

CLARKE
Halifax, Canada

Quarterly Report
September 30, 2018 and 2017

Management's Discussion & Analysis

Clarke Inc.

September 30, 2018 and 2017

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion & Analysis ("MD&A") presents management's view of the financial position and performance of Clarke Inc. ("Clarke" or the "Company") for the three and nine months ended September 30, 2018 compared with the three and nine months ended September 30, 2017. The following disclosures and associated unaudited interim condensed consolidated financial statements are presented in accordance with IAS 34, *Interim Financial Reporting*. This interim MD&A should be read in conjunction with the information disclosed within the interim condensed consolidated financial statements and notes thereto for the three and nine months ended September 30, 2018. This MD&A is prepared as at November 6, 2018 (unless otherwise stated). All dollar amounts are shown in millions of Canadian dollars unless otherwise indicated.

OVERVIEW & STRATEGY

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

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

THIRD QUARTER REVIEW AND OUTLOOK

In the third quarter of 2018, the Company's book value per share increased by \$2.19 or 19.9%. The increase can be ascribed to (i) \$0.49 per Clarke common share ("Common Share") of positive investment performance and net income, (ii) \$1.72 per Common Share resulting from an increase in the value of our pension plan surplus recognized on our balance sheet, and (iii) negative \$0.02 per Common Share due to repurchasing shares at prices above our book value per share. The increase in the value of our pension plan surplus recognized on the balance sheet is a result of having amended our surplus policy during the quarter that resulted in the removal of the cumulative asset ceiling impact for accounting purposes. The Company expects to recognize its entire pension plan surplus going forward. Our book value per Common Share at the end of the quarter was \$13.18 while our Common Share price was \$12.45.

Clarke continued to repurchase Common Shares during the quarter. Together with a substantial issuer bid for its Common Shares completed in January 2018, Clarke has returned \$23.0 million to shareholders as at September 30, 2018.

During the quarter, Clarke purchased \$1.8 million of common shares of one of its energy basket securities and sold shares of another energy basket security for proceeds of \$0.5 million. Public market sentiment remains negative towards energy companies. We believe a number of energy companies are being valued inexpensively on an asset basis despite also generating positive cash flows and that valuations should increase meaningfully once sentiment changes. In particular, one of our energy basket securities is trading at less than its orderly liquidation value at the same time as it is generating positive cash flow, repurchasing shares and has a balance sheet with minimal net debt. We remain patient.

The Company sold its interest in a legacy private equity fund at the end of the quarter for proceeds of \$1.7 million. Over the life of the investment, the Company has recognized a gain of \$2.2 million.

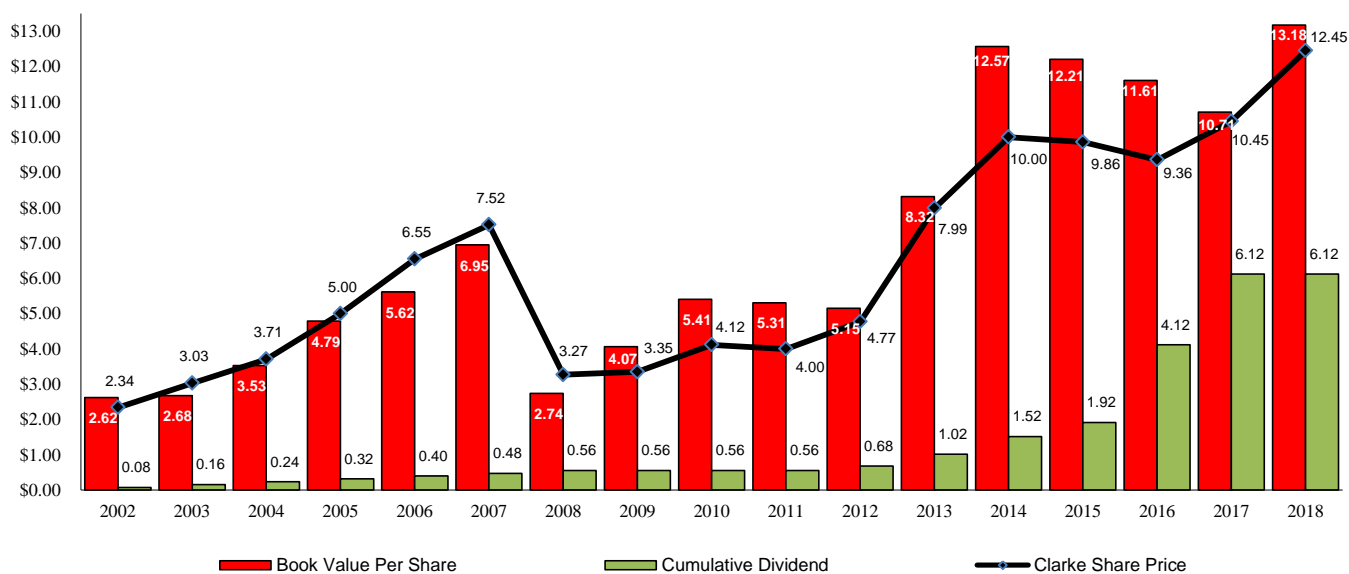
During the third quarter, Clarke refinanced a loan in its ferry operation. The Company increased the principal amount of the loan from \$0.9 million to \$4.0 million and extended the term of the loan by four years. At this time we do not have a specific use for the additional loan proceeds.

We continue to believe that our largest investments, Holloway Lodging Corporation (“Holloway”) and TerraVest Industries Inc. (“Terravest”), remain undervalued. In particular, Terravest recently completed its second substantial issuer bid this year. We believe this will create incremental shareholder value as the company’s earnings continue to increase from improved energy markets and the continued integration of recent acquisitions. Holloway has also repurchased a meaningful number of its shares recently and we expect its operating performance to remain consistent in coming quarters. Each of these companies trade at mid-teens free cash flow yields, which should allow for more upside.

It remains challenging to find investments that meet our investment criteria. We understand the source of our returns over time and it is largely from investments made at times of market or industry dislocation or from company-specific challenges that we believe we can help rectify. Accordingly, our bias is to either retain our capital or continue returning it to shareholders until such time as more attractive opportunities present themselves.

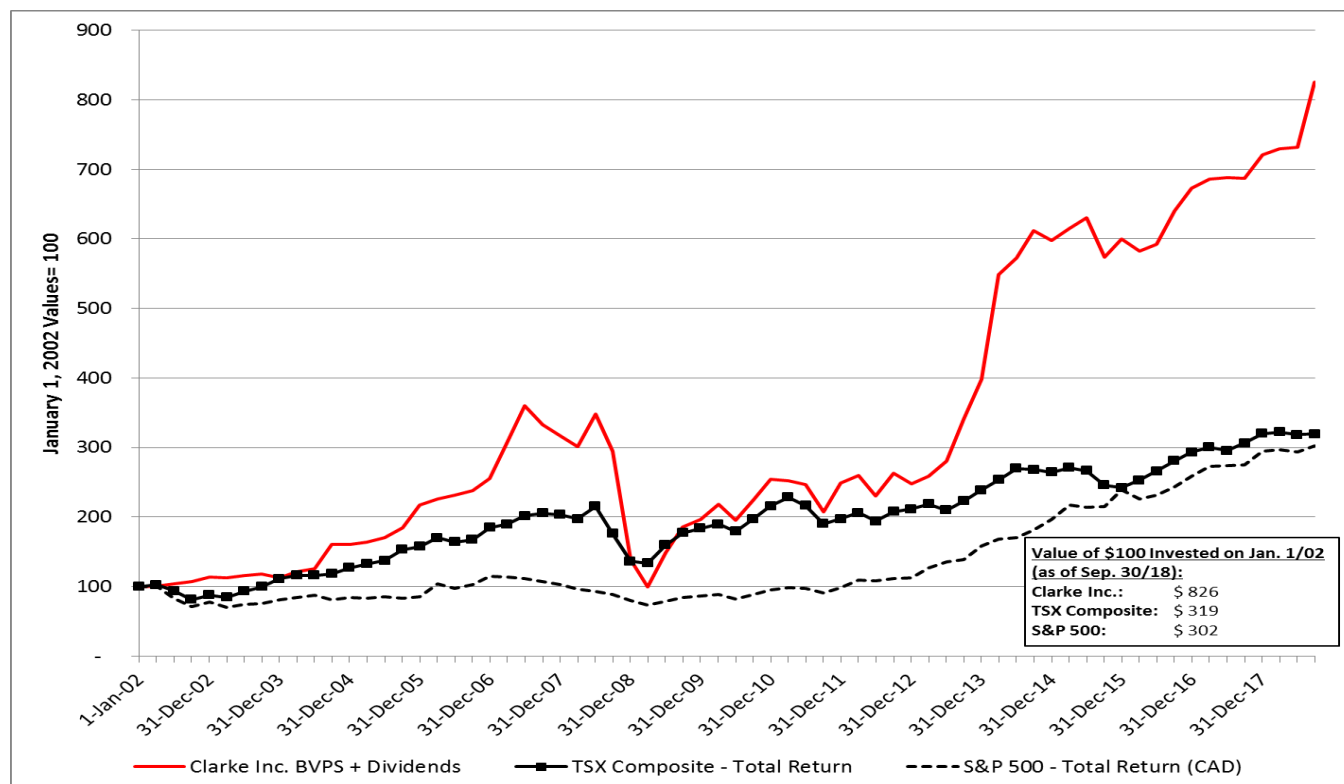
BOOK VALUE PER SHARE

The Company’s book value per share at September 30, 2018 was \$13.18, an increase of \$2.47 per Common Share since December 31, 2017. The following graph shows Clarke’s book value per share, share price and cumulative dividends paid since 2002 (the year the present Executive Chairman joined the Company).



* Information for the years ended 2002 and 2003 is as at March of the following year. In 2004 the Company’s year-end was changed to December. All other information is for the years ended December 31 and as at September 30, 2018.

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



RESULTS OF OPERATIONS

Highlights of the interim condensed consolidated financial statements for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 are as follows:

<i>(in millions, except per share amounts)</i>	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
	\$	\$	\$	\$
Realized and unrealized gains (losses) on investments	3.9	(1.8)	5.7	2.1
Dividend income	0.9	0.9	2.8	2.7
Interest income	—	0.1	0.1	0.6
Revenue and other income*	4.0	3.2	6.5	4.5
Net income	6.2	—	9.2	4.1
Comprehensive income (loss)	27.4	(0.6)	30.6	5.0
Basic and diluted earnings per share (“EPS”)	0.49	—	0.72	0.28
Total assets	180.2	151.1	180.2	151.1
Long-term financial liabilities	2.8	0.6	2.8	0.6
Cash dividends declared per share	—	2.00	—	2.00
Book value per share	13.18	9.94	13.18	9.94

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

Net income of the Company for the three and nine months ended September 30, 2018 was \$6.2 million and \$9.2 million, respectively, compared with nil and \$4.1 million for the same periods in 2017. During the three and nine months ended September 30, 2018, the Company had unrealized gains on its investments of \$2.1 million and \$1.7 million, respectively, compared to losses of \$2.4 million and gains of \$0.9 million for the same periods in 2017. The Company had realized gains on its investments of \$1.8 million and \$4.0 million for the three and nine months ended September 30, 2018, respectively, compared with \$0.6 million and \$1.2 million for the same periods in 2017.

INVESTMENT HOLDINGS

The Company owns securities and a ferry business. The Company's equity holdings generated dividends of \$0.9 million and \$2.8 million, respectively, in the three and nine months ended September 30, 2018 and \$0.9 million and \$2.7 million, respectively, for the same periods in 2017. The Company's debt and cash holdings generated interest income of nil and \$0.1 million in the three and nine months ended September 30, 2018, respectively, compared to \$0.1 million and \$0.6 million, respectively, for the same periods in 2017. This decrease is due to the sale of debenture investments during the prior year.

Securities Portfolio

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

	September 30, 2018				December 31, 2017			
	Shares or face value	Market Price \$	Market value \$'000	%	Shares or face value	Market Price \$	Market value \$'000	%
Energy Securities Portfolio	N/A	N/A	14,381	11.5	N/A	N/A	15,503	13.0
Holloway Lodging Corp.	7,952,715	6.06	48,193	38.5	7,952,715	5.70	45,330	38.0
Keck Seng Investments Ltd.	4,292,000	1.06	4,543	3.6	4,292,000	1.12	4,823	4.0
Terravest Industries Inc.	5,386,440	10.77	58,012	46.4	5,750,000	9.35	53,763	45.0
Carrying value of securities			125,129	100.0			119,419	100.0

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

	Nine months ended September 30, 2018 \$
Securities – beginning of period	119.4
Purchases	3.9
Sales	(4.0)
Net realized and unrealized gains on securities (including foreign exchange gains on securities)	5.8
Securities – end of period	125.1

Other Investments

During the quarter, we sold our interest in a private equity fund. We continue to own a receivable of nominal value from a second private equity fund, which is classified with our marketable securities for accounting purposes. 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 the ferry during the quarter.

OUTSTANDING SHARE DATA

At November 6, 2018, the Company had:

- An unlimited number of Common Shares authorized and 12,303,288 Common Shares outstanding; and
- An unlimited number of First and Second Preferred Shares authorized and none outstanding.
- 250,000 options to acquire Common Shares outstanding, all of which are vested and exercisable.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2018, the Company's cash position was \$14.1 million compared to \$20.8 million at December 31, 2017. This decrease in cash is mainly a result of share repurchases from the substantial issuer bid and investment purchases, offset by corporate income tax refunds, investment sale proceeds, and long-term debt proceeds received during the period.

Cash flow from operating activities

Cash provided by operating activities was \$11.2 million for the nine months ended September 30, 2018, compared to \$3.4 million provided during the same period in 2017. The cash from operating activities was driven mainly by the ferry operation, dividends and interest and corporate income tax refunds received during the period.

At September 30, 2018, working capital excluding securities was \$13.2 million, compared to \$25.0 million at December 31, 2017. The Company's working capital needs are minimal and the Company has the ability to fund any working capital needs through its cash on hand and its existing credit facilities.

Cash flow from investing activities

Net cash of \$2.4 million was provided by investing activities during the nine months ended September 30, 2018, compared to \$32.4 million provided during the same period in 2017. Net cash provided by investing activities during the period was mainly a result of an after-tax pension surplus distribution of \$1.2 million, and proceeds of \$1.7 million on the sale of a private equity investment. Net cash provided by investing activities during the prior period was mainly a result of an after-tax pension surplus distribution of \$20.7 million and net sales of investments of \$11.0 million.

Cash flow from financing activities

Net cash used in financing activities was \$20.3 million for the nine months ended September 30, 2018, compared to \$31.9 million used during the same period in 2017. Net cash used in financing activities during the period was related to Common Share repurchases of \$23.0 million and long-term debt repayments of \$0.4 million, offset by long-term debt proceeds of \$3.1 million. Cash used in financing activities for the nine months ended September 30, 2017 was related to the payment of a special dividend in the amount of \$29.3 million and the repurchase of Common Shares of \$2.1 million.

Available capital under credit facilities

The Company has access to credit facilities where certain of the Company's securities are pledged as collateral. At September 30, 2018, \$23.2 million was available under these facilities and nil was drawn on these facilities. Declines in the market value of pledged securities may have an adverse effect on the amount of credit available under these facilities.

SUMMARY OF QUARTERLY RESULTS

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

<i>Three months ended</i>	Dec. 2016	Mar. 2017	Jun. 2017	Sept. 2017	Dec. 2017	Mar. 2018	Jun. 2018	Sep. 2018
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	12.1	5.6	1.9	2.4	2.9	3.5	2.8	8.8
Net income (loss)	9.4	4.2	—	—	(0.6)	2.1	0.9	6.2
Other comprehensive income (loss)	1.6	0.8	0.7	(0.6)	11.5	0.2	—	21.2
Comprehensive income (loss)	11.0	5.0	0.7	(0.6)	10.9	2.3	0.9	27.4
Basic and diluted EPS (in dollars)	0.64	0.28	—	—	(0.04)	0.16	0.07	0.49

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

FINANCIAL INSTRUMENTS

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

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

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

RELATED PARTY TRANSACTIONS

The Company was party to related party transactions during the nine months ended September 30, 2018. All related party transactions were in the normal course of operations and occurred at fair value. For full details of the Company's related party transactions, please refer to Note 15 of our consolidated financial statements for the year ended December 31, 2017.

SIGNIFICANT EQUITY INVESTMENTS

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

Holloway

Holloway's core business is hotel ownership. Holloway owns 32 hotels comprising 3,683 rooms. As of September 30, 2018, Clarke owned 45.7% of the outstanding shares of Holloway.

Selected Financial Information	June 30, 2018		December 31, 2017	
		\$		\$
Total assets		321.2		322.4
Total liabilities		(219.6)		(216.6)
Shareholders' equity		101.6		105.8

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
	\$	\$	\$	\$
Total revenue	26.6	25.4	50.1	48.9
Net income (loss)	0.4	(1.1)	(1.8)	2.4

Terravest

Terravest is engaged in (i) the manufacturing of residential and commercial tanks and pressure vessels, (ii) the manufacturing of storage and transportation equipment, (iii) the manufacturing of wellhead processing equipment for the oil and natural gas industry, and (iv) well servicing for the oil and natural gas industry in Southwestern Saskatchewan. As of September 30, 2018, Clarke owned 30.6% of the outstanding shares of Terravest.

Selected Financial Information	June 30, 2018		September 30, 2017	
	\$		\$	
Total assets	235.1		207.4	
Total liabilities	(153.9)		(120.8)	
Shareholders' equity	81.2		86.6	

	Three months ended June 30, 2018	Three months ended June 30, 2017	Nine months ended June 30, 2018	Nine months ended June 30, 2017
	\$	\$	\$	\$
Total revenue	65.5	45.0	190.6	139.8
Net income	1.9	1.2	8.9	5.6

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, 2018 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal controls over financial reporting.

ENVIRONMENTAL MATTERS

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

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

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

CAUTIONARY STATEMENT REGARDING USE OF NON-IFRS ACCOUNTING MEASURES

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

FORWARD-LOOKING STATEMENTS

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

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

Clarke Inc.

September 30, 2018 and 2017

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

	September 30, 2018	December 31, 2017
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	14,095	20,773
Marketable securities	125,129	119,419
Receivables	811	670
Income taxes receivable	—	5,710
Prepaid expenses	152	99
Total current assets	140,187	146,671
Accrued pension benefit asset <i>(note 4)</i>	37,902	10,270
Fixed assets and investment properties <i>(note 5)</i>	1,036	444
Long-term investments <i>(note 6)</i>	—	1,843
Deferred income tax assets	1,032	1,420
Total assets	180,157	160,648
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	737	1,440
Income taxes payable	157	127
Current portion of long-term debt <i>(note 7)</i>	1,000	645
Total current liabilities	1,894	2,212
Long-term debt <i>(note 7)</i>	2,778	430
Deferred income tax liabilities	11,498	1,618
Total liabilities	16,170	4,260
Shareholders' equity		
Share capital <i>(note 8)</i>	40,323	47,330
Retained earnings	82,171	89,010
Accumulated other comprehensive income	39,948	18,503
Share-based payments	1,545	1,545
Total shareholders' equity	163,987	156,388
Total liabilities and shareholders' equity	180,157	160,648

See accompanying notes to the interim condensed consolidated financial statements

On behalf of the Board:

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

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

	Three months ended September 30, 2018 \$	Three months ended September 30, 2017 \$	Nine months ended September 30, 2018 \$	Nine months ended September 30, 2017 \$
Revenue				
Unrealized gains (losses) on investments	2,108	(2,469)	1,672	856
Realized gains on investments	1,787	615	4,057	1,245
Dividend income	896	864	2,812	2,688
Interest income	60	194	110	649
Provision of services	4,105	3,960	6,040	5,631
Other income (loss) (note 9)	(153)	(590)	415	(1,016)
	8,803	2,574	15,106	10,053
Expenses				
Cost of services provided	1,259	1,203	3,147	2,999
General and administrative expenses	386	450	1,308	1,583
Pension expense (note 4)	205	167	617	167
Share-based payment expense (recovery)	—	11	—	(68)
Depreciation	91	58	239	175
Interest expense	40	12	82	40
	1,981	1,901	5,393	4,896
Income before income taxes	6,822	673	9,713	5,157
Provision for income taxes (note 10)	678	707	523	1,034
Net income (loss)	6,144	(34)	9,190	4,123
Basic earnings per share: <i>(in dollars) (note 8)</i>	0.49	—	0.72	0.28
Diluted earnings per share: <i>(in dollars) (note 8)</i>	0.49	—	0.72	0.28

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, 2018 \$	Three months ended September 30, 2017 \$	Nine months ended September 30, 2018 \$	Nine months ended September 30, 2017 \$
Net income (loss)	6,144	(34)	9,190	4,123
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss				
Remeasurement gains and effect of changes to asset ceiling on defined benefit pension plans, net of income tax expense (recovery) of \$8,577 and \$8,674 for the three and nine months ended September 30, 2018 (2017 – \$(247) and \$(247)) (note 4)	21,205	(587)	21,445	880
Other comprehensive income (loss)	21,205	(587)	21,445	880
Comprehensive income (loss)	27,349	(621)	30,635	5,003

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, 2018 \$	Nine months ended September 30, 2017 \$
OPERATING ACTIVITIES		
Net income	9,190	4,123
Adjustments for items not involving cash (<i>note 11</i>)	(3,709)	(1,804)
	5,481	2,319
Net change in non-cash working capital balances (<i>note 11</i>)	5,739	1,101
Net cash provided by operating activities	11,220	3,420
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities	4,139	11,261
Purchase of marketable securities	(3,867)	(230)
Proceeds on disposition of fixed assets	1	2
Purchase of fixed assets	(832)	(153)
Distribution of pension plan surplus, net of tax (<i>note 4</i>)	1,216	20,691
Proceeds on disposition of long-term investments (<i>note 6</i>)	1,717	—
Return of capital (net of purchases) of long-term investments	61	807
Net cash provided by investing activities	2,435	32,378
FINANCING ACTIVITIES		
Repurchase of shares for cancellation (<i>note 8</i>)	(23,036)	(2,088)
Proceeds from long-term debt (<i>note 7</i>)	3,069	—
Repayment of long-term debt	(366)	(431)
Dividends paid	—	(29,338)
Net cash used in financing activities	(20,333)	(31,857)
Net change in cash during the period	(6,678)	3,941
Cash and cash equivalents, beginning of period	20,773	6,770
Cash and cash equivalents, end of period	14,095	10,711

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, 2018 \$	Nine months ended September 30, 2017 \$
Share capital		
Common shares:		
Balance at beginning of period	47,330	48,121
Common shares repurchased for cancellation (<i>note 8</i>)	(7,007)	(580)
Balance at end of period	40,323	47,541
Retained earnings		
Balance at beginning of period	89,010	116,789
Net income	9,190	4,123
Dividends declared (<i>note 8</i>)	—	(29,338)
Purchase price in excess of the book value of common shares repurchased for cancellation (<i>note 8</i>)	(16,029)	(1,508)
Balance at end of period	82,171	90,066
Accumulated other comprehensive income		
Balance at beginning of period	18,503	6,142
Other comprehensive income	21,445	880
Balance at end of period	39,948	7,022
Share-based payments		
Balance at beginning of period	1,545	1,247
Share-based payment recovery	—	(68)
Balance at end of period	1,545	1,179
Total shareholders' equity	163,987	145,808

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2018 and 2017

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Clarke Inc. (the “Company” or “Clarke”) was incorporated on December 9, 1997 pursuant to the Canada Business Corporations Act. The head office of the Company is located at 145 Hobsons Lake Drive, 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 6, 2018.

Basis of presentation and statement of compliance

These interim condensed consolidated financial statements for the three and nine months ended September 30, 2018, were prepared in accordance with IAS 34, *Interim Financial Reporting*. The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2017, except as described in note 2. These interim condensed consolidated financial statements for the three and nine months ended September 30, 2018 should be read together with the annual consolidated financial statements for the year ended December 31, 2017.

Principles of consolidation

The interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries. The significant subsidiaries of the Company are CKI Holdings Partnership, Quinpool Holdings Partnership, 8590435 Canada Inc. and La Traverse Rivière-du-Loup – St-Siméon Limitée. All intercompany transactions have been eliminated on consolidation. All subsidiaries have the same reporting year end as the Company, and all follow the same accounting policies.

2. ADOPTION OF NEW STANDARDS

The following standards became applicable January 1, 2018 and the Company had to change its accounting policies as a result of adopting the standards. No retrospective adjustments were necessary as a result of the new standards.

IFRS 9 Financial Instruments

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

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

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

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2018 and 2017

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

2. ADOPTION OF NEW STANDARDS (CONT'D)

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

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

IFRS 15 Revenue from Contracts with Customers

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

3. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 16 Leases

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

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

Three and nine months ended September 30, 2018 and 2017

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

During the nine months ended September 30, 2018, the Company received a pre-tax distribution from one of its pension plans in the amount of \$1,870 in accordance with the surplus withdrawal rules of the Quebec Supplemental Pension Plans Act.

The Company amended the surplus policy of one of its pension plans during the three months ended September 30, 2018. As a result, there is no longer a cumulative asset ceiling impact, and the Company has recognized its entire surplus on the statement of financial position. The effect of the change is included in other comprehensive income for the period.

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

	September 30, 2018	December 31, 2017
	\$	\$
Fair value of plan assets	85,197	83,831
Accrued benefit obligation	(47,295)	(51,656)
Funded status of plans – surplus	37,902	32,175
Cumulative impact of asset ceiling	—	(21,905)
Accrued pension benefit asset, net of impact of asset ceiling	37,902	10,270

The defined benefit pension expense recognized in the interim consolidated statements of earnings for the three and nine months ended September 30, 2018 was \$205 and \$617, respectively (2017 – \$167 and \$167, respectively).

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

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
	\$	\$	\$	\$
Net remeasurement gains	2,974	3,743	7,656	3,023
Change in amount of asset ceiling	26,808	(4,577)	22,463	(2,390)
Deferred income tax recovery (expense)	(8,577)	247	(8,674)	247
Defined benefit recovery (expense) recognized	21,205	(587)	21,445	880

Significant assumptions

	September 30, 2018	December 31, 2017
	%	%
Accrued benefit obligation – discount rate	3.90	3.40
Benefit costs for the period – discount rate	3.40	3.80

Clarke Inc.

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5. FIXED ASSETS AND INVESTMENT PROPERTIES

During the nine months ended September 30, 2018, the Company incurred costs of \$827 to complete a dry dock for a vessel owned by a subsidiary. The Company capitalizes dry dock costs and amortizes them on a straight-line basis over the period until the next scheduled dry dock which is expected to be in the first quarter of 2021.

6. LONG-TERM INVESTMENTS

During the three months ended September 30, 2018, the Company exited an investment in a private equity fund for proceeds of \$1,717. The net loss on sale for the period was \$57.

7. LONG-TERM DEBT

During the three months ended September 30, 2018, the Company refinanced a term loan in one of its subsidiaries and received additional proceeds of \$3,069. The term loan of \$4,000 is repayable in monthly principal instalments of \$111 excluding February through April, is due July 2022, and bears interest at a variable rate of 4.80%, which is the financial institution's floating base rate minus 1.00%. The loan is secured by a fixed charge against the ferry *MV Trans-Saint-Laurent*, and the subsidiary's equipment and vehicle.

8. SHARE CAPITAL AND EARNINGS PER SHARE

	September 30, 2018		December 31, 2017	
	# of shares	\$	# of shares	\$
Common shares				
Outstanding common shares, beginning of period	14,600,967	47,330	14,844,867	48,121
Common shares repurchased for cancellation	(2,161,679)	(7,007)	(243,900)	(791)
Outstanding common shares, end of period	12,439,288	40,323	14,600,967	47,330

Substantial issuer bid ("SIB")

In the nine months ended September 30, 2018, the Company purchased for cancellation 1,851,579 common shares under a SIB at a cost of \$19,442. The purchase price in excess of the historical book value of the shares in the amount of \$13,440 has been charged to retained earnings and \$6,002 has been charged to share capital.

Normal course issuer bid ("NCIB")

In the nine months ended September 30, 2018, the Company purchased for cancellation 310,100 (2017 – 179,900) common shares under a NCIB at a cost of \$3,594 (2017 – \$2,088). The purchase price in excess of the historical book value of the shares in the amount of \$2,589 (2017 – \$1,508) has been charged to retained earnings and \$1,005 (2017 – \$580) has been charged to share capital.

Dividends

There were no dividends declared for the three and nine months ended September 30, 2018. Dividends declared for the three and nine months ended September 30, 2017 were \$29,338.

Clarke Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2018 and 2017

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

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

Earnings per share

The following tables reconcile the basic and diluted per share computations:

	Three months ended September 30, 2018			Three months ended September 30, 2017		
	Earnings	Weighted average shares (in thousands)	Per share amount	Loss	Weighted average shares (in thousands)	Per share amount
Basic earnings (loss) per share	6,144	12,478	0.49	(34)	14,711	—
Common shares issued on assumed exercising of stock options		86		—	70	
Diluted earnings per share	6,144	12,564	0.49	(34)	14,781	—

	Nine months ended September 30, 2018			Nine months ended September 30, 2017		
	Earnings	Weighted average shares (in thousands)	Per share amount	Earnings	Weighted average shares (in thousands)	Per share amount
Basic earnings per share	9,190	12,734	0.72	4,123	14,794	0.28
Common shares issued on assumed exercising of stock options		62		—	64	
Diluted earnings per share	9,190	12,796	0.72	4,123	14,858	0.28

All potentially dilutive securities issued relate to stock options for the three and nine months ended September 30, 2018 and 2017. The stock options were dilutive for the three and nine months ended September 30, 2018 and 2017.

9. OTHER INCOME (LOSS)

Other income (loss) is comprised of the following:

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
	\$	\$	\$	\$
Foreign exchange gains (losses)	(153)	(590)	415	(1,018)
Gains on disposition of fixed assets	—	—	—	2
Other income (loss)	(153)	(590)	415	(1,016)

The foreign exchange gains and losses for the three and nine months ended September 30, 2018 and 2017 are primarily the result of unrealized foreign exchange gains and losses on foreign investments.

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

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*Unaudited (in thousands of Canadian dollars, except per share amounts)***10. INCOME TAXES**

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

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
	\$	\$	\$	\$
Current	669	1,886	(1,071)	1,919
Deferred	9	(1,179)	1,594	(885)
Provision for income taxes	678	707	523	1,034

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

11. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
	\$	\$
Adjustments for items not involving cash		
Realized/unrealized gains on investments	(5,729)	(2,101)
Deferred income tax expense (recovery) (<i>note 10</i>)	1,594	(885)
Unrealized foreign exchange losses (gains)	(430)	910
Pension expense (<i>note 4</i>)	617	167
Depreciation	239	175
Share-based payment recovery	—	(68)
Gains on disposition of fixed assets (<i>note 9</i>)	—	(2)
	(3,709)	(1,804)
Net changes in non-cash working capital balances		
Receivables	(141)	28
Income taxes receivable	6,364	1,758
Prepaid expenses	(53)	(60)
Accounts payable and accrued liabilities	(461)	(901)
Income taxes payable	30	276
	5,739	1,101

CLARKE

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