CLARKE

Halifax, Canada

Quarterly Report
June 30, 2022 and 2021

Management's Discussion & Analysis

Clarke Inc.

June 30, 2022 and 2021

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 and six months ended June 30, 2022 compared with the three and six months ended June 30, 2021. 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 Reportin*g. 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 and six months ended June 30, 2022, available on SEDAR at www.sedar.com. This MD&A provides an overall discussion, followed by analyses of the performance of the Company's major investments and operations. The MD&A is prepared as at August 11, 2022 (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 is an investment company. Our objective is to maximize shareholder value. While not the perfect metric, we believe that Clarke's book value per share, together with the dividends paid to shareholders, is an appropriate measure of our success in maximizing shareholder value over time.

We attempt to maximize shareholder value by allocating capital to investments that we believe will generate high returns and reallocating capital over time as needed. In doing this, Clarke's goal is to identify investments that are either undervalued or are underperforming and may be in need of positive change. These investments may be companies, securities or other assets, and they may be public entities or private entities. Clarke seeks active involvement in the governance and/or management of the company in which it invests. In these cases, Clarke will have acquired the security with a view of changes that could be made to improve the underlying company's performance and maximize the company's value. When Clarke believes that an investee company has implemented appropriate changes and/or the value of the investee company has reached or exceeded its intrinsic value, Clarke may sell its investment. Clarke generally invests in industries that have hard assets, including manufacturing, industrial, energy and real estate businesses. The Company also 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.

SECOND QUARTER REVIEW AND OUTLOOK[1]

During the second quarter of 2022, the Company's book value per common share decreased by $1.42, or 9.5%. The decrease was a direct result of the accounting treatment of the asset ceiling on the Company's accrued pension benefit asset – primarily due to an increase in the estimated discount rate. The impact of this non-cash reduction to book value per share, net of tax was $24.1 million, or $1.70 per share. The impact of the accounting for the asset ceiling on the Company's accrued pension benefit asset was partially offset by hotel net operating income of $4.8 million, or $0.33. Our book value per common share at the end of the quarter was $13.49 while our common share price was $11.55.

Hotel Operations

Revenues and operating results for our hotels are continuing to recover from the decline caused by the COVID-19 pandemic (the "Pandemic") and showed significant improvement in the quarter and year to date.

We are pleased to report that hospitality revenue increased by approximately 31% compared to the first quarter of 2022 and more than doubled – with an increase of 110% – compared to the same quarter in 2021. Hospitality revenues in the quarter were our highest since the onset of the Pandemic. The improvement is attributable to increased demand in our oil and gas markets and the general recovery of consumer confidence in tourism and travel, combined with the traditional strength of the spring and summer season for travel. We are optimistic this trend will continue and anticipate the annual results for the Company's hotel portfolio will be consistent with the promising results to date in 2022.

Certain hotels in our Alberta, British Columbia, Yellowknife and Whitehorse markets are performing at or above pre-Pandemic levels. The remainder of 2022 will be further helped by the acquisition of the Stanford Inn & Suites which has increased the room count of the portfolio by approximately 10%.

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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.

During the second quarter the Company acquired, through our wholly owned subsidiary Holloway Lodging Corporation ("Holloway"), the Stanford Inn & Suites in Grande Prairie, AB, for a purchase price of $11.6 million. The acquisition was the first hospitality acquisition for Holloway since 2016 – a hiatus of six years. The Stanford Inn & Suites has 206 rooms, the majority of which are kitchenette suites, and features SIPPS Bar & Grill, Monica's Family Restaurant, a fitness center, meeting and banquet space and nearly two acres of oversized equipment and truck parking on an adjoining parcel of excess land.

Renovations finished at our Sternwheeler Hotel & Conference Centre in Whitehorse, YT and we are very excited to have brought this refreshed asset to market. The renovation has re-positioned this hotel to be the premiere hotel in the market as international and domestic travel returns. The renovation, which commenced in 2021, was completed in early June 2022 and the positive results have been immediate. In July 2022, the first full month after the renovation, the hotel experienced its highest monthly revenues since its acquisition by Holloway in 2016.

Real Estate and Corporate

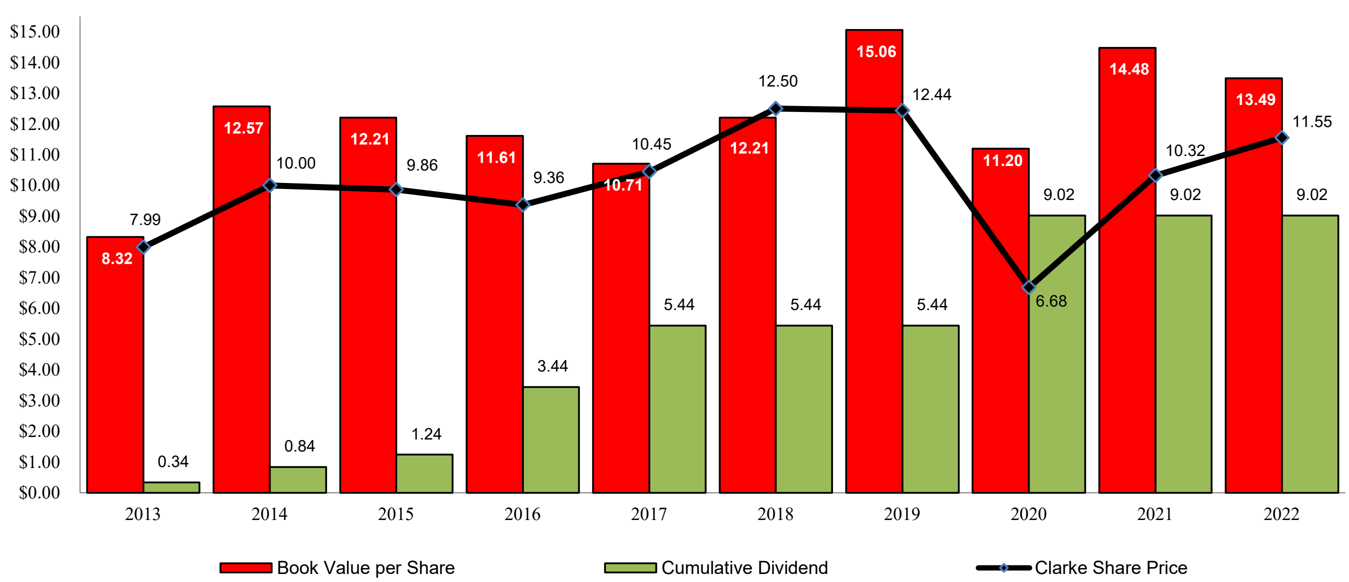
Leasing, marketing and construction activities continue at our 1111 Atwater Avenue development (the "1111 Atwater Development"), in which we are a one-third partner, located at the former site of the Montreal Children's Hospital. The 1111 Atwater Development involves a 38-storey building including seniors' housing (branded as *Selena*), rental condo units (branded *Eleva*) and luxury condominiums, with extensive amenities for residents. We look forward to the opening of both *Selena* and *Eleva* in the fourth quarter of 2022.

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. The Carling Avenue Development has been self-financed to date with cash on hand and we expect to secure construction financing for this first phase in the second half of 2022.

The Company has $147.6 million of debt as of June 30, 2022 and has access to two secured, revolving credit facilities. The Company's maximum combined borrowing base under these revolving credit facilities was $55.0 million as of June 30, 2022, of which $8.0 million was drawn and $47.0 million was undrawn and available. Declines in the fair value and operating results of the secured assets may have an adverse effect on the amount of credit available under these facilities.

BOOK VALUE PER SHARE

The Company's book value per share at June 30, 2022 was $13.49, a decrease of $0.99 per common share since December 31, 2021. 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 June 30, 2022.*

RESULTS OF OPERATIONS

Highlights of the interim condensed consolidated financial statements for the three and six months ended June 30, 2022 compared to the three and six months ended June 30, 2021 are as follows:

(in millions, except per share amounts)	**Three months ended June 30, 2022**	Three months ended June 30, 2021	**Six months ended June 30, 2022**	Six months ended June 30, 2021
	$	$	**$**	$
Hotel and management services	**12.6**	6.0	**22.2**	11.7
Provision of services	**2.0**	1.5	**2.3**	1.6
Investment and other income*	**0.4**	5.9	**0.8**	14.3
Net income (loss)	**(0.5)**	3.1	**(2.0)**	7.1
Comprehensive income (loss)	**(20.5)**	18.0	**(14.8)**	32.7
Basic earnings (loss) per share (“EPS”)	**(0.04)**	0.21	**(0.14)**	0.48
Diluted EPS	**(0.04)**	0.20	**(0.14)**	0.44
Total assets	**379.7**	372.2	**379.7**	372.2
Total liabilities	**187.9**	174.0	**187.9**	174.0
Long-term financial liabilities	**125.7**	136.0	**125.7**	136.0
Book value per share	**13.49**	13.50	**13.49**	13.50

** Investment and other income includes unrealized and realized gains and losses on assets and liabilities, fair value changes of property and equipment and investment property presented in the statement of earnings (loss), interest income, pension expense/recovery and foreign exchange gains/losses.*

Net loss for the three and six months ended June 30, 2022 was $0.5 million and $2.0 million, respectively, compared to net income of $3.1 million and $7.1 million for the same periods in 2021. In 2021, net income was primarily fueled by net gains on the Company’s marketable securities. The Company had no marketable security dispositions and only insignificant unrealized gains/losses in the three and six months ended June 30, 2022, compared to $5.9 million and $3.9 million of net investment gains in the same respective periods in 2021.

The Company’s operating businesses were significantly more profitable in the quarter and year-to-date compared to the same periods in 2021. In particular, the net income of the Hospitality segment increased by $3.2 million and $5.0 million, respectively, for the three and six months ended June 30, 2022, compared to the same periods in 2021.

Comprehensive loss for the three and six months ended June 30, 2022 was $20.5 million and $14.8 million, respectively, due primarily to net pension remeasurement losses of $20.3 million and $13.0 million, attributable mainly to the accounting treatment of the asset ceiling on the Company’s accrued pension benefit asset – primarily due to an increase in the estimated discount rate. The Company had comprehensive income of $18.0 million and $32.7 million, respectively in the same periods in 2021. Comprehensive income in 2021 was driven by net pension remeasurement gains of $5.1 million and $16.0 million for the three and six month periods, respectively, the aforementioned net investment gains, and a revaluation gain of $10.0 million on property and equipment.

SEGMENT REPORTING

The table below summarizes the Company’s holdings as at June 30, 2022 based on total assets. The Other category is not a segment and is disclosed for reconciliation purposes. It consists of our treasury and executive functions, our pension plans and our convertible debentures.

	June 30, 2022		December 31, 2021	
Segment	**$**	**%**	$	%
Investment	**128.5**	**33.8**	107.8	28.0
Hospitality	**213.4**	**56.2**	201.7	52.4
Other	**37.8**	**10.0**	75.1	19.5
Total	**379.7**	**100.0**	384.6	100.0

Investment segment

The Investment segment is comprised of the Company's ferry business, its marketable securities, its investment properties and its real estate inventory under development. The Carling Avenue Development and the 1111 Atwater Development continue to progress and are the driver of the segment's $13.7 million of capital expenditures during the year.

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 offseason period. The ferry commenced service for the season on April 14, 2022.

The company had no material activities with respect to its marketable securities portfolio in the quarter or year to date.

Hospitality segment

The Company owns and operates hotels across Canada. Results for the three and six months ended June 30, 2022 compared to the three and six months ended June 30, 2021 are as follows:

	Three months ended June 30, 2022 $	Three months ended June 30, 2021 $	**Six months ended June 30, 2022 $**	Six months ended June 30, 2021 $
Hotel revenue and provision of services	**12.6**	6.0	**22.2**	11.7
Investment and other income	**—**	0.1	**0.1**	0.3
Total revenue and other income	**12.6**	6.1	**22.3**	12.0
Less:				
Operating expenses, general and administrative expenses, property taxes and insurance	**8.0**	4.4	**14.5**	8.8
Depreciation and amortization	**2.3**	2.4	**4.7**	4.9
Interest expense	**0.7**	0.7	**1.3**	1.4
Income (loss) before income taxes	**1.7**	(1.4)	**1.9**	(3.1)

Hotel operations in the second quarter increased significantly compared to the same quarter in the prior year and the first quarter of the current year. Hotel revenue for the three and six month periods ended June 30, 2022 was $12.6 million and $22.2 million, respectively, compared to $6.0 million and $11.7 million for the same periods in 2021. Income before taxes was $1.7 million and $1.9 million for the three and six months ended June 30, 2022, respectively, compared to a net loss of $1.4 million and $3.1 million for the same periods in 2021.

The improvement is attributable to increased demand in our oil and gas markets and the general recovery of consumer confidence in tourism and travel.

OUTSTANDING SHARE DATA

At August 11, 2022, the Company had:

- An unlimited number of common shares authorized and 14,201,344 common shares outstanding; and
- An unlimited number of First and Second Preferred Shares authorized and none outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Management believes the Company is well positioned to manage the increasing interest rate environment we have recently entered:

- The Company has significant liquidity available through its revolving credit facilities;
- Approximately 63% of the Company's debt has fixed interest rates, including the Company's convertible debentures;
- On September 30, 2021, the Company extended the maturity date of its convertible debentures from February 28, 2023 to January 1, 2028, and amended the interest rate from 6.25% to 5.50% beginning on April 30, 2023; and
- The Company has various unencumbered assets that can provide liquidity as needed.

The Company had $3.4 million of cash and cash equivalents on hand as at June 30, 2022, compared to $18.4 million as at December 31, 2021. The use of cash was primarily related to capital investment in our various real estate developments and our hotel acquisition.

The Company refinanced a mortgage payable of $14.6 million in the quarter. The mortgage had a fixed interest rate of 4.55%, and was due to mature in November 2022. The renewed mortgage has a fixed interest rate of 3.91%, has an amortization period of fifteen years, a five-year term and matures in April 2027. The mortgage is secured by two hotels.

Cash flow from operating activities

Cash used in operating activities was $2.0 million for the six months ended June 30, 2022, compared to $5.5 million used during the same period in 2021. The cash used was primarily attributable to capital expenditures on the Company's real estate inventory under development, offset by positive changes in working capital balances and positive cash flows from our hospitality operations.

At June 30, 2022, working capital excluding marketable securities was negative $37.3 million, compared to negative $24.0 million at December 31, 2021. The change is driven primarily by a reduction in cash and an increase in accounts payable and accrued liabilities for the Company's various capital projects. The Company has the ability to fund working capital needs through its cash on hand and existing credit facilities.

Cash flow from investing activities

Cash used in investing activities was $22.0 million for the six months ended June 30, 2022, compared to $8.5 million provided during the same period in 2021. The cash used was attributable to capital expenditures and the acquisition of the Stanford Inn & Suites. Cash provided by investing activities during the same period in 2021 was primarily a result of proceeds from the sale of marketable securities of $34.5 million offset by the $21.1 million investment in the 1111 Atwater Development and capital expenditures.

Cash flow from financing activities

Cash provided by financing activities was $8.9 million for the six months ended June 30, 2022, compared to $5.1 million used during the same period in 2021. The cash provided was primarily the result of net proceeds of long-term debt of $5.1 million and proceeds of short-term indebtedness of $8.0 million, offset by the repayment of long-term debt of $2.0 million and the repurchase of common shares of $2.1 million. Net cash used in financing activities during the same period in 2021 was primarily related to the repayment of long-term debt of $3.9 million, the repurchase of common shares of $3.2 million and net repayments of short-term indebtedness of $2.3 million.

SUMMARY OF QUARTERLY RESULTS

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

Three months ended	**Jun. 2022 $**	**Mar. 2022 $**	**Dec. 2021 $**	**Sept. 2021 $**	**Jun. 2021 $**	**Mar. 2021 $**	**Dec. 2020 $**	**Sep. 2020 $**
Revenue and other income	15.1	10.2	20.5	18.0	13.3	14.3	26.9	23.1
Net income (loss)	(0.5)	(1.4)	5.8	3.5	3.1	4.1	14.5	12.5
Other comprehensive income (loss)	(20.0)	7.2	1.6	1.9	14.9	10.7	15.1	(2.1)
Comprehensive income (loss)	(20.5)	5.7	7.4	5.4	18.0	14.8	29.6	10.4
Basic EPS	(0.04)	(0.10)	0.40	0.24	0.21	0.27	0.94	0.79
Diluted EPS	(0.04)	(0.10)	0.36	0.16	0.20	0.25	0.79	0.67

As demonstrated above, our results can fluctuate significantly from quarter to quarter, in part as a result of certain accounting standards the Company follows, and as a result of fluctuations in the market prices of our securities portfolio. Under IFRS, realized and unrealized gains and losses on our publicly-traded securities are presented in "revenue and other income" on our consolidated statements of earnings (loss). The Company does not believe that quarterly fluctuations in the stock prices of our investee companies necessarily reflect a change in the value of the underlying businesses in which we are invested. The values of the underlying businesses are often more stable than their stock prices reflect. The Company's hotel and ferry businesses are seasonal in nature and their results tend to fluctuate throughout the year. The revenues are 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.

FINANCIAL INSTRUMENTS

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

- To generate investment returns, the Company will invest in equity, debt and other securities. These instruments may have interest rate, market, credit and foreign exchange risk associated with them.
- To manage foreign exchange, interest rate and general market risk, the Company may enter into futures and forward exchange contracts. These instruments may have interest, market, credit and foreign exchange risk associated with them. Clarke may hedge its foreign currency exposure on U.S. dollar denominated investments. The Company does not currently have any futures or foreign exchange contracts in effect.

As an investment company, Clarke 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, 2021 and the Company's 2021 AIF, 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 annual 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 June 30, 2022, 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 entered 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 note 15 of our consolidated financial statements for the year ended December 31, 2021.

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 AND RATIOS

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 International Financial Reporting Standards ("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 (loss) before taxes of the Company's Hospitality segment as disclosed in the interim condensed consolidated financial statements for the three and six months ended June 30, 2022.

	Three months ended June 30, 2022 $	Three months ended June 30, 2021 $	**Six months ended June 30, 2022 $**	Six months ended June 30, 2021 $
Hospitality segment income (loss) before income taxes	**1.7**	(1.4)	**1.9**	(3.1)
Deduct:				
Investment and other income	**—**	(0.1)	**(0.1)**	(0.3)
Add:				
Non-operating corporate expenses	**0.2**	0.1	**0.3**	0.3
Depreciation and amortization	**2.3**	2.4	**4.7**	4.9
Interest expense	**0.7**	0.7	**1.3**	1.4
Hotel net operating income	**4.8**	1.7	**8.0**	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 and value of securities held by the Company, 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.

June 30, 2022 and 2021

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (in thousands of Canadian dollars)

	June 30, 2022	December 31, 2021
	$	$
ASSETS		
Current		
Cash and cash equivalents	**3,352**	18,423
Marketable securities *(note 10)*	**2,819**	2,773
Receivables	**7,783**	9,533
Other assets *(note 3)*	**4,165**	2,135
Total current assets	**18,119**	32,864
Accrued pension benefit asset *(note 4)*	**35,332**	54,306
Property and equipment *(note 5)*	**190,555**	178,797
Real estate inventory under development	**60,811**	53,704
Investment properties *(note 6)*	**61,008**	48,849
Deferred income tax assets *(note 8)*	**12,875**	13,452
Other assets *(note 3)*	**1,027**	2,657
Total assets	**379,727**	384,629
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Short-term indebtedness	**8,000**	—
Accounts payable and other liabilities	**20,124**	12,906
Income taxes payable	**1,536**	3,408
Current portion of long-term debt *(note 7)*	**22,974**	37,751
Total current liabilities	**52,634**	54,065
Convertible debentures	**49,392**	49,268
Long-term debt *(note 7)*	**67,278**	48,765
Construction accounts payable and accrued liabilities	**8,429**	8,390
Lease obligations	**640**	730
Deferred income tax liabilities *(note 8)*	**9,557**	14,792
Total liabilities	**187,930**	176,010
Shareholders' equity		
Share capital *(note 9)*	**84,080**	85,218
Contributed surplus	**7,302**	7,302
Retained earnings	**37,197**	40,100
Accumulated other comprehensive income	**63,218**	75,999
Total shareholders' equity	**191,797**	208,619
Total liabilities and shareholders' equity	**379,727**	384,629

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 (LOSS)

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

	Three months ended June 30, 2022	Three months ended June 30, 2021	**Six months ended June 30, 2022**	Six months ended June 30, 2021
	$	$	**$**	$
Revenue and other income				
Hotel and management services	**12,603**	5,995	**22,203**	11,710
Provision of services	**2,010**	1,458	**2,251**	1,602
Investment and other income *(note 10)*	**442**	5,859	**827**	14,255
	15,055	13,312	**25,281**	27,567
Expenses				
Operating expenses	**8,688**	4,388	**15,227**	8,592
Cost of services provided	**1,119**	860	**1,715**	1,541
General and administrative expenses	**822**	707	**1,346**	1,414
Property taxes and insurance	**610**	317	**1,050**	733
Depreciation and amortization	**2,436**	2,456	**4,806**	5,004
Interest expense and accretion on debt	**1,520**	1,538	**3,046**	3,077
	15,195	10,266	**27,190**	20,361
Income (loss) before income taxes	**(140)**	3,046	**(1,909)**	7,206
Provision for (recovery of) income taxes *(note 8)*	**391**	(12)	**70**	91
Net income (loss)	**(531)**	3,058	**(1,979)**	7,115
Basic earnings (loss) per share:				
(in dollars) (note 9)	**(0.04)**	0.21	**(0.14)**	0.48
Diluted earnings (loss) per share:				
(in dollars) (note 9)	**(0.04)**	0.20	**(0.14)**	0.44

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 June 30, 2022 $	Three months ended June 30, 2021 $	**Six months ended June 30, 2022 $**	Six months ended June 30, 2021 $
Net income (loss)	**(531)**	3,058	**(1,979)**	7,115
Other comprehensive income (loss)				
Items that will not be reclassified to income or loss				
Remeasurement gains and effect of changes to asset ceiling on defined benefit pension plans, net of income tax *(note 4)*	**(20,341)**	5,081	**(12,969)**	15,991
Revaluation gain of property and equipment, net of income tax	**—**	10,049	**—**	10,049
Items that may be reclassified subsequently to income or loss				
Unrealized gains (losses) on translation of net investment in foreign operations, net of income tax	**383**	(222)	**188**	(426)
Other comprehensive income (loss)	**(19,958)**	14,908	**(12,781)**	25,614
Comprehensive income (loss)	**(20,489)**	17,966	**(14,760)**	32,729

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

	Six months ended June 30, 2022 $	Six months ended June 30, 2021 $
OPERATING ACTIVITIES		
Net income (loss)	**(1,979)**	7,115
Adjustments for items not involving cash *(note 11)*	**4,588**	(11,424)
	2,609	(4,309)
Additions to real estate inventory under development	**(5,066)**	(3,517)
Net change in non-cash working capital balances *(note 11)*	**460**	2,296
Net cash used in operating activities	**(1,997)**	(5,530)
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities	**—**	34,537
Contribution to joint operation, net of cash acquired	**—**	(21,083)
Proceeds on disposition of asset held-for-sale	**—**	210
Acquisition of hotel property *(note 2)*	**(11,600)**	—
Additions to property and equipment	**(3,807)**	(2,927)
Additions to investment properties	**(7,901)**	(885)
Additions to intangible and other assets	**—**	(74)
Purchase of marketable securities	**—**	(2,445)
Collections of loans receivable	**250**	225
Distribution of pension plan surplus, net of tax *(note 4)*	**1,064**	914
Net cash provided by (used in) investing activities	**(21,994)**	8,472
FINANCING ACTIVITIES		
Repurchase of shares for cancellation *(note 9)*	**(2,062)**	(3,217)
Net proceeds of short-term indebtedness	**8,000**	(2,257)
Proceeds of long-term debt, net of financing fees *(note 7)*	**5,141**	4,375
Settlement of stock-option liability	**(72)**	—
Repayment of long-term debt	**(2,012)**	(3,922)
Principal payments of lease obligation	**(75)**	(67)
Net cash provided by (used in) financing activities	**8,920**	(5,088)
Net change in cash during the period	**(15,071)**	(2,146)
Cash and cash equivalents, beginning of period	**18,423**	2,730
Cash and cash equivalents, end of period	**3,352**	584

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Unaudited (in thousands of Canadian dollars)

	Six months ended June 30, 2022 $	Six months ended June 30, 2021 $
Share capital		
Common shares:		
Balance at beginning of period	**85,218**	89,097
Common shares repurchased for cancellation *(note 9)*	**(1,138)**	(2,345)
Balance at end of period	**84,080**	86,752
Contributed surplus		
Balance at beginning of period	**7,302**	7,512
Purchase price in excess of the book value of common shares repurchased for cancellation *(note 9)*	**—**	(210)
Balance at end of period	**7,302**	7,302
Retained earnings (deficit)		
Balance at beginning of period	**40,100**	25,093
Net income (loss)	**(1,979)**	7,115
Purchase price in excess of the book value of common shares repurchased for cancellation *(note 9)*	**(924)**	(662)
Balance at end of period	**37,197**	31,546
Accumulated other comprehensive income		
Balance at beginning of period	**75,999**	46,902
Other comprehensive income (loss)	**(12,781)**	25,614
Balance at end of period	**63,218**	72,516
Total shareholders' equity	**191,797**	198,116

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. (the "Company") 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. The Company has a diverse and significant portfolio of direct real estate holdings across the hospitality, commercial, industrial and residential sectors. These interim condensed consolidated financial statements were approved by the Board of Directors on August 11, 2022.

Basis of presentation and statement of compliance

These interim condensed consolidated financial statements for the six months ended June 30, 2022, 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, 2021. 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, 2021.

Principles of consolidation

Subsidiaries
The interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries. 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.

Joint operation
The Company became involved in a joint operation during the year ended December 31, 2021. The Company's share of the assets, liabilities, revenues and expenses of this joint operation have been recognized in the relevant categories of these interim condensed consolidated financial statements.

2. HOTEL ACQUISITION

On June 13, 2022, the Company acquired the Stanford Inn & Suites in Grande Prairie, AB, for a gross purchase price of $11,600, which was paid in cash and by drawing on the Company's revolving credit facilities. The following table summarizes the fair value of the assets acquired:

	$
Land	**3,700**
Buildings and components	**6,400**
Furniture, fixtures and equipment	**1,462**
Inventory	**38**
Assets acquired, at fair value	**11,600**

Included in the interim consolidated statement of earnings (loss) for the three and six months ended June 30, 2022 are acquisition costs of $41, revenue of $337 and income before taxes of $115.

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

3. OTHER ASSETS

	June 30, 2022 $	December 31, 2021 $
Other current assets		
Inventories	**130**	78
Prepaid expenses and deposits	**2,530**	1,807
Current portion of loans receivable	**1,505**	250
	4,165	2,135
Other non-current assets		
Loans receivable	**709**	2,202
Intangible and other assets	**318**	455
	1,027	2,657

4. 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:

	June 30, 2022 $	December 31, 2021 $
Fair value of plan assets	**110,299**	104,362
Accrued benefit obligation	**(38,784)**	(50,056)
Funded status of plans – surplus	**71,515**	54,306
Cumulative impact of asset ceiling	**(36,183)**	—
Accrued pension benefit asset	**35,332**	54,306

The defined benefit pension recovery recognized in the interim consolidated statements of earnings (loss) for the three and six months ended June 30, 2022 was $167 and $348, respectively (2021 – expense of $23 and $35).

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

	Three months ended June 30, 2022 $	Three months ended June 30, 2021 $	**Six months ended June 30, 2022** $	Six months ended June 30, 2021 $
Remeasurement gains and return on plan assets in excess of discount rate	**5,200**	6,962	**18,307**	21,911
Impact of asset ceiling	**(33,120)**	—	**(36,183)**	—
Deferred income tax recovery (expense)	**7,579**	(1,881)	**4,907**	(5,920)
Net gains (losses)	**(20,341)**	5,081	**(12,969)**	15,991

The most significant assumption impacting the valuation of the accrued benefit obligation is the discount rate, which was 5.05% as at June 30, 2022 (December 31, 2021 – 2.90%). The discount rate also impacts the calculation of the asset ceiling. An increase in the discount rate reduces the present value of the future economic benefits available to the Company from surplus assets.

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

4. EMPLOYEE FUTURE BENEFITS (CONT'D)

During the three months ended June 30, 2022, the Company received a distribution from one of its pension plans in the amount of $1,446 (2021 – $1,244) in accordance with the surplus withdrawal rules of the Quebec Supplemental Pension Plans Act.

The following table summarizes the changes in the accrued pension benefit asset for the six months ended June 30, 2022:

	Six months ended June 30, 2022 **$**
Accrued pension benefit asset – beginning balance	**54,306**
Remeasurement gains and return on plan assets in excess of discount rate	**18,307**
Pension recovery	**348**
Surplus withdrawal	**(1,446)**
Impact of asset ceiling	**(36,183)**
Accrued pension benefit asset – ending balance	**35,332**

5. PROPERTY AND EQUIPMENT

Six months ended June 30, 2022	**Land** **$**	**Buildings and components** **$**	**Ferry and vessel dry dock costs** **$**	**Furniture, fixtures and equipment** **$**	**Right-of-use assets** **$**	**Renovations in progress** **$**	**Total** **$**
Beginning balance	40,572	126,123	—	7,000	507	4,595	178,797
Additions (*note 13*)	3,700	6,703	733	2,435	—	2,979	16,550
Disposals	—	—	—	(3)	—	—	(3)
Transfers	—	4,069	—	2,426	—	(6,495)	—
Depreciation	—	(3,251)	(80)	(1,420)	(38)	—	(4,789)
Ending balance	**44,272**	**133,644**	**653**	**10,438**	**469**	**1,079**	**190,555**

Valuation	44,272	138,745	—	—	—	—	183,017
Cost	—	—	5,390	21,731	738	1,079	28,938
Accumulated depreciation	—	(5,101)	(4,737)	(11,293)	(269)	—	(21,400)
Net book value	**44,272**	**133,644**	**653**	**10,438**	**469**	**1,079**	**190,555**

6. INVESTMENT PROPERTIES

Six months ended June 30, 2022	**Buildings** **$**	**Vacant land** **$**	**Investment property under construction** **$**	**Total** **$**
Beginning balance	17,010	167	31,672	48,849
Additions	36	—	11,745	11,781
Capitalized interest	—	—	98	98
Foreign exchange impact	280	—	—	280
Ending balance	**17,326**	**167**	**43,515**	**61,008**

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

7. LONG-TERM DEBT

The following table summarizes significant changes in long-term debt for the six months ended June 30, 2022:

	Six months ended June 30, 2022 $
Total long-term debt – beginning balance	**86,516**
Proceeds from long-term debt	**5,255**
Repayment of long-term debt	**(2,012)**
Capitalized interest on construction financing	**612**
Deferred financing fees capitalized	**(114)**
Accretion of deferred financing fees	**78**
Amortization of fair value increment from acquisitions	**(83)**
Total long-term debt – ending balance	**90,252**
Less: current portion	**(22,974)**
Long-term portion	**67,278**

On April 8, 2022, the Company renewed a mortgage payable of $14,649 with a fixed interest rate of 4.55%, which was due to mature in November 2022. The renewed mortgage has a fixed interest rate of 3.91%, an amortization period of fifteen years, a five-year term and matures in April 2027. The mortgage is secured by two hotels.

At June 30, 2022, the Company had available unused revolving credit facilities totalling $47,000 (December 31, 2021 – $55,000).

8. INCOME TAXES

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

	Three months ended June 30, 2022 $	Three months ended June 30, 2021 $	**Six months ended June 30, 2022 $**	Six months ended June 30, 2021 $
Current	**295**	2,129	**(112)**	2,820
Deferred	**96**	(2,141)	**182**	(2,729)
Provision for (recovery of) income taxes	**391**	(12)	**70**	91

As at June 30, 2022, the Company had non-capital losses carried forward for tax purposes of $20,705 (December 31, 2021 – $20,626) in Canada and US$13,544 (December 31, 2021 – US$11,943) in the United States. Certain deferred income tax assets have not been recognized:

	June 30, 2022 $	December 31, 2021 $
Property and equipment	**1,438**	2,212
Non-capital and capital loss carry forwards	**3,386**	3,113
Total	**4,824**	5,325

9. SHARE CAPITAL AND EARNINGS PER SHARE

	Six months ended June 30, 2022		Six months ended June 30, 2021	
	# of shares	**$**	# of shares	$
Common shares				
Outstanding common shares, beginning of period	**14,411,969**	**85,218**	15,057,892	89,097
Common shares repurchased for cancellation	**(192,300)**	**(1,138)**	(386,723)	(2,345)
Outstanding common shares, end of period	**14,219,669**	**84,080**	14,671,169	86,752

Earnings per share

	Three months ended June 30, 2022			Three months ended June 30, 2021		
	Loss	**Weighted average shares (in thousands)**	**Per share amount**	Earnings	Weighted average shares (in thousands)	Per share amount
	$	**#**	**$**	$	#	$
Basic earnings (loss)	**(531)**	**14,264**	**(0.04)**	3,058	14,741	0.21
Interest, net of income taxes, on assumed conversion of convertible debentures	—	—		569	3,694	
Diluted earnings (loss)	**(531)**	**14,264**	**(0.04)**	3,627	18,435	0.20

	Six months ended June 30, 2022			Six months ended June 30, 2021		
	Loss	**Weighted average shares (in thousands)**	**Per share amount**	Earnings	Weighted average shares (in thousands)	Per share amount
	$	**#**	**$**	$	#	$
Basic earnings (loss)	**(1,979)**	**14,286**	**(0.14)**	7,115	14,892	0.48
Interest, net of income taxes, on assumed conversion of convertible debentures	—	—		1,132	3,694	
Diluted earnings (loss)	**(1,979)**	**14,286**	**(0.14)**	8,247	18,586	0.44

All potentially dilutive securities outstanding as of June 30, 2022, relate to the Company's convertible debentures. The convertible debentures were anti-dilutive for the three and six month periods ended June 30, 2022, and dilutive for the three and six month periods ended June 30, 2021.

During the six months ended June 30, 2022, 33,333 vested stock options were exercised and settled for cash proceeds of $72, and 16,667 stock options were forfeited. There are no outstanding vested or unvested stock options of the Company as of June 30, 2022.

Share repurchases

On June 29, 2022, the Company renewed a 12-month normal course issuer bid to repurchase up to 711,543 common shares. During the six months ended June 30, 2022, the Company purchased for cancellation 192,300 (2021 – 386,723) common shares at a cost of $2,062 (2021 – $3,217). The purchase price in excess of the book value of the shares in the amount of $924 (2021 – $662) has been charged to retained earnings, nil (2021 – $210) has been charged to contributed surplus and $1,138 (2021 – $2,345) has been charged to share capital.

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

10. INVESTMENT AND OTHER INCOME (LOSS)

Investment and other income (loss) is comprised of the following:

	Three months ended June 30, 2022 $	Three months ended June 30, 2021 $	**Six months ended June 30, 2022 $**	Six months ended June 30, 2021 $
Unrealized gains (losses) on marketable securities	**(31)**	5,896	**—**	3,944
Realized gains on marketable securities	**—**	—	**—**	10,229
Interest income	**197**	216	**421**	357
Pension recovery (expense) *(note 4)*	**167**	(23)	**348**	(35)
Loss on disposal of assets	**(3)**	(182)	**(3)**	(182)
Foreign exchange gains (losses)	**112**	(48)	**61**	(58)
	442	5,859	**827**	14,255

11. SUPPLEMENTAL CASH FLOW INFORMATION

Adjustments for items not involving cash	**Six months ended June 30, 2022 $**	Six months ended June 30, 2021 $
Realized/unrealized losses (gains) on marketable securities *(note 10)*	**—**	(14,173)
Depreciation and amortization	**4,806**	5,004
Deferred income tax expense (recovery) *(note 8)*	**182**	(2,729)
Share-based payment expense (recovery)	**(90)**	172
Amortization of fair value increments from acquisitions	**(83)**	(81)
Accretion of deferred financing fees	**202**	108
Unrealized foreign exchange losses (gains)	**(84)**	58
Pension expense (recovery) *(note 4)*	**(348)**	35
Loss on disposal of assets	**3**	182
	4,588	(11,424)

Net changes in non-cash working capital balances	**Six months ended June 30, 2022 $**	Six months ended June 30, 2021 $
Receivables	**1,750**	(924)
Income taxes receivable	**—**	349
Other assets	**(655)**	(1,450)
Accounts payable and other liabilities	**853**	1,879
Income taxes payable	**(1,488)**	2,442
	460	2,296

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

12. SEGMENTED INFORMATION

The Company operates in two reportable business segments. The Investment segment represents the Company's marketable securities portfolio, its ferry business, its investment properties and its 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, its pension plans and its convertible debentures. Revenue in the Other category pertains primarily to investment management fees.

The Company operates predominantly in Canada, with the exception of three investment properties in the United States. Hotel revenue and provision of services was all generated by continuing operations in Canada for the three and six months ended June 30, 2022 and 2021.

Three months ended June 30, 2022	**Investment $**	**Hospitality $**	**Other $**	**Eliminations $**	**Total $**
Revenue and other income:					
Hotel revenue and provision of services	**1,764**	**12,603**	**246**	**—**	**14,613**
Investment and other income	**163**	**32**	**247**	**—**	**442**
	1,927	**12,635**	**493**	**—**	**15,055**
Operating expenses before the undernoted	**2,588**	**7,969**	**682**	**—**	**11,239**
Depreciation and amortization	**119**	**2,315**	**2**	**—**	**2,436**
Interest expense	**—**	**663**	**857**	**—**	**1,520**
Income (loss) before income taxes	**(780)**	**1,688**	**(1,048)**	**—**	**(140)**

Six months ended June 30, 2022	**Investment $**	**Hospitality $**	**Other $**	**Eliminations $**	**Total $**
Revenue and other income:					
Hotel revenue and provision of services	**1,772**	**22,203**	**485**	**(6)**	**24,454**
Investment and other income (loss)	**264**	**135**	**428**	**—**	**827**
	2,036	**22,338**	**913**	**(6)**	**25,281**
Operating expenses before the undernoted	**3,714**	**14,507**	**1,123**	**(6)**	**19,338**
Depreciation and amortization	**152**	**4,650**	**4**	**—**	**4,806**
Interest expense	**—**	**1,331**	**1,715**	**—**	**3,046**
Income (loss) before income taxes	**(1,830)**	**1,850**	**(1,929)**	**—**	**(1,909)**
Assets	**128,539**	**213,377**	**37,811**	**—**	**379,727**
Liabilities	**56,296**	**61,575**	**70,059**	**—**	**187,930**
Capital expenditures (*notes 2 and 5*)	**13,700**	**14,674**	**—**	**—**	**28,374**
Assets located outside of Canada	**17,533**	**—**	**—**	**—**	**17,533**

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

12. SEGMENTED INFORMATION (CONT'D)

Three months ended June 30, 2021	Investment $	Hospitality $	Other $	Eliminations $	Total $
Revenue and other income:					
Hotel revenue and provision of services	1,219	5,995	243	(4)	7,453
Investment and other income	5,896	150	(187)	—	5,859
	7,115	6,145	56	(4)	13,312
Operating expenses before the undernoted	1,129	4,440	579	(4)	6,144
Selling costs on property and equipment sales	—	—	128	—	128
Depreciation and amortization	21	2,425	10	—	2,456
Interest expense	32	709	797	—	1,538
Income (loss) before income taxes	5,933	(1,429)	(1,458)	—	3,046

Six months ended June 30, 2021	Investment $	Hospitality $	Other $	Eliminations $	Total $
Revenue and other income:					
Hotel revenue and provision of services	1,219	11,710	387	(4)	13,312
Investment and other income (loss)	14,173	281	(199)	—	14,255
	15,392	11,991	188	(4)	27,567
Operating expenses before the undernoted	2,363	8,760	989	(4)	12,108
Selling costs on property and equipment sales	—	—	172	—	172
Depreciation and amortization	81	4,890	33	—	5,004
Interest expense	46	1,425	1,606	—	3,077
Loss before income taxes	12,902	(3,084)	(2,612)	—	7,206
Assets	118,449	198,768	54,944	—	372,161
Liabilities	35,930	67,192	70,923	—	174,045
Capital expenditures	6,789	614	—	—	7,403
Assets located outside of Canada	20,019	—	—	—	20,019

13. GOVERNMENT FUNDING

The Company applied for various available sources of federal, provincial, and territorial government grants and recognized $1,295 and $3,023 in the consolidated statements of earnings (loss) during the three and six months ended June 30, 2022, respectively, for these various programs. In addition, additions of property and equipment are presented net of $1,100 of government funding recognized in the six months ended June 30, 2022.

14. JOINT OPERATION

The Company holds the right to exit its co-ownership agreement for consideration of the Company's investment plus a 6.0% cumulative, annual return. This right, which was to expire on April 20, 2022, was amended and extended during the six months ended June 30, 2022. The amended maturity date of this right is December 31, 2022.

CLARKE

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