CLARKE

Halifax, Canada

Quarterly Report
June 30, 2017 and 2016

Management's Discussion & Analysis

Clarke Inc.

June 30, 2017 and 2016

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 and six months ended June 30, 2017 compared with the three and six months ended June 30, 2016. 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 and six months ended June 30, 2017. This MD&A is prepared as at August 3, 2017 (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.

SECOND QUARTER REVIEW AND OUTLOOK

In the second quarter of 2017, the Company's book value per share increased by $0.05 or 0.4%. In the first half of 2017, the Company's book value per share increased by $0.37 or 3.2%. Our book value per share at the end of the second quarter was $11.98 and our share price was $11.16.

While our book value per share increased only nominally during the quarter, there were several notable developments during the period. First, during the quarter, Clarke received approval from the applicable regulatory authorities to terminate and wind-up one of Clarke's three pension plans. Subsequent to the second quarter, Clarke received a distribution of this pension plan's surplus in the amount of $29.6 million. This distribution will not be included in Clarke's income. Second, negotiations during the second quarter resulted in the extension of the contract for Clarke's passenger/car ferry which operates on the St. Lawrence River. The term of this contract now extends to 2022. Third, during the second quarter, Clarke sold its remaining Holloway Lodging Corp. ("Holloway") 6.25% debentures maturing February 2020 as their price rose close to par value.

The value of Clarke's securities portfolio remained essentially the same from the first quarter to the second quarter, registering a $0.6 million decline during the period (net of purchases and sales). Behind the headline numbers, however, Clarke witnessed a decline in the value of its energy securities of $7.0 million, offset almost entirely by increases in the value of its Holloway and Terravest Capital Inc. ("Terravest") investments. We continue to expect the value of our energy securities to increase throughout the remainder of the year. Our expectation has clearly not been met to date.

One final highlight worth mentioning comes from Holloway. During the second quarter, Holloway completed a major debt refinancing that materially reduced the company's cost of debt and aggregate debt service. This should result in Holloway generating more cash flow which can be reinvested in its business or returned to shareholders. Additionally, Holloway now has considerably more liquidity and financial flexibility to pursue opportunities as they arise.

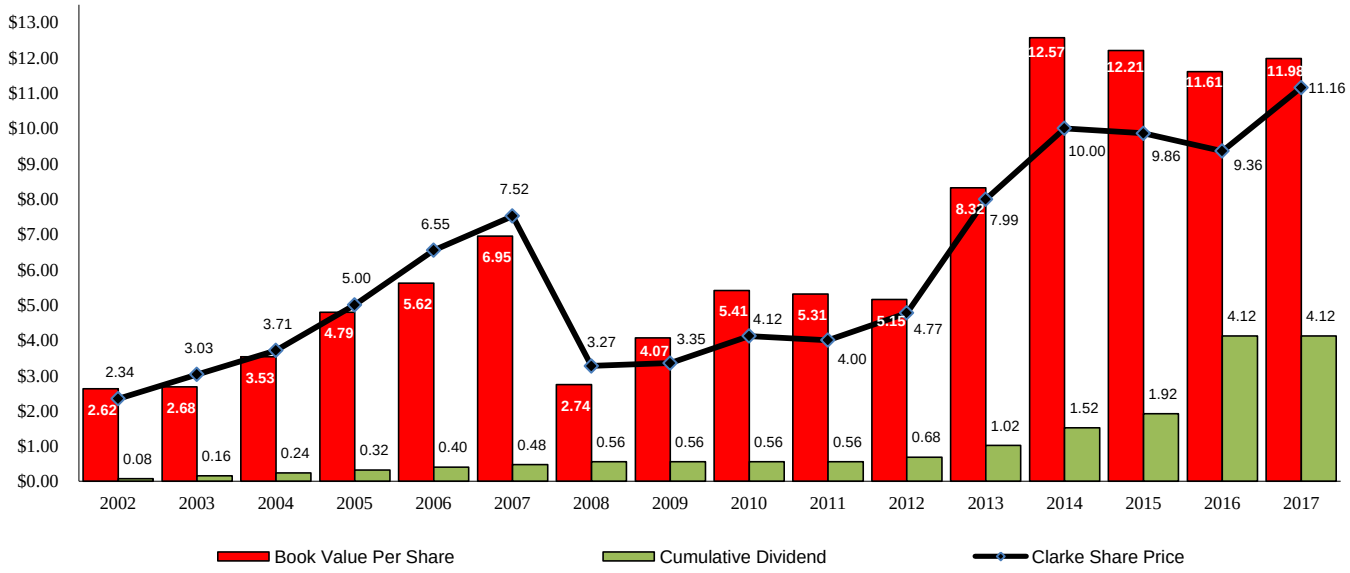
Clarke's cash balance at the end of the second quarter was $15.8 million. As of the date of this MD&A, Clarke's cash balance is $37.8 million reflecting the pension surplus distribution received, net of withholding tax, most of which Clarke expects to recover in due course. As Clarke's energy and other investments are monetized, Clarke will be in a position to either reinvest that capital in new opportunities should they present themselves or to return that capital to shareholders should we not see attractive investment opportunities or the prospect of such opportunities in an appropriate time frame. At present, our bias is to continue returning capital to shareholders, including by way of share repurchases should attractive opportunities arise.

DECLARATION OF SPECIAL DIVIDEND

Following the pension distribution referred to above, Clarke is holding a considerable amount of cash on hand. The Company continues to see limited investment opportunities. Accordingly, Clarke's board of directors has declared a special dividend in the amount of $2.00 per Common Share, payable on August 22, 2017 to shareholders of record at the end of business on August 14, 2017. The aggregate amount of this dividend is approximately $29.5 million and represents approximately 78% of Clarke's current cash on hand.

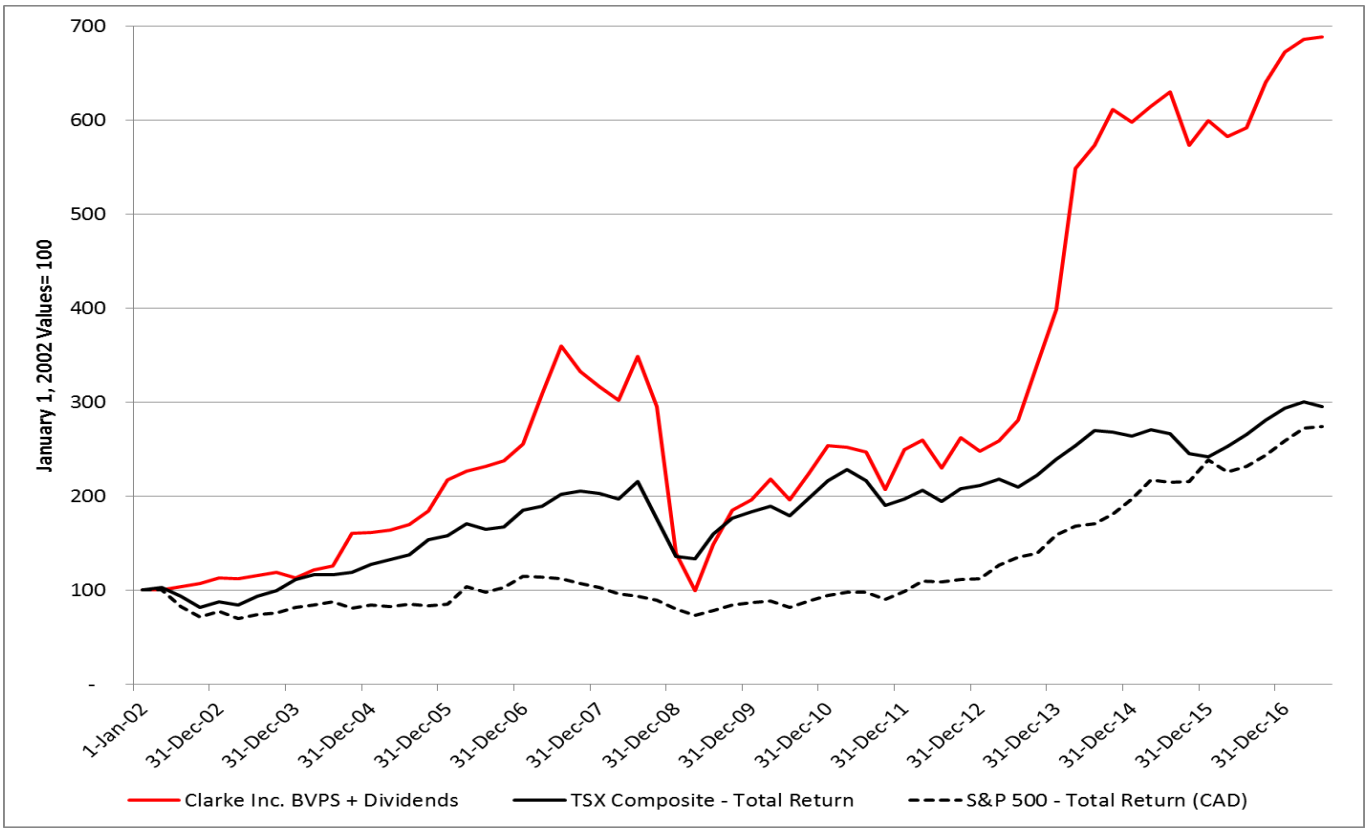
BOOK VALUE PER SHARE

The Company's book value per share at June 30, 2017 was $11.98, an increase of $0.37 per share since December 31, 2016. 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 June 30, 2017.*

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 and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 are as follows:

(in millions, except per share amounts)	**Three months ended June 30, 2017 $**	Three months ended June 30, 2016 $	**Six months ended June 30, 2017 $**	Six months ended June 30, 2016 $
Realized and unrealized gains (losses) on investments	**(0.4)**	4.0	**3.9**	(0.4)
Dividend income	**1.0**	0.9	**1.8**	1.8
Interest income	**0.2**	0.5	**0.5**	1.0
Revenue and other income*	**1.1**	1.9	**1.3**	1.9
Net income	**—**	6.4	**4.2**	1.8
Comprehensive income (loss)	**0.7**	3.2	**5.6**	(3.0)
Basic and diluted earnings per share ("EPS")				
Net income	**—**	0.41	**0.28**	0.12
Total assets	**182.9**	157.8	**182.9**	157.8
Long-term financial liabilities	**0.9**	1.5	**0.9**	1.5
Cash dividends declared per share	**—**	2.10	**—**	2.20
Book value per share	**11.98**	9.83	**11.98**	9.83

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

Net income of the Company for the three and six months ended June 30, 2017 was nil and $4.2 million, respectively, compared with $6.4 million and $1.8 million, respectively, for the same periods in 2016. During the three and six months ended June 30, 2017, the Company had unrealized losses of $0.6 million and unrealized gains of $3.3 million on its investments compared to unrealized gains of $3.7 million and unrealized losses of $0.5 million for the same periods in 2016. The Company had realized gains on its investments of $0.2 million and $0.6 million, respectively, for the three and six months ended June 30, 2017 compared with $0.3 million and $0.1 million for the same periods in 2016.

INVESTMENT HOLDINGS

The Company owns securities, interests in two private equity funds and a ferry business. The Company's equity holdings generated dividends of $1.0 million and $1.8 million, respectively, in the three and six months ended June 30, 2017 compared to $0.9 million and $1.8 million for the same periods in 2016. The Company's debt and cash holdings generated interest income of $0.2 million and $0.5 million, respectively, in the three and six months ended June 30, 2017 compared to $0.5 million and $1.0 million for the same periods in 2016. This decrease is due to the sale of debentures and the decrease in cash holdings.

Securities Portfolio

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

	June 30, 2017				December 31, 2016			
	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**	**22,247**	**17.3**	N/A	N/A	31,770	23.6
Holloway shares	**7,952,715**	**5.70**	**45,330**	**35.2**	7,952,715	5.00	39,764	29.5
Holloway 6.25% Convertible Debentures	**—**	**—**	**—**	**—**	6,909,000	0.93	6,391	4.7
Keck Seng Investments Ltd.	**4,292,000**	**1.11**	**4,781**	**3.7**	4,292,000	0.97	4,162	3.1
Terravest shares	**5,750,000**	**9.80**	**56,350**	**43.8**	5,750,000	8.75	50,312	37.3
Undisclosed investments	**N/A**	**N/A**	**—**	**—**	N/A	N/A	2,422	1.8
Carrying value of securities			**128,708**	**100.0**			134,821	100.0

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

	Six months ended June 30, 2017 $
Securities – beginning of period	**134.8**
Purchases	**0.1**
Proceeds on sale	**(9.7)**
Realized and unrealized gains on securities (net of foreign exchange losses on securities)	**3.5**
Securities – end of period	**128.7**

Other Investments

We currently have $2.6 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 operating season for the ferry began during the second quarter. As described above, subsequent to the second quarter, Clarke extended the term of its ferry contract, which will now expire in 2022.

OUTSTANDING SHARE DATA

At August 3, 2017, the Company had:

- An unlimited number of Common Shares authorized and 14,768,767 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, 166,667 of which are vested and exercisable.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2017, the Company's cash position was $15.8 million compared to $6.8 million at December 31, 2016. This increase in cash is mainly the result of proceeds on sale of investments during the first and second quarters.

Cash flow from operating activities

Cash provided by operating activities was $0.1 million for the six months ended June 30, 2017, compared to $0.3 million used during the same period in 2016. The cash provided by operating activities was driven mainly by dividends, interest and service revenue received during the period offset by the payment of prior year accounts payable.

At June 30, 2017, working capital excluding securities was $15.6 million, compared to $5.8 million at December 31, 2016. 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 $9.9 million was provided by investing activities during the six months ended June 30, 2017, compared to $0.8 million provided during the same period in 2016. Net cash provided by investing activities during the period was mainly a result of net sales of investments (sales less purchases) in the amount of $9.5 million. Cash provided by investing activities for the six months ended June 30, 2016 was mainly the result of proceeds on sale of a building of $3.6 million offset by net purchases of investments of $2.9 million.

Cash flow from financing activities

Net cash used in financing activities was $1.0 million for the six months ended June 30, 2017, compared to $36.4 million used during the same period in 2016. Net cash used in financing activities during the quarter was related to the repurchase of Common Shares for $0.8 million and regular repayments of long-term debt of $0.2 million. Cash used in financing activities for the six months ended June 30, 2016 was mainly related to the payment of regular and special dividends in the amount of $34.4 million and the repurchase of Common Shares for $1.8 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 June 30, 2017, $33.8 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:

Three months ended	**Sept. 2015**	**Dec. 2015**	**Mar. 2016**	**Jun. 2016**	**Sept. 2016**	**Dec. 2016**	**Mar. 2017**	**Jun. 2017**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Revenue	(16.7)	9.3	(3.1)	7.3	16.4	12.1	5.6	1.9
Net income (loss)	(19.3)	6.6	(4.6)	6.4	14.2	9.4	4.2	—
Other comprehensive income (loss)	(1.5)	2.7	(1.6)	(3.2)	0.7	1.6	0.8	0.7
Comprehensive income (loss)	(20.8)	9.3	(6.2)	3.2	14.9	11.0	5.0	0.7
Basic and diluted EPS (in dollars)	(1.24)	0.42	(0.29)	0.41	0.93	0.64	0.28	—

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 certain of 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, 9, 11, 18 and 19 to the consolidated financial statements for the year ended December 31, 2016 and the Company's 2016 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 period, the prior period financial information is provided.

Holloway

Holloway's core business is hotel ownership. Holloway owns 33 hotels comprising 3,765 rooms. As of June 30, 2017, Clarke owned 42.1% of the outstanding shares of Holloway.

Selected Financial Information (audited)	**March 31, 2017**	December 31, 2016
	$	$
Total assets	**333.3**	351.4
Total liabilities	**225.5**	246.4
Shareholders' equity	**107.8**	105.0
	Three months ended March 31, 2017	Three months ended March 31, 2016
	$	$
Total revenue	**23.5**	22.0
Net income (loss)	**3.5**	(3.5)

Terravest

Terravest is engaged in (i) the manufacturing of residential and commercial tanks and pressure vessels, (ii) the manufacturing of wellhead processing equipment for the oil and natural gas industry, and (iii) well servicing for the oil and natural gas industry in Southwestern Saskatchewan. As of June 30, 2017, Clarke owned 31.4% of the outstanding shares of Terravest.

Selected Financial Information			**March 31, 2017**	September 30, 2016
			$	$
Total assets			**185.8**	168.9
Total liabilities			**99.7**	82.4
Shareholders' equity			**86.1**	86.5
	Three months ended March 31, 2017	Three months ended March 31, 2016	**Six months ended March 31, 2017**	Six months ended March 31, 2016
	$	$	**$**	$
Total revenue	**46.6**	43.4	**94.8**	99.2
Net income	**0.7**	1.2	**4.4**	6.2

RELATED PARTY TRANSACTIONS

The Company was party to related party transactions during the six months ended June 30, 2017. 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 17 of our consolidated financial statements for the year ended December 31, 2016 and Note 9 of the interim condensed consolidated financial statements for the three and six months ended June 30, 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 six months ended June 30, 2017 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.

June 30, 2017 and 2016

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (in thousands of Canadian dollars)

	June 30, 2017	December 31, 2016
	$	$
ASSETS		
Current		
Cash and cash equivalents	**15,761**	6,770
Marketable securities	**128,708**	134,821
Receivables	**905**	1,012
Income taxes receivable	**62**	155
Prepaid expenses	**119**	91
Total current assets	**145,555**	142,849
Accrued pension benefit asset *(notes 3 and 10)*	**31,901**	30,434
Fixed assets and investment properties *(note 9)*	**515**	486
Long-term investments	**2,606**	2,925
Deferred income tax assets	**2,357**	1,069
Total assets	**182,934**	177,763
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**644**	1,575
Current portion of long-term debt	**644**	644
Total current liabilities	**1,288**	2,219
Long-term debt	**860**	1,075
Deferred income tax liabilities	**3,752**	2,170
Total liabilities	**5,900**	5,464
Shareholders' equity		
Share capital *(note 4)*	**47,888**	48,121
Retained earnings	**120,369**	116,789
Accumulated other comprehensive income	**7,609**	6,142
Share-based payments	**1,168**	1,247
Total shareholders' equity	**177,034**	172,299
Total liabilities and shareholders' equity	**182,934**	177,763

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 June 30, 2017 $	Three months ended June 30, 2016 $	**Six months ended June 30, 2017 $**	Six months ended June 30, 2016 $
Revenue				
Unrealized gains (losses) on investments	**(577)**	3,684	**3,325**	(511)
Realized gains on investments	**170**	357	**630**	120
Dividend income	**960**	949	**1,824**	1,779
Interest income	**198**	487	**455**	978
Provision of services	**1,429**	1,726	**1,671**	2,102
Other income (loss) *(note 5)*	**(287)**	121	**(426)**	(203)
	1,893	7,324	**7,479**	4,265
Expenses				
Cost of services provided	**1,153**	1,121	**1,796**	2,071
General and administrative expenses	**498**	644	**1,133**	1,366
Share-based payment expense (recovery)	**21**	(54)	**(79)**	53
Depreciation	**58**	70	**117**	141
Interest expense	**15**	19	**28**	43
	1,745	1,800	**2,995**	3,674
Income before income taxes	**148**	5,524	**4,484**	591
Provision for (recovery of) income taxes *(note 6)*	**154**	(851)	**327**	(1,215)
Net income (loss)	**(6)**	6,375	**4,157**	1,806
Basic earnings per share: *(in dollars) (note 4)*				
Net income	**—**	0.41	**0.28**	0.12
Diluted earnings per share: *(in dollars) (note 4)*				
Net income	**—**	0.41	**0.28**	0.12

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Unaudited (in thousands of Canadian dollars)

	Three months ended June 30, 2017 $	Three months ended June 30, 2016 $	**Six months ended June 30, 2017 $**	Six months ended June 30, 2016 $
Net income (loss)	**(6)**	6,375	**4,157**	1,806
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss				
Remeasurement gains (losses) and effect of limit on asset ceiling on defined benefit pension plans *(note 3)*	**657**	(3,144)	**1,467**	(4,776)
Other comprehensive income (loss)	**657**	(3,144)	**1,467**	(4,776)
Comprehensive income (loss)	**651**	3,231	**5,624**	(2,970)

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

	Six months ended June 30, 2017	Six months ended June 30, 2016
	$	$
OPERATING ACTIVITIES		
Net income	**4,157**	1,806
Adjustments for items not involving cash *(note 8)*	**(3,246)**	(1,142)
	911	664
Net change in non-cash working capital balances *(note 8)*	**(763)**	(998)
Net cash provided by (used in) operating activities	**148**	(334)
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities	**9,688**	6,242
Purchase of marketable securities	**(140)**	(9,126)
Proceeds on disposition of fixed assets	**2**	3,600
Purchase of fixed assets	**(146)**	(4)
Return of capital (net of purchases) of long-term investments	**464**	334
Advances of loans receivable	**—**	(258)
Net cash provided by investing activities	**9,868**	788
FINANCING ACTIVITIES		
Dividends paid	**—**	(34,375)
Repurchase of shares for cancellation	**(810)**	(1,784)
Repayment of long-term debt	**(215)**	(215)
Net cash used in financing activities	**(1,025)**	(36,374)
Net change in cash during the period	**8,991**	(35,920)
Cash and cash equivalents, beginning of period	**6,770**	42,130
Cash and cash equivalents, end of period	**15,761**	6,210

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Unaudited (in thousands of Canadian dollars)

	Six months ended June 30, 2017 $	Six months ended June 30, 2016 $
Share capital		
Common shares:		
Balance at beginning of period	**48,121**	50,654
Common shares repurchased for cancellation *(note 4)*	**(233)**	(628)
Balance at end of period	**47,888**	50,026
Retained earnings		
Balance at beginning of period	**116,789**	130,431
Net income	**4,157**	1,806
Dividends declared *(note 4)*	**—**	(34,355)
Purchase price in excess of the historical book value of common shares repurchased for cancellation	**(577)**	(1,156)
Balance at end of period	**120,369**	96,726
Accumulated other comprehensive income		
Balance at beginning of period	**6,142**	8,616
Other comprehensive income (loss)	**1,467**	(4,776)
Balance at end of period	**7,609**	3,840
Share-based payments		
Balance at beginning of period	**1,247**	1,100
Share-based payment expense (recovery)	**(79)**	53
Balance at end of period	**1,168**	1,153
Total shareholders' equity	**177,034**	151,745

See accompanying notes to the interim condensed consolidated financial statements

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 August 3, 2017.

Basis of presentation and statement of compliance

These interim condensed consolidated financial statements for the three and six months ended June 30, 2017, 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, 2016. These interim condensed consolidated financial statements for the three and six months ended June 30, 2017 should be read together with the annual consolidated financial statements for the year ended December 31, 2016.

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 significant intercompany transactions have been eliminated on consolidation. All subsidiaries have the same reporting year end as the Company, and all follow the same accounting policies.

2. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Company's interim condensed consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 will replace *IAS 39 Financial instruments: recognition and measurement*. The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The Company is currently evaluating the impact of the new standard.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 replaces the previous guidance on revenue recognition and provides a framework to determine when to recognize revenue and at what amount. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of the new standard.

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

IFRS 16 *Leases*

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, 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.

3. EMPLOYEE FUTURE BENEFITS

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

	June 30, 2017	December 31, 2016
	$	$
Fair value of plan assets	**115,014**	111,426
Accrued benefit obligation	**(53,662)**	(49,943)
Funded status of plans – surplus	**61,352**	61,483
Cumulative impact of asset ceiling	**(29,451)**	(31,049)
Accrued pension benefit asset, net of impact of asset ceiling	**31,901**	30,434

The defined benefit recovery recognized in the interim consolidated statements of earnings for the three and six months ended June 30, 2017 was nil and nil, respectively (2016 – $60 and $119, respectively).

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

	Three months ended June 30, 2017	Three months ended June 30, 2016	**Six months ended June 30, 2017**	Six months ended June 30, 2016
	$	$	**$**	$
Remeasurement losses	**(1,673)**	(406)	**(720)**	(2,062)
Change in amount of asset ceiling	**2,330**	(2,738)	**2,187**	(2,714)
Defined benefit recovery (expense) recognized	**657**	(3,144)	**1,467**	(4,776)

Significant assumptions

	June 30, 2017	December 31, 2016
	%	%
Accrued benefit obligation – discount rate	**3.35**	3.80
Benefit costs for the period – discount rate	**3.80**	3.95

4. SHARE CAPITAL AND EARNINGS PER SHARE

	June 30, 2017		December 31, 2016	
	# of shares	**$**	# of shares	$
Common shares				
Outstanding common shares, beginning of period	**14,844,867**	**48,121**	15,626,175	50,654
Common shares repurchased for cancellation	**(71,900)**	**(233)**	(781,308)	(2,533)
Outstanding common shares, end of period	**14,772,967**	**47,888**	14,844,867	48,121

Earnings per share

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

	Three months ended June 30, 2017			Three months ended June 30, 2016		
	Loss	**Weighted average shares (in thousands)**	**Per share amount**	Earnings	Weighted average shares (in thousands)	Per share amount
	$	**#**	**$**	$	#	$
Basic earnings per share	**(6)**	**14,827**	**—**	6,375	15,614	0.41
Common shares issued on assumed exercising of stock options	**—**	**23**		**—**	**—**	
Diluted earnings per share	**(6)**	**14,850**	**—**	6,375	15,614	0.41

	Six months ended June 30, 2017			Six months ended June 30, 2016		
	Earnings	**Weighted average shares (in thousands)**	**Per share amount**	Earnings	Weighted average shares (in thousands)	Per share amount
	$	**#**	**$**	$	#	$
Basic earnings per share	**4,157**	**14,836**	**0.28**	1,806	15,620	0.12
Common shares issued on assumed exercising of stock options	**—**	**12**		**—**	**—**	
Diluted earnings per share	**4,157**	**14,848**	**0.28**	1,806	15,620	0.12

All potentially dilutive securities issued relate to stock options for the three and six months ended June 30, 2017 and 2016. The stock options were dilutive for the three and six months ended June 30, 2017 and anti-dilutive for the three and six months ended June 30, 2016.

Dividends

Dividends declared for three and six months ended June 30, 2017 were nil and nil, respectively (2016 – $32,792 and $34,355, respectively).

5. OTHER INCOME (LOSS)

Other income is comprised of the following:

	Three months ended June 30, 2017 $	Three months ended June 30, 2016 $	**Six months ended June 30, 2017 $**	Six months ended June 30, 2016 $
Foreign exchange gains (losses)	**(287)**	61	**(428)**	(682)
Pension recovery *(note 3)*	**—**	60	**—**	119
Gains on disposition of fixed assets	**—**	—	**2**	360
Other income (loss)	**(287)**	121	**(426)**	(203)

The foreign exchange losses for the three and six months ended June 30, 2017 is primarily the result of unrealized losses on foreign investments. The foreign exchange loss for the six months ended June 30, 2016 is primarily the result of settling foreign exchange contracts at a loss. The gain on disposition of fixed assets for the six months ended June 30, 2016 is a result of a building sale.

6. INCOME TAXES

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

	Three months ended June 30, 2017 $	Three months ended June 30, 2016 $	**Six months ended June 30, 2017 $**	Six months ended June 30, 2016 $
Current	**16**	40	**33**	(215)
Deferred	**138**	(891)	**294**	(1,000)
Provision for (recovery of) income taxes	**154**	(851)	**327**	(1,215)

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.

7. FINANCIAL INSTRUMENTS

The Company manages its exposure to foreign exchange risk by entering into foreign exchange contracts. At June 30, 2017, the Company did not have any forward contracts outstanding to sell US dollars. Unrealized foreign exchange gains of nil have been included in receivables of the interim consolidated statements of financial position as at June 30, 2017 (December 31, 2016 – $4). Unrealized foreign exchange losses of $4 and $4 have been recognized in other income in the interim consolidated statements of earnings for the three and six months ended June 30, 2017 (three and six months ended June 30, 2016 – unrealized foreign exchange gains of $313 and $1,590).

8. SUPPLEMENTAL CASH FLOW INFORMATION

Adjustments for items not involving cash	**Six months ended June 30, 2017 $**	Six months ended June 30, 2016 $
Realized/unrealized losses (gains) on investments	**(3,955)**	391
Deferred income tax provision (recovery) *(note 6)*	**294**	(1,000)
Share-based payment expense (recovery)	**(79)**	53
Unrealized foreign exchange losses (gains)	**379**	(167)
Pension recovery *(note 3)*	**—**	(119)
Gains on disposition of fixed assets *(note 5)*	**(2)**	(360)
Depreciation	**117**	141
Loan receivable accretion	**—**	(81)
	(3,246)	(1,142)

Net changes in non-cash working capital balances	**Six months ended June 30, 2017 $**	Six months ended June 30, 2016 $
Receivables *(note 7)*	**103**	(178)
Income taxes receivable	**93**	(331)
Prepaid expenses	**(28)**	(37)
Accounts payable and accrued liabilities	**(931)**	(395)
Income taxes payable	**—**	(57)
	(763)	(998)

9. RELATED PARTY DISCLOSURES

During the six months ended June 30, 2017, the Company sold the equipment of its Information Technology division to a related party for a nominal amount, which was the carrying amount on the transaction date. The Company had taken an impairment charge of $144 related to the equipment during the year ended December 31, 2016. Effective January 1, 2017, the Company no longer operates an Information Technology division.

10. SUBSEQUENT EVENTS

During the three months ended June 30, 2017, the Company received approval from the Nova Scotia Pension Regulation Division to terminate and wind-up the Clarke Group Pension Plan (the "Plan"), which is administered by Clarke Inc. Following a settlement of the Plan's liabilities subsequent to June 30, 2017, the Company received a pre-tax distribution of surplus in the amount of $29,586.

On August 3, 2017, Clarke's board of directors declared a special dividend in the amount of $2.00 per common share, payable on August 22, 2017 to shareholders of record at the end of business on August 14, 2017.

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