



**Quarterly Report**  
**June 30, 2015 and 2014**



## Management's Discussion & Analysis

### **Clarke Inc.**

June 30, 2015 and 2014

# 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, 2015 compared with the three and six months ended June 30, 2014. 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, 2015. This MD&A is prepared as at August 5, 2015 (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.

We view our investments as businesses. The rules applicable to the drafting of this MD&A may require us to discuss these investments as if we operated them ourselves. While we are sometimes involved in the management of our investee companies, we rather speak of them as owners and not as operators. From time to time, we will exclude certain details for competitive reasons.

## KEY EVENTS – Q2 2015

In the second quarter, the Company increased book value per share by \$0.26 and returned \$0.10 per share to shareholders in the form of dividends paid (a total return of 2.8% per share). The Company spent \$33.7 million during the quarter to repurchase 3,201,472 common shares ("Common Shares") at a discount to book value. Our book value per share at the end of the quarter was \$13.13 while our share price was \$11.85.

The following were certain other key events during the second quarter:

- On April 8, 2015, the Company repurchased 2,379,042 Common Shares at a purchase price of \$10.00 per Common Share pursuant to a substantial issuer bid ("SIB").
- On April 17, 2015, TerraVest Capital Inc. ("Terravest") repaid in full to Clarke the \$19.0 million outstanding under its \$24.9 million promissory note issued to complete the acquisition of Gestion Jerico Inc. ("Jerico") in 2014.
- On June 17, 2015, the Company entered into a loan agreement to advance up to US\$2.8 million to fund the construction of a 17 unit townhome development in Atlanta, Georgia. During the second quarter this loan was partially funded. Clarke has a further interest in this development by way of a separate royalty agreement linked to the sale of each townhome.

On August 5, 2015, the Company's Board of Directors declared the third quarter dividend of \$0.10 per Common Share payable on October 9, 2015 to shareholders of record at the end of business on September 30, 2015.

## **OUTLOOK**

As a result of our various investment sales in recent years, Clarke eliminated substantially all of its debt and built a cash balance of \$79.1 million at the beginning of 2015. During the first half of 2015, Clarke deployed \$71.8 million, consisting of \$31.8 million of investment purchases and \$40.0 million of share repurchases while also receiving \$44.0 million of loans receivable repayments. At June 30, 2015, our cash balance (net of all debt) was \$55.8 million representing 30% of Clarke's market capitalization.

Our investment purchases in the first half of 2015 were focused on the oil and gas industry as corporate valuations declined in response to the decline in oil and gas prices. Historically, Clarke has generated substantial returns by investing in out of favour companies and industries that are either suffering from mismanagement or from factors that are perceived by investors to be permanent when they are more likely temporary in nature. We believe that current oil prices (which are approximately \$46 per WTI barrel) are too low to warrant substantial investment in replacing existing production or developing new production 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.

Since the start of 2015, the Company has repurchased 3,866,802 of our shares at an average cost of \$10.34 per share and at a total cost of \$40.0 million. All of these shares were repurchased at less than our book value per share and less than management's view of our intrinsic value per share. As we believe that our investment holdings will appreciate in value in coming years (particularly as the oil and gas markets normalize), we believe that these repurchases will benefit shareholders greatly.

We continue to see limited investment opportunities outside of the oil and gas industry due to generally high valuations, although we remain on the lookout. We will remain disciplined in deploying our capital as that capital retains option value while it is in our hands.

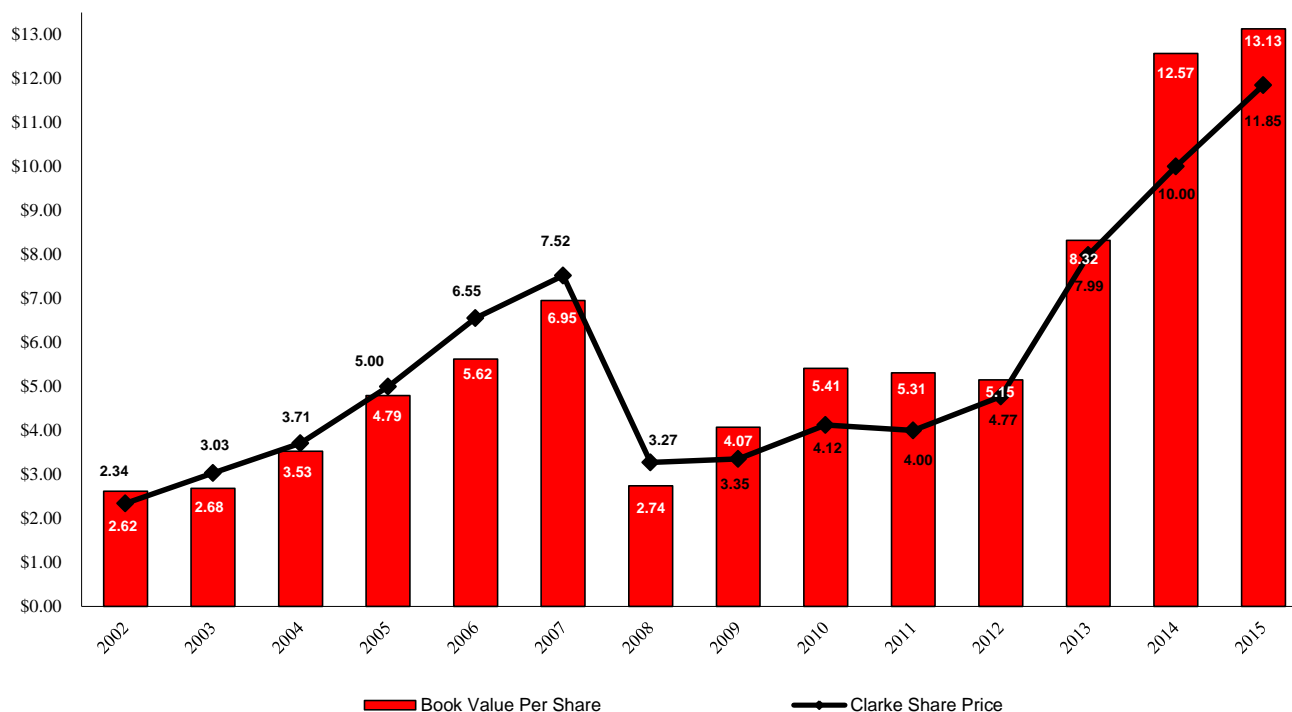
In addition to seeking new investments, we will continue working with our two major investee companies to maximize their business values. We believe there is significant opportunity for each of Terravest and Holloway Lodging Corporation ("Holloway") to continue acquiring complementary businesses and hotels, respectively, at accretive prices. Each of these companies remains undervalued in our view.

Finally, as we completed our normal course issuer bid during the second quarter, we will evaluate the merits of additional share repurchases as the year progresses. As always, we benchmark all investments against share repurchases and other expenditures of capital regularly.

## BOOK VALUE PER SHARE

The Company's book value per share at June 30, 2015 was \$13.13, an increase of \$0.56 per share since December 31, 2014. This increase was mainly due to the repurchase of the Company's Common Shares, which was done at a discount to book value per share, and net income earned during the first half of the year. Although the Company's book value has increased significantly in recent years and in large part consists of cash and securities, the Company's shares continue to trade at a meaningful discount to their book value.

The following graph shows Clarke's book value per share and share price 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, 2015.*

## RESULTS OF OPERATIONS

Highlights of the interim condensed consolidated financial statements for the three and six months ended June 30, 2015 compared to the three and six months ended June 30, 2014 are as follows:

<i>(in millions, except per share amounts)</i>	<b>Three months ended June 30, 2015</b>	Three months ended June 30, 2014	<b>Six months ended June 30, 2015</b>	Six months ended June 30, 2014
	\$	\$	\$	\$
Realized and unrealized gains (losses) on investments	<b>(3.0)</b>	16.5	<b>1.4</b>	25.5
Interest income	<b>0.6</b>	1.0	<b>1.7</b>	1.7
Dividend income	<b>0.9</b>	2.3	<b>1.8</b>	3.8
Revenue and other income*	<b>2.0</b>	4.6	<b>3.1</b>	9.4
Income (loss) from continuing operations	<b>(1.9)</b>	19.9	<b>1.6</b>	33.2
Net income (loss) attributable to equity holders of the Company	<b>(1.9)</b>	19.9	<b>1.6</b>	92.9
Comprehensive income (loss) attributable to equity holders of the Company	<b>(2.0)</b>	19.7	<b>2.8</b>	88.9
Basic earnings (loss) per share ("EPS")				
Income (loss) from continuing operations	<b>(0.12)</b>	1.00	<b>0.09</b>	1.74
Net income (loss)	<b>(0.12)</b>	1.00	<b>0.09</b>	4.87
Diluted EPS				
Income (loss) from continuing operations	<b>(0.12)</b>	0.94	<b>0.09</b>	1.40
Net income (loss)	<b>(0.12)</b>	0.94	<b>0.09</b>	3.86
Total assets	<b>217.6</b>	258.6	<b>217.6</b>	258.6
Long-term financial liabilities	<b>2.1</b>	2.8	<b>2.1</b>	2.8
Cash dividends declared per share	<b>0.10</b>	0.10	<b>0.20</b>	0.30
Book value per share	<b>13.13</b>	12.19	<b>13.13</b>	12.19

\*Revenue and other income includes pension recovery/expense, gains on sale of fixed assets, foreign exchange gains/losses, gains on convertible debenture redemptions and repurchases and service revenue.

Net income (loss) attributable to equity holders of the Company for the three and six months ended June 30, 2015 was a net loss of \$1.9 million and net income of \$1.6 million, respectively, compared with net income of \$19.9 million and \$92.9 million for the same period in 2014. The significant net income earned for the six months ended June 30, 2014 was due to the sale of the Company's freight transport business and its interest in Jerico, which resulted in gains on sale of \$71.1 million. Also during this period in 2014, substantially all active members of the Company's pension plans stopped accruing service and salary increases for future periods which resulted in a curtailment gain of \$3.3 million.

During the three and six months ended June 30, 2015, the Company had unrealized losses on its investments of \$3.3 million and unrealized gains of \$0.5 million, respectively, compared to unrealized gains of \$8.4 million and \$16.4 million for the same period in 2014. The Company had realized gains on its investments of \$0.2 million and \$0.8 million, respectively, for the three and six months ended June 30, 2015 compared with realized gains of \$8.1 million and \$9.1 million for the same period in 2014. Further discussion on these gains is set out under "Investment Holdings" below.

## INVESTMENT HOLDINGS

The Company owns securities, interests in two private equity funds, loans and a ferry business.

The Company's securities portfolio had \$3.0 million of realized and unrealized losses and \$1.4 million of realized and unrealized gains in the three and six months ended June 30, 2015, respectively. The Company received dividends of \$0.9 million and \$1.8 million in the three and six months ended June 30, 2015, respectively, compared to \$2.3 million and \$3.8 million for the same period in 2014. This decrease is mainly due to the sale of our investment in Supremex Inc.

The Company earned interest income of \$0.6 million and \$1.7 million in the three and six months ended June 30, 2015, respectively, compared to \$1.0 million and \$1.7 million for the same period in 2014. These amounts include interest earned on our interest bearing investments and cash balances.

## Securities Portfolio

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

	June 30, 2015				December 31, 2014			
	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	21,254	18.5	N/A	N/A	2,647	2.9
Holloway shares	7,874,815	5.75	45,280	39.5	6,874,815	6.00	41,249	46.2
Holloway 6.25% Convertible Debentures	11,584,000	0.92	10,657	9.3	11,604,000	0.875	10,154	11.4
Holloway 7.50% Convertible Debentures	—	—	—	—	6,232,000	0.970	6,045	6.8
Keck Seng Investments Ltd.	4,000,000	1.13	4,520	3.9	—	—	—	—
Terravest	5,000,000	6.50	32,500	28.4	5,000,000	5.85	29,250	32.7
Undisclosed investment	N/A	N/A	463	0.4	—	—	—	—
Carrying value of securities			114,674	100.0			89,345	100.0

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

	Six months ended June 30, 2015 \$
Securities – beginning of period	89.3
Purchases	31.8
Proceeds on sale	(7.5)
Realized and unrealized gains on securities	1.1
Securities – end of period	114.7

**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 current oil prices (which are currently approximately \$46 per WTI barrel) are too low to warrant substantial investment in replacing existing production or developing new production and that the dramatic decline in oil prices will lead to some increase in the demand for oil. In our opinion the confluence of these factors will, over time, lead to higher oil prices and higher security prices.

Our present intention is to acquire both debt and equity securities of companies engaged in the oil and gas industry that we believe are attractively valued and offer the potential for significant capital appreciation in the future. During the second quarter we acquired (net of dispositions) \$14.2 million of securities of three companies in the energy industry, all of which were additional purchases of existing investments. At the end of the second quarter, our energy basket consisted of securities in six energy related companies.

**Holloway:** Holloway's acquisition of Royal Host in 2014 continues to bear fruit as Holloway sold two Royal Host hotels as well as the Travelodge® franchise business in the first half of 2015. All of these sales, particularly the sale of the franchise business, generated gains that increase Holloway's book value. Holloway continues to repay debt, lower its cost of capital, diversify its portfolio out of oil and gas markets and improve its properties. On both a cap rate and asset basis, Holloway is the cheapest publicly-traded hotel company in Canada yet it has a much stronger balance sheet and much better operating margins than its peers.



We believe Holloway's rebranding and upgrading of the Hilton hotel in London, Ontario and the Chimo hotel in Ottawa, Ontario will be highly beneficial to Holloway in coming years. In our view, the combined net operating income of these two hotels should increase by 2-3x following the completion of the upgrades. Given that each of these hotels is located in a metropolitan market that attracts low capitalization rates, the improvement in these properties can result in substantial value creation at the company.

**Keck Seng Investments Ltd. ("Keck Seng"):** The trading price of Keck Seng's shares experienced considerable volatility in the second quarter. This does not bother us as the shares remain materially undervalued.

**Terravest:** In the second quarter of 2015 Terravest closed its previously announced acquisition of Signature Truck Systems ("Signature"), based in Michigan, USA. We are pleased to see the company continue with its disciplined approach to acquisitions. Signature is complementary to Terravest's existing fuel containment business both from a manufacturing and product offering perspective as well as geographically. All of the company's acquisitions in the last 18 months have similar characteristics: they were complementary to Terravest's core businesses while adding to its product portfolio, manufacturing base and/or geographic reach; they have been completed at accretive multiples of earnings; and they have offered the opportunity for both cost and revenue synergies, thereby lowering the purchase price multiple on a pro forma basis. We expect these types of acquisitions to continue.

With the addition of Signature, Terravest now expects approximately 55% of its operating earnings to be derived from business lines uncorrelated with the oil and gas industry. With its cash flow diversification Terravest is well-positioned to take advantage of the current market downturn when opportunities present themselves. In the absence of good acquisition candidates we expect the company will continue to pay down debt. We believe the platform Terravest has built remains underappreciated by the capital markets.

**Undisclosed Investment:** During the second quarter, we began acquiring shares of a closed-end fund that trades meaningfully below its net asset value. We believe the investments held by the fund will appreciate over time and that the discount to net asset value will close. Either one of these events will yield a positive investment result while the combination of both events will yield an even better result. We intend to acquire additional shares in this entity.

## **Other Investments**

We currently have \$3.2 million invested in two private equity funds, which management considers to be 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 second quarter.

During the first half of the year, the Company completed the sale of the *MV Shamrock* and received net proceeds of US\$4.6 million (Cdn. \$5.6 million) resulting in a gain on sale of \$0.6 million for the six months ended June 30, 2015.

## **OUTSTANDING SHARE DATA**

At August 5, 2015, the Company had:

- An unlimited number of Common Shares authorized and 15,626,175 Common Shares outstanding;
- An unlimited number of First and Second Preferred Shares authorized and none outstanding; and
- 500,000 options to acquire Common Shares outstanding, none of which are vested or exercisable.

## **LIQUIDITY AND CAPITAL RESOURCES**

At June 30, 2015, the Company's net cash position (a non-IFRS measure representing cash and cash equivalents less short-term indebtedness) was \$58.6 million compared to \$79.1 million at December 31, 2014. This decrease in cash is mainly a result of share repurchases and marketable security purchases during the period. At August 5, 2015, the Company's net cash position was approximately \$50.3 million.

### **Cash flow from operating activities**

Cash provided by operating activities was \$4.7 million for the six months ended June 30, 2015, compared to \$1.2 million provided by operations for the six months ended June 30, 2014. This increase is mainly due to the net decrease in non-cash working capital during the period.

At June 30, 2015, working capital excluding securities was \$53.2 million, compared to \$79.0 million at December 31, 2014. 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 \$18.9 million was provided by investing activities during the six months ended June 30, 2015, compared to \$16.0 million provided in the six months ended June 30, 2014. This was primarily due to the net repayment of loans (proceeds less advances) to Clarke in the amount of \$36.9 million and the receipt of \$5.6 million on the sale of the *MV Shamrock*. This was partially offset by net purchases of investments (purchases less sales) in the amount of \$24.3 million for the six months ended June 30, 2015.

### **Cash flow from financing activities**

Net cash used in financing activities was \$44.0 million for the six months ended June 30, 2015, compared to \$78.5 million used in the six months ended June 30, 2014. Net cash used in financing activities during the period was mainly related to the repurchase of Common Shares for \$40.0 million and the payment of dividends in the amount of \$3.8 million. Cash used in financing activities for the six months ended June 30, 2014 primarily consisted of the repayment of short term indebtedness in the amount of \$35.9 million, the redemption and repurchase of convertible debentures in the amount of \$30.7 million, the repurchase of Common Shares for \$8.0 million and the payment of dividends in the amount of \$3.7 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, 2015, \$27.5 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.

### **Cash flow from discontinued operations**

There were no cash activities of discontinued operations during the six months ended June 30, 2015. For the six months ended June 30, 2014 net cash provided by operating activities of discontinued operations was \$0.2 million which related to cash flow generated from Jerico for the period prior to the sale transaction, net cash provided by investing activities of discontinued operations was \$99.3 million which was mainly due to the cash proceeds received on the sale of the Company's freight transport business and net cash used in financing activities of discontinued operations was \$2.7 million and was primarily due to the reduction of debt in Jerico for the period prior to the sale transaction.

## SUMMARY OF QUARTERLY RESULTS

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

<i>Three months ended</i>	<b>Sept. 2013</b>	<b>Dec. 2013</b>	<b>Mar. 2014</b>	<b>June 2014</b>	<b>Sept. 2014</b>	<b>Dec. 2014</b>	<b>Mar. 2015</b>	<b>Jun. 2015</b>
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	24.1	15.2	16.0	24.4	20.5	(5.2)	7.4	0.5
Income (loss) from continuing operations	17.4	15.4	13.3	19.9	16.4	(6.4)	3.6	(1.9)
Income (loss) from discontinued operations *	4.5	6.3	59.7	—	—	(0.3)	—	—
Net income (loss)	21.9	21.7	73.0	19.9	16.4	(6.6)	3.6	(1.9)
Other comprehensive income (loss)	1.6	2.4	(3.8)	(0.2)	1.1	(0.2)	1.2	(0.1)
Comprehensive income (loss)	23.5	24.1	69.2	19.7	17.5	(6.8)	4.8	(2.0)
Basic EPS from continuing operations (in dollars)	1.12	1.06	0.73	1.00	0.83	(0.32)	0.19	(0.12)
Diluted EPS from continuing operations (in dollars)	0.78	0.73	0.57	0.94	0.83	(0.32)	0.19	(0.12)
Basic EPS (in dollars)	1.30	1.25	4.01	1.00	0.83	(0.33)	0.19	(0.12)
Diluted EPS (in dollars)	0.89	0.87	3.03	0.94	0.83	(0.33)	0.19	(0.12)

\* Income from discontinued operations mainly consists of the results from the freight transport business and Jerico and the gain on sale of both subsidiaries in the first quarter of 2014.

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 and often worth more than the public markets give them credit for. 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. As the Canadian dollar depreciated during the second quarter, 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, 5, 6, 8, 11, 14, 15, 16, 25 and 26 to the consolidated financial statements for the year ended December 31, 2014 and the Company’s AIF dated March 3, 2015, 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 35 hotels comprising 3,967 rooms. As of June 30, 2015, Clarke owned 40.7% of the outstanding shares of Holloway and \$11.6 million principal amount of 6.25% convertible debentures.

<b>Selected Financial Information</b>	<b>March 31, 2015</b>	<b>December 31, 2014</b>
	\$	\$
Total assets	<b>368.6</b>	382.4
Total liabilities	<b>244.4</b>	264.5
Shareholders' equity	<b>124.2</b>	117.9
	<b>Three months ended March 31, 2015</b>	<b>Three months ended March 31, 2014</b>
	\$	\$
Total revenue	<b>28.5</b>	15.4
Net income	<b>6.8</b>	1.6

### 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, 2015, Clarke owned 27.7% of the outstanding shares of Terravest.

<b>Selected Financial Information</b>	<b>March 31, 2015</b>	<b>September 30, 2014</b>
	\$	\$
Total assets	<b>177.5</b>	171.4
Total liabilities	<b>94.4</b>	91.3
Shareholders' equity	<b>83.1</b>	80.1
	<b>Three months ended March 31, 2015</b>	<b>Three months ended March 31, 2014</b>
	\$	\$
Total revenue	<b>41.4</b>	30.2
Net income	<b>2.5</b>	1.7
	<b>Six months ended March 31, 2015</b>	<b>Six months ended March 31, 2014</b>
	\$	\$
Total revenue	<b>94.4</b>	50.9
Net income	<b>7.8</b>	4.3

## RELATED PARTY TRANSACTIONS

The Company was party to related party transactions during the three and six months ended June 30, 2015. 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 24 of our consolidated financial statements for the year ended December 31, 2014 and note 10 of the interim condensed consolidated financial statements for the three and six months ended June 30, 2015.

## **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 and six months ended June 30, 2015 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 three 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", "budget", "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 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, 2015 and 2014

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

	June 30, 2015	December 31, 2014
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	58,626	79,061
Marketable securities	114,674	89,345
Receivables	997	2,204
Short-term loans receivable	1,500	4,500
Income taxes receivable	308	51
Prepaid expenses	213	290
<b>Total current assets</b>	<b>176,318</b>	<b>175,451</b>
Loans receivable ( <i>note 3</i> )	1,069	35,000
Accrued pension benefit asset ( <i>note 4</i> )	31,508	29,823
Fixed assets and investment properties ( <i>note 5</i> )	4,300	9,941
Long-term investments	3,222	3,761
Deferred income tax assets	868	2,496
Royalty assets	344	—
<b>Total assets</b>	<b>217,629</b>	<b>256,472</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities ( <i>note 13</i> )	6,173	4,504
Dividends payable ( <i>note 6</i> )	1,604	1,949
Income taxes payable	31	32
Current portion of long-term debt	644	644
<b>Total current liabilities</b>	<b>8,452</b>	<b>7,129</b>
Long-term debt	2,148	2,363
Deferred income tax liabilities	1,825	1,882
<b>Total liabilities</b>	<b>12,425</b>	<b>11,374</b>
<b>Shareholders' equity</b>		
Share capital ( <i>note 6</i> )	50,654	63,189
Retained earnings	146,264	175,574
Accumulated other comprehensive income	7,464	6,335
Share-based payments ( <i>note 7</i> )	822	—
<b>Total shareholders' equity</b>	<b>205,204</b>	<b>245,098</b>
<b>Total liabilities and shareholders' equity</b>	<b>217,629</b>	<b>256,472</b>

*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)*

	<b>Three months ended June 30, 2015</b>	Three months ended June 30, 2014	<b>Six months ended June 30, 2015</b>	Six months ended June 30, 2014
	\$	\$	\$	\$
<b>Revenue</b>				
Unrealized gains (losses) on investments	(3,271)	8,369	533	16,419
Realized gains on investments	228	8,104	838	9,087
Interest income	600	970	1,703	1,662
Dividend income	944	2,329	1,751	3,796
Pension recovery (note 4)	26	119	52	3,538
Provision of services	1,775	1,967	2,157	2,703
Other income (notes 8 and 13)	149	2,500	853	3,200
	<b>451</b>	<b>24,358</b>	<b>7,887</b>	<b>40,405</b>
<b>Expenses</b>				
Cost of services provided	1,016	2,033	1,907	3,013
General and administrative expenses	723	1,079	1,847	1,904
Share-based payment expense (recovery) (note 7)	243	(34)	822	(7)
Depreciation and amortization	108	273	221	553
Interest expense	39	229	76	1,042
	<b>2,129</b>	<b>3,580</b>	<b>4,873</b>	<b>6,505</b>
Income (loss) before equity in earnings (losses) of joint ventures and income taxes	(1,678)	20,778	3,014	33,900
Equity in earnings (losses) of joint ventures	—	(13)	—	467
Income (loss) before income taxes	(1,678)	20,765	3,014	34,367
Provision for income taxes (note 9)	236	886	1,376	1,153
Income (loss) from continuing operations	(1,914)	19,879	1,638	33,214
Income from discontinued operations, net of tax (note 11)	—	—	—	59,725
Net income (loss)	(1,914)	19,879	1,638	92,939
Attributable to:				
Equity holders of the Company	(1,914)	19,879	1,638	92,884
Non-controlling interest	—	—	—	55
	<b>(1,914)</b>	<b>19,879</b>	<b>1,638</b>	<b>92,939</b>
<b>Basic earnings (loss) per share attributable to equity holders of the Company:</b> (in dollars) (note 6)				
Income (loss) from continuing operations	(0.12)	1.00	0.09	1.74
Income from discontinued operations	—	—	—	3.13
Net income (loss)	(0.12)	1.00	0.09	4.87
<b>Diluted earnings (loss) per share attributable to equity holders of the Company:</b> (in dollars) (note 6)				
Income (loss) from continuing operations	(0.12)	0.94	0.09	1.40
Income from discontinued operations	—	—	—	2.46
Net income (loss)	(0.12)	0.94	0.09	3.86

*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)*

	<b>Three months ended June 30, 2015</b>	Three months ended June 30, 2014	<b>Six months ended June 30, 2015</b>	Six months ended June 30, 2014
	\$	\$	\$	\$
<b>Net income (loss)</b>	<b>(1,914)</b>	19,879	<b>1,638</b>	92,939
<b>Other comprehensive income (loss), net of tax</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Remeasurement gains (losses) and effect of limit on asset ceiling on defined benefit pension plans ( <i>note 4</i> )	<b>(114)</b>	66	<b>1,634</b>	(3,955)
<b>Total items that will not be reclassified to profit or loss</b>	<b>(114)</b>	66	<b>1,634</b>	(3,955)
<b>Items that may be or have been reclassified subsequently to profit or loss</b>				
Unrealized gains (losses) on translation of net investment in foreign operations	—	(236)	<b>521</b>	20
Reclassification adjustment for realized translation gains on disposal of net investment in foreign operations ( <i>note 5</i> )	—	—	<b>(1,026)</b>	—
<b>Total items that may be or have been reclassified subsequently to profit or loss</b>	—	(236)	<b>(505)</b>	20
<b>Other comprehensive income (loss)</b>	<b>(114)</b>	(170)	<b>1,129</b>	(3,935)
<b>Comprehensive income (loss)</b>	<b>(2,028)</b>	19,709	<b>2,767</b>	89,004
Attributable to:				
Equity holders of the Company	<b>(2,028)</b>	19,709	<b>2,767</b>	88,949
Non-controlling interest	—	—	—	55
	<b>(2,028)</b>	19,709	<b>2,767</b>	89,004

*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, 2015 \$	Six months ended June 30, 2014 \$
<b>OPERATING ACTIVITIES</b>		
Income from continuing operations	1,638	33,214
Adjustments for items not involving cash ( <i>note 12</i> )	331	(31,176)
	1,969	2,038
Net change in non-cash working capital balances ( <i>note 12</i> )	2,695	(817)
<b>Net cash provided by operating activities</b>	<b>4,664</b>	<b>1,221</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds on disposition of marketable securities	7,543	33,736
Purchase of marketable securities	(31,796)	(4,737)
Net return of capital (purchases) of long-term investments	1,123	(115)
Proceeds on repayments of loans receivable	44,000	—
Advances of loans receivable	(7,069)	(16,000)
Proceeds on disposition of fixed assets (net of purchases)	5,471	2,071
Purchase of royalty assets	(344)	—
Dividends from joint ventures	16	1,053
<b>Net cash provided by investing activities</b>	<b>18,944</b>	<b>16,008</b>
<b>FINANCING ACTIVITIES</b>		
Net repayment of short-term indebtedness	—	(35,906)
Redemption and repurchase of convertible debt for cancellation	—	(30,718)
Repurchase of shares for cancellation	(39,996)	(7,978)
Dividends paid	(3,832)	(3,656)
Repayment of long-term debt	(215)	(215)
<b>Net cash used in financing activities</b>	<b>(44,043)</b>	<b>(78,473)</b>
Net cash used in continuing operations	(20,435)	(61,244)
Net cash provided by operating activities of discontinued operations	—	155
Net cash provided by investing activities of discontinued operations	—	99,278
Net cash used in financing activities of discontinued operations	—	(2,676)
<b>Net change in cash during the period</b>	<b>(20,435)</b>	<b>35,513</b>
Cash and cash equivalents, beginning of period	79,061	1,989
<b>Cash and cash equivalents, end of period</b>	<b>58,626</b>	<b>37,502</b>

*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, 2015 \$	Six months ended June 30, 2014 \$
<b>Share capital</b>		
Common shares:		
Balance at beginning of period	63,189	42,701
Common shares issued upon conversion of convertible debt	—	24,434
Common shares repurchased for cancellation ( <i>note 6</i> )	(12,535)	(2,545)
Balance at end of period	50,654	64,590
<b>Retained earnings</b>		
Balance at beginning of period	175,574	91,783
Net income attributable to equity holders of the Company	1,638	92,884
Dividends declared ( <i>note 6</i> )	(3,487)	(5,664)
Purchase price in excess of the historical book value of common shares repurchased for cancellation	(27,461)	(5,433)
Purchase price in excess of average book value of convertible debentures redeemed or repurchased for cancellation	—	(710)
Balance at end of period	146,264	172,860
<b>Accumulated other comprehensive income, net of tax</b>		
Balance at beginning of period	6,335	9,440
Other comprehensive income (loss)	1,129	(3,935)
Balance at end of period	7,464	5,505
<b>Share-based payments</b>		
Balance at beginning of period	—	580
Share-based payment expense ( <i>note 7</i> )	822	—
Sale of subsidiary with share-based payments	—	(580)
Balance at end of period	822	—
<b>Equity portion of convertible debentures</b>		
Balance at beginning of period	—	2,356
Reduction upon the redemption, repurchase or conversion of convertible debentures, net of tax	—	(2,356)
Balance at end of period	—	—
<b>Total shareholders' equity attributable to equity holders of the Company</b>	<b>205,204</b>	<b>242,955</b>
<b>Non-controlling interest</b>		
Balance at beginning of period	—	7,793
Reduction upon the sale of subsidiary with non-controlling interest	—	(7,793)
Balance at end of period	—	—
<b>Total shareholders' equity</b>	<b>205,204</b>	<b>242,955</b>

*See accompanying notes to the interim condensed consolidated financial statements*

## **Clarke Inc.**

# **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Three and six months ended June 30, 2015 and 2014

*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 August 5, 2015.

### **Basis of presentation and statement of compliance**

These interim condensed consolidated financial statements for the three and six months ended June 30, 2015, 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, 2014, except for changes in the Company’s segments. During the six months ended June 30, 2015, the Company determined that, under its current organizational structure, it has only one reportable segment under IFRS 8 *Operating Segments*. The previously reported Other segment is managed collectively with and is an integral part of the Investment segment and the previously reported Transportation segment does not meet the quantitative threshold for segmentation. These interim condensed consolidated financial statements for the three and six months ended June 30, 2015 should be read together with the annual consolidated financial statements for the year ended December 31, 2014.

Certain comparative interim condensed consolidated financial statement balances have been reclassified to conform to the current period’s interim condensed consolidated financial statement presentation.

### **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 Traversée 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.

**Clarke Inc.**

## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Three and six months ended June 30, 2015 and 2014

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

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

#### **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, 2017. The Company is currently evaluating the impact of the new standard.

#### **IAS 1 *Presentation of Financial Statements***

IAS 1 amendments outline disclosure initiatives relating to materiality, ordering of the notes, subtotals, accounting policies and disaggregation with an aim of clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company is currently evaluating the impact of the amendments.

#### **IAS 19 *Employee Benefits***

IAS 19 amendment provides additional guidance on the type of bonds used in estimating the discount rate for post-employment benefits. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company has evaluated the amendment and there will be no impact to the financial statements when adopted.

### **3. LOANS RECEIVABLE**

During the six months ended June 30, 2015, Holloway Lodging Corporation repaid in full its \$16,000 note to Clarke. During the three and six months ended June 30, 2015, TerraVest Capital Inc. repaid in full its \$19,000 note to Clarke.

During the three and six months ended June 30, 2015, the Company entered into a loan agreement to advance up to US\$2,750 to fund the construction of a 17 unit townhome development in Atlanta, Georgia. The loan has a stated interest rate of 10% and is secured by a second charge on land and improvements. The loan matures December 17, 2017 with an option to extend for one year. As at June 30, 2015, the loan had a face value of \$1,413 and a carrying value of \$1,069 with the difference being accreted to income over the term of the loan using the effective interest rate method.

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

Three and six months ended June 30, 2015 and 2014

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

	<b>Pension benefits</b>	
	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
Fair value of plan assets	<b>100,991</b>	98,652
Accrued benefit obligation	<b>(47,063)</b>	(47,477)
Funded status of plans – surplus	<b>53,928</b>	51,175
Cumulative impact of asset ceiling	<b>(22,420)</b>	(21,352)
Accrued pension benefit asset, net of impact of asset ceiling	<b>31,508</b>	29,823

The defined benefit recovery recognized in the interim consolidated statements of earnings for the three and six months ended June 30, 2015 was \$26 and \$52, respectively (2014 – \$119 and \$3,538, respectively). As of January 1, 2014, all active members of the Pension Plan for the Employees of Clarke Inc. and of the Clarke Group Pension Plan (the “Clarke Pension Plans”) who were employees of the former freight transport business stopped accruing service and salary increases for future periods which resulted in a curtailment gain of \$3,326 included in the interim consolidated statements of earnings for the six months ended June 30, 2014.

**Significant assumptions**

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	<b>%</b>	<b>%</b>
Accrued benefit obligation – discount rate	<b>4.00</b>	4.00
Benefit costs for the period – discount rate	<b>4.00</b>	4.80

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

	<b>Pension benefits</b>			
	<b>Three months ended</b>	<b>Three months ended</b>	<b>Six months ended</b>	<b>Six months ended</b>
	<b>June 30, 2015</b>	<b>June 30, 2014</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Remeasurement gains (losses)	<b>2,994</b>	(636)	<b>2,275</b>	(2,538)
Change in amount of asset ceiling	<b>(3,108)</b>	702	<b>(641)</b>	(1,417)
Defined benefit recovery (expense) recognized	<b>(114)</b>	66	<b>1,634</b>	(3,955)

**5. FIXED ASSETS AND INVESTMENT PROPERTIES**

During the six months ended June 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.

**Clarke Inc.**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Three and six months ended June 30, 2015 and 2014

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

**6. SHARE CAPITAL AND EARNINGS PER SHARE**

	June 30, 2015		December 31, 2014	
	# of shares	\$	# of shares	\$
<b>Common shares</b>				
Outstanding common shares, beginning of period	19,492,977	63,189	17,641,910	42,701
Common shares issued upon conversion of convertible debentures during the period	—	—	3,094,913	24,434
Common shares repurchased for cancellation	(3,866,802)	(12,535)	(1,243,846)	(3,946)
Outstanding common shares, end of period	15,626,175	50,654	19,492,977	63,189

**Earnings per share**

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

	Three months ended June 30, 2015			Three months ended June 30, 2014		
	Loss \$	Weighted average shares (in thousands) #	Per share amount \$	Earnings \$	Weighted average shares (in thousands) #	Per share amount \$
Basic earnings (loss) per share	(1,914)	16,483	(0.12)	19,879	19,915	1.00
Interest, net of income taxes, on assumed conversion of convertible debentures	—	—		126	1,438	
Diluted earnings (loss) per share	(1,914)	16,483	(0.12)	20,005	21,353	0.94

	Six months ended June 30, 2015			Six months ended June 30, 2014		
	Earnings \$	Weighted average shares (in thousands) #	Per share amount \$	Earnings \$	Weighted average shares (in thousands) #	Per share amount \$
Basic earnings per share	1,638	17,741	0.09	33,214	19,046	1.74
Interest, net of income taxes, on assumed conversion of convertible debentures	—	—		859	5,214	
Diluted earnings per share	1,638	17,741	0.09	34,073	24,260	1.40

All potentially dilutive securities issued relate to stock options for the three and six months ended June 30, 2015 and convertible debentures and stock options for the three and six months ended June 30, 2014. The stock options were anti-dilutive for the three and six months ended June 30, 2015 and 2014 and the convertible debentures were dilutive for the three and six months ended June 30, 2014.

**Substantial issuer bid (“SIB”)**

In the six months ended June 30, 2015, the Company completed two SIB’s and purchased for cancellation 3,044,372 common shares at a cost of \$30,111. In the three and six months ended June 30, 2015, the purchase price in excess of the historical book value of the shares in the amounts of \$16,079 and \$20,242, respectively, has been charged to retained earnings and \$7,712 and \$9,869, respectively, has been charged to share capital.



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

Three and six months ended June 30, 2015 and 2014

*Unaudited (in thousands of Canadian dollars, except per share amounts)***6. SHARE CAPITAL AND EARNINGS PER SHARE (CONT'D)****Dividends**

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

<b>Declaration date</b>	<b>Record date</b>	<b>Payment date</b>	<b>Per share \$</b>	<b>Dividend \$</b>
February 23, 2015	March 31, 2015	April 10, 2015	<b>0.10</b>	<b>1,883</b>
May 6, 2015	June 30, 2015	July 10, 2015	<b>0.10</b>	<b>1,604</b>
<b>Total</b>			<b>0.20</b>	<b>3,487</b>

Dividends declared from January 1, 2014 to June 30, 2014 were as follows:

<b>Declaration date</b>	<b>Record date</b>	<b>Payment date</b>	<b>Per share \$</b>	<b>Dividend \$</b>
January 14, 2014	January 22, 2014	January 31, 2014	0.10	1,787
March 6, 2014	March 31, 2014	April 15, 2014	0.10	1,869
June 11, 2014	June 30, 2014	July 11, 2014	0.10	2,008
<b>Total</b>			<b>0.30</b>	<b>5,664</b>

**7. SHARE-BASED PAYMENTS**

The Company has reserved 7.50% of its issued and outstanding common shares under a stock option plan for directors, officers and certain employees. As at June 30, 2015, there were 500,000 options outstanding and nil were exercisable. The grant date was August 18, 2014 with an exercise price of \$12.19 per share. The options vest over a three year period and expire on August 7, 2021. There were no options exercised, cancelled or forfeited during the three and six months ended June 30, 2015. The share-based payment expense included in the interim consolidated statements of earnings for the three and six months ended June 30, 2015 was \$243 and \$822, respectively.

The following table shows the assumptions used to determine the share-based payments expense using the Black-Scholes option pricing model:

Fair value per option granted	<b>\$3.40</b>
Assumptions:	
Risk-free interest rate	<b>1.68%</b>
Expected dividend yield	<b>3.65%</b>
Expected volatility	<b>46.78%</b>
Expected time until exercise	<b>7 years</b>
Expected forfeiture rate	<b>9.50%</b>

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

Three and six months ended June 30, 2015 and 2014

*Unaudited (in thousands of Canadian dollars, except per share amounts)***8. OTHER INCOME**

Other income is comprised of the following:

	<b>Three months ended June 30, 2015</b>	Three months ended June 30, 2014	<b>Six months ended June 30, 2015</b>	Six months ended June 30, 2014
	\$	\$	\$	\$
Gains on disposition of fixed assets	—	1,533	<b>644</b>	1,533
Foreign exchange gains (losses)	<b>149</b>	(67)	<b>209</b>	(141)
Gains on redemption and repurchase of convertible debentures	—	1,034	—	1,808
	<b>149</b>	2,500	<b>853</b>	3,200

The gain on disposition of fixed assets for the six months ended June 30, 2015 is from the sale of the *MV Shamrock* (note 5). The gain on disposition of fixed assets for the three and six months ended June 30, 2014 is from the disposition of land and buildings.

**9. INCOME TAXES**

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

	<b>Three months ended June 30, 2015</b>	Three months ended June 30, 2014	<b>Six months ended June 30, 2015</b>	Six months ended June 30, 2014
	\$	\$	\$	\$
Current	<b>48</b>	127	<b>(195)</b>	(173)
Deferred (note 12)	<b>188</b>	759	<b>1,571</b>	1,326
<b>Provision for income taxes</b>	<b>236</b>	886	<b>1,376</b>	1,153

The effective tax rates differ from the statutory tax rate primarily as a result of unrealized investment losses on the Company's portfolio of marketable securities.

**10. RELATED PARTY DISCLOSURES**

The Company had, other than those disclosed elsewhere in these interim condensed consolidated financial statements, the following related party transaction in the normal course of operations and measured at fair value, which is the amount of consideration established and agreed to by the related parties:

During the three and six months ended June 30, 2015, the Clarke Pension Plans, which are administered by the Company, entered into various foreign exchange contracts, due to be settled in 2015 and 2016 for the purpose of hedging certain foreign currency exposure. The Clarke Pension Plans used Clarke's existing lending facilities to facilitate certain of these foreign exchange contracts.

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

Three and six months ended June 30, 2015 and 2014

*Unaudited (in thousands of Canadian dollars, except per share amounts)***11. DISCONTINUED OPERATIONS**

The table below presents the gain on sale of the freight transport business (\$66,433) and Gestion Jerico Inc. ("Jerico") (\$4,717) and the operating results of Jerico prior to the sale on February 15, 2014. The amounts are included as discontinued operations in the interim consolidated statements of earnings for the six months ended June 30, 2014.

	Six months ended June 30, 2014 \$
Gain on sale of subsidiaries	71,150
Sales of products	5,805
Other loss	(62)
	76,893
Cost of goods sold	4,001
General and administrative expenses	1,034
Depreciation and amortization	372
Interest expense	92
Income before income taxes	71,394
Provision for income taxes	11,669
Income from discontinued operations	59,725

**12. SUPPLEMENTAL CASH FLOW INFORMATION**

Adjustments for items not involving cash	Six months ended June 30, 2015 \$	Six months ended June 30, 2014 \$
Realized and unrealized gains on investments	(1,371)	(25,506)
Pension recovery (note 4)	(52)	(3,538)
Gain on disposition of fixed assets (note 8)	(644)	(1,533)
Deferred income tax expense (note 9)	1,571	1,326
Share-based payment expense (recovery) net of share-based payments of nil (2014 – \$247) (note 7)	822	(254)
Depreciation and amortization	221	553
Equity in earnings of joint ventures	—	(467)
Gains on redemption and repurchase of convertible debentures (note 8)	—	(1,808)
Other items	(216)	51
	331	(31,176)

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

Three and six months ended June 30, 2015 and 2014

*Unaudited (in thousands of Canadian dollars, except per share amounts)***12. SUPPLEMENTAL CASH FLOW INFORMATION (CONT'D)**

<b>Net changes in non-cash working capital balances</b>	<b>Six months ended June 30, 2015 \$</b>	<b>Six months ended June 30, 2014 \$</b>
Receivables	<b>1,207</b>	(1,373)
Income taxes receivable	<b>(257)</b>	(252)
Prepaid expenses	<b>77</b>	(103)
Accounts payable and accrued liabilities	<b>1,669</b>	921
Income taxes payable	<b>(1)</b>	(10)
	<b>2,695</b>	(817)

**13. FINANCIAL INSTRUMENTS**

The Company manages its exposure to foreign exchange risk by entering into foreign exchange contracts. At June 30, 2015, the Company had foreign exchange contracts outstanding to sell US dollars, at various rates and times throughout 2015. Unrealized losses of \$56 have been included in accounts payable and accrued liabilities of the interim consolidated statements of financial position and other income in the interim consolidated statements of earnings as at and for the three and six months ended June 30, 2015. The Company had no outstanding foreign exchange contracts at December 31, 2014.



**CLARKE**

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

[www.clarkeinc.com](http://www.clarkeinc.com)