

CONSOLIDATED FINANCIAL STATEMENTS

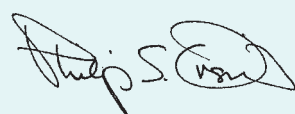
CONSOLIDATED BALANCE SHEETS

As at March 31

\$000's	2003	2002
ASSETS		
Cash and cash equivalents (Note 3)	\$ 15,181	\$ 4,064
Short-term investments (Note 4)	78,933	40,309
Accounts receivable and other assets (Note 5a)	2,190	1,731
Corporate investments (Note 6)	210,170	150,124
	\$ 306,474	\$ 196,228
LIABILITIES		
Accounts payable	\$ 3,355	\$ 829
Income taxes payable	7,376	273
Loans payable (Note 7)	66,382	—
Future tax liability (Note 9)	908	8,884
	78,021	9,986
Contingencies and commitments (Notes 5, 12 and 13)		
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	112,426	112,452
Retained earnings	116,027	73,790
	228,453	186,242
	\$ 306,474	\$ 196,228

(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

For the years ended March 31

\$000's (except per share information)	2003	2002
NET INVESTMENT GAINS (LOSSES)		
Realized gains (losses) on investments (net)	\$ 43,942	\$ (3,970)
Previously recognized unrealized losses (gains) (net) (Note 2e)	(44,384)	2,836
Unrealized gains on investments (net)	43,941	24,105
	43,499	22,971
OTHER INCOME		
Interest income (Notes 5b and 5f)	4,053	1,263
Dividend income (Note 5f)	1,303	1,496
Management fees (Note 5c)	2,673	2,901
Advisory and other fees (Note 5f)	2,331	2,756
	10,360	8,416
Administration and other expenses	7,282	3,900
Interest on loan payable (Note 7b)	1,231	—
	8,513	3,900
Income before income taxes	45,346	27,487
Provision for income taxes (Note 9)	1,007	4,508
Net income	\$ 44,339	\$ 22,979
Net income per share	\$ 2.12	\$ 1.15
Fully diluted net income per share	\$ 1.99	\$ 1.11

(see accompanying notes to consolidated financial statements)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended March 31

\$000's	2003	2002
Retained earnings, beginning of year	\$ 73,790	\$ 52,681
Net income	44,339	22,979
	118,129	75,660
Dividends paid	(2,093)	(1,870)
Purchase and cancellation of shares (Note 10)	(9)	—
Retained earnings, end of year	\$ 116,027	\$ 73,790

(see accompanying notes to consolidated financial statements)

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended March 31

\$000's	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 44,339	\$ 22,979
Add (deduct) items not involving a current cash outlay		
Amortization	87	69
Future income taxes (recovered)	(7,976)	3,691
Realized losses (gains) on investments (net)	(43,942)	3,970
Previously recognized unrealized gains (losses) (net)	44,384	(2,836)
Unrealized gains on investments (net)	(43,941)	(24,105)
Non-cash income relating to corporate investments	(120)	—
	(7,169)	3,768
Net change in non-cash working capital balances related to operations	9,083	(781)
	1,914	2,987
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans payable	66,382	—
Dividends paid	(2,093)	(1,870)
Cancellation of common shares (Note 10)	(35)	—
Issuance of non-voting shares (Note 10)	—	16,800
	64,254	14,930
CASH FLOWS FROM INVESTING ACTIVITIES		
Short-term investments, net	(38,624)	(23,693)
Acquisition of corporate investments	(69,345)	(14,072)
Proceeds on sale of corporate investments	48,659	12,564
Proceeds (costs) on realization of foreign exchange forward contracts	(2,009)	1,053
Return of capital from corporate investments	6,268	2,466
	(55,051)	(21,682)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,117	(3,765)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,064	7,829
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 15,181	\$ 4,064
SUPPLEMENTAL CASH FLOW INFORMATION		
Income taxes paid	\$ 2,126	\$ 1,757
Interest paid	\$ 923	\$ —

(see accompanying notes to consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2003 and 2002 (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 an other than temporary 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 which 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. 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 has 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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

In fiscal 2003, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants' Section 3870, Stock-Based Compensation and Other Stock-Based Payments, and in accordance with the recommendations has applied them only to awards granted on or after the date of adoption. In respect of stock options granted to employees and directors, the Company has elected not to follow the fair value based method of accounting for stock options. As a result, the Company is required to disclose the pro-forma effect of accounting for stock options granted to employees and directors using the fair value based method.

(h) EARNINGS PER SHARE

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 year. 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.

(i) USE OF 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 consist of only highly liquid investments with maturities of less than 90 days from the date of acquisition. Cash equivalents consist 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 to November 2004 and consist of corporate notes and debentures. The yield on these investments ranges between 2.9% and 9.7% (2002 - between 2.1% and 11.6%) with a weighted average yield thereon of 6.0% (2002 - 4.0%). Short-term investments have realizable values which 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 or officers of corporate investments totalling \$558,000 (2002 - \$464,000) 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 \$631,000 (2002 - \$510,000). Loans are repayable upon departure of the officer. Also included in accounts receivable and other assets are receivables from Clairvest's corporate investments totalling \$1.1 million (2002 - \$743,000), and from Clairvest Equity Partners Limited Partnership ("CEP") totalling \$23,000 (2002 - \$12,000).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(b) Loans, including non-interest bearing loans and loans bearing interest at the prime rate, were made by the Company to CEP during fiscal 2003 and were repaid during the year. Interest of \$178,000 (2002 - \$23,000) was received from CEP during fiscal 2003.

(c) Clairvest has entered into a Management Agreement with the General Partner of CEP, appointing Clairvest as the Manager of CEP. The General Partner is a wholly-owned subsidiary of Clairvest. 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 at 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 2003, CEP paid Clairvest net management fees of \$2.7 million (2002 - \$2.9 million) as compensation for its services in the administration of the portfolio of CEP.

(d) 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

(e) During fiscal 2003 Clairvest entered into an agreement to guarantee \$3.0 million of CEP's obligations to the Toronto-Dominion Bank under CEP's foreign exchange forward contracts with the bank.

(f) During fiscal 2003 Clairvest received \$2.9 million (2002 - \$27,000) in interest, \$1.3 million (2002 - \$1.5 million) in dividends and \$2.3 million (2002 - \$2.8 million) in advisory and other fees from its corporate investments.

6. CORPORATE INVESTMENTS

	2003			2002		
	Carrying value	Cost	Difference	Carrying value	Cost	Difference
Investments in publicly-traded companies						
Datamark Systems Group Inc.	\$ 11,699	\$ 14,421	\$ (2,722)	\$ 16,629	\$ 14,421	\$ 2,208
Gateway Casinos Income Fund	42,839	45,020	(2,181)	—	—	—
Voxcom Incorporated	11,589	12,775	(1,186)	7,304	6,664	640
	66,127	72,216	(6,089)	23,933	21,085	2,848
Investments in privately-held companies						
Allied Global Holdings Inc.	3,563	3,000	563	3,239	3,000	239
Consolidated Vendors Corporation	6,089	6,030	59	3,615	2,896	719
Gateway Casinos Inc.	68,362	24,000	44,362	30,000	24,000	6,000
Landauer Metropolitan Inc.	3,083	2,976	107	—	—	—
NRI Industries Inc.	24,907	17,613	7,294	25,227	17,613	7,614
Signature Security Group Holdings Pty. Limited	28,421	28,421	—	28,738	28,421	317
Sparkling Spring Water Holdings Limited	—	—	—	32,864	4,717	28,147
Van-Rob Stampings Inc.	5,000	5,000	—	—	—	—
Wellington Financial L.P. (formerly Clairvest-Yorkton Transition Capital Fund L.P.)	4,207	2,558	1,649	1,993	—	1,993
	143,632	89,598	54,034	125,676	80,647	45,029
Other investments	411	411	—	515	515	—
	\$ 210,170	\$ 162,225	\$ 47,945	\$ 150,124	\$ 102,247	\$ 47,877

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(a) DATAMARK SYSTEMS GROUP INC. ("DATAMARK")

Datamark is a business document management company with operations in Canada and the United States. At March 31, 2003 Clairvest owned 4,675,670 (2002 – 4,675,670) common shares of Datamark, representing a 36.5% (2002 - 36.5%) interest on a fully diluted basis.

At March 31, 2003 and 2002, 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, 2003 and 2002. Since the inception of the investment, Clairvest has received a total of \$12.7 million in cash dividends, which have been accounted for as income.

(b) GATEWAY CASINOS INCOME FUND ("GATEWAY INCOME FUND")

Gateway Income Fund is a newly formed trust which was established to acquire six of the 10 casinos managed by Gateway Casinos Inc. At March 31, 2003, Clairvest owned 4,501,970 units in Gateway Income Fund, which were acquired during fiscal 2003 for \$45.0 million. These units have a hold period to November 2003 and Clairvest has demand registration rights which may, subject to regulatory approval, allow it to shorten this hold period. Clairvest's ownership on a fully diluted basis was 17.0% at March 31, 2003.

The units in Gateway Income Fund are carried at market prices less a discount due to Clairvest's hold period and the estimated cost of disposition.

(c) VOXCOM INCORPORATED ("VOXCOM")

Voxcom is an Edmonton based electronic security alarm monitoring company operating throughout Canada. At March 31, 2003, Clairvest owned 11,485,900 convertible retractable preferred shares and 230,000 common shares of Voxcom, representing a 27.0% interest on a fully diluted basis. At March 31, 2002 Clairvest owned 230,000 common shares, \$5.0 million of debentures that were due July 18, 2002 and \$1.0 million of guarantee debentures that were due July 14, 2002. \$3.0 million of debentures bore interest at 8% per annum until July 18, 2001 and bore 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 bore interest at 14% thereafter. At March 31, 2002, Clairvest held a 45.2% fully diluted interest, assuming the conversion of the debentures.

During fiscal 2003, Clairvest converted its debentures and interest accrued thereon, as well as its guarantee debentures, guarantee fees and interest thereon into 8,617,999 convertible retractable preferred shares. Clairvest invested an additional \$2.9 million to acquire a further 2,867,901 convertible retractable preferred shares.

At March 31, 2003, Clairvest also held 257,889 warrants to acquire Voxcom shares at \$3.95 per share, 59,053 warrants to acquire Voxcom shares at \$1.95 per share and 1,041,071 warrants to acquire Voxcom shares at \$1.80 per share. These warrants vested March 1, 2001, February 28, 2001 and November 30, 2001 respectively. At March 31, 2002, Clairvest held 10,000 options to acquire Voxcom shares at \$3.25 per share. These options vested January 1997. At March 31, 2002, Clairvest also participated in an additional 10,000 options to the extent that \$3.25 was 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.

During fiscal 2002, Clairvest entered into an agreement to guarantee up to \$7.5 million of Voxcom's obligations to its lending syndicate. Clairvest received 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. During fiscal 2003, Clairvest's guarantee was released.

Clairvest carries its investment in Voxcom common shares at the quoted market prices at March 31, 2003 and 2002. The convertible retractable preferred shares are carried at cost at March 31, 2003. The debentures and guarantee debentures were carried at accrued value at March 31, 2002.

(d) 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, 2003 Clairvest owned 33,000 (2002 - 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 8.3% (2002 – 8.4%) at March 31, 2003.

During fiscal 2003, Clairvest received 3,000 Class B preferred shares in Allied Global by way of a stock dividend.

The shares in Allied Global are carried at cost at March 31, 2003 and 2002. Accrued dividends are included in the carrying value of these shares.

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

Consolidated Vendors is an independent vending operator in the US Midwest. At March 31, 2003, Clairvest owned 2,500 Class A preferred shares, 10,229 common shares and 45,000 warrants in Consolidated Vendors, representing a 17.7% interest on a fully diluted basis. At March 31, 2003 Clairvest also held US\$3.3 million of senior debt and a \$0.5 million short-term note. 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, representing a 17.2% interest on a fully diluted basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During fiscal 2003, Clairvest converted 6,250 convertible Class A preferred shares and all of the convertible Class B preferred shares into 9,526 common shares. The remaining 2,500 convertible Class A preferred shares were exchanged for 2,500 Class A preferred shares.

During fiscal 2003, Clairvest, CEP and Consolidated Vendors' management purchased at a discount, all of the senior bank debt of Consolidated Vendors for \$11.0 million (US\$7.0 million). Clairvest's share of the purchase price was \$2.7 million (US\$1.7 million), representing US\$3.3 million of the face value of the bank debt. All of the senior bank debt bears interest at 3.21%. Clairvest's share of the senior bank debt is comprised of the following:

- (i) US\$180,394 payable May, 2002
- (ii) US\$48,819 payable September, 2002
- (iii) US\$36,944 payable January, 2003
- (iv) US\$3,043,563 payable June, 2003

None of the above amounts have been called.

Also during fiscal 2003, Clairvest provided a short-term loan to Consolidated Vendors for \$473,000. The loan bears interest at 6% and is payable on demand.

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 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 remained in unrealized gains on investments.

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 12b). Cumulative dividends were included in the carrying value of the shares at March 31, 2002. The bank debt is carried at cost plus accrued interest and the short-term loan at accrued value, converted into Canadian dollars, after giving effect to the related foreign exchange forward contract hedge thereon (see note 12b).

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

Gateway Casinos is a gaming management company operating casinos in Western Canada. At March 31, 2003, Clairvest owned 28.4% of a limited partnership that owned Gateway Casinos, representing a 28.4% indirect ownership in Gateway Casinos on a fully diluted basis. At March 31, 2002 Clairvest owned 6.0 million common shares in Gateway Casinos, representing a 28.4% interest on a fully diluted basis.

During fiscal 2003, Gateway Casinos transferred six of the 10 casinos managed by it to Gateway Income Fund. Based upon the values of this transaction, the carrying value of Gateway Casinos has increased by \$38.4 million.

At March 31, 2003, the shares in Gateway Casinos were carried at cost plus a \$44.4 million cumulative upward adjustment to the carrying value of the investment. 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.

(g) LANDAUER METROPOLITAN INC. ("LANDAUER")

Landauer is a supplier of home medical equipment in the New York City area. At March 31, 2003, Clairvest owned 1,906,250 10% cumulative convertible preferred shares in Landauer, which were acquired during fiscal 2003 for \$3.0 million. Clairvest's ownership on a fully diluted basis was 10.7% at March 31, 2003.

Also during fiscal 2003, as part of the acquisition, Clairvest provided a bridge loan to Landauer for \$6.2 million. The loan, together with interest thereon, was repaid during the year.

The shares in Landauer are carried at cost and converted into Canadian dollars, after giving effect to the related foreign exchange forward contract hedge thereon (see note 12b). Cumulative dividends are included in the carrying value of these shares.

(h) NRI INDUSTRIES INC. ("NRI")

NRI converts scrap rubber into value-added manufactured products. At March 31, 2003 and 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. At March 31, 2002, 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 did not exercise this option. Clairvest's ownership on a fully diluted basis at March 31, 2003 was 84.7% (2002 – 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2003 and 2002. Cumulative dividends on the Class A, Class D and Class E preferred shares are included in the carrying value of these shares. No dividends were accrued on the Class A, Class D and Class E preferred shares during fiscal 2003.

(i) SIGNATURE SECURITY GROUP HOLDINGS PTY. LIMITED (“SIGNATURE”)

Signature is an electronic security company serving Australia and New Zealand. At March 31, 2003 Clairvest owned 214,866,491 (2002 – 214,866,491) 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, 2003 was 39.4% (2002 – 39.4%). At March 31, 2003 and 2002 Clairvest also held \$8.2 million in loans to Signature and Equity SPV Pty. Limited (“SPV”). SPV is a special purpose corporate entity formed to facilitate the loaning of these funds to Signature.

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 SPV. 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 March 31, 2006. Clairvest’s loans to Signature and SPV represent 43.8% of total loans made to the two entities by their shareholders.

At March 31, 2003 and 2002 the ordinary shares and loans are carried at cost, converted into Canadian dollars, after giving effect to the related foreign exchange forward contract hedge thereon (see note 12b).

(j) VAN-ROB STAMPINGS INC. (“VAN-ROB”)

Van-Rob is a supplier of metal stampings and welded assemblies to the North American auto sector. At March 31, 2003, Clairvest owned 5,000,000 Class A special convertible shares in Van-Rob, which were acquired during fiscal 2003 for \$5.0 million. Clairvest’s ownership on a fully diluted basis was 5.0% at March 31, 2003.

The shares in Van-Rob are carried at cost at March 31, 2003.

(k) WELLINGTON FINANCIAL L.P. (FORMERLY CLAIRVEST-YORKTON TRANSITION CAPITAL FUND L.P.) (“WELLINGTON”)

Wellington provides financing to growth companies in the technology and health sciences industries prior to larger, more permanent financings. Clairvest, as a Limited Partner, has committed to fund \$5.0 million to Wellington, \$2.6 million of which was funded at March 31, 2003. At March 31, 2002, all of the capital that Clairvest had previously funded had been returned to Clairvest. Clairvest’s commitment represents a 71.4% interest in Wellington.

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

7. LOANS PAYABLE

Loans payable consists of the following:

- (a) \$21.4 million 30 year loan from Gateway Casinos Inc. The loan is non interest bearing, and repayable on demand. The loan is secured by the units held by Clairvest in the limited partnership that owns Gateway Casinos Inc.
- (b) \$45.0 million 30 year loan from a subsidiary of Gateway Casinos Inc. The loan bears interest at 8.05% per annum, and is secured by the units held by Clairvest in Gateway Income Fund.

8. 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, 2003 was 4.75% (2002 – 3.75%). At March 31, 2003 no amounts were drawn down on this facility. At March 31, 2002, Clairvest’s line of credit was decreased by the drawn down portion of the guarantee provided by Clairvest to Voxcom. During fiscal 2003, Clairvest’s guarantee was released.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. INCOME TAXES

Provision for income taxes consists of the following:

	2003	2002
Current income tax expense	\$ 8,984	\$ 817
Future income tax expense (recovery) relating to origination and reversal of temporary differences	(7,805)	4,478
Future income tax recovery resulting from rate change	(172)	(787)
Provision for income taxes	\$ 1,007	\$ 4,508

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

	2003	2002
Income before income taxes	\$ 45,346	\$ 27,487
Statutory Canadian income tax rate	38.1%	40.9%
Statutory Canadian income taxes	17,277	11,242
Non-taxable dividends received	(497)	(611)
Non-taxable portion of net investment gains	(8,291)	(4,698)
Non-taxable portion of unrealized gains	(7,922)	—
Accrued capital loss not benefited (benefited)	137	(1,071)
Expenses not deductible for tax purposes	16	21
Future income tax recovery resulting from rate change	(172)	(787)
Other	459	412
	\$ 1,007	\$ 4,508

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

10. 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	2003	2002
Common shares – 18,692,590 (2002 – 18,697,590)	\$ 95,626	\$ 95,652
Non-voting shares – 2,230,954 (2002 – 2,230,954)	16,800	16,800
	\$ 112,426	\$ 112,452

During the year, the Company filed a Normal Course Issuer Bid enabling it to make market purchases of up to 1,046,427 of its common shares in the 12 month period commencing March 4, 2003.

During 2003 the Company purchased and cancelled under its Normal Course Issuer Bid 5,000 of its common shares at a total value of \$35,000. The excess of the purchase cost of these shares over the average paid-in amount was \$9,000, which was charged to retained earnings.

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 into 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The weighted average number of common and non-voting shares outstanding during fiscal 2003 was 18,697,576 and 2,230,954 respectively, for a total of 20,928,530 (2002 – 20,054,499). The weighted average number of fully diluted shares outstanding during fiscal 2003 was 22,292,218 (2002 – 20,611,508).

The difference between the basic and fully diluted earnings per share computations for 2003 and 2002 consists of the following:

	2003			2002		
	Income	Number of shares	Per share amount	Income	Number of shares	Per share amount
Basic earnings per share	\$ 44,339	20,928,530	\$ 2.12	\$ 22,979	20,054,499	\$ 1.15
Effect of dilutive securities						
Convertible non-voting shares	—	1,212,339		—	515,977	
Stock options	—	151,348		—	41,033	
	\$ 44,339	22,292,217	\$ 1.99	\$ 22,979	20,611,509	\$ 1.11

875,000 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, 2,092,854 (2002 – 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 at March 31, 2003 and 2002 and changes during the years ending on those dates is presented below:

	Number of options	Weighted average exercise price per share
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 granted	266,000	6.04
Options forfeited	(10,000)	7.25
Options outstanding, March 31, 2003	1,762,000	\$ 6.32
Options exercisable, March 31, 2003	1,201,400	\$ 6.51

The following table summarizes information about stock options outstanding at March 31, 2003:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$4.00 to \$4.99	216,000	7.9 years	\$ 4.62	61,400	\$ 4.55
\$5.00 to \$5.99	671,000	3.8 years	5.37	430,000	5.11
\$6.00 to \$6.99	55,000	9.3 years	6.75	—	—
\$7.00 to \$7.99	750,000	3.3 years	7.39	650,000	7.41
\$8.00 to \$8.99	70,000	5.3 years	8.70	60,000	8.70
	1,762,000			1,201,400	

11. STOCK-BASED COMPENSATION

In accordance with the recommendations of The Canadian Institute of Chartered Accountants with respect to stock-based compensation, the Company has elected not to follow the fair value based method of accounting for stock options. Had Clairvest followed the fair value method of accounting for stock options, the effect on net earnings would have been approximately \$45,000.

The fair value of the options at the date of grant was estimated using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 4.0%; dividend yield of 1.7%; average expected life of five years; and volatility of 20.7%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. FINANCIAL INSTRUMENTS

(a) FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, short-term investments, accounts receivable and other assets, accounts payable and loans payable have fair values which 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, 2003 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 (2002 – AUS\$28.0 million) at rates of Canadian \$0.8086 to \$0.8792 per Australian dollar through January 2004 (average rate of \$0.8373; 2002 average rate of \$0.7807). The fair value of these contracts at March 31, 2003 is (\$1.4 million) (2002 – (\$2.0 million)); and

(ii) Forward contracts to sell US\$5.6 million (2002 – US\$2.9 million) at rates of Canadian \$1.5127 to \$1.5747 per U.S. dollar through December 2003 (average rate of \$1.5444; 2002 average rate of \$1.5923). The fair value of these contracts at March 31, 2003 is \$430,000 (2002 – (\$7,600)).

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.

13. 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 \$16.7 million has been funded to March 31, 2003. 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 any other amounts and including proceeds of disposition or other amounts attributable to any other of CEP's holdings in Consolidated Vendors over and above the cost of these holdings.

(c) During fiscal 2003 Clairvest entered into an agreement to guarantee \$3.0 million of CEP's obligations to the Toronto-Dominion Bank under CEP's foreign exchange forward contracts with the bank.

(d) Under Clairvest's Incentive Bonus Program, a bonus of 10% of after-tax cash realizations on Clairvest's corporate investments would be paid to management as a bonus. Amounts are accrued under this plan with respect to cash realizations made during the year. If Clairvest were to sell its corporate investments at their current carrying values, a bonus of \$3.9 million (2002 - \$1.5 million) would be owing to management under the Incentive Bonus Program.

(e) During fiscal 2003, Clairvest sold its investment in Sparkling Spring Water Holdings Limited for proceeds of Cdn\$48.6 million. Clairvest has the potential, subject to a number of conditions, to receive over time an additional US\$4.5 million now being held in escrow. This amount has not been reflected on the balance sheet.