CLARKE

Halifax, Canada

Quarterly Report
March 31, 2023 and 2022

Management's Discussion & Analysis

Clarke Inc.

March 31, 2023 and 2022

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, 2023 compared to the three months ended March 31, 2022. The following information is derived from the Company's unaudited interim condensed consolidated financial statements which are prepared 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, 2023, available on SEDAR at www.sedar.com. This MD&A provides an overall discussion and analysis of the Company's performance and operations. The MD&A is prepared as at May 12, 2023 (unless otherwise stated). All dollar amounts are shown in millions of Canadian dollars except for per common share amounts or unless otherwise indicated.

OVERVIEW & STRATEGY

Clarke was incorporated on December 9, 1997 pursuant to the Canada Business Corporations Act and its head office is located at 145 Hobsons Lake Drive, Halifax, Nova Scotia.

The Company is an investment 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. 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 real estate, companies, securities or other assets. Clarke has a diverse and significant portfolio of direct real estate holdings across the hospitality, commercial, industrial, and residential sectors. We do not believe in limiting ourselves to specific types of investments. Clarke generally invests in industries that have hard assets, in particular, hospitality and real estate businesses.

FIRST QUARTER REVIEW AND OUTLOOK[1]

During the first quarter of 2023, the Company's book value per common share increased by $0.07, or 0.5%. The increase can primarily be ascribed to (i) hotel net operating income of $4.4 million, or $0.31 per share, (ii) after-tax remeasurement gains on the Company's pension surplus of $2.8 million, or $0.20 per share, offset by (iii) depreciation and amortization of $2.3 million, or $0.16 per share, (iv) interest and accretion of $1.9 million, or $0.14 per share, and (v) losses in our non-hospitality operating businesses and corporate overhead of $2.0 million, or $0.14 per share.

The Company's book value per common share at the end of the quarter was $15.35, while the common share price was $12.50.

Hotel Operations

Hotel revenues improved significantly over the first quarter of 2022, primarily due to the general recovery we experienced throughout 2022 in our markets from the COVID-19 pandemic (the "Pandemic"). Hotel revenue in the three months ended March 31, 2023 was $15.0 million compared to $9.6 million in the same period in 2022 – an increase of $5.4 million, or 56%.

Real Estate and Corporate

Construction continues on the first phase of the redevelopment of our excess land on Carling Avenue in Ottawa, ON (the "Carling Avenue Development"). While the first phase of construction is underway, pre-construction activities are also ongoing for its second phase. The two phases will consist of a multi-building residential apartment complex including ground-floor retail space. Phase one of the Carling Avenue Development consists of two residential towers with 404 rental units. While construction financing was secured in the fourth quarter of 2022, the project had been self-financed to date with cash on hand and the Company's existing credit facilities. The Company made its first draw on its construction loan for the Carling Avenue Development subsequent to March 31, 2023 (see the "Liquidity and Capital Resources" section below).

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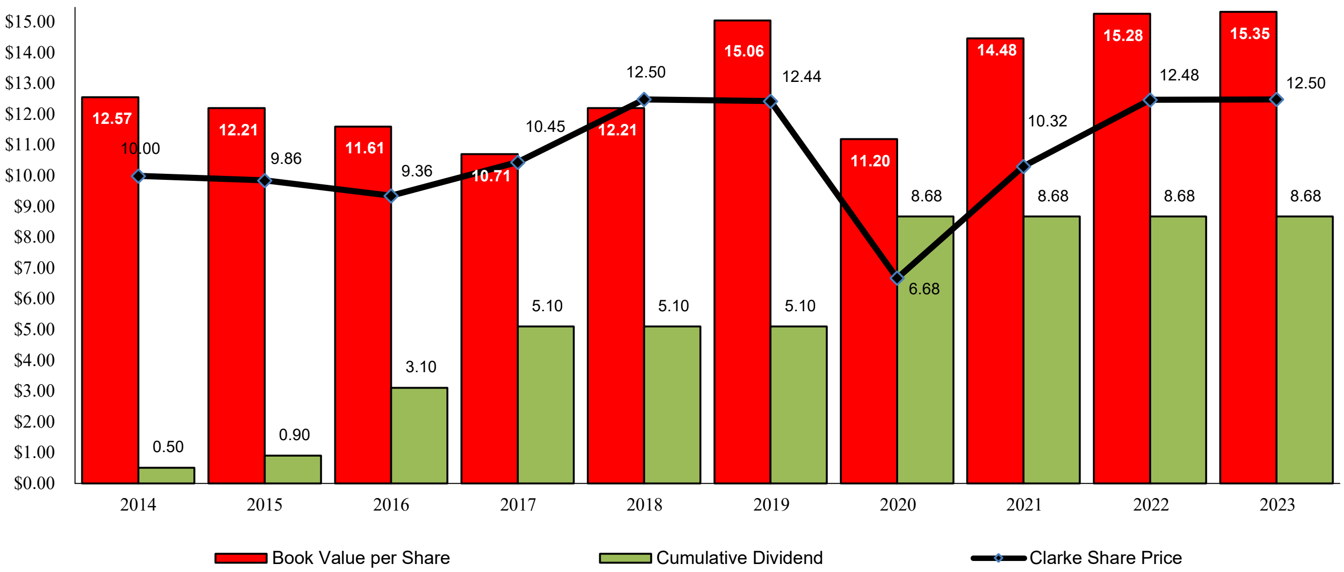
[1] This MD&A refers to "book value per share" and "net operating income". These are non-IFRS measures and ratios. Refer to the "Cautionary Statement Regarding Use of Non-IFRS Accounting Measures and Ratios" section of this MD&A for more information.

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.

The Company has $170.4 million of debt as of March 31, 2023 and has access to two secured, revolving credit facilities.

BOOK VALUE PER SHARE

The Company's book value per share at March 31, 2023 was $15.35, an increase of $0.07 per common share since December 31, 2022. The following graph illustrates Clarke's book value per share, share price and cumulative dividends paid over the past ten years.



**All years as of December 31 except for current quarter as at March 31, 2023.*

RESULTS OF OPERATIONS

Highlights of the interim condensed consolidated financial statements for the three months ended March 31, 2023 compared to the three months ended March 31, 2022 are as follows:

(in millions, except per share amounts)	**Three months ended March 31, 2023 $**	Three months ended March 31, 2022 $
Hotel revenue	**15.0**	9.6
Provision of services revenue	**0.3**	0.2
Investment and other income*	**0.2**	0.4
Net loss	**(1.7)**	(1.4)
Comprehensive income	**1.0**	5.7
Basic loss per share ("EPS")	**(0.12)**	(0.10)
Diluted EPS	**(0.12)**	(0.10)
Total assets	**422.9**	397.2
Total liabilities	**207.1**	184.0
Long-term financial liabilities	**124.6**	127.3
Book value per share	**15.35**	14.91

** Investment and other income includes unrealized and realized gains and losses on assets and liabilities, interest income, pension recovery/expense and foreign exchange gains and losses.*

The Company's net loss for the three months ended March 31, 2023 was $1.7 million, compared to $1.4 million for the same period in 2022. The net loss was primarily attributable to the Company's non-hospitality operating businesses, including its ferry operations, which does not generate revenue in the first quarter, and the lease-up and operating costs for the 1111 Atwater Avenue development in Montreal, QC ("the 1111 Atwater Development").

Hotel operations produced stronger first quarter results, achieving net operating income of $4.4 million in the quarter, compared to $3.2 million in the same period in 2022. Hotel revenue was $15.0 million for the three months ended March 31, 2023, compared to $9.6 million in the same period in 2022. The increase is primarily due to our markets recovering from the Pandemic, which continued to negatively impact results in the first quarter of 2022.

Comprehensive income for the three months ended March 31, 2023 was $1.0 million compared to $5.7 million in the same period in 2022. This decrease is primarily due to reduced remeasurement gains on our pension plan surplus of $2.8 million in 2023 compared to $7.4 million in 2022.

Basic and diluted loss per share was $0.12 in the first quarter of 2023 compared to $0.10 in 2022.

SEGMENT REPORTING

The table below summarizes the Company's holdings as at March 31, 2023 based on total assets. The Other category is not a segment and is disclosed for reconciliation purposes. It consists of the Company's treasury and executive functions, pension plans and convertible debentures.

	March 31, 2023		December 31, 2022	
Segment	**$**	**%**	$	%
Investment	**165.0**	**39.0**	157.6	37.8
Hospitality	**225.3**	**53.3**	227.4	54.7
Other	**32.6**	**7.7**	31.1	7.5
Total	**422.9**	**100.0**	416.1	100.0

Investment segment

The investment segment is comprised of the Company's ferry business, investment properties and real estate inventory under development.

The Company is a one-third partner in the 1111 Atwater Development – a real estate development project in downtown Montreal that is currently under construction. The development involves a 38-storey building including seniors' housing, rental units and luxury condominiums, with extensive amenities for residents. The Company is in negotiations to potentially amend and extended its co-ownership agreement ("COA") with its partners. 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. 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.

The Carling Avenue Development and the 1111 Atwater Development both continue to progress and are the drivers of the segment's $13.8 million of capital expenditures during the quarter.

The Company owns 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 off-season period. The ferry commenced service for the season on April 6, 2023.

Hospitality segment

The Company owns and operates hotels across Canada. Results for the three months ended March 31, 2023 compared to the three months ended March 31, 2022 are as follows:

	Three months ended March 31, 2023 $	Three months ended March 31, 2022 $
Hotel revenue	**15.0**	9.6
Investment and other income	**—**	0.1
Total revenue and other income	**15.0**	9.7
Less:		
Hotel operating expenses, property taxes and insurance	**10.7**	6.5
Depreciation and amortization	**2.3**	2.3
Interest expense	**0.9**	0.7
Income before income taxes	**1.1**	0.2

Hotel operations in the first quarter increased significantly compared to the same quarter in 2022. Hotel revenue was $15.0 million and income before taxes was $1.1 million for the three months ended March 31, 2023 compared to $9.6 million and $0.2 million, respectively, for the same period in 2022. The improved results are due to continued recovery from the Pandemic which was still having a significant negative impact in early 2022, the acquisition of the Stanford Inn & Suites in Grande Prairie, AB in June 2022, and the results of the newly renovated Sternwheeler Hotel and Conference Center in Whitehorse, YT, which was still undergoing renovations in the first quarter of 2022.

OUTSTANDING SHARE DATA

At May 12, 2023, the Company had:

- An unlimited number of common shares authorized and 13,990,844 common shares outstanding; and
- An unlimited number of First and Second Preferred Shares authorized and none outstanding.

LIQUIDITY AND CAPITAL RESOURCES

The Company has two revolving credit facilities with Canadian chartered banks. The aggregate availability of these facilities is $55.0 million and at March 31, 2023, the Company had drawn $44.8 million on these credit facilities and had available unused facilities of $10.2 million.

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. The Company has funded this construction with its cash on hand and from these two credit facilities to date. On May 8, 2023 the Company made its first draw in the amount of $10.4 million on its $85.0 million construction loan for the Carling Avenue Development. 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.

At March 31, 2023, current liabilities exceeded current assets by $74.8 million, compared to $50.0 million at December 31, 2022. The change is driven primarily by an increase to short-term indebtedness attributable to spending on the Company's various capital projects and the reclassification of certain net assets of the 1111 Atwater Development from current to non-current on the statement of financial position.

During the first quarter, using available funds from its revolving credit facilities, the Company repaid a term loan of $11.0 million, which was due to mature on November 20, 2023 and was secured by a second lien on five hotels and three investment properties.

Cash flow from operating activities

Cash used in operating activities was $2.5 million for the three months ended March 31, 2023, compared to providing $0.3 million during the same period in 2022. The cash was primarily used in additions to real estate inventory under development for the 1111 Atwater Development. In the prior year, net cash provided was due to cash flow primarily from our hospitality operations offset by additions to real estate inventory under development for the 1111 Atwater Development.

Cash flow from investing activities

Cash used in investing activities was $8.5 million for the three months ended March 31, 2023, compared to $6.5 million during the same period in 2022. The primary use of cash in both years was the result of the continued progress on the Carling Avenue Development and capital improvements at the Company's hotels.

Cash flow from financing activities

Cash provided by financing activities was $10.7 million for the three months ended March 31, 2023, compared to $0.2 million during the same period in 2022. The cash provided was primarily proceeds of long-term debt related to the 1111 Atwater Development of $4.0 million and proceeds of short-term indebtedness of $18.7 million, offset by the repayment of long-term debt of $11.8 million, including the early repayment of a $11.0 million mortgage that was to mature later in 2023. Net cash provided by financing activities during the same period in 2022 was primarily the result of proceeds of long-term debt related to the 1111 Atwater Development of $2.5 million, offset by the repayment of long-term debt of $1.0 million and the repurchase of common shares of $1.2 million.

SUMMARY OF QUARTERLY RESULTS

Key financial information for the current and preceding seven quarters is as follows:

Three months ended	Mar. 2023 $	Dec. 2022 $	Sept. 2022 $	Jun. 2022 $	Mar. 2022 $	Dec. 2021 $	Sep. 2021 $	Jun. 2021 $
Revenue and other income	15.4	19.6	22.2	15.1	10.2	20.5	18.0	13.3
Net income (loss)	(1.7)	1.3	3.9	(0.5)	(1.4)	5.8	3.5	3.1
Other comprehensive income (loss) ("OCI")	2.8	19.1	0.6	(20.0)	7.2	1.6	1.9	14.9
Comprehensive income (loss)	1.0	20.4	4.5	(20.5)	5.7	7.4	5.4	18.0
Basic EPS	(0.12)	0.10	0.27	(0.04)	(0.10)	0.40	0.24	0.21
Diluted EPS	(0.12)	0.10	0.25	(0.04)	(0.10)	0.36	0.16	0.20

As demonstrated above, our results can fluctuate significantly from quarter to quarter. The Company's hotel and ferry businesses are seasonal in nature and their results tend to fluctuate throughout the year. Revenue is generally highest in the third quarter due to increased leisure travel during the summer months. While certain expenses fluctuate according to revenue and operating levels, other expenses such as property taxes, insurance and interest are generally fixed and are incurred evenly throughout the year. In addition, the accounting for the accrued pension benefit asset can cause significant volatility to OCI and comprehensive income due to changes in assumptions and the impact of the accounting requirements of the asset ceiling under International Financial Reporting Standards ("IFRS"). Further volatility in net income, OCI and comprehensive income can be caused by the timing of various required fair value adjustments of the Company's property and equipment and its investment properties.

FINANCIAL INSTRUMENTS

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

- To generate investment returns, the Company may 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. Clarke may hedge its foreign currency exposure on U.S. dollar denominated investments.

The Company has a significant number of financial instruments. Notes 1, 2, 3, 4, 5, 11, 12, 13, 14 and 24 to the consolidated financial statements for the year ended December 31, 2022 and the Company's 2022 Annual information Form, provide further information on classifications in the financial statements, and risks, pertaining to the use of financial instruments by the Company.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

In accordance with Canadian Securities Administrators National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, 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 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. The President & Chief Executive Officer and the Chief Financial Officer have supervised Company's management in the evaluation of the design and effectiveness of the Company's internal controls over financial reporting as of the end of the period covered by the quarterly filings and believe the design and effectiveness to be adequate to provide such reasonable assurance using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013).

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, 2023 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal controls over financial reporting.

RELATED PARTY TRANSACTIONS

The Company may, from time to time, participate in related party transactions. The related party transactions during the current period 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 our consolidated financial statements for the year ended December 31, 2022.

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. These limited reviews identified no material remediation issues or 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 "book value per share" and "net operating income" (or "hotel net operating income"). Book value per share and net operating income are not financial measures or ratios calculated and presented in accordance with IFRS and should not be considered in isolation or as a substitute to any financial measures or ratios of performance calculated and presented in accordance with IFRS. These non-IFRS financial measures and ratios are presented in this MD&A because management of Clarke believes that such measures and ratios enhance the user's understanding of our historical and current financial performance.

Book value per share is measured by dividing shareholders' equity of the Company at the date of the statement of financial position by the number of common shares outstanding at that date. Net operating income is defined as revenue less expenses. Net operating income measures operating results before interest, depreciation, and amortization.

The following table reconciles hotel net operating income to income before taxes of the Company's hospitality segment as disclosed in the interim condensed consolidated financial statements for the three months ended March 31, 2023.

	Three months ended March 31, 2023 **$**	Three months ended March 31, 2022 $
Income before income taxes	**1.1**	0.2
Deduct:		
Investment and other income	**—**	(0.1)
Add:		
Non-operating corporate expenses	**0.2**	0.1
Depreciation and amortization	**2.3**	2.3
Interest and accretion	**0.9**	0.7
Hotel net operating income	**4.4**	3.2

Clarke's method of determining these amounts may differ from other companies' methods and, accordingly, these amounts may not be comparable to measures used by other companies.

Due to rounding, numbers presented throughout this document may not sum precisely to the totals provided.

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, 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 hotel and ferry operations, such risks and uncertainties include, among others, weather conditions, safety, claims and insurance, uninsured losses, changes in levels of business and commercial travel and tourism, increases in the supply of accommodations in local markets, the recurring need for renovation and improvement of hotel properties, 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.

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.

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