

CLARKE
Halifax, Canada

Quarterly Report
March 31, 2018 and 2017

Management's Discussion & Analysis

Clarke Inc.

March 31, 2018 and 2017

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion & Analysis ("MD&A") presents management's view of the financial position and performance of Clarke Inc. ("Clarke" or the "Company") for the three months ended March 31, 2018 compared with the three months ended March 31, 2017. The following disclosures and associated unaudited interim condensed consolidated financial statements are presented in accordance with IAS 34, *Interim Financial Reporting*. This interim MD&A should be read in conjunction with the information disclosed within the interim condensed consolidated financial statements and notes thereto for the three months ended March 31, 2018. This MD&A is prepared as at May 8, 2018 (unless otherwise stated). All dollar amounts are shown in millions of Canadian dollars unless otherwise indicated.

OVERVIEW & STRATEGY

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

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

FIRST QUARTER REVIEW AND OUTLOOK

In the first quarter of 2018, the Company's book value per share increased by \$0.22 or 2.1%. The increase can be ascribed to (i) \$0.16 per Clarke common share ("Common Share") of positive investment performance and net income, (ii) \$0.03 per Common Share resulting from an increase in the value of our pension plan surplus, and (iii) \$0.03 per Common Share as a result of repurchasing our shares. Our book value per Common Share at the end of the quarter was \$10.93 while our Common Share price was \$10.96.

The Company completed a substantial issuer bid for its Common Shares in January 2018. Pursuant to this bid, Clarke repurchased 1,851,579 Common Shares or 12.7% of the Company's outstanding shares at the time for an aggregate purchase price of \$19.4 million. Together with share repurchases made pursuant to our normal course issuer bid, Clarke has returned \$20.6 million to shareholders so far in 2018.

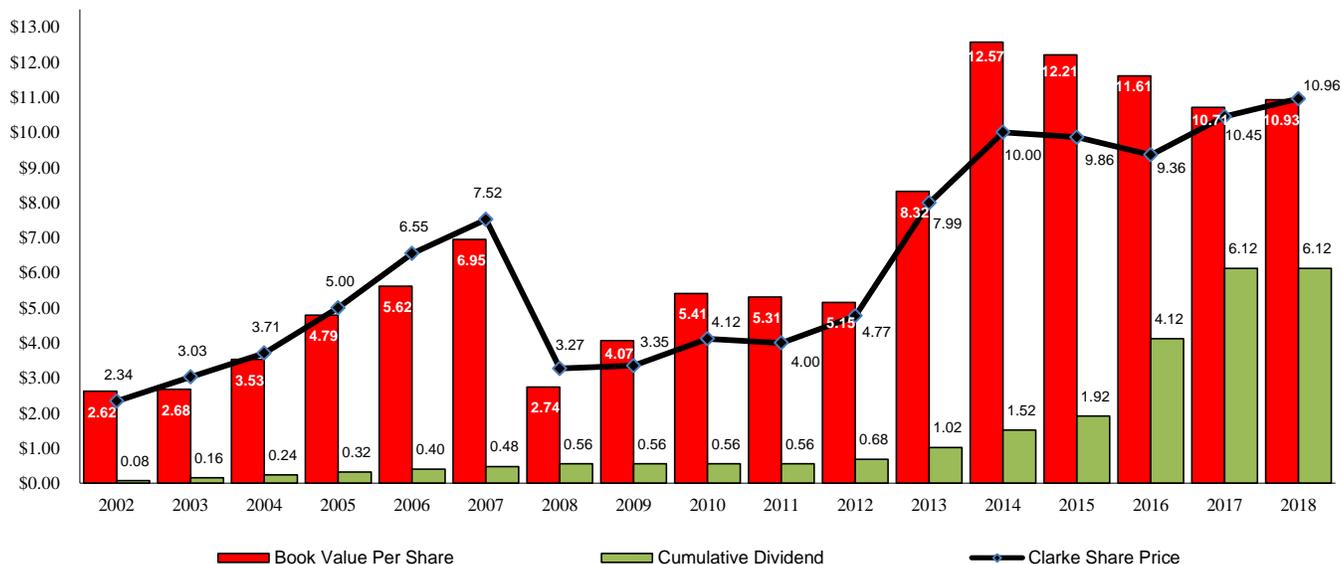
Clarke received a \$1.9 million pre-tax distribution of surplus from its Quebec pension plan in the first quarter. As a result of legislation passed in 2017, the Company expects to withdraw on an annual basis up to 20% of the surplus in its Quebec pension plan in excess of a 105% solvency ratio. This distribution is not included in our net income.

We continue to believe that our current investments are undervalued. During the first quarter, TerraVest Industries Inc. ("Terravest") announced the acquisition of Maxfield Group Inc., a manufacturer of processing, storage and transportation equipment, which is complementary to its existing business. Fully integrating its recently acquired businesses should yield substantial operating and financial improvements. Additionally, Terravest announced a substantial issuer bid for both its shares and convertible debentures, which we believe will further enhance shareholders' returns in coming years.

It remains challenging to find investments that meet our investment criteria. While some investors may choose to alter their investment strategies or dilute their investment criteria at times like these, we are not going to do so. We understand the source of our returns over time and it is largely from investments made at times of market or industry dislocation or from company-specific challenges that we believe we can help rectify. Accordingly, our bias is to either retain our capital or continue returning it to shareholders until such time as more attractive opportunities present themselves.

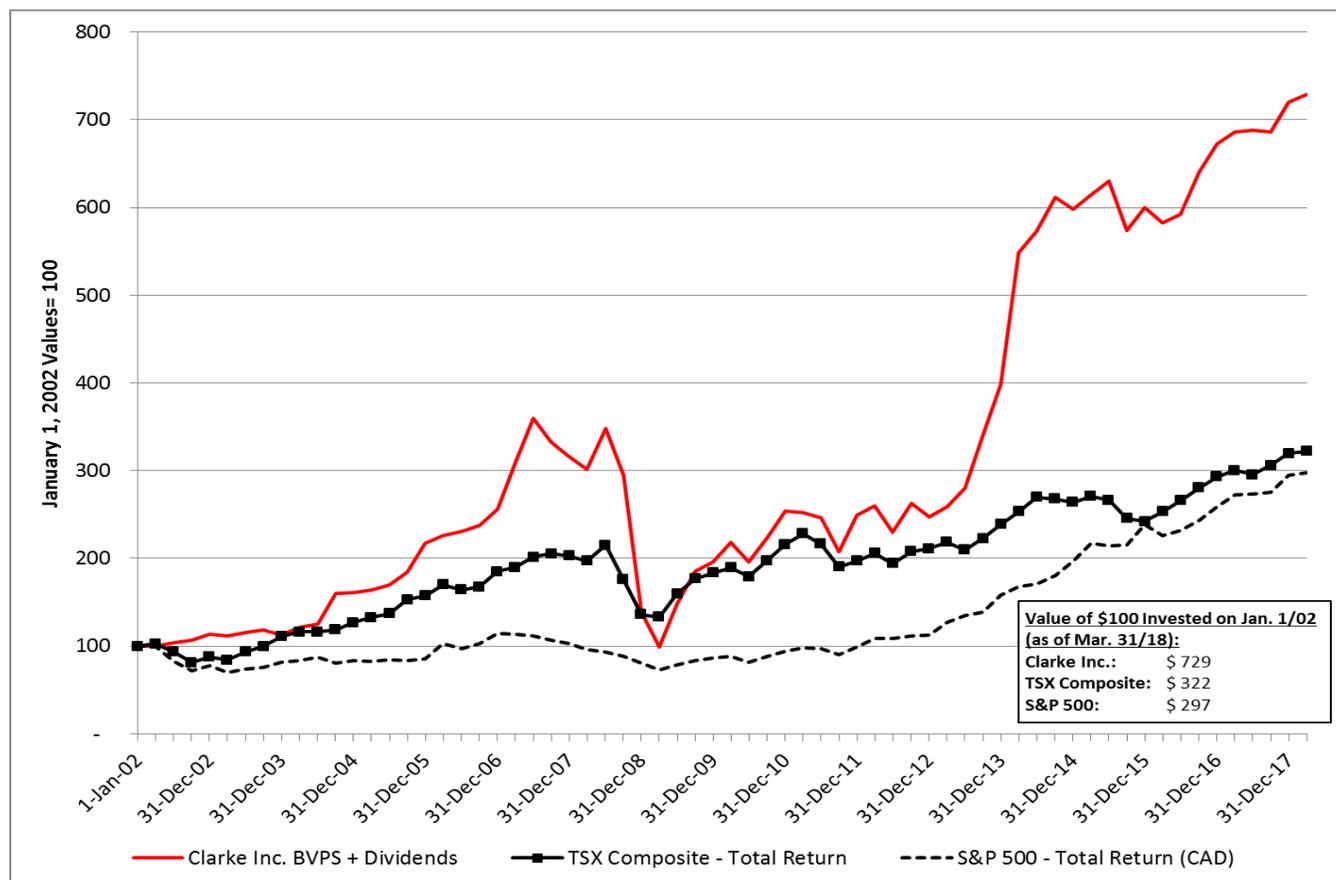
BOOK VALUE PER SHARE

The Company’s book value per share at March 31, 2018 was \$10.93, an increase of \$0.22 per Common Share since December 31, 2017. The following graph shows Clarke’s book value per share, share price and cumulative dividends paid since 2002 (the year the present Executive Chairman joined the Company).



* Information for the years ended 2002 and 2003 is as at March of the following year. In 2004 the Company’s year-end was changed to December. All other information is for the years ended December 31 and as at March 31, 2018.

The following graph compares the yearly change in the value of \$100 invested since 2002 (the year the present Executive Chairman joined the Company) in (i) the TSX Composite Total Return Index, (ii) the S&P 500 Total Return Index, and (iii) the Company based on the change in book value per share (“BVPS”) and cumulative dividends paid.



RESULTS OF OPERATIONS

Highlights of the interim condensed consolidated financial statements for the three months ended March 31, 2018 compared to the three months ended March 31, 2017 are as follows:

	March 31, 2018	March 31, 2017
<i>(in millions, except per share amounts)</i>	\$	\$
Realized and unrealized gains on investments	2.1	4.4
Dividend income	0.9	0.9
Interest income	—	0.2
Revenue and other income*	0.5	0.1
Net income	2.1	4.2
Comprehensive income	2.3	5.0
Basic and diluted earnings per share (“EPS”)	0.16	0.28
Total assets	143.1	182.2
Long-term financial liabilities	0.4	1.0
Book value per share	10.93	11.93

*Revenue and other income includes gains on sale of fixed assets, foreign exchange gains/losses, and service revenue.

Net income of the Company for the three months ended March 31, 2018 was \$2.1 million compared with \$4.2 million for the same period in 2017. During the three months ended March 31, 2018, the Company had unrealized gains on its investments of \$2.1 million compared to \$3.9 million for the same period in 2017. The Company had realized gains on its investments of nil for the three months ended March 31, 2018 compared with \$0.5 million for the same period in 2017.

INVESTMENT HOLDINGS

The Company owns securities, interests in two private equity funds and a ferry business. The Company's equity holdings generated dividends of \$0.9 million in the three months ended March 31, 2018 and 2017. The Company's debt and cash holdings generated interest income of nil in the three months ended March 31, 2018 compared to \$0.2 million for the same period in 2017. This decrease is due to the sale of debentures.

Securities Portfolio

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

	March 31, 2018				December 31, 2017			
	Shares or face value	Market Price \$	Market value \$'000	%	Shares or face value	Market Price \$	Market value \$'000	%
Energy Securities Portfolio	N/A	N/A	14,497	11.8	N/A	N/A	15,503	13.0
Holloway Lodging Corp. ("Holloway") shares	7,952,715	5.91	47,001	38.2	7,952,715	5.70	45,330	38.0
Keck Seng Investments Ltd.	4,292,000	1.17	5,007	4.0	4,292,000	1.12	4,823	4.0
Terravest shares	5,750,000	9.85	56,637	46.0	5,750,000	9.35	53,763	45.0
Carrying value of securities			123,142	100.0			119,419	100.0

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

	Three months ended March 31, 2018 \$
Securities – beginning of year	119.4
Purchases	1.5
Proceeds on sale	—
Unrealized gains on securities (including foreign exchange gains on securities)	2.2
Securities – end of year	123.1

Other Investments

We currently have \$1.7 million invested in two private equity funds, which management considers legacy investments. We also own a passenger/car ferry operating on the St. Lawrence River under contract with the Government of Québec since 1973. The ferry does not operate during the first quarter of the year and completes its annual maintenance and repairs during this offseason period. The operating season began just prior to the end of the first quarter. There were no material developments with these assets during the quarter.

OUTSTANDING SHARE DATA

At May 8, 2018, the Company had:

- An unlimited number of Common Shares authorized and 12,644,988 Common Shares outstanding; and
- An unlimited number of First and Second Preferred Shares authorized and none outstanding.
- 250,000 options to acquire Common Shares outstanding, all of which are vested and exercisable.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2018, the Company's cash position was \$3.0 million compared to \$20.8 million at December 31, 2017. This decrease in cash is mainly a result of share repurchases from the substantial issuer bid and investment purchases, offset by tax refunds received during the period.

Cash flow from operating activities

Cash provided by operating activities was \$3.9 million for the three months ended March 31, 2018, compared to \$1.6 million used during the same period in 2017. The cash from operating activities was driven mainly by the dividends, interest and tax refunds received during the period.

At March 31, 2018, working capital excluding securities was \$5.9 million, compared to \$25.0 million at December 31, 2017. The Company's working capital needs are minimal and the Company has the ability to fund any working capital needs through its cash on hand and its existing credit facilities.

Cash flow from investing activities

Net cash of \$1.1 million was used in investing activities during the three months ended March 31, 2018, compared to \$6.9 million provided during the same period in 2017. Net cash used in investing activities during the quarter was mainly a result of investment purchases of \$1.5 million and dry dock costs for our ferry of \$0.8 million, offset by an after-tax pension surplus distribution of \$1.2 million. Net cash provided by investing activities during the prior quarter was mainly a result of net sales of investments in the amount of \$6.9 million.

Cash flow from financing activities

Net cash used in financing activities was \$20.6 million for the three months ended March 31, 2018, compared to \$0.1 million used during the same period in 2017. Net cash used in financing activities during the quarter was related to Common Share repurchases of \$20.6 million and long-term debt repayments of \$0.1 million. Cash used in financing activities for the three months ended March 31, 2017 was mainly related to the repayment of long-term debt of \$0.1 million.

Available capital under credit facilities

The Company has access to credit facilities where certain of the Company's securities are pledged as collateral. At March 31, 2018, \$26.5 million was available under these facilities and nil was drawn on these facilities. Declines in the market value of pledged securities may have an adverse effect on the amount of credit available under these facilities.

SUMMARY OF QUARTERLY RESULTS

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

<i>Three months ended</i>	Jun. 2016	Sept. 2016	Dec. 2016	Mar. 2017	Jun. 2017	Sept. 2017	Dec. 2017	Mar. 2018
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	7.3	16.4	12.1	5.6	1.9	2.4	2.9	3.5
Net income (loss)	6.4	14.2	9.4	4.2	—	—	(0.6)	2.1
Other comprehensive income (loss)	(3.2)	0.7	1.6	0.8	0.7	(0.6)	11.5	0.2
Comprehensive income (loss)	3.2	14.9	11.0	5.0	0.7	(0.6)	10.9	2.3
Basic and diluted EPS (in dollars)	0.41	0.93	0.64	0.28	—	—	(0.04)	0.16

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

FINANCIAL INSTRUMENTS

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

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

As an investment company, Clarke has a significant number of financial instruments. Notes 1, 4, 7, 10, 16 and 17 to the consolidated financial statements for the year ended December 31, 2017 and the Company's 2017 AIF, provide further information on classifications in the financial statements, and risks, pertaining to the use of financial instruments by the Company.

SIGNIFICANT EQUITY INVESTMENTS

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

Holloway

Holloway's core business is hotel ownership. Holloway owns 33 hotels comprising 3,764 rooms. As of March 31, 2018, Clarke owned 43.5% of the outstanding shares of Holloway.

Selected Financial Information (audited)	Year ended December 31, 2017	Year ended December 31, 2016
	\$	\$
Total assets	322.4	351.4
Total liabilities	216.6	246.4
Shareholders' equity	105.8	105.0
Total revenue	105.7	106.5
Net income (loss)	6.5	(1.3)

Terravest

Terravest is engaged in (i) the manufacturing of residential and commercial tanks and pressure vessels, (ii) the manufacturing of storage and transportation equipment, (iii) the manufacturing of wellhead processing equipment for the oil and natural gas industry, and (iv) well servicing for the oil and natural gas industry in Southwestern Saskatchewan. As of March 31, 2018, Clarke owned 31.1% of the outstanding shares of Terravest.

Selected Financial Information	December 31, 2017	September 30, 2017
	\$	\$
Total assets	204.9	207.4
Total liabilities	115.8	120.8
Shareholders' equity	89.1	86.6
	Three months ended December 31, 2017	Three months ended December 31, 2016
	\$	\$
Total revenue	62.6	48.3
Net income	5.1	3.7

RELATED PARTY TRANSACTIONS

The Company was party to related party transactions during the three months ended March 31, 2018. All related party transactions were in the normal course of operations and occurred at fair value. For full details of the Company's related party transactions, please refer to Note 15 of our consolidated financial statements for the year ended December 31, 2017.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the President & Chief Executive Officer and the Chief Financial Officer, particularly during the period in which annual filings are being prepared. Management has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes in the Company's disclosure controls and procedures or internal controls over financial reporting during the three months ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal controls over financial reporting.

ENVIRONMENTAL MATTERS

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

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

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

CAUTIONARY STATEMENT REGARDING USE OF NON-IFRS ACCOUNTING MEASURES

This MD&A makes reference to the Company's book value per share as a measure of the performance of the Company as a whole. Book value per share is measured by dividing shareholders' equity at the date of the statement of financial position by the number of Common Shares outstanding at that date. Clarke's method of determining this amount may differ from other companies' methods and, accordingly, this amount may not be comparable to measures used by other companies. This amount is not a performance measure as defined under IFRS and should not be considered either in isolation of, or as a substitute for, net earnings prepared in accordance with IFRS.

FORWARD-LOOKING STATEMENTS

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

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

Clarke Inc.

March 31, 2018 and 2017

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

	March 31, 2018	December 31, 2017
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	2,963	20,773
Marketable securities	123,142	119,419
Receivables	1,245	670
Income taxes receivable	2,923	5,710
Prepaid expenses	131	99
Total current assets	130,404	146,671
Accrued pension benefit asset <i>(note 4)</i>	8,513	10,270
Fixed assets and investment properties <i>(note 9)</i>	1,219	444
Long-term investments	1,739	1,843
Deferred income tax assets	1,241	1,420
Total assets	143,116	160,648
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	706	1,440
Income taxes payable	—	127
Current portion of long-term debt	644	645
Total current liabilities	1,350	2,212
Long-term debt	358	430
Deferred income tax liabilities	3,226	1,618
Total liabilities	4,934	4,260
Shareholders' equity		
Share capital <i>(note 5)</i>	40,990	47,330
Retained earnings	76,917	89,010
Accumulated other comprehensive income	18,730	18,503
Share-based payments	1,545	1,545
Total shareholders' equity	138,182	156,388
Total liabilities and shareholders' equity	143,116	160,648

See accompanying notes to the interim condensed consolidated financial statements

On behalf of the Board:

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

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
	\$	\$
Revenue		
Unrealized gains on investments	2,083	3,902
Realized gains on investments	—	460
Dividend income	932	864
Interest income	26	257
Provision of services	186	242
Other income (loss) (note 6)	266	(139)
	3,493	5,586
Expenses		
Cost of services provided	736	643
General and administrative expenses	475	635
Pension expense (note 4)	206	—
Share-based payment recovery	—	(100)
Depreciation	57	59
Interest expense	15	13
	1,489	1,250
Income before income taxes	2,004	4,336
Provision for (recovery of) income taxes (note 7)	(123)	173
Net income	2,127	4,163
Basic earnings per share:		
<i>(in dollars) (note 5)</i>	0.16	0.28
Diluted earnings per share:		
<i>(in dollars) (note 5)</i>	0.16	0.28

See accompanying notes to the interim condensed consolidated financial statements

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
	\$	\$
Net income	2,127	4,163
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurement gains and effect of limit on asset ceiling on defined benefit pension plans, net of income tax expense of \$92 (2017 – nil) <i>(note 4)</i>	227	810
Other comprehensive income	227	810
Comprehensive income	2,354	4,973

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

	Three months ended March 31, 2018	Three months ended March 31, 2017
	\$	\$
OPERATING ACTIVITIES		
Net income	2,127	4,163
Adjustments for items not involving cash (<i>note 8</i>)	(409)	(4,123)
	1,718	40
Net change in non-cash working capital balances (<i>note 8</i>)	2,215	(1,661)
Net cash provided by (used in) operating activities	3,933	(1,621)
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities	—	6,938
Purchase of marketable securities	(1,499)	(52)
Proceeds on disposition of fixed assets	—	2
Purchase of fixed assets	(832)	(64)
Distribution of pension plan surplus, net of tax (<i>note 4</i>)	1,216	—
Return of capital (net of purchases) of long-term investments	5	104
Net cash provided by (used in) investing activities	(1,110)	6,928
FINANCING ACTIVITIES		
Repurchase of shares for cancellation	(20,560)	—
Repayment of long-term debt	(73)	(72)
Net cash used in financing activities	(20,633)	(72)
Net change in cash during the period	(17,810)	5,235
Cash and cash equivalents, beginning of period	20,773	6,770
Cash and cash equivalents, end of period	2,963	12,005

See accompanying notes to the interim condensed consolidated financial statements

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
	\$	\$
Share capital		
Common shares:		
Balance at beginning of period	47,330	48,121
Common shares repurchased for cancellation (<i>note 5</i>)	(6,340)	—
Balance at end of period	40,990	48,121
Retained earnings		
Balance at beginning of period	89,010	116,789
Net income	2,127	4,163
Purchase price in excess of the book value of common shares repurchased for cancellation	(14,220)	—
Balance at end of period	76,917	120,952
Accumulated other comprehensive income		
Balance at beginning of period	18,503	6,142
Other comprehensive income	227	810
Balance at end of period	18,730	6,952
Share-based payments		
Balance at beginning of period	1,545	1,247
Share-based payment recovery	—	(100)
Balance at end of period	1,545	1,147
Total shareholders' equity	138,182	177,172

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2018 and 2017

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Clarke Inc. (the “Company” or “Clarke”) was incorporated on December 9, 1997 pursuant to the Canada Business Corporations Act. The head office of the Company is located at 6009 Quinpool Road, Halifax, Nova Scotia. The Company is an investment holding company with investments in a diversified group of businesses, operating primarily in Canada. The Company continuously evaluates the acquisition, retention and disposition of its investments. Changes in the mix of investments should be expected. These interim condensed consolidated financial statements were approved by the Board of Directors on May 8, 2018.

Basis of presentation and statement of compliance

These interim condensed consolidated financial statements for the three months ended March 31, 2018, were prepared in accordance with IAS 34, *Interim Financial Reporting*. The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2017, except as described in note 2. These interim condensed consolidated financial statements for the three months ended March 31, 2018 should be read together with the annual consolidated financial statements for the year ended December 31, 2017.

Principles of consolidation

The interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries. The significant subsidiaries of the Company are CKI Holdings Partnership, Quinpool Holdings Partnership and La Traverse Rivière-du-Loup – St-Siméon Limitée. All intercompany transactions have been eliminated on consolidation. All subsidiaries have the same reporting year end as the Company, and all follow the same accounting policies.

2. ADOPTION OF NEW STANDARDS

The following standards became applicable for the current reporting period and the Company had to change its accounting policies as a result of adopting the standards. No retrospective adjustments were necessary as a result of the new standards.

IFRS 9 *Financial Instruments*

IFRS 9 replaced *IAS 39 Financial instruments: recognition and measurement*. The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The Company has assessed this new standard and there has been no impact to the interim condensed consolidated financial statements from this adoption.

Financial assets within the scope of IFRS 9 are classified in the following measurement categories: amortized cost, fair value through profit or loss, or fair value through other comprehensive income. Financial liabilities are classified in the following measurement categories: fair value through profit or loss, or amortized cost.

The following table summarizes the changes in the classification of the Company’s financial instruments upon adoption of IFRS 9. The adoption of the new classification did not result in any changes in the measurement or carrying amount of the financial instruments.

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2018 and 2017

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

2. ADOPTION OF NEW STANDARDS (CONT'D)

Financial instruments	Classification under IAS 39	Classification under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Receivables	Loans and receivables	Amortized cost
Marketable securities	Fair value through profit or loss	Fair value through profit or loss
Long-term investments	Fair value through profit or loss	Fair value through profit or loss
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

For trade receivables, the Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Trade receivables are written off when there is no reasonable expectation of recovery.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced the previous guidance on revenue recognition and provides a framework for the recognition, measurement and disclosure of revenue contracts with customers. The standard is effective for annual periods beginning on or after January 1, 2018, and is applied retrospectively. The standard applies only to the Company's 'Provision of services' revenue classification on the interim consolidated statements of earnings. The Company had no contracts with customers entered into but not yet completed at January 1, 2017 or December 31, 2017. There has been no impact to the interim condensed consolidated financial statements from this adoption and no changes in the revenue recognition policy described in the Company's annual consolidated financial statements for the year ended December 31, 2017.

3. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standard issued but not yet effective up to the date of issuance of the Company's consolidated financial statements is listed below. This is a standard and interpretation issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt this standard when it becomes effective.

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize: 1) assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value and 2) depreciation of lease assets separately from interest on lease liabilities on the statements of earnings. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of the new standard.

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

Three months ended March 31, 2018 and 2017

*Unaudited (in thousands of Canadian dollars, except per share amounts)***4. EMPLOYEE FUTURE BENEFITS**

During the three months ended March 31, 2018, the Company received a pre-tax distribution from one of its pension plans in the amount of \$1,870 in accordance with the surplus withdrawal rules of the Quebec Supplemental Pension Plans Act.

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

	March 31, 2018	December 31, 2017
	\$	\$
Fair value of plan assets	84,297	83,831
Accrued benefit obligation	(50,864)	(51,656)
Funded status of plans – surplus	33,433	32,175
Cumulative impact of asset ceiling	(24,920)	(21,905)
Accrued pension benefit asset, net of impact of asset ceiling	8,513	10,270

The defined benefit expense recognized in the interim consolidated statements of earnings for the three months ended March 31, 2018 was \$206 (2017 – nil).

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

	Three months ended March 31, 2018	Three months ended March 31, 2017
	\$	\$
Net remeasurement gains	3,148	953
Change in amount of asset ceiling	(2,829)	(143)
Deferred income tax expense	(92)	—
Defined benefit recovery recognized	227	810

Significant assumptions

	March 31, 2018	December 31, 2017
	%	%
Accrued benefit obligation – discount rate	3.50	3.40
Benefit costs for the period – discount rate	3.40	3.80

5. SHARE CAPITAL AND EARNINGS PER SHARE

	March 31, 2018		December 31, 2017	
	# of shares	\$	# of shares	\$
Common shares				
Outstanding common shares, beginning of period	14,600,967	47,330	14,844,867	48,121
Common shares repurchased for cancellation	(1,955,979)	(6,340)	(243,900)	(791)
Outstanding common shares, end of period	12,644,988	40,990	14,600,967	47,330

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

Three months ended March 31, 2018 and 2017

*Unaudited (in thousands of Canadian dollars, except per share amounts)***5. SHARE CAPITAL AND EARNINGS PER SHARE (CONT'D)****Earnings per share**

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

	Three months ended March 31, 2018			Three months ended March 31, 2017		
	Earnings \$	Weighted average shares (in thousands) #	Per share amount \$	Earnings \$	Weighted average shares (in thousands) #	Per share amount \$
Basic earnings per share	2,127	13,141	0.16	4,163	14,845	0.28
Common shares issued on assumed exercising of stock options	—	54		—	—	
Diluted earnings per share	2,127	13,195	0.16	4,163	14,845	0.28

All potentially dilutive securities issued relate to stock options for the three months ended March 31, 2018 and 2017. The stock options were dilutive for the three months ended March 31, 2018 and anti-dilutive for the three months ended March 31, 2017.

Substantial issuer bid (“SIB”)

In the three months ended March 31, 2018, the Company purchased for cancellation 1,851,579 common shares under a SIB at a cost of \$19,442 (\$10.50 per common share). The purchase price in excess of the historical book value of the shares in the amount of \$13,440 has been charged to retained earnings and \$6,002 has been charged to share capital.

Dividends

There were no dividends declared for the three months ended March 31, 2018 or 2017.

6. OTHER INCOME (LOSS)

Other income (loss) is comprised of the following:

	Three months ended March 31, 2018 \$	Three months ended March 31, 2017 \$
Foreign exchange gains (losses)	266	(141)
Gains on disposition of fixed assets	—	2
Other income (loss)	266	(139)

The foreign exchange gains and losses for the three months ended March 31, 2018 and 2017 are primarily the result of unrealized foreign exchange gains and losses on foreign investments.

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

Three months ended March 31, 2018 and 2017

*Unaudited (in thousands of Canadian dollars, except per share amounts)***7. INCOME TAXES**

The provision for (recovery of) income taxes consists of:

	Three months ended March 31, 2018	Three months ended March 31, 2017
	\$	\$
Current	(1,818)	17
Deferred	1,695	156
Provision for (recovery of) income taxes	(123)	173

The effective tax rates differ from the statutory tax rate primarily as a result of unrealized investment gains on the Company's portfolio of marketable securities and non-taxable dividends received.

8. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31, 2018	Three months ended March 31, 2017
	\$	\$
Adjustments for items not involving cash		
Realized/unrealized gains on investments	(2,083)	(4,362)
Deferred income tax recovery (<i>note 7</i>)	1,695	156
Share-based payment recovery	—	(100)
Unrealized foreign exchange losses (gains)	(284)	126
Pension expense (<i>note 4</i>)	206	—
Gains on disposition of fixed assets (<i>note 6</i>)	—	(2)
Depreciation	57	59
	(409)	(4,123)

	Three months ended March 31, 2018	Three months ended March 31, 2017
	\$	\$
Net changes in non-cash working capital balances		
Receivables	(575)	(545)
Income taxes receivable	3,441	(1)
Prepaid expenses	(32)	(33)
Accounts payable and accrued liabilities	(492)	(1,082)
Income taxes payable	(127)	—
	2,215	(1,661)

9. FIXED ASSETS AND INVESTMENT PROPERTIES

During the three months ended March 31, 2018, the Company incurred costs of \$827 to complete a dry dock for a vessel owned by a subsidiary. The Company capitalizes dry dock costs and amortizes them on a straight-line basis over the period until the next scheduled dry dock which is expected to be in the first quarter of 2021.

CLARKE

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