

**CLARKE INC.**

**ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED DECEMBER 31, 2012**

Halifax, Canada  
Date: March 18, 2013

# CLARKE INC.

## *Annual Information Form*

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## **FORWARD-LOOKING STATEMENTS AND FUTURE ORIENTED FINANCIAL INFORMATION**

Included in this Annual Information Form, and the documents incorporated herein by reference, are forward-looking statements, including future oriented financial information, with respect to Clarke Inc. (“Clarke” or the “Company”). Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “does not expect”, “is expected”, “budget”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or equivalents or variations, including negative 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 price of securities held by the Company, changes in these securities holdings, changes to the Company’s hedging practices, currency fluctuations, requirements for additional capital, changes to government regulations and the timing and possible outcome of pending litigation. 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.

With respect to the Company’s Investment Segment, 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, reliance on certain key executives, interest rates and foreign currency fluctuations and other factors described in “Risks and Uncertainties – Risks Relating to Investment Segment”. With respect to the Company’s Freight Transportation Segment, such risks and uncertainties include, among others, competition, fuel costs, expiry of certain leases, labour relations, the use of third party service providers, dependence on certain personnel, weather conditions, customer relationships, claims, litigation and insurance, government regulation of the transport industry and other factors described in “Risks and Uncertainties – Risks Relating to Transportation Segment”. With respect to the Company’s Commercial Tanks & Home Heating Segment (formerly the Home Heating Segment), such risks and uncertainties include, among others, the costs of housing and major consumer products, energy costs, alternative energy sources, product liability risk, foreign exchange risk, and other factors described in “Risks and Uncertainties – Risks Relating to Commercial Tanks & Home Heating Segment”. Other general risks and uncertainties include, among others, environmental considerations, use of information technology and information systems, safety issues, concentration of sales among a small number of customers, the seasonality of business cycles for certain segments, commodity market risk, risks associated with investment in derivative instruments and other factors described in “Risks and Uncertainties – Other General Risks”.

Although the Company has attempted to identify important factors that could cause actual actions, events or results, or cause actions, events or results not to be 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.

All references to “\$” or “dollars” are references to Canadian Dollars, unless otherwise specified. In the following discussion, references to “the Company” and to “Clarke” are to Clarke Inc. and its subsidiary companies, and to the companies pre-existing Clarke’s incorporation whose business Clarke Inc. has acquired, unless the context requires otherwise.

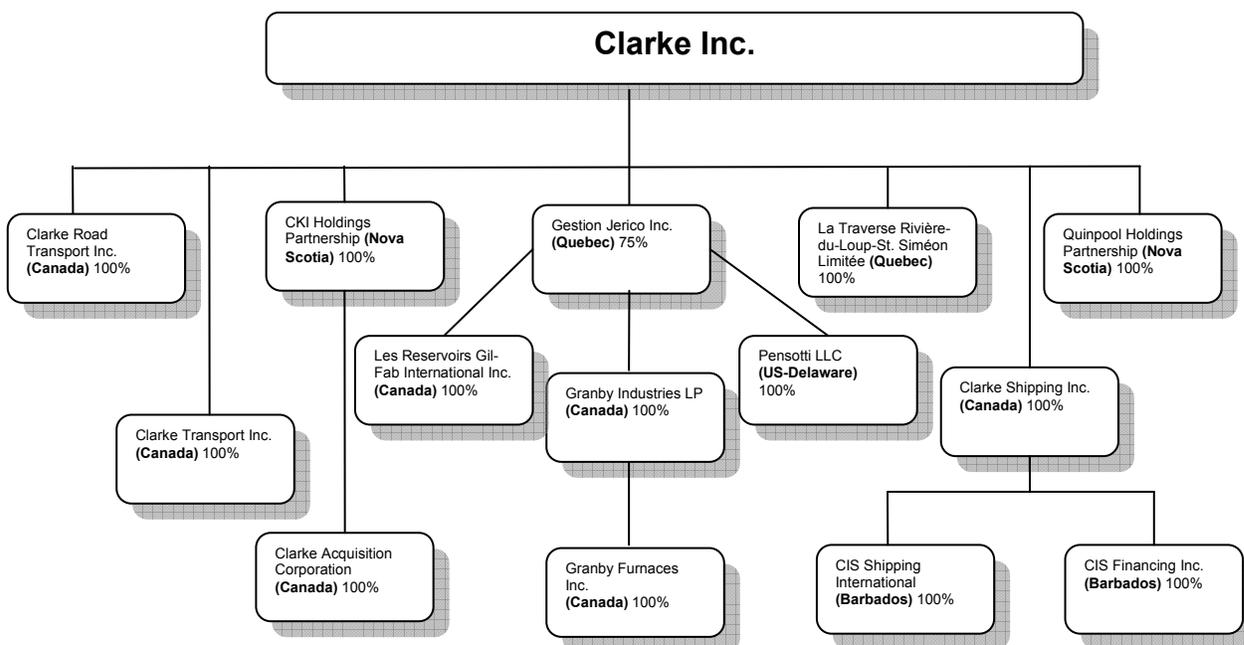
Information in this document is as at the date of the Company’s most recent financial year end, December 31, 2012, unless otherwise stated.

## CORPORATE STRUCTURE

Clarke Inc. was incorporated as 3442896 Canada Inc. pursuant to the *Canada Business Corporations Act* (“CBCA”) on December 9, 1997 and changed its name to “Clarke Inc.” on January 26, 1998. The Company’s registered and head office is located at 6009 Quinpool Road, 9<sup>th</sup> Floor, Halifax, Nova Scotia, B3K 5J7.

### Intercorporate Relationships

The following chart represents the Company’s organizational structure, as at December 31, 2012:



*\*The Company and its subsidiaries operate or have additional interests in other subsidiaries that do not meet the thresholds for disclosure set out in Form 51-102F2 of the Canadian Securities Administrators.*

## GENERAL DEVELOPMENT OF THE BUSINESS

### Overview

Clarke invests in a variety of private and publicly-traded businesses and participates actively where necessary to enhance performance and increase its return. Following its formation, the Company completed an initial public offering for the purpose of funding the acquisition of all of the intermodal transportation and logistics services businesses, related assets and liabilities of the former Clarke Division of Newfoundland Capital Corporation. Subsequently, Clarke has divested several of these operations, including the logistics services business, and reorganized the remaining operations into separate legal entities as part of its transformation into an investment company.

### Recent Corporate Developments

On January 13, 2010, the Company announced that Rob Normandeau, President and Chief Operating Officer of Clarke, was appointed to the Company's Board of Directors. Mr. Normandeau assumed the seat vacated by George Armoyan, who resigned his position as director of the Company and took a leave of absence as an officer. Hugh Smith, who served as Chairman of the Company until December 2008, resumed the post of Chairman. The Company also announced that Michael Andlauer resigned his position as director of the Company. In November 2009, Andlauer Transportation Services Limited Partnership sold its Retail Solutions division to TransForce Inc. Mr. Andlauer has an ongoing role with TransForce and elected to step down from Clarke's Board of Directors to avoid any potential conflict.

On January 19, 2010, Clarke entered into a lock-up agreement with Cominar Real Estate Investment Trust ("Cominar") pursuant to which it agreed to deposit all of the common shares it held in Overland to Cominar in connection with Cominar's takeover bid to acquire all of the outstanding common shares of Overland at a price of \$0.82 cash per unit. Clarke received proceeds of \$4.0 million on such investment, representing a gain before income taxes of approximately \$1.6 million.

On February 16, 2010, a member of Clarke's senior management team was added to the Board of Trustees of TerraVest Income Fund, which remains in Clarke's current portfolio as TerraVest Capital Inc.

On April 9, 2010, Clarke's investment, Sure-Gro, disposed of its major operating subsidiary which resulted in total proceeds to Clarke of approximately \$10.4 million in cash (including the repayment of \$5.1 million of notes receivable) and \$3.1 million in 8% notes maturing in October 2012. Clarke retained ownership of certain assets through its investment in Sure-Gro, including real estate, with an estimated market value to Clarke of approximately \$0.8 million and the \$3.1 million in notes receivable maturing in October 2012 noted above.

On April 15, 2010, the Company announced that it had completed a substantial issuer bid to purchase a total of 3,920,340 of its own common shares for cancellation. The Company paid \$3.60 for each common share purchased pursuant to the substantial issuer bid (subject to adjustments to avoid the purchase of fractional common shares).

On July 28, 2010, Clarke acquired control of Parrsboro Metal Fabricators Ltd. ("PMF") through the acquisition of 100% of the shares of PMF and senior secured debt in the amount of \$2.1 million. On September 2, Granby Furnaces Inc. ("Granby Furnaces"), as the successful bidder in the receivership process, entered into a purchase and sale agreement with the receiver appointed to PMF to purchase substantially all of the assets of the former business. Industry experience, together with ownership of an established sales network and a demonstrated ability to drive efficiency and profitability from operations in the same industry segment have led to a bargain purchase in the amount of \$2.3 million derived from fair values assigned to the various assets of PMF in the acquisition.

On October 28, 2010, Clarke was able to restructure its investment in the Entertainment segment, with the partners in that business, retaining a 50% interest in the remaining profitable digital licensing business, Countdown Media LP ("Countdown").

On April 7, 2011, Clarke announced that it had exercised its right to partially redeem its 6% convertible unsecured subordinated debentures maturing December 31, 2012 in accordance with the terms of the

indenture governing the debentures. On May 11, 2011 the Company redeemed such debentures in an aggregate principal amount of \$18,275,000, representing approximately 50% of the outstanding balance of such debentures. On redemption, the Company paid to the holders the principal amount, together with all accrued and unpaid interest thereon up to but excluding the redemption date, for a total of \$1,021.53 per \$1,000 principal amount of such debentures.

On June 4, 2011, Clarke announced that its joint venture, Countdown, sold its assets and operations to a strategic buyer. Countdown was established as part of the restructuring of Madacy Entertainment LP ("Madacy"), in which Clarke acquired a 50% interest as part of a privatization that occurred in March 2009. The sale represented the divestiture by Clarke of its remaining interest in the Madacy business and resulted in Clarke's exit from the Entertainment segment. Clarke received approximately \$5.0 million on closing, net of the repayment of certain indebtedness, and will be entitled to receive up to \$1.75 million in cash if applicable earn out thresholds for the business are satisfied in 2011 and 2012. This transaction resulted in a gain to Clarke of \$7.2 million in the second quarter of 2011. To the extent that earn out payments are received in the future, further gains will be realized by Clarke. In 2011, the first earn out payment was achieved in the amount of \$0.5 million. This amount was added to the gain on sale for a total of \$7.7 million for the year ended December 31, 2011. In 2012, the second earn out payment was achieved in the amount of \$0.5 million. This amount was added to the gain on sale for a total of \$0.4 million for the year ended December 31, 2012.

On June 6, 2011, Clarke purchased the net assets and business of PNA Inc. Total net consideration for the transaction was \$1.1 million which consisted of \$0.7 million in cash and \$0.4 million in contingent consideration. Acquired was the business of sales and distribution of certain heating products throughout North America.

On October 1, 2011, Clarke purchased the shares of Les Reservoirs Gil-Fab International Inc. ("Gil-Fab"). Total net consideration for the transaction was \$4.2 million which consisted of \$3.2 million in cash and two \$0.5 million 5% notes payable October 1, 2012 and October 1, 2013, respectively. Acquired was the business of manufacturing and producing of commercial steel tanks.

On October 4, 2011, the Company announced that it had completed a substantial issuer bid to purchase a total of 3,000,000 of its own common shares for cancellation. The Company paid \$5.00 for each common share purchased pursuant to the substantial issuer bid (subject to adjustments to avoid the purchase of fractional common shares).

On November 30, 2011, the Company announced that the Freight Transportation segment had acquired all of the operating assets of Select Transport Incorporated ("Select") for a purchase price of \$1.1 million. Based in Windsor, Nova Scotia, Select specialized in the over-the-road transport of produce and other refrigerated freight.

On December 7, 2011, the Company announced the appointment of Andrew Snelgrove as Chief Financial Officer, effective December 31, 2011, replacing Ian Wilkie who left Clarke at that time.

During 2011, Clarke filed an early warning report announcing the acquisition of voting securities representing 10% or more of the outstanding securities of a class issued by Imvescor Restaurant Group Inc, which is no longer in Clarke's current portfolio. Also in 2011, a member of Clarke's senior management team was added to the Board of Directors of Royal Host Inc., which remains in Clarke's current portfolio. During 2011, a member of Clarke's senior management team resigned from the Board of Directors of Cinram International Income Fund.

On February 2, 2012, the Company announced that it had invested \$9.0 million in Highkelly Drilling Ltd. ("Highkelly") representing approximately 38% of the outstanding shares of Highkelly. Highkelly is a newly formed contract drilling company based in Calgary, Alberta that has entered into a strategic partnership with a Calgary based oilfield equipment manufacturer with facilities in China. Pat Powell, Chairman of Bonnett's Energy Services Corp. and a member of Clarke's Board of Directors, is the Chairman & CEO of Highkelly and Clarke's then Vice President Investments also joined the Board of Directors of Highkelly. Clarke no longer has a representative on the Board of Directors of Highkelly.

On February 16, 2012, the Company announced that Rob Normandeau, President, CEO and director of the Company, had resigned and effective March 1, 2012, George Armoyan assumed the position of President and Chief Executive Officer of Clarke.

On March 30, 2012, Clarke announced that it had exercised its right to redeem the remaining outstanding 6% convertible unsecured subordinated debentures due December 31, 2012 in accordance with the terms of the indenture governing the debentures. On May 3, 2012, the Company redeemed such debentures in an aggregate principal amount of \$18,232,500. On redemption, the Company paid to the holders the principal amount, together with all accrued and unpaid interest thereon up to but excluding the redemption date, for a total of \$1,020.38 per \$1,000 principal amount of such debentures.

On November 26, 2012, Clarke purchased the shares of a storage tanks manufacturer. Total net consideration for the transaction was \$0.9 million which consisted of \$0.7 million in cash and \$0.2 million in contingent considerations.

During 2012, Clarke filed a Schedule 13D with the United States Securities and Exchange Commission announcing the acquisition of voting securities representing 5% or more of the outstanding securities of a class issued by Vitran Corporation Inc., which is no longer in Clarke's current portfolio. Also in 2012, two members of Clarke's senior management team were added to the Board of Directors of Supremex Inc., which remains in Clarke's current portfolio. During 2012, a member of Clarke's senior management team resigned from the Board of Directors of Highkelly.

On January 25, 2013, the Company announced it had obtained approval to extend the maturity date for the 6% convertible unsecured subordinated debentures due December 31, 2013 to December 31, 2018. All other terms of these debentures remain the same.

## BUSINESS OPERATIONS

Clarke employs a team of professionals who are dedicated to the selection and review of investment opportunities. These individuals apply a methodology that is designed to identify businesses with strong underlying fundamentals that are undervalued in the public market, or present an opportunity for Clarke to create value through influencing management and boards to make operational or administrative improvement. Clarke often seeks an active role in the direction of businesses in which it invests, where such involvement could yield greater shareholder value. The Clarke investment team monitors existing and prospective investments and makes regular adjustments to the Company's investment portfolio, with the objective of applying available capital to those investments that are expected to generate the best return.

### Description of Reporting Segments

The Company's reportable business segments consist of its Investment Segment, Freight Transportation Segment, Commercial Tanks & Home Heating Segment and Other Segment. The Investment Segment represents the Company's marketable securities portfolio, consisting mainly of publicly-traded equity securities and which are chosen because of their potential to deliver shareholder value. The Freight Transportation Segment includes the international shipping, trucking and intermodal operations, all of which relate to the movement of freight in return for service fees. The Commercial Tanks & Home Heating Segment represents the consolidated results of Granby, which is a leading North American manufacturer of high quality tanks for residential and light commercial storage of heating oil and other petroleum based products and leading distributor of related products, Granby Furnaces, a Nova Scotia based manufacturer of high quality residential furnaces and boilers, Pensotti LLC, a home heating distribution company based in Maine, USA and Gil-Fab, a manufacturer of commercial steel tanks based in Mascouche, Quebec. The Other segment consists of the real estate used in the Company's rail terminal and trucking operations and investments in associates, as well as the treasury, information technology, human resources and executive functions.

A comparative analysis of revenue and other income from continuing operations by reporting segment is set out in the table below. Intercompany transactions are eliminated separately.

<b>Revenue and Other Income Analysis</b> <i>(in thousands of dollars)</i>	<b>Year ended</b> <b>December 31,</b> <b>2012</b>		<b>Year ended</b> <b>December 31,</b> <b>2011</b>	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Investment Segment	9,880	4.2	(5,338)	(2.6)
Freight Transportation Segment	191,369	82.0	177,536	86.2
Commercial Tanks & Home Heating Segment	50,467	21.6	40,683	19.8
Other Segment	30,963	13.3	21,676	10.5
Eliminations	(49,160)	(21.1)	(28,654)	(13.9)
Total revenue and other income	233,519	100.0	205,903	100.0

### Investment Segment

The Investment Segment carries out Clarke's investment function. Clarke purchases positions in publicly-traded and privately-held small and mid-cap companies that it believes will continue to grow Clarke's business and profitability. From time to time, Clarke also participates in joint ventures, partnerships or other arrangements when they offer the opportunity to create shareholder value. Accordingly, the Company realizes income from receipt of interest, dividends and gains or losses on sales of investments.

## Freight Transportation Segment

The Freight Transportation Segment includes the international shipping, trucking and intermodal operations, all of which relate to the movement of freight in return for service fees. Clarke's transportation subsidiaries provide freight transportation services to over 5,000 customers, utilizing a network of railroad partnerships and trucking owner-operators. The freight product mix is diverse and includes building products, food, beverages, metals, packaged consumer products, pharmaceuticals, computer hardware, electronics and a wide range of retail goods. Clarke offers freight transportation services through the following wholly-owned subsidiaries:

- **Clarke Transport Inc.** ("CTI") is a national coast-to-coast less-than-truckload and truckload intermodal rail carrier serving the outbound freight requirements of the provinces of Ontario and Quebec to points in Atlantic and Western Canada. Canadian National Railway Company ("CN"), which handles most of CTI's intermodal business in Canada, has been a business partner with CTI for over 30 years. CTI competes with four other major rail-based freight forwarders, as well as a large number of trucking companies.
- **Clarke Road Transport Inc.** ("CRTI") provides comprehensive truckload services within Atlantic Canada and between Atlantic Canada and all major urban destinations in Central Canada and the United States. CRTI offers van dry and refrigerated services, as well as flatbed services, including over-dimensional capacity on a full-load or partial load basis. There are many companies competing in this market, of which four are considered major competitors.
- **Clarke North America Inc.** is a non-asset third party logistics supplier. This service arm offers logistics solutions throughout North America.
- **La Traverse Rivière-du-Loup – St. Siméon Limitée** ("TRDL") is a passenger/car ferry service operating on the St. Lawrence River, under contract with the Quebec Government since 1973. Historically, the contract with the Quebec Government has been subject to renewal every five years. In April 2010, a new contract was signed, effective January 1, 2010. This contract expires on December 31, 2017, with an option to extend for a further five years.
- **CIS Shipping International Inc.** is a Barbados-based international container shipping operation, which owns the container ship *MV Shamrock*. Management of the ship has been outsourced to an arm's-length vessel manager under contract terms based on charter revenue. Currently the ship is being used as a time charter vessel transporting goods throughout the Caribbean. The container ship operation has many international competitors.

The Freight Transportation Segment uses both owned and leased equipment in its operations. The Company's container ship and passenger ferry are both owned by the Company. Certain of the trucks, chassis and containers used in the on-land freight transportation businesses are also owned, however the Company does make use of certain leased equipment. For further discussion of the operating lease obligations of the company, reference should be made to note 17 to the consolidated financial statements of the Company and the accompanying Management's Discussion & Analysis for the year ended December 31, 2012, incorporated by reference in this Annual Information Form.

## Commercial Tanks & Home Heating segment

The Commercial Tanks & Home Heating Segment (formerly the Home Heating Segment) reflects the operating results of Granby, Granby Furnaces, Pensotti and Gil-Fab. Granby is a leading North American manufacturer of high quality tanks for residential and light commercial storage of heating and other petroleum-based products, a manufacturer of electric furnaces and is also a distributor of peripheral products. The Commercial Tanks & Home Heating segment reflects the operations of Granby from February 28, 2008, the date on which Clarke acquired all remaining outstanding units of Granby, Granby Furnaces, from September 2, 2010, the date on which the business assets were acquired (discussed below), Pensotti, from June 6, 2011, the date on which the business assets were acquired (discussed below) and Gil-Fab, from October 1, 2011, the date on which its shares were acquired (discussed below). Effective November 1, 2008, the Company acquired, through Granby, certain assets of another Quebec-based manufacturer of steel heating

oil storage tanks. Effective November 26, 2012, the Company acquired, through Granby, the shares of another Quebec-based manufacturer of storage tanks. The Company currently holds 75% of these combined entities.

On July 28, 2010, Clarke acquired control of PMF, a Nova Scotia based manufacturer of high quality residential furnaces and boilers. On September 2, 2010, Granby Furnaces, as the successful bidder in the receivership process, entered into a purchase and sale agreement with the receiver appointed to PMF to purchase substantially all of the assets of the former business.

On June 6, 2011, Pensotti LLC (an affiliate of the Company) purchased the net assets and business of PNA Inc., a Brewer, ME based importer and distributor of high quality residential heating products. The primary products distributed by Pensotti include cast iron boilers, wall-hung boilers and panel radiators. These products are distributed in both the United States and Canada.

On October 1, 2011, an affiliate of the Company purchased the shares of Gil-Fab. Gil-Fab, which operates under the Gil-Fab and ATS brand names, is a Mascouche, QC based manufacturer of commercial liquid storage tanks and pressure vessels.

See “GENERAL DEVELOPMENT OF THE BUSINESS – Recent Corporate Developments.”

### **Other Segment**

The Other Segment includes Clarke IT Solutions Inc. (“CITSI”), a wholly-owned subsidiary of Clarke Road Transport Inc. that operates as an information technology infrastructure and support services company.

Clarke’s transportation-related real estate assets, and Clarke’s executive, treasury and human resources functions, are also included in the Other Segment.

Clarke’s investments in associates are included in the Other Segment and are comprised of the investments in Highkelly and Midlake Oil & Gas Limited accounted for using the equity method.

## Properties

Clarke and its subsidiaries operate in 24 facilities, of which 8 are owned (with 2 land leases) and 16 are leased. The Company also owns 3 properties that are currently held for investment purposes.

The following table lists the Company's owned properties at December 31, 2012.

<b>Location</b>	<b>Description</b>	<b>Relevant Operating Entity</b>
Kitchener, Ontario	Land, office, terminal premises	Idle
Moncton, New Brunswick	Land, office, terminal premises	Idle
Regina, Saskatchewan <sup>(1)</sup>	Land, office, terminal premises	CTI
St. John's, Newfoundland	Land, office, terminal premises	CTI, CRTI
Montreal, Quebec	Office, terminal premises	CTI
Granby, Quebec	Manufacturing facility	Granby
Parrsboro, Nova Scotia	Manufacturing facility	Granby Furnaces
Parrsboro, Nova Scotia	Warehouse	Granby Furnaces
Mascouche, Quebec	Manufacturing facility	Gil-Fab
Ham-Nord, Quebec	Manufacturing facility	Granby
Forestville, Quebec	Land	Idle

<sup>(1)</sup> Subsequent to December 31, 2012, this location was sold to a third party and is now being leased by CTI.

Certain of these properties are pledged as security pursuant to certain bank borrowing agreements. The Company considers these properties to be in good operating condition.

In addition, leased properties consist of:

<b>Location</b>	<b>Description</b>	<b>Relevant Operating Entity</b>
Calgary, Alberta	Office, terminal premises	CTI
Edmonton, Alberta	Office, terminal premises	CTI
Concord, Ontario	Office, terminal premises	CTI, CITSI
Milton, Ontario	Office premises	CRTI
Vaughan, Ontario	Condominium	CTI
Corner Brook, Newfoundland	Office, terminal premises	CTI
Saskatoon, Saskatchewan	Office, terminal premises	CTI
Montreal, Quebec	Land	CTI
Burnaby, British Columbia	Office, terminal premises	CTI
Winnipeg, Manitoba	Office, terminal premises	CTI
Winnipeg, Manitoba	Terminal premises	CTI
Rivière-du-Loup, Quebec	Land	TRDL
Rivière-du-Loup, Quebec	Office premises	TRDL
St-Siméon, Quebec	Office premises	TRDL
Halifax, Nova Scotia	Office premises	Clarke Inc., CITSI
Halifax, Nova Scotia	Office premises	CTI, CRTI
Brewer, Maine	Office, warehouse	Pensotti
Granby, Quebec	Manufacturing facility	Granby

## Employees

The Company employed and contracted 777 employees and independent owner-operators as of December 31, 2012. The employee group was comprised of 223 union employees and 403 non-union employees. The Company also used 151 independent owner-operators to provide services related to the Freight Transportation Segment.

## RISKS AND UNCERTAINTIES

An investment in Company securities involves a number of risks. In addition to the other information contained in this Annual Information Form, the documents incorporated by reference herein and the Company's other publicly filed disclosure documents, investors should give careful consideration to the following factors, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form. Any of the matters highlighted in these risk factors could have a material adverse effect on Clarke's business, results from operations and financial condition.

### **Risks Relating to the Investment Segment**

#### *Investment Strategy*

Clarke often seeks to invest in under-performing businesses and implement operational and managerial changes that are intended to improve financial performance. The failure by Clarke to effect positive change in one or more of the businesses in which it invests could result in the loss of some or all of its investment. This could have a material adverse effect on Clarke's business, results from operations and financial condition.

#### *Legal and Regulatory Risks*

Clarke's Investment Segment operates in a highly regulated industry with a plethora of legal and regulatory requirements. Clarke engages in strategic investing where Clarke may seek to influence a company's management. Such efforts may include participating on a company's Board of Directors, working with the Board of Directors to enhance the management team or working with management to improve the prospects of the business. In engaging in these investments, Clarke, its directors, its senior management and certain employees (and those of its subsidiaries) and others are required to comply with a complex set of laws, regulations, policies, rules and standards that govern the conduct of Clarke's operations. Clarke has developed procedures for compliance with these legal and regulatory requirements but any breach or perceived breach thereof, and any actual or threatened legal or regulatory actions, investigations, fines or penalties could have a significant impact on Clarke's ability to operate, negatively affect Clarke's reputation or lead to the imposition of penalties or costs that could adversely impact Clarke's business, profits and asset base.

#### *General Market Risk*

General market risk is the risk that equity markets will go down in value, including the possibility that equity markets will go down sharply and unpredictably. Several factors can influence market trends, such as economic developments, changes in interest rates, political changes, tax changes and catastrophic events. Clarke's investments are subject to these general market risks. In addition, Clarke has investments in small or mid-sized companies. The share prices of smaller companies can be more volatile than those of larger, more established companies. Smaller companies may have limited resources or funds, unproven management, untested products and less liquidity, all of which could affect their share price.

#### *Potential Lack of Diversification*

At any given point in time, Clarke may have a significant portion of its assets invested in a single business or project. In the event that any such investment or project is unsuccessful, Clarke could incur significant losses which could, in turn, have a material adverse effect on Clarke's business, results from operations and financial condition.

#### *Reliance on Key Executives*

Clarke is dependent on certain key executives for the successful operation of its business. Although Clarke continues to develop a solid management group and investment team, much of Clarke's success is dependent on certain key executives. The departure of one or more of these key executives could have a material adverse effect on Clarke's business, results from operations and financial condition.

### *Interest Rate and Foreign Currency*

From time to time, Clarke may invest in interest bearing and/or foreign currency denominated securities. These investments expose Clarke to interest rate and/or currency risks in that the value of the interest rate or Canadian dollar compared to the interest rate and/or foreign currency of the underlying security may change during the period in which the investment is held. The principal lever for managing interest rate and currency risk is investment in derivative instruments, such as futures, forward contracts, options and/or swaps. Clarke expects to limit extreme volatility from such interest rate and currency fluctuations using derivative instruments, but does not attempt to eliminate all volatility.

### **Risks Relating to the Freight Transportation Segment**

#### *Competition*

The Company's freight transportation subsidiaries face competition from a variety of national and regional competitors. Many of these competitors have strong financial, marketing and other resources. There can be no assurance that the Company will be able to compete successfully against its current or future competitors or that competition will not have a material adverse effect on the Company's business, results from operations and financial condition.

#### *Expiry of Certain Leases*

A number of leases that the Company has signed with various landlords relating to key terminal premises, including premises in Calgary, Edmonton and Concord, will expire within the next two years. If the Company cannot renegotiate these leases on acceptable terms or find suitable alternate arrangements, operating costs may increase, which could have a material adverse effect on the Company's business, results from operations and financial condition.

#### *Labour Relations*

Approximately 28% of the persons employed by the Company's freight transportation subsidiaries are unionized. The Company has collective bargaining agreements in place with the unions that represent its unionized employees. The agreements that are in place have expiry dates ranging from May 2013 to December 2017. The Company's inability to negotiate acceptable terms for the renewal of collective bargaining agreements that will expire in the future could have a material adverse effect on its business, results from operations and financial condition. In addition, other employees may unionize in the future. The unionization of additional employees could have a material adverse effect on the Company's business, results from operations and financial condition.

#### *Third Party Services*

The operations of the Company's freight transportation subsidiaries involve the use of third party carriers to carry shipments over portions of the route from origination to destination. During the year ended December 31, 2012, amounts paid to one third party rail company, CN accounted for approximately 16.6% of consolidated operating expenses. The Company's contracts with CN expire December 31, 2013 and December 31, 2014. If CN ceases to carry Clarke shipments, the Company will be forced to seek alternative third party carriers. This would likely result in increased costs, which could have a material adverse effect on the Company's business, results from operations and financial condition.

The Company is also exposed to labour relations risks associated with its third party carriers. At this time, the impact of a potential strike is not ascertainable.

### *Dependence on Personnel*

The Company is dependent on certain management personnel for the successful operation of its freight transportation business. The loss of key management personnel or an inability to recruit and retain additional management personnel could have a material adverse effect on the Company's business, results of operations and financial condition. In addition, it is difficult to attract and retain qualified drivers, including owner operators, to facilitate the delivery of freight transportation services. If the Company is unable to attract drivers and contract with owner operators, it could be required to adjust compensation, let trucks sit idle, or operate with fewer drivers and face difficulties meeting customer demands, all of which could adversely affect the Company's business, results from operations and financial condition.

### *Fuel*

The price of fuel is a significant factor in the financial performance of the Company's freight transportation subsidiaries. The Company does not hedge against the risk of fuel price increases. Any increase in fuel taxes or fuel prices or any change in federal or provincial regulations that result in such an increase, to the extent that the increase is not offset by freight rate increases or fuel surcharges to customers, could have a material adverse effect on the Company's business, results from operations and financial condition.

### *Seasonality and Weather Conditions*

The results of the Company's freight transportation subsidiaries are subject to seasonal fluctuations. In a typical year, relatively higher revenues are generated during the fall, and relatively lower revenues are generated during the winter. In addition, adverse weather conditions such as heavy snow or ice storms can have a negative impact on operating results. Seasonal fluctuations and adverse weather conditions could result in lost revenues, which could have a material adverse effect on the Company's business, results from operations and financial condition.

### *Customer Relationships*

Within the transportation industry, the generation and maintenance of revenue is largely dependent on building relationships with customers. Significant customers tend to deal with a primary contact person that represents the company as an employee or an agent. The relationship that develops between customers and primary contact persons is an important factor in maintaining future business. Many, but not all, of the Company's employees and agents have signed non-compete agreements with the Company that will protect the Company for specified periods of time following resignation or termination. Existing non-compete agreements may not adequately protect the Company from competition from former employees and agents. The departure of key sales employees or agents could result in lost revenues, which could have a material adverse effect on the Company's business, results from operations and financial condition.

### *Claims, Litigation and Insurance*

Certain of the Company's operations are subject to risks normally inherent in the freight transportation industry, including potential claims and/or litigation, which could result from, among other circumstances, personal injury or property damage arising from motor vehicle accidents. The availability of, and ability to collect on, insurance coverage for such liabilities are subject to factors beyond the control of the Company. In addition, the Company may become subject to liability hazards, claims and litigation in circumstances where it cannot or may elect not to insure (because of high premium costs or other reasons), or for occurrences that exceed maximum coverage under its policies. The Company has no control over changing conditions and pricing in the insurance marketplace, and the cost or availability of various types of insurance may change in the future. Increases in insurance costs or the Company's inability to obtain insurance coverage in the future for certain types of losses could have a material adverse effect on the Company's business, results from operations and financial condition.

## *Regulation*

The Company's freight subsidiaries must obtain a license from or register with provincial regulatory authorities in order to carry goods extra-provincially or to transport goods within any province. Regulation of the operations of transportation companies has become, and is expected to continue to become, more stringent. Changes in regulations applicable to the Company's freight subsidiaries could have a material adverse effect on the Company's business, results from operations and financial condition.

The right to continue to hold applicable licenses and permits is generally subject to maintaining satisfactory compliance with regulatory and safety guidelines, policies and regulations. Although the Company is committed to compliance and safety, there is no assurance that it will be in full compliance at all times with such guidelines, policies and regulations. Consequently, at some future time, the Company could be required to incur significant costs to maintain or improve its compliance record.

## **Risks Relating to the Commercial Tanks & Home Heating Segment**

### *Increased Costs of Home Heating with Oil*

The Company believes that increased costs relating to home heating with oil, including heating oil costs and related home insurance costs, as a percentage of consumers' disposable income could be a factor that negatively influences steel tank and/or furnace replacement decisions. A prolonged rise in such home heating costs, or further increases in such costs, could reduce demand for heating oil storage tanks and furnaces, which could adversely affect the Company's business, results from operations and financial condition. Additionally, if such home heating costs should remain high, on a relative basis as compared with natural gas, electricity and other alternative energy sources, for a prolonged period of time this would adversely impact storage tank sales volumes and consequently could have a material adverse effect on the Company's business, results from operations and financial condition.

### *Reduced Residential Home Resale Activity*

Home resale activity is a major driver of replacement residential oil tank sales, as home owners and insurers conduct inspections and identify aging tanks during the purchase and sale process. Reduced activity in the residential home resale market could lead to reduced revenues for Granby, and a prolonged downturn in the resale market could have a material adverse effect on the Company's business, results from operations and financial condition.

### *Foreign Exchange Risk*

The Company's Commercial Tanks & Home Heating Segment generates a significant portion of its sales in U.S. dollars, but a smaller proportion of its expenses are denominated directly in U.S. dollars. As a result, any strengthening of the Canadian dollar relative to the U.S. dollar will negatively impact the Company's results of operations from the Commercial Tanks & Home Heating Segment. From time to time, the Company uses financial derivative products to protect itself against some of the risks arising from fluctuations in the value of the U.S. dollar relative to the Canadian dollar, but the Company does not fully hedge its exposure and there can be no assurance that the Company's hedging strategy will be effective or that the Company will not be impacted by the changes in the relative values of the Canadian dollar and the U.S. dollar. Any such change could therefore have a material adverse effect on the Company's business, results from operations and financial condition.

## **Other General Risks**

### *Dividends are not Guaranteed and may Fluctuate with the Company's Performance*

In August 2012, the Company reinstated its dividend. Dividends are not guaranteed and are paid if, as and when declared by the Board of Directors. The Company depends on cash flow generated and distributed by its subsidiaries and investee companies to pay dividends. There can be no assurance regarding the amount of cash flow generated or distributed by these companies or whether the amount of cash flow distributed by these companies will be sufficient to fund the Company's dividend. If the Board of Directors determines that it would be in the best interest of the Company, they may reduce, suspend or not declare a dividend to Shareholders, which could cause the market price of the Common Shares to fall.

### *Share Liquidity Risk*

The Common Shares are relatively illiquid as a significant portion of the Common Shares are held by only several parties. Such illiquidity may limit an investor's ability to buy or sell the Common Shares at any point in time. If a holder of Common Shares were to need to liquidate such Common Shares, the proceeds on the sale might be significantly less than the market price of the Common Shares at that time.

### *Environmental Considerations*

The Company and its operations and properties are subject to extensive federal, provincial, municipal and local environmental laws and requirements relating to, among other things, air emissions, the management of contaminants including hazardous materials (including the generation, handling, storage, transportation and disposal of such contaminants), discharges and the remediation of environmental impacts (such as the contamination of soil and water, including ground water). The risk of environmental liability is inherent in certain of the Company's operations, including the provision of freight transportation services, certain industrial manufacturing activities and the ownership, management or control of real estate. Canadian laws generally impose potential liability on the present or former owners or occupants of properties on which contamination has occurred. There can be no assurance that the Company will not be required, at some future date, to incur significant costs to comply with environmental laws, or that its operations, business, assets or cash flow will not be materially adversely affected by current or future environmental laws.

### *Information Technology*

The Company has made significant investments in information technology and relies on its information systems to support its business model. In the event that irreparable damage was caused to the Company's information systems and databases or the information contained in its information systems was lost, the Company's operational ability would be impaired. As a result, the Company's business, results from operations and financial condition could be materially adversely affected.

### *Safety*

Certain of the Company's subsidiaries operate ships, trucking and manufacturing equipment. A major safety incident involving this equipment could result in the disruption of service or could require the Company to incur potentially substantial repair or replacement costs. The Company could also incur potentially significant claims relating to injured parties and other damages. As a result, the Company's business, results from operations and financial condition could be materially adversely affected.

### *Reliance on Major Customers*

Certain of the Company's operations and business segments are dependent on sales to major customers. If the Company were to lose sales to any of these customers, the loss of such sales could have a materially adverse effect on the Company's business, results from operations and financial condition.

### *Seasonality of Business Cycle*

Certain of the Company's operations and business segments experience seasonal sales fluctuations. During the non-peak season they are required to build inventory in order to meet demand in peak periods. If production during the non-peak periods outstrips demand during the peak periods, the increased production costs and decreased sales revenue could have a material adverse effect on the Company's business, results from operations and financial condition.

### *Commodity Market Risk*

Certain of the Company's operations and business segments are dependent on commodities which are subject to price adjustment. For example, and not to the exclusion of others, the Commercial Tanks & Home Heating Segment is exposed to fluctuations in steel and oil prices and the Transportation Segment is exposed to fluctuations in the price of oil. Because consumers demand a fixed price for products, the Company is exposed to commodity market risk. Should the price of certain commodities rise there is no guarantee that the Company would be able to raise its prices to adjust for such fluctuations and such a rise could therefore have a material adverse effect on the Company's business, results from operations and financial condition.

Increases in global demand for certain commodities could result in supply shortages. Although the Company has some long-term relationships with key suppliers, it does not have long-term agreements with all such suppliers and in the event of a supply shortage the Company may be unable to purchase sufficient quantities of certain commodities to meet its customers' demands, which could therefore have a material adverse effect on the Company's business, results from operations and financial condition.

### *Derivative Risk*

A derivative is an instrument whose value is derived from the performance of other investments, securities or economic factors such as the movement of interest rates, exchange rates or market indices. Typically derivatives take the form of a contract to buy or sell a specific commodity, currency, stock or market index, such as futures, forward contracts, an option or a swap. Derivatives can be used for hedging purposes – such as to hedge exposure to interest rates or exchange rates, or for non-hedging purposes – where there may be opportunities for investing directly in the derivative with a view to generating investment gains. Clarke may invest in derivatives for hedging purposes, to manage its exposure to changes in interest rates and currency rates. There are various risks in connection with derivatives, which may include limiting potential gains, settlement risk, higher volatility than the underlying instrument, difficulty in unwinding or closing the contract and limited liquidity.

## **DIVIDENDS**

	<b>Year ended December 31, 2012</b>	<b>Year ended December 31, 2011</b>	<b>Year ended December 31, 2010</b>
Cash dividends declared per common share	\$0.12	\$0.00	\$0.00

The declaration and payment of dividends is at the discretion of Clarke's Board of Directors and subject to compliance with certain requirements of the Company's credit facility. Although the Company remained in compliance with the respective requirements of its credit facility, the Board of Directors did not declare a dividend during the years ended December 31, 2010 and 2011. The Board of Directors reinstated a quarterly declaration of dividends during the year ended December 31, 2012.

On September 17, 2012, the Company paid a quarterly cash dividend of \$0.06 per share to holders of record as of August 31, 2012. On December 17, 2012, the Company paid a quarterly cash dividend of \$0.06 per share to holders of record as of November 30, 2012.

## DESCRIPTION OF SHARE CAPITAL

The Company has an unlimited number of common shares authorized, of which 16,682,315 were issued and outstanding at December 31, 2012. Clarke also has an unlimited number of First Preferred Shares and an unlimited number of Second Preferred Shares authorized, of which 65,000,000 First Preferred Shares are issued and outstanding to wholly-owned subsidiaries that are eliminated upon consolidation, and no Second Preferred Shares are issued and outstanding as at December 31, 2012.

On April 15, 2010 the Company announced that it had completed a substantial issuer bid to purchase a total of 3,920,340 of its own common shares for cancellation. The Company paid \$3.60 for each common share purchased pursuant to the substantial issuer bid (subject to adjustments to avoid the purchase of fractional common shares).

On October 4, 2011 the Company announced that it had completed a substantial issuer bid to purchase a total of 3,000,000 of its own common shares for cancellation. The Company paid \$5.00 for each common share purchased pursuant to the substantial issuer bid (subject to adjustments to avoid the purchase of fractional common shares).

The Company periodically files normal course issuer bids to purchase the greater of 5.0% of the issued and outstanding common shares or 10.0% of the public float of its issued common shares. The reason for these issuer bids is that the directors 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 the shareholders.

Repurchases under the Company's normal course issuer bids for its common shares, for the years ended December 31, 2010, 2011 and 2012, are as follows:

<b>Bid Date</b>	<b>Expiry</b>	<b>Maximum #</b>	<b>% of issued common shares</b>	<b>Repurchased #</b>
August 19, 2009	August 18, 2010	1,597,053	6.06%	216,400
August 19, 2010	August 18, 2011	1,118,156	5.36%	824,400
April 2, 2012	April 1, 2013	851,740	5.00%	370,402

The Company has a stock option plan for directors, officers and certain employees. Pursuant to this plan, at December 31, 2012, the Company had outstanding options to directors, officers and employees to acquire an aggregate of 170,000 (December 31, 2011 – 977,000) common shares. Based on the terms of the plan, all options are deemed to be fully vested at December 31, 2012. During the year ended December 31, 2012, the Company closed this stock option plan. All outstanding stock options remain available, however no further stock options will be granted under this plan. Reference is made to the employee stock option plan disclosure in note 16 to the consolidated financial statements of the Company for the years ended December 31, 2012 and December 31, 2011, and incorporated by reference herein.

## DESCRIPTION OF CONVERTIBLE DEBENTURES

The Company has entered into an indenture dated as of December 22, 2005 (the “Indenture”), with Computershare Trust Company of Canada, pursuant to which it is authorized to issue an unlimited aggregate principal amount of unsecured subordinated debentures (collectively the “Debentures”). Under the terms of the Indenture, on December 22, 2005, the Company issued \$70.0 million in aggregate principal amount of 6.0% convertible unsecured subordinated debentures, due December 31, 2012, (the “2012 Debentures”) at a price of \$1,000 per debenture. On November 17, 2006, the Company issued another \$115.0 million in aggregate principal amount of 6.0% convertible unsecured subordinated debentures, originally due December 31, 2013, and subsequently extended to December 31, 2018, at a price of \$1,000 per debenture (the “2018 Debentures”).

The Debentures are direct obligations of the Company and are not secured by any mortgage, pledge, hypothec or other charge. They are subordinated to other liabilities of the Company, including indebtedness incurred under the senior credit facility that the Company has arranged with HSBC Bank Canada.

Interest on the Debentures is payable semi-annually in arrears on June 30 and December 31 in each year. Each Debenture is convertible into common shares of the Company at the option of the holder at any time prior to the close of business on the business day immediately preceding the maturity date or, if called for redemption, on the business day immediately preceding the date fixed for redemption. The conversion price of the 2012 Debentures was \$5.9375 per common share and the conversion price of the 2018 Debentures is \$7.50 per common share, both subject to adjustment in accordance with the terms of the Indenture.

The 2012 Debentures became redeemable as of December 31, 2008 and the 2018 Debentures became redeemable as of December 31, 2009. In the third year preceding maturity, the Debentures are redeemable, in whole or in part, at a price equal to the principal amount thereof, plus accrued and unpaid interest, at the Company’s sole option on not more than 60 days’ and not fewer than 30 days’ prior notice, provided that the weighted average trading price of the Company’s common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125% of the conversion price. Commencing in the second year preceding maturity until the maturity date, the Debentures are redeemable, in whole or in part, at a price equal to the principal amount thereof, plus accrued and unpaid interest, at the Company’s sole option on not more than 60 days’ and not fewer than 30 days’ prior notice.

Subject to regulatory approval, the Company may, at its option, repay the principal amount of the Debentures due on redemption or at maturity through the issuance of freely-tradeable common shares.

On April 7, 2011, the Company announced that it had exercised its right to partially redeem its 2012 Debentures in accordance with the terms of the Indenture. On May 11, 2011 the Company redeemed debentures in an aggregate principal amount of \$18,275,000, representing approximately 50% of the outstanding balance of the 2012 Debentures.

On March 30, 2012, Clarke announced that it was redeeming the outstanding principal amount of its 2012 Debentures. The redemption of \$18,232,500 in principal amount of the 2012 Debentures occurred on May 3, 2012. On redemption, the Company paid to the holders the principal amount, together with all accrued and unpaid interest thereon up to but excluding the redemption date, for a total of \$1,020.38 per \$1,000 principal amount of such debentures.

On January 25, 2013, the Company obtained the approval of debenture holders to extend the maturity date of the 2018 Debentures originally due December 31, 2013 to December 31, 2018. The Company periodically files normal course issuer bids to purchase up to 10.0% of the public float of the principal amount of the convertible debentures. The reason for these issuer bids is that the directors and senior management are of the opinion that, from time to time, the purchase of the Company’s convertible debentures at the prevailing market price may be a worthwhile use of funds, and in the best interest of the Company and the securityholders.

Repurchases under the Company's normal course issuer bids for its 2012 Debentures, for the years ended December 31, 2010, 2011 and 2012, are as follows:

<b>Bid Date</b>	<b>Expiry</b>	<b>Maximum \$</b>	<b>% of Principal outstanding</b>	<b>Repurchased \$</b>
December 14, 2009	December 13, 2010	3,423,000	9.11%	1,044,000
December 14, 2010	December 13, 2011	2,085,000	5.70%	—
December 14, 2011	December 13, 2012	1,264,000	6.92%	—

Repurchases under the Company's normal course issuer bid for its 2018 Debentures, for the years ended December 31, 2010, 2011 and 2012, are as follows:

<b>Bid Date</b>	<b>Expiry</b>	<b>Maximum \$</b>	<b>% of Principal outstanding</b>	<b>Repurchased \$</b>
March 17, 2009	March 16, 2010	9,105,000	9.58%	8,323,000
April 14, 2010	April 13, 2011	7,073,000	9.14%	7,073,000
April 14, 2011	April 13, 2012	6,903,000	9.82%	6,903,000
April 14, 2012	April 13, 2013	6,317,000	10.00%	1,039,200

*\*Conversion price per common share of the 2012 Debentures and 2018 Debentures reflect the impact of the 2-for-1 stock split effected by way of a stock dividend on June 29, 2007.*

## MARKET FOR SECURITIES

The Company's common shares, 2018 Debentures, and prior to May 3, 2012, the 2012 Debentures are listed and posted for trading on The Toronto Stock Exchange. The monthly price ranges and total volumes traded for the Company's common shares for the most recent fiscal year ended December 31, 2012, are as follows:

Month	Common Share Price			Volume #
	High \$	Low \$	Close \$	
January 2012	4.35	3.94	4.20	69,888
February 2012	4.30	3.92	4.08	27,995
March 2012	4.35	4.03	4.05	112,466
April 2012	4.18	4.00	4.18	135,672
May 2012	4.35	3.82	4.06	363,891
June 2012	4.18	3.75	3.83	71,369
July 2012	4.01	3.77	3.91	74,589
August 2012	4.49	3.76	4.25	89,257
September 2012	4.47	3.97	4.41	85,990
October 2012	4.74	4.41	4.41	63,693
November 2012	4.74	4.34	4.37	854,951
December 2012	4.82	4.26	4.77	69,274

The monthly price ranges and total volumes for the Company's common shares during the three months ended March 2013 are as follows:

Month	Common Share Price			Volume #
	High \$	Low \$	Close \$	
January 2013	4.84	4.55	4.70	23,386
February 2013	4.77	4.45	4.56	60,048
March 2013 (1-18)	4.76	4.45	4.76	41,006

The monthly price ranges and total volumes for the 2012 Debentures for the most recent fiscal period ended December 31, 2012, are as follows:

Month	2012 Debenture Price			Volume #
	High \$	Low \$	Close \$	
January 2012	100.75	100.00	100.25	681,001
February 2012	101.00	100.15	100.50	192,000
March 2012	101.25	100.02	101.25	40,500
April 2012	100.99	100.00	100.00	132,000
May 2012 (1-3)	99.99	99.95	99.99	5,000

The monthly price ranges and total volumes for the 2018 Debentures for the most recent fiscal period ended December 31, 2012, are as follows:

<b>Month</b>	<b>2018 Debenture Price</b>			<b>Volume #</b>
	<b>High \$</b>	<b>Low \$</b>	<b>Close \$</b>	
January 2012	99.74	98.30	99.43	1,753,000
February 2012	99.60	98.10	99.40	1,086,000
March 2012	99.39	98.50	99.23	1,481,000
April 2012	100.58	98.00	100.15	1,142,000
May 2012	101.00	100.00	100.02	424,000
June 2012	100.60	96.06	98.00	1,153,000
July 2012	98.99	91.00	98.00	2,335,200
August 2012	100.60	96.50	100.60	1,068,900
September 2012	100.30	99.85	99.87	535,000
October 2012	100.54	99.76	100.05	604,000
November 2012	100.60	99.25	99.75	1,800,000
December 2012	100.00	95.50	99.70	1,282,000

The monthly price ranges and total volumes for the 2018 Debentures during the three months ended March 2013 are as follows:

<b>Month</b>	<b>2018 Debenture Price</b>			<b>Volume #</b>
	<b>High \$</b>	<b>Low \$</b>	<b>Close \$</b>	
January 2013	100.00	95.75	99.35	1,099,000
February 2013	100.60	99.24	100.00	564,000
March 2013 (1-18)	100.25	96.20	99.25	275,000

## DIRECTORS AND EXECUTIVE OFFICERS

Information on the directors and certain officers of the Company, including their municipalities of residence, principal occupations, and term as director of the Company, as at December 31, 2012 is as follows:

Name and Municipality of Residence	Position with the Company	Director Since	Director Until	Principal Positions in Past Five Years
REX C. ANTHONY <sup>(1)</sup> ..... St. John's, NL, Canada	Director	2003	Present	President, Anthony Capital Corp. Inc.
BLAIR COOK <sup>(1)</sup> ..... Halifax, NS, Canada	Director	2012	Present	Corporate Director Officer of the Company (2008)
PAT POWELL <sup>(1)</sup> ..... Calgary, AB, Canada	Director	2010	Present	Chairman & Chief Executive Officer, Highkelly Drilling Ltd.
CHARLES PELLERIN ..... Victoriaville, PQ, Canada	Director	2010	Present	President, Pellerin Potvin Gagnon S.E.N.C.R.L.
MICHAEL RAPPS <sup>(2)</sup> ..... Toronto, ON, Canada	Director, Vice President, Investments	2012	Present	Officer of the Company (2012), Managing Director, Geosam Capital Inc.
GEORGE ARMOYAN <sup>(3)</sup> ..... Halifax, NS, Canada	President & Chief Executive Officer	—	—	Officer of the Company (2012) President, Geosam Capital Inc.
ANDREW SNELGROVE ..... Beechville, NS, Canada	Chief Financial Officer	—	—	Officer of the Company (2011) Corporate Controller of the Company (2009)
KIM LANGILLE <sup>(4)</sup> ..... Fall River, NS, Canada	Vice President, Taxation	—	—	Officer of the Company (2012) Senior Manager Taxation, Deloitte (2008)
DEAN CULL ..... Bedford, NS, Canada	Chief Operating Officer, Freight Transportation Services	—	—	President, Clarke Transport Inc. and Clarke Road Transport Inc.

<sup>(1)</sup> Member of the Audit Committee.

<sup>(2)</sup> Michael Rapps was appointed as a Director and Vice President, Investments of the Company effective May 15, 2012.

<sup>(3)</sup> George Armoyan was appointed President and Chief Executive Officer of the Company effective March 1, 2012.

<sup>(4)</sup> Kim Langille was appointed Vice President, Taxation of the Company effective December 4, 2012.

Directors of the Company are elected annually at the Annual General Meeting of shareholders.

As at December 31, 2012, the directors and executive officers of the Company, as a group, held or controlled 8,314,470 common shares, representing approximately 49.8% of the Company's then issued and outstanding common shares. As of the date hereof, the directors and executive officers of the Company, as a group, hold or control 8,314,470 shares, representing 49.8% of the Company's current issued and outstanding common shares.

No director or executive officer is, as at the date of this Annual Information Form, or was within 10 years before the date of this Annual Information Form, a director, chief executive officer or chief financial officer of any company (including a personal holding company), that:

- 1) was subject to an order (as defined in Form 51-102 F2 of National Instrument 51-102 – *Continuous Disclosure Obligations*) that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
- 2) was subject to an order (as defined in Form 51-102 F2 of National Instrument 51-102 – *Continuous Disclosure Obligations*) that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

No director, executive officer or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, or a personal holding company thereof,

- 1) is, as at the date of this Annual Information Form, or was within 10 years before the date of this Annual Information Form, a director or executive officer of any company, including Clarke, that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, except as follows:
  - a) George Armoyan, President and Chief Executive Officer of the Company, served as a member of the Board of Directors for HIP Interactive Corp. during the period of May 27, 2005 to June 28, 2005. On July 11, 2005, the Ontario Superior Court of Justice appointed an interim receiver for HIP Interactive Corp. under the federal *Bankruptcy and Insolvency Act*;
  - b) George Armoyan, President and Chief Executive Officer of the Company previously served as members of the Board of Directors of Shermag Inc., which on May 5, 2008 announced that it had obtained protection under the *Companies' Creditors Arrangement Act* (Canada) ("CCAA") in the Québec Superior Court. Shermag Inc. emerged from CCAA protection in October 2009;
- 2) has, within 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder; or
- 3) has been subject to:
  - a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, except as noted below;
    - i. On October 9, 2009, the Nova Scotia Securities Commission approved a settlement agreement between Clarke and Geosam Investments Limited ("Geosam") and staff of the Commission. The settlement related to staff's investigation of a 2005 trade by Clarke and Geosam in the securities of AFT that was initially announced by Clarke in February 2008. In the settlement, Clarke and Geosam acknowledged that they acted contrary to the public interest in failing to exercise sufficient due diligence relating to information concerning AFT. The settlement agreement acknowledged that Clarke between 2005 and 2008 approved new internal policies and procedures and that Clarke and Geosam co-operated with staff of the Commission in its investigation. Under the settlement agreement Clarke and Geosam paid an administrative penalty of \$400,000 (of which Clarke paid \$300,000) and \$15,000 each toward costs of the investigation. A special committee of Clarke's Board of Directors oversaw the settlement agreement on behalf of Clarke; or
  - b) any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

## **LEGAL PROCEEDINGS AND REGULATORY ACTION**

The Company is not, and was not during fiscal 2012, a party or subject to any legal proceedings or group of similar proceedings, nor are any such proceedings known to the Company to be contemplated, where the amount involved, exclusive of interest and costs, exceeded 10 percent of the current assets of the Company.

## **INTEREST OF MANAGEMENT & OTHERS IN MATERIAL TRANSACTIONS**

The Company pays rental amounts for office space leased from APL Properties Limited which is owned by relatives, which include immediate family members, of George Armoyan, Clarke's President and Chief Executive Officer. Rents paid were approximately \$215,000 in 2012, \$201,000 in 2011 and \$212,000 in 2010.

The Company and a subsidiary provided administrative and information technology services to Geosam, BOAS and Armco, companies owned or previously owned by relatives of George Armoyan, Clarke's President and Chief Executive Officer. The fees charged for providing these services were approximately \$392,000 in 2012, \$464,000 in 2011 and \$350,000 in 2010.

During the year ended December 31, 2010, a subsidiary of the Company purchased land and a building owned by Charles Pellerin, a director of the Company, for \$900,000. A subsidiary of the Company has promissory notes due to a company controlled by the same director, who became a director in 2010 and is also Chairman of the subsidiary. At December 31, 2012, \$262,000 was owing on these notes (2011 - \$1,155,000 and 2010 - \$1,383,000).

On February 2, 2012, the Company invested \$9.0 million in Highkelly representing approximately 38% of the outstanding shares of Highkelly. Highkelly was a newly formed contract drilling company based in Calgary, Alberta that has entered into a strategic partnership with a Calgary based oilfield equipment manufacturer with facilities in China. Pat Powell, the Chairman of Bonnett's Energy Services Corp. and a member of Clarke's Board of Directors, is the Chairman & CEO of Highkelly.

On February 27, 2013, the Clarke Group Pension Plan & Pension Plan of the Employees of Clarke Inc., which is administered by Clarke Inc., issued a mortgage to an entity owned by Rex Anthony, the Chairman of the Company in the amount of \$750,000 for a term of nine months.

## **TRANSFER AGENTS AND REGISTRARS**

Computershare Trust Company of Canada  
1969 Upper Water Street  
Suite 2008, Purdy's Wharf, Tower II  
Halifax, Nova Scotia  
B3J 3R7

## **MATERIAL CONTRACTS**

Certain of the Company's freight subsidiaries are party to confidential transportation agreements with CN (the "CN Agreements"). The CN Agreements specify the terms upon which the railway will provide third party freight transportation services to those subsidiaries and contains pricing terms. The CN Agreements expire on December 31, 2013 and December 31, 2014.

In connection with the issuance of the 2012 Debentures on December 22, 2005, the Company entered into the Indenture between the Company and Computershare Trust Company of Canada (as Trustee). The 2012 Debentures were redeemed in full on May 3, 2012. The Indenture also governs the 2018 Debentures issued on November 28, 2006.

## **INTERESTS OF EXPERTS**

The independent auditors of the Company are:

Deloitte and Touche LLP  
1969 Upper Water Street, Suite 1500  
Halifax, NS B3J 3R7

The consulting actuaries of the Company are:

Eckler Ltd.  
800, Rene-Levesque Boulevard West  
Suite 2200  
Montreal, QC H3B 1X9

None of the experts has an interest in any class of securities of the Company that exceeds one percent of the outstanding securities of such class. Deloitte and Touche LLP are independent of the Company based on the *Rules of Professional Conduct* of the Institute of Chartered Accountants of Canada.

## **ADDITIONAL INFORMATION**

Additional financial information is provided in the Company's consolidated financial statements and accompanying Management's Discussion & Analysis for the most recently completed financial fiscal year, which have been filed with applicable securities regulatory authorities in Canada. Other additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Company's management information circular for its annual meeting of shareholders to be held on May 15, 2013. This document, and a complete record of the Company's publicly filed documents, can be accessed by visiting the website [www.sedar.com](http://www.sedar.com).

The Company shall provide to any person, upon written request to the Corporate Secretary of Clarke:

- 1) when the securities of Clarke are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus,

- a) one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form,
  - b) one copy of the consolidated financial statements of Clarke for its recently completed financial fiscal year together with the accompanying report of the auditor and one copy of any interim financial statements of Clarke subsequent to the financial statements for its recently completed financial year, and
  - c) one copy of the most recent Management Information Circular of Clarke.
- 2) at any other time, one copy of any other documents referred to in clauses a) to c) above, provided that Clarke may require the payment of a reasonable charge if the request is made by a person who is not a security holder of Clarke.

Requests for such copies may be sent to the Corporate Secretary of the Company, 3400 One First Canadian Place, P.O. Box 130, Toronto, Ontario, M5X 1A4.

## FORM 52-110F1 – AUDIT COMMITTEE

### **Audit Committee Charter**

The Audit Committee charter is attached as an appendix to this form.

### **Composition of the Audit Committee**

The Audit Committee of the Company consists of Blair Cook (Chair), Rex C. Anthony and Pat Powell. The Company's Board of Directors has determined that Mr. Cook, Mr. Anthony and Mr. Powell are independent. None of the independent Audit Committee members receive directly or indirectly any compensation from the Company other than for service as a member of the Board of Directors and its Audit Committee. The Board of Directors has determined that all members of the Audit Committee are financially literate as defined under NI 52-110. In considering the criteria for financial literacy, the Board of Directors looks at the ability of a director to read and understand a statement of financial position, a statement of earnings and a cash flow statement of a wide range of industries, as the Company operates as a diversified investment company.

### **Relevant Education and Experience of Audit Committee Members**

In addition to each member's general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member is as follows:

- Mr. Cook is the founder of Finance Learning Academy and is Chairman of and was appointed to the Audit Committee following his appointment to the Board of Directors of Clarke. Mr. Cook also serves as a corporate director for Royal Host Inc. and TerraVest Capital Inc. Mr. Cook serves as a Faculty Member at the Atlantic School of Chartered Accountancy and Saint Mary's University. Mr. Cook was previously the Chief Financial Officer of Clarke and the Chief Financial Officer of Armco Capital Inc. Mr. Cook received his Chartered Accountant's designation in 1995 and his Masters of Business Administration from St. Mary's University in 2004.
- Mr. Anthony is President of Anthony Capital Corp. Inc. and has served as a member of the Audit Committee of the Company for the past five years. Mr. Anthony also served as Chairman of the Board of Directors of Fishery Products International Inc., as well as a member of its Audit Committee. Mr. Anthony has previously served as a member of the Audit Committees for Stratos Global Corp., Newtel Inc. and Armco Capital Inc., and served as Chairman of the Independent Committee formed in connection with the merger of Newtel Inc. and Aliant Inc.
- Mr. Powell is the Chairman and Chief Executive Officer of Highkelly Drilling Ltd. and was appointed to the Audit Committee following his appointment to the Board of Directors of Clarke. Prior to his involvement with Highkelly, Mr. Powell was Co-Chief Executive Officer of Mullen Group Income Fund and Chairman of the Board of Directors of Producers Oilfield Services Inc. from May 9, 2005 to June 1, 2006. Mr. Powell joined Producers Oilfield Services Inc. following its acquisition of H.L. Powell Ltd., a private oilfield trucking company. Mr. Powell was President of Producers Oilfield Services Inc. from August 10, 2005 to June 1, 2006, prior thereto Senior Vice President. Mr. Powell began his career with H.L. Powell Ltd in 1979, and was President from 1985 to 2005.

## Pre-Approval Policies and Procedures

The Audit Committee has approved a Pre-Approval Policies and Procedures policy which it uses to evaluate auditor independence and appropriate audit and non-audit services. The policies are included in the attached Audit Committee charter attached as an appendix to this Annual Information Form.

### Audit Fees

Deloitte and Touche LLP were appointed as the Company's independent auditors during the year ended December 31, 2012. Previous to this, Ernst & Young LLP served as the Company's independent auditors. Fees billed by Deloitte and Touche LLP for the years ended December 31, 2012 and 2011 are detailed below:

	2012	2011
	\$	\$
Audit fees	<b>182,000</b>	316,200
Audit-related fees	<b>40,560</b>	213,500
Audit-related fees – IFRS conversion	—	48,975
Tax fees	—	20,000
Total	<b>222,560</b>	598,675

The nature of each category of fees is described below.

#### *Audit Fees*

Audit fees were paid for professional services rendered by the auditors for the audit of the annual financial statements of the Company and its subsidiaries, or services provided in connection with statutory and regulatory filings or engagements.

#### *Audit-related fees*

Audit-related fees were paid for assurance and related services that are reasonably related to the performance of the audit or review of the annual financial statements, and are not reported under the audit fees caption above. Certain services consist of assurance and related services for specific investment transactions and new developments both in Company policies and accounting standards. Other services consist of review of interim financial statements for the three, six and nine months ended March 31, June 30 and September 30, respectively, as well as fees for audit assurance over transactions completed in the year.

#### *Tax fees*

Tax fees were paid for tax compliance and audit assurance services.

*APPENDIX*  
**AUDIT COMMITTEE CHARTER**

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**1. COMMITTEE ROLE**

**1.1 Overseeing Role**

The committee's role is to act on behalf of the Board of Directors and oversee all material aspects of the Company's financial reporting, control, and audit functions, except those specifically related to the responsibilities of another standing committee of the Board. The audit committee shall monitor the qualitative aspect of financial reporting to shareholders and on Company processes for the management of financial risk and for compliance with significant applicable legal and regulatory requirements in respect of the financial affairs of the Company.

**1.2 Coordination and Relationships**

The role also includes coordination with other Board committees and the maintenance of strong, positive working relationships with management, auditors, counsel, and other committee advisers.

**2. COMMITTEE MEMBERSHIP, PROCEDURES AND ORGANIZATION**

**2.1 Committee Members**

The committee shall consist of at least three independent directors. Only independent directors shall serve on the committee except as otherwise permitted by securities law rules relating to composition of audit committees. A member of an audit committee is independent if the member has no direct or indirect material relationship with the Company. For this purpose, a material relationship means a relationship which could, in the view of the Company's Board of Directors, reasonably interfere with the exercise of a member's independent judgment, subject to certain relationships being deemed to be material by securities law rules relating to composition of audit committees.

Every audit committee member must be financially literate except as otherwise permitted by securities law rules relating to composition of audit committees. For the purposes of this mandate, an individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

The committee shall have access to its own counsel and other advisers at the committee's sole discretion.

**2.2 Annual Appointments, Chairmanship, Vacancies**

Committee appointments shall be approved annually by the Board, and the Board shall designate the chairperson of the committee. The Board may at any time remove or replace any member of the committee and may fill any vacancy in the committee. Any member of the committee ceasing to be a director shall cease to be a member of the committee.

**2.3 Secretary**

The Secretary of the Company shall be the Secretary of the committee, unless otherwise determined by the committee.

## **2.4 Quorum and Method of Meeting**

The quorum for meetings shall be the majority of the members of the committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and to hear each other.

## **2.5 Conduct of Meetings**

Meetings of the committee shall be conducted as follows:

- the committee shall meet, on a regular basis, at such times and at such locations as the chair of the committee shall determine;
- notice of every meeting shall be given to the external auditors, who shall be entitled to attend and be heard thereat;
- the external auditors or any member of the committee may call a meeting of the committee;
- the external auditors and members of management shall, when required by the committee, attend any meeting of the committee.

## **3. COMMITTEE OPERATING PRINCIPLES**

### **3.1 Overriding Principles of Operation**

The committee shall fulfill its responsibilities within the context of the following overriding principles:

- (a) *Communications* - The chairperson and others on the committee shall, to the extent appropriate, have contact throughout the year with senior management, other committee chairpersons, and other key committee advisers, external auditors, internal auditors (if any), all as applicable to strengthen the committee's knowledge of current and prospective issues relevant to the committee.
- (b) *Annual Plan* - The committee shall develop an annual plan responsive to the primary committee responsibilities detailed herein. The annual plan shall be reviewed and approved by the Board.
- (c) *Meeting Agenda* - Committee meeting agendas shall be the responsibility of the committee chairperson, with input from committee members and the Chief Financial Officer. It is expected that the chairperson would also ask for management, the auditors and other key committee advisers, and perhaps others, to participate in this process.
- (d) *Committee Expectations and Information Needs* - The committee shall communicate committee expectations and the nature, timing, and extent of committee information needs to management in general, those responsible for internal audit, and external parties, including external auditors. Written materials required shall be received from management, auditors, and others at least one week in advance of meeting dates. Meeting conduct will assume Board members have reviewed written materials in sufficient depth to participate in committee/Board dialogue.
- (e) *External Resources* - The committee is authorized to access internal and external resources, as the committee requires, to carry out its responsibilities and to determine the compensation to be paid to such external resources, including independent counsel.
- (f) *Committee Meeting Attendees* - The committee shall request members of management, external auditors and legal counsel, as applicable, to participate in committee meetings, as necessary, to carry out the committee responsibilities. Periodically and at least annually,

the committee shall meet in private session with only the committee members. It shall be understood that external auditors, the Chief Financial Officer, or legal counsel may, at any time, request a meeting with the audit committee or committee chairperson with or without management or any other management attendance. In any case, the committee shall meet in executive session separately with external auditors, at least annually.

- (g) *Reporting to the Board of Directors* - The committee, through the committee chairperson, shall report periodically, as deemed necessary, but at least semi-annually, to the Board. In addition, summarized minutes from committee meetings shall, in a timely manner, be available to each Board member.
- (h) *Committee Self-Assessment* - The committee shall review, discuss, and assess its own performance as well as the committee role and responsibilities and the committee's compliance with codes of conduct; and seek input from senior management, the Board, and others on the foregoing. Changes in roles and/or responsibilities, if any, shall be recommended to the Board for approval.

#### **4. COMMITTEE'S RELATIONSHIP WITH EXTERNAL AUDITORS**

##### **4.1 External Auditors' Report to Board and Audit Committee**

The external auditors, in their capacity as independent public accountants, shall be responsible to the Board and the audit committee as representatives of the shareholders.

##### **4.2 Reporting Matters**

As the external auditors review financial reports, they shall report thereon to the committee and the Board; and, in particular, shall do so on all material relevant issues of importance to the committee; and, in particular, without limitation, those issues that are reasonably considered to be of importance to the committee, based on its mandate as described herein, and those issues that may be responsive to requests of the committee. The Board or committee shall review such reports in their overseeing capacity.

##### **4.3 Annual Review of Auditors**

The committee shall annually review the performance (effectiveness, objectivity, and independence) of the external auditors. The committee shall require a formal written statement from the external auditors as to their independence. Additionally, the committee shall discuss with the external auditors relationships or services that may affect auditors' objectivity or independence. If the committee is not satisfied with the auditors' assurances of independence, it shall take or recommend to the full Board appropriate action in connection therewith.

##### **4.4 Significant Issues**

If the external auditors identify significant issues relative to the overall Board responsibility that have been communicated to management but, in their judgment, have not been adequately addressed, they should communicate these issues to the committee chairperson.

##### **4.5 Annual Review**

The committee shall annually review financial management with the auditors, and shall review with the auditors and management, together and separately, any new appointment of a Chief Financial Officer or any key financial executives.

#### **4.6 Internal Controls over Financial Reporting (“ICFR”)**

The committee shall require that management, through the officer or manager responsible for ICFR, annually review with the committee the performance and effectiveness of the ICFR framework and certification process.

#### **4.7 Duties of Committee Relating to External Auditors**

The duties of the committee, as they relate to the external auditors, shall include:

- (a) the review of management’s recommendations for the appointment of the external auditors and to recommend to the Board a firm of external auditors to be engaged;
- (b) if there is a proposed change of external auditors, the review of all issues related to such proposed change, including the information to be included in the notice of change of auditors called for in continuous disclosure rules under applicable securities laws, including National Instrument 51-102 of the Canadian Securities Administrators, and the planned steps for an orderly transition;
- (c) the review of all reportable events, including disagreements, unresolved issues and consultations, as defined in National Instrument 51-102 of the Canadian Securities Administrators, on a routine basis, whether or not there is to be a change of external auditors;
- (d) the review of the engagement letter of the external auditors;
- (e) the review of the performance, including the fee, scope and timing of the audit and other related services, of the external auditors and the recommendation to the Board the compensation of the external auditor;
- (f) the review of the audit plans of the external auditors, as well as inquiry into the extent to which the planned audit scope can be relied upon to detect weaknesses in internal control or fraud or other illegal acts;
- (g) the review and pre-approval of the nature of and fees for any non-audit services performed for the Company by the external auditors and considering whether the nature and extent of such services could detract from the auditors’ independence in carrying out the audit function;
- (h) the oversight and review, separately with the auditors and with management, upon the completion of the audit, or prior thereto where appropriate, of:
  - (1) the contents of the auditors’ report;
  - (2) the scope and quality of the audit work performed;
  - (3) the adequacy of the Company’s financial and auditing personnel;
  - (4) the co-operation received from the Company’s personnel during the audit and any problems encountered by the external auditors and any restrictions on the auditors’ work;
  - (5) the internal resources used;
  - (6) the evaluation of internal controls with the external auditors, together with management’s response to recommendations of the external auditors, including in

respect of subsequent follow-ups or any identified weaknesses in the Company's system of internal control for detecting accounting and reporting financial errors, fraud and defalcations, unethical acts or omissions, legal violations, and non-compliance with the Company's code of conduct;

- (7) the terms of reference of the internal auditor (if any);
  - (8) any proposed changes in accounting policies, any presentation of the impact of significant risks and uncertainties, and any estimates, accruals, provisions and judgments of management that may in such cases be material to financial reporting; as well as other sensitive matters such as measurement and disclosure of related party transactions;
  - (9) the appropriateness of management's annual and quarterly discussion and analysis of operations for the annual and quarterly report and its consistency with financial statements;
  - (10) any report or opinion proposed to be rendered in connection with the year-end consolidated financial statements;
  - (11) any significant transactions which were not a normal part of the Company's business;
  - (12) the nature and substance of material accruals, reserves and other estimates; and
  - (13) the financial statements included in the annual report with management and external auditors to determine that the external auditors are satisfied with the disclosure and content of the financial statements to be presented to shareholders.
- (i) the provision to the external auditors of quarterly financials and releases and management's discussion and analysis, for its records,
  - (j) the monitoring of financial statement issues and risks, their impact or potential effect on reported financial information, the processes used by management to address such matters, related views of the external auditors thereon, and the basis for audit conclusions and important conclusions on interim and/or year-end audit work, all in advance of the public release of financial information,
  - (k) the approval of the Company's annual audited financial statements, in conjunction with the report of the external auditors thereon and those of its subsidiaries, and
  - (l) the oversight and providing of assistance in resolving disagreements between management and the external auditors regarding financial reporting.

## **5. SPECIFIC DUTIES OF THE AUDIT COMMITTEE**

### **5.1 Accounting, Disclosure, Practices and Governance**

The duties of the committee as they relate to overseeing accounting and disclosure policies and practices and other significant and related corporate governance matters are as follows:

- (a) the review of changes to accounting principles of the Canadian Institute of Chartered Accountants which would have a material impact on the Company's financial reporting as reported to the audit committee by management or external auditors;
- (b) the review of the appropriateness of the accounting policies used in the preparation of the Company's financial statements and consideration of recommendations for any material changes to such policies;

- (c) the review of the status of material contingent liabilities as reported to the committee by management;
- (d) the review of the status of income tax returns and potentially material tax matters as reported to the committee by management;
- (e) the review of any material errors or omissions in the current or prior year's financial statements;
- (f) the review of policies and practices of officers' expenses and benefits, including the use of Company assets and of inquiries on results of examinations done through internal control or the external auditors;
- (g) overseeing the establishment of adequate procedures for the review of public disclosure that includes financial information extracted from the Company's financial statements, and the periodic assessment of the adequacy of such procedures;
- (h) the review with the Board, before their release to the public, of all public disclosure documents containing audited or unaudited financial information, including any prospectus, the annual report to shareholders, annual and quarterly financial statements and, management's discussion & analysis, press releases, and such other items that require the approval of the Board; and
- (i) the review of any other disclosure required in respect of the audit committee and its activities, including any disclosure required in the Company's annual information form and management information circular.

## **5.2 Other Specific Duties**

Other specific duties of the committee shall be:

- (a) the production of a calendar of activities to be undertaken by the committee for each year and submitting of the calendar in an appropriate format to the Board within a reasonable period of time following each annual meeting of shareholders;
- (b) the review of and report to the Board on any difficulties and problems that may arise with regulatory agencies which are likely to have a material financial impact;
- (c) the establishment of procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters; and
- (d) the review and approval of the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company.

## **6. MATTERS THAT ARE NOT THE RESPONSIBILITY OF THE AUDIT COMMITTEE**

The following matters are, among others, matters which are not the responsibility of the committee:

- (a) conducting audits or determining that financial statements are complete and accurate and are in accordance with generally accepted accounting principles;
- (b) being responsible for overseeing compliance by others under codes of conduct of the Company; and
- (c) being responsible for overseeing risk management other than financial risk management.