losses) and effect of changes to asset ceiling on defined benefit pension assets, net of income tax *(notes 7, 10)*	**(18,115)**	15,795
Revaluation gain on property and equipment, net of income tax *(notes 2, 8 and 10)*	**24,163**	13,410
Items that may be reclassified subsequently to profit or loss		
Unrealized gains (losses) on translation of net investment in foreign operations, net of income tax *(notes 9 and 10)*	**852**	(108)
Other comprehensive income	**6,900**	29,097
Comprehensive income	**10,126**	45,476

See accompanying notes to the consolidated financial statements

Clarke Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

Years ended December 31,	**2022**	2021
	$	$
OPERATING ACTIVITIES		
Net income	**3,226**	16,379
Adjustments for items not involving cash *(note 22)*	**9,485**	(13,979)
	12,711	2,400
Additions to real estate inventory under development *(note 26)*	**(11,998)**	(11,962)
Net changes in non-cash working capital balances *(note 22)*	**2,689**	2,349
Net cash provided by (used in) operating activities	**3,402**	(7,213)
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities *(note 3)*	**3,025**	73,333
Contribution to joint operation, net of cash acquired *(note 26)*	**(345)**	(21,083)
Proceeds on disposition of investment property *(note 9)*	**376**	—
Collection and disposition of loans receivable *(note 5)*	**2,491**	1,725
Acquisition of hotel property *(note 6)*	**(11,600)**	—
Additions to property and equipment *(note 8)*	**(7,453)**	(6,768)
Additions to investment properties *(note 9)*	**(24,388)**	(10,628)
Distribution of pension plan surplus, net of taxes *(note 7)*	**1,064**	914
Purchase of marketable securities	**—**	(7,005)
Proceeds on disposition of property and equipment	**—**	28
Proceeds on disposition of assets held for sale	**—**	210
Net cash provided by (used in) investing activities	**(36,830)**	30,726
FINANCING ACTIVITIES		
Repurchase of shares for cancellation *(note 18)*	**(3,775)**	(5,461)
Redemption of convertible debentures *(note 13)*	**(15,754)**	—
Net proceeds (repayments) of short-term indebtedness *(note 11)*	**26,086**	(8,243)
Proceeds of long-term debt, net of financing fees *(note 14)*	**13,727**	13,140
Repayment of long-term debt *(note 14)*	**(3,960)**	(7,116)
Principal payments of lease obligations	**(157)**	(140)
Settlement of share-based liability	**(72)**	—
Net cash provided by (used in) financing activities	**16,095**	(7,820)
Net change in cash during the year	**(17,333)**	15,693
Cash and cash equivalents, beginning of year	**18,423**	2,730
Cash and cash equivalents, end of year	**1,090**	18,423

See accompanying notes to the consolidated financial statements

Clarke Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)

Years ended December 31,	**2022** **$**	2021 $
Share capital		
Common shares:		
Balance at beginning of year	**85,218**	89,097
Common shares repurchased for cancellation *(note 18)*	**(2,028)**	(3,879)
Balance at end of year	**83,190**	85,218
Contributed surplus		
Balance at beginning of year	**7,302**	7,512
Purchase price in excess of the book value of common shares repurchased for cancellation *(note 18)*	**—**	(210)
Balance at end of year	**7,302**	7,302
Retained earnings		
Balance at beginning of year	**40,100**	25,093
Net income	**3,226**	16,379
Purchase price in excess of the book value of common shares repurchased for cancellation *(note 18)*	**(1,747)**	(1,372)
Balance at end of year	**41,579**	40,100
Accumulated other comprehensive income		
Balance at beginning of year	**75,999**	46,902
Other comprehensive income	**6,900**	29,097
Balance at end of year	**82,899**	75,999
Total shareholders' equity	**214,970**	208,619

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 and real estate company with holdings in a diversified group of businesses and across real estate sectors. The Company operates primarily in Canada. The Company continually evaluates the acquisition, retention, and disposition of its holdings and changes in its asset mix should be expected. These consolidated financial statements were approved by the Board of Directors on March 8, 2023.

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 Company's significant subsidiary is Holloway Lodging Corporation ("Holloway"). 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.

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. Room revenue is shown net of the cost of third-party hotel brand loyalty programs.

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.

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

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.

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 at the reporting date. There were no non-monetary assets or liabilities denominated in foreign currencies as at December 31, 2022, in entities where the functional currency is Canadian dollars. All foreign exchange gains and losses are recorded in other income as incurred.

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 yearly 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.

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.

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

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 amounts of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be generated 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 other comprehensive income or directly in shareholders' equity.

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.

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

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 costs include 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 and accumulated in revaluation surplus, except to the extent that they reverse a revaluation decrease previously recorded in the consolidated statement of earnings, in which case the reversal is recorded in the consolidated statement of earnings. 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.

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 earnings.

Investment properties

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 at each reporting date. The difference between the fair value at the reporting date and the carrying value is recognized in earnings. 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.

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

Real estate inventory under development

The Company's real estate inventory under development consists of real estate for which the Company has a planned strategy to divest upon completion. Real estate inventory under development is accounted for in accordance with IAS 2 – *Inventories*, and is measured at the lower of cost 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. Costs include capitalized borrowing costs.

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 earnings.

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; fair value through profit or loss ("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 at fair value with changes in fair value recognized in earnings.

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 other 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.

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

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 when the liabilities are derecognized as well as through the EIR method amortization process.

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 earnings. 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 earnings.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statements of financial position if 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.

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.

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 earnings, 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. 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.

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

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 earnings.

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 earnings.

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 dilutive instruments.

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 earnings. 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.

Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received, and all attached conditions will be met. 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 recorded as a reduction to the cost of the asset. When the Company receives non-monetary grants, no amounts are recorded in the consolidated statements of earnings as the grants are for consumables in the Company's operations.

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

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 – *Investments in Associates and Joint Ventures.* 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") 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 and 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 (CON'T)

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 changing competition in the markets in which each property operates.

The Company performed a revaluation analysis on its hotels in the fourth quarter of 2022 using third party provided capitalization rates, independent appraisals, and management's knowledge of various markets. A revaluation increase of $37,600 was recorded among 13 hotels and a revaluation decrease of $4,700 among three hotels. Property and equipment increased by $32,900 as a result *(note 8)*, with a net increase of $31,600 included in the consolidated statement of comprehensive income and a net increase of $1,300 recorded in the consolidated statement of earnings *(notes 19 and 22)*. A revaluation adjustment was not required for one hotel.

Ten hotel properties were valued using an income capitalization model prepared internally. Management engaged third party appraisers for assistance in determining appropriate capitalization rates, specific to the markets where the Company operates its hotels. In situations where an income capitalization 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. Five hotels were valued based on market data. Two hotels were revalued using third-party appraisals.

Significant assumptions used in the internal income capitalization models include budgeted cash flow forecasts for 2023, capitalization rates, and in certain situations the comparability of recent hotel sales. The capitalization rates ranged from 8.5% - 11.5%. If capitalization rates were 0.25% higher/lower, the estimated fair value would result in a change of $2,900 to property and equipment.

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 increased by $6,700 as a result of revaluations recorded during the year ended December 31, 2021 *(note 8).* An increase of $2,300 was recorded in the consolidated statement of earnings and an increase of $4,400 was recorded in the consolidated statement of comprehensive income during 2021.

Fair value of investment properties and investment properties under construction

The Company's significant investment properties as at December 31, 2022, consist of three office buildings, and a multi-building residential rental complex under construction (the "Ottawa Development").

The Company did not require fair value adjustments on its investment properties during 2022. A fair value decrease of $2,056 was recorded in earnings during the year ended December 31, 2021 as a result of independent appraisals. A valuation increase of $10,297 relating to the Ottawa Development was recorded in the consolidated statement of comprehensive income for the year ended December 31, 2021 upon its transfer from property and equipment to investment properties.

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.

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

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.

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.

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. 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.

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

3. MARKETABLE SECURITIES

During the year ended December 31, 2022, the Company sold marketable securities for net proceeds of $3,025 (2021 – $73,333).

4. RECEIVABLES

	2022 $	2021 $
Receivables from sales and services	**5,881**	4,350
Less: expected credit losses	**(54)**	(16)
Receivables from sales and services – net	**5,827**	4,334
Investment income receivable	**—**	187
Sales tax receivables	**1,082**	1,615
Government grants	**404**	2,623
Other receivables	**728**	774
	8,041	9,533

5. OTHER ASSETS

	2022 $	2021 $
Other current assets		
Inventories	**119**	78
Prepaid expenses and deposits	**1,184**	1,807
Loans receivable	**—**	250
	1,303	2,135
Other non-current assets		
Loans receivable	**—**	2,202
Intangible and other assets	**320**	455
	320	2,657

6. HOTEL ACQUISITION

On June 13, 2022, the Company acquired the Stanford Inn & Suites in Grande Prairie, AB, for a gross purchase price of $11,600, which was paid in cash and by drawing on the Company's revolving credit facilities. The following table summarizes the fair value of the assets acquired:

	$
Land	**3,700**
Buildings and components	**6,400**
Furniture, fixtures and equipment	**1,462**
Inventory	**38**
Assets acquired, at fair value	**11,600**

Included in earnings for the year ended December 31, 2022 are acquisition costs of $41, revenue of $3,181, and income before taxes of $1,095.

(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 annually. The Company has two registered defined benefit plans ("the Plans"). The most recent actuarial valuations for funding purposes were completed for the Plans as at December 31, 2021 and December 31, 2020, respectively.

During the year, the Company received a distribution from one of its Plans in the amount of $1,447 (2021 – $1,244) in accordance with the surplus withdrawal rules of the Quebec Supplemental Pension Plans Act.

Defined benefit plan assets

Fair value of plan assets	**2022** **$**	2021 $
Balance, beginning of year	**104,362**	88,245
Interest income	**2,961**	2,146
Employee contributions	**2**	2
Benefits paid	**(2,037)**	(2,598)
Non-investment management fees	**(345)**	(360)
Remeasurement gains	**10,687**	18,171
Surplus distribution	**(1,447)**	(1,244)
Balance, end of year	**114,183**	104,362

Defined benefit plan obligations

Accrued benefit obligation	**2022** **$**	2021 $
Balance, beginning of year	**50,056**	54,422
Current service cost	**471**	473
Interest cost	**1,436**	1,340
Employee contributions	**2**	2
Benefits paid	**(2,037)**	(2,598)
Remeasurement gains	**(11,150)**	(3,583)
Balance, end of year	**38,778**	50,056

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

	2022 **$**	2021 $
Fair value of plan assets	**114,183**	104,362
Accrued benefit obligation	**(38,778)**	(50,056)
Funded status of plans – surplus	**75,405**	54,306
Cumulative impact of asset ceiling	**(46,775)**	—
Accrued pension benefit asset	**28,630**	54,306

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

7. EMPLOYEE FUTURE BENEFITS (CON'T)

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

For the years ended December 31,	**2022** **$**	2021 $
Current service cost	**(471)**	(473)
Net interest on surplus	**1,525**	806
Provision for non-investment management fees	**(345)**	(360)
Defined benefit recovery (expense)	**709**	(27)

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

For the years ended December 31,	**2022** **$**	2021 $
Remeasurement gains and return on plan assets in excess of discount rate	**21,837**	21,754
Impact of asset ceiling	**(46,775)**	—
Deferred income tax recovery (expense)	**6,823**	(5,959)
Defined benefit recovery (expense)	**(18,115)**	15,795

Significant assumptions

	2022 **%**	2021 %
Accrued benefit obligation:		
Discount rate	**5.05**	2.90
Rate of compensation increase	**2.50 – 4.00**	2.50 – 4.00
Benefit costs for the year:		
Discount rate	**2.90**	2.50
Rate of compensation increase	**2.50 – 4.00**	2.50 – 4.00

The Company manages a portion of the 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, 2022	**Land $**	**Buildings and components $**	**Ferry and vessel dry dock costs $**	**Furniture, fixtures and equipment $**	**Right-of-use assets $**	**Renovations in progress $**	**Total $**
Beginning balance	**40,572**	**126,123**	**—**	**7,000**	**507**	**4,595**	**178,797**
Additions, net	**3,700**	**7,713**	**138**	**3,509**	**—**	**4,488**	**19,548**
Disposals	**—**	**—**	**—**	**(3)**	**—**	**—**	**(3)**
Revaluations *(note 2)*	**4,935**	**27,965**	**—**	**—**	**—**	**—**	**32,900**
Transfers	**—**	**5,089**	**—**	**1,616**	**—**	**(6,705)**	**—**
Depreciation	**—**	**(6,399)**	**(37)**	**(3,025)**	**(77)**	**—**	**(9,538)**
Ending balance	**49,207**	**160,491**	**101**	**9,097**	**430**	**2,378**	**221,704**

Valuation	**49,207**	**160,491**	**—**	**—**	**—**	**—**	**209,698**
Cost, net	**—**	**—**	**4,795**	**21,937**	**738**	**2,378**	**29,848**
Accumulated depreciation	**—**	**—**	**(4,694)**	**(12,840)**	**(308)**	**—**	**(17,842)**
Net book value	**49,207**	**160,491**	**101**	**9,097**	**430**	**2,378**	**221,704**

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, net	—	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 *(note 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

As at December 31, 2022, the net book value of the Company's land and buildings and components would have been \$42,121 and \$120,334 respectively, had the Company used the cost model, and the net book value of property and equipment would have been \$174,461.

Additions in the year ended December 31, 2022 are net of \$1,700 in government grants (2021 – \$600).

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

9. INVESTMENT PROPERTIES

Year ended December 31, 2022	**Buildings** **$**	**Vacant land** **$**	**Investment properties under construction** **$**	**Total** **$**
Beginning balance	**17,010**	**167**	**31,672**	**48,849**
Additions	**345**	**—**	**30,737**	**31,082**
Dispositions	**—**	**(122)**	**—**	**(122)**
Foreign exchange impact	**1,076**	**—**	**—**	**1,076**
Ending balance	**18,431**	**45**	**62,409**	**80,885**

Year ended December 31, 2021	Buildings $	Vacant land $	Investment properties under construction $	Total $
Beginning balance	19,109	167	—	19,276
Fair value adjustments	(2,056)	—	—	(2,056)
Additions	82	—	12,458	12,540
Transfers *(note 8)*	—	—	19,214	19,214
Foreign exchange impact	(125)	—	—	(125)
Ending balance	17,010	167	31,672	48,849

During the year ended December 31, 2022, the Company sold a parcel of vacant land for gross proceeds of $376, resulting in a gain of $254 *(note 19)*.

10. INCOME TAXES

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

Consolidated statements of earnings	**2022** **$**	2021 $
Current income tax		
Current income tax charge	**333**	3,738
Adjustments in respect of current income tax of previous year	**81**	39
Deferred income tax		
Relating to origination and reversal of temporary differences	**2,071**	892
Relating to the change in recoverable amount of a deferred income tax asset	**(381)**	(1,322)
Provision for income taxes	**2,104**	3,347

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

10. INCOME TAXES (CONT'D)

The provision for income taxes varies from the expected provision at statutory rates for the following reasons:

	2022 **$**	2021 $
Provision of income taxes at statutory rate of 27.14% (2021 – 27.14%)	**1,447**	5,354
Increase (decrease) from statutory rate:		
Effect of difference in statutory rates of subsidiaries	**57**	49
Non-taxable component of realized/unrealized investment gains	**90**	(3,562)
Non-taxable and non-deductible expenses	**(43)**	15
Benefit of previously unrecognized deferred income tax asset	**435**	791
Effect of prior year tax adjustments	**74**	676
Other	**44**	24
Provision for income taxes at effective rate	**2,104**	3,347

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

Year ended December 31, 2022	**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	**136**	—	**(715)**	**(579)**
Marketable securities	**(33)**	—	**41**	**8**
Property and equipment and investment properties	**7,767**	**(7,682)**	**(690)**	**(605)**
Employee future benefits	**(14,795)**	**6,823**	**201**	**(7,771)**
Long-term debt and debentures	**(103)**	—	**58**	**(45)**
Losses carried forward	**5,638**	—	**(557)**	**5,081**
Other	**50**	**20**	**(28)**	**42**
	(1,340)	**(839)**	**(1,690)**	**(3,869)**
Deferred income tax assets	**13,452**	**6,706**	**(16,428)**	**3,730**
Deferred income tax liabilities	**(14,792)**	**(7,545)**	**14,738**	**(7,599)**
	(1,340)	**(839)**	**(1,690)**	**(3,869)**

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 and investment properties	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)

(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 income 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, 2022, 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 $7,805 (2021 – $18,257).

As at December 31, 2022, the Company had non-capital losses carried forward for tax purposes of $17,018 (2021 – $20,626) in Canada and US$14,985 (2021 – US$11,943) in the United States.

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

	2022	2021
	$	$
Property and equipment	**1,401**	2,212
Non-capital loss carry forwards	**3,543**	3,113
Total	**4,944**	5,325

11. SHORT-TERM INDEBTEDNESS

The Company has two credit facilities with Canadian chartered banks. The borrowing capacity of the first credit facility is determined by a borrowing base calculation, subject to a maximum of $40,000. This credit facility bears interest at prime plus 1.50%, or based on a spread to banker's acceptance. As at December 31, 2022, the Company had drawn $18,086 on this facility (2021 – nil). The aggregate carrying value of the five hotels and three investment properties securing this facility is $89,089.

The Company has a second credit facility with a maximum borrowing capacity of $15,000. This credit facility bears interest at prime plus 1.40%. As at December 31, 2022, the Company had drawn $8,000 on this facility (2021 – nil). This facility, and a corresponding term loan *(note 14)*, are secured by five hotel properties with a carrying value of $76,200. This facility is subject to an annual review and matures in October 2023.

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

	2022 $	2021 $
Accounts payable and other liabilities		
Trade payables	**10,802**	4,734
Accrued liabilities	**11,956**	8,011
Condominium deposits	**2,339**	—
Share-based liability *(notes 16 and 24)*	**213**	161
	25,310	12,906

Construction accounts payable and other liabilities		
Construction accounts payable	**7,035**	7,573
Condominium deposits	—	817
	7,035	8,390

13. CONVERTIBLE DEBENTURES

	2022 $	2021 $
Debentures – beginning balance	**49,268**	50,754
Redemption of debentures	**(15,754)**	—
Accretion	**235**	62
Deferred financing fees capitalized	—	(103)
Loss (gain) on modification and redemption	**397**	(1,445)
Debentures – ending balance	**34,146**	49,268

The Company's outstanding debentures currently bear interest at 6.25% payable semi-annually on April 30th and October 31st and have a face value of $35,000 as at December 31, 2022 (2021 – $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 October 31, 2022, the Company redeemed $15,754 of its debentures from the debentureholders on a pro rata basis. The cash outlay was $16,247 including $493 of accrued interest. The redemption resulted in a net loss of $397 recognized in the year ended December 31, 2022.

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 earnings in the year ended December 31, 2021.

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

14. LONG-TERM DEBT

On April 8, 2022, the Company renewed a mortgage payable of $14,649 with a fixed interest rate of 4.55%. The renewed mortgage has a fixed interest rate of 3.91%, a fifteen-year amortization period, a five-year term and matures in April 2027. The mortgage is secured by two hotels.

On October 4, 2022, the Company entered into a $85,000 construction credit facility for the Ottawa Development. The facility is available to the Company as construction costs are incurred, bears interest at the lender's prime rate and has a three-year term. The Company did not draw on this facility in the year ended December 31, 2022.

On October 13, 2022, the Company extended a loan facility comprised of a $20,157 term loan and a $15,000 revolving line of credit. The loan facility was extended for approximately one year and matures on October 1, 2023. The term loan has a fixed interest rate of 6.55% and a 12-year amortization period. The revolving line of credit bears interest at prime plus 1.40%. The loan facility is secured by five hotels.

	2022 **$**	2021 $
Mortgages payable, with a face value of $41,875, bearing interest at a weighted average rate of 5.25% and maturing on various dates from October 2023 to February 2030. Individual first charges on 10 hotel properties with a carrying value of $125,166 have been pledged as security for individual mortgages.	**42,039**	44,811
Term loan, bearing interest at prime plus 1.50%, secured by a second lien on the same assets as the $40,000 credit facility (*notes 11 and 27*).	**11,135**	12,394
Mortgage payable, assumed in a joint operation, with a maximum borrowing limit of $166,950, bearing interest at the 30-day Canadian Dollar Offered Rate plus 2.60%. To be repaid with the sale proceeds of the secured real estate of the joint operation (*note 26*).	**45,178**	29,311
Total long-term debt	**98,352**	86,516
Less: current portion of long-term debt	**(77,423)**	(37,751)
Long-term portion	**20,929**	48,765

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

	2022 **$**	2021 $
Total long-term debt – beginning balance	**86,516**	64,296
Assumed with joint operation *(note 26)*	**—**	15,470
Proceeds from long-term debt, net of financing fees	**13,727**	13,140
Repayment of long-term debt	**(3,960)**	(7,116)
Capitalized interest on construction mortgage	**2,034**	701
Accretion	**139**	192
Amortization of fair value increment	**(104)**	(167)
Total long-term debt – ending balance	**98,352**	86,516

(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 2022, the Company incurred $310 (2021 – $239) under these agreements.

(ii) The Company provides administrative and asset management services to the Plans and charged $2,170 (2021 – $2,719) for services provided during the year.

(iii) During the year, the Company sold marketable securities and loans receivable totaling $5,266 to the Clarke Inc. Master Trust (the "Master Trust"), which holds the units of the Plans.

(iv) During the year, the Company provided and received non-monetary services with entities owned by the Company's Chairman and his immediate family member with a fair value of $197 (2021 – $119). The Company provided hotel management services in exchange for receiving legal, tax, investment property management and construction consulting services.

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

Year ended December 31, 2022	Board of directors	Officers	Total
	$	$	$
Salary and fees	119	390	509
Pension value	831	5	836
Total	950	395	1,345

16. SHARE-BASED PAYMENTS

The Company had a legacy stock option plan which reserved 7.50% of its issued and outstanding common shares for directors, officers and certain employees. As of December 31, 2022, there were no options outstanding under this plan (2021 – 33,333 options outstanding).

Effective January 1, 2022, long term incentive compensation consists of units of the Company (the "Units"). The Units are intended to incentivize certain employees in a similar manner as a stock option, however, the Units do not allow the employee to purchase common shares of the Company. Instead, the Units must be cash-settled for their value above the Company's current stock price when exercised. The 262,500 Units outstanding as of December 31, 2022 have an exercise price of $14.48, vest over 5 years and expire on December 31, 2028.

The liability for the Units and options are included within accounts payable and other liabilities on the consolidated statements of financial position. The combined expense recognized for the Units and options for the years ended December 31, 2022 and 2021 was $123 and $42, respectively.

17. COMMITMENTS

Under the terms of the Company's hotel franchise agreements, which expire at various dates through to 2041, franchise fees are due to franchise companies on 15 of the Company's 17 hotels. The franchise fees paid to franchisors are a function of hotel revenue.

18. SHARE CAPITAL AND EARNINGS PER SHARE

As at and for the year ended December 31,	2022		2021	
	# 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	**14,411,969**	**85,218**	15,057,892	89,097
Common shares repurchased for cancellation	**(342,825)**	**(2,028)**	(645,923)	(3,879)
Outstanding common shares, end of year	**14,069,144**	**83,190**	14,411,969	85,218

Earnings per share

	2022			2021		
	Earnings $	**Weighted average shares (in thousands)** #	**Per share amount** $	Earnings $	Weighted average shares (in thousands) #	Per share amount $
Basic earnings per share	**3,226**	**14,238**	**0.23**	16,379	14,673	1.12
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 per share	**3,226**	**14,238**	**0.23**	17,664	18,367	0.96

The debentures were anti-dilutive for the year ended December 31, 2022 and dilutive for the year ended December 31, 2021.

Common share purchases

During the year ended December 31, 2022, the Company purchased for cancellation 342,825 (2021 – 645,923) common shares at a cost of $3,775 (2021 – $5,461). The purchase price in excess of the historical book value of the shares in the amount of $1,747 (2021 – $1,372) has been charged to retained earnings, nil (2021 – $210) was charged to contributed surplus and $2,028 (2021 – $3,879) has been charged to share capital. The common share repurchases in the current year were completed under the Company's normal course issuer bid ("NCIB"), and the repurchases in the prior year were completed under an NCIB, and a substantial issuer bid.

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

19. INVESTMENT AND OTHER INCOME

Investment and other income is comprised of the following:

	2022 $	2021 $
Unrealized losses on marketable securities	**(322)**	(8,646)
Realized gains on investment properties (*note 9*)	**254**	—
Realized gains on marketable securities (*note 3*)	**387**	30,959
Revaluation gain on hotel properties *(notes 2 and 8)*	**1,300**	2,300
Fair value adjustment on investment properties	**—**	(2,023)
Interest income	**670**	753
Pension recovery (expense) *(note 7)*	**709**	(27)
Loss on disposal of property and equipment	**(3)**	(184)
Gain (loss) on modification and redemption of debentures *(note 13)*	**(397)**	1,445
Foreign exchange gains	**240**	26
	2,838	24,603

20. INTEREST AND ACCRETION

Interest and accretion is comprised of the following:

	2022 $	2021 $
Interest on short-term indebtedness	**525**	88
Interest on long-term debt and debentures	**5,596**	5,666
Accretion	**374**	254
	6,495	6,008

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:

	2022 $	2021 $
Salaries, wages and employee benefits, net of government assistance of $2,217 (2021 – $6,448)	**18,610**	10,412
Materials, supplies, repairs and utilities, net of government assistance of $1,133 (2021 – nil)	**15,207**	10,835
Food, beverage and service costs	**2,745**	1,374
Royalty and franchise fees	**2,558**	1,843
Property taxes, net of government assistance of $598 (2021 – $1,574)	**2,227**	1,157
Other general and administrative	**1,792**	2,197
Professional fees	**1,347**	1,623
Information technology and support	**617**	552
Insurance, net of government assistance of $199 (2021 – $525)	**672**	128
	45,775	30,121

The Company has recognized $4,386 of government funding in earnings for the year ended December 31, 2022 (2021 – $9,282). $4,147 (2021 – $8,547) is presented as a reduction of expenses and $239 (2021 – $735) is presented in revenue.

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

22. SUPPLEMENTAL CASH FLOW INFORMATION

Adjustments for items not involving cash	**2022** **$**	2021 $
Realized/unrealized gains on marketable securities *(note 19)*	**(65)**	(22,313)
Depreciation and amortization	**9,570**	10,143
Revaluation gain on hotel properties *(notes 2 and 8)*	**(1,300)**	(2,300)
Fair value adjustment on investment properties *(note 9)*	**—**	2,056
Deferred income tax expense (recovery) *(note 10)*	**1,690**	(430)
Share-based payment expense *(note 16)*	**123**	42
Amortization of fair value increments from acquisition	**(104)**	(167)
Accretion	**374**	254
Realized/unrealized foreign exchange gains	**(240)**	(30)
Pension expense (recovery) *(note 7)*	**(709)**	27
Loss (gain) on disposal of assets *(note 19)*	**(251)**	184
Loss (gain) modification and redemption of debentures *(note 13)*	**397**	(1,445)
	9,485	(13,979)

Net changes in non-cash working capital balances	**2022** **$**	2021 $
Receivables	**1,492**	(3,663)
Income taxes receivable	**—**	349
Other assets	**686**	(276)
Accounts payable and other liabilities	**1,856**	2,531
Income taxes payable	**(1,345)**	3,408
	2,689	2,349

	2022 **$**	2021 $
Income taxes paid	**1,770**	350
Interest received	**859**	490
Interest paid	**6,515**	5,813

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 (ratio of 1.25x), and debt service coverage ratio to exceed various levels ranging from 1.20x – 1.40x. All restrictive covenants are in compliance.

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

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The methods and assumptions used in estimating the fair value of long-term debt, debentures and the share-based liability are as follows:

Long-term debt 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, 2022 was $98,352 and $96,377, respectively.

Debentures

The fair value of the debentures is based on the quoted market price for the debentures. As at December 31, 2022, the carrying value and fair value of the debentures was $34,146 and $34,125, respectively.

Share-based liability

The fair value of options and Units is determined using the quoted market price for the shares of the Company, the Black-Scholes option pricing model and internal valuation techniques which incorporate 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:

	Fair value at December 31, 2022			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Property and equipment	**208,298**	—	—	**208,298**
Investment properties	**80,885**	—	—	**80,885**
Total assets	**289,183**	—	—	**289,183**

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

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CON'T)

		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

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 typically comprised of equity price risk, interest rate risk and foreign exchange risk. Given the Company's holdings at December 31, 2022, equity price risk and foreign exchange risk are considered insignificant.

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 long-term debt is 6.58% with a weighted average maturity of approximately 2.0 years.

The Company has one term loan, two construction loans and two revolving credit facilities that use floating rates. One of the construction loans is not drawn. As at December 31, 2022, the after-tax, annualized net income effect of a 1% change in interest rates would have been $596 on floating rate debt of $81,741.

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 Company's receivables.

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

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CON'T)

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. As at December 31, 2022, the Company had cash of $1,090 and available unused facilities totaling $28,914.

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 other liabilities	**25,310**	**—**	**—**	**—**
Interest on debentures	**2,056**	**3,850**	**3,850**	**321**
Debentures	**—**	**—**	**—**	**35,000**
Lease obligations	**189**	**252**	**209**	**70**
Long-term debt	**77,657**	**6,640**	**12,996**	**1,111**
Interest on long-term debt	**2,611**	**1,444**	**728**	**45**
Construction accounts payable and other liabilities	**—**	**7,035**	**—**	**—**
	107,823	**19,221**	**17,783**	**36,547**

25. SEGMENTED INFORMATION

The Company operates in two reportable business segments. The Investment segment represents the Company's marketable securities portfolio, ferry business, investment properties and 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 (CON'T)

Year ended December 31, 2022	**Investment $**	**Hospitality $**	**Other $**	**Eliminations $**	**Total $**
Revenue and other income:					
Hotel revenue and provision of services	**7,367**	**54,676**	**2,307**	**(18)**	**64,332**
Investment and other income	**419**	**1,751**	**668**	**—**	**2,838**
	7,786	**56,427**	**2,975**	**(18)**	**67,170**
Operating expenses before the undernoted	**8,916**	**34,714**	**2,163**	**(18)**	**45,775**
Depreciation and amortization	**144**	**9,426**	**—**	**—**	**9,570**
Interest and accretion	**—**	**3,043**	**3,452**	**—**	**6,495**
Income (loss) before income taxes	**(1,274)**	**9,244**	**(2,640)**	**—**	**5,330**
Assets	**157,632**	**227,409**	**31,080**	**—**	**416,121**
Liabilities	**68,968**	**70,637**	**61,546**	**—**	**201,151**
Capital expenditures *(notes 8 and 9)*	**43,264**	**19,410**	**—**	**—**	**62,674**
Assets located outside of Canada *(note 9)*	**18,636**	**—**	**—**	**—**	**18,636**

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	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	1,982	(16)	30,121
Depreciation and amortization	129	9,975	39	—	10,143
Interest and accretion	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

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, 2022 and 2021.

(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. In November 2022, the Company made an additional $345 investment in this joint operation and exercised its right to exit the COA for consideration equal to the Company's investment plus a 6.0% return. The closing of the sale of the Company's interest is expected to occur on March 31, 2023. As a result, the corresponding assets and liabilities associated with the COA have been presented as current at December 31, 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 other liabilities	**(3,567)**
Construction accounts payable and other liabilities	**(2,475)**
Construction mortgage payable *(note 14)*	**(15,470)**
Net assets acquired, at fair value	**21,121**

Construction costs of $16,714 (2021 – $13,150), representing the Company's one-third share, were capitalized to real estate inventory under development in the year ended December 31, 2022. Revenue of $21 (2021 – nil) and operating expenses of $1,115 (2021 – $728) related to the joint operation are included in earnings for the year ended December 31, 2022.

27. SUBSEQUENT EVENT

On February 9, 2023, using available funds from its lines of credit, the Company repaid a term loan of $11,042, which was secured by a second lien on five hotels and three investment properties.

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