CLARKE

Halifax, Canada

Quarterly Report
June 30, 2023 and 2022

Management's Discussion & Analysis

Clarke Inc.

June 30, 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 and six months ended June 30, 2023 compared with the three and six months ended June 30, 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* under International Financial Reporting Standards ("IFRS"). 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, 2023, available on SEDAR at www.sedar.com. This MD&A provides an overall discussion and analysis of the Company's performance. The MD&A is prepared as at August 11, 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[1], 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.

SECOND QUARTER REVIEW AND OUTLOOK[1]

During the second quarter of 2023, the Company's book value per common share decreased by $0.04, or 0.3%. The change can be attributed primarily to (i) hotel net operating income of $5.6 million or $0.40 per share offset by (ii) deprecation and amortization of $2.6 million or $0.18 per share, and (iii) interest and accretion of $1.9 million or $0.14 per share.

The Company's book value per common share at the end of the quarter was $15.31 while our common share price was $12.93.

Hotel Operations

Hotel operations improved significantly in the three and six months ended June 30, 2023, compared to the same periods in 2022, primarily due to the continued recovery of the hospitality industry from the COVID-19 pandemic (the "Pandemic"). Hotel revenue in the three and six months ended June 30, 2023 was $15.7 million and $30.7 million, respectively compared to $12.6 million and $22.2 in 2022.

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. Phase two of the Carling Avenue Development is expected to consist of three residential towers with 612 rental units. Phase two will be constructed where the Company's Travelodge® Ottawa West is currently located. We expect to both complete the construction of phase one and break ground on phase two in 2024.

---

[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.

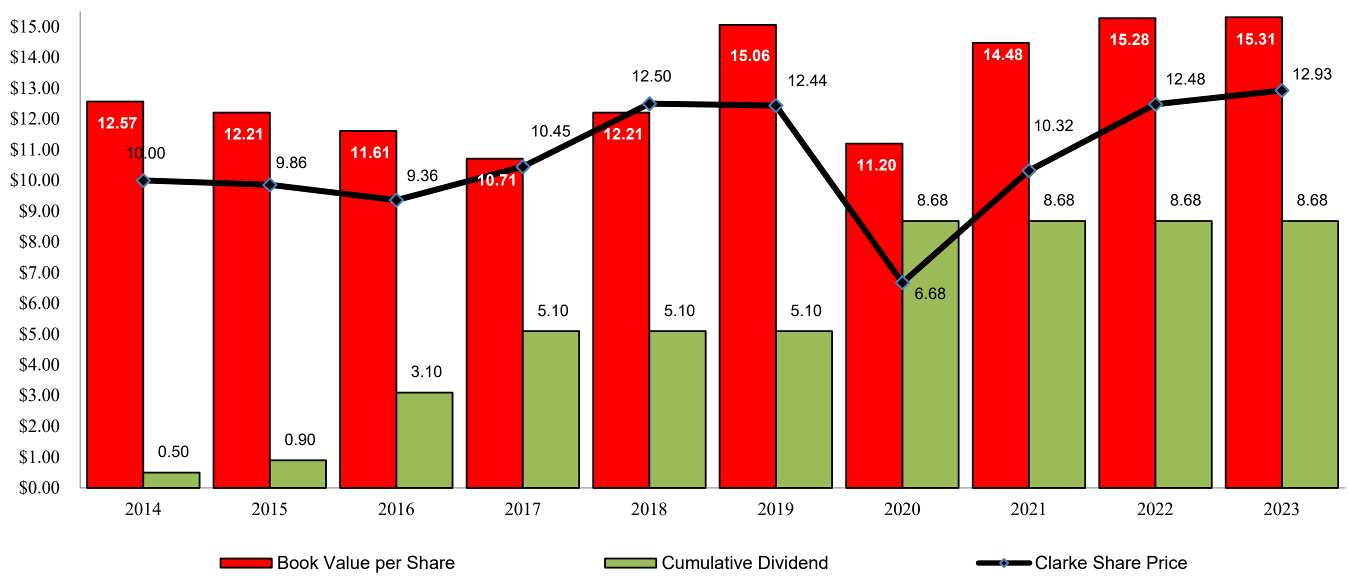
On June 28, 2023, the Company announced that it would fully redeem its $34.9 million, 5.50% Series B Convertible Unsecured Subordinated Debentures due January 1, 2028 (the "Debentures"). The Debentures were subsequently redeemed on July 28, 2023, for a cash outlay of $35.4 million which included $0.5 million of accrued interest. The redemption of the Debentures was financed using funds drawn on a recently secured credit facility obtained from a related party. Refer to the "Liquidity and Capital Resources" section of this MD&A for more information on this credit facility. Subsequent to June 30, 2023, upon redemption, the Company recorded a non-cash loss of approximately $0.8 million, representing the difference between the carrying value and principal amount of the Debentures.

During the second quarter, the Clarke Inc. Master Trust purchased a group buy-out annuity for the members of one of the Company's defined benefit plans.

The Company has $183.4 million of debt as of June 30, 2023 and has access to two secured, revolving credit facilities and one unsecured revolving credit facility with a related party.

BOOK VALUE PER SHARE

The Company's book value per share at June 30, 2023 was $15.31, an increase of $0.03 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 year as at June 30, 2023.*

RESULTS OF OPERATIONS

Highlights of the interim condensed consolidated financial statements for the three and six months ended June 30, 2023 compared to the three and six months ended June 30, 2022 are as follows:

(in millions, except per share amounts)	**Three months ended June 30, 2023 $**	Three months ended June 30, 2022 $	**Six months ended June 30, 2023 $**	Six months ended June 30, 2022 $
Hotel revenue	**15.7**	12.6	**30.7**	22.2
Provision of services revenue	**2.4**	2.0	**2.7**	2.3
Investment and other income (loss)*	**(0.3)**	0.4	**(0.1)**	0.8
Net loss	**(0.5)**	(0.5)	**(2.2)**	(2.0)
Comprehensive income (loss)	**(0.8)**	(20.5)	**0.2**	(14.8)
Basic and diluted loss per share (“EPS”)	**(0.03)**	(0.04)	**(0.16)**	(0.14)
Total assets	**444.5**	379.7	**444.5**	379.7
Total liabilities	**230.4**	187.9	**230.4**	187.9
Long-term financial liabilities	**54.4**	125.7	**54.4**	125.7
Book value per share	**15.31**	13.49	**15.31**	13.49

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

The Company’s net loss for the three and six months ended June 30, 2023 and the same periods in 2022 were consistent. Net loss was $0.5 million and $2.2 million, for the three and six months ended June 30, 2023, respectively, compared to $0.5 million and $2.0 million for the same periods in 2022.

Hotel operations produced strong second quarter results and achieved net operating income of $5.6 million for the quarter and $10.0 million year to date, compared to $4.8 million and $8.0 million respectively in 2022. Hotel revenue was $15.7 million for the three months ended June 30, 2023, compared to the $12.6 million in 2022. In addition to the continued Pandemic recovery, this increase is primarily due to two factors. During the second quarter of 2022, the Sternwheeler Hotel and Conference Center in Whitehorse, YT was still undergoing renovations and was not operating at full capacity. The Company also acquired the Stanford Inn & Suites in Grande Prairie, AB in June 2022, increasing the Company’s total hotel room count by approximately 10%.

Comprehensive loss was $0.8 million and $20.5 million for the three months ended June 30, 2023 and 2022, respectively. Comprehensive income was $0.2 million for the six months ended June 30, 2023, compared to a comprehensive loss of $14.8 million for the six months ended June 30, 2022. The comprehensive loss for the three and six months ended June 30, 2022 was attributable primarily 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.

SEGMENT REPORTING

The table below summarizes the Company’s assets by segment. 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 Debentures.

	June 30, 2023		December 31, 2022	
Segment	**$**	**%**	$	%
Investment	**184.5**	**41.5**	157.6	37.8
Hospitality	**227.3**	**51.1**	227.4	54.7
Other	**32.8**	**7.4**	31.1	7.5
Total	**444.5**	**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 a real estate development that is currently under construction in downtown Montreal ("1111 Atwater Development"). During the second quarter, the Company and its partners ended negotiations to potentially amend and extend the co-ownership agreement ("COA") of the 1111 Atwater Development and we have elected to exit the COA. The Company expects to receive a preferred return on its aggregate investment of 6.0% up to February 28, 2023, and a preferred return of 12.0% on its aggregate investment from March 1, 2023 until the expected closing date of November 1, 2023.

The Carling Avenue Development and the 1111 Atwater Development are the drivers of the segment's $32.6 million of capital expenditures to date in 2023.

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 and had a relatively strong quarter due to the temporary closure of several other ferries in the region.

Hospitality segment

The Company owns and operates hotels across Canada. Results for the three and six months ended June 30, 2023 compared to the three and six months ended June 30, 2022 are as follows:

	Three months ended June 30, 2023 $	Three months ended June 30, 2022 $	**Six months ended June 30, 2023 $**	Six months ended June 30, 2022 $
Hotel revenue	**15.7**	12.6	**30.7**	22.2
Investment and other income	**—**	—	**—**	0.1
Total revenue and other income	**15.7**	12.6	**30.7**	22.3
Less:				
Hotel operating expenses, property taxes and insurance	**10.4**	8.0	**21.1**	14.5
Depreciation and amortization	**2.5**	2.3	**4.8**	4.7
Interest and accretion	**0.8**	0.7	**1.7**	1.3
Income before income taxes	**2.0**	1.7	**3.1**	1.9

Hotel revenue for the three and six months ended June 30, 2023 was $15.7 million and $30.7 million, respectively, compared to $12.6 million and $22.2 million in 2022. Income before taxes was $2.0 million and $3.1 million for the three and six months ended June 30, 2023, respectively, compared to $1.7 million and $1.9 million in 2022.

In the three and six months ended June 30, 2022, the Company recognized non-recurring government grants in this segment totaling $1.1 million and $2.6 million, respectively as a direct reduction of hotel operating expenses, property taxes and insurance. These grants were not available in 2023, and is a key driver – in addition to increased business levels – of the increased hospitality expenses in 2023.

OUTSTANDING SHARE DATA

At August 11, 2023, the Company had:

- An unlimited number of common shares authorized and 13,985,157 common shares outstanding; and
- An unlimited number of First and Second Preferred Shares authorized and none outstanding.

LIQUIDITY AND CAPITAL RESOURCES

The Company monitors and forecasts its cash balances and cashflows to meet its required obligations. The aggregate availability of the Company's three revolving credit facilities is $90.0 million and at June 30, 2023, the Company had drawn $37.8 million on these credit facilities and had unused availability of $52.2 million. $35.0 million of this availability was drawn subsequent to June 30, 2023, to finance the Debenture redemption.

The Company has recently had significant capital expenditures, including those related to the construction of the Carling Avenue Development. In late 2022, the Company obtained an $85.0 million construction loan to finance the Carling Avenue Development. Funds are advanced from the loan periodically as construction costs are incurred. The loan bears interest at the lender's prime rate and has a three-year term. In May 2023, the Company began drawing on the loan and as of June 30, 2023, $18.8 million had been drawn. The Company does not expect to use its two chartered bank 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.

During the three months ended June 30, 2023, the Company secured a credit facility with an entity owned by the Company's Chairman and his immediate family member. This facility has a maximum borrowing capacity of $35.0 million, bears interest at 6.00% and is interest-only until January 1, 2028. Afterwards the facility will continue as a revolving line of credit on demand.

At June 30, 2023, current liabilities exceeded current assets by $83.1 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 the Debentures as current due to their pending redemption as of June 30, 2023. Subsequent to June 30, 2023, upon being drawn, the aforementioned related party credit facility used to finance the redemption of the Debentures is presented as non-current based on the repayment terms of the facility.

Cash flow from operating activities

Cash used in operating activities was $3.3 million for the six months ended June 30, 2023, compared to $2.0 million in 2022. The cash used was primarily attributable to additions to real estate inventory under development for the 1111 Atwater Development offset by cashflows from hospitality operations.

Cash flow from investing activities

Cash used in investing activities was $18.1 million for the six months ended June 30, 2023, compared to $22.0 million in 2022. The cash used was primarily attributable to progress on the Carling Avenue Development and capital expenditures for the hotel portfolio. In 2022, the use of cash was due to capital expenditures and our hotel acquisition.

Cash flow from financing activities

Cash provided by financing activities was $21.7 million for the six months ended June 30, 2023, compared to $8.9 million in 2022. This was primarily the result of net proceeds of long-term debt of $23.6 million and proceeds of short-term indebtedness of $11.7 million, offset by the repayment of long-term debt of $12.5 million and the repurchase of common shares of $1.1 million. Cash provided in 2022 was primarily related to 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.

SUMMARY OF QUARTERLY RESULTS

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

Three months ended	Jun. 2023 $	Mar. 2023 $	Dec. 2022 $	Sept. 2022 $	Jun. 2022 $	Mar. 2022 $	Dec. 2021 $	Sep. 2021 $
Revenue and other income	17.8	15.4	19.6	22.2	15.1	10.2	20.5	18.0
Net income (loss)	(0.5)	(1.7)	1.3	3.9	(0.5)	(1.4)	5.8	3.5
Other comprehensive income (loss) (“OCI”)	(0.3)	2.8	19.1	0.6	(20.0)	7.2	1.6	1.9
Comprehensive income (loss)	(0.8)	1.0	20.4	4.5	(20.5)	5.7	7.4	5.4
Basic EPS	(0.03)	(0.12)	0.10	0.27	(0.04)	(0.10)	0.40	0.24
Diluted EPS	(0.03)	(0.12)	0.10	0.25	(0.04)	(0.10)	0.36	0.16

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 (loss) due to changes in assumptions and the impact of the accounting requirements of the asset ceiling under IFRS. Further volatility in net income, OCI and comprehensive income (loss) can be caused by the timing of various required fair value adjustments of the Company’s property and equipment and 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 does not currently have any futures or foreign exchange contracts in place.

The Company has a significant number of financial instruments. Notes 1, 2, 3, 4, 5, 11, 12, 13, 14 and 24 to the audited 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 the 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 June 30, 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. During the second quarter of 2023, the Company secured a credit facility with a related party. Refer to the "Liquidity and Capital Resources" section of this MD&A for more information.

All other 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 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 IFRS and should not be considered in isolation or as a substitute for 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 and six months ended June 30, 2023.

	Three months ended June 30, 2023 $	Three months ended June 30, 2022 $	**Six months ended June 30, 2023 $**	Six months ended June 30, 2022 $
Income before income taxes	**2.0**	1.7	**3.1**	1.9
Deduct:				
Investment and other loss	**—**	—	**—**	(0.1)
Add:				
Non-operating corporate expenses	**0.2**	0.2	**0.4**	0.3
Depreciation and amortization	**2.5**	2.3	**4.8**	4.7
Interest expense	**0.8**	0.7	**1.7**	1.3
Hotel net operating income	**5.6**	4.8	**10.0**	8.0

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, 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.

June 30, 2023 and 2022

August 11, 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)

	June 30, 2023	December 31, 2022
	$	$
ASSETS		
Current		
Cash	**1,426**	1,090
Receivables	**6,470**	8,041
Real estate inventory under development *(note 10)*	**82,393**	70,418
Other assets	**2,691**	1,303
Total current assets	**92,980**	80,852
Accrued pension benefit asset *(note 2)*	**30,744**	28,630
Investment properties *(note 3)*	**96,284**	80,885
Property and equipment	**220,880**	221,704
Deferred income tax assets *(note 8)*	**3,293**	3,730
Other assets	**345**	320
Total assets	**444,526**	416,121
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Short-term indebtedness *(note 12)*	**37,759**	26,086
Accounts payable and other liabilities	**29,775**	25,310
Income taxes payable	**1,875**	2,063
Convertible debentures *(note 5)*	**34,232**	—
Current portion of long-term debt *(note 4)*	**72,417**	77,423
Total current liabilities	**176,058**	130,882
Convertible debentures *(note 5)*	—	34,146
Long-term debt *(note 4)*	**38,974**	20,929
Construction accounts payable and other liabilities	**7,356**	7,035
Lease obligations	**479**	560
Deferred income tax liabilities *(note 8)*	**7,571**	7,599
Total liabilities	**230,438**	201,151
Shareholders' equity		
Share capital *(note 6)*	**82,671**	83,190
Contributed surplus	**7,302**	7,302
Retained earnings	**38,833**	41,579
Accumulated other comprehensive income	**85,282**	82,899
Total shareholders' equity	**214,088**	214,970
Total liabilities and shareholders' equity	**444,526**	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 June 30, 2023 $	Three months ended June 30, 2022 $	**Six months ended June 30, 2023 $**	Six months ended June 30, 2022 $
Revenue and other income				
Hotel	**15,707**	12,603	**30,663**	22,203
Provision of services	**2,384**	2,010	**2,701**	2,251
Investment and other income (loss) *(note 7)*	**(306)**	442	**(144)**	827
	17,785	15,055	**33,220**	25,281
Expenses				
Operating expenses	**10,413**	8,688	**20,980**	15,227
Cost of services provided	**1,407**	1,119	**2,257**	1,715
General and administrative expenses	**714**	822	**1,709**	1,346
Property taxes and insurance	**1,157**	610	**2,099**	1,050
Depreciation and amortization	**2,553**	2,436	**4,829**	4,806
Interest and accretion	**1,919**	1,520	**3,855**	3,046
	18,163	15,195	**35,729**	27,190
Loss before income taxes	**(378)**	(140)	**(2,509)**	(1,909)
Provision for (recovery of) income taxes *(note 8)*	**76**	391	**(315)**	70
Net loss	**(454)**	(531)	**(2,194)**	(1,979)
Basic and diluted loss per share *(note 6)*	**(0.03)**	(0.04)	**(0.16)**	(0.14)

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, 2023 $	Three months ended June 30, 2022 $	**Six months ended June 30, 2023 $**	Six months ended June 30, 2022 $
Net loss	**(454)**	(531)	**(2,194)**	(1,979)
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss				
Remeasurement gains and losses and effect of changes to asset ceiling on defined benefit pension plans, net of income tax *(note 2)*	**(63)**	(20,341)	**2,686**	(12,969)
Items that may be reclassified subsequently to profit or loss				
Unrealized gains (losses) on translation of net investment in foreign operations, net of income tax	**(304)**	383	**(303)**	188
Other comprehensive income (loss)	**(367)**	(19,958)	**2,383**	(12,781)
Comprehensive income (loss)	**(821)**	(20,489)	**189**	(14,760)

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, 2023 $	Six months ended June 30, 2022 $
OPERATING ACTIVITIES		
Net loss	**(2,194)**	(1,979)
Adjustments for items not involving cash *(note 9)*	**4,388**	4,588
	2,194	2,609
Additions to real estate inventory under development	**(5,480)**	(5,066)
Net change in non-cash working capital balances *(note 9)*	**23**	460
Net cash used in operating activities	**(3,263)**	(1,997)
INVESTING ACTIVITIES		
Acquisition of hotel property	**—**	(11,600)
Additions to property and equipment	**(3,122)**	(3,807)
Additions to investment properties *(note 3)*	**(16,004)**	(7,901)
Collection of loans receivable	**—**	250
Distribution of pension plan surplus, net of tax *(note 2)*	**1,049**	1,064
Net cash used in investing activities	**(18,077)**	(21,994)
FINANCING ACTIVITIES		
Repurchase of shares for cancellation *(note 6)*	**(1,071)**	(2,062)
Net proceeds of short-term indebtedness	**11,673**	8,000
Proceeds of long-term debt, net of financing fees *(note 4)*	**23,591**	5,141
Settlement of share-based liability	**—**	(72)
Repayment of long-term debt	**(12,435)**	(2,012)
Principal payments of lease obligation	**(82)**	(75)
Net cash provided by financing activities	**21,676**	8,920
Net change in cash during the period	**336**	(15,071)
Cash, beginning of period	**1,090**	18,423
Cash, end of period	**1,426**	3,352

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, 2023 $	Six months ended June 30, 2022 $
Share capital		
Balance at beginning of period	**83,190**	85,218
Common shares repurchased for cancellation *(note 6)*	**(519)**	(1,138)
Balance at end of period	**82,671**	84,080
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	**(2,194)**	(1,979)
Purchase price in excess of the book value of common shares repurchased for cancellation *(note 6)*	**(552)**	(924)
Balance at end of period	**38,833**	37,197
Accumulated other comprehensive income		
Balance at beginning of period	**82,899**	75,999
Other comprehensive income (loss)	**2,383**	(12,781)
Balance at end of period	**85,282**	63,218
Total shareholders' equity	**214,088**	191,797

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 August 11, 2023.

Basis of presentation and statement of compliance

The Financial Statements are for the three and six months ended June 30, 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.

2. EMPLOYEE FUTURE BENEFITS

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

	June 30, 2023	December 31, 2022
	$	$
Fair value of plan assets	**107,883**	114,183
Accrued benefit obligation	**(35,977)**	(38,778)
Funded status of plans – surplus	**71,906**	75,405
Cumulative impact of asset ceiling	**(41,162)**	(46,775)
Accrued pension benefit asset	**30,744**	28,630

The defined benefit pension expense recognized in the interim consolidated statements of loss for the three and six months ended June 30, 2023 was $306 and $143, respectively (2022 – recovery of $167 and $348).

During the three months ended June 30, 2023, the Clarke Inc. Master Trust purchased a group buy-out annuity for the members of one of the Company's defined benefit plans for a cash outlay of $4,482. This annuity purchase is one of the factors in the reduction of both the fair value of plan assets and the accrued benefit obligation.

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 June 30, 2023 (December 31, 2022 – 5.05%).

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

2. EMPLOYEE FUTURE BENEFITS (CONT.)

Elements of the defined benefit recovery (expense) are as follows:

	Three months ended June 30, 2023 $	Three months ended June 30, 2022 $	**Six months ended June 30, 2023 $**	Six months ended June 30, 2022 $
Remeasurement gains (losses) and return on plan assets in excess of discount rate	**(2,445)**	5,200	**(3,112)**	18,307
Impact of asset ceiling changes	**2,354**	(33,120)	**6,795**	(36,183)
Deferred income tax recovery (expense)	**28**	7,579	**(997)**	4,907
Defined benefit recovery (expense)	**(63)**	(20,341)	**2,686**	(12,969)

3. INVESTMENT PROPERTIES

Six months ended June 30, 2023	**Buildings $**	**Vacant land $**	**Under construction $**	**Total $**
Beginning balance	18,431	45	62,409	80,885
Additions	133	—	15,681	15,814
Foreign exchange impact	(415)	—	—	(415)
Ending balance	18,149	45	78,090	96,284

4. LONG-TERM DEBT

The following table summarizes changes in long-term debt for the six months ended June 30, 2023:

	Six months ended June 30, 2023 $
Total long-term debt – beginning balance	**98,352**
Proceeds of long-term debt, net of financing fees	**23,591**
Repayment of long-term debt	**(12,435)**
Capitalized interest on construction financing	**1,866**
Accretion	**17**
Total long-term debt – ending balance	**111,391**
Less: current portion of long-term debt	**(72,417)**
Long-term portion	**38,974**

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. CONVERTIBLE DEBENTURES

On June 28, 2023, the Company announced that it would redeem the entire aggregate principal of its outstanding 5.50% Series B Convertible Unsecured Subordinated Debentures due January 1, 2028 (the "Debentures"). The Debentures were redeemed on July 28, 2023, for a cash outlay of $35,384, which included $468 of accrued interest. The redemption of the Debentures was entirely financed using funds drawn on a recently secured credit facility obtained from a related party *(note 12)*. Upon redemption, subsequent to June 30, 2023, the Company recorded a net loss of approximately $768, representing the difference between the Debentures' carrying value and the principal amount.

6. SHARE CAPITAL AND EARNINGS PER SHARE

	Six months ended June 30, 2023		Six months ended June 30, 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	**(85,500)**	**(519)**	(192,300)	(1,138)
Outstanding common shares, end of period	**13,983,644**	**82,671**	14,219,669	84,080

Common Share Repurchases

On June 29, 2022, the Company renewed a 12-month normal course issuer bid ("NCIB") to repurchase up to 711,543 common shares. During the six months ended June 30, 2023, the Company purchased for cancellation 85,500 (2022 – 192,300) common shares at a cost of $1,071 (2022 – $2,062). The purchase price in excess of the book value of the shares in the amount of $552 (2022 – $924) has been charged to retained earnings and $519 (2022 – $1,138) has been charged to share capital.

Earnings per share

	Three months ended June 30, 2023			Three months ended June 30, 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	**(454)**	**14,001**	**(0.03)**	(531)	14,264	(0.04)

	Six months ended June 30, 2023			Six months ended June 30, 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	**(2,194)**	**14,032**	**(0.16)**	(1,979)	14,286	(0.14)

All potentially dilutive securities outstanding as of June 30, 2023, relate to the Company's Debentures. The Debentures were anti-dilutive for the three and six months ended June 30, 2023, and June 30, 2022.

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

7. INVESTMENT AND OTHER INCOME (LOSS)

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

	Three months ended June 30, 2023 $	Three months ended June 30, 2022 $	**Six months ended June 30, 2023 $**	Six months ended June 30, 2022 $
Unrealized losses on marketable securities	**—**	(31)	**—**	—
Interest income	**—**	197	**—**	421
Pension recovery (expense) *(note 2)*	**(306)**	167	**(143)**	348
Loss on disposal of property and equipment	**—**	(3)	**(1)**	(3)
Foreign exchange gains	**—**	112	**—**	61
	(306)	442	**(144)**	827

8. INCOME TAXES

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

	Three months ended June 30, 2023 $	Three months ended June 30, 2022 $	**Six months ended June 30, 2023 $**	Six months ended June 30, 2022 $
Current	**55**	295	**191**	(112)
Deferred	**21**	96	**(506)**	182
Provision for (recovery of) income taxes	**76**	391	**(315)**	70

As at June 30, 2023, the Company had non-capital losses carried forward for tax purposes of $18,531 (December 31, 2022 – $17,018) in Canada and US$15,889 (December 31, 2022 - US$14,985) in the United States.

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

	June 30, 2023 $	December 31, 2022 $
Property and equipment	**1,362**	1,401
Non-capital loss carry-forwards	**3,858**	3,543
Total	**5,220**	4,944

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

9. SUPPLEMENTAL CASH FLOW INFORMATION

Adjustments for items not involving cash	**Six months ended June 30, 2023 $**	Six months ended June 30, 2022 $
Depreciation and amortization	**4,829**	4,806
Deferred income tax expense (recovery) *(note 8)*	**(506)**	182
Share-based payment recovery	**(213)**	(90)
Accretion	**104**	119
Realized/unrealized foreign exchange losses (gains)	**30**	(84)
Pension expense (recovery) *(note 2)*	**143**	(348)
Loss on disposal of assets	**1**	3
	4,388	4,588

Net change in non-cash working capital balances	**Six months ended June 30, 2023 $**	Six months ended June 30, 2022 $
Receivables	**1,571**	1,750
Other assets	**(1,427)**	(655)
Accounts payable and other liabilities	**(312)**	853
Income taxes payable	**191**	(1,488)
	23	460

10. JOINT OPERATION

During the three months ended June 30, 2023, the Company and its partners ended negotiations to potentially amend and extend the co-ownership agreement (“COA”) of the 1111 Atwater Avenue development (“the Development”). As a result, the Company elected to continue with its right to exit the COA. The Company expects to receive a preferred return on its aggregate investment of 6.0% up to and including February 28, 2023, and a preferred return of 12.0% on its aggregate investment from March 1, 2023 until the expected closing date of November 1, 2023. As a result, the Development’s assets and liabilities have been presented as current as of June 30, 2023.

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

11. 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 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. Reconciling items represent 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 and six months ended June 30, 2023 and 2022.

Three months ended June 30, 2023	Investment $	Hospitality $	Other $	Eliminations $	Total $
Revenue and other income:					
Hotel revenue and provision of services	2,117	15,707	272	(5)	18,091
Investment and other loss	—	—	(306)	—	(306)
	2,117	15,707	(34)	(5)	17,785
Operating expenses before the undernoted	2,910	10,393	393	(5)	13,691
Depreciation and amortization	30	2,502	21	—	2,553
Interest and accretion	—	807	1,112	—	1,919
Income (loss) before income taxes	(823)	2,005	(1,560)	—	(378)

Six months ended June 30, 2023	Investment $	Hospitality $	Other $	Eliminations $	Total $
Revenue and other income:					
Hotel revenue and provision of services	2,173	30,663	539	(11)	33,364
Investment and other loss	—	(2)	(142)	—	(144)
	2,173	30,661	397	(11)	33,220
Operating expenses before the undernoted	4,629	21,143	1,284	(11)	27,045
Depreciation and amortization	40	4,760	29	—	4,829
Interest and accretion	—	1,687	2,168	—	3,855
Income (loss) before income taxes	(2,496)	3,071	(3,084)	—	(2,509)
Assets	184,490	227,252	32,784	—	444,526
Liabilities	101,233	51,355	77,850	—	230,438
Capital expenditures	21,484	3,122	—	—	24,606
Assets located outside of Canada	18,403	—	—	—	18,403

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

11. SEGMENTED INFORMATION (CONT.)

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 and accretion	—	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	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 and accretion	—	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	13,700	14,674	—	—	28,374
Assets located outside of Canada	17,533	—	—	—	17,533

12. RISK MANAGEMENT AND RELATED PARTY TRANSACTION

Related Party Transaction

During the three months ended June 30, 2023, the Company obtained an unsecured credit facility from an entity owned by the Company's Chairman and his immediate family member. This facility has a maximum borrowing capacity of $35,000, bears interest at 6.00% and is interest payments only until January 1, 2028, whereby afterwards the facility will continue as a revolving line of credit on demand. Subsequent to June 30, 2023, the facility was fully drawn upon by the Company to finance the redemption of its Debentures *(note 5)*.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations. The Company monitors and forecasts its cash balances and cash flows generated from operations to meet its required obligations.

The Company has two secured credit facilities with Canadian chartered banks. The aggregate availability of these facilities is $55,000 and at June 30, 2023, the Company had drawn $37,759 on these credit facilities and had available unused facilities totaling $17,241.

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"). In 2022 the Company obtained an $85,000 construction loan to finance the Carling Avenue Development. Funds are advanced from the loan periodically as construction costs are incurred. The loan bears interest at the lender's prime rate and has a three-year term. During the three months ended June 30, 2023, the Company began drawing on the loan and as of June 30, 2023, $18,765 had been drawn. As such, the Company does not expect to use its two chartered bank credit facilities for financing 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.

13. SUBSEQUENT EVENT

On July 4, 2023, the Company renewed a 12-month normal course issuer bid to repurchase up to 699,232 common shares representing 5% of the total 13,984,644 issued and outstanding common shares as of June 21, 2023.

Clarke Inc.
Suite 106
145 Hobsons Lake Dr.
Halifax, NS B3S 0H9

www.clarkeinc.com