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 *(note 4)*	**37,902**	10,270
Fixed assets and investment properties *(note 5)*	**1,036**	444
Long-term investments *(note 6)*	**—**	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 *(note 7)*	**1,000**	645
Total current liabilities	**1,894**	2,212
Long-term debt *(note 7)*	**2,778**	430
Deferred income tax liabilities	**11,498**	1,618
Total liabilities	**16,170**	4,260
Shareholders' equity		
Share capital *(note 8)*	**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:				
(in dollars) (note 8)	**0.49**	—	**0.72**	0.28
Diluted earnings per share:				
(in dollars) (note 8)	**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 *(note 11)*	**(3,709)**	(1,804)
	5,481	2,319
Net change in non-cash working capital balances *(note 11)*	**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 *(note 4)*	**1,216**	20,691
Proceeds on disposition of long-term investments *(note 6)*	**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 *(note 8)*	**(23,036)**	(2,088)
Proceeds from long-term debt *(note 7)*	**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 *(note 8)*	**(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 *(note 8)*	**—**	(29,338)
Purchase price in excess of the book value of common shares repurchased for cancellation *(note 8)*	**(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

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.

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.

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

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

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.

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.

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

Adjustments for items not involving cash	**Nine months ended September 30, 2018 $**	Nine months ended September 30, 2017 $
Realized/unrealized gains on investments	**(5,729)**	(2,101)
Deferred income tax expense (recovery) *(note 10)*	**1,594**	(885)
Unrealized foreign exchange losses (gains)	**(430)**	910
Pension expense *(note 4)*	**617**	167
Depreciation	**239**	175
Share-based payment recovery	**—**	(68)
Gains on disposition of fixed assets *(note 9)*	**—**	(2)
	(3,709)	(1,804)

Net changes in non-cash working capital balances	**Nine months ended September 30, 2018 $**	Nine months ended September 30, 2017 $
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