Clarke Inc.

March 31, 2023 and 2022

May 12, 2023

Management's Report

The accompanying unaudited interim condensed consolidated financial statements (the "Financial Statements") of Clarke Inc. (the "Company") are the responsibility of management and have been approved by the Board of Directors. The Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The Financial Statements include certain amounts and assumptions that are based on management's best estimates and have been derived with careful judgment.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to provide reasonable assurance that the financial records are reliable for the preparation of the Financial Statements. The Audit Committee of the Board of Directors reviewed and approved the Company's Financial Statements and recommended their approval by the Board of Directors.

The Financials Statements have not been reviewed by the external auditors of the Company.

/s/ George Armoyan
President and Chief Executive Officer
Montreal, QC

/s/ Tom Casey
Chief Financial Officer
Halifax, NS

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (in thousands of Canadian dollars)

	March 31, 2023 **$**	December 31, 2022 $
ASSETS		
Current		
Cash	**841**	1,090
Receivables	**4,820**	8,041
Real estate inventory under development *(note 10)*	**—**	70,418
Other assets	**1,980**	1,303
Total current assets	**7,641**	80,852
Accrued pension benefit asset *(note 2)*	**31,140**	28,630
Investment properties *(note 3)*	**86,502**	80,885
Property and equipment	**220,824**	221,704
Real estate inventory under development *(note 10)*	**72,892**	—
Deferred income tax assets	**3,583**	3,730
Other assets	**351**	320
Total assets	**422,933**	416,121
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Short-term indebtedness	**44,795**	26,086
Accounts payable and other liabilities	**15,031**	25,310
Income taxes payable	**1,820**	2,063
Current portion of long-term debt *(notes 4 and 10)*	**20,820**	77,423
Total current liabilities	**82,466**	130,882
Convertible debentures	**34,189**	34,146
Long-term debt *(notes 4 and 10)*	**70,609**	20,929
Construction accounts payable and other liabilities	**11,366**	7,035
Lease obligations	**520**	560
Deferred income tax liabilities	**7,947**	7,599
Total liabilities	**207,097**	201,151
Shareholders' equity		
Share capital *(note 5)*	**83,118**	83,190
Contributed surplus	**7,302**	7,302
Retained earnings	**39,767**	41,579
Accumulated other comprehensive income	**85,649**	82,899
Total shareholders' equity	**215,836**	214,970
Total liabilities and shareholders' equity	**422,933**	416,121

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 LOSS

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

	Three months ended March 31, 2023 $	Three months ended March 31, 2022 $
Revenue and other income		
Hotel	**14,998**	9,601
Provision of services	**276**	240
Investment and other income *(note 6)*	**162**	385
	15,436	10,226
Expenses		
Operating expenses	**10,566**	6,540
Cost of services provided	**821**	596
General and administrative expenses	**1,025**	523
Property taxes and insurance	**941**	440
Depreciation and amortization	**2,276**	2,369
Interest and accretion	**1,936**	1,526
	17,565	11,994
Loss before income taxes	**(2,129)**	(1,768)
Recovery of income taxes *(note 7)*	**(391)**	(321)
Net loss	**(1,738)**	(1,447)
Basic and diluted loss per share *(note 5)*	**(0.12)**	(0.10)

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, 2023 $	Three months ended March 31, 2022 $
Net loss	**(1,738)**	(1,447)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurement gains and effect of changes to asset ceiling on defined benefit pension assets, net of income tax *(note 2)*	**2,750**	7,372
Items that may be reclassified subsequently to profit or loss		
Unrealized losses on translation of net investment in foreign operations, net of income tax	**—**	(195)
Other comprehensive income	**2,750**	7,177
Comprehensive income	**1,012**	5,730

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, 2023	Three months ended March 31, 2022
	$	$
OPERATING ACTIVITIES		
Net loss	**(1,738)**	(1,447)
Adjustments for items not involving cash *(note 8)*	**1,472**	2,291
	(266)	844
Additions to real estate inventory under development	**(5,867)**	(3,368)
Net change in non-cash working capital balances *(note 8)*	**3,681**	2,871
Net cash provided by (used in) operating activities	**(2,452)**	347
INVESTING ACTIVITIES		
Additions to property and equipment	**(1,622)**	(3,407)
Additions to investment properties	**(7,924)**	(3,138)
Distribution of pension plan surplus, net of tax	**1,049**	—
Net cash used in investing activities	**(8,497)**	(6,545)
FINANCING ACTIVITIES		
Repurchase of shares for cancellation *(note 5)*	**(146)**	(1,181)
Proceeds of short-term indebtedness	**18,709**	—
Proceeds of long-term debt *(note 4)*	**3,981**	2,453
Repayment of long-term debt *(note 4)*	**(11,804)**	(1,031)
Principal payments of lease obligation	**(40)**	(37)
Net cash provided by financing activities	**10,700**	204
Net change in cash during the period	**(249)**	(5,994)
Cash, beginning of period	**1,090**	18,423
Cash, end of period	**841**	12,429

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, 2023	Three months ended March 31, 2022
	$	$
Share capital		
Balance at beginning of period	**83,190**	85,218
Common shares repurchased for cancellation *(note 5)*	**(72)**	(668)
Balance at end of period	**83,118**	84,550
Contributed surplus		
Balance at beginning and end of period	**7,302**	7,302
Retained earnings		
Balance at beginning of period	**41,579**	40,100
Net loss	**(1,738)**	(1,447)
Purchase price in excess of the book value of common shares repurchased for cancellation *(note 5)*	**(74)**	(513)
Balance at end of period	**39,767**	38,140
Accumulated other comprehensive income		
Balance at beginning of period	**82,899**	75,999
Other comprehensive income	**2,750**	7,177
Balance at end of period	**85,649**	83,176
Total shareholders' equity	**215,836**	213,168

See accompanying notes to the interim condensed consolidated financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Clarke Inc. 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 and real estate company with holdings in a diversified group of businesses and across real estate sectors. The Company operates primarily in Canada. The Company continually evaluates the acquisition, retention, and disposition of its holdings and changes in its asset mix should be expected. These interim condensed consolidated financial statements were approved by the Board of Directors on May 12, 2023.

Basis of presentation and statement of compliance

The Financial Statements are for the three months ended March 31, 2023 and were prepared in accordance with IAS 34, *Interim Financial Reporting,* and should be read together with the annual consolidated financial statements for the year ended December 31, 2022. The same accounting policies and methods of computation were followed in the preparation of the Financial Statements as were followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2022.

Principles of consolidation

The Financial Statements include the accounts of the Company and its subsidiaries. All intercompany transactions have been eliminated on consolidation. The Company's significant subsidiary is Holloway Lodging Corporation. All subsidiaries have the same reporting year end as the Company, and all follow the same accounting policies. The Financial Statements also include the Company's share of the assets, liabilities, revenues and expenses of its joint operation *(note 10)*.

2. EMPLOYEE FUTURE BENEFITS

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

	March 31, 2023 **$**	December 31, 2022 $
Fair value of plan assets	**113,904**	114,183
Accrued benefit obligation	**(39,839)**	(38,778)
Funded status of plans - surplus	**74,065**	75,405
Cumulative impact of asset ceiling	**(42,925)**	(46,775)
Accrued pension benefit asset	**31,140**	28,630

The defined benefit pension recovery recognized in the interim consolidated statements of loss for the three months ended March 31, 2023 was $163 (2022 – $181).

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

2. EMPLOYEE FUTURE BENEFITS (CONT.)

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

	Three months ended March 31, 2023 **$**	Three months ended March 31, 2022 $
Remeasurement gains (losses) and return on plan assets in excess of discount rate	**(666)**	13,107
Impact of asset ceiling recognized in other comprehensive income	**4,441**	(3,063)
Deferred income tax expense	**(1,025)**	(2,672)
Defined benefit recovery	**2,750**	7,372

The most significant assumption impacting both the valuation of the accrued benefit obligation and the calculation of the asset ceiling is the discount rate, which was 4.85% as at March 31, 2023 (December 31, 2022 – 5.05%).

3. INVESTMENT PROPERTIES

Three months ended March 31, 2023	**Buildings** **$**	**Vacant land** **$**	**Under construction** **$**	**Total** **$**
Beginning balance	18,431	45	62,409	80,885
Additions	41	—	5,591	5,632
Foreign exchange impact	(15)	—	—	(15)
Ending balance	**18,457**	**45**	**68,000**	**86,502**

4. LONG-TERM DEBT

The following table summarizes the changes in long-term debt for the three months ended March 31, 2023:

	Three months ended March 31, 2023 **$**
Total long-term debt – beginning balance	**98,352**
Proceeds from long-term debt, net of financing fees	**3,981**
Repayment of long-term debt	**(11,804)**
Capitalized interest on construction mortgage	**847**
Accretion	**53**
Total long-term debt – ending balance	**91,429**
Less: current portion of long-term debt	**(20,820)**
Long-term portion	**70,609**

On February 9, 2023, using available funds from its revolving credit facilities, the Company repaid a term loan of $11,042, which was due to mature on November 20, 2023 and was secured by a second lien on five hotels and three investment properties.

5. SHARE CAPITAL AND EARNINGS PER SHARE

	Three months ended March 31, 2023		Three months ended March 31, 2022	
	# of shares	**$**	# of shares	$
Common shares				
Outstanding common shares, beginning of period	**14,069,144**	**83,190**	14,411,969	85,218
Common shares repurchased for cancellation	**(12,100)**	**(72)**	(113,000)	(668)
Outstanding common shares, end of period	**14,057,044**	**83,118**	14,298,969	84,550

Earnings per share

	Three months ended March 31, 2023			Three months ended March 31, 2022		
	Net loss	**Weighted average shares (in thousands)**	**Per share amount**	Net loss	Weighted average shares (in thousands)	Per share amount
	$	**#**	**$**	$	#	$
Basic and diluted loss	**(1,738)**	**14,063**	**(0.12)**	(1,447)	14,343	(0.10)

All potentially dilutive securities outstanding as of March 31, 2023, relate to the Company's convertible debentures. The convertible debentures were anti-dilutive for the three months ended March 31, 2023 and March 31, 2022.

Normal course issuer bid ("NCIB")

During the three months ended March 31, 2023, the Company purchased for cancellation 12,100 (2022 – 113,000) common shares under an NCIB at a cost of $146 (2022 – $1,181). The purchase price in excess of the book value of the shares in the amount of $74 (2022 – $513) has been charged to retained earnings, and $72 (2022 – $668) has been charged to share capital.

6. INVESTMENT AND OTHER INCOME

Investment and other income is comprised of the following:

	Three months ended March 31, 2023	Three months ended March 31, 2022
	$	$
Unrealized gains on marketable securities	**—**	32
Interest income	**1**	224
Pension recovery *(note 2)*	**163**	181
Loss on disposal of property and equipment	**(2)**	—
Foreign exchange losses	**—**	(52)
	162	385

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

7. INCOME TAXES

The recovery of income taxes consists of:

	Three months ended March 31, 2023 $	Three months ended March 31, 2022 $
Current	**135**	(407)
Deferred	**(526)**	86
Recovery of income taxes	**(391)**	(321)

As at March 31, 2023, the Company had non-capital losses carried forward for tax purposes of $18,133 (December 31, 2022 – $17,018) in Canada and US$15,434 (December 31, 2022 – US$14,985) in the United States.

Certain deferred income tax assets have not been recognized. They are as follows:

	March 31, 2023 $	December 31, 2022 $
Property and equipment	**1,384**	1,401
Non-capital loss carry forwards	**3,662**	3,543
Total	**5,046**	4,944

8. SUPPLEMENTAL CASH FLOW INFORMATION

Adjustments for items not involving cash	**Three months ended March 31, 2023 $**	Three months ended March, 2022 $
Depreciation and amortization	**2,276**	2,369
Realized/unrealized gains on marketable securities	**—**	(32)
Deferred income tax expense (recovery) *(note 7)*	**(526)**	86
Share-based payment recovery	**(213)**	(90)
Accretion	**96**	78
Realized/unrealized foreign exchange losses	**—**	61
Pension recovery *(note 2)*	**(163)**	(181)
Loss on disposal of assets	**2**	—
	1,472	2,291

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

8. SUPPLEMENTAL CASH FLOW INFORMATION (CONT.)

Net change in non-cash working capital balances	**Three months ended March 31, 2023 $**	Three months ended March 31, 2022 $
Receivables	**3,221**	1,699
Other assets	**(721)**	(750)
Accounts payable and other liabilities	**1,046**	2,329
Income taxes payable	**135**	(407)
	3,681	2,871

9. SEGMENTED INFORMATION

The Company operates in two reportable business segments. The Investment segment represents the Company's ferry business, investment properties and real estate inventory under development. The Hospitality segment consists of the Company's ownership and operation of hotels. The Other category is not a segment and is disclosed for reconciliation purposes. The Other category consists of the Company's treasury and executive functions, pension plans and convertible debentures. Revenue in the Other category pertains primarily to investment management fees.

Transactions between the segments are recorded at fair value, which is the amount of consideration established and agreed to by management of the segments. Reconciling items represent inter-segment eliminations for services provided between segments.

The Company operates predominantly in Canada, with the exception of three investment properties located in the United States. All material hotel revenue and provision of services was generated by continuing operations in Canada for the three months ended March 31, 2023 and 2022.

Three months ended March 31, 2023	**Investment $**	**Hospitality $**	**Other $**	**Eliminations $**	**Total $**
Revenue and other income:					
Hotel revenue and provision of services	**15**	**14,998**	**267**	**(6)**	**15,274**
Investment and other income	**—**	**(2)**	**164**	**—**	**162**
	15	**14,996**	**431**	**(6)**	**15,436**
Operating expenses before the undernoted	**1,721**	**10,747**	**891**	**(6)**	**13,353**
Depreciation and amortization	**10**	**2,258**	**8**	**—**	**2,276**
Interest and accretion	**—**	**880**	**1,056**	**—**	**1,936**
Income (loss) before income taxes	**(1,716)**	**1,111**	**(1,524)**	**—**	**(2,129)**
Assets	**164,969**	**225,320**	**32,644**	**—**	**422,933**
Liabilities	**68,876**	**59,876**	**78,345**	**—**	**207,097**
Capital expenditures	**13,834**	**1,579**	**—**	**—**	**15,413**
Assets located outside of Canada	**18,738**	**—**	**—**	**—**	**18,738**

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

9. SEGMENTED INFORMATION (CONT.)

Three months ended March 31, 2022	Investment $	Hospitality $	Other $	Eliminations $	Total $
Revenue and other income:					
Hotel revenue and provision of services	8	9,601	238	(6)	9,841
Investment and other income	101	103	181	—	385
	109	9,704	419	(6)	10,226
Operating expenses before the undernoted	1,126	6,538	441	(6)	8,099
Depreciation and amortization	33	2,334	2	—	2,369
Interest and accretion	—	668	858	—	1,526
Income (loss) before income taxes	(1,050)	164	(882)	—	(1,768)
Assets	117,613	202,154	77,446	—	397,213
Liabilities	50,574	61,253	72,218	—	184,045
Capital expenditures	8,304	1,609	—	—	9,913
Assets located outside of Canada	16,930	—	—	—	16,930

10. JOINT OPERATION

As of March 31, 2023, the Company was in negotiations to potentially amend and extended its co-ownership agreement (“COA”) with its partners on the 1111 Atwater Avenue development (“the Development”). The amendment would include the rescindment and forfeiture of the Company’s right to exit the COA and certain changes to the timing and order of the distributions of the Development’s ultimate cashflows. At December 31, 2022, the assets and liabilities of the Development were presented as current on the statement of financial position due to the Company’s intention to exit the COA. As a result of the Company’s ongoing negotiations to remain in the COA, the assets and liabilities are reflected in both current and non-current on the interim consolidated statement of financial position at March 31, 2023 based on their expected settlements. If the Company ultimately decides not to amend and extend the COA, the Company will receive its cumulative investment plus a 6.0% return upon exiting.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations. The Company has two credit facilities with Canadian chartered banks. The aggregate availability of these facilities is $55,000 and at March 31, 2023, the Company had drawn $44,795 on these credit facilities and had available unused facilities totaling $10,205.

The Company monitors and forecasts its cash balances and cash flows generated from operations to meet its required obligations. The Company has recently had significant capital expenditures, including those required for the construction of its Carling Avenue Development in Ottawa, ON (the “Carling Avenue Development”). The Company has funded this construction with its cash on hand and from its two credit facilities to date. On May 8, 2023, the Company made its first draw in the amount of $10,400 on its $85,000 construction loan for the Carling Avenue Development. This construction loan is available to the Company as construction costs are incurred, bears interest at the lender’s prime rate and has a three-year term. Ongoing construction costs on the Carling Avenue Development are expected to be funded with this loan. As such, the Company does not expect to use its two credit facilities for the Carling Avenue Development going forward, other than for short-term working capital requirements. The Company believes it has access to sufficient capital through cash on hand, operating cash flows and existing borrowing facilities to meet its obligations as they come due.

12. SUBSEQUENT EVENT

On April 30, 2023, the interest rate on the Company's convertible debentures was reduced from 6.25% to 5.50%. The amendment to the interest rate was approved at a special meeting of the holders of the debentures held on September 20, 2021.