

# CONSOLIDATED FINANCIAL STATEMENTS

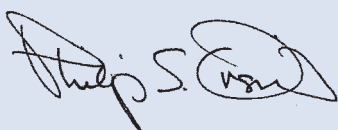
## CONSOLIDATED BALANCE SHEETS

As at March 31

\$000's	2004	2003
<b>ASSETS</b>		
Cash and cash equivalents (Note 3)	\$ 4,695	\$ 15,181
Temporary investments (Note 4)	88,913	78,933
Accounts receivable and other assets (Note 5a)	5,629	2,190
Deferred loss on foreign exchange forward contracts	2,801	—
Corporate investments (Note 6)	199,448	210,170
	<b>\$ 301,486</b>	<b>\$ 306,474</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 3,456	\$ 3,355
Income taxes payable	—	7,376
Loans payable (Note 7)	61,224	66,382
Future tax liability (Note 9)	2,365	908
	<b>67,045</b>	<b>78,021</b>
Contingencies and commitments (Notes 5, 6, 7, 13 and 14)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 10)	110,151	112,426
Shares purchased for cancellation (Note 10)	(407)	—
Stock-based compensation (Note 11)	57	—
Retained earnings	124,640	116,027
	<b>234,441</b>	<b>228,453</b>
	<b>\$ 301,486</b>	<b>\$ 306,474</b>

(see accompanying notes to consolidated financial statements)

On behalf of the Board:



PHILIP S. ORSINO  
Director  
Clairvest Group Inc.



JOSEPH J. HEFFERNAN  
Director  
Clairvest Group Inc.

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31

\$000's (except per share information)	2004	2003
<b>NET INVESTMENT GAINS</b>		
Realized gains on investments (net)	\$ 8,786	\$ 43,942
Previously recognized unrealized gains (net) (Note 2f)	(4,700)	(44,384)
Unrealized gains on investments (net)	6,943	43,941
	11,029	43,499
<b>OTHER INCOME</b>		
Interest income (Notes 5b and 5f)	8,758	4,053
Dividend income (Note 5f)	1,828	1,303
Management fees (Note 5c)	2,712	2,673
Advisory and other fees (Note 5f)	1,002	2,331
	14,300	10,360
Administration and other expenses	6,919	7,282
Finance expense (Note 5f)	4,400	1,231
	11,319	8,513
Income before income taxes	14,010	45,346
Provision for income taxes (Note 9)	1,183	1,007
Net income	\$ 12,827	\$ 44,339
Basic net income per share (Note 10)	\$ 0.62	\$ 2.12
Fully diluted net income per share (Note 10)	\$ 0.59	\$ 1.99

(see accompanying notes to consolidated financial statements)

### CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended March 31

\$000's	2004	2003
Retained earnings, beginning of year	\$ 116,027	\$ 73,790
Net income	12,827	44,339
	128,854	118,129
Dividends paid	(2,072)	(2,093)
Purchase and cancellation of shares (Note 10)	(2,142)	(9)
Retained earnings, end of year	\$ 124,640	\$ 116,027

(see accompanying notes to consolidated financial statements)

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31

\$000's	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 12,827	\$ 44,339
Add (deduct) items not involving a current cash outlay		
Amortization	84	87
Stock-based compensation	57	—
Future income taxes (recovered)	1,457	(7,976)
Realized gains on investments (net)	(8,786)	(43,942)
Previously recognized unrealized gains (net)	4,700	44,384
Unrealized gains on investments (net)	(6,943)	(43,941)
Non-cash income relating to corporate investments	980	(120)
	4,376	(7,169)
Net change in non-cash working capital balances related to operations (Note 12)	(10,798)	9,083
	(6,422)	1,914
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cancellation of common shares (Note 10)	(6,734)	(35)
Shares purchased for cancellation (Note 10)	(407)	—
Issuance of common shares	2,317	—
Loans payable (repayment)	(5,158)	66,382
Dividends paid	(2,072)	(2,093)
	(12,054)	64,254
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Temporary investments (net)	(9,980)	(38,624)
Acquisition of corporate investments	(1,966)	(69,345)
Proceeds on sale of corporate investments	20,147	48,659
Costs on realization of foreign exchange forward contracts	(3,253)	(2,009)
Return of capital from corporate investments	3,042	6,268
	7,990	(55,051)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(10,486)</b>	<b>11,117</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>15,181</b>	<b>4,064</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 12)</b>	<b>\$ 4,695</b>	<b>\$ 15,181</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Income taxes paid	\$ 9,232	\$ 2,126
Interest paid	\$ 3,587	\$ 923

(see accompanying notes to consolidated financial statements)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2004 and 2003 (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 consolidated balance sheet dates or the closing price on the last day the security traded if there were no trades at the consolidated 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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) Temporary Investments

Temporary investments are carried at the lower of cost and estimated market value.

### (d) Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction date. The carrying value and cost of foreign investments has been translated into Canadian dollars at the rate of exchange prevailing at the time of purchase.

### (e) Financial Instruments

The Company periodically enters into foreign exchange forward contracts to hedge its exposure to exchange rate fluctuations on its investments. These instruments are accounted for as hedges as there is reasonable assurance that they will offset the applicable exposures arising from the Company's investments. Exchange gains or losses on these foreign exchange forward contracts are capitalized until such time as the underlying investment is sold or written down, at which time the exchange gains or losses, or a portion thereof, are included in income. The forward premiums or points arising under the foreign exchange forward contract are amortized to income over the term of the contract.

### (f) 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 income on an accrual basis when the services are performed. Interest income is recognized on an accrual basis and dividend income is recorded on the ex-dividend date.

### (g) 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.

### (h) Stock-Based Compensation Plan

In fiscal 2003, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants' Section 3870, Stock-Based Compensation and Other Stock-Based Payments which originally encouraged, but now requires, the fair value based method of measuring all stock options granted.

During fiscal 2004, the Company adopted the November 2003 amendments to The Canadian Institute of Chartered Accountants' Section 3870, Stock-Based Compensation and Other Stock-Based Payments which now requires the fair value based method of measuring all stock options granted. The Company has prospectively applied the amendments effective April 1, 2003. Accordingly, compensation expense has been recognized for all stock options granted in fiscal 2004.

The Company previously elected not to follow the fair value based method of accounting for stock options. As a result,

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

the Company is required to disclose the pro-forma effects of accounting for stock options granted to employees and directors prior to fiscal 2004 using the fair value based method.

### (i) Net Income Per Share

Basic net income 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 net income 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.

### (j) 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 income and expenses during the reporting period. Actual results could differ from those estimates.

## 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and 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.

## 4. TEMPORARY INVESTMENTS

Temporary investments have maturities greater than 90 days and consist of corporate notes and debentures. The yield on these investments ranges between 2.0% and 3.9% (2003 – between 2.7% and 4.7%) with a weighted average yield thereon of 2.8% (2003 – 3.3%).

## 5. RELATED PARTY TRANSACTIONS

- (a) Share purchase loans made to certain officers of the Company or officers of corporate investments totalling \$1,144,000 (2003 – \$558,000) 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 \$1,321,000 (2003 – \$631,000). Loans are repayable upon departure of the officer. Also included in accounts receivable and other assets are receivables from Clairvest's corporate investments totalling \$767,000 (2003 – \$1,135,000), from Clairvest Equity Partners Limited Partnership ("CEP") totalling \$1,000 (2003 – \$23,000) and from a corporate investment previously disposed of totalling \$2,837,000 (2003 – nil). The \$2,837,000 owing from a corporate investment previously disposed of was received subsequent to year-end.
- (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 fiscal 2003. Interest of nil (2003 – \$178,000) was received from CEP during fiscal 2004.
- (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 2004, CEP paid Clairvest net management fees of \$2.7 million (2003 – \$2.7 million) as compensation for its services in the administration of the portfolio of CEP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (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 2004 Clairvest received \$5.7 million (2003 - \$2.9 million) in interest, \$1.8 million (2003 - \$1.3 million) in dividends and \$1.0 million (2003 - \$2.3 million) in advisory and other fees from its corporate investments. During fiscal 2004 Clairvest paid \$3.5 million (2003 - \$1.2 million) in interest to Gateway Casinos Inc.

### 6. CORPORATE INVESTMENTS

	2004			2003		
	Carrying value	Cost	Difference	Carrying value	Cost	Difference
<b>Investments in publicly-traded companies</b>						
Datamark Systems Group Inc.	\$ 10,148	\$ 14,421	\$ (4,273)	\$ 11,699	\$ 14,421	\$ (2,722)
Gateway Casinos Income Fund	51,276	33,659	17,617	42,839	45,020	(2,181)
Voxcom Incorporated	11,624	12,775	(1,151)	11,589	12,775	(1,186)
	73,048	60,855	12,193	66,127	72,216	(6,089)
<b>Investments in privately-held companies</b>						
Allied Global Holdings Inc.	3,931	3,000	931	3,563	3,000	563
Consolidated Vendors Corporation	1,674	6,030	(4,356)	6,089	6,030	59
Gateway Casinos Inc.	70,368	24,000	46,368	68,362	24,000	44,362
Landauer Metropolitan Inc.	3,645	3,306	339	3,083	2,976	107
NRI Industries Inc.	10,080	17,613	(7,533)	24,907	17,613	7,294
Signature Security Group Holdings Pty. Limited	28,421	28,421	—	28,421	28,421	—
Van-Rob Inc.	5,000	5,000	—	5,000	5,000	—
Wellington Financial Fund I	1,290	—	1,290	4,207	2,558	1,649
Wellington Financial Fund II	1,635	1,635	—	—	—	—
	126,044	89,005	37,039	143,632	89,598	54,034
<b>Other investments</b>	356	371	(15)	411	411	—
	\$ 199,448	\$ 150,231	\$ 49,217	\$ 210,170	\$ 162,225	\$ 47,945

#### (a) Datamark Systems Group Inc. ("Datamark")

Datamark is a business document management company with operations in Canada and the United States. At March 31, 2004, Clairvest owned 4,675,670 (2003 - 4,675,670) common shares of Datamark, representing a 36.5% (2003 - 36.5%) interest on a fully diluted basis.

At March 31, 2004, Clairvest also held 10,000 options to acquire Datamark shares at \$2.21 per share and 10,000 options to acquire Datamark shares at \$2.02 per share (2003 - 20,000 options to acquire Datamark shares at \$2.02 per share). These options vest over five years from the grant date, being June 2003 for the \$2.21 options and October 1999 for the \$2.02 options.

The shares in Datamark are carried at the quoted market price at March 31, 2004 and 2003. Since the inception of the investment, Clairvest has received a total of \$12.9 million in cash dividends, which have been accounted for as income.

#### (b) Gateway Casinos Income Fund ("Gateway Income Fund")

Gateway Income Fund is a trust which was established in fiscal 2003 to acquire six of the casinos managed by Gateway

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Casinos Inc. At March 31, 2004, Clairvest owned 3,365,876 (2003 - 4,501,970) units in Gateway Income Fund, representing a 12.7% (2003 - 17.0%) interest on a fully diluted basis.

Clairvest acquired the 4,501,970 units in Gateway Income Fund during fiscal 2003 for \$45.0 million. The units were subject to a securities hold period to November 2003. Following that date, Clairvest continues to require gaming regulatory approval in order to sell units. During fiscal 2004 Clairvest sold 1,136,094 units for gross proceeds of \$17.8 million.

At March 31, 2004, the units in Gateway Income Fund are carried at market prices less a discount due to the estimated cost of disposition. At March 31, 2003, the units were 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, 2004 and 2003, Clairvest owned 11,485,900 convertible retractable preferred shares and 230,000 common shares of Voxcom, representing a 26.7% (2003 - 27.0%) interest on a fully diluted basis.

At March 31, 2004 and 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 owned 230,000 common shares, \$5.0 million of debentures and \$1.0 million of guarantee 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.

Clairvest carries its investment in Voxcom common shares at the quoted market prices at March 31, 2004 and 2003. The convertible retractable preferred shares are carried at cost at March 31, 2004 and 2003.

Subsequent to year end, Clairvest sold its common shares to Voxcom for gross proceeds of \$237,000 as part of a going private transaction by Voxcom. Also as part of the going private transaction, Clairvest provided a Letter of Credit in the amount of \$768,000 to Voxcom's banks.

### (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, 2004 Clairvest owned 35,784 (2003 - 33,000), 10% convertible Class B preferred shares in Allied Global. Clairvest's ownership on a fully diluted basis was 8.4% (2003 - 8.3%) at March 31, 2004.

During fiscal 2004, Clairvest received 2,784 (2003 - 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, 2004 and 2003. 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 U.S. Midwest. At March 31, 2004 and 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, 2004 and 2003, Clairvest also held US\$3.3 million of senior debt and a \$0.5 million demand loan, bearing interest at 9.0%.

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. 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. The senior bank debt bears interest at 3.21%. Clairvest's share of the senior bank debt is currently due and payable. No amounts have been called.

At March 31, 2004, the shares in Consolidated Vendors are carried at cost net of a \$1.6 million write-down of the carrying value of the investment and a \$3.0 million guarantee payable to CEP, and converted to Canadian dollars after giving effect to the related foreign exchange forward contract hedge thereon (see note 13b). During fiscal 2002, Clairvest sold certain shares of Consolidated Vendors to CEP, and guaranteed to compensate CEP for up to \$5.7 million for certain deficiencies that CEP may incur on these shares. If CEP's investment in Consolidated Vendors were disposed of at a value consistent with Clairvest's current carrying value of this investment, Clairvest would owe CEP \$3.0 million under this guarantee (see note 14b).

At March 31, 2003, 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 13b). At March 31, 2004 and 2003, the bank debt is carried at cost plus accrued interest to March 31, 2003 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 13b).

### **(f) Gateway Casinos Inc. ("Gateway Casinos")**

Gateway Casinos is a gaming management company operating casinos in Western Canada. At March 31, 2004 and 2003, Clairvest owned 28.4% of a limited partnership that owns Gateway Casinos, representing a 28.4% indirect ownership in Gateway Casinos on a fully diluted basis.

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

At March 31, 2004, the shares in Gateway Casinos are carried at cost plus a \$46.4 million cumulative upward adjustment to the carrying value of the investment. 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.

### **(g) Landauer Metropolitan Inc. ("Landauer")**

Landauer is a supplier of home medical equipment in the New York City area. At March 31, 2004 and 2003, Clairvest owned 1,906,250 10% cumulative convertible preferred shares in Landauer, which were acquired during fiscal 2003 for \$3.0 million.

At March 31, 2004, Clairvest had entered into an agreement to purchase at least 406,504 common shares of Landauer for US\$0.5 million. During fiscal 2004, Clairvest paid \$331,000 (US\$250,000) of the purchase price. If Landauer's current year performance differs from anticipated performance, the purchase price and/or number of shares purchased will be adjusted. Clairvest's ownership on a fully diluted basis was 13.6% (2003 – 10.7%) at March 31, 2004, assuming the number of common shares purchased under the above-noted agreement is not adjusted.

During fiscal 2003, Clairvest provided a bridge loan to Landauer for \$6.2 million. The loan, together with interest thereon, was repaid during fiscal 2003.

At March 31, 2004 and 2003 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 13b). Cumulative dividends are included in the carrying value of the preferred shares.

### **(h) NRI Industries Inc. ("NRI")**

NRI converts scrap rubber into value-added manufactured products. At March 31, 2004 and 2003, 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's ownership on a fully diluted basis at March 31, 2004 and 2003 was 84.7%.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

At March 31, 2004, the common shares of NRI are carried at cost, and the preferred shares are carried at their redemption values plus cumulative dividends to March 31, 2002, net of a \$14.5 million downward adjustment to the carrying value of the investment. At March 31, 2003, the common shares of NRI were carried at cost and the preferred shares were carried at their redemption values, plus cumulative dividends to March 31, 2002.

### (i) Signature Security Group Holdings Pty. Limited ("Signature")

Signature is an electronic security company serving Australia and New Zealand. At March 31, 2004, Clairvest owned 227,404,097 (2003 – 214,866,491) ordinary shares in Signature, through its wholly-owned subsidiary, Clairvest Group International (Netherlands) B.V. Clairvest's indirect ownership on a fully diluted basis at March 31, 2004 was 41.7% (2003 – 39.4%).

At March 31, 2004 and 2003, 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. The loans bear interest either at (i) the net cash interest earned by SPV or (ii) 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.

At March 31, 2004 and 2003, 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 13b).

### (j) Van-Rob Inc. ("Van-Rob")

Van-Rob is a supplier of metal stampings and welded assemblies to the North American auto sector. At March 31, 2004 and 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, 2004 and 2003.

The shares in Van-Rob are carried at cost at March 31, 2004 and 2003.

### (k) Wellington Financial Fund I ("Wellington Fund I")

Wellington Fund I provided financing to growth companies in the technology and health sciences industries prior to larger, more permanent financings. Clairvest, as a Limited Partner, had committed to fund \$5.0 million to Wellington Fund I. At March 31, 2004, all of the capital that Clairvest had previously funded had been returned to Clairvest. At March 31, 2003, Clairvest had funded \$2.6 million of its commitment. Clairvest's commitment represents a 71.4% interest in Wellington Fund I.

At March 31, 2004, all loans previously provided by Wellington Fund I had been repaid. As a result of the raising of Wellington Financial Fund II ("Wellington Fund II") all future loans will be provided by Wellington Fund II, with no further loans being provided by Wellington Fund I.

At March 31, 2004, Clairvest carries its investment in Wellington Fund I at the underlying value of the warrants Wellington Fund I continues to hold. At March 31, 2003, Clairvest carried its investment in Wellington Fund I at the underlying value of the loans and warrants held by Wellington Fund I.

### (l) Wellington Financial Fund II ("Wellington Fund II")

Wellington Fund II provides debt capital and operating lines to technology, biotechnology, communications and industrial product companies across Canada. Clairvest, as a Limited Partner, has committed to fund \$10.0 million to Wellington Fund II, \$1.6 million of which was funded at March 31, 2004. Clairvest's commitment represents a 48.7% interest in Wellington Fund II.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 7. LOANS PAYABLE

Loans payable consist of the following:

- (a) \$17.0 million (2003 – \$21.4 million) 30-year loan from Gateway Casinos Inc. The loan is non-interest bearing, and repayable on demand. The loan is collateralized by the units held by Clairvest in the limited partnership that owns Gateway Casinos Inc. Clairvest repaid \$4.4 million of this loan during fiscal 2004.
- (b) \$33.7 million (2003 – \$45.0 million) 30-year loan from a subsidiary of Gateway Casinos Inc. The loan bears interest at 8.05% per annum, and is collateralized by the units held by Clairvest in Gateway Income Fund. The loan must be repaid as the units in Gateway Income Fund are disposed of. Clairvest repaid \$11.3 million of this loan during the year.
- (c) Loans totalling \$10.5 million (2003 – nil) from the limited partnership that owns Gateway Casinos Inc. These loans are non-interest bearing and repayable on demand at any time after December 31, 2004.

### 8. BANKING FACILITY

The Company has a \$20 million line of credit available, bearing interest at prime plus 0.5% per annum. The prime rate at March 31, 2004 was 4.0% (2003 – 4.75%). At March 31, 2004 and 2003 no amounts were drawn down on this facility.

### 9. INCOME TAXES

Provision for income taxes consists of the following:

	2004	2003
Current income tax expense (recovery)	\$ (274)	\$ 8,984
Future income tax expense (recovery) relating to origination and reversal of temporary differences	1,462	(7,805)
Future income tax recovery resulting from rate change	(5)	(172)
Provision for income taxes	\$ 1,183	\$ 1,007

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

	2004	2003
Income before income taxes	\$ 14,010	\$ 45,346
Statutory Canadian income tax rate	36.5%	38.1%
Statutory Canadian income taxes	5,114	17,277
Non-taxable dividends received	(667)	(497)
Non-taxable portion of net investment gains	(2,012)	(8,291)
Non-taxable portion of unrealized gains	(362)	(7,922)
Accrued capital loss not benefited	1,080	137
Expenses not deductible for tax purposes	18	16
Future income tax recovery resulting from rate change	(5)	(172)
Recovery of prior years' taxes	(1,779)	—
Other	(204)	459
	\$ 1,183	\$ 1,007

The future tax liability relates primarily to the temporary differences on corporate investments and deferred loss on foreign exchange forward contracts.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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	2004		2003	
	Number of shares	Amount	Number of shares	Amount
Common shares, opening balance	18,692,590	\$ 95,626	18,697,590	\$ 95,652
Purchased and cancelled under normal course issuer bid	(896,752)	(4,592)	(5,000)	(26)
Issued on exercise of stock options	435,600	2,317	—	—
Common shares, closing balance	18,231,438	\$ 93,351	18,692,590	\$ 95,626
Non-voting shares	2,230,954	16,800	2,230,954	16,800
	20,462,392	\$ 110,151	20,923,544	\$ 112,426

During 2003 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 2004 the Company filed a new Normal Course Issuer Bid enabling it to make purchases of up to 911,572 of its common shares in the 12-month period commencing March 4, 2004.

During 2004 the Company purchased and cancelled under its Normal Course Issuer Bid 896,752 (2003 – 5,000) of its common shares at a total purchase cost of \$6,707,000 (2003 – \$35,000) plus fees of \$27,000. The excess of the purchase cost of these shares over the average paid-in amount was \$2,142,000 (2003 – \$9,000), which was charged to retained earnings. During 2004 the Company also purchased 49,000 of its common shares for \$407,000 which were cancelled subsequent to year end.

The Company's 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.

The weighted average number of common and non-voting shares outstanding during fiscal 2004 was 18,370,929 and 2,230,954 respectively, for a total of 20,601,883 (2003 – 20,928,530). The weighted average number of fully diluted shares outstanding during fiscal 2004 was 21,679,586 (2003 – 22,292,218).

The difference between the basic and fully diluted earnings per share computations for 2004 and 2003 consists of the following:

	2004			2003		
	Net Income	Number of shares	Per share amount	Net Income	Number of shares	Per share amount
Basic net income per share	\$ 12,827	20,601,883	\$ 0.62	\$ 44,339	20,928,530	\$ 2.12
Effect of dilutive securities						
Convertible non-voting shares	—	862,598		—	1,212,339	
Stock options	—	215,105		—	151,349	
Fully diluted net income per share	\$ 12,827	21,679,586	\$ 0.59	\$ 44,339	22,292,218	\$ 1.99

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

260,000 (2003 – 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 (2003 – 2,092,854) 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, 2004 and 2003 and changes during the years ended on those dates is presented below:

	Number of options	Weighted average exercise price per share
Options outstanding, March 31, 2002	1,506,000	\$ 6.37
Options granted	266,000	6.04
Options outstanding, March 31, 2003	1,772,000	\$ 6.32
Options granted	190,000	7.99
Options exercised	(435,600)	5.32
Options forfeited	(400)	4.38
Options outstanding, March 31, 2004	1,526,000	\$ 6.82
Options exercisable, March 31, 2004	937,200	\$ 7.00

The following table summarizes information about stock options outstanding at March 31, 2004:

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	215,000	6.9 years	\$ 4.62	104,000	\$ 4.58
\$5.00 to \$5.99	296,000	7.4 years	5.85	112,200	5.85
\$6.00 to \$6.99	55,000	8.3 years	6.75	11,000	6.75
\$7.00 to \$7.99	850,000	3.7 years	7.49	640,000	7.41
\$8.00 to \$8.99	110,000	6.2 years	8.57	70,000	8.70
	1,526,000			937,200	

### 11. STOCK-BASED COMPENSATION

During fiscal 2004, Clairvest changed its accounting policy on a prospective basis for stock options. The fair value of new options granted beginning fiscal 2004 are charged to income over the options vesting period on a straight-line basis. For stock options granted during fiscal 2003, the Company elected not to follow the fair value based method of accounting for stock options.

During fiscal 2004 the Company recorded compensation expense of \$57,000 with an offsetting credit to stock-based compensation in shareholders' equity for the 190,000 stock options awarded to employees during fiscal 2004. 150,000 of these stock options expire in June 2013 and 40,000 expire in September 2013. The fair value of these options at the date of grant was estimated using the Black-Scholes option pricing model based on the following weighted-average assumptions: risk-free interest rate of 4.0%; dividend yield of 1.3%; average expected life of five years; and volatility of 25.4%.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Had the Company recorded compensation expense for stock options granted in fiscal 2003 using the fair value method, net income would have decreased by approximately \$74,000 (2003 - \$57,000) for fiscal 2004. The fair value of these options at the date of grant was estimated using the Black-Scholes option pricing model based on the following weighted-average assumptions: risk free interest rate of 4.0%; dividend yield of 1.7%; average expected life of five years; and volatility of 23.0%.

### 12. CONSOLIDATED STATEMENTS OF CASH FLOWS

Net change in non-cash working capital balances related to operations are detailed as follows:

	2004	2003
Accounts receivable and other assets	(3,523)	(546)
Accounts payable	101	2,526
Income taxes payable	(7,376)	7,103
	(10,798)	9,083

Cash and cash equivalents at March 31, 2004 and 2003 are comprised of the following:

	2004	2003
Cash	1,221	2,054
Cash equivalents	3,474	13,127
	4,695	15,181

### 13. FINANCIAL INSTRUMENTS

#### (a) Fair value of financial instruments

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

The fair value of the loans payable was determined by discounting future cash flows using rates which the Corporation could currently use for loans with similar terms and conditions and maturity dates. The estimated fair value of the loans payable approximate their carrying value.

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

#### (b) Foreign exchange forward contracts

As at March 31, 2004, the Company had entered into foreign exchange forward contracts as hedges against its foreign investments as follows:

- (i) Forward contracts to sell AUS\$31.3 million (2003 – AUS\$28.0 million) at a rate of Canadian \$0.9522 per Australian dollar through January 2005 (average rate of \$0.9522; 2003 average rate of \$0.8373). The fair value of these contracts at March 31, 2004 is (\$1.4 million) (2003 – (\$1.4 million)); and
- (ii) Forward contracts to sell US\$3.4 million (2003 – US\$5.6 million) at rates of Canadian \$1.3172 to \$1.3518 per U.S. dollar through December 2004 (average rate of \$1.3404; 2003 average rate of \$1.5444). The fair value of these contracts at March 31, 2004 is \$104,000 (2003 – \$430,000).

The credit risk on derivative financial instruments, cash and cash equivalents and temporary 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 14. 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 \$17.3 million has been funded to March 31, 2004. 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. At March 31, 2004, \$3.0 million (2003 – nil) of the guaranteed amount was reflected on the consolidated balance sheet, as a reduction in the carrying value of Clairvest's investment in Consolidated Vendors.
- (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 \$2.8 million (2003 – \$3.9 million) would be owing to management under the Incentive Bonus Program.
- (e) Directors of the Corporation may elect to receive all or a portion of their compensation in deferred share units ("DSU's"). On the date directors fees are payable, the number of DSU's to be credited to a participant is determined by dividing the amount of the fees to be received by way of DSU's by the market value of a common share on the Toronto Stock Exchange. Upon redemption of DSU's, the Corporation pays to the participant a lump sum cash payment equal to the number of DSU's to be redeemed multiplied by a calculation of the market value of a common share on the Toronto Stock Exchange on the redemption date. A participant may redeem his or her DSU's only following termination of board service. As of March 31, 2004, a total of 33,627 (2003 – 16,983) DSU's were held by directors of the Corporation, the accrual in respect of which is not significant.
- (f) Employees of the Corporation may elect to receive all or a portion of their stock option grant by way of book value appreciation rights units ("BVAR's"). Upon the redemption of BVAR's, the Corporation pays to the participant a lump sum cash payment equal to the number of BVAR's to be redeemed multiplied by the increase in book value per share between the grant date and the redemption date. The BVAR's vest over a five-year period and the participant may only redeem his or her BVAR's at the earlier of i) five years from grant date or ii) cessation of employment with the Company. As of March 31, 2004, a total of 145,000 (2003 – 120,000) BVAR's were held by employees of the Corporation, the accrual in respect of which is not significant.
- (g) During fiscal 2003, Clairvest sold its investment in Sparkling Spring Water Holdings Limited for proceeds of Cdn\$48.6 million, with the potential, subject to a number of conditions, to receive over time an additional US\$4.5 million that was held in escrow. A total of \$3.3 million (US\$2.5 million) was released from escrow during fiscal 2004. The remaining amounts still being held in escrow have not been reflected on the consolidated balance sheets.

### 15. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2004 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, comprised of three non-management Directors, has reviewed the consolidated 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.

Chief Financial Officer and Corporate Secretary

## AUDITORS' REPORT

To the Shareholders of Clairvest Group Inc.

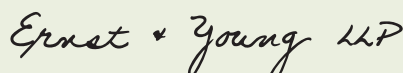
We have audited the consolidated balance sheets of Clairvest Group Inc. as at March 31, 2004 and 2003 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility 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, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada

June 10, 2004



Chartered Accountants