Clarke Inc.

March 31, 2015 and 2014

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (in thousands of Canadian dollars)

	March 31, 2015	December 31, 2014
	$	$
ASSETS		
Current		
Cash and cash equivalents	**85,433**	79,061
Marketable securities	**104,114**	89,345
Receivables	**3,371**	6,704
Income taxes receivable	**301**	51
Prepaid expenses	**190**	290
Total current assets	**193,409**	175,451
Notes receivable *(note 11)*	**19,000**	35,000
Accrued pension benefit asset *(note 3)*	**31,596**	29,823
Fixed assets and investment properties *(note 4)*	**4,404**	9,941
Long-term investments	**2,915**	3,761
Deferred income tax assets	**1,352**	2,496
Total assets	**252,676**	256,472
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**3,468**	4,504
Dividends payable *(note 5)*	**1,883**	1,949
Income taxes payable	**—**	32
Current portion of other long-term debt	**644**	644
Total current liabilities	**5,995**	7,129
Other long-term debt	**2,291**	2,363
Deferred income tax liabilities	**2,121**	1,882
Total liabilities	**10,407**	11,374
Shareholders' equity		
Share capital *(notes 5 and 11)*	**61,032**	63,189
Retained earnings	**173,080**	175,574
Accumulated other comprehensive income	**7,578**	6,335
Share-based payments	**579**	—
Total shareholders' equity	**242,269**	245,098
Total liabilities and shareholders' equity	**252,676**	256,472

See accompanying notes to the interim condensed consolidated financial statements

On behalf of the Board:

/s/ George Armoyan
Director

/s/ Blair Cook
Director

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF EARNINGS

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

	Three months ended March 31, 2015 $	Three months ended March 31, 2014 $
Revenue		
Unrealized gains on investments	**3,804**	8,050
Realized gains on investments	**610**	983
Interest income	**1,103**	692
Dividend income	**807**	1,467
Pension recovery *(note 3)*	**26**	3,419
Provision of services	**382**	736
Other income *(note 6)*	**704**	700
	7,436	16,047
Expenses		
General and administrative expenses	**1,124**	825
Cost of services provided	**891**	980
Share-based payment expense	**579**	27
Depreciation and amortization	**113**	280
Interest expense	**37**	813
	2,744	2,925
Income before equity in earnings of joint ventures and income taxes	**4,692**	13,122
Equity in earnings of joint ventures	**—**	480
Income before income taxes	**4,692**	13,602
Provision for income taxes *(note 7)*	**1,140**	267
Income from continuing operations	**3,552**	13,335
Income from discontinued operations, net of tax *(note 8)*	**—**	59,725
Net income	**3,552**	73,060
Attributable to:		
Equity holders of the Company	**3,552**	73,005
Non-controlling interest	**—**	55
	3,552	73,060
Basic earnings per share attributable to equity holders of the Company: *(in dollars) (note 5)*		
Income from continuing operations	**0.19**	0.73
Income from discontinued operations	**—**	3.28
Net income	**0.19**	4.01
Diluted earnings per share attributable to equity holders of the Company: *(in dollars) (note 5)*		
Income from continuing operations	**0.19**	0.57
Income from discontinued operations	**—**	2.46
Net income	**0.19**	3.03

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited (in thousands of Canadian dollars)

	Three months ended March 31, 2015 $	Three months ended March 31, 2014 $
Net income	**3,552**	73,060
Other comprehensive income (loss), net of tax		
Items that will not be reclassified to profit or loss		
Remeasurement gains (losses) and effect of limit on asset ceiling on defined benefit pension plans *(note 3)*	**1,748**	(4,021)
Total items that will not be reclassified to profit or loss	**1,748**	(4,021)
Items that may be or have been reclassified subsequently to profit or loss		
Unrealized gains on translation of net investment in foreign operations	**521**	256
Reclassification adjustment for realized translation gains on disposal of net investment in foreign operations *(note 4)*	**(1,026)**	—
Total items that may be reclassified subsequently to profit or loss	**(505)**	256
Other comprehensive income (loss)	**1,243**	(3,765)
Comprehensive income	**4,795**	69,295
Attributable to:		
Equity holders of the Company	**4,795**	69,240
Non-controlling interest	**—**	55
	4,795	69,295

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

	Three months ended March 31, 2015 $	Three months ended March 31, 2014 $
OPERATING ACTIVITIES		
Income from continuing operations	**3,552**	13,335
Adjustments for items not involving cash *(note 10)*	**(2,955)**	(12,841)
	597	494
Net change in non-cash working capital balances *(note 10)*	**2,115**	(644)
Net cash provided by (used in) operating activities	**2,712**	(150)
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities	**6,323**	4,002
Purchase of marketable securities	**(16,942)**	(4,737)
Net return of capital (purchases) of long-term investments	**1,145**	(42)
Proceeds on repayments of notes receivable	**16,000**	—
Proceeds on disposition of fixed assets	**5,598**	—
Purchase of fixed assets	**(123)**	—
Net cash provided by (used in) investing activities	**12,001**	(777)
FINANCING ACTIVITIES		
Net repayment of short-term indebtedness	—	(35,906)
Redemption and repurchase of convertible debt for cancellation	—	(12,280)
Repurchase of shares for cancellation *(note 5)*	**(6,320)**	(781)
Dividends paid	**(1,949)**	(1,787)
Repayment of long-term debt	**(72)**	(72)
Net cash used in financing activities	**(8,341)**	(50,826)
Net cash provided by (used in) continuing operations	**6,372**	(51,753)
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)
Net change in cash during the period	**6,372**	45,004
Cash and cash equivalents, beginning of period	**79,061**	1,989
Cash and cash equivalents, end of period	**85,433**	46,993

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Unaudited (in thousands of Canadian dollars)

	Three months ended March 31, 2015 $	Three months ended March 31, 2014 $
Share capital		
Common shares:		
Balance at beginning of period	**63,189**	42,701
Common shares issued upon conversion of convertible debt	**—**	8,882
Common shares repurchased for cancellation *(note 5)*	**(2,157)**	(253)
Balance at end of period	**61,032**	51,330
Retained earnings		
Balance at beginning of period	**175,574**	91,783
Net income attributable to equity holders of the Company	**3,552**	73,005
Dividends declared *(note 5)*	**(1,883)**	(3,656)
Purchase price in excess of the historical book value of common shares repurchased for cancellation *(note 5)*	**(4,163)**	(528)
Balance at end of period	**173,080**	160,604
Accumulated other comprehensive income, net of tax		
Balance at beginning of period	**6,335**	9,440
Other comprehensive income (loss)	**1,243**	(3,765)
Balance at end of period	**7,578**	5,675
Share-based payments		
Balance at beginning of period	**—**	580
Share-based payment expense	**579**	—
Sale of subsidiary with share-based payments	**—**	(580)
Balance at end of period	**579**	—
Equity portion of convertible debentures		
Balance at beginning of period	**—**	2,356
Reduction upon the redemption, repurchase or conversion of convertible debentures, net of tax	**—**	(1,035)
Balance at end of period	**—**	1,321
Total shareholders' equity attributable to equity holders of the Company	**242,269**	218,930
Non-controlling interest		
Balance at beginning of period	**—**	7,793
Reduction upon the sale of subsidiary with non-controlling interest	**—**	(7,793)
Balance at end of period	**—**	—
Total shareholders' equity	**242,269**	218,930

See accompanying notes to the interim condensed consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Clarke Inc. (the "Company" or "Clarke") was incorporated on December 9, 1997 pursuant to the Canada Business Corporations Act. The head office of the Company is located at 6009 Quinpool Road, Halifax, Nova Scotia. The Company is an investment holding company with investments in a diversified group of businesses, operating primarily in Canada. The Company continuously evaluates the acquisition, retention and disposition of its investments. Changes in the mix of investments should be expected. These interim condensed consolidated financial statements were approved by the Board of Directors on May 6, 2015.

Basis of presentation and statement of compliance

These interim condensed consolidated financial statements for the three months ended March 31, 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 three months ended March 31, 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. Accordingly, these interim condensed consolidated financial statements for the three months ended March 31, 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 Traverse Rivière-du-Loup – St-Siméon Limitée.

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

2. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 *Financial Instruments: Classification and Measurement*

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

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. 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:

	Pension benefits	
	March 31, 2015	December 31, 2014
	$	$
Fair value of plan assets	**101,556**	98,652
Accrued benefit obligation	**(50,861)**	(47,477)
Funded status of plans – surplus	**50,695**	51,175
Cumulative impact of asset ceiling	**(19,099)**	(21,352)
Accrued pension benefit asset, net of impact of asset ceiling	**31,596**	29,823

The defined benefit recovery recognized in the interim condensed consolidated statements of earnings for the three months ended March 31, 2015 was $26 (2014 – $3,419). 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 three months ended March 31, 2014.

Significant assumptions

	March 31, 2015	December 31, 2014
	%	%
Accrued benefit obligation – discount rate	**3.55**	4.00
Benefit costs for the period – discount rate	**4.00**	4.80

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

3. EMPLOYEE FUTURE BENEFITS (CONT'D)

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

	Pension benefits	
	Three months ended March 31, 2015	Three months ended March 31, 2014
	$	$
Remeasurement losses	**(719)**	(1,902)
Change in amount of asset ceiling	**2,467**	(2,119)
Defined benefit recovery (expense) recognized	**1,748**	(4,021)

4. FIXED ASSETS AND INVESTMENT PROPERTIES

During the three months ended March 31, 2015, the Company completed the sale of its container vessel, the *MV Shamrock*. The net proceeds received were US$4,605 and the net gain on sale was $644. Included in the gain is a reclassification adjustment of $1,026 from accumulated other comprehensive income for realized foreign exchange translation gains on disposal of net investment in a foreign operation.

5. SHARE CAPITAL AND EARNINGS PER SHARE

	March 31, 2015		December 31, 2014	
	# of shares	**$**	# of shares	$
Common shares				
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	**(665,330)**	**(2,157)**	(1,243,846)	(3,946)
Outstanding common shares, end of period	**18,827,647**	**61,032**	19,492,977	63,189

Substantial issuer bid ("SIB")

In the three months ended March 31, 2015, the Company purchased for cancellation 665,330 common shares under a SIB at a cost of $6,320 ($9.50 per common share). The purchase price in excess of the historical book value of the shares in the amount of $4,163 has been charged to retained earnings and $2,157 has been charged to share capital.

Dividends

Dividends declared from January 1, 2015 to March 31, 2015 were as follows:

Declaration date	Record date	Payment date	Per share $	Dividend $
February 23, 2015	March 31, 2015	April 10, 2015	**0.10**	**1,883**
Total			**0.10**	**1,883**

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

Dividends declared from January 1, 2014 to March 31, 2014 were as follows:

Declaration date	Record date	Payment date	Per share $	Dividend $
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
Total			0.20	3,656

Earnings per share

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

	Three months ended March 31, 2015			Three months ended March 31, 2014		
	Earnings $	**Weighted average shares (in thousands) #**	**Per share amount $**	Earnings $	Weighted average shares (in thousands) #	Per share amount $
Basic earnings per share	**3,552**	**19,012**	**0.19**	13,335	18,166	0.73
Interest, net of income taxes, on assumed conversion of convertible debentures	—	—		505	6,035	
Common shares issued on assumed exercising of stock options	—	—		—	33	
Diluted earnings per share	**3,552**	**19,012**	**0.19**	13,840	24,234	0.57

** All potentially dilutive securities issued relate to stock options for the three months ended March 31, 2015 and convertible debentures and stock options for the three months ended March 31, 2014. The stock options were anti-dilutive for the three months ended March 31, 2015 and the convertible debentures and stock options were dilutive for the three months ended March 31, 2014.*

6. OTHER INCOME

Other income is comprised of the following:

	Three months ended March 31, 2015 $	Three months ended March 31, 2014 $
Gain on disposition of fixed assets	**644**	—
Foreign exchange gains (losses)	**60**	(74)
Gains on redemption and repurchase of convertible debentures	**—**	774
	704	700

The gain on disposition of fixed assets is from the sale of the *MV Shamrock* (note 4).

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

7. INCOME TAXES

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

	Three months ended March 31, 2015 $	Three months ended March 31, 2014 $
Current	**(243)**	(300)
Deferred *(note 10)*	**1,383**	567
Provision for income taxes	**1,140**	267

8. 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 three months ended March 31, 2014.

	Three months ended March 31, 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

9. RELATED PARTY DISCLOSURES

The Company had 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 months ended March 31, 2015, the Clarke Pension Plans, which are administered by the Company, entered into various foreign exchange forward contracts, due to be settled in 2015 and 2016 for the purpose of hedging certain foreign currency exposure. The Clarke Pension Plans are using Clarke's existing lending facilities to facilitate the contracts.

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

10. SUPPLEMENTAL CASH FLOW INFORMATION

Adjustments for items not involving cash	**Three months ended March 31, 2015 $**	Three months ended March 31, 2014 $
Realized/unrealized gains on investments	**(4,414)**	(9,033)
Pension recovery *(note 3)*	**(26)**	(3,419)
Gain on disposition of fixed assets *(note 6)*	**(644)**	—
Deferred income tax expense *(note 7)*	**1,383**	567
Share-based payment expense (recovery) net of share-based payments of nil (2014 – $42)	**579**	(15)
Depreciation and amortization	**113**	280
Equity in earnings of joint ventures	**—**	(480)
Gains on redemption and repurchase of convertible debentures	**—**	(774)
Other items	**54**	33
	(2,955)	(12,841)

Net changes in non-cash working capital balances	**Three months ended March 31, 2015 $**	Three months ended March 31, 2014 $
Receivables	**3,333**	70
Income taxes receivable	**(250)**	(343)
Prepaid expenses	**100**	(381)
Accounts payable and accrued liabilities	**(1,036)**	20
Income taxes payable	**(32)**	(10)
	2,115	(644)

11. SUBSEQUENT EVENTS

On March 2, 2015, the Company commenced a SIB to purchase up to 2,000,000 of its outstanding common shares at a purchase price of $10.00 per share. Subsequent to March 31, 2015, the Company took up and canceled 2,379,042 common shares under the SIB for a total purchase price of $23,790.

Subsequent to March 31, 2015, TerraVest Capital Inc., a marketable security investment of the Company, repaid its note receivable in full in the amount of $19,000 plus accrued interest.