

Management's Discussion & Analysis

Clarke Inc.

March 31, 2016 and 2015

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion & Analysis ("MD&A") presents management's view of the financial position and performance of Clarke Inc. ("Clarke" or the "Company") for the three months ended March 31, 2016 compared with the three months ended March 31, 2015. The following disclosures and associated unaudited interim condensed consolidated financial statements are presented in accordance with IAS 34, *Interim Financial Reporting*. This interim MD&A should be read in conjunction with the information disclosed within the interim condensed consolidated financial statements and notes thereto for the three months ended March 31, 2016. This MD&A is prepared as at May 5, 2016 (unless otherwise stated). All dollar amounts are shown in millions of Canadian dollars unless otherwise indicated.

OVERVIEW & STRATEGY

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

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

We view our investments as businesses. 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 – Q1 2016

In the first quarter, the Company's book value per share decreased by \$0.49 or 4.0%, mainly the result of unrealized losses on our investment holdings of \$4.2 million. The Company returned \$0.10 per share to shareholders in the form of dividends. Our book value per share at the end of the quarter was \$11.72 and our share price was \$9.10.

On January 1, 2016, the Company sold a property in Montreal, Quebec for proceeds of \$3.6 million, resulting in a gain on sale of \$0.4 million. The Company currently owns two vacant parcels of land which it considers to be non-core.

Subsequent to the first quarter, on May 5, 2016, the Company's Board of Directors declared the second quarter dividend of \$0.10 per Common Share payable on July 15, 2016 to shareholders of record at the end of business on June 30, 2016.

FIRST QUARTER REVIEW AND OUTLOOK

During the quarter, Clarke invested \$4.0 million in existing security holdings and received proceeds of \$2.5 million from the sale of security holdings and \$3.6 million from the sale of a property. Clarke also paid \$1.6 million of dividends. At March 31, 2016, our cash balance was \$40.6 million representing 29% of Clarke's market capitalization.

The decline in our book value per share during the first quarter was due to three factors: the payment of dividends; a decline in the value of our pension plan asset; and unrealized losses on our investment portfolio. The decline in our pension asset was mainly due to a change in the discount rate used to calculate our pension obligation coupled with an increase in the impact of

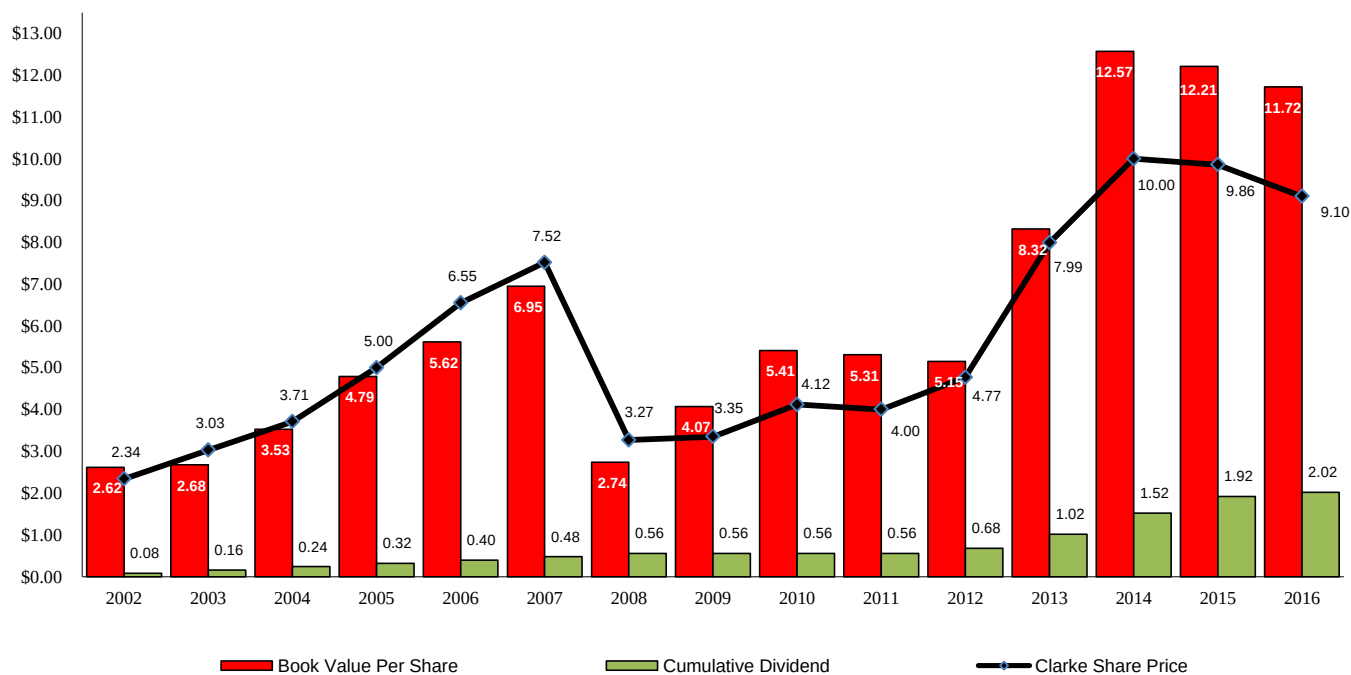
the asset ceiling. The assets held by our pension plans remained at similar levels during the quarter. The unrealized losses on our investment holdings can be attributed to lower share prices for TerraVest Capital Inc. (“Terravest”) (\$4.0 million) and Holloway Lodging Corporation (“Holloway”) (\$2.2 million) offset by an increase in the value of our energy basket (\$2.2 million). We believe the securities we own remain undervalued.

Most of the companies we have invested in are exposed to the oil and gas industry in some manner. In the case of our energy basket companies, this exposure is complete whereas in the case of other companies such as Holloway and Terravest, this exposure is partial only. While the prices of many energy securities have improved recently, they still reflect a considerable amount of stress. This situation is transitory in nature in our view as the amount of oil the world needs simply cannot be produced indefinitely at recent prices without bankrupting the producing entities. The increasing frequency and size of bankruptcies in the oil and gas industry (both producers and services companies) is evidence of this and will help the stronger, better and more efficient industry participants thrive in an eventual recovery. The share prices of these types of good companies should increase significantly as the oil and gas markets improve.

As we expect that our investment holdings will appreciate in value in coming years (particularly as the oil and gas markets normalize), we will continue to repurchase our shares. We continue to see limited investment opportunities outside of the oil and gas industry due to generally high valuations, although valuations appear to have moderated somewhat in recent months. We will remain disciplined in deploying our capital as that capital retains option value while it is in our hands.

BOOK VALUE PER SHARE

The Company’s book value per share at March 31, 2016 was \$11.72, a decrease of \$0.49 per share since December 31, 2015. The following graph shows Clarke’s book value per share, share price and cumulative dividends paid since 2002 (the year the present Executive Chairman joined the Company).



* Information for the years ended 2002 and 2003 is as at March of the following year. In 2004 the Company’s year-end was changed to December. All other information is for the years ended December 31 and as at March 31, 2016.

RESULTS OF OPERATIONS

Highlights of the interim condensed consolidated financial statements for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 are as follows:

	March 31, 2016	March 31, 2015
(in millions, except per share amounts)	\$	\$
Realized and unrealized gains (losses) on investments	(4.4)	4.4
Dividend income	0.8	0.8
Interest income	0.5	1.1
Revenue and other income*	0.1	1.1
Net income (loss)	(4.6)	3.6
Comprehensive income (loss)	(6.2)	4.8
Basic earnings (loss) per share ("EPS")		
Net income (loss)	(0.29)	0.19
Diluted EPS		
Net income (loss)	(0.29)	0.19
Total assets	190.7	252.7
Long-term financial liabilities	1.6	2.3
Cash dividends declared per share	0.10	0.10
Book value per share	11.72	12.87

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

Net loss of the Company for the three months ended March 31, 2016 was \$4.6 million compared with net income of \$3.6 million for the same period in 2015. During the three months ended March 31, 2016, the Company had unrealized losses on its investments of \$4.2 million compared to unrealized gains of \$3.8 million for the same period in 2015. The Company had realized losses on its investments of \$0.2 million for the three months ended March 31, 2016 compared with realized gains of \$0.6 million for the same period in 2015. Further discussion on these gains and losses 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 equity holdings generated dividends of \$0.8 million in the three months ended March 31, 2016 and 2015. The Company's debt and cash holdings generated interest income of \$0.5 million in the three months ended March 31, 2016 compared to \$1.1 million in 2015. This decrease is mainly due to the repayment of loans receivable and the decrease in cash holdings.

Securities Portfolio

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

	March 31, 2016				December 31, 2015			
	Shares or face value	Market Price \$	Market value \$'000	%	Shares or face value	Market Price \$	Market value \$'000	%
Energy Securities Portfolio	N/A	N/A	27,187	24.9	N/A	N/A	24,076	21.2
Holloway shares	7,952,715	4.75	37,775	34.7	7,874,815	5.01	39,453	34.8
Holloway 6.25% Convertible Debentures	11,584,000	0.85	9,846	9.0	11,584,000	0.86	9,962	8.8
Keck Seng Investments Ltd.	4,292,000	0.93	3,991	3.7	4,292,000	1.14	4,893	4.3
Terravest shares	5,000,000	6.04	30,200	27.7	5,000,000	6.84	34,200	30.2
Undisclosed investment	—	—	—	—	N/A	N/A	785	0.7
Carrying value of securities			108,999	100.0			113,369	100.0

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

	Three months ended March 31, 2016
	\$
Securities – beginning of period	113.4
Purchases	4.0
Proceeds on sale	(2.5)
Realized and unrealized losses on securities (including foreign exchange losses)	(5.9)
Securities – end of period	109.0

Energy Basket: Following the precipitous decline in oil prices in the fourth quarter of 2014, we started to acquire select securities of companies related to the oil and gas industry. We believe that recent oil prices (low-\$40 range per WTI barrel) are too low to warrant substantial investment in replacing existing production or developing new production (as well as being too low for many oil companies to stay solvent) and that the dramatic decline in oil prices will lead to some increase in the demand for oil. Our belief is that the confluence of these factors will, over time, lead to higher oil prices and higher security prices for well positioned companies, including those in our energy basket. While many oil and gas related assets deserve to trade at distressed valuations, there are also numerous assets that are trading at distressed valuations undeservedly. Reinforcing this view is that most recent acquisitions of public companies or a substantial portion of public company assets have occurred at prices substantially above the companies' security prices. We believe the securities in our energy basket fall into the latter group of undeservedly cheap securities.

Our present intention is to continue acquiring 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. Our preference with respect to further securities purchases is to purchase (i) well-priced equity securities rather than well-priced debt securities, and (ii) securities of oil service firms rather than E&P firms. At the end of the first quarter, our energy basket consisted of securities in six energy related companies.

Holloway: Like most other companies with operations in Western Canada, Holloway has been affected by declining energy prices. Given the state of the Western Canadian economy, we would not be surprised if the results of Holloway's hotels in that market worsened. However, we believe this situation is transitory and the company's languid share price overlooks several positive developments at the company. In particular, Holloway has completed the upgrading and rebranding of its two largest hotels and has very recently brought online two newly acquired or re-opened hotels. These renovations and additions to Holloway's portfolio increase the earnings power of the company. Holloway has been actively repurchasing its shares and debentures in the open market, which should positively affect securityholders over time. Holloway continues to be the cheapest publicly-traded hotel company in Canada yet it has a much stronger balance sheet and much better operating margins than its peers.

Terravest: Terravest remains exposed to Western Canada through its Fabrication and Services divisions and thus far 2016 has been difficult for those business units. We are expecting business activities to remain very low in the Western Canadian operations throughout the remainder of the year. Terravest's Fuel Containment division, on the other hand, continues to exceed our expectations, generating strong cash flow and positioning Terravest to pursue several growth avenues throughout the remainder of the year, including the acquisition of distressed businesses in Western Canada and organic growth opportunities in the Fuel Containment segment. Given the diverse nature of Terravest's cash flow and its continually declining debt levels, we believe the company remains an attractive investment opportunity.

Undisclosed Investment: During the first quarter we disposed of our undisclosed investment in a closed-end fund for a nominal gain. While this fund traded at a meaningful discount to its intrinsic value, we were unable to acquire a sufficient number of shares to justify the effort that would have been required to close the discount.

Other Investments

We currently have \$3.4 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. The ferry does not operate during the first quarter of the year and completes its annual maintenance and repairs during this offseason period. The operating season began just prior to the end of the first quarter. There were no material developments with these assets during the first quarter.

OUTSTANDING SHARE DATA

At May 5, 2016, the Company had:

- An unlimited number of Common Shares authorized and 15,626,175 Common Shares outstanding; and
- An unlimited number of First and Second Preferred Shares authorized and none outstanding.
- 400,000 options to acquire Common Shares outstanding, 133,333 of which are vested and exercisable.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2016, the Company's cash position was \$40.6 million compared to \$42.1 million at December 31, 2015. This decrease in cash is mainly a result of the dividend payment during the first quarter.

Cash flow from operating activities

Cash used in operating activities was \$1.9 million for the three months ended March 31, 2016, compared to \$2.7 million provided during the same period in 2015. This decrease was mainly due to the reduction of interest earned of \$0.6 million in the first quarter of 2016 compared to 2015 and the timing of the collection of receivables for accrued investment income.

At March 31, 2016, working capital excluding securities was \$40.4 million, compared to \$39.3 million at December 31, 2015. The Company's working capital needs are minimal and the Company has the ability to fund any working capital needs through its cash on hand and its existing credit facilities.

Cash flow from investing activities

Net cash of \$2.1 million was provided by investing activities during the three months ended March 31, 2016, compared to \$12.0 million provided during the same period in 2015. Net cash provided by investing activities during the quarter was mainly a result of proceeds on sale of a building of \$3.6 million offset by net purchases of investments (purchases less sales) in the amount of \$1.6 million. Cash provided by investing activities for the three months ended March 31, 2015 primarily consisted of \$16.0 million in loans receivable repayments and \$5.6 million on the sale of a container vessel partially offset by net purchases of investments in the amount of \$10.6 million during the period.

Cash flow from financing activities

Net cash used in financing activities was \$1.6 million for the three months ended March 31, 2016, compared to \$8.3 million used during the same period in 2015. Net cash used in financing activities during the quarter was mainly related to the payment of dividends in the amount of \$1.6 million. Cash used in financing activities for the three months ended March 31, 2015 primarily consisted of the repurchase of Common Shares for \$6.3 million and the payment of dividends in the amount of \$1.9 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 March 31, 2016, \$32.1 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>	Jun. 2014	Sept. 2014	Dec. 2014	Mar. 2015	Jun. 2015	Sept. 2015	Dec. 2015	Mar. 2016
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	24.4	20.5	(5.2)	7.4	0.5	(16.7)	9.3	(3.1)
Income (loss) from continuing operations	19.9	16.4	(6.4)	3.6	(1.9)	(19.3)	6.6	(4.6)
Net income (loss)	19.9	16.4	(6.6)	3.6	(1.9)	(19.3)	6.6	(4.6)
Other comprehensive income (loss)	(0.2)	1.1	(0.2)	1.2	(0.1)	(1.5)	2.7	(1.6)
Comprehensive income (loss)	19.7	17.5	(6.8)	4.8	(2.0)	(20.8)	9.3	(6.2)
Basic EPS from continuing operations (in dollars)	1.00	0.83	(0.32)	0.19	(0.12)	(1.24)	0.42	(0.29)
Diluted EPS from continuing operations (in dollars)	0.94	0.83	(0.32)	0.19	(0.12)	(1.24)	0.42	(0.29)
Basic EPS (in dollars)	1.00	0.83	(0.33)	0.19	(0.12)	(1.24)	0.42	(0.29)
Diluted EPS (in dollars)	0.94	0.83	(0.33)	0.19	(0.12)	(1.24)	0.42	(0.29)

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

FINANCIAL INSTRUMENTS

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

- To generate investment returns, the Company will invest in equity, debt and other securities. These instruments may have interest rate, market, credit and foreign exchange risk associated with them.
- To manage foreign exchange, interest rate and general market risk, the Company may enter into futures and forward exchange contracts. These instruments may have interest, market, credit and foreign exchange risk associated with them. When the Canadian dollar began depreciating during 2015, Clarke decided to hedge its foreign currency exposure on U.S. dollar denominated investments. Clarke anticipates continuing this policy for the foreseeable future.

As an investment company, Clarke has a significant number of financial instruments. Notes 1, 4, 5, 8, 11, 20, and 21 to the consolidated financial statements for the year ended December 31, 2015 and the Company’s AIF dated February 23, 2016, provide further information on classifications in the financial statements, and risks, pertaining to the use of financial instruments by the Company.

RELATED PARTY TRANSACTIONS

The Company was party to related party transactions during the three months ended March 31, 2016. All related party transactions were in the normal course of operations and occurred at fair value. For full details of the Company’s related party transactions, please refer to Note 19 of our consolidated financial statements for the year ended December 31, 2015 and Note 4 of the interim condensed consolidated financial statements for the three months ended March 31, 2016.

SIGNIFICANT EQUITY INVESTMENTS

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

Holloway

Holloway's core business is hotel ownership. Holloway owns 36 hotels comprising 4,153 rooms. As of March 31, 2016, Clarke owned 42.1% of the outstanding shares of Holloway and \$11.6 million principal amount of 6.25% convertible debentures.

Selected Financial Information (audited)	Year ended December 31, 2015	Year ended December 31, 2014
	\$	\$
Total assets	356.4	382.4
Total liabilities	246.8	264.5
Shareholders' equity	109.6	117.9
Total revenue	110.7	97.5
Net income (loss)	(3.7)	27.3

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 March 31, 2016, Clarke owned 27.4% of the outstanding shares of Terravest.

Selected Financial Information	December 31, 2015	September 30, 2015
	\$	\$
Total assets	185.9	192.5
Total liabilities	92.8	102.2
Shareholders' equity	93.1	90.3
	Three months ended December 31, 2015	Three months ended December 31, 2014
	\$	\$
Total revenue	55.8	53.0
Net income	4.9	5.3

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 months ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal controls over financial reporting.

ENVIRONMENTAL MATTERS

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

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

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

CAUTIONARY STATEMENT REGARDING USE OF NON-IFRS ACCOUNTING MEASURES

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

FORWARD-LOOKING STATEMENTS

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

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