CLARKE

Halifax, Canada

Quarterly Report
September 30, 2016 and 2015

Management's Discussion & Analysis

Clarke Inc.

September 30, 2016 and 2015

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 nine months ended September 30, 2016 compared with the three and nine months ended September 30, 2015. 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 nine months ended September 30, 2016. This MD&A is prepared as at November 4, 2016 (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.

THIRD QUARTER REVIEW AND OUTLOOK

In the third quarter, the Company's book value per share increased by $1.03 or 10%, driven primarily by an increase in the value of our securities portfolio. Our book value per share at the end of the quarter was $10.86 and our share price was $9.13.

During the quarter, Clarke received proceeds of $3.1 million from the sale of security holdings. Clarke also paid $1.5 million of dividends and spent $5.3 million repurchasing 572,400 Common Shares. At September 30, 2016, our cash balance was $8.1 million.

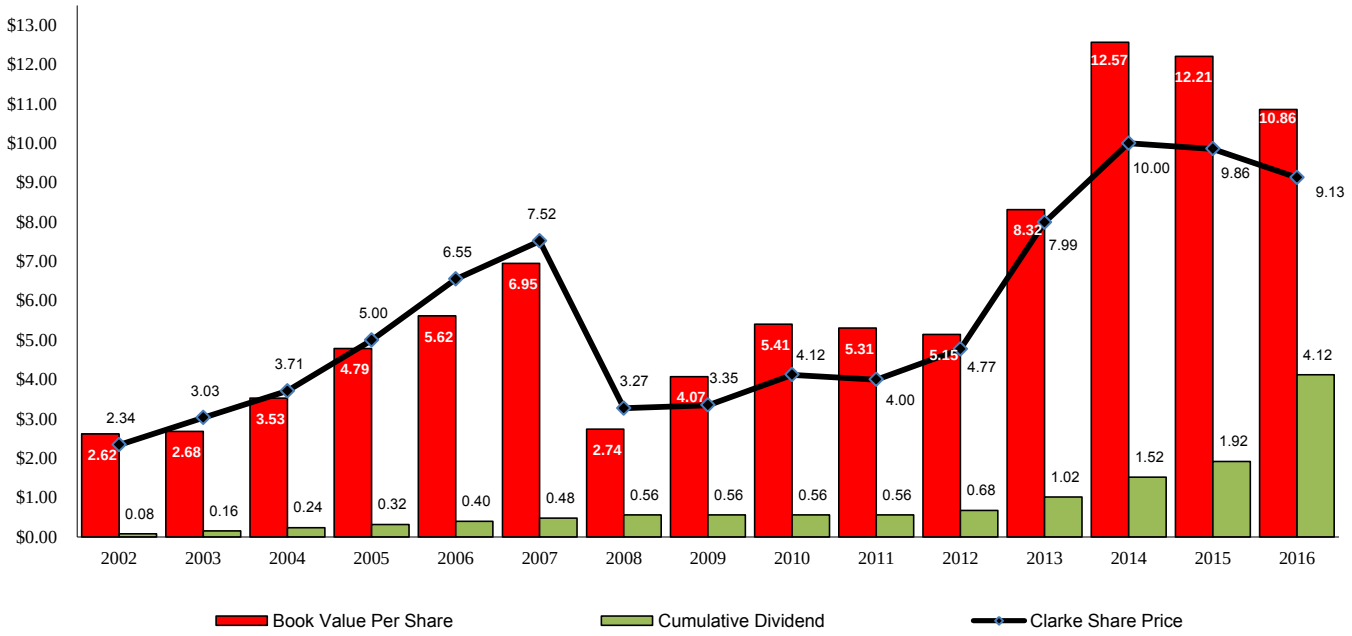
In June 2015, the Company entered into a loan agreement to finance the construction of a 17-unit townhome development in Atlanta, Georgia. During the third quarter, this loan was repaid in full and the royalty agreement linked to the sale of each townhome was terminated. The Company generated a total return on this loan of 30% and an IRR of 27%.

Most of the companies we have invested in are exposed to the oil and gas industry in some manner. In the case of our energy basket companies, this exposure is complete whereas in the case of other companies such as Holloway Lodging Corporation ("Holloway") and TerraVest Capital Inc. ("Terravest"), this exposure is partial only. While the prices of our energy-related securities generally increased in the third quarter, we believe these securities remain substantially undervalued.

We expect to continue repurchasing Common Shares as opportunities arise, whether under our normal course issuer bid or otherwise.

BOOK VALUE PER SHARE

The Company's book value per share at September 30, 2016 was $10.86, a decrease of $1.35 per share since December 31, 2015. 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 September 30, 2016.*

RESULTS OF OPERATIONS

Highlights of the interim condensed consolidated financial statements for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 are as follows:

(in millions, except per share amounts)	**Three months ended September 30, 2016**	Three months ended September 30, 2015	**Nine months ended September 30, 2016**	Nine months ended September 30, 2015
	$	$	**$**	$
Realized and unrealized gains (losses) on investments	**11.1**	(22.2)	**10.7**	(20.8)
Dividend income	**0.9**	1.0	**2.6**	2.7
Interest income	**0.5**	0.5	**1.5**	2.2
Revenue and other income*	**3.9**	4.0	**5.8**	7.1
Net income (loss)	**14.2**	(19.3)	**16.0**	(17.7)
Comprehensive income (loss)	**14.9**	(20.8)	**11.9**	(18.1)
Basic earnings (loss) per share ("EPS")				
Net income (loss)	**0.93**	(1.24)	**1.03**	(1.04)
Diluted EPS				
Net income (loss)	**0.93**	(1.24)	**1.03**	(1.04)
Total assets	**165.4**	191.8	**165.4**	191.8
Long-term financial liabilities	**1.3**	1.9	**1.3**	1.9
Cash dividends declared per share	**—**	0.10	**2.2**	0.30
Book value per share	**10.86**	11.71	**10.86**	11.71

**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 nine months ended September 30, 2016 was $14.2 million and $16.0 million, respectively, compared with a net loss of $19.3 million and $17.7 million for the same periods in 2015. During the three and nine months ended September 30, 2016, the Company had unrealized gains on its investments of $11.1 million and $10.6 million, respectively, compared to unrealized losses of $22.2 million and $21.6 million for the same periods in 2015. The Company had realized gains on its investments of nil and $0.1 million for the three and nine months ended September 30, 2016, respectively, compared with realized gains of nil and $0.8 million for the same periods in 2015. Further discussion on these gains and losses is set out under "Investment Holdings" below.

OUTSTANDING SHARE DATA

At November 4, 2016, the Company had:

- An unlimited number of Common Shares authorized and 14,853,300 Common Shares outstanding; and
- An unlimited number of First and Second Preferred Shares authorized and none outstanding.
- 400,000 options to acquire Common Shares outstanding, 266,667 of which are vested and exercisable.

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 and $2.6 million in the three and nine months ended September 30, 2016, respectively, compared to $1.0 million and $2.7 million for the same periods in 2015. The Company's debt and cash holdings generated interest income of $0.5 million and $1.5 million in the three and nine months ended September 30, 2016, respectively, compared to $0.5 million and $2.2 million for the same periods in 2015. This decrease is mainly due to the repayment of loans receivable and the decrease in cash holdings.

Securities Portfolio

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

	September 30, 2016				December 31, 2015			
	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**	**28,333**	**23.1**	N/A	N/A	24,076	21.2
Holloway shares	**7,952,715**	**5.17**	**41,116**	**33.5**	7,874,815	5.01	39,453	34.8
Holloway 6.25% Convertible Debentures	**6,946,000**	**0.91**	**6,286**	**5.1**	11,584,000	0.86	9,962	8.8
Keck Seng Investments Ltd.	**4,292,000**	**0.94**	**4,029**	**3.3**	4,292,000	1.14	4,893	4.3
Terravest shares	**5,750,000**	**7.45**	**42,837**	**35.0**	5,000,000	6.84	34,200	30.2
Undisclosed investment	**—**	**—**	**—**	**—**	N/A	N/A	785	0.7
Carrying value of securities			**122,601**	**100.0**			113,369	100.0

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

	Nine months ended September 30, 2016 $
Securities – beginning of period	**113.4**
Purchases	**9.1**
Proceeds on sale	**(9.3)**
Realized and unrealized losses on securities (including foreign exchange losses)	**9.4**
Securities – end of period	**122.6**

Energy Basket: Following the precipitous decline in oil prices in the fourth quarter of 2014, we started to acquire select securities of companies related to the oil and gas industry. We believe that recent oil prices are too low to warrant substantial investment in replacing existing production or developing new production (as well as being too low for many oil companies to stay solvent) and that the dramatic decline in oil prices will lead to some increase in the demand for oil. Our belief is that the confluence of these factors will, over time, lead to higher oil prices and higher security prices for well positioned companies, including those in our energy basket. While many oil and gas related assets deserve to trade at distressed valuations, there are also numerous assets that are trading at distressed valuations undeservedly. Reinforcing this view is that most recent acquisitions of public companies or a substantial portion of public company assets have occurred at prices substantially above the companies' security prices. We believe the securities in our energy basket generally fall into the latter group of undeservedly cheap securities.

***Holloway*:** Like most other companies with operations in Western Canada, Holloway has been affected by declining energy prices. However, we believe this situation is transitory and the company's languid share price overlooks several positive developments at the company. In particular, Holloway has completed the upgrading and rebranding of its two largest hotels and has recently brought online two newly acquired or re-opened hotels. These renovations and additions to Holloway's portfolio increase the earnings power of the company. Holloway continues to be the cheapest publicly-traded hotel company in Canada yet it has a much stronger balance sheet and much better operating margins than its peers.

***Terravest*:** Throughout the year we have continued to see diverging results between Terravest's energy exposed businesses in Western Canada and its industrial businesses in Eastern Canada and the US. Oil prices have increased considerably from their lows earlier in the year, however, only very recently have activity levels in Western Canada started to show signs of life. For fiscal 2017 we are expecting to see improvements in the Company's results due to increasing activity in Western Canada, contributions from recently acquired oil and gas manufacturing businesses, and continued growth in the Company's industrial businesses in Eastern Canada and the US. Despite the energy downturn Terravest continues to generate strong cash flow, a testament to the diversity of its operations and a point we have highlighted in the past. The Company is well-positioned to continue executing on its growth strategy.

Other Investments

We currently have $3.0 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. There were no material developments with these assets during the third quarter.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2016, the Company's cash position was $8.1 million compared to $42.1 million at December 31, 2015. This decrease in cash is mainly a result of the regular and special dividend payments during the first nine months of the year.

Cash flow from operating activities

Cash provided by operating activities was $3.6 million for the nine months ended September 30, 2016, compared to $3.1 million provided during the same period in 2015. The cash from operating activities is driven mainly by the dividends and interest received during the period as well as the ferry operations.

At September 30, 2016, working capital excluding securities was $8.5 million, compared to $39.3 million at December 31, 2015. 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 $5.8 million was provided by investing activities during the nine months ended September 30, 2016, compared to $9.7 million provided during the same period in 2015. Net cash provided by investing activities during the nine month period was mainly a result of proceeds on sale of a building of $3.6 million and proceeds from the repayment of a loan receivable in the amount of $1.7 million. Cash provided by investing activities for the nine months ended September 30, 2015 primarily consisted of $38.5 million in net loans receivable repayments and $5.6 million on the sale of a container vessel partially offset by net purchases of investments in the amount of $35.0 million during the period.

Cash flow from financing activities

Net cash used in financing activities was $43.4 million for the nine months ended September 30, 2016, compared to $45.9 million used during the same period in 2015. Net cash used in financing activities during the nine month period was mainly related to the payment of regular and special dividends in the amount of $35.9 million and the repurchase of Common Shares of $7.1 million. Cash used in financing activities for the nine months ended September 30, 2015 primarily consisted of the repurchase of Common Shares for $40.0 million and the payment of regular dividends in the amount of $5.4 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 September 30, 2016, $36.7 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	**Dec. 2014 $**	**Mar. 2015 $**	**Jun. 2015 $**	**Sept. 2015 $**	**Dec. 2015 $**	**Mar. 2016 $**	**Jun. 2016 $**	**Sept. 2016 $**
Revenue	(5.2)	7.4	0.5	(16.7)	9.3	(3.1)	7.3	16.4
Income (loss) from continuing operations	(6.4)	3.6	(1.9)	(19.3)	6.6	(4.6)	6.4	14.2
Net income (loss)	(6.6)	3.6	(1.9)	(19.3)	6.6	(4.6)	6.4	14.2
Other comprehensive income (loss)	(0.2)	1.2	(0.1)	(1.5)	2.7	(1.6)	(3.2)	0.7
Comprehensive income (loss)	(6.8)	4.8	(2.0)	(20.8)	9.3	(6.2)	3.2	14.9
Basic EPS from continuing operations (in dollars)	(0.32)	0.19	(0.12)	(1.24)	0.42	(0.29)	0.41	0.93
Diluted EPS from continuing operations (in dollars)	(0.32)	0.19	(0.12)	(1.24)	0.42	(0.29)	0.41	0.93
Basic EPS (in dollars)	(0.33)	0.19	(0.12)	(1.24)	0.42	(0.29)	0.41	0.93
Diluted EPS (in dollars)	(0.33)	0.19	(0.12)	(1.24)	0.42	(0.29)	0.41	0.93

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. When the Canadian dollar began depreciating during 2015, Clarke decided to hedge 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, 5, 8, 11, 20, and 21 to the consolidated financial statements for the year ended December 31, 2015 and the Company's AIF dated February 23, 2016, provide further information on classifications in the financial statements, and risks, pertaining to the use of financial instruments by the Company.

RELATED PARTY TRANSACTIONS

The Company was party to related party transactions during the nine months ended September 30, 2016. 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 19 of our consolidated financial statements for the year ended December 31, 2015 and Note 4 of the interim condensed consolidated financial statements for the three and nine months ended September 30, 2016.

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 35 hotels comprising 4,026 rooms. As of September 30, 2016, Clarke owned 42.1% of the outstanding shares of Holloway and $6.9 million principal amount of 6.25% convertible debentures.

Selected Financial Information			**June 30, 2016**	December 31, 2015
			$	$
Total assets			**364.4**	356.4
Total liabilities			**260.4**	246.8
Shareholders' equity			**104.0**	109.6
	Three months ended June 30, 2016	Three months ended June 30, 2015	**Six months ended June 30, 2016**	Six months ended June 30, 2015
	$	$	**$**	$
Total revenue	**27.6**	28.6	**49.6**	57.0
Net income (loss)	**(0.1)**	(0.9)	**(3.6)**	5.9

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 September 30, 2016, Clarke owned 31.4% of the outstanding shares of Terravest.

Selected Financial Information			**June 30, 2016**	September 30, 2015
			$	$
Total assets			**168.3**	192.5
Total liabilities			**81.8**	102.2
Shareholders' equity			**86.5**	90.3
	Three months ended June 30, 2016	Three months ended June 30, 2015	**Nine months ended June 30, 2016**	Nine months ended June 30, 2015
	$	$	**$**	$
Total revenue	**36.0**	46.3	**135.2**	140.8
Net income	**—**	2.2	**6.2**	10.0

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 nine months ended September 30, 2016 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 four 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.

September 30, 2016 and 2015

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (in thousands of Canadian dollars)

	September 30, 2016	December 31, 2015
	$	$
ASSETS		
Current		
Cash and cash equivalents	**8,144**	42,130
Marketable securities	**122,601**	113,369
Receivables	**1,263**	1,100
Income taxes receivable	**163**	22
Prepaid expenses	**145**	78
Total current assets	**132,316**	156,699
Accrued pension benefit asset *(note 3)*	**28,811**	32,708
Fixed assets and investment properties *(note 4)*	**645**	4,092
Long-term investments	**3,004**	3,173
Deferred income tax assets	**580**	704
Loans receivable *(note 5)*	**—**	1,224
Royalty assets *(note 5)*	**—**	344
Total assets	**165,356**	198,944
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities *(note 8)*	**556**	1,736
Dividends payable	**—**	1,563
Income taxes payable	**—**	60
Current portion of long-term debt	**644**	644
Total current liabilities	**1,200**	4,003
Long-term debt	**1,289**	1,719
Deferred income tax liabilities	**1,509**	2,421
Total liabilities	**3,998**	8,143
Shareholders' equity		
Share capital *(note 6)*	**48,171**	50,654
Retained earnings	**107,434**	130,431
Accumulated other comprehensive income	**4,540**	8,616
Share-based payments	**1,213**	1,100
Total shareholders' equity	**161,358**	190,801
Total liabilities and shareholders' equity	**165,356**	198,944

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 September 30, 2016 $	Three months ended September 30, 2015 $	**Nine months ended September 30, 2016 $**	Nine months ended September 30, 2015 $
Revenue				
Unrealized gains (losses) on investments	**11,102**	(22,182)	**10,591**	(21,649)
Realized gains (losses) on investments	**(15)**	—	**105**	838
Dividend income	**864**	954	**2,643**	2,705
Interest income	**489**	472	**1,467**	2,175
Provision of services	**3,776**	3,756	**5,878**	5,913
Pension recovery *(note 3)*	**60**	25	**179**	77
Other income (loss) *(note 7)*	**75**	312	**(247)**	1,165
	16,351	(16,663)	**20,616**	(8,776)
Expenses				
Cost of services provided	**1,107**	1,098	**3,178**	3,005
General and administrative expenses	**525**	813	**1,891**	2,660
Share-based payment expense	**60**	171	**113**	993
Depreciation and amortization	**71**	107	**212**	328
Interest expense	**18**	30	**61**	106
	1,781	2,219	**5,455**	7,092
Income (loss) before income taxes	**14,570**	(18,882)	**15,161**	(15,868)
Provision for (recovery of) income taxes *(note 9)*	**416**	421	**(799)**	1,797
Net income (loss)	**14,154**	(19,303)	**15,960**	(17,665)
Basic earnings (loss) per share: *(in dollars) (note 6)*				
Net income (loss)	**0.93**	(1.24)	**1.03**	(1.04)
Diluted earnings (loss) per share: *(in dollars) (note 6)*				
Net income (loss)	**0.93**	(1.24)	**1.03**	(1.04)

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 September 30, 2016	Three months ended September 30, 2015	**Nine months ended September 30, 2016**	Nine months ended September 30, 2015
	$	$	**$**	$
Net income (loss)	**14,154**	(19,303)	**15,960**	(17,665)
Other comprehensive income (loss), net of tax				
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)*	**700**	(1,545)	**(4,076)**	89
Total items that will not be reclassified to profit or loss	**700**	(1,545)	**(4,076)**	89
Items that may be or have been reclassified subsequently to profit or loss				
Unrealized gains on translation of net investment in foreign operations	**—**	**—**	**—**	521
Reclassification adjustment for realized translation gains on disposal of net investment in foreign operations *(note 4)*	**—**	**—**	**—**	(1,026)
Total items that may be or have been reclassified subsequently to profit or loss	**—**	**—**	**—**	(505)
Other comprehensive income (loss)	**700**	(1,545)	**(4,076)**	(416)
Comprehensive income (loss)	**14,854**	(20,848)	**11,884**	(18,081)

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

	Nine months ended September 30, 2016 $	Nine months ended September 30, 2015 $
OPERATING ACTIVITIES		
Net income (loss)	**15,960**	(17,665)
Adjustments for items not involving cash *(note 10)*	**(11,433)**	22,538
	4,527	4,873
Net change in non-cash working capital balances *(note 10)*	**(907)**	(1,822)
Net cash provided by operating activities	**3,620**	3,051
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities	**9,317**	7,543
Purchase of marketable securities	**(9,126)**	(42,541)
Proceeds on disposition of fixed assets *(note 4)*	**3,600**	5,598
Purchase of fixed assets	**(5)**	(133)
Return of capital (net of purchases) of long-term investments	**324**	1,102
Proceeds of loans receivable	**1,717**	45,575
Advances of loans receivable	**—**	(7,077)
Purchase of royalty assets	**—**	(344)
Dividends from joint ventures	**—**	16
Net cash provided by investing activities	**5,827**	9,739
FINANCING ACTIVITIES		
Dividends paid	**(35,918)**	(5,436)
Repayment of long-term debt	**(430)**	(430)
Repurchase of shares for cancellation	**(7,085)**	(39,996)
Net cash used in financing activities	**(43,433)**	(45,862)
Net change in cash during the period	**(33,986)**	(33,072)
Cash and cash equivalents, beginning of period	**42,130**	79,061
Cash and cash equivalents, end of period	**8,144**	45,989

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Unaudited (in thousands of Canadian dollars)

	Nine months ended September 30, 2016 $	Nine months ended September 30, 2015 $
Share capital		
Common shares:		
Balance at beginning of period	**50,654**	63,189
Common shares repurchased for cancellation *(note 6)*	**(2,483)**	(12,535)
Balance at end of period	**48,171**	50,654
Retained earnings		
Balance at beginning of period	**130,431**	175,574
Net income (loss)	**15,960**	(17,665)
Dividends declared *(note 6)*	**(34,355)**	(5,050)
Purchase price in excess of the historical book value of common shares repurchased for cancellation	**(4,602)**	(27,461)
Balance at end of period	**107,434**	125,398
Accumulated other comprehensive income, net of tax		
Balance at beginning of period	**8,616**	6,335
Other comprehensive loss	**(4,076)**	(416)
Balance at end of period	**4,540**	5,919
Share-based payments		
Balance at beginning of period	**1,100**	—
Share-based payment expense	**113**	993
Balance at end of period	**1,213**	993
Total shareholders' equity	**161,358**	182,964

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 November 4, 2016.

Basis of presentation and statement of compliance

These interim condensed consolidated financial statements for the three and nine months ended September 30, 2016, 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, 2015. These interim condensed consolidated financial statements for the three and nine months ended September 30, 2016 should be read together with the annual consolidated financial statements for the year ended December 31, 2015.

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 period 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

Reconciliation of the funded status of the defined benefit plans to the amounts recorded in the interim condensed consolidated financial statements is:

	September 30, 2016	December 31, 2015
	$	$
Fair value of plan assets	**106,816**	100,648
Accrued benefit obligation	**(53,788)**	(48,113)
Funded status of plans – surplus	**53,028**	52,535
Cumulative impact of asset ceiling	**(24,217)**	(19,827)
Accrued pension benefit asset, net of impact of asset ceiling	**28,811**	32,708

The defined benefit recovery recognized in the interim consolidated statements of earnings for the three and nine months ended September 30, 2016 was $60 and $179, respectively (2015 – $25 and $77, respectively).

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

	Three months ended September 30, 2016	Three months ended September 30, 2015	**Nine months ended September 30, 2016**	Nine months ended September 30, 2015
	$	$	**$**	$
Remeasurement gains (losses)	**1,788**	(4,002)	**(274)**	(1,727)
Change in amount of asset ceiling	**(1,088)**	2,457	**(3,802)**	1,816
Defined benefit recovery (expense) recognized	**700**	(1,545)	**(4,076)**	89

Significant assumptions

	September 30, 2016	December 31, 2015
	%	%
Accrued benefit obligation – discount rate	**3.25**	3.95
Benefit costs for the period – discount rate	**3.95**	4.00

4. FIXED ASSETS AND INVESTMENT PROPERTIES

During the nine months ended September 30, 2016, the Company sold a building to the Pension Plan for the Employees of Clarke Inc. and the Clarke Group Pension Plan (the "Clarke Pension Plans"), which are administered by the Company. The proceeds received were $3,600 and the gain on sale was $360. This related party transaction was in the normal course of operations and measured at fair value.

During the nine months ended September 30, 2015, the Company sold its container vessel, the *MV Shamrock*. The net proceeds received were US$4,605 and the gain on sale was $644. Included in the gain is a reclassification adjustment of $1,026 from accumulated other comprehensive income for realized foreign exchange translation gains on disposal of net investment in a foreign operation.

5. LOANS RECEIVABLE

During the three and nine months ended September 30, 2016, the Company's loan receivable was repaid in full. The royalty assets that were associated with the loan receivable have expired following the repayment.

6. SHARE CAPITAL AND EARNINGS PER SHARE

	September 30, 2016		December 31, 2015	
	# of shares	**$**	# of shares	$
Common shares				
Outstanding common shares, beginning of period	**15,626,175**	**50,654**	19,492,977	63,189
Common shares repurchased for cancellation	**(766,075)**	**(2,483)**	(3,866,802)	(12,535)
Outstanding common shares, end of period	**14,860,100**	**48,171**	15,626,175	50,654

Earnings per share

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

	Three months ended September 30, 2016			Three months ended September 30, 2015		
	Earnings $	**Weighted average shares (in thousands) #**	**Per share amount $**	Loss $	Weighted average shares (in thousands) #	Per share amount $
Basic and diluted earnings (loss) per share	**14,154**	**15,235**	**0.93**	(19,303)	15,626	(1.24)

	Nine months ended September 30, 2016			Nine months ended September 30, 2015		
	Earnings $	**Weighted average shares (in thousands) #**	**Per share amount $**	Earnings $	Weighted average shares (in thousands) #	Per share amount $
Basic and diluted earnings (loss) per share	**15,960**	**15,491**	**1.03**	(17,665)	17,028	(1.04)

All potentially dilutive securities issued relate to stock options for the three and nine months ended September 30, 2016 and 2015. The stock options were anti-dilutive for the three and nine months ended September 30, 2016 and 2015.

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

Dividends

Dividends declared from January 1, 2016 to September 30, 2016 were as follows:

Declaration date	Record date	Payment date	Per share $	Dividend $
February 23, 2016	March 31, 2016	April 8, 2016	**0.10**	**1,563**
June 10, 2016	June 16, 2016	June 27, 2016	**2.00**	**31,249**
May 5, 2016	June 30, 2016	July 15, 2016	**0.10**	**1,543**
			2.20	**34,355**

Dividends declared from January 1, 2015 to September 30, 2015 were as follows:

Declaration date	Record date	Payment date	Per share $	Dividend $
February 23, 2015	March 31, 2015	April 10, 2015	0.10	1,883
May 6, 2015	June 30, 2015	July 10, 2015	0.10	1,604
August 5, 2015	September 30, 2015	October 9, 2015	0.10	1,563
			0.30	5,050

7. OTHER INCOME

Other income is comprised of the following:

	Three months ended September 30, 2016 $	Three months ended September 30, 2015 $	**Nine months ended September 30, 2016 $**	Nine months ended September 30, 2015 $
Gains on disposition of fixed assets *(note 4)*	**—**	—	**360**	644
Foreign exchange gains (losses)	**75**	312	**(607)**	521
Other income (loss)	**75**	312	**(247)**	1,165

The foreign exchange loss for the nine months ended September 30, 2016 is primarily the result of unrealized foreign exchange losses on the mark to market of foreign marketable securities and long-term investments.

8. FINANCIAL INSTRUMENTS

The Company manages its exposure to foreign exchange risk by entering into foreign exchange contracts. At September 30, 2016, the Company had forward contracts outstanding to sell US dollars, at various rates and times throughout 2016. Unrealized foreign exchange losses of $8 have been included in payables of the interim consolidated statements of financial position as at September 30, 2016 (December 31, 2015 – $712). Unrealized foreign exchange losses of $886 and gains of $704 have been recognized in other income in the interim consolidated statements of earnings for the three and nine months ended September 30, 2016 (three and nine months ended September 30, 2015 – unrealized foreign exchange losses of $1,410 and $1,466).

9. INCOME TAXES

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

	Three months ended September 30, 2016 $	Three months ended September 30, 2015 $	**Nine months ended September 30, 2016 $**	Nine months ended September 30, 2015 $
Current	**204**	472	**(11)**	277
Deferred *(note 10)*	**212**	(51)	**(788)**	1,520
Provision for (recovery of) income taxes	**416**	421	**(799)**	1,797

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.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Adjustments for items not involving cash	**Nine months ended September 30, 2016 $**	Nine months ended September 30, 2015 $
Realized/unrealized losses (gains) on investments	**(10,696)**	20,811
Deferred income tax expense (recovery) *(note 9)*	**(788)**	1,520
Gains on disposition of fixed assets *(note 7)*	**(360)**	(644)
Share-based payment expense	**113**	993
Depreciation and amortization	**212**	328
Pension recovery *(note 3)*	**(179)**	(77)
Unrealized foreign exchange gains	**392**	(382)
Loan receivable accretion	**(127)**	(33)
Other items	**—**	22
	(11,433)	22,538

Net changes in non-cash working capital balances	**Nine months ended September 30, 2016 $**	Nine months ended September 30, 2015 $
Receivables	**(163)**	929
Income taxes receivable	**(141)**	51
Prepaid expenses	**(67)**	142
Accounts payable and accrued liabilities *(note 8)*	**(476)**	(3,066)
Income taxes payable	**(60)**	122
	(907)	(1,822)

Clarke Inc.
9th Floor
6009 Quinpool Road
Halifax, Nova Scotia
B3K 5J7

www.clarkeinc.com