Interim Condensed Consolidated Financial Statements

Clarke Inc.

September 30, 2017 and 2016

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (in thousands of Canadian dollars)

	September 30, 2017	December 31, 2016
	$	$
ASSETS		
Current		
Cash and cash equivalents	**10,711**	6,770
Marketable securities	**124,902**	134,821
Receivables	**980**	1,012
Income taxes receivable	**7,273**	155
Prepaid expenses	**151**	91
Total current assets	**144,017**	142,849
Accrued pension benefit asset *(note 3)*	**1,333**	30,434
Fixed assets and investment properties *(note 9)*	**464**	486
Long-term investments	**2,201**	2,925
Deferred income tax assets	**3,045**	1,069
Total assets	**151,060**	177,763
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**674**	1,575
Income taxes payable	**276**	—
Current portion of long-term debt	**644**	644
Total current liabilities	**1,594**	2,219
Long-term debt	**644**	1,075
Deferred income tax liabilities	**3,014**	2,170
Total liabilities	**5,252**	5,464
Shareholders' equity		
Share capital *(note 4)*	**47,541**	48,121
Retained earnings	**90,066**	116,789
Accumulated other comprehensive income	**7,022**	6,142
Share-based payments	**1,179**	1,247
Total shareholders' equity	**145,808**	172,299
Total liabilities and shareholders' equity	**151,060**	177,763

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, 2017 $	Three months ended September 30, 2016 $	**Nine months ended September 30, 2017 $**	Nine months ended September 30, 2016 $
Revenue				
Unrealized gains (losses) on investments	**(2,469)**	11,102	**856**	10,591
Realized gains (losses) on investments	**615**	(15)	**1,245**	105
Dividend income	**864**	864	**2,688**	2,643
Interest income	**194**	489	**649**	1,467
Provision of services	**3,960**	3,776	**5,631**	5,878
Other income (loss) *(note 5)*	**(757)**	135	**(1,183)**	(68)
	2,407	16,351	**9,886**	20,616
Expenses				
Cost of services provided	**1,203**	1,107	**2,999**	3,178
General and administrative expenses	**450**	525	**1,583**	1,891
Share-based payment expense (recovery)	**11**	60	**(68)**	113
Depreciation	**58**	71	**175**	212
Interest expense	**12**	18	**40**	61
	1,734	1,781	**4,729**	5,455
Income before income taxes	**673**	14,570	**5,157**	15,161
Provision for (recovery of) income taxes *(note 6)*	**707**	416	**1,034**	(799)
Net income (loss)	**(34)**	14,154	**4,123**	15,960
Basic earnings per share:				
(in dollars) (note 4)	**—**	0.93	**0.28**	1.03
Diluted earnings per share:				
(in dollars) (note 4)	**—**	0.93	**0.28**	1.03

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, 2017 $	Three months ended September 30, 2016 $	**Nine months ended September 30, 2017 $**	Nine months ended September 30, 2016 $
Net income (loss)	**(34)**	14,154	**4,123**	15,960
Other comprehensive income (loss)				
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, net of income tax recovery of $247 (2016 – nil) *(note 3)*	**(587)**	700	**880**	(4,076)
Other comprehensive income (loss)	**(587)**	700	**880**	(4,076)
Comprehensive income (loss)	**(621)**	14,854	**5,003**	11,884

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, 2017 $	Nine months ended September 30, 2016 $
OPERATING ACTIVITIES		
Net income	**4,123**	15,960
Adjustments for items not involving cash *(note 8)*	**(1,804)**	(11,433)
	2,319	4,527
Net change in non-cash working capital balances *(note 8)*	**1,101**	(907)
Net cash provided by operating activities	**3,420**	3,620
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities	**11,261**	9,317
Purchase of marketable securities	**(230)**	(9,126)
Proceeds on disposition of fixed assets	**2**	3,600
Purchase of fixed assets	**(153)**	(5)
Distribution of pension plan surplus, net of tax *(note 3)*	**20,691**	—
Return of capital (net of purchases) of long-term investments	**807**	324
Proceeds of loans receivable	**—**	1,717
Net cash provided by investing activities	**32,378**	5,827
FINANCING ACTIVITIES		
Dividends paid	**(29,338)**	(35,918)
Repurchase of shares for cancellation	**(2,088)**	(7,085)
Repayment of long-term debt	**(431)**	(430)
Net cash used in financing activities	**(31,857)**	(43,433)
Net change in cash during the period	**3,941**	(33,986)
Cash and cash equivalents, beginning of period	**6,770**	42,130
Cash and cash equivalents, end of period	**10,711**	8,144

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, 2017 $	Nine months ended September 30, 2016 $
Share capital		
Common shares:		
Balance at beginning of period	**48,121**	50,654
Common shares repurchased for cancellation *(note 4)*	**(580)**	(2,483)
Balance at end of period	**47,541**	48,171
Retained earnings		
Balance at beginning of period	**116,789**	130,431
Net income	**4,123**	15,960
Dividends declared *(note 4)*	**(29,338)**	(34,355)
Purchase price in excess of the book value of common shares repurchased for cancellation	**(1,508)**	(4,602)
Balance at end of period	**90,066**	107,434
Accumulated other comprehensive income		
Balance at beginning of period	**6,142**	8,616
Other comprehensive income (loss)	**880**	(4,076)
Balance at end of period	**7,022**	4,540
Share-based payments		
Balance at beginning of period	**1,247**	1,100
Share-based payment expense (recovery)	**(68)**	113
Balance at end of period	**1,179**	1,213
Total shareholders' equity	**145,808**	161,358

See accompanying notes to the interim condensed consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Clarke Inc. (the "Company" or "Clarke") was incorporated on December 9, 1997 pursuant to the Canada Business Corporations Act. The head office of the Company is located at 6009 Quinpool Road, Halifax, Nova Scotia. The Company is an investment holding company with investments in a diversified group of businesses, operating primarily in Canada. The Company continuously evaluates the acquisition, retention and disposition of its investments. Changes in the mix of investments should be expected. These interim condensed consolidated financial statements were approved by the Board of Directors on November 1, 2017.

Basis of presentation and statement of compliance

These interim condensed consolidated financial statements for the three and nine months ended September 30, 2017, 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, 2016. These interim condensed consolidated financial statements for the three and nine months ended September 30, 2017 should be read together with the annual consolidated financial statements for the year ended December 31, 2016.

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 year 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 has assessed this new standard and there will be no significant impact to the consolidated financial statements when adopted.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 replaces the previous guidance on revenue recognition and provides a framework to determine when to recognize revenue and at what amount. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company has assessed this new standard and there will be no significant impact to the consolidated financial statements when adopted.

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

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

IFRS 16 *Leases*

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

3. EMPLOYEE FUTURE BENEFITS

During the nine months ended September 30, 2017, the Company received approval from the Nova Scotia Pension Regulation Division to terminate and wind-up the Clarke Group Pension Plan (the "Plan"), which is administered by Clarke Inc. Following a settlement of the Plan's liabilities in the three months ended September 30, 2017, the Company received a pre-tax distribution of surplus in the amount of $29,567. The Company now administers two defined benefit pension plans.

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

	September 30, 2017 **$**	December 31, 2016 $
Fair value of plan assets	**85,347**	111,426
Accrued benefit obligation	**(49,691)**	(49,943)
Funded status of plans – surplus	**35,656**	61,483
Cumulative impact of asset ceiling	**(34,323)**	(31,049)
Accrued pension benefit asset, net of impact of asset ceiling	**1,333**	30,434

The defined benefit expense recognized in the interim consolidated statements of earnings for the three and nine months ended September 30, 2017 was $167 (2016 – recovery of $60 and $179, respectively).

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

	Three months ended September 30, 2017 **$**	Three months ended September 30, 2016 $	**Nine months ended September 30, 2017** **$**	Nine months ended September 30, 2016 $
Remeasurement gains (losses)	**3,743**	1,788	**3,023**	(274)
Change in amount of asset ceiling	**(4,577)**	(1,088)	**(2,390)**	(3,802)
Defined benefit recovery (expense) recognized	**(834)**	700	**633**	(4,076)

3. EMPLOYEE FUTURE BENEFITS (CONT'D)

Significant assumptions

	September 30, 2017	December 31, 2016
	%	%
Accrued benefit obligation – discount rate	**3.75**	3.80
Benefit costs for the period – discount rate	**3.80**	3.95

4. SHARE CAPITAL AND EARNINGS PER SHARE

	September 30, 2017		December 31, 2016	
	# of shares	**$**	# of shares	$
Common shares				
Outstanding common shares, beginning of period	**14,844,867**	**48,121**	15,626,175	50,654
Common shares repurchased for cancellation	**(179,100)**	**(580)**	(781,308)	(2,533)
Outstanding common shares, end of period	**14,665,767**	**47,541**	14,844,867	48,121

Earnings per share

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

	Three months ended September 30, 2017			Three months ended September 30, 2016		
	Loss	**Weighted average shares (in thousands)**	**Per share amount**	Earnings	Weighted average shares (in thousands)	Per share amount
	$	**#**	**$**	$	#	$
Basic earnings per share	**(34)**	**14,711**	**—**	14,154	15,235	0.93
Common shares issued on assumed exercising of stock options	**—**	**70**		—	—	
Diluted earnings per share	**(34)**	**14,781**	**—**	14,154	15,235	0.93

	Nine months ended September 30, 2017			Nine months ended September 30, 2016		
	Earnings	**Weighted average shares (in thousands)**	**Per share amount**	Earnings	Weighted average shares (in thousands)	Per share amount
	$	**#**	**$**	$	#	$
Basic earnings per share	**4,123**	**14,794**	**0.28**	15,960	15,491	1.03
Common shares issued on assumed exercising of stock options	**—**	**64**		—	—	
Diluted earnings per share	**4,123**	**14,858**	**0.28**	15,960	15,491	1.03

All potentially dilutive securities issued relate to stock options for the three and nine months ended September 30, 2017 and 2016. The stock options were dilutive for the three and nine months ended September 30, 2017 and anti-dilutive for the three and nine months ended September 30, 2016.

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

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

Dividends

Dividends declared for three and nine months ended September 30, 2017 were $29,338 (2016 – nil and $34,355, respectively).

5. OTHER INCOME (LOSS)

Other income is comprised of the following:

	Three months ended September 30, 2017 $	Three months ended September 30, 2016 $	**Nine months ended September 30, 2017 $**	Nine months ended September 30, 2016 $
Foreign exchange gains (losses)	**(590)**	75	**(1,018)**	(607)
Pension recovery (expense) *(note 3)*	**(167)**	60	**(167)**	179
Gains on disposition of fixed assets	**—**	—	**2**	360
Other income (loss)	**(757)**	135	**(1,183)**	(68)

The foreign exchange losses for the three and nine months ended September 30, 2017 and nine months ended September 30, 2016 is primarily the result of unrealized foreign exchange losses on foreign investments. The gain on disposition of fixed assets for the nine months ended September 30, 2016 is a result of a building sale.

6. INCOME TAXES

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

	Three months ended September 30, 2017 $	Three months ended September 30, 2016 $	**Nine months ended September 30, 2017 $**	Nine months ended September 30, 2016 $
Current	**1,886**	204	**1,919**	(11)
Deferred	**(1,179)**	212	**(885)**	(788)
Provision for (recovery of) income taxes	**707**	416	**1,034**	(799)

The effective tax rates differ from the statutory tax rates primarily as a result of unrealized investment gains on the Company's portfolio of marketable securities and the pension plan surplus distribution which is partially taxable.

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

7. FINANCIAL INSTRUMENTS

The Company manages its exposure to foreign exchange risk by entering into foreign exchange contracts. At September 30, 2017, the Company did not have any forward contracts outstanding to sell US dollars. Unrealized foreign exchange gains of nil have been included in receivables of the interim consolidated statements of financial position as at September 30, 2017 (December 31, 2016 – $4). Unrealized foreign exchange losses of nil and $4 have been recognized in other income in the interim consolidated statements of earnings for the three and nine months ended September 30, 2017 (three and nine months ended September 30, 2016 – unrealized foreign exchange losses of $886 and gains of $704).

8. SUPPLEMENTAL CASH FLOW INFORMATION

Adjustments for items not involving cash	**Nine months ended September 30, 2017 $**	Nine months ended September 30, 2016 $
Realized/unrealized gains on investments	**(2,101)**	(10,696)
Deferred income tax recovery *(note 6)*	**(885)**	(788)
Share-based payment expense	**(68)**	113
Unrealized foreign exchange losses	**910**	392
Pension recovery *(note 3)*	**167**	(179)
Gains on disposition of fixed assets *(note 5)*	**(2)**	(360)
Depreciation	**175**	212
Loan receivable accretion	**—**	(127)
	(1,804)	(11,433)

Net changes in non-cash working capital balances	**Nine months ended September 30, 2017 $**	Nine months ended September 30, 2016 $
Receivables *(note 7)*	**28**	(163)
Income taxes receivable	**1,758**	(141)
Prepaid expenses	**(60)**	(67)
Accounts payable and accrued liabilities	**(901)**	(476)
Income taxes payable	**276**	(60)
	1,101	(907)

9. RELATED PARTY DISCLOSURES

During the nine months ended September 30, 2017, the Company sold the equipment of its Information Technology division to a related party for a nominal amount, which was the carrying amount on the transaction date. The Company had taken an impairment charge of $144 related to the equipment during the year ended December 31, 2016.