

# Management's Discussion and Analysis

AS AT, AND FOR THE YEAR ENDED, MARCH 31, 2002

The following is a review and analysis of Clairvest Group Inc.'s financial results, financial position, risks and opportunities. It should be read in conjunction with the message from the Co-Chief Executive Officers, the Review of Investments and the Consolidated Financial Statements.

## INTRODUCTION

Clairvest Group Inc. ("Clairvest" or the "Company") is a Canadian merchant bank that specializes in partnering with management teams and other stakeholders of both emerging and established companies. Clairvest focuses on a small number of carefully selected companies and actively participates in the building of these organizations. Clairvest invests its own capital and that of third parties, through Clairvest Equity Partners Limited Partnership ("CEP"), in companies that have the potential to generate superior returns.

At March 31, 2002, Clairvest had eight core investments in seven different industries. Two of these investments were joint investments with CEP. Clairvest also held an investment in Clairvest-Yorkton Transition Capital Fund L.P. ("the Bridge Fund"), which changed its name to Wellington Financial L.P. subsequent to year-end. The Bridge Fund is a joint venture between Clairvest and Yorkton Securities Inc.

## OVERVIEW OF FISCAL 2002 AND SUBSEQUENT EVENTS

During the year ended March 31, 2002, Clairvest held the final close of CEP, made initial and follow on investments in several companies, sold shares in other companies, and issued \$16.8 million of non-voting shares. Clairvest also had significant transactions with its investee companies subsequent to year-end. An overview of these events follows:

- Clairvest had the final close of CEP, raising a total of \$164 million from outside investors. Clairvest committed to invest \$55 million of its own capital alongside CEP, for a combined capital pool of \$219 million.
- Clairvest and CEP closed their first joint investment in Allied Global Holdings Inc. ("Allied"). Clairvest's portion of this investment consists of 30,000 10% convertible Class B preferred shares, which were acquired for \$3.0 million. Clairvest's fully diluted ownership interest at March 31, 2002 was 8.4%, and the Clairvest/CEP combined ownership position was 33.4%.
- Clairvest acquired an additional 11,099 Class B preferred shares in Consolidated Vendors Corporation ("Consolidated Vendors") for \$1.7 million. Clairvest subsequently sold a portion of its investment in Consolidated Vendors to CEP, bringing the respective ownership interests in line with Clairvest and CEP's pro rata commitments to the combined capital pool. As a result of these transactions, Clairvest's fully diluted ownership interest at March 31, 2002, was 17.2%, and the Clairvest/CEP combined ownership position was 68.9%. Subsequent to year-end, Clairvest purchased the senior bank debt of Consolidated Vendors for \$11.0 million, representing a significant discount to its face value.

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- In July 2002, Clairvest and CEP invested in Van-Rob Stampings Inc. ("Van-Rob"). Clairvests' portion of this investment consists of 5,000,000 Class A convertible preferred shares, which were acquired for \$5.0 million. Clairvests' fully diluted interest as a result of this transaction was 5.0%, and the Clairvest/CEP combined ownership position was 20.0%.
- Signature Security Group Holdings Pty. Limited ("Signature") closed a capital reorganization that resulted in Clairvest, through its wholly owned subsidiary, Clairvest Group International (Netherlands) B.V., acquiring 214,591,733 ordinary shares in Signature. Also as part of the reorganization, Clairvest loaned amounts totalling \$8.2 million to Signature and to a special purpose corporate entity formed to loan such funds to Signature. Clairvest's fully diluted indirect ownership interest in Signature was 43.8% at March 31, 2002.
- Clairvest entered into an agreement to guarantee up to \$7.5 million of Voxcom Incorporated's ("Voxcom's") obligations to its lending syndicate. Clairvest received a fee equal to 25% of each amount guaranteed, such fee being secured by a 25% guarantee debenture. At March 31, 2002, Clairvest had guaranteed \$3.45 million of Voxcom's obligations, and held \$1.0 million of guarantee debentures. Clairvest's fully diluted ownership interest at March 31, 2002, was 45.2%. In June 2002, Voxcom closed a recapitalization whereby Clairvest converted all of its existing debentures into Voxcom preferred shares, and Clairvest invested an additional \$2.9 million in preferred shares as part of a \$38.9 million financing. As part of the recapitalization, Clairvest's limited guarantee of Voxcom's obligations was released. Clairvest's fully diluted ownership interest at June 30, 2002, was 26.3%.
- Clairvest sold 342,173 common shares in Sparkling Spring Water Holdings Limited ("Sparkling Spring") for total proceeds of \$6.1 million. Clairvest has now recouped more than 100% of its initial investment in Sparkling Spring and continues to hold a 14.7% fully diluted ownership interest.
- Clairvest sold its investment in HealthCentral.com ("HealthCentral") for nominal consideration. Clairvest realized a \$9.1 million loss on the sale of HealthCentral. This loss had previously been recognized as unrealized losses in prior years.
- Clairvest issued, for cash consideration of \$16.8 million, 2,230,954 non-voting shares through a private placement to the Canada Pension Plan Investment Board ("CPP Investment Board"). The non-voting shares represent a 10% equity interest in Clairvest, on a fully diluted basis. The CPP Investment Board also acquired 5% of Clairvests' common shares during the year, resulting in the CPP Investment Board holding a 15% ownership interest in Clairvest, on a fully diluted basis.

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### SUMMARY OF CLAIRVEST'S INVESTMENTS AT MARCH 31, 2002

Investment	Trading Symbol and Exchange	% Ownership <sup>(10)</sup>	Cost of Investment (millions)	Carrying Value of Investment (millions) <sup>(11)</sup>	Description of Business
<b>PUBLICLY-TRADED INVESTMENTS</b>					
Datamark Systems Group Inc. <sup>(1)</sup>	DMK – TSX	36.5%	\$ 14.4	\$ 16.6	A business document management company with operations in Canada and the United States.
Voxcom Incorporated <sup>(2)</sup>	VOX – CDNX	45.2%	\$ 6.7	\$ 7.3	A security company that sells, installs, services and monitors security alarm systems for residential and commercial subscribers in Canada.
<b>PRIVATELY-HELD INVESTMENTS</b>					
Allied Global Holdings Inc. <sup>(3)</sup>	Private	8.4%	\$ 3.0	\$ 3.2	An international accounts receivable management company with operations across Canada, the United States and the United Kingdom.
Clairvest-Yorkton Transition Capital Fund L.P. <sup>(4)</sup>	Private	71.4%	\$ –	\$ 2.0	Provides bridge financing to growth companies in the technology and health sciences industries.
Consolidated Vendors Corporation <sup>(5)</sup>	Private	17.2%	\$ 2.9	\$ 3.6	An independent vending operator in Michigan and Illinois, providing a full range of vended products.
Gateway Casinos Inc. <sup>(6)</sup>	Private	28.4%	\$ 24.0	\$ 30.0	A gaming management company that operates casinos in Western Canada.
NRI Industries Inc. <sup>(7)</sup>	Private	90.5%	\$ 17.6	\$ 25.2	The North American leader in converting tire-derived waste rubber into value-added manufactured products.
Signature Security Group Holdings Pty. Limited <sup>(8)</sup>	Private	43.8%	\$ 28.4	\$ 28.7	An electronic security company serving Australia and New Zealand.
Sparkling Spring Water Holdings Limited <sup>(9)</sup>	Private	14.7%	\$ 4.7	\$ 32.9	A purified water company serving customers in Canada, the United States and the United Kingdom.
<b>OTHER INVESTMENTS</b>			\$ 0.5	\$ 0.6	
<b>TOTAL INVESTMENTS</b>			\$ 102.2	\$ 150.1	

(1) Clairvest owns 4,675,670 common shares in Datamark. Clairvest received a total of \$12.0 million in tax-free dividends from Datamark to March 31, 2002, resulting in a net cash investment at March 31, 2002, of \$2.4 million. Subsequent to the March 31, 2002, year-end, Clairvest received additional tax-free dividends, further reducing Clairvest's net cash investment to \$2.0 million. Carrying value is based on the quoted market price.

(2) Clairvest owns 230,000 common shares, \$5.0 million of debentures and \$1.0 million of guarantee debentures. Carrying value is based on the quoted market price for the common shares, and accrued value for the debentures. Subsequent to year-end, Clairvest converted all of its debentures to preferred shares and invested an additional \$2.9 million in preferred shares.

(3) Clairvest owns 30,000 10% convertible Class B preferred shares in Allied. Carrying value is based on cost plus accrued dividends.

(4) Clairvest has committed to fund \$5.0 million to the Bridge Fund, \$1.5 million of which was funded at March 31, 2001, and returned to Clairvest during fiscal 2002. Carrying value is based on the underlying value of the loans and warrants held by the Bridge Fund.

(5) Clairvest owns 8,750 convertible Class A preferred shares, 9,250 convertible Class B preferred shares and 703 common shares in Consolidated Vendors. Carrying value is based on cost plus accrued dividends for the preferred shares and cost for the common shares, adjusted for foreign exchange.

(6) Clairvest owns 6.0 million common shares in Gateway Casinos. The common shares are carried at cost plus a \$6.0 million upward adjustment to the carrying value. Clairvest has received a total of \$4.3 million in taxable distributions from Gateway Casinos to March 31, 2002.

(7) Clairvest owns 86,000 common shares, 6.0 million Class A preferred shares, 2.0 million Class D preferred shares and 4.5 million Class E preferred shares in NRI. The common shares are carried at cost and the Class A, Class D and Class E preferred shares are carried at redemption value plus accrued dividends.

(8) Clairvest owns 214,866,491 ordinary shares in Signature through its wholly-owned subsidiary, Clairvest Group International (Netherlands) B.V., and has loans totalling \$8.2 million to Signature and to a special purpose corporate entity. Carrying value of the ordinary shares and loans is based on cost, adjusted for foreign exchange.

(9) Clairvest owns 1,377,507 common shares of Sparkling Spring. Carrying value is based on a third-party equity financing completed in fiscal 2002, adjusted for foreign exchange. As a result of the sale of Sparkling Spring shares during the year, Clairvest has recouped more than 100% of its initial investment in Sparkling Spring.

(10) Ownership percentage calculated on a fully diluted basis at March 31, 2002.

(11) Carrying value is calculated using the fair value method, under which the determination of fair value incorporates the quoted market value of Clairvest's publicly-traded investments, and cost for privately-held investments unless on upward adjustment is considered appropriate and supported by persuasive and objective evidence.

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### ANALYSIS OF FINANCIAL RESULTS

Clairvest's consolidated financial statements are prepared using the fair value method of accounting. Under fair value accounting, each of Clairvest's investments are re-valued quarterly. Realized and unrealized changes in Clairvest's investments, as well as the tax effects of these changes, are reflected in the income statement. In the year of disposal of an investment, previously recognized unrealized gains (losses) are reversed, so as to recognize the full realized gain (loss) over original cost in the year of disposition. Under fair value accounting, Clairvest's financial statements do not reflect the earnings of its investment partners.

Privately-held investments are carried at cost, unless an adjustment is considered appropriate and supported by objective evidence, such as a significant third-party equity financing. The carrying value for Clairvest's publicly-traded investments is based on the quoted market price. This method of accounting requires careful judgement, and the actual realizations may vary from the values presented.

We believe that under fair value accounting, Clairvest's corporate investments are carried at an aggregate conservative value. While the value of certain privately-held investments may have increased, Clairvest will not adjust upward the carrying value of these investments unless there is sufficient persuasive and objective evidence to support such an adjustment. Additionally, we believe that because the value at which significant ownership positions are sold is often greater than the quoted market value, our publicly-traded investments are conservatively valued. The fair value method may result in volatility in Clairvest's financial results, as the values at which the publicly-traded investments are carried are subject to fluctuations in the public markets.

### OPERATING RESULTS

#### CONSOLIDATED STATEMENTS OF INCOME (LOSS) (\$000's)

Year ended March 31	2002	2001
<b>Net investment gains (losses)</b>		
Realized losses on investments (net)	\$ (3,970)	\$ -
Previously recognized unrealized losses (net)	2,836	-
Unrealized gains (losses) on investments (net)	24,105	(9,725)
	22,971	(9,725)
<b>Other income</b>		
Interest income	1,263	2,079
Dividend income	1,496	2,572
Management fees	2,901	173
Advisory and other fees	2,756	3,544
	8,416	8,368
Administration and other expenses	3,900	3,908
Income (loss) before income taxes	27,487	(5,265)
Provision for (recovery of) income taxes	4,508	(3,549)
<b>Net income (loss)</b>	\$ 22,979	\$ (1,716)

Clairvest's operating results reflect revenue realized from our corporate investments and from CEP, and unrealized appreciation and depreciation in the value of our corporate investments. These results are net of all costs incurred to manage these assets.

Net income for the year ended March 31, 2002, was \$23.0 million, versus a net loss of \$1.7 million for the year ended March 31, 2001.

There were realized losses of \$4.0 million in fiscal 2002, versus no realized gains/losses on investments in fiscal 2001. The loss in fiscal 2002 was made up primarily of a \$9.1 million loss on the sale of HealthCentral, net of a \$4.9 million gain on the sale of Sparkling Spring shares. Previously recognized unrealized losses in fiscal 2002 relate to unrealized losses on HealthCentral that were recognized in fiscal 2002 and in prior years, net of unrealized gains on the Sparkling Spring shares that were sold, that were recognized in fiscal 2002 and in prior years. When these investments were sold in fiscal 2002, the previously recognized unrealized gains and losses were reversed, and the full realized gain or loss over original cost was recognized at that time.

Clairvest had unrealized gains on investments of \$24.1 million for the year ended March 31, 2002, compared to unrealized losses of \$9.7 million for the year ended March 31, 2001. Unrealized gains/losses result from changes in the carrying value of the investments from one year to the next. The unrealized gains/losses on investments are summarized as follows:

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### UNREALIZED GAINS (LOSSES) ON INVESTMENTS (\$000's)

Year ended March 31	2002	2001
<b>Investments in publicly-traded companies</b>		
Datamark Systems Group Inc.	\$ 7,699	\$ (4,638)
Voxcom Incorporated	(772)	(2,079)
	6,927	(6,717)
<b>Investments in privately-held companies</b>		
Allied Global Holdings Inc.	239	-
Clairvest-Yorkton Transition Capital Fund L.P.	553	1,589
Consolidated Vendors Corporation	1,025	970
Gateway Casinos Inc.	6,000	-
NRI Industries Inc.	1,175	1,247
Signature Security Group Holdings Pty. Limited	1,166	(9,305)
Sparkling Spring Water Holdings Limited	7,317	12,584
	17,475	7,085
<b>Other investments</b>	<b>(297)</b>	<b>(10,093)</b>
	\$ 24,105	\$ (9,725)

Further details on unrealized gains/losses on investments can be found in the discussion of Clairvest's corporate investments below.

Interest income in fiscal 2002 decreased to \$1.3 million from \$2.1 million in fiscal 2001. Dividend income of \$1.5 million for the year ended March 31, 2002 represented tax-free dividends earned from Datamark.

Net management fees in fiscal 2002 increased to \$2.9 million from \$173,000 in fiscal 2001. The management fees were earned as compensation for Clairvest's services in the administration of the portfolio of CEP. The increase over fiscal 2001 was as a result of management fees being earned for the full year in fiscal 2002 versus only one month in fiscal 2001.

Advisory and other fees decreased \$788,000 to \$2.8 million in fiscal 2002. During the year, Clairvest received one distribution from Gateway Casinos of \$1.4 million versus two distributions in fiscal 2001 totalling \$2.8 million. Included in advisory and other fees are \$480,000 of structuring fees earned by Clairvest during fiscal 2002.

Administration and other expenses of \$3.9 million in fiscal 2002 were consistent with fiscal 2001.

### FINANCIAL POSITION AND LIQUIDITY

#### CONSOLIDATED BALANCE SHEETS (\$000's)

As at March 31	2002	2001
<b>Assets</b>		
Cash and cash equivalents	\$ 4,064	\$ 7,829
Short-term investments	40,309	16,616
Accounts receivable and other assets	1,731	1,541
Corporate investments	150,124	129,164
	\$ 196,228	\$ 155,150
<b>Liabilities</b>		
Accounts payable	\$ 1,102	\$ 1,624
Future income taxes	8,884	5,193
	9,986	6,817
<b>Shareholders' equity</b>		
Share capital	112,452	95,652
Retained earnings	73,790	52,681
	186,242	148,333
	\$ 196,228	\$ 155,150

Clairvest has sufficient capital to support its current and anticipated new investments. In addition to cash and cash equivalents and short-term investments, Clairvest has a \$20 million credit facility with a Canadian chartered bank. The facility is unsecured and bears interest at the bank prime rate plus 0.5%. Clairvest had not drawn down on its line at March 31, 2002, except with respect to the guarantee provided by Clairvest to Voxcom. During fiscal 2002, Clairvest entered into an agreement to guarantee up to \$7.5 million of Voxcom's obligations to its lending

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syndicate. To March 31, 2002, Clairvest had guaranteed \$3.45 million of Voxcom's obligations as part of this agreement. Clairvest's line of credit availability was decreased by the portion of the guarantee that was drawn down. In June 2002, Clairvest's guarantee was released, and its line of credit restored to the \$20 million limit.

Future income taxes increased \$3.7 million to \$8.9 million at March 31, 2002. The increase is as a result of future income taxes related to net unrealized gains on investments, and to previously recognized unrealized losses on investments.

Share capital increased \$16.8 million to \$112.5 million at March 31, 2002. The increase is as a result of the issuance of non-voting shares, through a private placement, for cash consideration of \$16.8 million.

As is typical of a merchant bank, Clairvest's main asset is its corporate investments. A discussion on each investment follows.

### **DATAMARK SYSTEMS GROUP INC.**

At March 31, 2002 Clairvest owned 4,675,670 common shares in Datamark Systems Group Inc. ("Datamark"), and held 20,000 options to acquire Datamark shares at \$2.02 per share. The shares in Datamark were carried at the quoted market price at March 31, 2002 and the options were valued at the difference between the exercise price and the quoted market price.

The carrying value of Clairvest's investment in Datamark increased \$7.7 million to \$16.6 million at March 31, 2002. The unrealized gain of \$7.7 million resulted from the increase in share price from \$1.91 per share at March 31, 2001 to \$3.55 per share at March 31, 2002. Clairvest recorded an unrealized loss of \$4.6 million for the year ended March 31, 2001, as a result of movements in the quoted market price from \$2.90 per share to \$1.91 per share.

The carrying value of \$16.6 million at March 31, 2002, compares to a cost of \$14.4 million. It is important to note that at March 31, 2002, Clairvest had received back \$12.0 million, by way of tax-free dividends, of the \$14.4 million it had invested in Datamark. Clairvest received further dividends of \$0.4 million subsequent to year-end, increasing total tax-free dividends received to \$12.4 million.

### **VOXCOM INCORPORATED**

At March 31, 2002, Clairvest owned 230,000 common shares in Voxcom, \$5.0 million of debentures that are due July 18, 2002, and \$1.0 million of guarantee debentures that are due July 14, 2002. Clairvest also held 10,000 options to acquire Voxcom shares at \$3.25 per share, 200,000 options to acquire Voxcom shares at \$1.95 per share, 1,898,734 warrants to acquire Voxcom shares at \$3.95 per share, 3,813,631 warrants to acquire Voxcom shares at \$1.80 per share, and Clairvest participates in an additional 10,000 options. The shares in Voxcom were carried at the quoted market price at March 31, 2002, the debentures and guarantee debentures were valued at accrued value and the options and warrants were valued at the difference between the exercise price and the quoted market price.

The carrying value of Clairvest's investment in Voxcom decreased \$400,000 to \$7.3 million at March 31, 2002. The decrease is made up primarily of an unrealized loss of \$772,000, net of the acquisition of the guarantee debenture at a cost of \$375,000. The unrealized loss of \$772,000 is as a result of the decrease in share price from \$3.50 per share at March 31, 2001, to \$0.70 per share at March 31, 2002. Clairvest recorded an unrealized loss of \$2.1 million for the year ended March 31, 2001, as a result of movements in the quoted market price from \$4.50 per share to \$3.50 per share.

The carrying value of \$7.3 million at March 31, 2002, compares to a cost of \$6.7 million.

### **ALLIED GLOBAL HOLDINGS INC.**

During the year, Clairvest acquired 30,000 10% convertible Class B preferred shares in Allied. At March 31, 2002, the preferred shares were carried at cost plus accrued dividends.

The carrying value of \$3.2 million at March 31, 2002, compares to a cost of \$3.0 million. The unrealized gain of \$239,000 is as a result of cumulative dividends on the preferred shares.

### **CLAIRVEST-YORKTON TRANSITION CAPITAL FUND L.P.**

During fiscal 2001, Clairvest funded \$1.5 million of its \$5.0 million capital commitment to the Bridge Fund. During fiscal 2002, the funded capital was returned to Clairvest. At March 31, 2002, the investment in the Bridge Fund was carried at the underlying value of the warrants held by the Bridge Fund. The warrants were valued at the difference between the exercise price and the quoted market price.

The carrying value of Clairvest's investment in the Bridge Fund decreased \$1.1 million to \$2.0 million at March 31, 2002. The decrease is made up primarily of the return of funded capital of \$1.5 million, net of an unrealized gain of \$553,000. The unrealized gain of \$553,000 is as a result of movements in the price of the shares underlying the warrants held by the Bridge Fund. Clairvest recorded an unrealized gain of \$1.6 million for the year ended March 31, 2001 as a result of movements in the price of the underlying shares of the warrants held by the Bridge Fund.

The carrying value of \$2.0 million at March 31, 2002, compares to a cost of nil. Subsequent to year-end, the Bridge Fund changed its name to Wellington Financial L.P.

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### CONSOLIDATED VENDORS CORPORATION

At March 31, 2002, Clairvest owned 8,750 10% convertible Class A preferred shares, 9,250 10% convertible Class B preferred shares and 703 common shares in Consolidated Vendors. At March 31, 2002, the preferred shares were carried at cost plus accrued dividends and the common shares at cost.

The carrying value of Clairvest's investment in Consolidated Vendors decreased \$4.6 million to \$3.6 million at March 31, 2002. The decrease consists primarily of the sale of shares of Consolidated Vendors to CEP for \$5.7 million, the repayment of the US\$500,000 debenture owing to Clairvest by Consolidated Vendors and the acquisition of Class B preferred shares for \$1.7 million. The \$1.0 million unrealized gain on Consolidated Vendors relates to the sale of shares to CEP. The sale was between related parties, and the \$1.0 million gain on the sale, which resulted from dividends that had accrued on the shares, was therefore not recognized as realized gains, but rather as unrealized gains. Clairvest recorded an unrealized gain of \$1.0 million for the year ended March 31, 2001, as a result of cumulative dividends on the preferred shares and foreign exchange movements.

The carrying value of \$3.6 million at March 31, 2002, compares to a cost of \$2.9 million.

The sale of Consolidated Vendors shares to CEP brought the respective ownership interests in line with Clairvest and CEP's pro rata commitments. Clairvest has guaranteed any loss CEP may incur on the investment acquired from Clairvest.

Subsequent to year-end, Clairvest purchased the senior bank debt of Consolidated Vendors for \$11.0 million, representing a significant discount to its face value.

### GATEWAY CASINOS INC.

At March 31, 2002, Clairvest owned 6.0 million common shares in Gateway Casinos Inc. ("Gateway Casinos"). At March 31, 2002, the shares in Gateway Casinos were carried at cost plus a \$6.0 million upward adjustment, which management determined was appropriate in light of Gateway Casinos' improved operations, an improving regulatory environment and recent transactions in the industry.

The carrying value of \$30.0 million at March 31, 2002, compares to a cost of \$24.0 million. During the year, Clairvest received \$1.4 million in taxable distributions from Gateway Casinos, bringing total distributions to \$4.3 million.

### NRI INDUSTRIES INC.

At March 31, 2002, 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 Industries Inc. ("NRI"). Clairvest also had an option to acquire an additional 8,000 common shares of NRI from another shareholder, at an exercise price of US\$2.8 million. The option expired, unexercised, on June 3, 2002. At March 31, 2002, the common shares were carried at cost, the Class A, Class D and Class E preferred shares were carried at their redemption values plus accrued dividends and the option was carried at nil.

The carrying value of Clairvest's investment in NRI increased \$1.2 million to \$25.2 million at March 31, 2002, and by a similar amount in the year ended March 31, 2001. The unrealized gain of \$1.2 million in both years is as a result of cumulative dividends on the preferred shares and the effects of foreign exchange movements on the Class D preferred shares, which are redeemable in US dollars.

The carrying value of \$25.2 million at March 31, 2002, compares to a cost of \$17.6 million.

### SIGNATURE SECURITY GROUP HOLDINGS PTY. LIMITED

At March 31, 2002, Clairvest owned 214,866,491 ordinary shares in Signature through its wholly-owned subsidiary, Clairvest Group International (Netherlands) B.V. Clairvest also held loans 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 these funds to Signature. At March 31, 2002, the ordinary shares and loans were carried at cost.

The carrying value of Clairvest's investment in Signature increased \$8.3 million to \$28.7 million at March 31, 2002. The increase is made up primarily of the \$8.2 million in loans made during the year and an unrealized gain of \$1.2 million, net of the proceeds of \$825,000 on the rolling of foreign exchange forward contract hedges on the investment. The unrealized gain of \$1.2 million is as a result of movements in foreign exchange on the unhedged portion of the investment. Clairvest recorded an unrealized loss of \$9.3 million for the year ended March 31, 2001, as a result of a \$7.4 million downward adjustment to the carrying value of the investment and movements in foreign exchange.

The carrying value of \$28.7 million at March 31, 2002, compares to a cost of \$28.4 million.

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### SPARKLING SPRING WATER HOLDINGS LIMITED

At March 31, 2002, Clairvest owned 1,377,507 common shares in Sparkling Spring and warrants to acquire 26,920 common shares at US\$7.73 per share. The shares in Sparkling Spring were carried at US\$14.82 per share based on a third-party equity financing that took place in fiscal 2002. The options were carried at the difference between the exercise price and US\$14.82.

The carrying value of Clairvest's investment in Sparkling Spring increased \$1.0 million to \$32.9 million at March 31, 2002. The increase is made up primarily of an unrealized gain of \$7.3 million, net of the sale of 342,173 common shares for total proceeds of \$6.1 million. The unrealized gain of \$7.3 million is as a result of a write-up of the investment from US\$11.69 per share to US\$14.82 per share based on the third-party equity financing. Clairvest recorded an unrealized gain of \$12.6 million for the year ended March 31, 2001, as a result of a write-up due to a third-party equity financing.

The carrying value of \$32.9 million at March 31, 2002, compares to a cost of \$4.7 million. The sale of Sparkling Spring shares during the year resulted in Clairvest recouping more than 100% of the capital it had originally invested in Sparkling Spring, while continuing to hold a 14.7% interest on a fully diluted basis.

### RISK MANAGEMENT

The merchant banking business is about accepting risk for return, and is therefore affected by a number of economic factors, including changing economic environments, capital markets and interest rates.

Clairvest manages the risk associated with its corporate investment portfolio through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and active involvement with existing investments.

Clairvest has implemented a hedging strategy because it has, directly and indirectly, several investments outside of Canada, currently in Australia and in the United States. In order to limit our exposure to changes in the value of the United States and Australian dollars relative to the Canadian dollar, Clairvest has hedged between 50% and 100% of the cost of some of its foreign investments.

Clairvest has some exposure to the financial markets, as approximately 16% of the carrying value of Clairvest's investments at March 31, 2002, was in publicly-traded companies. Clairvest is a value investor and focuses on the intrinsic value related to the specific company's outlook and therefore attempts to act independently of the overall valuation by the market. The entry multiples for its public holdings have generally been less than for other public companies in the same industries and therefore these holdings have a value cushion in the event of any general market value fluctuations such as have been seen this year.

Fluctuations in interest rates affect Clairvest's income derived from cash, cash equivalents and short-term investments. It is the Company's policy to invest these amounts in securities that are highly rated by recognized rating agencies.

### OUTLOOK

During the first quarter of 2003 Clairvest worked on significant transactions with its existing investee partners, including the recapitalization of Voxcom, Clairvest's purchase of Consolidated Vendors' senior bank debt and Gateway Casinos' two acquisitions. These transactions will enhance the future prospects of the respective companies. Clairvest continues to work closely with our investee partners to enhance their value propositions.

During fiscal 2002, Clairvest and CEP made their first joint investment, in Allied, and during fiscal 2003 made another new investment in Van-Rob. During the remainder of fiscal 2003 Clairvest will continue to focus on actively pursuing investment opportunities. Clairvest's domain-based research has identified several very attractive industries, and Clairvest is currently in the process of negotiating with companies within those industries that fit the investment criteria. At March 31, 2002, Clairvest had \$44 million in cash and \$143 million of additional capital through CEP to fund new investments.