

Consolidated Financial Statements

Consolidated Balance Sheets

As at March 31

| \$000's | 2002 | 2001 |
|---|-------------------|-------------------|
| ASSETS | | |
| Cash and cash equivalents (Note 3) | \$ 4,064 | \$ 7,829 |
| Short-term investments (Note 4) | 40,309 | 16,616 |
| Accounts receivable and other assets (Note 5a) | 1,731 | 1,541 |
| Corporate investments (Note 6) | 150,124 | 129,164 |
| | \$ 196,228 | \$ 155,150 |
| LIABILITIES | | |
| Accounts payable | \$ 1,102 | \$ 1,624 |
| Future income taxes (Note 8) | 8,884 | 5,193 |
| | 9,986 | 6,817 |
| Commitments and contingencies (Notes 6b, 10 and 11) | | |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 9) | 112,452 | 95,652 |
| Retained earnings | 73,790 | 52,681 |
| | 186,242 | 148,333 |
| | \$ 196,228 | \$ 155,150 |

(see accompanying notes to consolidated financial statements)

On behalf of the Board:



PHILIP S. ORSINO
Director



JOSEPH J. HEFFERNAN
Director

Consolidated Financial Statements

Consolidated Statements of Income (Loss)

For the years ended March 31

| \$000's (except per share information) | 2002 | 2001 |
|---|---------------|----------------|
| NET INVESTMENT GAINS (LOSSES) | | |
| Realized losses on investments (net) | \$ (3,970) | \$ – |
| Previously recognized unrealized losses (net) (Note 2e) | 2,836 | – |
| Unrealized gains (losses) on investments (net) | 24,105 | (9,725) |
| | 22,971 | (9,725) |
| OTHER INCOME | | |
| Interest income (Notes 5b and 5d) | 1,263 | 2,079 |
| Dividend income (Note 5d) | 1,496 | 2,572 |
| Management fees (Note 5c) | 2,901 | 173 |
| Advisory and other fees (Note 5d) | 2,756 | 3,544 |
| | 8,416 | 8,368 |
| Administration and other expenses (Note 5e) | 3,900 | 3,908 |
| Income (loss) before income taxes | 27,487 | (5,265) |
| Provision for (recovery of) income taxes (Note 8) | 4,508 | (3,549) |
| Net income (loss) | \$ 22,979 | \$ (1,716) |
| Net income (loss) per share | \$ 1.15 | \$ (0.09) |
| Fully diluted net income (loss) per share | \$ 1.11 | \$ (0.09) |

(see accompanying notes to consolidated financial statements)

Consolidated Statements of Retained Earnings

For the years ended March 31

| \$000's | 2002 | 2001 |
|--------------------------------------|---------------|---------------|
| Retained earnings, beginning of year | \$ 52,681 | \$ 56,267 |
| Net income (loss) | 22,979 | (1,716) |
| | 75,660 | 54,551 |
| Dividends | (1,870) | (1,870) |
| Retained earnings, end of year | \$ 73,790 | \$ 52,681 |

(see accompanying notes to consolidated financial statements)

Consolidated Financial Statements

Consolidated Statements of Cash Flow

For the years ended March 31

| \$000's | 2002 | 2001 |
|---|-----------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 22,979 | \$ (1,716) |
| Add (deduct) items not involving a current cash outlay | | |
| Amortization | 69 | 59 |
| Future income taxes | 3,691 | (4,996) |
| Realized losses on investments (net) | 3,970 | - |
| Previously recognized unrealized losses (net) | (2,836) | - |
| Unrealized losses (gains) on investments (net) | (24,105) | 9,725 |
| Non-cash income relating to corporate investments | - | (683) |
| | 3,768 | 2,389 |
| Net change in non-cash working capital balances related to operations | (781) | 18 |
| | 2,987 | 2,407 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issuance of non-voting shares (Note 9) | 16,800 | - |
| Dividends | (1,870) | (1,870) |
| | 14,930 | (1,870) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Short-term investments, net | (23,693) | 4,064 |
| Acquisition of corporate investments | (14,072) | (2,102) |
| Proceeds on sale of corporate investments | 12,564 | - |
| Proceeds on realization of foreign exchange forward contracts | 1,053 | 1,828 |
| Return of capital from corporate investments | 2,466 | 75 |
| Purchase of other assets | - | (282) |
| | (21,682) | 3,583 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (3,765) | 4,120 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 7,829 | 3,709 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 4,064 | \$ 7,829 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash taxes paid | \$ 1,757 | \$ 792 |
| Cash interest paid | \$ - | \$ - |

(see accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

March 31, 2002 and 2001 (tabular dollar amounts in thousands)

1. NATURE OF ACTIVITIES

Clairvest Group Inc. ("Clairvest" or the "Company") is a publicly-traded Canadian merchant bank. The Company, which operates in only one business segment, actively seeks to form mutually beneficial investments with entrepreneurial corporations. Clairvest contributes financing and strategic expertise to support the growth and development of its corporate investments in order to create realizable value for all shareholders. Clairvest is incorporated under the laws of the Province of Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Company:

(a) PRINCIPLES OF CONSOLIDATION

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries that exist for investing and financing purposes. All significant intercompany amounts and transactions have been eliminated upon consolidation.

(b) CORPORATE INVESTMENTS

(i) Publicly-traded investments

Securities that are traded on a recognized securities exchange and for which no sales restrictions apply are recorded at carrying values based on quoted market prices at the balance sheet dates or the closing price on the last day the security traded if there were no trades at the balance sheet dates.

Securities that are traded on a recognized exchange but that are escrowed or otherwise restricted as to sale or transfer are recorded at amounts discounted from market value. In determining the discount for such investments, the Company considers the nature and length of the restriction, business risk of the investee company, its stage of development, market potential, relative trading volume and price volatility and any other factors that may be relevant to the ongoing and realizable value of the investments.

(ii) Privately-held investments

Securities in privately-held companies are recorded at cost unless an upward adjustment is considered appropriate and supported by persuasive and objective evidence such as a significant subsequent equity financing by an unrelated, professional investor at a transaction price higher than the Company's carrying value. Downward adjustments to carrying value are made when there is evidence of a decline in value as indicated by the assessment of the financial condition of the investment based on operational results, forecasts, financing and other developments since acquisition.

(iii) Other forms of investment instruments

Included in Clairvest's corporate investments are certain instruments that are accounted for as follows:

- Loans are valued at the lesser of their discounted cash flow or the fair value of the underlying collateral.
- Convertible debentures and convertible notes are valued at the greater of their loan value amount as described above or as though converted to common shares.
- Options and warrants for public companies are valued at the difference between the exercise price and the quoted market price.
- Options and warrants for private companies are valued at the difference between the exercise price and the carrying value of the underlying shares.
- Cumulative dividends not yet received are included in the carrying value of the investment.

At each financial reporting period, the Company's management determines the valuation of investments based on the criteria above and reflects such valuations as corporate investments in the consolidated financial statements. The resulting values may differ from values that would be realized had a ready market existed. The amounts at which Clairvest's privately-held investments could be disposed of currently may differ from the carrying value assigned as a substantial period of time may have elapsed since the latest adjustment in valuation. The amounts at which Clairvest's publicly-traded investments could be disposed of currently may differ from the carrying value based on market quotes as the value at which significant ownership positions are sold is often different than the quoted market price due to a variety of factors such as premiums paid for large blocks or discounts due to illiquidity.

(c) SHORT-TERM INVESTMENTS

Short-term investments are carried at the lower of cost and estimated market value.

(d) FOREIGN CURRENCY TRANSLATION

The carrying value of foreign investments have been translated into Canadian dollars at the balance sheet date rates of exchange together with the effect of any foreign exchange forward contract hedge thereon. The cost of foreign investments is the cost thereof translated into Canadian dollars at the rate of exchange prevailing at the time of purchase.

(e) INCOME RECOGNITION

Realized gains or losses on disposition of investments and unrealized gains or losses in the value of investments are reflected in the consolidated statements of income. Upon disposal of an investment, previously recognized unrealized gains or losses are reversed. Management fees and advisory and other fees are recorded as revenue on an accrual basis when the services are performed. Dividend income is recorded on the ex-dividend date.

(f) INCOME TAXES

The Company records income tax expense using the liability method of tax allocation. Under the liability method, income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities and their tax bases. Future income tax assets and liabilities are determined for each temporary difference based on the tax rates that are expected to be in effect when the asset or liability is settled.

(g) STOCK-BASED COMPENSATION PLAN

The Company has a stock option plan. No compensation expense is recognized for this plan when stock options are issued. Any consideration paid by employees on exercise of stock options is credited to share capital.

(h) EARNINGS PER SHARE

In fiscal 2002, the Company retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants' Section 3500, *Earnings per Share*. Pursuant to the new recommendations, basic earnings per share is determined by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is in accordance with the treasury stock method and is based on the weighted average number of common shares and dilutive common share equivalents outstanding during the year. The adoption of the new recommendation had no effect on 2001 basic and fully diluted earnings per share, or on 2002 basic earnings per share. 2002 fully diluted earnings per share was \$0.03 higher as a result of the adoption of the new recommendation.

(i) ESTIMATES

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. CASH EQUIVALENTS

Cash equivalents consists of only highly liquid investments with maturities of less than 90 days from the date of acquisition. Cash equivalents are consists of money market funds and bankers' acceptances. Cash equivalents have realizable values which approximate the carrying values due to their short-term nature.

4. SHORT-TERM INVESTMENTS

Short-term investments have maturities at the date of acquisition between 90 days and one year and consist of high quality corporate notes and debentures. The yield on these investments ranges between 2.1% and 11.6% (2001 – between 5.7% and 8.0%) with a weighted average yield thereon of 4.0% (2001 – 6.4%). Short-term investments have realizable values that approximate the carrying values due to their short-term nature.

5. RELATED PARTY TRANSACTIONS

- (a) Share purchase loans made to certain officers of the Company totalling \$464,000 (2001 – \$669,000) are included in accounts receivable and other assets. The loans bear interest fixed at either 4% or the prime rate on the date of drawdown less 1%, interest is paid annually, and the loans have full recourse and are collateralized by the common shares of the Company purchased by the officers with a market value of \$510,000 (2001 – \$443,000). Also included in accounts receivable and other assets are receivables from Clairvest's corporate investments totalling \$743,000 (2001 – \$405,000) and from Clairvest Equity Partners Limited Partnership ("CEP") totalling \$12,000 (2001 – \$34,000).
- (b) Loans, including non-interest bearing loans and loans bearing interest at the prime rate, were made by the Company to CEP during fiscal 2002 and were repaid during the year. Interest of \$23,000 (2001 – nil) was received from CEP during fiscal 2002.
- (c) During fiscal 2001 Clairvest entered into a Management Agreement with the General Partner of CEP, a wholly-owned subsidiary of Clairvest, appointing Clairvest as the Manager of CEP. The Management Agreement provides that a management fee be paid to Clairvest as compensation

for its services in the administration of the portfolio of CEP. The fee is calculated annually as 2% of committed capital until the fifth anniversary of the last closing of CEP, and thereafter 2% of contributed capital of CEP less distributions on account of capital and any write-downs of capital invested. The management fee is reduced to the extent of 75% of any fees earned by Clairvest from corporate investments of CEP. During fiscal 2002, CEP paid Clairvest net management fees of \$2.9 million (2001 – \$173,000) as compensation for its services in the administration of the portfolio of CEP.

- (d) During fiscal 2002 Clairvest received \$27,000 (2001 – \$627,000) in interest, \$1,496,000 (2001 – \$2,572,000) in dividends and \$2,756,000 (2001 – \$3,537,000) in advisory and other fees from its corporate investments.
- (e) Included in administration and other expenses are fees in respect of certain office and overhead expenses in an aggregate amount of \$150,000 (2001 – \$320,000) paid to a company controlled by certain shareholders of the Company.
- (f) The General Partner of CEP is entitled to participate in distributions made by CEP after the Limited Partners have received distributions from CEP equal to the sum of (a) their contributed capital, and (b) a return equal to 6% per annum compounded annually. To date, CEP has not made any distributions.

6. CORPORATE INVESTMENTS

| | 2002 | | | 2001 | | |
|---|----------------|------------|------------|----------------|------------|------------|
| | Carrying value | Cost | Difference | Carrying value | Cost | Difference |
| Investments in publicly-traded companies | | | | | | |
| Datamark Systems Group Inc. | \$ 16,629 | \$ 14,421 | \$ 2,208 | \$ 8,931 | \$ 14,421 | \$ (5,490) |
| Voxcom Incorporated | 7,304 | 6,664 | 640 | 7,701 | 6,289 | 1,412 |
| | 23,933 | 21,085 | 2,848 | 16,632 | 20,710 | (4,078) |
| Investments in privately-held companies | | | | | | |
| Allied Global Holdings Inc. | 3,239 | 3,000 | 239 | – | – | – |
| Clairvest-Yorkton Transition Capital Fund L.P. | 1,993 | – | 1,993 | 3,082 | 1,493 | 1,589 |
| Consolidated Vendors Corporation | 3,615 | 2,896 | 719 | 8,221 | 6,625 | 1,596 |
| Gateway Casinos Inc. | 30,000 | 24,000 | 6,000 | 24,000 | 24,000 | – |
| NRI Industries Inc. | 25,227 | 17,613 | 7,614 | 24,052 | 17,613 | 6,439 |
| Signature Security Group Holdings Pty. Limited | 28,738 | 28,421 | 317 | 20,401 | 20,401 | – |
| Sparkling Spring Water Holdings Limited | 32,864 | 4,717 | 28,147 | 31,850 | 5,889 | 25,961 |
| | 125,676 | 80,647 | 45,029 | 111,606 | 76,021 | 35,585 |
| Other investments | 515 | 515 | – | 926 | 9,578 | (8,652) |
| | \$ 150,124 | \$ 102,247 | \$ 47,877 | \$ 129,164 | \$ 106,309 | \$ 22,855 |

(a) DATAMARK SYSTEMS GROUP INC. (“DATAMARK”)

Datamark is a business document management company with operations in Canada and the United States. At March 31, 2002 Clairvest owned 4,675,670 (2001 – 4,675,670) common shares of Datamark, representing 36.5% (2001– 36.7%) interest on a fully diluted basis.

At March 31, 2002 and 2001, Clairvest also held 20,000 options to acquire Datamark shares at \$2.02 per share. These options vest over five years from the grant date, being October 1999.

The shares in Datamark are carried at the quoted market price at March 31, 2002 and 2001. Since the inception of the investment, Clairvest has received a total of \$12.0 million in cash dividends, which have been accounted for as income.

(b) VOXCOM INCORPORATED (“VOXCOM”)

Voxcom is an Edmonton-based electronic security alarm monitoring company operating throughout Canada. At March 31, 2002, Clairvest owned 230,000 (2001 – 230,000) common shares, \$5.0 million (2001 – \$5.0 million) of debentures that are due July 18, 2002, and \$1.0 million (2001 – nil) of guarantee debentures that are due July 14, 2002. \$3.0 million of debentures bore interest at 8% per annum until July 18, 2001, and bear interest at 14% thereafter, and the remaining \$2.0 million of debentures bore interest at 8% per annum until December 20, 2000, were non-interest bearing from December 20, 2000 to July 18, 2001, and bear interest at 14% thereafter. If the debentures were converted, Clairvest would own 45.2% (2001 – 27.4%) on a fully diluted basis.

During fiscal 2002, Clairvest entered into an agreement to guarantee up to \$7.5 million of Voxcom's obligations to its lending syndicate. Clairvest receives a fee equal to 25% of each amount guaranteed, such fee being secured by a guarantee debenture, with interest payable at 25% per annum in additional guarantee debentures. As at March 31, 2002, Clairvest had guaranteed \$3.45 million of Voxcom's obligations.

Clairvest also holds 10,000 options to acquire Voxcom shares at \$3.25 per share. These options vested January 1997. Clairvest also participates in an additional 10,000 options to the extent that \$3.25 is exceeded by the lesser of (i) the market value of the shares at the time the existing options are exercised and (ii) \$7.45 per share. As part of Clairvest's agreement to guarantee a portion of Voxcom's indebtedness, Clairvest also received 200,000 options to acquire Voxcom shares at \$1.95 per share and 1,898,734 warrants to acquire Voxcom shares at \$3.95 per share. These options and warrants vested May 31, 2001. Also during fiscal 2002, Clairvest received 3,813,631 warrants to acquire Voxcom shares at \$1.80 per share.

Clairvest carries its investment in Voxcom common shares at the quoted market price at March 31, 2002, and 2001. The debentures and guarantee debentures were carried at accrued value at March 31, 2002, and at the quoted market price at March 31, 2001, based on the common shares Clairvest would own assuming conversion of the debentures.

(c) ALLIED GLOBAL HOLDINGS INC. ("ALLIED GLOBAL")

Allied Global is an international accounts receivable management firm with operations across Canada, the United States and the United Kingdom. At March 31, 2002, Clairvest owned 30,000 10% convertible Class B preferred shares in Allied Global, which were acquired during fiscal 2002 for \$3.0 million. Clairvest's ownership on a fully diluted basis was 8.4% at March 31, 2002.

The shares in Allied Global are carried at cost at March 31, 2002. Cumulative dividends are included in the carrying value of these shares.

(d) CLAIRVEST-YORKTON TRANSITION CAPITAL FUND L.P. ("THE BRIDGE FUND")

The Bridge Fund provides financing to growth companies in the technology and health sciences industries prior to larger, more permanent financings. Clairvest has committed to fund \$5.0 million to the Bridge Fund, \$1.5 million of which was funded at March 31, 2001. The funded capital had been returned to Clairvest as at March 31, 2002. Clairvest's commitment represents a 71.4% interest in the Bridge Fund.

Clairvest carries its investment in the Bridge Fund at the underlying value of the loans and warrants held by the Bridge Fund.

(e) CONSOLIDATED VENDORS CORPORATION ("CONSOLIDATED VENDORS")

Consolidated Vendors is an independent vending operator in the US Midwest. At March 31, 2002, Clairvest owned 8,750 (2001 – 35,000) 10% convertible Class A preferred shares, 9,250 (2001 – nil) 10% convertible Class B preferred shares and 703 (2001 – 2,813) common shares in Consolidated Vendors.

At March 31, 2001, Clairvest also held a US\$500,000 subordinated debenture in Consolidated Vendors, bearing interest at 20%. The debenture and interest were repaid during fiscal 2002. During fiscal 2002, Clairvest purchased 11,099 Class B preferred shares for \$1.7 million. Also during fiscal 2002, Clairvest sold 2,110 common shares, 26,250 Class A preferred shares and 1,849 Class B preferred shares in Consolidated Vendors to CEP for \$5.7 million. This transaction was between related parties and was accounted for at the carrying amounts. The common shares and Class B preferred shares were sold for Clairvest's original cost, and the Class A preferred shares for Clairvest's accrued value of the shares. The \$1.0 million of accrued dividends on the Class A preferred shares sold to CEP that was previously recorded through unrealized gains on investments remains in unrealized gains on investments. Clairvest's ownership on a fully diluted basis was 17.2% (2001 – 57.9%) at March 31, 2002.

The shares in Consolidated Vendors are carried at cost and converted into Canadian dollars, after giving effect to the related foreign exchange forward contract hedge thereon (see note 10b). Cumulative dividends are included in the carrying value of these shares.

(f) GATEWAY CASINOS INC. ("GATEWAY CASINOS")

Gateway Casinos is a gaming management company operating casinos in Western Canada. At March 31, 2002, Clairvest owned 6.0 million (2001 – 6.0 million) common shares in Gateway Casinos, representing a 28.4% (2001 – 28.4%) interest on a fully diluted basis.

At March 31, 2002, the shares in Gateway Casinos were carried at cost plus a \$6.0 million upward adjustment to the carrying value of the investment. At March 31, 2001, the shares in Gateway Casinos were carried at cost.

(g) NRI INDUSTRIES INC. ("NRI")

NRI converts tire-derived waste rubber into value-added manufactured products. At March 31, 2002, and March 31, 2001, Clairvest owned 6.0 million Class A preferred shares, 2.0 million Class D preferred shares, 4.5 million Class E preferred shares and 86,000 common shares of NRI. Clairvest also held an option to acquire an additional 8,000 common shares of NRI from another shareholder, exercisable for US\$2.8 million, until June 3, 2002. Clairvest's ownership on a fully diluted basis at March 31, 2002, was 90.5% (2001 – 90.5%).

The Class A preferred shares bear a cumulative dividend rate of 6.5% per annum commencing September 1, 1998, and are redeemable for \$1 per share. The Class D preferred shares bear a cumulative dividend rate of 6.5% per annum commencing September 1, 1998, and are redeemable at US\$1 per share. The Class E preferred shares bore a cumulative dividend of \$0.06 per share per annum commencing March 31, 1996, until August 31, 1998, and bear a cumulative dividend at the rate of 6.5% per annum thereafter. The Class E preferred shares are redeemable at \$1 per share.

The common shares of NRI are carried at cost. The Class A, Class D and Class E preferred shares are carried at their redemption values, with the redemption value of the Class D preferred shares being converted at the foreign exchange rate in effect at March 31, 2002 and 2001. Cumulative dividends on the Class A, Class D and Class E preferred shares are included in the carrying value of these shares.

(h) SIGNATURE SECURITY GROUP HOLDINGS PTY. LIMITED ("SIGNATURE")

Signature is an electronic security company serving Australia and New Zealand. At March 31, 2002, Clairvest owned 214,866,491 (2001 – 274,758) ordinary shares in Signature, through its wholly-owned subsidiary, Clairvest Group International (Netherlands) B.V. ("BV"). Clairvest's indirect ownership on a fully diluted basis at March 31, 2002, was 43.8% (2001 – 33.8%).

During fiscal 2002, BV acquired 214,591,733 ordinary shares in Signature as part of a recapitalization of Signature. Also as part of the recapitalization, Clairvest loaned amounts totalling \$8.2 million to Signature and to Equity SPV Pty. Limited ("SPV"). SPV is a special purpose corporate entity formed to facilitate the loaning of the above-noted funds to Signature by the shareholders of Signature. The loans bear interest either at (i) the net cash interest earned by SPV, (ii) prime plus 5% or (iii) the net cash interest earned by SPV plus prime plus 5%. Interest at prime plus 5% is due and payable when Signature's senior debt is repaid and interest at the net cash interest earned by SPV is due and payable when earned. The loans are due December 31, 2002.

At March 31, 2002, the ordinary shares and loans are carried at cost, converted to Canadian dollars, after giving effect to the related foreign exchange forward contract hedge thereon (see note 10b). Prior to the recapitalization, at March 31, 2001, the ordinary shares were carried at AUS\$125 per share based on a third-party equity financing, converted to Canadian dollars, after giving effect to the related foreign exchange forward contract hedge thereon, and net of a \$7.4 million reserve against the value of the investment.

(i) SPARKLING SPRING WATER HOLDINGS LIMITED ("SPARKLING SPRING")

Sparkling Spring is a purified water distribution company operating in Canada, the United States and the United Kingdom. At March 31, 2002, Clairvest owned 1,377,507 (2001 – 1,719,680) common shares in Sparkling Spring. Clairvest also holds 26,920 (2001 – 26,920) warrants to acquire common shares at US\$7.73 per share. Clairvest's ownership on a fully diluted basis at March 31, 2002, was 14.7% (2001 – 24.2%).

During fiscal 2002 Clairvest sold 342,173 common shares in Sparkling Spring for total proceeds of \$6.1 million.

The shares in Sparkling Spring are carried at US\$14.82 per share based on a third-party equity financing completed in fiscal 2002. At March 31, 2001, the shares were carried at US\$11.69 per share based on a third-party equity financing completed in fiscal 2001.

7. BANKING FACILITY

The Company has a \$20 million line of credit available, bearing interest at prime plus 0.5% per annum. The facility is renewed annually on January 1 of each year. The prime rate at March 31, 2002, was 3.75% (2001 – 6.75%). Clairvest's line of credit is decreased by the drawdown portion of the guarantee provided by Clairvest to Voxcom (see note 11c). The line of credit available at year end is \$16.55 million.

8. INCOME TAXES

Provision for (recovery of) income taxes consists of the following:

| | 2002 | 2001 |
|--|----------|------------|
| Current income tax expense | \$ 817 | \$ 1,447 |
| Future income tax expense (recovery) relating to origination and reversal of temporary differences | 4,478 | (2,854) |
| Future income tax recovery resulting from rate change | (787) | (2,142) |
| Provision for (recovery of) income taxes | \$ 4,508 | \$ (3,549) |

A reconciliation of the provision for (recovery of) income taxes based on the statutory rate in Canada and the effective rate is as follows:

| | 2002 | 2001 |
|---|-----------|------------|
| Income (loss) before income taxes | \$ 27,487 | \$ (5,265) |
| Statutory Canadian income tax rate | 40.9% | 43.3% |
| Statutory Canadian income taxes | 11,242 | (2,280) |
| Non-taxable dividends received | (611) | (1,114) |
| Non-taxable portion of net investment losses (gains) | (4,698) | 2,105 |
| Accrued capital loss not benefited (benefited) | (1,071) | 311 |
| Expenses not deductible for tax purposes | 21 | 21 |
| Future income tax recovery resulting from rate change | (787) | (2,142) |
| Other | 412 | (450) |
| | \$ 4,508 | \$ (3,549) |

The future tax liability relates primarily to the temporary differences on corporate investments.

9. SHARE CAPITAL

Authorized

Unlimited number of preference shares issuable in series, with the designation, rights, privileges, restrictions, and conditions to be determined by the Board of Directors prior to the issue of the first shares of a series.

Unlimited number of common shares

10,000,000 non-voting shares

| Issued and outstanding | 2002 | 2001 |
|--|------------|-----------|
| Common shares – 18,697,590 (2001 – 18,697,590) | \$ 95,652 | \$ 95,652 |
| Non-voting shares – 2,230,954 (2001 – nil) | 16,800 | – |
| | \$ 112,452 | \$ 95,652 |

On August 21, 2001, the Company issued, for cash consideration of \$16.8 million, 2,230,954 non-voting shares through a private placement. The non-voting shares are convertible to common shares commencing August 21, 2011, at a ratio based on the book value and the trading price of the common shares at that time. The non-voting shares rank equally with the common shares with respect to dividends. The non-voting shares rank equally with the common shares on liquidation, subject to a \$0.01 preference per non-voting share.

The weighted average numbers of common and non-voting shares outstanding during fiscal 2002 were 18,697,590 and 1,356,909 respectively, for a total of 20,054,499 (2001 – 18,697,590 and nil respectively). The weighted average number of fully diluted shares outstanding during fiscal 2002 was 20,611,508 (2001 – 18,697,590). There was no difference between basic and fully diluted shares outstanding in 2001 as the stock options were anti-dilutive.

The difference between the basic and fully diluted earnings per share computations for 2002 consists of the following:

| For the year ended March 31, 2002 | Net income | Number of shares | Per share amount |
|-----------------------------------|------------|------------------|------------------|
| Basic earnings per share | \$ 22,979 | 20,054 | \$ 1.15 |
| Effect of dilutive securities | | | |
| Convertible non-voting shares | – | 517 | |
| Stock options | – | 41 | |
| | \$ 22,979 | 20,612 | \$ 1.11 |

915,000 outstanding stock options are not included in the calculation of fully diluted earnings per share as they are anti-dilutive.

Under the Company's stock option plan, 1,698,150 common shares of the Company have been reserved for issuance to eligible participants. Under the plan, options are exercisable for one common share and the exercise price of the option must equal the market price of the underlying share on the day preceding the grant date.

Options granted vest immediately or over a period not to exceed eight years. Once vested, options are exercisable at any time until their expiry ten years after the grant date.

A summary of the status of the Company's stock option plan as of March 31, 2002, and 2001 and changes during the years ending on those dates is presented below:

| | Number of options | Weighted average exercise price |
|-------------------------------------|-------------------|---------------------------------|
| Options outstanding, March 31, 2000 | 1,651,500 | \$ 6.81 |
| Options granted | 97,500 | 4.38 |
| Options forfeited | (75,000) | 5.00 |
| Options outstanding, March 31, 2001 | 1,674,000 | 6.75 |
| Options granted | 125,000 | 4.80 |
| Options forfeited | (293,000) | 7.85 |
| Options outstanding, March 31, 2002 | 1,506,000 | \$ 6.37 |
| Options exercisable, March 31, 2002 | 1,103,200 | \$ 6.55 |

The following table summarizes information about stock options outstanding at March 31, 2002:

| Range of exercise prices | Options outstanding | | | Options exercisable | |
|--------------------------|--------------------------------------|---|---------------------------------|--------------------------------------|---------------------------------|
| | Number outstanding at March 31, 2002 | Weighted average remaining contractual life | Weighted average exercise price | Number exercisable at March 31, 2002 | Weighted average exercise price |
| \$4.00 to \$4.99 | 216,000 | 8.9 years | \$ 4.62 | 18,200 | \$ 4.38 |
| \$5.00 to \$5.99 | 460,000 | 2.4 years | 5.16 | 415,000 | 5.08 |
| \$7.00 to \$7.99 | 760,000 | 4.3 years | 7.39 | 620,000 | 7.42 |
| \$8.00 to \$8.99 | 70,000 | 6.3 years | 8.70 | 50,200 | 8.70 |
| | 1,506,000 | | | 1,103,200 | |

10. FINANCIAL INSTRUMENTS

(a) FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, short-term investments, accounts receivable and other assets and accounts payable have fair values that equal their carrying values due to their short-term nature.

Corporate investments are being carried in accordance with the Company's accounting policy contained in note 2.

(b) FOREIGN EXCHANGE FORWARD CONTRACTS

As at March 31, 2002, the Company had entered into foreign exchange forward contracts as hedges against its foreign investments as follows:

(i) Forward contracts to sell AUS\$28.0 million (2001 – AUS\$19.0 million) at rates of Canadian \$0.7647 to \$0.8209 per Australian dollar through March 2003 (average rate of \$0.7807, 2001 average rate of \$0.8370). The fair value of these contracts at March 31, 2002, is (\$2.0 million) (2001 – \$1.4 million); and

(ii) Forward contracts to sell US\$2.9 million (2001 – US\$5.7 million) at rates of Canadian \$1.5888 to \$1.5936 per US dollar through February 2003 (average rate of \$1.5923, 2001 average rate of \$1.5018). The fair value of these contracts at March 31, 2002, is (\$7,600) (2001 – (\$1.2 million)).

The credit risk on derivative financial instruments, cash and cash equivalents and short-term investments is the risk of a financial loss occurring as a result of default of a counterparty on its obligation to the Company. Clairvest mitigates this risk by contracting only with Schedule 1 Canadian chartered banks.

11. CONTINGENCIES AND COMMITMENTS

(a) Clairvest has committed to co-invest alongside CEP in all investments undertaken by CEP. Clairvest's total co-investment commitment is \$54.7 million, of which \$5.9 million has been funded to March 31, 2002. Clairvest may only sell all or a portion of a corporate investment that is a joint investment with CEP if it, as manager of CEP, concurrently sells a proportionate number of securities of that corporate investment held by CEP.

(b) During fiscal 2002, Clairvest sold certain shares of Consolidated Vendors to CEP for \$5.7 million. Clairvest has guaranteed to compensate CEP for any deficiency between (i) CEP's purchase price for these shares and (ii) the amount CEP receives from its investment in these shares, including proceeds of disposition and other amounts.

(c) During fiscal 2002 Clairvest entered into an agreement to guarantee up to \$7.5 million of Voxcom's obligations to its lending syndicate by way of letter of credit. As of March 31, 2002, Clairvest had guaranteed \$3.45 million of Voxcom's obligation as part of this agreement.

12. SUBSEQUENT EVENTS

Subsequent to year-end, Clairvest purchased the senior bank debt of Consolidated Vendors for \$11.0 million, and loaned an additional \$470,000 to Consolidated Vendors.

Subsequent to year-end, Clairvest received dividends of \$187,000 from Datamark.

13. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2002 consolidated financial statements.

Management's Report

All information in this Annual Report is the responsibility of management. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the consolidated financial statements.

Management maintains systems of internal accounting control designed to provide reasonable assurance that assets are safeguarded, that transactions are properly authorized and that financial records are properly maintained to facilitate the preparation of financial statements in a timely manner.

Independent chartered accountants, appointed as auditors by the shareholders, have audited the consolidated financial statements and their report is included herewith.

The Audit Committee of the Board of Directors, consisting of three non-management Directors, has reviewed the consolidated financial statements with management and the independent auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.



B. JEFFREY PARR

Co-Chief Executive Officer and Managing Director



LANA REIKEN C.A.

Vice-President Finance and Corporate Secretary

Auditors' Report

To the Shareholders of Clairvest Group Inc.

We have audited the consolidated balance sheets of Clairvest Group Inc. as at March 31, 2002 and 2001 and the consolidated statements of income (loss), retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2002, and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Toronto, Canada
May 31, 2002