

**CLAIRVEST GROUP INC. KNOWLEDGE BASED VALUE FOCUSED ANNUAL REPORT 2005**



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This report contains forward-looking statements with respect to Clairvest Group Inc., its subsidiaries and their investments. These statements are based on current expectations and are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Clairvest, its subsidiaries and their investments to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

We have provided selected financial information on each of Clairvest's investee companies which may not correspond to GAAP. One measure provided is earnings before interest, taxes, depreciation and amortization (EBITDA). EBITDA is not a GAAP-defined term. We present EBITDA to show a proxy for the recurring operating cash flow from the company, normalizing for foreign exchange gains and losses and other non-recurring items, both positive and negative, and fees paid to Clairvest and CEP. EBITDA is the basis on which companies are often valued in private equity transactions. When considered with the change in debt, EBITDA may be an indicator of value change.

# The Clairvest approach to creating value. Knowledge Based – Value Focused.

## **1. INVEST IN WHAT YOU KNOW**

We apply our proprietary, domain-based research to identify attractive investments. We seek industries characterized by recurring revenues, distributed customers, consolidation opportunities, and cost-based economies-of-scale, as well as individual businesses demonstrating potential for high EBITDA margins and high returns on net assets and invested capital.

## **2. INVEST IN SUCCESSFUL COMPANIES WITH COMMITTED MANAGEMENT**

We invest in companies with proven management who have produced a clear value-generating proposition, and who have committed a material amount of their own capital to delivering success.

## **3. ALIGN INTERESTS TO ENSURE CLARITY OF FOCUS**

As long-term investors, we are guided by success-proven conservatism. Our approach is bottom-up and focused on creating value, with alignment of interests assured by having all participants – from Clairvest's directors and management, and the management of our investee companies – maintain significant personal financial stakes in Clairvest or our investments. We will always trade off absolute control to instead put our capital behind the proven operator with his capital on the line.

## **4. LEVERAGE KNOWLEDGE TO BUILD VALUE**

In addition to its financial resources, Clairvest applies the extensive knowledge of its Board of Directors, management team and investment partners to guide development and growth.

## **5. WE GROW SUCCESS**

Good companies do more than endure, they thrive. Good management teams deliver solid results throughout economic cycles, constantly looking to secure their market positions and for opportunities to grow. They don't rely on excessive leverage or the capital markets to lift their values, they build value internally, operationally. These are the hallmarks of Clairvest's investments.

# We continue to identify industry niches and establish relationships with attractive companies and management teams.

- **Fiscal 2005:** Clairvest reported net income of \$29.9 million for the year, and a March 31, 2005 book value of \$12.99 per share.
- **May 2004:** Voxcom taken private in a transaction partially underwritten by Clairvest.
- **July 2004:** Clairvest and CEP committed to fund up to a combined \$20 million in N-Brook Mortgage LP, for a combined 58.8% ownership interest. N-Brook originates, adjudicates and underwrites first-ranking mortgages on owner-occupied, residential real estate in Ontario, Canada.
- **September 2004:** Clairvest reduced its holdings in Gateway Casinos Income Fund by approximately 1.86 million units for gross proceeds of \$32.3 million. Clairvest continues to hold approximately 5.7% of the outstanding units of the fund with a value of \$28.1 million at year end.
- **December 2004:** Wellington Fund II completes final closing at \$83 million. Clairvest increases commitment to Fund from \$10 million to \$20 million.
- **January 2005:** Wellington Fund I wound up. On a total commitment of \$5 million to the Fund, Clairvest received back all of the capital it had funded as well as distributions currently valued at \$4.9 million.
- **February 2005:** Clairvest announced approval of a new normal course issuer bid, enabling Clairvest to make market purchases of up to 877,472 of its common shares in the 12-month period commencing March 4, 2005. During fiscal 2005, Clairvest purchased 670,500 of its common shares at a total purchase cost of \$5.6 million.
- **March 2005:** The remaining US\$2.0 million (Cdn\$2.6 million) was released from escrow on satisfaction of conditions arising from the fiscal 2003 sale of Sparkling Spring Water.
- **May 2005:** Clairvest and CEP closed a \$15.5 million investment to acquire controlling interest in Integral Orthopedics Inc., which acquired the businesses of Obus Forme Ltd., a prominent provider of orthopedic back care products, and Moller LLC, a leading developer of clinical treatment solutions for neck and back pain.
- **May 2005:** Voxcom Income Fund completed Initial Public Offering. Clairvest reinvested its entire investment in Voxcom Incorporated and as a result holds a 20.1% fully-diluted interest in Voxcom Income Fund.
- **July 2005:** Clairvest paid an annual dividend of \$0.10 per share.

Over the last five years our shares have generated a compounded annual return of 20.2%.

We are private equity investors. We track our results against the public equity markets and against our private equity competitors.

Over the years, this current management team has worked with many investments on our shareholders' behalf to create the following results.

**PERFORMANCE**

Over the last five years we have grown our book value to generate a total compounded annual return of +11.1%; this is despite the carrying of significant cash balances such that our risk adjusted return is meaningfully higher.

Over the last five years our shares have generated a total compounded annual return of +20.2% based on the trading price and dividends.

**BENCHMARK**

Over the last five years the S&P500 has generated a total compounded annual return of -3.1%.

**PERFORMANCE**

We have invested \$274 million in 22 different companies operating in 19 different industries.

We have either fully or partially realized our return on 14 different companies. These investments have turned \$140 million into \$375 million and generated a pooled IRR of +28% up to year end.

**BENCHMARK**

According to Venture Economics, the Buyout Category of the Private Equity Universe earned an annual return of +8.4% over 10 years.

# Our long-term approach once again rewarded our company and our shareholders.

## **FELLOW SHAREHOLDER,**

Consistency and discipline have always been the hallmarks of Clairvest's investment strategy. During the past year, our long-term approach once again rewarded our company and our shareholders. On balance, our investee companies achieved improved results for fiscal 2005.

For the year ended March 31, 2005, Clairvest's book value per share rose to \$12.99, compared to \$11.46 a year earlier. This gain, when combined with the annual dividend of \$0.10 per share, represents an increase of 10 per cent, which we are satisfied with given that 34% of our assets were, on average, in cash.

There were a number of notable transactions during and subsequent to the fiscal year which we have summarized under Highlights. We continued our Normal Course Issuer Bid, purchasing Clairvest's shares on the market for cancellation, further increasing shareholder value. We have purchased 2,357,041 shares since the inception of our issuer bid in 2003.

Our share price closed the year at \$9.80 and at June 30, 2005 was \$10.50. Our share price was up 19% in fiscal 2005 reflecting your management's ability to grow book value and continue to decrease the discount to book value.

Clairvest's proprietary domain-based research continues to identify investment and acquisition opportunities. While high valuations have precluded a number of investments, our efforts continue to identify industry niches and allow us to establish relationships with attractive companies and management teams. Our most recent investments also highlight the flexibility of our disciplined investment approach.

Our investment in N-Brook Mortgage LP during fiscal 2005 came as result of excessive valuations in a sector that we believed was too promising to ignore. We couldn't find an investment partner that made sense, so we combined our research with experienced management to create a new company. N-Brook is profiled in this annual report among Clairvest's other investee companies and is off to a strong start.

More recently, we invested in another new entity, Integral Orthopedics Inc., to create a solid platform for growth. Integral combines Obus Forme Ltd., the leading North American brand in back care, with two smaller acquisitions that offer the leading science and technology in back care. Integral is positioned to dominate a huge market and we are confident in its potential.

Wellington Financial LP, our bridge lending vehicle operated in partnership with fund management, enjoyed another successful year. During fiscal 2005 Wellington Fund I was wound up after all five borrowing companies repaid \$9.5 million in loans plus interest and meaningful profits on the warrants were realized. In December 2004, Wellington Fund II was capitalized at \$83 million and at June 30, 2005 its loan portfolio stood at \$29.3 million, to a total of eight companies.

# The most reliable path to value creation in this climate is to buy smart.

Looking at the wider business environment, our marketplace has become more efficient and competitive: private companies have more choices; the income trust market has made high valuations available to small companies; the banks are lending aggressively and competition for deals has increased as more money has been raised by local private equity firms and US private equity firms are paying increased attention to our market. There are few bargains available.

The marketplace for our investment partners also continues to get tougher: demand in North America is flat; imports are growing; the number of products which now face import competition is growing; customers are increasingly concentrated and sophisticated; raw material costs are increasing and labour costs continue their march upward.

The most reliable path to value creation in this climate is to buy smart (which may or may not mean buying cheap), reduce costs, improve efficiency and build value and quality from within. Despite the environment, we are tremendously busy and excited by the opportunities facing us. There is money to be made, but you have to be realistic and carefully pick where you play.

## **ACKNOWLEDGEMENTS**

The company's successes are due to the combined efforts of people in many roles. We acknowledge the consistent hard work and dedication of Clairvest's employees. New staff were added and integrated into the company during the year, further strengthening our capabilities.

The exceptional dedication of the management teams of our investee companies must be noted, along with the commitment of our limited partners, plus the advice and counsel of our Board of Directors.

Most of all, we extend our appreciation to Clairvest shareholders, for their continuing interest and encouragement of our efforts.



Jeff Parr  
Co-Chief Executive Officer



Ken Rotman  
Co-Chief Executive Officer

August 1, 2005

# Clairvest continues to apply its rigorous standards in new investments.

Clairvest Equity Partners Limited Partnership was created in 2001 to build Clairvest's core business by leveraging its merchant banking expertise over a larger pool of investment capital, and generating income through both management fees and a share in increased profits, above defined thresholds. For our shareholders, we increased your diversification and lowered the management expense burden.

CEP is funded by limited partners who value our proprietary, domain-based research, Clairvest's deal flow and superior, long-term risk-adjusted investment returns. Our limited partners include pension funds, banks, insurance companies and high-net-worth individuals. In keeping with our fundamental belief in the importance of aligning of interests, Clairvest invests alongside CEP in every CEP investment, to the amount of 25% of the combined total.

In partnership with CEP, we have a total of \$219 million to invest in long-term private equity investments: \$164 million in third-party capital, combined with an additional \$55 million of Clairvest's own capital.

Of the \$219 million combined commitments to CEP, \$92.5 million has been invested to date and approximately \$25 million has been notionally set aside (current estimates) for our existing investments. Until CEP's capital pool is close to fully invested, all new Clairvest long-term equity investments will be made through the Clairvest-CEP joint funding agreement.

## NEW INVESTMENT OPPORTUNITIES

Clairvest continues to apply its rigorous standards in identifying, qualifying and closing on new investment opportunities. In the case of CEP, these criteria include targeted gross internal rates of return of approximately 25% (or greater) on all invested capital. Targeted investments range between \$10 million and \$30 million, with Clairvest maintaining its 25% share of the total investment.

## COMBINED CLAIRVEST/CEP INVESTMENTS

Investment	Year of Investment	Combined Clairvest/ CEP Investment June 30, 2005 (millions)	Combined Ownership June 30, 2005
Allied Global Holdings Inc.	2001	\$ 12.0	33.4%
Consolidated Vendors Corporation	2001	\$ 25.8	99.1%
Integral Orthopedics Inc.	2005	\$ 15.5	91.8%
Landauer Metropolitan Inc.	2002	\$ 14.5	54.3%
N-Brook Mortgage LP	2004	\$ 4.7	58.8%
Van-Rob Inc.	2002	\$ 20.0	20.0%

# Wellington Financial's Fund II has exceeded expectations in its first complete fiscal year.

One success of Clairvest's investment strategy has been Wellington Financial LP. Wellington provides term financing and venture loans to mid-stage and late-stage enterprises, both private and public, that are unable to obtain adequate senior financing from traditional sources. Clairvest is the lead investor and a 48.6% partner in the general partner of Wellington's Fund II.

Wellington loans are generally between \$2 million and \$10 million, but the fund has issued term sheets of up to \$30 million due to its ability to syndicate transactions. Wellington clients are generally growth companies with revenues between \$5 million and 100 million. The average total asset to loan value ratio is 5.1x, and the average current asset to loan ratio is 2.7x.

Wellington is known for its flexibility, speed and ability to see value. Since inception in 2000, every company that received Wellington loan capital has met repayment terms. In addition to earning interest on the loans, Wellington also benefits from stock warrants that are included in the terms of the financing.

Clairvest first invested in Wellington in 2000 by contributing \$5 million of the \$7 million commitments to Wellington Financial Fund I. Five client companies borrowed \$9.5 million, all of which was repaid with interest and which generated total profits of \$7.2 million. The weighted average amount of time the loans were outstanding was seven months. In January 2005 Wellington Financial Fund I was wound up after generating an internal rate of return substantially above the top quartile for funds in its class.

The unqualified success of Wellington Financial Fund I led to the creation of Wellington Financial Fund II. Clairvest quadrupled its capital commitment of the first fund to \$20 million, and a host of pension funds, insurance companies, mutual funds and other investors pushed up the capitalization total to \$83 million by final closing in December 2004. As of June 30, 2005, Wellington Financial Fund II had extended loans of \$35.6 million to eight companies via ten different transactions.

The expanded scale and scope of operations at Wellington allowed Mark McQueen to take on the Chief Executive Officer role on a full-time basis.

Company	Year of loan advance	Amount advanced June 30, 2005 (millions)	Principle outstanding June 30, 2005 (millions)
Airborne Entertainment	2004	\$ 3.0	\$ —
CriticalControl Solutions Corp.	2004/2005	\$ 7.0	\$ 7.0
CrossOff Inc.	2004	\$ 2.6	\$ 2.6
Dreamcatcher Inc.	2005	\$ 6.0	\$ 3.0
Environmental Management Solutions Inc.	2004/2005	\$ 5.5	\$ 5.2
Meikle Automation Inc.	2004	\$ 5.0	\$ 5.0
Necho Systems Corp.	2004	\$ 2.5	\$ 2.5
Tm Bioscience Corporation	2004	\$ 4.0	\$ 4.0
<b>Total</b>		<b>\$ 35.6</b>	<b>\$ 29.3</b>

# Clairvest management and board have the right blend of business credentials, experience and connections.

## MANAGEMENT TEAM

**JEFF PARR, Director, Co-CEO and Managing Director:** Former partner at Canadian Mezzanine Investments Inc., manager of Merchant Banking at National Bank of Canada and auditor at Coopers & Lybrand. Member of the Boards of Datamark, Consolidated Vendors, Gateway Casinos Inc., Gateway Casinos Income Fund and Signature, and the Credit Committee of N-Brook Mortgage. Ten years at Clairvest.

**KEN ROTMAN, Director, Co-CEO and Managing Director:** Former venture banker at Warburg Pincus. Has an MBA from New York University and an MSc from London School of Economics. Member of the Boards of NRI, Allied, Landauer, Van-Rob and Integral Orthopedics. Responsible for managing Clairvest's interest in Wellington Financial. Eleven years at Clairvest.

**JOHN FISHER, Managing Director:** Former corporate finance associate at Coopers & Lybrand and ScotiaMcLeod. Has a CA, CFA, and an MBA from the J.L. Kellogg School of Management, Northwestern University. Member of the Boards of Consolidated Vendors, Allied and Integral Orthopedics. Eight years at Clairvest.

**MICHAEL WAGMAN, Managing Director:** Former merchant banker at BMO Nesbitt Burns Equity Partners and investment banking analyst at Nesbitt Burns. Has an HBA from the University of Western Ontario and is a CFA. Member of the Boards of Signature, Gateway Casinos Inc. and Voxcom. Seven years at Clairvest.

**LANA REIKEN, CFO and Corporate Secretary:** Former Audit Manager at Ernst and Young LLP. Manages Clairvest's financial and public company reporting, tax planning, structuring and treasury operations. Six years at Clairvest.

**DAVID STURDEE, Principal:** Former consultant with the Boston Consulting Group. Experience in financial services, automotive, telecommunications, utilities and pharmaceuticals. Holds a PhD in philosophy from the University of Toronto. Member of the Boards of Landauer and Integral Orthopedics and the Credit Committee of N-Brook Mortgage. Four years at Clairvest.

**HEATHER CRAWFORD, In-House Counsel:** Former Corporate Lawyer with Torys. Assists with negotiation and structuring new investments and managing current investments. Responsible for general corporate and public company compliance matters. Eight years at Clairvest.

**MICHAEL CASTELLARIN, Vice-President:** Former consultant for the Monitor Company. Has an MBA from the J.L. Kellogg School of Management, Northwestern University. Member of the Board of Datamark. Three years at Clairvest.

**MITCH GREEN, Vice-President:** Former leveraged finance associate at BNP Capital Markets and corporate finance analyst at Bank of America. Has an MBA from the University of Michigan Business School. Member of the Board of Signature. Three years at Clairvest.

**KAMAL PASTAKIA, Associate:** Former M&A director with Cendant Corporation and investment banker with HSBC and Bear Stearns. Has an MA from the University of Cambridge, England and qualified as a CA. Member of the Boards of NRI and Integral Orthopedics and observer to the board of Van-Rob. One year at Clairvest.

## **BOARD OF DIRECTORS**

**MICHAEL BREGMAN, Advisor and Director:** President Tailwind Capital Corporation. Former CEO of Second Cup Ltd. Member of Clairvest's Audit Committee and the Board of Allied.

**SYD COOPER, Advisor and Director:** Built Pitts Engineering Construction into one of Canada's leading infrastructure construction companies. Member of Clairvest's Audit Committee and the Board of Datamark.

**JERRY HEFFERNAN, Advisor and Director:** Founded the steel company Co-Steel Inc. Chairs Clairvest's Compensation and Human Resources Committee, Member of the Board of Van-Rob and is Chairman of NRI.

**JOE HEFFERNAN, Chairman, Advisor and Director:** Chairman of Rothmans Inc. and former Deputy CEO of Rothmans International. Member of the Board of Intregal Orthopedics.

**JOHN KREDIET, Advisor and Director:** Former Chairman and CEO of Sparkling Spring Water Holdings Limited. Former Chairman and Principal of Eastcan Beverages Ltd. and Maritime Beverages Ltd., two Canadian Pepsi-Cola bottlers. Founder and Chairman of CF Capital Corporation.

**PHILIP ORSINO, Advisor and Director:** President and CEO of Masonite International Inc. Chairs Clairvest's Audit Committee.

**JOE ROTMAN, Advisor and Director:** Founded and built Tarragon Oil and Gas. One of the original investors in Barrick Gold. Founded Clairvest in 1987.

**LIONEL SCHIPPER, Advisor and Director:** Former Chairman of Toronto Sun Publishing and former partner at Goodmans LLP. Member of Clairvest's Compensation and Human Resources Committee and Member of the Board of NRI.

**ISSY SHARP, Advisor and Director:** Founded and built Four Seasons Hotels. Member of Clairvest's Compensation and Human Resources Committee.

Allied is a leading international accounts receivable management company with operations in Canada, the United Kingdom and the United States. Allied is a growing company that is well positioned to achieve sustainable growth through internal sales efforts and strategic acquisitions.

INTERNAL SALES AND NEW DEBT PURCHASING BUSINESS TO DRIVE GROWTH

**OUR PERFORMANCE**

Allied grew its business moderately in 2004, although earnings were roughly flat with the prior year as a result of some specific one-time charges.

**WHERE WE'RE GOING**

Allied will grow its business in the U.S., Canada and the U.K. through a dedicated focus on expanding internal sales efforts, completing strategic acquisitions and entering related business lines such as debt purchasing.

**INDUSTRY OUTLOOK**

The accounts receivable management industry is growing rapidly and has estimated annual agency fee revenues of US\$9 billion, C\$300 million and £300 million, in the US, Canadian and UK markets, respectively. The industry is growing, driven by strong growth in consumer debt and by a trend among credit grantors to turn over receivables to agencies earlier in the collection cycle. This growth is counter-balanced by increasingly sophisticated large customers who are compressing margins.

For Clairvest this is an opportunity to invest with a management team that has gained a solid foothold in an industry that is consolidating and growing.

**THE MANAGEMENT TEAM**

Allied is led by its President, David Rae, who has a significant ownership stake in the company and more than 20 years of experience in the accounts receivable management industry. Under Mr. Rae's leadership, Allied has demonstrated a strong commitment to operational excellence through its ISO 9001:2000 certification and

being named one of Canada's 50 Best Managed Private Companies.

Ken Rotman, John Fisher and Michael Bregman of Clairvest are directors of Allied.

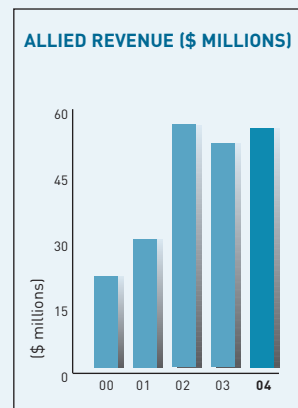
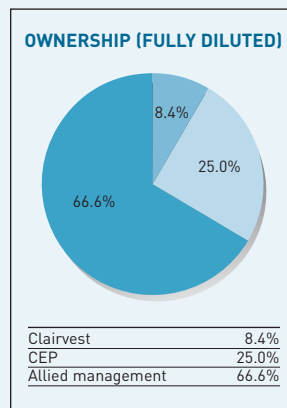
**FINANCIAL PERFORMANCE (\$ MILLIONS)**

YEAR ENDED DECEMBER 31	2000	2001	2002	2003	2004
Revenue	24.8	38.8	56.9	53.2	<b>55.8</b>
EBITDA <sup>(1)</sup>	4.1	6.4	5.2	6.5	<b>6.4</b>
Net debt	0.1	3.6	4.6	5.5	<b>3.0</b>

(1) EBITDA from continuing operations.

**INVESTMENT IN PREFERRED SHARES (\$ MILLIONS)**

	MAR. 31, 2004	MAR. 31, 2005
Cost	3.0	<b>3.0</b>
Net cash investment	3.0	<b>3.0</b>
Fair value	3.9	<b>4.3</b>



## CONSOLIDATED VENDORS CORPORATION

Consolidated Vendors owns and services approximately 4,500 vending machines throughout Michigan and Illinois. Servicing prime industrial, retail and office locations in the Midwest, Consolidated Vendors provides customers with a broad range of quality food and beverage products.

### RESULTS STABILIZE DUE TO NEW MANAGEMENT

#### OUR PERFORMANCE

Consolidated Vendors Corporation (CVC) generated slightly better results in 2004 as a result of a continued focus on operational improvement and new management which was hired in early 2004.

#### WHERE WE'RE GOING

Clairvest and CEP purchased Consolidated Vendors' senior bank debt at a discount in May 2002. As a result, Consolidated Vendors has reduced its financial leverage considerably and increased its operating flexibility. The company's results are expected to improve over time as manufacturing industry activity rebounds in the Midwest and it continues to pursue organic growth opportunities. The company will also evaluate strategic add-on acquisitions in its current markets to gain regional economies of scale.

#### INDUSTRY OUTLOOK

In the United States, the ownership and servicing of vending machines is a US \$20 billion per year business. The vending industry in the U.S. is highly fragmented, with more than 9,000 operators, approximately 97% of which generate annual revenue of less than \$10 million US.

#### THE MANAGEMENT TEAM

Consolidated Vendors' management changed in early 2004. The company is now led by Paul Elliott, a well rounded executive, who previously worked in the bottled water industry at Sparkling Spring Water Group, a very

successful company in which Clairvest previously invested. Prior to joining Sparkling Spring, Mr. Elliott held positions at Maritime Beverages and Pepsi.

Jeff Parr and John Fisher of Clairvest are directors of Consolidated Vendors.

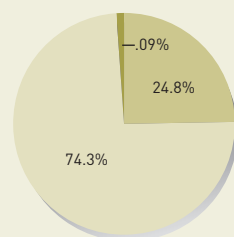
#### FINANCIAL PERFORMANCE (US\$ MILLIONS)

YEAR ENDED DECEMBER 31	2000	2001	2002	2003	2004
Revenue	31.9	27.6	28.0	26.1	<b>25.9</b>
EBITDA	3.6	1.8	2.6	1.4	<b>1.6</b>
Net third-party debt	14.2	15.4	1.2	1.0	<b>0.3</b>

#### INVESTMENT IN COMMON SHARES, PREFERRED SHARES AND DEBT (\$ MILLIONS)

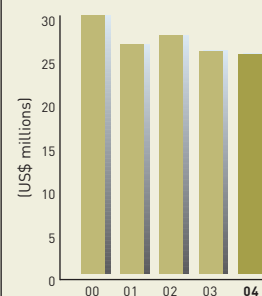
	MAR. 31, 2004	MAR. 31, 2005
Cost	6.0	<b>7.0</b>
Net cash investment	6.0	<b>7.0</b>
Fair value	1.7	<b>0.2</b>

#### OWNERSHIP (FULLY DILUTED)



Clairvest	24.8%
CEP	74.3%
Consolidated Vendors management	0.9%

#### CONSOLIDATED VENDORS REVENUE (US\$ MILLIONS)



Datamark specializes in providing customers with end-to-end document management services. These services include customized print design, production, cost control and reporting, as well as warehousing and distribution. Datamark is growing through acquisitions, strategically located production facilities and a network of direct sales professionals.

CONSOLIDATION OPPORTUNITIES FROM AN EVOLUTION IN INFORMATION HANDLING

**OUR PERFORMANCE**

In 2004, Datamark continued to increase its presence in the growth areas of its business – labels and commercial print. In both segments, sales grew compared to 2003 and Datamark improved its competitive position through capital investments of more than \$3.0 million.

**WHERE WE'RE GOING**

In 2005, Datamark will continue to focus on cost control in its business forms and airline printing operations. Datamark will take advantage of opportunities to make synergistic acquisitions of competitors in order to rationalize industry capacity.

Datamark will also look to accelerate the growth of its label and commercial printing operations through organic growth and acquisitions.

**INDUSTRY OUTLOOK**

The increase in the electronic substitution of business forms is expected to put increased pressure on one-dimensional competitors in this mature industry. As a market leader offering a variety of products and services, and with a strong balance sheet, Datamark is positioned to benefit and take advantage of the consolidation trend in the industry.

**THE MANAGEMENT TEAM**

Having more than 20 years of experience and partnership, Jeffrey Zunenshine and Claude Perrotte have built Datamark from a \$2 million revenue company in 1982 to the industry leader it is today. Clairvest has actively assisted the management over the last seven years while

the company completed four acquisitions and increased the size and market reach of the company.

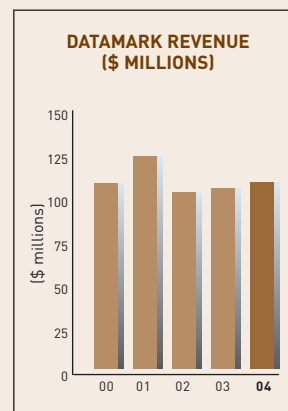
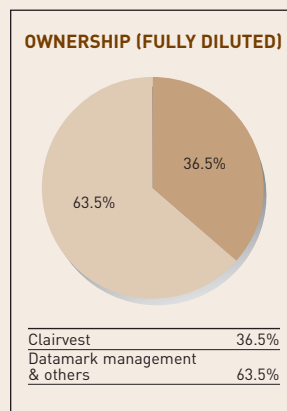
Syd Cooper, Michael Castellari and Jeff Parr of Clairvest are directors of Datamark.

**FINANCIAL PERFORMANCE (\$ MILLIONS)**

YEAR ENDED DECEMBER 31	2000	2001	2002	2003	2004
Revenue	117.9	128.6	113.2	114.3	<b>115.9</b>
EBITDA	11.1	12.9	9.4	6.7	<b>8.7</b>
Margin	9.4%	10.0%	8.3%	5.9%	<b>7.5%</b>
Dividends paid	6.5	3.8	1.9	0.5	<b>0</b>
Net debt	23.1	15.8	12.0	8.2	<b>6.9</b>

**INVESTMENT IN COMMON SHARES (\$ MILLIONS)**

	MAR. 31, 2004	MAR. 31, 2005
Cost	14.4	<b>14.4</b>
Net cash investment	1.5	<b>1.5</b>
Fair value	10.1	<b>14.5</b>



Gateway is one of the largest casino operators in western Canada. Gateway Casinos Income Fund was created to acquire six casinos managed by Gateway Casinos Inc., and Gateway Casinos Inc. continues to operate the remaining casinos.

GAMING IS AN INCREASINGLY IMPORTANT REVENUE SOURCE FOR GOVERNMENTS

**OUR PERFORMANCE**

This year saw the appreciation of the Fund’s units by more than 20% and an increase in monthly distributions from 10.5¢ to 11¢ per unit. During the year Clairvest reduced its holdings in Gateway Casinos Income Fund, selling approximately 1.8 million units for gross proceeds of \$32.3 million.

**WHERE WE’RE GOING**

The strategic growth plans Gateway Casinos Inc. outlined last year are moving ahead well. The Mandarin Casino closed upon the opening of the Cascades Casino in Langley, B.C., which is performing well; the relocation of the Star of Fortune Riverboat casino, in which Gateway Casinos Inc. holds a 50% interest, to a larger land-based casino development is underway with opening expected in Fall 2006; the planned rebuilding of the Baccarat casino is still in zoning review and we hope to begin redevelopment in the fall of 2005.

In addition, early in the 2005 fiscal year, Gateway Casinos Income Fund announced that it would purchase the Radisson Hotel Burnaby adjacent to its existing Burnaby Casino as part of its plan to redevelop the Burnaby Casino into a best-of-class entertainment and gaming facility – a multi-year, multi-phase development plan that would double the gaming floor of the Burnaby Casino. Construction is expected to begin in the third quarter of 2005.

**INDUSTRY OUTLOOK**

The Canadian casino and gaming industry has experienced tremendous growth in recent years, and its prospects remain strong. While Alberta’s gaming revenue as a per cent of total government revenue continues to be the highest in Canada, British Columbia continues to be below the Canadian average. We believe that gaming will continue to be an important revenue source for these

provinces. Additionally, we expect that the increased focus of the B.C. government to target additional gaming revenue will further bolster expanded gaming revenues in the province.

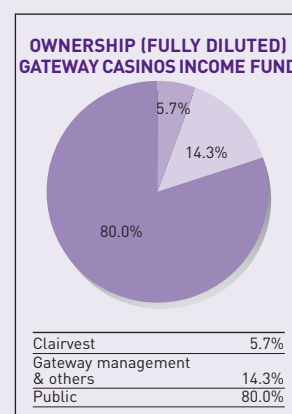
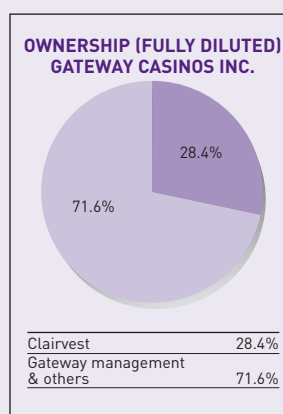
**THE MANAGEMENT TEAM**

Gateway Casinos’ Ray McLean leads a senior management team of seasoned industry professionals including President, Dave Gadhia and CFO, Bradley Bardua. This team is supported by Vice Presidents Monique Wilberg, Howard Worell and Steve Kumpf.

Jeff Parr and Michael Wagman of Clairvest are on the Board of Directors of Gateway Casinos and Jeff Parr is on the Board of Trustees of Gateway Casinos Income Fund.

**INVESTMENT IN GATEWAY CASINOS INC. AND GATEWAY CASINOS INCOME FUND (\$ MILLIONS)**

	MAR. 31, 2004	MAR. 31, 2005
Combined cost	57.7	<b>39.0</b>
Combined net cash investment	(17.8)	<b>(22.0)</b>
Combined fair value	121.6	<b>88.0</b>
Debt payable to Gateway	(61.2)	<b>(28.8)</b>
Net combined fair value	60.4	<b>59.2</b>



Integral Orthopedics Inc. is a leading back care company which manufactures and markets Obus Forme and Moller branded products around the world.

AN INVESTMENT IN A PROFITABLE, GROWING INDUSTRY

**BACKGROUND**

Integral Orthopedics Inc. was created in April 2005 with investments by Clairvest, CEP and Brian Tuffin, the company's Chief Executive Officer. Integral Orthopedics acquired the business assets of Obus Forme Ltd. and Moller LLC, prominent providers of back care products and clinical treatment solutions for back and neck pain. The combination of the two businesses will enable Integral Orthopedics to become the dominant back care provider in North America, a market estimated at US\$50 billion that is currently fragmented.

**WHERE WE'RE GOING**

By leveraging Obus Forme's leading market position and Moller's clinically proven technology, Integral Orthopedics is positioned to become a world leader in back care products. The company's forward focus is on educating the medical and chiropractic communities about its findings and technology in order to advance the standard of care for back pain sufferers. Integral Orthopedics will be structured around four product areas: back rests/seat cushions, backpacks, pillows and tangential applications.

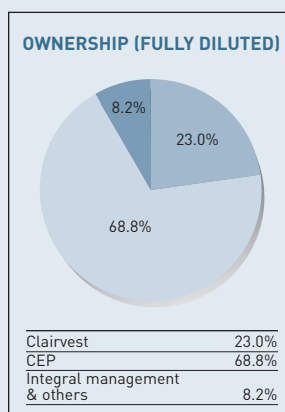
**THE MANAGEMENT TEAM**

Integral's management team will be led by Brian Tuffin, who has more than 17 years of experience in leadership positions in sales, brand management, new product development, acquisitions and global business development at Proctor & Gamble, PepsiCo, Kraft General Foods and, most recently, as President and General Manager of SC Johnson Canada. The company will also benefit from the leadership of current senior management from Obus Forme and Moller.

Joe Heffernan, Ken Rotman, John Fisher, David Sturdee and Kamal Pastakia of Clairvest will be on the Board of Directors of Integral Orthopedics.

**INVESTMENT IN COMMON SHARES (\$ MILLIONS)**

	JUNE 30, 2005
Cost	<b>3.9</b>
Net cash investment	<b>3.9</b>
Fair value	<b>3.9</b>



Landauer Metropolitan is the dominant home medical equipment (HME) supplier in the New York City area. The company sells and rents durable medical equipment, respiratory equipment, rehabilitation equipment and medical supplies for use in the home setting.

DEMOGRAPHICS, COST CONCERNS DRIVING GROWTH AND MARKET CONSOLIDATION

**OUR PERFORMANCE**

Since 1996, Landauer Metropolitan has grown from US \$3 million in net revenue to US \$35 million through a combination of organic growth and acquisitions. Revenue for the year was flat, as it was for the industry as a whole, pressured by Medicare reimbursement cuts. During the year, the company continued to invest in its complex billings and collection infrastructure in order to position the company for growth. Although this temporarily depressed earnings, by the end of the year the company's bad debts were at historical lows.

**WHERE WE'RE GOING**

In the coming year, Landauer Metropolitan will leverage its improved billings and collections functions to focus on growth, including acquisitions. Over the next five to six years, Landauer Metropolitan plans to grow into a US \$50-75 million HME company – an initiative that can be achieved through a combination of aggressive sales efforts and acquisitions.

**INDUSTRY OUTLOOK**

The HME supply industry in the United States is more than US \$12 billion and growing, driven by the needs of an ageing population together with the low cost of in-home care compared to hospitals and nursing homes. The industry is highly fragmented, with more than 2,000 operators, the top 10 of which control just 25% of the market.

The industry is dependent on reimbursement from government sponsored programs such as Medicare and Medicaid, and as a result is susceptible to regulatory changes, including changes to the reimbursement rates paid for some or all of the company's products and/or services. We believe that as the dominant HME supply company in the New York City area, Landauer Metropolitan is better positioned than most to weather regulatory changes.

**THE MANAGEMENT TEAM**

Lou Rocco, President and CEO, leads an experienced senior management team that includes Joe Luceri, CFO and Sal Burdi, EVP Sales & Marketing.

Ken Rotman and David Sturdee of Clairvest are on the Board of Directors of Landauer Metropolitan.

**FINANCIAL PERFORMANCE (US\$ MILLIONS)**

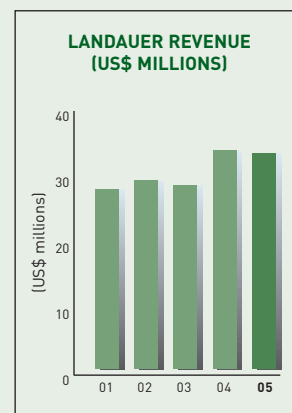
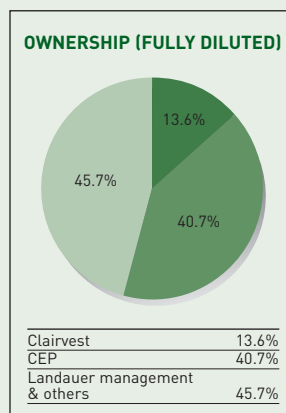
YEAR ENDED MARCH 31	2001	2002	2003	2004	2005
Revenue	29.5	31.1	30.5	35.9	<b>35.3</b>
EBITDA <sup>(1)</sup>	3.4	3.8	4.7	5.2	<b>2.6</b>
EBITDA Margin	11.5%	12.2%	15.5%	14.5%	<b>7.3%</b>
Net Debt	11.5	11.5	4.0	5.2	<b>4.3</b>

(1) EBITDA in 2003 and 2004 is before bad debt charges against prior years' revenue.

**INVESTMENT IN COMMON AND PREFERRED SHARES**

**(\$ MILLIONS)**

	MAR. 31, 2004	MAR. 31, 2005
Cost	3.3	<b>3.6</b>
Net cash investment	3.3	<b>3.6</b>
Fair value	3.6	<b>4.2</b>



N-Brook Mortgage LP originates and underwrites first-ranking mortgages on owner-occupied, residential real estate in Ontario. N-Brook competes in the non-conforming mortgage market which lends to individuals who do not fit the traditional, restrictive lending criteria of the major banks and trust companies.

AN INVESTMENT IN A FAST-GROWING, LOW-RISK FINANCIAL SERVICES NICHE

**OUR PERFORMANCE**

N-Brook opened for business in mid-2004 and funded its first mortgage in September 2004. The company purposely started slowly, working with select mortgage brokers while it finalized its product offering. With its infrastructure, marketing strategy and experienced sales staff in place, N-Brook moved aggressively into the market in early 2005, with \$20.4 million in residential mortgages under administration by March 31.

**WHERE WE'RE GOING**

N-Brook sources mortgages through Ontario's registered mortgage brokers, who currently account for about 25% of all mortgage applications. In addition to the Greater Toronto Area, the company focuses on smaller urban centres in Ontario that are historically underserved by non-conforming mortgage lenders.

N-Brook's goal is to grow its market share to 7-8% of the \$4-billion per year non-conforming mortgage market over the next five to six years, growing its book to \$1 billion while maintaining tight credit discipline. The focus in the coming year will be to build on the momentum of the first few months of operation, continuing to grow the book while generating attractive rates of return.

**INDUSTRY OUTLOOK**

Conditions for the real estate lending market in Ontario were favourable in 2004 and heading into 2005 – housing starts and resale activity remained at or near record levels, combined with a strong economy and low unemployment rates.

The outlook for the coming year is good, although most experts expect the pace of housing starts and resale activity to slow. The industry remains very competitive, particularly in the Greater Toronto Area. N-Brook is more nimble and flexible than the larger, established lenders

and, unlike other recent entrants, it has a funding structure in place capable of underwriting more than \$1 billion in mortgages.

**THE MANAGEMENT TEAM**

N-Brook is led by Paul McGill, President, who has 25 years in specialty lending in North America. Ralph Perry, Vice President in charge of credit, also has more than 25 years of lending experience.

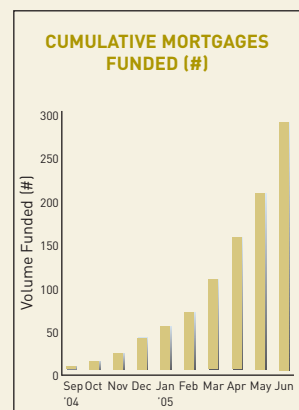
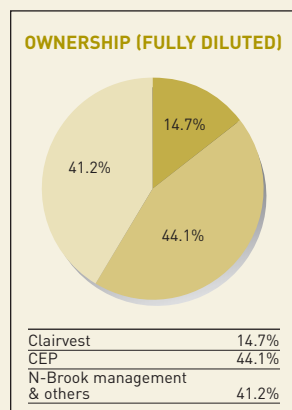
Jeff Parr and David Sturdee of Clairvest are on the Credit Committee of N-Brook Mortgage LP.

**FINANCIAL PERFORMANCE**

The company's fiscal year ends July 31. For the year to date at June 30, 2005, mortgages under administration totalled \$48.7 million. To March 31, 2005 revenue was \$348,000 and EBT (earnings before taxes) was minus \$458,000, before pre-launch expenses of \$1.1 million.

**INVESTMENT IN DEBENTURE AND LP UNITS (\$ MILLIONS)**

	MAR. 31, 2005
Cost	1.2
Net cash investment	1.2
Fair value	1.2



NRI designs, engineers and manufactures rubber and plastic products to leading quality and performance specifications. The company is heavily integrated from the processing of raw materials (including scrap rubber and tires) to the manufacturing and assembly of parts for significant automotive OEM and industrial customers.

## CONTINUED SUCCESS WINNING NEW PRODUCT AWARDS

### OUR PERFORMANCE

NRI demonstrated strong revenue growth to \$69.0 million in 2004, an increase of 16% over 2003. Revenue growth was driven by increased demand for both industrial and automotive products. EBITDA was up 19% to \$7.4 million, helped by improved manufacturing processes and despite adverse movements in material prices and the continuing high value of the Canadian dollar.

### WHERE WE'RE GOING

NRI has two business segments. The growing industrial segment makes products based on its Symar fibre reinforced masticated rubber sheet. We see tremendous opportunity for its Load Grip load securement pad and its Sound Down acoustical dampening floor underlay. The automotive segment designs and manufactures rubber injection molded, compression molded and die cut parts. The rate of new part awards in automotive is encouraging.

### INDUSTRY OUTLOOK

The shake out in the North American automotive sector is expected to continue as the new domestic manufacturers take market share from the Big Three. The operating environment for suppliers to the Big Three is expected to remain difficult. Demand for NRI's industrial products will be fuelled by positive trends requiring load securement in the transportation sector and noise reduction in condominium and residential developments. We have confidence in the ability of NRI's management to continue to win new business at good margins and to grow EBITDA going forward.

### THE MANAGEMENT TEAM

Mike Schnekenburger, an experienced automotive industry executive and engineer, is NRI's CEO. The company's

experienced, qualified executive group has developed NRI into a manufacturer of highly engineered products that uses a unique and proprietary process to convert scrap rubber to finished products, giving the company a meaningful cost advantage.

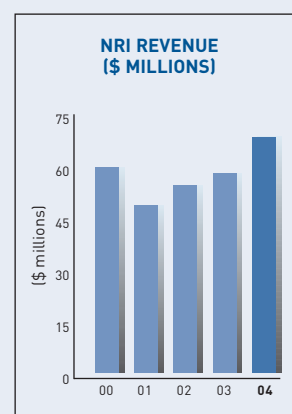
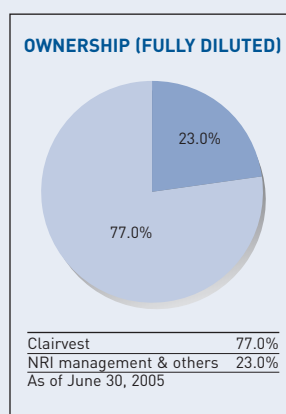
Ken Rotman, Kamal Pastakia, Jerry Heffernan and Lionel Schipper of Clairvest are on the Board of Directors of NRI. Mr. Heffernan is also Chairman of NRI. NRI's Board is complimented by auto industry veterans Dan Chicoine and Ray Finnie.

### FINANCIAL PERFORMANCE (\$ MILLIONS)

YEAR ENDED DECEMBER 31	2000	2001	2002	2003	2004
Revenue	63.0	51.6	56.2	59.5	<b>69.0</b>
EBITDA	8.6	4.8	7.6	6.2	<b>7.4</b>
Debt	23.7	16.9	16.0	13.0	<b>14.0</b>

### INVESTMENT IN COMMON AND PREFERRED SHARES (\$ MILLIONS)

	MAR. 31, 2004	MAR. 31, 2005
Cost	17.6	<b>17.6</b>
Net cash investment	17.6	<b>17.6</b>
Fair Value	10.1	<b>10.1</b>



Signature Security is a full-service electronic security company serving Australia and New Zealand, where it sells, installs, services and monitors alarm systems for residential and commercial customers. The company is one of the top three electronic security providers in Australia, and one of the largest full-service providers in New Zealand.

## CAPTURING NEW OPPORTUNITIES IN LARGE COMMERCIAL INSTALLATIONS

### OUR PERFORMANCE

Signature continues to produce strong results from a prudent operating strategy. The company's business model is sound and generates predictable results and substantial free cash flow. Over the past year, Signature maintained its recurring revenue base of small commercial and residential customers and generated incremental business through large corporate installations.

### WHERE WE'RE GOING

Signature completed a systems upgrade during the year and strengthened its commercial sales staff to pursue mid-size commercial accounts. On the channels front, the company launched a joint high-speed internet and security monitoring offer with Telstra, the national telecommunications carrier of Australia, subsequent to year end.

In March 2005, Signature recapitalized its senior debt facilities with a domestic lender, which substantially reduces financing costs and increases financial flexibility going forward. The company plans to use the increased resources to pragmatically exploit market opportunities.

### INDUSTRY OUTLOOK

The residential and small commercial alarm installation and monitoring business remains competitive. Signature plans to leverage its capabilities, including best-in-class monitoring stations, and target higher value-add segments, such as multi-site corporate installations. The company's best-in-class monitoring stations provide a competitive advantage against smaller operators. Management is optimistic that its approach to expansion through select channels and partnerships will enable the company to grow in the coming years.

### THE MANAGEMENT TEAM

Howard Watson has completed his fifth year as CEO of Signature and has positioned the company for a new phase of growth. Mr. Watson is supported by a strengthened management team to execute the plan going forward.

Jeff Parr, Michael Wagman, and Mitch Green of Clairvest are on the Board of Directors of Signature.

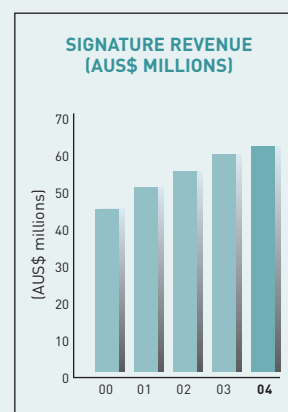
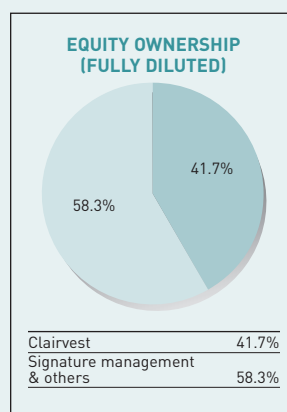
### FINANCIAL PERFORMANCE (AUS\$ MILLIONS)

YEAR ENDED MARCH 31/JUNE 30	2001	2002	2003	2004 <sup>(1)</sup>
Revenue	52.2	55.2	60.0	<b>63.8</b>
EBITDA	20.9	22.8	27.1	<b>28.4</b>
Margin	40.0%	41.3%	45.2%	<b>44.5%</b>
Monthly monitoring revenues	3.8	3.8	3.9	<b>3.8</b>
Net third-party debt	126.2	91.3	76.9	<b>72.5</b>

(1) Signature has elected to change its fiscal year end from March 31 to June 30. Figures for 2004 represent the 12 months ended June 30, 2004.

### INVESTMENT IN ORDINARY SHARES AND LOANS (\$ MILLIONS)

	MAR. 31, 2004	MAR. 31, 2005
Cost	28.4	<b>28.4</b>
Net cash investment	28.4	<b>28.4</b>
Fair value	28.4	<b>30.2</b>



Van-Rob is a best-in-class Tier 1 supplier of metal assemblies and modular systems to the North American auto sector. Primarily serving the Big 3 domestic automakers and their suppliers, Van-Rob operates four plants in Ontario and one through a joint venture in Mexico.

EIGHT-TIME WINNER OF GM'S SUPPLIER OF THE YEAR AWARD

**OUR PERFORMANCE**

Van-Rob again demonstrated the strength of its management team, growing EBITDA to \$38.3 million in 2004 despite a challenging operating environment. The company has continued to build its pipeline for the next few years. Net debt increased to \$17 million as Van-Rob invests in capital equipment and tooling in anticipation of new product launches.

**WHERE WE'RE GOING**

Van-Rob will continue to grow organically by winning new business from existing customers, as well as by forming relationships with new customers. This organic growth will be heavily weighted towards larger programs with higher engineering and value-added content. We believe the company's revenues will surpass \$400 million over the next three years from organic growth alone. In addition, Van-Rob will seek to make acquisitions to add new capabilities or customers.

**INDUSTRY OUTLOOK**

Although production volumes for North American light vehicles were stable in 2004, the Big 3 domestic OEMs continued to lose market share. GM and Ford cut production by 7% and 6% respectively in 2004 and have each announced further cuts of 10% in 2005.

The pressure on automotive parts suppliers is expected to be intense, as OEMs continue to demand cost reductions and value added services. As its customers have identified Van-Rob as a preferred supplier, we believe the company can benefit from the expected rationalization.

**THE MANAGEMENT TEAM**

Van-Rob is led by founder and majority owner Peter van Schaik. Mr. van Schaik founded the company in 1980 and has surrounded himself with a team of experienced and knowledgeable senior managers, including Bruce Johnson, who serves as President.

Ken Rotman and Jerry Heffernan are Directors of Van-Rob and Kamal Pastakia is an observer to the Board.

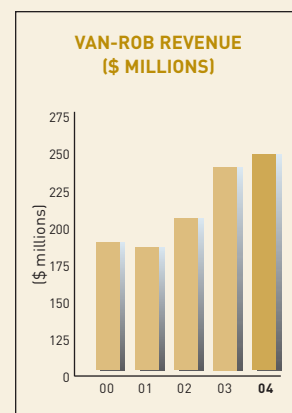
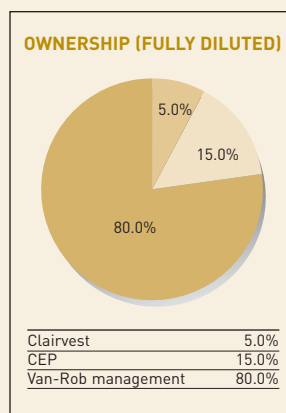
**FINANCIAL PERFORMANCE (\$ MILLIONS)**

YEAR ENDED DECEMBER 31	2000	2001	2002	2003	2004
Revenue	193.2	187.1	210.4	245.9	<b>252.8</b>
EBITDA	18.9	25.6	33.3	34.2	<b>38.3</b>
Net Bank Debt	49.0	40.4	30.0	11.9	<b>17.0</b>

Note: results prior to 2003 exclude Mexican operations.

**INVESTMENT IN PREFERRED SHARES (\$ MILLIONS)**

	MAR. 31, 2004	MAR. 31, 2005
Cost	5.0	<b>5.0</b>
Net cash investment	5.0	<b>5.0</b>
Fair value	5.0	<b>5.0</b>



Voxcom installs and monitors electronic security systems and Life Call medical alert systems throughout Canada. The company operates a 24-hour monitoring station in Edmonton providing nationwide service. Voxcom is the fourth largest electronic security and monitoring company in Canada with over 104,000 customers.

COMPLETES INCOME TRUST OFFERING

**OUR PERFORMANCE**

Voxcom had another year of strong organic growth in 2005. The company also grew its customer base through a large acquisition in Alberta, totalling approximately 12,000 customers. Revenue increased to \$30.5 million from \$27.7 million the previous year. EBITDA also increased to \$16.1 million in 2005, compared to \$14.0 million in 2004.

**WHERE WE'RE GOING**

Subsequent to its year end in February, Voxcom became an Income Fund. This followed the company being taken private in a 2004 transaction partially underwritten by Clairvest.

Management will be focused on new sales and maintenance of key operating metrics, notably customer attrition and new customer creation costs, while also continuing to monitor and evaluate acquisition opportunities.

**INDUSTRY OUTLOOK**

The Canadian electronic security market is highly fragmented and growing. Overall penetration of the residential market is currently under 20% in Canada and is expected to continue growing over the next several years. Further consolidation in the security sector is also anticipated.

**THE MANAGEMENT TEAM**

Voxcom is led by Brad Sparrow and an experienced senior management team. Mr. Sparrow has transformed Voxcom from a marginally profitable start-up in the medical alert business to a leader in the Canadian electronic security industry.

Michael Wagman of Clairvest sits on the Board of Trustees of Voxcom Income Fund.

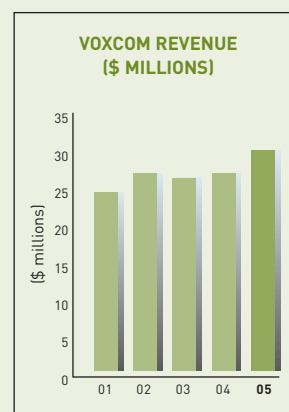
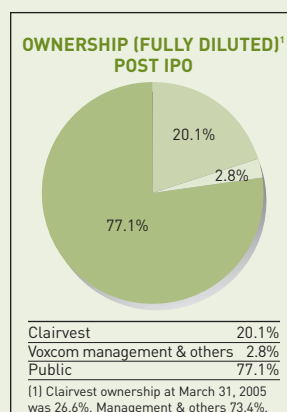
**FINANCIAL PERFORMANCE (\$ MILLIONS)**

YEAR ENDED FEBRUARY 28	2001	2002	2003 <sup>(1)</sup>	2004	2005
Revenue	25.4	27.7	27.0	27.7	<b>30.5</b>
EBITDA	7.2	12.9	13.6	14.0	<b>16.1</b>
Margin	28.3%	46.5%	50.4%	50.5%	<b>52.8%</b>
Monthly monitoring revenue	1.8	1.9	1.9	2.0	<b>2.4</b>
Net debt	63.2	66.6	37.7	37.9	<b>50.6</b>

(1) EBITDA and margin before one-time charges associated with recapitalization.

**INVESTMENT IN PREFERRED SHARES (\$ MILLIONS)**

	MAR. 31, 2004	MAR. 31, 2005
Cost	12.8	11.5
Net cash investment	9.2	8.9
Fair value	11.6	11.8



As at, and for the year ended, March 31, 2005

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 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, 2005, Clairvest had 11 core investments in nine different industries. Five of these investments were joint investments with CEP. Clairvest also held an investment in Wellington Financial Fund II ("Wellington Fund II").

## OVERVIEW OF FISCAL 2005

An overview of the significant events during fiscal 2005 follows:

- Clairvest sold 1,865,226 units of Gateway Casinos Income Fund ("Gateway Income Fund") for gross proceeds of \$32.3 million, bringing Clairvest's net cash investment to proceeds of \$24.1 million. Clairvest continues to hold 1,500,650 units in Gateway Income Fund, representing 5.7% of the outstanding units.
- Clairvest received new loans from Gateway Casinos Inc. ("Gateway Casinos") entities totalling \$17.3 million, and repaid a total of \$49.7 million of loans from Gateway Casinos entities, for a net repayment of \$32.4 million during the year. Clairvest received tax-free dividends from a Gateway Casinos entity of \$28.1 million during fiscal 2005.
- Clairvest committed to fund \$5.0 million to N-Brook Mortgage LP ("N-Brook"), subject to N-Brook management achieving certain targets. CEP committed to fund \$15.0 million, such that Clairvest and CEP's combined ownership interest in N-Brook is 58.8%.
- During fiscal 2003 Clairvest sold its investment in Sparkling Spring Water Holdings Limited ("Sparkling Spring") 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. US\$2.5 million (Cdn\$3.3 million) of these funds was released from escrow during fiscal 2004, and the remaining US\$2.0 million (Cdn\$2.6 million) was released from escrow during fiscal 2005.
- Clairvest sold its common shares in Voxcom Incorporated ("Voxcom") for gross proceeds of \$0.2 million as part of a going-private transaction by Voxcom. Clairvest recognized a \$1.1 million loss on the sale of the common shares.
- Clairvest increased its commitment to Wellington Fund II from \$10.0 million to \$20.0 million. Wellington Fund II had commitments from Clairvest and other investors totalling \$83.0 million at March 31, 2005. \$7.4 million of Clairvest's commitment had been funded at March 31, 2005.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- Wellington Financial Fund I ("Wellington Fund I") was wound up and its assets distributed to its partners. On a total commitment of \$5.0 million to Wellington Fund I, Clairvest received back all of the capital it had funded, as well as distributions of \$2.0 million, and received warrants with a fair value of \$1.2 million upon the windup of the fund. As a result of the raising of Wellington Fund II, all future loans will be provided by Wellington Fund II, with no further loans being provided by Wellington Fund I.
- Clairvest filed a new normal course issuer bid enabling it to make market purchases of up to 877,472 of its common shares in the 12-month period commencing March 4, 2005. As at June 23, 2005, Clairvest had purchased a total of 2,312,241 common shares under this, and previous, normal course issuer bids at a total cost of \$19.5 million. Clairvest can purchase a further 177,983 common shares under its current normal course issuer bid.

### **FORWARD-LOOKING STATEMENTS**

A number of the matters discussed in this MD&A deal with potential future circumstances and developments and may constitute "forward-looking" statements. These forward-looking statements can generally be identified as such because of the context of the statements and often include words such as the Company "believes", "anticipates", "expects", "plans", "estimates" or words of a similar nature.

The forward-looking statements are based on current expectations and are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The impact of any one risk factor on a particular forward-looking statement is not determinable with certainty as such factors are interdependent upon other factors, and management's course of action would depend upon its assessment of the future considering all information then available.

All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SUMMARY OF CLAIRVEST'S INVESTMENTS AT MARCH 31, 2005

Investment	Trading Symbol and Exchange	Ownership Percentage <sup>(13)</sup>	Cost of Investment (millions)	Net Cash Investment (millions) <sup>(14)</sup>	Fair Value of Investment (millions) <sup>(15)</sup>	Description of Business
<b>PUBLICLY-TRADED INVESTMENTS</b>						
Datamark Systems Group Inc. <sup>(11)</sup>	DMK - TSX	36.5%	\$ 14.4	\$ 1.5	\$ 14.5	A business document management company with operations in Canada and the United States.
Gateway Casinos Income Fund <sup>(2)</sup>	GCI.UN-TSX	5.7%	\$ 15.0	\$ (24.1)	\$ 28.1	A trust established to acquire six of the casinos managed by Gateway Casinos Inc.
<b>PRIVATELY-HELD INVESTMENTS</b>						
Allied Global Holdings Inc. <sup>(3)</sup>	Private	8.4%	\$ 3.0	\$ 3.0	\$ 4.3	An international accounts receivable management company with operations across Canada, the United States and the United Kingdom. CEP owns 25.0% of Allied.
Consolidated Vendors Corporation <sup>(4)</sup>	Private	24.8%	\$ 7.0	\$ 7.0	\$ 0.2	An independent vending operator in Michigan and Illinois, providing a full range of vended products. CEP owns 74.3% of Consolidated Vendors.
Gateway Casinos Inc. <sup>(5)</sup>	Private	28.4%	\$ 24.0	\$ 2.1	\$ 59.9	A gaming management company that operates casinos in Western Canada.
Landauer Metropolitan Inc. <sup>(6)</sup>	Private	13.6%	\$ 3.6	\$ 3.6	\$ 4.2	The dominant supplier of home medical equipment in the New York City area. CEP owns 40.7% of Landauer.
N-Brook Mortgage L.P. <sup>(7)</sup>	Private	14.7%	\$ 1.2	\$ 1.2	\$ 1.2	A company that originates, adjudicates and underwrites mortgages in Ontario, Canada. CEP owns 44.1% of N-Brook.
NRI Industries Inc. <sup>(8)</sup>	Private	84.7%	\$ 17.6	\$ 17.6	\$ 10.1	A North American company that converts scrap rubber into value-added manufactured products.
Signature Security Group Holdings Pty. Limited <sup>(9)</sup>	Private	41.7%	\$ 28.4	\$ 28.4	\$ 30.2	An electronic security company serving Australia and New Zealand.
Van-Rob Inc. <sup>(10)</sup>	Private	5.0%	\$ 5.0	\$ 5.0	\$ 5.0	A supplier of metal stampings and welded assemblies to the North American auto sector. CEP owns 15.0% of Van-Rob.
Voxcom Incorporated <sup>(11)</sup>	Private	26.6%	\$ 11.5	\$ 8.9	\$ 11.8	A security company that sells, installs, services and monitors security alarm systems for residential and commercial subscribers in Canada.
Wellington Financial Fund II <sup>(12)</sup>	Private	24.1%	\$ 7.4	\$ 6.7	\$ 8.8	Provides debt capital and operating lines to technology, biotechnology, communications and industrial product companies.
<b>OTHER INVESTMENTS</b>			\$ —	\$ (0.1)	\$ 1.9	
<b>TOTAL INVESTMENTS</b>			\$ 138.1	\$ 60.8	\$ 180.2	

(1) Clairvest owns 4,675,670 common shares in Datamark. Clairvest received a total of \$12.9 million in tax-free dividends from Datamark to March 31, 2005, resulting in a net cash investment at March 31, 2005 of \$1.5 million.

(2) Clairvest owns 1,500,650 units in Gateway Income Fund. The investment was funded with a loan from a Gateway Casinos entity. The net cash investment is in a net proceeds position as a result of a total of \$50.8 million of net proceeds on the sale of units, \$15.0 million in loans and \$9.9 million of distributions received, net of \$6.6 million of interest paid on the loan.

(3) Clairvest owns 39,363 10% convertible Class B preferred shares in Allied.

(4) Clairvest owns 2,500 Class A preferred shares and 26,830 common shares in Consolidated Vendors. Clairvest also holds US\$3.3 million of senior debt, a \$0.5 million short-term loan and \$1.0 million of demand notes. Clairvest would owe CEP \$3.1 million under a guarantee payable to CEP if Consolidated Vendors were disposed of at the current fair value. The \$3.1 million has been included as an offset against the fair value of Clairvest's investment in Consolidated Vendors.

(5) Clairvest owns 28.4% of a limited partnership that owns Gateway Casinos. The net cash investment is \$2.1 as a result of \$13.8 million of loans received from Gateway Casinos, and \$8.1 million in distributions received.

(6) Clairvest owns 1,906,250 10% cumulative convertible preferred shares and 446,858 common shares in Landauer.

(7) Clairvest has committed to fund \$5.0 million to N-Brook, \$1.2 million of which was funded at March 31, 2005.

(8) 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.

(9) Clairvest owns 227,404,097 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.

(10) Clairvest owns 5,000,000 Class A special convertible shares in Van-Rob.

(11) Clairvest owns 11,485,900 convertible retractable preferred shares in Voxcom. Clairvest rolled \$3.6 million of fees and interest into preferred shares, and incurred a \$1.1 million loss on the sale of common shares, resulting in a net cash investment of \$8.9 million. Clairvest sold 230,000 common shares to Voxcom in a going-private transaction during the year.

(12) Clairvest has committed to fund \$20.0 million to Wellington Fund II, \$7.4 million of which was funded at March 31, 2005.

(13) Ownership percentage calculated on a fully diluted basis at March 31, 2005.

(14) Net cash investment is cost net of dividends, interest and other distributions received but excludes advisory and other fees received.

(15) The determination of fair value incorporates the quoted market value of Clairvest's publicly-traded investments, and an estimate of fair value for privately-held investments.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 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 is 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.

The fair value for Clairvest's publicly-traded investments is based on the quoted market price. The fair value for Clairvest's privately-held investments is based on an estimate of expected realizable value of the investments if they were disposed of in an orderly fashion over a reasonable period of time.

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, and the values at which the privately-held investments are carried are adjusted for management's assessment of changes in value. The amounts at which Clairvest's investment could be disposed of currently may differ from the fair value assigned.

### CRITICAL ACCOUNTING ESTIMATES

The preparation of Clairvest's 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. On an on-going basis, management reviews its estimates and assumptions. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. The critical accounting estimates that have a material impact on Clairvest's consolidated financial statements are with respect to corporate investments and future tax liability.

Note 2 to the consolidated financial statements describes Clairvest's accounting policy for corporate investments. The process of determining the fair value of Clairvest's privately-held investments requires management to exercise judgment in making assumptions about the financial condition of the investment based on operational results, forecasts, financing and any other factors that may be relevant to the ongoing and realizable value of the investment, as well as an assessment of the market conditions based on comparable trading multiples of public companies and transaction multiples within the industry.

Publicly-traded investments that are escrowed or otherwise restricted as to sale or transfer are recorded at amounts discounted from market value. The process for determining the discount for such investments requires management to exercise judgment while considering 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 investment.

A change to an accounting estimate with respect to Clairvest's privately-held investments or publicly-traded investments would impact corporate investments and unrealized gains/losses on investments.

Note 2 to the consolidated financial statements describes Clairvest's accounting policy for income taxes. The process of determining future income tax assets and liabilities requires management to exercise judgment while considering the anticipated timing of disposal of corporate investments, and proceeds thereon, tax planning strategies, changes in tax laws and rates, and loss carry-forwards. A change to an accounting estimate with respect to future income taxes would impact future tax liability and provision for income taxes.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CHANGES IN ACCOUNTING POLICIES

#### Stock-Based Compensation

In fiscal 2004, Clairvest adopted The Canadian Institute of Chartered Accountants' amended Section 3870, Stock-Based Compensation and Other Stock-Based Payments which requires the fair value based method of measuring all stock options granted. Clairvest has prospectively applied the amendments effective April 1, 2003. In fiscal 2005 and fiscal 2004, Clairvest recorded compensation expense of \$81,000 and \$57,000 respectively, with an offsetting credit to stock-based compensation in shareholders' equity for the stock options awarded to employees since April 1, 2003. Prior to fiscal 2004, Clairvest elected not to follow the fair value based method of accounting for stock options. Had Clairvest recorded compensation expense for stock options granted in fiscal 2003 using the fair value method, net income would have decreased by approximately \$58,000 and \$74,000 for fiscal 2005 and fiscal 2004 respectively.

#### Generally Accepted Accounting Principles

In fiscal 2005, Clairvest prospectively adopted the recommendations of The Canadian Institute of Chartered Accountants' Section 1100, Generally Accepted Accounting Principles ("GAAP"). The section establishes standards for financial reporting in accordance with GAAP by providing information regarding primary sources of GAAP in order of authority. The impact on the consolidated financial statements resulting from the adoption of the recommendations is not material.

#### Investment Companies

In fiscal 2005, Clairvest early-adopted, on a prospective basis, The Canadian Institute of Chartered Accountants' Accounting Guideline 18, Investment Companies. The Guideline defines an investment company as a separate legal entity whose primary business activity is investments, and provides that an investment company should measure all of its investments at fair value and present them on this basis in its financial statements. The impact on the consolidated financial statements resulting from the adoption of the Guideline is not material given that Clairvest measured its investments at fair value prior to the adoption of the Guideline.

#### Hedging Relationships

In fiscal 2005, Clairvest prospectively adopted The Canadian Institute of Chartered Accountants' Accounting Guideline 13, Hedging Relationships. The Guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. Clairvest's hedging program complies with the new requirements. Accordingly, the impact on the consolidated financial statements resulting from the adoption of the Guideline is not material.

#### Consolidation of Variable Interest Entities

In fiscal 2005, Clairvest prospectively adopted The Canadian Institute of Chartered Accountants' Accounting Guideline 15, Consolidation of Variable Interest Entities ("VIE"). The Guideline provides a framework for identifying a VIE and requires a primary beneficiary to consolidate a VIE. A primary beneficiary is the enterprise that absorbs a majority of the VIE's expected losses or receives a majority of the VIE's expected residual returns or both. The Guideline requires Clairvest to identify VIE's in which it has an interest, determine whether it is the primary beneficiary of such entities and if so, consolidate them. At March 31, 2005, the VIE in which Clairvest held an interest was CEP. As of March 31, 2005, Clairvest was not considered the primary beneficiary of CEP. Clairvest has no exposure to loss as a result of its involvement in CEP in its capacity of general partner. Accordingly, Clairvest did not consolidate CEP. There is therefore no impact on the consolidated financial statement resulting from the adoption of the Guideline.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OPERATING RESULTS

#### Consolidated statements of income (\$000's except per share information)

Year ended March 31,	2005	2004	2003
<b>Net investment gains</b>			
Net realized gains on investments	\$ 14,591	\$ 8,786	\$ 43,942
Previously recognized net unrealized gains	(40,211)	(4,700)	(44,384)
Net unrealized gains on investments	32,248	6,943	43,941
	6,628	11,029	43,499
<b>Other income</b>			
Interest income	6,676	8,758	4,053
Dividend income	28,080	1,828	1,303
Management fees	2,629	2,712	2,673
Advisory and other fees	1,305	1,002	2,331
	38,690	14,300	10,360
Administration and other expenses	9,402	6,919	7,282
Finance expense	2,648	4,400	1,231
	12,050	11,319	8,513
Income before income taxes	33,268	14,010	45,346
Provision for income taxes	3,378	1,183	1,007
<b>Net income</b>	\$ 29,890	\$ 12,827	\$ 44,339
<b>Net income per common share</b>	\$ 1.50	\$ 0.62	\$ 2.12
<b>Fully diluted net income per common share</b>	\$ 1.43	\$ 0.59	\$ 1.99

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, 2005 was \$29.9 million, versus \$12.8 million for the year ended March 31, 2004 and \$44.3 million for the year ended March 31, 2003.

Clairvest realized gains on investments of \$14.6 million in fiscal 2005 versus \$8.8 million in fiscal 2004 and \$43.9 million in fiscal 2003. The gain in 2005 resulted primarily from the sale of 1,865,226 units of Gateway Income Fund, the release of the remaining funds that were being held in escrow following the sale of Sparkling Spring in fiscal 2003 and gains on the sale of warrants that were held by Wellington Fund I, net of a loss on the sale of Voxcom common shares. The gain in 2004 resulted from the sale of 1,136,094 units of Gateway Income Fund and the release of a portion of the funds that were being held in escrow following the sale of Sparkling Spring in fiscal 2003. The gain in fiscal 2003 resulted from the sale of Clairvest's investment in Sparkling Spring.

Clairvest reversed previously recognized unrealized gains of \$40.2 million in fiscal 2005 versus \$4.7 million in fiscal 2004 and \$44.4 million in fiscal 2003. Previously recognized unrealized gains that were reversed in fiscal 2005 relate primarily to unrealized gains that were recognized in fiscal 2005 and prior years with respect to the 1,865,226 units of Gateway Income Fund that were sold in fiscal 2005, unrealized gains on Gateway Casinos that were reversed upon the receipt of a \$28.1 million dividend from Gateway Casinos in fiscal 2005 and unrealized gains on the warrants that were sold by Wellington Fund I in fiscal 2005, net of unrealized losses that were recognized in fiscal 2005 and prior years on the Voxcom common shares that were sold in fiscal 2005. Previously recognized unrealized gains that were reversed in fiscal 2004 relate to unrealized gains that were recognized in fiscal 2004 and prior years on the 1,136,094 units of Gateway Income Fund that were sold in fiscal 2004. Previously recognized unrealized gains that were reversed in fiscal 2003 relate to unrealized gains that were recognized in fiscal 2003 and prior years on Sparkling Spring. When the realized gain or loss for the respective investments was recognized, the previously recognized unrealized gains or losses were reversed, and the full realized gain or loss was recognized in the year of receipt.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Clairvest had unrealized gains on investments of \$32.2 million for the year ended March 31, 2005 versus \$6.9 million for the year ended March 31, 2004 and \$43.9 million for the year ended March 31, 2003. Unrealized gains/losses result from changes in the fair value of the investments from one year to the next. The unrealized gains/losses on investments are summarized as follows:

### Unrealized gains (losses) on investments (\$000's)

Year ended March 31,	2005	2004	2003
<b>Investments in publicly-traded companies</b>			
Datamark Systems Group Inc.	\$ 4,367	\$ (1,551)	\$ (4,930)
Gateway Casinos Income Fund	7,832	24,498	(2,181)
Voxcom Incorporated	—	35	(57)
	<b>12,199</b>	22,982	(7,168)
<b>Investments in privately-held companies</b>			
Allied Global Holdings Inc.	392	368	324
Consolidated Vendors Corporation	(1,393)	(3,930)	(610)
Gateway Casinos Inc.	17,370	2,006	38,362
Landauer Metropolitan Inc.	274	241	154
NRI Industries Inc.	—	(14,827)	(320)
Signature Security Group Holdings Pty. Limited	—	(113)	(2,544)
Sparkling Spring Water Holdings Limited	—	—	16,237
Voxcom Incorporated	345	—	—
Wellington Financial Fund I	990	231	(494)
Wellington Financial Fund II	1,413	—	—
	<b>19,391</b>	(16,024)	51,109
<b>Other investments</b>	<b>658</b>	(15)	—
	<b>\$ 32,248</b>	\$ 6,943	\$ 43,941

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

Interest income in fiscal 2005 was \$6.7 million versus \$8.8 million in fiscal 2004 and \$4.1 million in fiscal 2003. Interest income for the year ended March 31, 2005 includes \$2.9 million in distributions from Gateway Income Fund versus \$5.6 million in fiscal 2004 and \$1.4 million in fiscal 2003. Clairvest held 1,500,650 units in Gateway Income Fund at March 31, 2005 versus 3,365,876 at March 31, 2004 and 4,501,970 at March 31, 2003. Distributions from Gateway Income Fund for fiscal 2003 represented the period November 28, 2002 to March 31, 2003.

Dividend income of \$28.1 million for the year ended March 31, 2005 represented tax-free dividends earned from a Gateway Casinos entity. The dividends were paid by Gateway Casinos following Clairvest's repayment of \$28.1 million of loans payable to Gateway Casinos. Dividend income for the years ended March 31, 2004 and March 31, 2003 represented tax-free dividends earned from a Gateway Casinos entity and from Datamark Systems Group Inc. ("Datamark"). Datamark has not paid dividends since fiscal 2004.

Management fees of \$2.6 million were earned as compensation for Clairvest's services in the administration of the portfolio of CEP for fiscal 2005, versus \$2.7 million for each of fiscal 2004 and fiscal 2003. The management fee is reduced to the extent of 75% of any fees earned by Clairvest from combined Clairvest/CEP corporate investments.

Advisory and other fees were \$1.3 million in fiscal 2005 versus \$1.0 million in fiscal 2004 and \$2.3 million in fiscal 2003. In fiscal 2003, Clairvest received \$890,000 in structuring fees, extension fees and guarantee fees from Voxcom, which, together with interest accrued on the debentures, were rolled into preferred shares of Voxcom.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Administration and other expenses were \$9.4 million in fiscal 2005 versus \$6.9 million in fiscal 2004 and \$7.3 million in fiscal 2003. Included in administration and other expenses was a \$3.0 million accrual under Clairvest's Incentive Bonus Program for fiscal 2005 versus \$1.9 million for fiscal 2004 and \$2.3 million for fiscal 2003. Also included for the year ended March 31, 2005 was a \$1.2 million foreign exchange loss as a result of the revaluation of the debt portion of Clairvest's foreign-denominated investments, as well as the foreign exchange forward contracts entered into as hedges against this portion of the investments. Included for the year ended March 31, 2003 was a \$0.9 million foreign exchange loss on a forward contract.

Finance expense was \$2.6 million in fiscal 2005 versus \$4.4 million in fiscal 2004 and \$1.2 million in fiscal 2003. Included in finance expense is \$1.9 million of interest on the loan payable to a subsidiary of Gateway Casinos for fiscal 2005 versus \$3.5 million for fiscal 2004 and \$1.2 million for fiscal 2003. The loan balance was \$15.0 million at March 31, 2005 versus \$33.7 million at March 31, 2004 and \$45.0 million at March 31, 2003. Interest on the loan for fiscal 2003 represented the period from November 28, 2002 to March 31, 2003. Finance expense for fiscal 2005 and fiscal 2004 also includes \$0.7 million and \$0.9 million respectively in costs on foreign exchange forward contracts.

### SUMMARY OF QUARTERLY RESULTS

#### Quarterly results (\$000's except per share information)

	Net revenue \$	Net income (loss) \$	Net income (loss) per common share \$	Net income (loss) per common share fully diluted \$
March 31, 2005	18,947	14,345	0.73	0.69
December 31, 2004	11,920	8,995	0.45	0.43
September 30, 2004	8,229	4,458	0.22	0.21
June 30, 2004	6,222	2,092	0.10	0.10
March 31, 2004	13,642	9,199	0.44	0.43
December 31, 2003	18,037	14,152	0.69	0.66
September 30, 2003	(16,021)	(16,526)	(0.80)	(0.80)
June 30, 2003	9,671	6,002	0.29	0.27

Significant variations arise in the quarterly results due to unrealized gains/losses on investments which result from Clairvest re-valuing its investments on a quarterly basis. The values at which publicly-traded investments are carried are subject to fluctuations in the public markets from quarter to quarter. The privately-held investments are re-valued when management adjusts its estimate of the fair value of the investment.

### FOURTH QUARTER RESULTS

In the fourth quarter of 2005, Clairvest repaid \$28.1 million of short-term non-interest bearing loans and \$1.2 million of 30-year non-interest bearing loans from Gateway Casinos entities and received a \$28.1 million dividend from a Gateway Casinos entity. Previously recognized unrealized gains of \$27.9 million on Clairvest's investment in Gateway Casinos were reversed in the fourth quarter of 2005 upon the recognition of the dividend. Also in the fourth quarter of 2005, the remaining \$2.6 million (US\$2.0 million) of the Sparkling Spring funds that were held in escrow following the sale of Sparkling Spring in fiscal 2003 were released.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL POSITION AND LIQUIDITY

#### Consolidated balance sheets (\$'000's)

As at March 31,	2005	2004	2003
<b>Assets</b>			
Cash and cash equivalents	\$ 1,828	\$ 4,695	\$ 15,181
Temporary investments	101,203	88,913	78,933
Accounts receivable and other assets	4,529	5,629	2,190
Loans receivable	5,623	—	—
Deferred loss on foreign exchange forward contracts	—	2,801	—
Corporate investments	180,246	199,448	210,170
	\$ 293,429	\$ 301,486	\$ 306,474
<b>Liabilities</b>			
Accounts payable	\$ 4,759	\$ 3,456	\$ 3,355
Income taxes payable	—	—	7,376
Loans payable	28,788	61,224	66,382
Derivative instruments market valuation	112	—	—
Deferred gain on foreign exchange forward contracts	558	—	—
Future tax liability	2,182	2,365	908
	36,399	67,045	78,021
<b>Shareholders' equity</b>			
Share capital	106,704	110,151	112,426
Shares purchased for cancellation	(80)	(407)	—
Stock-based compensation	138	57	—
Retained earnings	150,268	124,640	116,027
	257,030	234,441	228,453
	\$ 293,429	\$ 301,486	\$ 306,474

With \$103.0 million in cash, cash equivalents and temporary investments, Clairvest has sufficient capital to support its current and anticipated investments. In addition, 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, 2005.

Accounts receivable and other assets decreased \$1.1 million to \$4.5 million at March 31, 2005. The decrease is primarily attributable to income taxes being in a payable position at March 31, 2005 versus a recoverable position at March 31, 2004. Accounts receivable and other assets were \$2.2 million at March 31, 2003. Included in accounts receivable and other assets at March 31, 2005 and March 31, 2004 was \$2.7 million and \$2.8 million, respectively, representing the release of the funds that were held in escrow following the sale of Sparkling Spring in fiscal 2003. Amounts owing from Sparkling Spring at March 31, 2004 were received during fiscal 2005 and amounts owing at March 31, 2005 were received subsequent to year-end.

Loans receivable at March 31, 2005 represent loans made to Wellington Fund II. The loans bear interest at the prime rate, and are payable on demand. The loans, together with interest, were repaid subsequent to year-end.

Accounts payable was \$4.8 million at March 31, 2005 versus \$3.5 million at March 31, 2004 and \$3.4 million at March 31, 2003. Included in accounts payable was a \$3.0 million, \$1.9 million and \$2.3 million accrual under Clairvest's Incentive Bonus Program for fiscal 2005, fiscal 2004 and fiscal 2003 respectively.

Income taxes payable at March 31, 2005 were not significant, and were included in accounts payable. Income taxes at March 31, 2004 were in a recoverable position and were included in accounts receivable and other assets. Income taxes payable at March 31, 2003 of \$7.4 million was comprised primarily of income taxes payable as a result of the sale of Sparkling Spring.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Derivative instruments market valuation was \$0.1 million at March 31, 2005. Clairvest enters into foreign exchange forward contracts to hedge its exposure to exchange rate fluctuations on its investments. In accordance with hedge accounting, Clairvest is required to mark to market the debt portion of its foreign-denominated investments, as well as the foreign exchange forward contracts entered into as hedges against the debt portion of Clairvest's investments. Derivative instruments market valuation at March 31, 2005 represents the valuation of the foreign exchange forward contracts being held at March 31, 2005 as hedges against the debt portion of Clairvest's investments in Signature Security Group Holdings Pty Limited ("Signature") and Consolidated Vendors. Derivative instruments market valuation was not significant at March 31, 2004 and March 31, 2003.

Deferred gain on foreign exchange forward contracts at March 31, 2005 was \$0.6 million versus a deferred loss on foreign exchange forward contracts at March 31, 2004 of \$2.8 million. The \$0.6 million deferred gain at March 31, 2005 represents net cumulative exchange gains on the rolling of the forward contracts entered into as hedges against the equity portion of Clairvest's foreign-denominated investments. The \$2.8 million deferred loss at March 31, 2004 represented net cumulative exchange losses on the rolling of the forward contracts entered into as hedges against the equity portion of Clairvest's foreign-denominated investments. The net cumulative exchange losses at March 31, 2003 were not significant.

Future tax liability decreased \$0.2 million to \$2.2 million at March 31, 2005. The decrease is primarily due to the reversal of previously recognized unrealized gains net of unrealized gains on investments for the year. Future tax liability at March 31, 2003 was \$0.9 million. The increase from March 31, 2003 to March 31, 2004 was primarily due to unrealized gains on investments during fiscal 2004.

Clairvest's financial liabilities are comprised of loans payable to Gateway Casinos entities which arose as part of the IPO of Gateway Income Fund in fiscal 2003. Loans payable were \$28.8 million, \$61.2 million and \$66.4 for fiscal 2005, fiscal 2004 and fiscal 2003 respectively. In fiscal 2003, Clairvest received two loans totalling \$66.4 million from Gateway Casinos entities. The first loan was a \$21.4 million 30-year, non-interest bearing loan, repayable on demand and secured by the units held by Clairvest in the limited partnership that owns Gateway Casinos. The second loan was a \$45.0 million 30-year loan bearing interest at 8.05% per annum and secured by the units held by Clairvest in Gateway Income Fund.

During fiscal 2005 Clairvest repaid \$3.3 million of the 30-year non-interest bearing loan, and in fiscal 2004 repaid \$4.4 million of this loan. The balance outstanding on the 30-year non-interest bearing loan at March 31, 2005 is \$13.7 million.

Upon the sale of units of Gateway Income Fund during fiscal 2004, Clairvest was required to repay \$11.4 million of the 30-year, interest-bearing loan. Thereafter, Clairvest received from a Gateway Casinos entity a loan in the amount of \$10.1 million. This loan was non-interest bearing and repayable on demand at any time after December 31, 2004. Upon the sale of units of Gateway Income Fund during fiscal 2005, Clairvest was required to repay \$18.7 million of the 30-year, interest-bearing loan. Thereafter, Clairvest received from a Gateway Casinos entity a loan in the amount of \$16.4 million. This loan was non-interest bearing and repayable on demand at any time after December 31, 2004. The balance outstanding on the 30-year interest-bearing loan at March 31, 2005 is \$15.0 million.

On a monthly basis, Clairvest receives distributions from Gateway Income Fund. Clairvest uses a portion of these proceeds to pay monthly interest on the 30-year, interest-bearing loan from a Gateway Casinos entity. Gateway Casinos loans a portion of these interest proceeds back to Clairvest on a monthly basis. At March 31, 2004, Gateway Casinos had loaned a total of \$0.5 million to Clairvest and at December 31, 2004 this amount had increased to \$1.6 million. These loans were non-interest bearing and repayable on demand at any time after December 31, 2004.

In the fourth quarter of fiscal 2005, Clairvest repaid all of the loans that were repayable on demand after December 31, 2004, being the \$10.1 million that arose upon the sale of Gateway Income Fund units in fiscal 2004, the \$16.4 million that arose upon the sale of Gateway Income Fund units in fiscal 2005 and the monthly loans totalling \$1.6 million. Also in the fourth quarter of fiscal 2005, a Gateway Casinos entity paid a dividend, Clairvest's share of which was \$28.1 million.

Share capital decreased \$3.4 million during the year ended March 31, 2005. The decrease resulted from the purchase and cancellation of common shares under the normal course issuer bids, net of the issuance of 29,000 common shares on the exercise of stock options. During fiscal 2005, Clairvest purchased and cancelled 662,000 common shares under its normal course issuer bids at a total cost of \$5.5 million. During fiscal 2005 Clairvest also purchased 8,500 common shares

## MANAGEMENT'S DISCUSSION AND ANALYSIS

under its normal course issuer bid at a cost of \$80,000, which were cancelled subsequent to year-end. As at June 23, 2005, Clairvest had purchased a total of 2,312,241 common shares under this, and previous, normal course issuer bids at a total cost of \$19.5 million.

At March 31, 2005, Clairvest had 17,549,438 common shares and 2,230,954 non-voting shares issued and outstanding. At March 31, 2005, Clairvest had 1,512,000 stock options outstanding, 1,097,400 of which were exercisable at March 31, 2005. Options are exercisable for one common share.

At June 23, 2005, Clairvest had 16,849,949 common shares, 2,230,954 non-voting shares and 1,512,000 stock options outstanding.

Clairvest's non-voting shares are convertible into common shares commencing August 21, 2011, and for a period of 90 days thereafter. Each non-voting share is convertible into that many common shares as determined by dividing i) the book value (on a fully-diluted basis) for each common share determined at the end of the fiscal quarter that was most recently completed prior to conversion, by ii) the weighted average trading price of the common shares for the 90 day period ending on the date of conversion. Each non-voting share will convert to not less than 1.0 common share, or greater than 1.976 common shares.

Clairvest paid cash dividends of \$0.10 per share on the common shares and non-voting shares in each of fiscal 2005, fiscal 2004 and fiscal 2003.

As is typical of a merchant bank, Clairvest's main asset is its corporate investments. Corporate investments decreased \$19.2 million to \$180.2 million at March 31, 2005. The decrease is comprised primarily of the sale of units of Gateway Income Fund with a fair value of \$31.0 million and a \$27.8 million reduction in the fair value of Gateway Casinos as a result of dividends paid to Clairvest by Gateway Casinos, net of unrealized gains on investments of \$32.2 million, investments of \$5.7 million and \$1.2 million in Wellington Fund II and N-Brook, respectively, and a net \$0.6 million increase in the fair value of foreign-denominated investments as a result of movements in foreign exchange rates.

Corporate investments decreased \$10.8 million from \$210.2 million at March 31, 2003 to \$199.4 million at March 31, 2004. The decrease was comprised primarily of the sale of units of Gateway Income Fund with a carrying value of \$16.1 million and the return of capital of \$3.1 million from Wellington Fund I, net of unrealized gains on investments of \$6.9 million and a \$1.6 million investment in Wellington Fund II.

A discussion on the activity in each corporate investment for the year ended March 31, 2005 follows.

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

At March 31, 2005 Clairvest owned 4,675,670 common shares in Datamark, and 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.

The fair value of Clairvest's investment in Datamark increased \$4.4 million to \$14.5 million at March 31, 2005. The unrealized gain of \$4.4 million resulted from the increase in share price from \$2.17 per share at March 31, 2004 to \$3.10 per share at March 31, 2005. Clairvest recorded an unrealized loss of \$1.6 million for the year ended March 31, 2004, as a result of movements in the quoted market price from \$2.50 per share to \$2.17 per share.

The fair value of \$14.5 million at March 31, 2005 compares to a cost of \$14.4 million. The net cash investment at March 31, 2005 was \$1.5 million as a result of \$12.9 million of tax-free dividends received to date.

### **GATEWAY CASINOS INCOME FUND**

At March 31, 2005, Clairvest owned 1,500,650 units in Gateway Income Fund through a wholly-owned subsidiary.

The fair value of Clairvest's investment in Gateway Income Fund decreased \$23.2 million to \$28.1 million at March 31, 2005. The decrease is comprised of the sale of units with a fair value of \$31.0 million net of a \$7.8 million unrealized gain. The unrealized gain of \$7.8 million resulted from the increase in unit price from \$16.81 per unit at March 31, 2004 to \$20.57 per unit at March 31, 2005. Clairvest recorded an unrealized gain of \$24.5 million for the year ended March 31, 2004 as a result of the increase in unit price from \$10.50 per unit at March 31, 2003 to \$16.81 per unit at March 31, 2004.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The fair value of \$28.1 million at March 31, 2005 compares to a cost of \$15.0 million. The net cash investment is in a net proceeds position of \$24.1 million at March 31, 2005 as a result of a total of \$50.8 million of net proceeds on the sales of units, \$15.0 million of loans and \$9.9 million of distributions received, net of \$6.6 million of interest paid on the 30-year, interest-bearing loan.

As a condition for obtaining the approval of the British Columbia Lottery Corporation to the sale of units during fiscal 2005, Clairvest, together with certain other unit holders (the "Unit Holders") that combined hold 20% of the outstanding units of Gateway Income Fund, have agreed that they will take all necessary steps to collectively maintain the 20% ownership interest amongst the Unit Holders and in connection with any additional issue of units of Gateway Income Fund to ensure that their collective ownership of Gateway Income Fund is maintained at 20% of the issued and outstanding units.

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

At March 31, 2005, Clairvest owned 39,363 10% convertible Class B preferred shares in Allied Global Holdings Inc. ("Allied").

The fair value of Clairvest's investment in Allied increased \$0.4 million to \$4.3 million at March 31, 2005. The unrealized gain of \$0.4 million resulted from dividends accruing on the preferred shares. \$0.4 million of accrued dividends were received during the year by way of a stock dividend of 3,579 preferred shares. Clairvest recorded an unrealized gain of \$0.4 million for the year ended March 31, 2004, as a result of dividends accruing on the preferred shares.

The fair value of \$4.3 million at March 31, 2005 compares to a cost of \$3.0 million.

### **CONSOLIDATED VENDORS CORPORATION**

At March 31, 2005, Clairvest owned 2,500 Class A preferred shares, 26,830 common shares, US\$3.3 million of senior debt, a \$0.5 million demand loan, \$1.0 million of demand notes and 45,000 warrants in Consolidated Vendors.

During fiscal 2005, Clairvest purchased 16,601 common shares of Consolidated Vendors for US\$32,750 and loaned \$1.0 million to Consolidated Vendors. Clairvest recorded an unrealized loss of \$1.4 million for fiscal 2005 and an unrealized loss of \$3.9 million for fiscal 2004. Management determined that these write-downs were appropriate in light of the continued depressed economic conditions in Michigan.

Clairvest sold certain shares of Consolidated Vendors to CEP during fiscal 2002, and Clairvest 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 fair value of this investment, Clairvest would owe CEP \$3.1 million under this guarantee. The \$3.1 million guarantee payable has been netted against the fair value of the investment.

The fair value of Clairvest's investment in Consolidated Vendors decreased \$1.4 million to \$0.2 million at March 31, 2005. The decrease is comprised primarily of a \$1.2 million revaluation of the senior bank debt, demand loan and demand notes as a result of movements in the foreign exchange rate. In accordance with hedge accounting, the debt portion of Clairvest's investment in Consolidated Vendors is marked to market at the consolidated balance sheet dates. The foreign exchange forward contracts entered into as a hedge against this portion of Clairvest's investment are also marked to market at the balance sheet date, resulting in an offsetting reduction in deferred gain on foreign exchange forward contracts of \$0.9 million, and an increase in derivative instruments market valuation of \$22,000. The net result of these adjustments is a \$0.2 million foreign exchange loss on the consolidated statements of income.

The fair value of \$0.2 million at March 31, 2005 compares to a cost of \$7.0 million.

### **GATEWAY CASINOS INC.**

At March 31, 2005, Clairvest owned, through a wholly-owned subsidiary, 28.4% of a limited partnership that owned Gateway Casinos.

The fair value of Clairvest's investment in Gateway Casinos decreased \$10.4 million to \$59.9 million at March 31, 2005. The decrease is comprised of a \$27.8 million reversal of previously recognized unrealized gains, net of a \$17.4 million unrealized gain on the investment. The reversal of previously recognized unrealized gain represents unrealized gains that

## MANAGEMENT'S DISCUSSION AND ANALYSIS

were recognized in fiscal 2005 and prior years. Upon the receipt of a \$28.1 million dividend from Gateway Casinos during fiscal 2005, these previously recognized unrealized gains were reversed. \$8.0 million of the previously recognized unrealized gains related to unrealized gains recognized in fiscal 2005. The remaining \$9.4 million of fiscal 2005 unrealized gains of \$17.4 represents an upward adjustment to the fair value of the casinos operated by Gateway Casinos. This upward adjustment was determined by management to be appropriate in light of recent advances in the development and relocation of several of Gateway Casinos' casinos. Clairvest recorded an upward adjustment of \$2.0 million for the year ended March 31, 2004, which management determined was appropriate in light of the developments at several of Gateway Casinos' casinos.

The fair value of \$59.9 million at March 31, 2005 compares to a cost of \$24.0 million. The net cash investment at March 31, 2005 was \$2.1 million as a result of \$13.8 million of loans received from Gateway Casinos, and \$8.1 million of distributions received.

### **LANDAUER METROPOLITAN INC.**

At March 31, 2005, Clairvest owned 1,906,250 10% cumulative convertible preferred shares and 446,858 common shares in Landauer Metropolitan Inc. ("Landauer"). During fiscal 2004, Clairvest had entered into an agreement to purchase the common shares, and had paid \$0.3 million of the purchase price. The remaining \$0.3 million of the purchase price was paid during fiscal 2005.

The fair value of Clairvest's investment in Landauer increased \$0.6 million to \$4.2 million at March 31, 2005. The increase is comprised of an unrealized gain of \$0.3 million as a result of dividends accruing on the preferred shares and \$0.3 million related to the purchase of common shares. Clairvest recorded an unrealized gain of \$0.2 million for the year ended March 31, 2004, as a result of dividends accruing on the preferred shares.

The fair value of \$4.2 million at March 31, 2005 compares to a cost of \$3.6 million.

### **N-BROOK MORTGAGE LP**

At March 31, 2005, Clairvest had funded \$1.2 million of its \$5.0 million commitment to N-Brook. The fair value of \$1.2 million compares to a cost of \$1.2 million at March 31, 2005.

### **NRI INDUSTRIES INC.**

At March 31, 2005, 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").

The fair value of Clairvest's investment in NRI remained at \$10.1 million over fiscal 2005. Clairvest recorded an unrealized loss of \$14.8 million for the year ended March 31, 2004, primarily due to a \$14.5 million write-down of the fair value of the investment. Management determined this write-down to be appropriate in light of the continued slowdown in auto sales and in the US economy, and the negative impact of a stronger Canadian dollar on NRI.

The fair value of \$10.1 million at March 31, 2005 compares to a cost of \$17.6 million.

### **SIGNATURE SECURITY GROUP HOLDINGS PTY. LIMITED**

At March 31, 2005, Clairvest owned 227,404,097 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.

The fair value of Clairvest's investment in Signature increased \$1.8 million to \$30.2 million at March 31, 2005. The increase is comprised of a \$1.8 million revaluation of the loans as a result of movements in the foreign exchange rate. In accordance with hedge accounting, the debt portion of Clairvest's investment in Signature is marked to market at the balance sheet date. The foreign exchange forward contracts entered into as a hedge against this portion of Clairvest's investment are also marked to market at the balance sheet date, resulting in an offsetting reduction in deferred loss on foreign exchange forward contracts of \$2.7 million, and an increase in derivative instruments market valuation of \$0.1 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The net result of these adjustments is a \$0.9 million foreign exchange loss on the consolidated statements of income.

The fair value of \$30.2 million at March 31, 2005 compares to a cost of \$28.4 million.

### **VAN-ROB INC.**

At March 31, 2005, Clairvest owned 5,000,000 Class A special convertible shares in Van-Rob. The fair value of \$5.0 million at March 31, 2005 compares to a cost of \$5.0 million.

### **VOXCOM INCORPORATED**

At March 31, 2005, Clairvest owned 11,485,900 convertible retractable preferred shares in Voxcom. 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.

During fiscal 2005, Clairvest sold its common shares to Voxcom for gross proceeds of \$0.2 million 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 \$0.8 million to Voxcom's banks. The Letter of Credit was released during fiscal 2005.

The fair value of Clairvest's investment in Voxcom increased \$0.2 million to \$11.8 million at March 31, 2005. The increase is comprised of a \$0.3 million unrealized gain, net of the sale of common shares with a fair value of \$0.1 million. The unrealized gain of \$0.3 million resulted from an increase in the fair value of the convertible retractable preferred shares from cost to the going-private value. Clairvest recorded an unrealized gain of \$35,000 for the year ended March 31, 2004 as a result of the increase in the common share price from \$0.45 at March 31, 2003 to \$0.60 at March 31, 2004.

The fair value of \$11.8 million at March 31, 2005 compares to a cost of \$11.5 million. The net cash investment at March 31, 2005 was \$8.9 million as a result of the rolling of a total of \$3.6 million of fees and interest into preferred shares, and the realization of a \$1.1 million unrealized loss on the sale of common shares.

### **WELLINGTON FINANCIAL FUND I**

Wellington Fund I was wound up during fiscal 2005. Upon the windup Clairvest received its prorata share of the warrants and other assets held by Wellington Fund I at the time. The warrants received by Clairvest on the windup of Wellington Fund I are included in other investments.

Clairvest recognized an unrealized gain on Wellington Fund I of \$1.0 million, net of the reversal of previously recognized unrealized gains of \$1.1 million. The unrealized gain of \$1.0 million is as a result of movements in the price of the shares underlying the warrants held by Wellington Fund I. The reversal of previously recognized unrealized gains of \$1.1 million relates to unrealized gains that were recognized in fiscal 2005 and prior years on warrants that were sold by Wellington Fund I during fiscal 2005.

Clairvest recorded an unrealized gain of \$0.2 million for the year ended March 31, 2004 as a result of movements in the price of the shares underlying the warrants held by Wellington Fund I.

On a total commitment of \$5.0 million to Wellington Fund I, Clairvest received back all of the capital it had funded, as well as distributions of \$2.0 million, and received warrants with a fair value of \$1.2 million upon the windup of the fund.

### **WELLINGTON FINANCIAL FUND II**

At March 31, 2005, Clairvest had funded \$7.4 million of its \$20.0 million commitment to Wellington Fund II. Clairvest had committed \$10.0 million to Wellington Fund II at March 31, 2004, and increased its commitment to \$20.0 million during fiscal 2005.

The fair value of Clairvest's investment in Wellington Fund II increased \$7.1 million to \$8.8 million at March 31, 2005. The increase is made up of the funding of \$5.7 million of Clairvest's commitment during the year and a \$1.4 million unrealized gain. The unrealized gain of \$1.4 million is as a result of movements in the price of the shares underlying the warrants held by Wellington Fund II.

The fair value of \$8.8 million compares to a cost of \$7.4 million at March 31, 2005.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### TRANSACTIONS WITH RELATED PARTIES

Clairvest, as manager of CEP and parent company of the General Partner of CEP, has entered into various transactions with CEP. As manager of CEP, Clairvest is entitled to a management fee 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 (August 2006), and thereafter at 2% of contributed capital of CEP less distributions on account of capital and any write-downs of capital invested. During fiscal 2005 CEP paid Clairvest net management fees of \$2.6 million.

Loans, bearing interest at the prime rate, were made by Clairvest to CEP during fiscal 2005 and were repaid during fiscal 2005. Interest of \$3,000 was received from CEP during fiscal 2005.

At March 31, 2005, Clairvest had accounts payable owing to CEP of \$13,000.

The General Partner of CEP, a limited partnership, the general partner of which is a wholly-owned subsidiary of Clairvest, is entitled to participate in distributions made by CEP. The distribution to the General Partner will be determined based on the overall performance of CEP and no such distribution is permitted until CEP's limited partners have received all amounts contributed to CEP and a 6% compound annual return on that amount. The distributions received by the General Partner of CEP will be allocated 50% to each of its limited partners, one of which is a wholly-owned subsidiary of Clairvest, and the other of which is another limited partnership (the "Participation Partnership"). The limited partners of the Participation Partnership are principals and employees of Clairvest (the "Investors"). The Investors purchased, at fair market value, units of the Participation Partnership during fiscal 2005. From time to time, additional units in the Participation Partnership may be purchased by the Investors. To date, CEP has not made any distributions to the General Partner.

Clairvest has guaranteed up to \$7.0 million of CEP's obligations to the Toronto-Dominion Bank under CEP's foreign exchange forward contracts with the bank.

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. Clairvest would owe CEP \$3.1 million under this guarantee if Consolidated Vendors were disposed of at the current fair value. The \$3.1 million has been included as an offset against the fair value of Clairvest's investment in Consolidated Vendors.

Clairvest has also entered into various transactions with its corporate investments. During fiscal 2005 Clairvest received \$3.9 million in interest, \$28.1 million in dividends and \$1.3 million in advisory and other fees from its corporate investments. During fiscal 2005 Clairvest paid \$1.9 million in interest on a loan from a Gateway Casinos entity. At March 31, 2005, Clairvest had accounts receivable from corporate investments totalling \$0.7 million.

At March 31, 2005, Clairvest also had a \$2.7 million receivable from Sparkling Spring, representing the remaining funds that were held in escrow following the sale of the investment in fiscal 2003. The \$2.7 million was received subsequent to year-end. No further amounts remain in escrow.

At March 31, 2005, Clairvest had loans receivable from certain officers of the Company or officers of corporate investments (the "Officers") totalling \$0.7 million. The loans have full recourse and are collateralized by the common shares of Clairvest purchased by the Officers with a market value of \$1.1 million. At March 31, 2005, Clairvest also had loans receivable from certain officers of a company affiliated with Clairvest totalling \$0.2 million.

At March 31, 2005, Clairvest had loans receivable of \$5.6 million from Wellington Fund II. The loans bear interest at the prime rate, and are repayable on demand. The loans, together with interest, were repaid subsequent to year-end. Interest of \$10,000 was received from Wellington Fund II during fiscal 2005.

### OFF-BALANCE SHEET ARRANGEMENTS

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 \$19.1 million has been funded to March 31, 2005. 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Clairvest has committed to fund \$20.0 million to Wellington Fund II, \$7.4 million of which has been funded to March 31, 2005.

Clairvest has committed to fund \$5.0 million to N-Brook, subject to N-Brook management achieving certain targets. \$1.2 million of Clairvest's commitment has been funded to March 31, 2005.

Clairvest enters into foreign exchange forward contracts to manage the risks arising from fluctuations in exchange rates on its foreign investments. At March 31, 2005, Clairvest had entered into forward contracts to sell AUS\$31.3 million and US\$12.3 million. The fair value of these contracts at March 31, 2005 is a loss of \$300,000 on the Australian dollar contracts and a gain of \$70,000 on the U.S. dollar contracts. \$90,000 of the loss on the Australian dollar contracts relates to the debt portion of Clairvest's investment in Signature and has been recognized on the balance sheet as derivative instruments market valuation. The U.S. dollar contracts which have been entered into as a hedge against the debt portion of Clairvest's investment in Consolidated Vendors have a fair value of a loss of \$22,000, which has been recognized on the consolidated balance sheet as derivative instruments market valuation.

A wholly-owned subsidiary of Clairvest together with certain other unit holders (the "Unit Holders") hold 20% of the outstanding units of Gateway Income Fund. The Unit Holders have agreed that they will take all necessary steps to collectively maintain the 20% ownership interest amongst the Unit Holders and in connection with any additional issue of units of Gateway Income Fund to ensure that their collective ownership of Gateway Income Fund is maintained at 20% of the issued and outstanding units.

During fiscal 2005, a wholly-owned subsidiary of Clairvest together with other shareholders of Gateway Casinos (the "Gateway Shareholders") entered into an agreement with Gateway Casinos' bank whereby the Gateway Shareholders agreed to fund cost overruns on the development of Gateway Casinos' casino facility in Langley, British Columbia. The development project is expected to be completed in June 2005. The amount of the cost overruns, if any, cannot be determined at this time and no amounts have been reflected in Clairvest's consolidated financial statements.

Under Clairvest's Incentive Bonus Program, a bonus of 10% of after-tax income, based on 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 fair values, a bonus of \$3.1 million would be owing to management under the Incentive Bonus Program. This amount has not been reflected in Clairvest's consolidated financial statements.

### 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 its exposure to changes in the value of the United States and Australian dollars relative to the Canadian dollar, Clairvest has hedged 100% of the fair value of its foreign investments.

Clairvest has some exposure to the financial markets, as approximately 24% of the fair value of Clairvest's investments at March 31, 2005, 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 acts independently of the overall valuation by the market. The entry multiples for its public holdings have generally been less than other public companies in the same industries and therefore the cost of these holdings have a value cushion in the event of any general market value fluctuations.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### DISCLOSURE CONTROLS

Management has evaluated the effectiveness of Clairvest's disclosure controls and procedures as of March 31, 2005. Management has concluded that the disclosure controls and procedures are effective as of March 31, 2005 based on this evaluation.

### OUTLOOK

During the first two months of fiscal 2006, we have continued to assist our investee companies in developing and executing their strategies and enhancing their value propositions. We also continued to actively pursue investment opportunities, using our domain-based proprietary research to explore a number of industries and uncover new potential investments.

Subsequent to year-end, Clairvest, together with CEP, closed a new investment in Integral Orthopedics Inc., which acquired the businesses of Obus Forme Ltd., a prominent provider of orthopedic back care products, and Moller LLC, a leading developer of clinical treatment solutions for back and neck pain. Clairvest and CEP made a combined \$15.5 million investment in Integral Orthopedics Inc., based on prorata capital commitments to their investment pool of 25% and 75% respectively, to acquire a controlling interest in the company.

On May 20, 2005, Voxcom Income Fund completed an initial public offering. Clairvest reinvested its entire investment in Voxcom Incorporated into 1,645,015 units of Voxcom Income Fund, and as a result holds a 20.1% interest in Voxcom Income Fund. The units initially traded at \$10 per unit. Clairvest may not sell its units in Voxcom Income Fund for 180 days following closing.

At March 31, 2005, Clairvest had \$103.0 million in cash, cash equivalents and temporary investments and \$100.5 million of additional capital through CEP to fund new investments. With this capital on hand, we are well positioned to support the growth of our existing investments and pursue new investment opportunities. As always, we will stick to our disciplines to find solid investments that fit our investment criteria and provide the potential for superior, risk-adjusted returns.

## MANAGEMENT'S REPORT

The consolidated financial statements of Clairvest Group Inc. have been prepared by management and are in accordance with generally accepted accounting principles in Canada. 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 financial statements with management and the independent auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.



B. Jeffrey Parr  
Co-Chief Executive Officer and Managing Director  
June 7, 2005



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, 2005 and 2004 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, 2005 and 2004 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 7, 2005

*Ernst & Young LLP*  
Chartered Accountants

# CONSOLIDATED FINANCIAL STATEMENTS

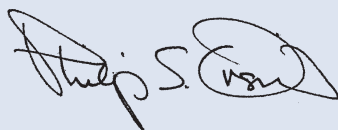
## CONSOLIDATED BALANCE SHEETS

As at March 31

\$000's	2005	2004
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,828	\$ 4,695
Temporary investments (Note 4)	101,203	88,913
Accounts receivable and other assets (Note 5c)	4,529	5,629
Loans receivable (Note 5e)	5,623	—
Deferred loss on foreign exchange forward contracts	—	2,801
Corporate investments (Note 6)	180,246	199,448
	<b>\$ 293,429</b>	<b>\$ 301,486</b>
<b>LIABILITIES</b>		
Accounts payable (Note 5c)	\$ 4,759	\$ 3,456
Loans payable (Note 8)	28,788	61,224
Derivative instruments market valuation (Note 14b)	112	—
Deferred gain on foreign exchange forward contracts (Note 14b)	558	—
Future tax liability (Note 10)	2,182	2,365
	<b>36,399</b>	<b>67,045</b>
Contingencies and commitments (Notes 5, 6, 14 and 15)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 11)	106,704	110,151
Shares purchased for cancellation (Note 11)	(80)	(407)
Stock-based compensation (Note 12)	138	57
Retained earnings	150,268	124,640
	<b>257,030</b>	<b>234,441</b>
	<b>\$ 293,429</b>	<b>\$ 301,486</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)	2005	2004
<b>NET INVESTMENT GAINS</b>		
Net realized gains on investments	\$ 14,591	\$ 8,786
Previously recognized net unrealized gains (Note 2g)	(40,211)	(4,700)
Net unrealized gains on investments	32,248	6,943
	<b>6,628</b>	11,029
<b>OTHER INCOME</b>		
Interest income (Notes 5d and 5g)	6,676	8,758
Dividend income (Note 5g)	28,080	1,828
Management fees (Note 5a)	2,629	2,712
Advisory and other fees (Note 5g)	1,305	1,002
	<b>38,690</b>	14,300
Administration and other expenses	9,402	6,919
Finance expense (Note 5g)	2,648	4,400
	<b>12,050</b>	11,319
Income before income taxes	<b>33,268</b>	14,010
Provision for income taxes (Note 10)	3,378	1,183
Net income	\$ 29,890	\$ 12,827
Basic net income per share (Note 11)	\$ 1.50	\$ 0.62
Fully diluted net income per share (Note 11)	\$ 1.43	\$ 0.59

(see accompanying notes to consolidated financial statements)

### CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended March 31

\$000's	2005	2004
Retained earnings, beginning of year	\$ 124,640	\$ 116,027
Net income	29,890	12,827
	<b>154,530</b>	128,854
Dividends paid	(2,007)	(2,072)
Purchase and cancellation of shares (Note 11)	(2,255)	(2,142)
Retained earnings, end of year	\$ 150,268	\$ 124,640

(see accompanying notes to consolidated financial statements)

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31

\$000's	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 29,890	\$ 12,827
Add (deduct) items not involving a current cash outlay		
Amortization	84	84
Stock-based compensation	81	57
Future income taxes (recovered)	(183)	1,457
Net realized gains on investments	(14,591)	(8,786)
Previously recognized net unrealized gains	40,211	4,700
Net unrealized gains on investments	(32,248)	(6,943)
Non-cash income relating to corporate investments	1,516	980
	<b>24,760</b>	<b>4,376</b>
Net change in non-cash working capital balances related to operations (Note 13)	<b>2,319</b>	<b>(10,798)</b>
	<b>27,079</b>	<b>(6,422)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cancellation of common shares (Note 11)	(5,895)	(6,734)
Shares purchased for cancellation (Note 11)	(80)	(407)
Issuance of common shares	194	2,317
Loans payable	17,502	10,588
Repayment of loans payable	(49,938)	(15,746)
Dividends paid	(2,007)	(2,072)
	<b>(40,224)</b>	<b>(12,054)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net temporary investments	(12,290)	(9,980)
Acquisition of corporate investments	(11,523)	(1,966)
Proceeds on sale of corporate investments	34,886	20,147
Loans receivable	(5,623)	—
Proceeds (costs) on realization of foreign exchange forward contracts	920	(3,253)
Return of capital from corporate investments	3,908	3,042
	<b>10,278</b>	<b>7,990</b>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,867)</b>	<b>(10,486)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>4,695</b>	<b>15,181</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 13)</b>	<b>\$ 1,828</b>	<b>\$ 4,695</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Income taxes paid	\$ 3,624	\$ 9,232
Interest paid	\$ 2,029	\$ 3,587

[see accompanying notes to consolidated financial statements]

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005 and 2004 (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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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

Investments in securities having quoted market values and which are publicly traded on a recognized securities exchange and for which no sales restrictions apply are recorded at 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.

Investments in such securities 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.

Investments in securities not having quoted values are initially recorded at cost and thereafter recorded at estimated fair value. Estimated fair value is determined on the basis of expected realizable value of the investments if they were disposed of in an orderly fashion over a reasonable period of time.

The process of valuing investments for which no published market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed. The amounts at which Clairvest's privately-held investments could be disposed of currently may differ from the fair value assigned. The amounts at which Clairvest's publicly-traded investments could be disposed of currently may differ from the fair 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) 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.

#### (d) Temporary Investments

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

#### (e) Foreign Currency Translation

Income and expenses denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing

at the transaction date. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at historical rates. Exchange gains and losses are included in income for unhedged items.

**(f) Financial Instruments**

The Company periodically enters into foreign exchange forward contracts to hedge its exposure to exchange rate fluctuations on its investments. Exchange gains or losses on the rolling of foreign exchange forward contracts entered into as hedges against the equity portion of Clairvest investments are capitalized as deferred gain or loss on foreign exchange forward contracts until such time as the underlying investment is sold or written down. At such time, the exchange gains or losses on the foreign exchange forward contracts, or a portion thereof, are included in income. If the hedge has been effective, there will be a corresponding and offsetting exchange gain or loss on the underlying investment, which will be included in income at the same time. The forward premiums or points arising under the foreign exchange forward contracts are amortized to income over the term of the contracts.

Foreign exchange forward contracts entered into as hedges against the debt portion of Clairvest's investments, as well as the debt portion of these investments, are marked to market at the consolidated balance sheet dates.

The Company discontinues hedge accounting when the hedging relationship ceases to be effective, a hedged item ceases to exist or when the designation of the hedging relationship is terminated. When hedge accounting is terminated, the difference between the fair value and the accrued value of the hedging derivative upon termination is capitalized as deferred gain or loss on foreign exchange forward contracts and recognized into income or expense on the same basis as gains, losses, revenue and expenses of the previously hedged item are recognized, generally by amortization over the remaining term of the hedged item.

The Company formally documents all relationships between hedged instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific firm commitments or forecasted transactions.

**(g) 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.

**(h) 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.

**(i) Stock-Based Compensation Plan**

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

The Company previously 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 effects of accounting for stock options granted to employees and directors prior to fiscal 2004 using the fair value based method.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Under the Company's stock option plan, the fair value of options granted after April 1, 2003, is charged to compensation expense over the option vesting period. The fair value of the options granted is determined using the Black-Scholes option pricing model with management's best estimates. Refer to Note 12 for the estimates applied.

With respect to options granted prior to April 1, 2003, the Company continues to apply the previous standards under which no compensation expense is recognized when stock options are granted to employees and directors and the consideration paid by the employees or directors who exercise their stock options is credited to common shares.

### **(j) Deferred Share Unit Plan**

Directors of the Company 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 Company 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.

Under the Company's DSU plan, the fair value of the DSU's is charged to compensation expense based on the number of DSU's outstanding at the balance sheet dates multiplied by the market value of a common share on the Toronto Stock Exchange at the balance sheet dates.

### **(k) Book Value Appreciation Rights Plan**

The Company may elect to issue, or the employees of the Company may elect to receive, all or a portion of the individual's stock option grant by way of book value appreciation rights units ("BVAR's"). Upon the redemption of BVAR's, the Company 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.

Under the Company's BVAR plan, the fair value of the BVAR's is charged to compensation expense over the BVAR vesting period, and based on the book value per share on the balance sheet date of the prior quarter.

### **(l) 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.

## **3. ACCOUNTING CHANGES**

During fiscal 2005, Clairvest prospectively adopted the recommendations of The Canadian Institute of Chartered Accountants' Section 1100, Generally Accepted Accounting Principles ("GAAP"). The section establishes standards for financial reporting in accordance with GAAP by providing information regarding primary sources of GAAP in order of authority. The impact on the consolidated financial statements resulting from the adoption of the recommendations is not material.

During fiscal 2005, Clairvest early-adopted, on a prospective basis, The Canadian Institute of Chartered Accountants' Guideline 18, Investment Companies. The Guideline defines an investment company as a separate legal entity whose primary business activity is investments, and provides that an investment company should measure all of its investments at fair value and present them on this basis in its financial statements. The impact on the consolidated financial statements resulting from the adoption of the Guideline is not material given that Clairvest measured its investments at fair value prior to the adoption of the Guideline.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During fiscal 2005, the Company prospectively adopted The Canadian Institute of Chartered Accountants' Accounting Guideline 13, Hedging Relationships. The Guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The Company's hedging program complies with the new requirements. Accordingly, the impact on the consolidated financial statements resulting from the adoption of the Guideline is not material.

During fiscal 2005, Clairvest prospectively adopted The Canadian Institute of Chartered Accountants' Accounting Guideline 15, Consolidation of Variable Interest Entities ("VIE"). The Guideline provides a framework for identifying a VIE and requires a primary beneficiary to consolidate a VIE. A primary beneficiary is the enterprise that absorbs a majority of the VIE's expected losses or receives a majority of the VIE's expected residual returns or both. There is no impact on the consolidated financial statements resulting from the adoption of the Guideline. [See Note 7]

### 4. TEMPORARY INVESTMENTS

Temporary investments have maturities greater than 90 days and through to December 2006. Temporary investments consist of corporate notes and debentures. The yield on these investments ranges between 2.3% and 3.7% (2004 – between 2.0% and 3.9%) with a weighted average yield thereon of 3.1% (2004 – 2.8%).

### 5. RELATED PARTY TRANSACTIONS

- (a) Clairvest has entered into a Management Agreement with the General Partner of Clairvest Equity Partners Limited Partnership ("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 (August 2006), 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 2005, CEP paid Clairvest net management fees of \$2,629,000 (2004 – \$2,712,000) as compensation for its services in the administration of the portfolio of CEP.
- (b) 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.
- (c) Included in accounts receivable and other assets are share purchase loans made to certain officers of the Company or officers of corporate investments totalling \$658,000 (2004 – \$1,062,000) and other loans made to certain officers of a company affiliated with Clairvest totalling \$200,000 (2004 – \$82,000). The share purchase 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 \$1,110,000 (2004 – \$1,321,000). The loans to officers of a company affiliated with Clairvest bear interest at the prime rate on the date of drawdown less 1%, and interest is paid annually. Loans are repayable upon departure of the officer. Also included in accounts receivable and other assets are receivables from Clairvest's corporate investments totalling \$670,000 (2004 – \$767,000), from CEP totalling nil (2004 – \$1,000) and from a corporate investment previously disposed of totalling \$2,729,000 (2004 – \$2,837,000). The \$2,729,000 due from a corporate investment previously disposed of was received subsequent to year-end. Included in accounts payable is \$13,000 (2004 – nil) owing to CEP.
- (d) Loans, bearing interest at the prime rate, were made by the Company to CEP during fiscal 2005 and were repaid during fiscal 2005. Interest of \$3,000 (2004 – nil) was received from CEP during fiscal 2005.
- (e) Clairvest has committed to fund \$20.0 million to Wellington Financial Fund II ("Wellington Fund II"). Clairvest also owns 49.5% of the general partner of Wellington Fund II. Loans receivable consist of loans to Wellington Fund II. The loans bear

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

interest at the prime rate, and are payable on demand. \$3.0 million of the loans receivable was received subsequent to year-end. Interest of \$10,000 (2004 – nil) was received from Wellington Fund II during fiscal 2005.

- (f) During fiscal 2003, Clairvest entered into an agreement to guarantee up to \$7.0 million of CEP's obligations to the Toronto-Dominion Bank under CEP's foreign exchange forward contracts with the bank.
- (g) During fiscal 2005, Clairvest received \$3,905,000 (2004 – \$5,720,000) in interest, \$28,080,000 (2004 – \$1,828,000) in dividends and \$1,305,000 (2004 – \$1,002,000) in advisory and other fees from its corporate investments. During fiscal 2005, Clairvest paid \$1,899,000 (2004 – \$3,504,000) in interest to Gateway Casinos Inc.

### 6. CORPORATE INVESTMENTS

	2005			2004		
	Fair value	Cost	Difference	Fair value	Cost	Difference
<b>Investments in publicly-traded companies</b>						
Datamark Systems Group Inc.	\$ 14,514	\$ 14,421	\$ 93	\$ 10,148	\$ 14,421	\$ (4,273)
Gateway Casinos Income Fund	28,090	15,007	13,083	51,276	33,659	17,617
Voxcom Incorporated	—	—	—	11,624	12,775	(1,151)
	42,604	29,428	13,176	73,048	60,855	12,193
<b>Investments in privately-held companies</b>						
Allied Global Holdings Inc.	4,323	3,000	1,323	3,931	3,000	931
Consolidated Vendors Corporation	239	7,035	(6,796)	1,674	6,030	(4,356)
Gateway Casinos Inc.	59,921	24,000	35,921	70,368	24,000	46,368
Landauer Metropolitan Inc.	4,234	3,636	598	3,645	3,306	339
N-Brook Mortgage LP	1,169	1,150	19	—	—	—
NRI Industries Inc.	10,080	17,613	(7,533)	10,080	17,613	(7,533)
Signature Security Group Holdings Pty. Limited	30,230	28,421	1,809	28,421	28,421	—
Van-Rob Inc.	5,000	5,000	—	5,000	5,000	—
Voxcom Incorporated	11,830	11,486	344	—	—	—
Wellington Financial Fund I	—	—	—	1,290	—	1,290
Wellington Financial Fund II	8,775	7,361	1,414	1,635	1,635	—
	135,801	108,702	27,099	126,044	89,005	37,039
<b>Other investments</b>	1,841	42	1,799	356	371	(15)
	\$ 180,246	\$ 138,172	\$ 42,074	\$ 199,448	\$ 150,231	\$ 49,217

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

Datamark is a business document management company with operations in Canada and the United States. At March 31, 2005 and 2004, Clairvest owned 4,675,670 common shares of Datamark, representing a 36.5% interest on a fully diluted basis.

At March 31, 2005 and 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. 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.

Since the inception of the investment, Clairvest has received a total of \$12.9 million in cash dividends from Datamark, 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 Casinos Inc. At March 31, 2005, Clairvest owned 1,500,650 (2004 – 3,365,876) units in Gateway Income Fund through a wholly-owned subsidiary. Clairvest's indirect ownership interest on a fully diluted basis at March 31, 2005 was 5.7% (2004 – 12.7%).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Clairvest acquired 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 is required to obtain gaming regulatory approval in order to sell units. During fiscal 2004 Clairvest sold 1,136,094 units for gross proceeds of \$17.8 million and during fiscal 2005 Clairvest sold 1,865,226 units for gross proceeds of \$32.3 million.

Clairvest together with certain other unit holders (the "Unit Holders") hold 20% of the outstanding units of Gateway Income Fund. As a condition for obtaining the approval of the British Columbia Lottery Corporation to the sale of units during 2005, the Unit Holders agreed that they will take all necessary steps to collectively maintain the 20% ownership interest amongst the Unit Holders and in connection with any additional issue of units of Gateway Income Fund to ensure that their collective ownership of Gateway Income Fund is maintained at 20% of the issued and outstanding units.

### **(c) Allied Global Holdings Inc. ("Allied Global")**

Allied Global is an international accounts receivable management firm with operations across Canada, the United States and the United Kingdom. At March 31, 2005 Clairvest owned 39,363 (2004 – 35,784), 10% convertible Class B preferred shares in Allied Global. Clairvest's ownership on a fully diluted basis was 8.4% (2004 – 8.4%) at March 31, 2005.

During fiscal 2005, Clairvest received 3,579 (2004 – 2,784) 10% convertible Class B preferred shares in Allied Global by way of a stock dividend.

### **(d) Consolidated Vendors Corporation ("Consolidated Vendors")**

Consolidated Vendors is an independent vending operator in the U.S. Midwest. At March 31, 2005, Clairvest owned 2,500 (2004 – 2,500) Class A preferred shares, 26,830 (2004 – 10,229) common shares and 45,000 (2004 – 45,000) warrants in Consolidated Vendors, representing a 24.8% (2004 – 17.7%) interest on a fully diluted basis. At March 31, 2005, Clairvest also held US\$3.3 million (2004 – US\$3.3 million) of senior debt, a \$0.5 million (2004 – \$0.5 million) demand loan bearing interest at 9.0% and \$1.0 million (2004 – nil) of demand notes bearing interest at 12.0%.

During fiscal 2005, Clairvest purchased 16,601 common shares of Consolidated Vendors for US\$32,750 and loaned \$1.0 million to Consolidated Vendors.

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.

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 was disposed of at a value consistent with Clairvest's current fair value of this investment, Clairvest would owe CEP \$3.1 million (2004 – \$3.0 million) under this guarantee (see note 15b).

In accordance with hedge accounting, the senior bank debt, demand loan and demand notes held by Clairvest, as well as the foreign exchange forward contracts that hedge these amounts, are marked to market at the consolidated balance sheet dates. As a result, the fair value of the investment in Consolidated Vendors was reduced by \$1,151,000 at March 31, 2005, with an offsetting reduction in deferred gain on foreign exchange forward contracts of \$947,000, and an increase in derivative instruments market valuation of \$22,000. The net result of these adjustments is a \$226,000 foreign exchange loss on the consolidated statements of income.

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

Gateway Casinos is a gaming management company operating casinos in Western Canada. At March 31, 2005 and 2004, Clairvest owned, through a wholly-owned subsidiary, 28.4% of a limited partnership that owns Gateway Casinos. Clairvest's indirect ownership interest in Gateway Casinos was 28.4% at March 31, 2005 and 2004 on a fully diluted basis.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **(f) Landauer Metropolitan Inc. (“Landauer”)**

Landauer is a supplier of home medical equipment in the New York City area. At March 31, 2005 and 2004, Clairvest owned 1,906,250 10% cumulative convertible preferred shares in Landauer.

At March 31, 2005, Clairvest owned 446,858 common shares in Landauer. At March 31, 2004, Clairvest had entered into an agreement to purchase the common shares and had paid \$331,000 of the total \$661,000 purchase price. Clairvest's ownership on a fully diluted basis was 13.6% (2004 – 13.6%) at March 31, 2005.

### **(g) N-Brook Mortgage LP (“N-Brook”)**

N-Brook originates, adjudicates and underwrites first-ranking mortgages on owner-occupied, residential real estate in Ontario. During fiscal 2005, Clairvest committed to invest up to \$5.0 million in N-Brook, subject to N-Brook management achieving certain targets. A total of \$1.2 million had been funded at March 31, 2005. Clairvest's fully diluted interest in N-Brook at March 31, 2005 was 14.7%.

### **(h) NRI Industries Inc. (“NRI”)**

NRI converts scrap rubber into value-added manufactured products. At March 31, 2005 and 2004, 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, 2005 and 2004 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 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.

### **(i) Signature Security Group Holdings Pty. Limited (“Signature”)**

Signature is an electronic security company serving Australia and New Zealand. At March 31, 2005 and 2004, Clairvest owned 227,404,097 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, 2005 and 2004 was 41.7%.

At March 31, 2005 and 2004, 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 April 1, 2010.

In accordance with hedge accounting, the loans held by Clairvest, as well as the foreign exchange forward contracts that hedge the loans, are marked to market at the consolidated balance sheet dates. As a result, the fair value of the investment in Signature was increased by \$1.8 million at March 31, 2005, with an offsetting reduction in deferred loss on foreign exchange forward contracts of \$2.7 million, and an increase in derivative instruments market valuation of \$90,000. The net result of these adjustments is a \$941,000 foreign exchange loss on the consolidated statements of income.

### **(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, 2005 and 2004, Clairvest owned 5,000,000 Class A special convertible shares in Van-Rob, representing a 5.0% fully diluted ownership interest.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **(k) Voxcom Incorporated (“Voxcom”)**

Voxcom is an Edmonton based electronic security alarm monitoring company operating throughout Canada. At March 31, 2005, Clairvest owned 11,485,900 (2004 – 11,485,900) convertible retractable preferred shares and nil (2004 – 230,000) common shares of Voxcom, representing a 26.6% (2004 – 26.7%) interest on a fully diluted basis.

At March 31, 2005 and 2004, 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 are fully vested.

During fiscal 2005, 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. The Letter of Credit was released during fiscal 2005.

### **(l) 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. Wellington Fund I was wound up during fiscal 2005. Upon the wind up, Clairvest received its prorata share of the warrants and other assets held by Wellington Fund I at the time. These investments are included as part of other investments. Clairvest, as a limited partner, had committed to fund \$5.0 million to Wellington Fund I at March 31, 2004. At March 31, 2004, all of the capital that Clairvest had previously funded had been returned to Clairvest. Clairvest’s commitment represented a 71.4% interest in Wellington Fund I.

### **(m) 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, had committed to fund \$10.0 million to Wellington Fund II at March 31, 2004, and increased its commitment to \$20.0 million at March 31, 2005. \$7.4 million (2004 – \$1.6 million) of Clairvest’s commitment was funded at March 31, 2005. Clairvest’s commitment represents a 24.1% (2004 – 48.7%) interest in Wellington Fund II.

## **7. VARIABLE INTEREST ENTITIES**

The Canadian Institute of Chartered Accountants’ Accounting Guideline 15 requires Clairvest to identify Variable Interest Entities (“VIE”) in which it has an interest, determine whether it is the primary beneficiary of such entities and if so, consolidate them. The primary beneficiary is an entity that absorbs the majority of the VIE’s expected losses or receives a majority of the VIE’s expected residual returns or both.

At March 31, 2005, the VIE in which Clairvest held an interest was CEP. Clairvest’s relationship with CEP is described in note 5. As of March 31, 2005, Clairvest was not considered the primary beneficiary of CEP. Clairvest has no exposure to loss as a result of its involvement in CEP in its capacity of general partner. Accordingly, Clairvest did not consolidate CEP.

## **8. LOANS PAYABLE**

Loans payable consist of the following:

- (a) \$13.7 million (2004 – \$17.0 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 \$3.3 million (2004 – \$4.4 million) of this loan during fiscal 2005.
- (b) \$15.0 million (2004 – \$33.7 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 \$18.7 million (2004 – \$11.3 million) of this loan during the year.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (c) Loans totalling \$89,000 (2004 – \$10.6 million) from the limited partnership that owns Gateway Casinos Inc. The loans that were outstanding at March 31, 2004, together with an additional \$17.4 million loaned during the first three quarters of fiscal 2005, were non-interest bearing and repayable on demand at any time after December 31, 2004. These loans were paid in full in the fourth quarter of fiscal 2005. The loans outstanding at March 31, 2005 are non-interest bearing and payable on demand at any time after December 31, 2005.

### 9. 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, 2005 was 4.25% (2004 – 4.0%). At March 31, 2005 and 2004 no amounts were drawn down on this facility.

### 10. INCOME TAXES

Provision for income taxes consists of the following:

	2005	2004
Current income tax expense (recovery)	\$ 3,561	\$ (274)
Future income tax expense (recovery) relating to origination and reversal of temporary differences	(183)	1,457
Provision for income taxes	\$ 3,378	\$ 1,183

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

	2005	2004
Income before income taxes	\$ 33,268	\$ 14,010
Statutory Canadian income tax rate	36.1%	36.5%
Statutory Canadian income taxes	12,016	5,114
Non-taxable dividends received	(10,142)	(667)
Non-taxable portion of net investment gains	(1,197)	(2,012)
Taxable (non-taxable) portion of unrealized gains	1,098	(80)
Taxable portion of realized gains	836	233
Non-deductible portion of finance expense	398	222
Recovery of prior years' taxes	—	(1,779)
Other	369	152
	\$ 3,378	\$ 1,183

The future tax liability relates primarily to the temporary differences on corporate investments, derivative instruments market valuation, deferred gain (loss) on foreign exchange forward contracts, and accounts payable.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 11. 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	2005		2004	
	Number of shares	Amount	Number of shares	Amount
Common shares, opening balance	18,231,438	\$ 93,351	18,692,590	\$ 95,626
Purchased and cancelled under normal course issuer bid	(711,000)	(3,641)	(896,752)	(4,592)
Issued on exercise of stock options	29,000	194	435,600	2,317
Common shares, closing balance	17,549,438	\$ 89,904	18,231,438	\$ 93,351
Non-voting shares	2,230,954	16,800	2,230,954	16,800
	19,780,392	\$ 106,704	20,462,392	\$ 110,151

During fiscal 2004, the Company filed a normal course issuer bid enabling it to make market purchases of up to 911,572 of its common shares in the 12-month period commencing March 4, 2004. During 2005, the Company filed a new normal course issuer bid enabling it to make purchases of up to 877,472 of its common shares in the 12-month period commencing March 4, 2005.

During fiscal 2005, the Company purchased and cancelled under its normal course issuer bid 662,000 (2004 – 896,752) of its common shares at a total purchase cost of \$5,490,920 (2004 – \$6,707,000) plus fees of \$35,000 (2004 – \$27,000). The excess of the purchase cost of these shares over the average paid-in amount was \$2,255,000 (2004 – \$2,142,000), which was charged to retained earnings. During fiscal 2005, the Company also purchased 8,500 (2004 – 49,000) of its common shares for \$80,000 (2004 – \$404,000) which were cancelled subsequent to year end. In total 1,621,252 common shares at a cost of \$12.7 million have been purchased under this and all previous normal course issuer bids as of March 31, 2005. Subsequent to year-end, a further 690,989 common shares were purchased at a cost of \$6.8 million.

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 2005 was 17,754,578 and 2,230,954 respectively, for a total of 19,985,532 (2004 – 20,601,883). The weighted average number of fully diluted shares outstanding during fiscal 2005 was 20,933,896 (2004 – 21,679,586).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The difference between the basic and fully diluted net income per share computations for 2005 and 2004 consists of the following:

	2005			2004		
	Net income	Number of shares	Per share amount	Net income	Number of shares	Per share amount
Basic net income per share	\$ 29,890	19,985,532	\$ 1.50	\$ 12,827	20,601,883	\$ 0.62
Effect of dilutive securities						
Convertible non-voting shares		620,484			862,598	
Stock options		327,880			215,105	
Fully diluted net income per share	\$ 29,890	20,933,896	\$ 1.43	\$ 12,827	21,679,586	\$ 0.59

As at March 31, 2005 there were nil (2004 – 260,000) outstanding stock options that were not included in the calculation of fully diluted net income per share as they are anti-dilutive.

Under the Company's stock option plan, 2,092,854 (2004 – 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, 2005 and 2004 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, 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 granted	66,856	8.25
Options exercised	(29,000)	6.69
Options forfeited	(51,856)	7.14
Options outstanding, March 31, 2005	1,512,000	\$ 6.87
Options exercisable, March 31, 2005	1,097,400	\$ 6.89

The following table summarizes information about stock options outstanding and exercisable at March 31, 2005:

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	5.9 years	\$ 4.62	147,000	\$ 4.59
\$5.00 to \$5.99	261,000	6.3 years	5.85	155,400	5.85
\$6.00 to \$6.99	55,000	7.3 years	6.75	22,000	6.75
\$7.00 to \$7.99	815,000	2.5 years	7.48	695,000	7.42
\$8.00 to \$8.99	166,000	6.5 years	8.46	78,000	8.66
	1,512,000			1,097,400	

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 12. STOCK-BASED COMPENSATION AND OTHER COMPENSATION PLANS

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 2005, the Company recorded compensation expense of \$81,000 (2004 – \$57,000) with an offsetting credit to stock-based compensation in shareholders' equity. 56,000 stock options were awarded to employees during fiscal 2005, all of which expire in June 2014. 190,000 stock options were awarded to employees during fiscal 2004, 150,000 of which expire in June 2013 and 40,000 of which 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 1.2%; average expected life of five years; and volatility of 23.5%.

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 \$58,000 (2004 – \$74,000) for fiscal 2005. 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 22.9%.

As at March 31, 2005, a total of 48,609 (2004 – 33,627) DSU's were held by directors of the Company, the accrual in respect of which is not significant.

As at March 31, 2005, a total of 220,000 (2004 – 145,000) BVAR's were held by employees of Clairvest and a company affiliated with Clairvest, the accrual in respect of which is not significant.

### 13. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2005	2004
Accounts receivable and other assets	\$ 1,016	\$ (3,523)
Accounts payable	1,303	101
Income taxes payable	—	(7,376)
	<b>\$ 2,319</b>	<b>\$ (10,798)</b>

Cash and cash equivalents at March 31, 2005 and 2004 are comprised of the following:

	2005	2004
Cash	\$ 459	\$ 1,221
Cash equivalents	1,369	3,474
	<b>\$ 1,828</b>	<b>\$ 4,695</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 14. 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 receivable and loans payable was determined by discounting future cash flows using rates which the Company 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, 2005, 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 (2004 – AUS\$31.3 million) at a rate of Canadian \$0.9270 per Australian dollar through May 2005 (average rate of \$0.9270; 2004 average rate of \$0.9522). The fair value of these contracts at March 31, 2005 is a loss of \$300,000 (2004 – loss of \$1.4 million). \$90,000 of this loss relates to the debt portion of Clairvest's investment in Signature and has been recognized on the balance sheet as derivative instruments market valuation; and
- (ii) Forward contracts to sell US\$12.3 million (2004 – US\$3.4 million) at rates of Canadian \$1.1940 to \$1.2315 per U.S. dollar through February 2006 (average rate of \$1.2227; 2004 average rate of \$1.3404). The fair value of these contracts at March 31, 2005 is a gain of \$70,000 (2004 – gain of \$104,000). The contracts which have been entered into as a hedge against the debt portion of Clairvest's investment in Consolidated Vendors have a fair value of a loss of \$22,000, which has been recognized on the consolidated balance sheet as derivative instruments market valuation.

As a result of the rolling of foreign exchange forward contracts to March 31, 2005, Clairvest has realized and deferred to the consolidated balance sheets net exchange gains, net of the amortization of forward premiums or points, of \$558,000 (2004 – net exchange losses of \$2,801,000).

#### (c) Credit Risk

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.

### 15. CONTINGENCIES, COMMITMENTS AND GUARANTEES

- (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 \$19.1 million has been funded to March 31, 2005. 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, 2005, \$3.1 million (2004 – \$3.0 million) of the guaranteed amount was reflected on the consolidated balance sheets, as a reduction in the fair value of Clairvest's investment in Consolidated Vendors.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (c) Clairvest has committed \$20.0 million to Wellington Fund II, \$7.4 million of which has been funded to March 31, 2005. Clairvest also owns 49.5% of the general partner of Wellington Fund II.
- (d) Clairvest has committed \$5.0 million to N-Brook, subject to N-Brook management achieving certain targets. \$1.2 million of Clairvest's commitment has been funded to March 31, 2005.
- (e) A wholly-owned subsidiary of Clairvest together with certain other unit holders (the "Unit Holders") hold 20% of the outstanding units of Gateway Income Fund. The Unit Holders have agreed that they will take all necessary steps to collectively maintain the 20% ownership interest amongst the Unit Holders and in connection with any additional issue of units of Gateway Income Fund to ensure that their collective ownership of Gateway Income Fund is maintained at 20% of the issued and outstanding units.
- (f) During fiscal 2005, a wholly-owned subsidiary of Clairvest together with other shareholders of Gateway Casinos (the "Gateway Shareholders") entered into an agreement with Gateway Casinos' bank whereby the Gateway Shareholders agreed to fund cost overruns on the development of Gateway Casinos' casino facility in Langley, British Columbia. The development project is expected to be completed in June 2005. The amount of the cost overruns, if any, cannot be determined at this time and no amounts have been reflected in Clairvest's consolidated financial statements.
- (g) During fiscal 2003, Clairvest entered into an agreement to guarantee up to \$7.0 million of CEP's obligations to the Toronto-Dominion Bank under CEP's foreign exchange forward contracts with the bank.
- (h) Under Clairvest's Incentive Bonus Program, a bonus of 10% of after-tax income, based on 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 fair values, a bonus of \$3.1 million (2004 – \$2.8 million) would be owing to management under the Incentive Bonus Program.

### 16. SUBSEQUENT EVENTS

- (a) On May 20, 2005, Voxcom Income Fund completed an initial public offering. Clairvest reinvested its entire investment in Voxcom Incorporated into 1,645,015 units of Voxcom Income Fund, and as a result holds a 20.1% interest in Voxcom Income Fund. The units initially traded at \$10 per unit. Clairvest may not sell its units in Voxcom Income Fund for 180 days following closing.
- (b) Subsequent to year-end, Clairvest invested in Integral Orthopedics Inc., which acquired the businesses of Obus Forme Ltd. and Moller LLC. Clairvest made a \$3.9 million investment in Integral Orthopedics Inc.

### 17. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 consolidated financial statements.

## SHAREHOLDER INFORMATION

As at, and for the year ended, March 31, 2005

### SHAREHOLDER COMMUNICATION

Clairvest has both the obligation and desire to provide its shareholders with full and continuous disclosure, on a timely basis, throughout the fiscal year. As the complexity of Clairvest's portfolio has increased, we are increasing the extent of disclosure in order to aid understanding. Annual and quarterly reports are provided as part of this process and the company releases information on material events through the press, as required. Further disclosure can be found on the company's website, [www.clairvest.com](http://www.clairvest.com).

### VALUATION MEASURES

Clairvest's focus is on building the long-term value of its investments. Fair value accounting allows Clairvest to reflect changes in the value of our investments. The fair value method, however, is not without limitations. Clairvest's investments are often carried at values which may vary from the actual realizations.

### OUTSTANDING SECURITIES

Share structure:	Common Shares <sup>(3)</sup> and Non-Voting Shares
Shares outstanding: <sup>(1)</sup>	19,080,903
Public float: <sup>(1,2)</sup>	6,874,622
Market capitalization: <sup>(1)</sup>	\$ 168,330,991
Market value of public float: <sup>(1,2)</sup>	\$ 68,677,474
Stock market:	Toronto Stock Exchange
Stock symbol:	CVG

(1) As at June 15, 2005.

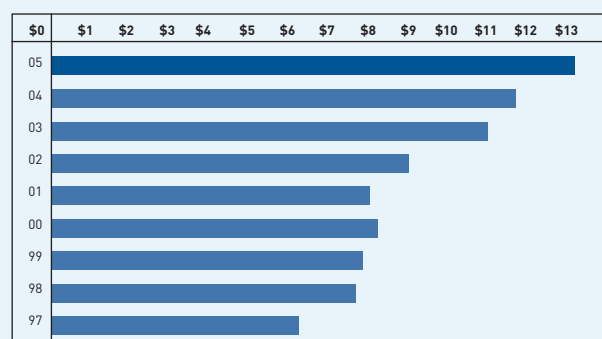
(2) Excludes holders of 10% or more of the outstanding common shares.

(3) During the year, Clairvest filed a new Normal Course Issuer Bid.

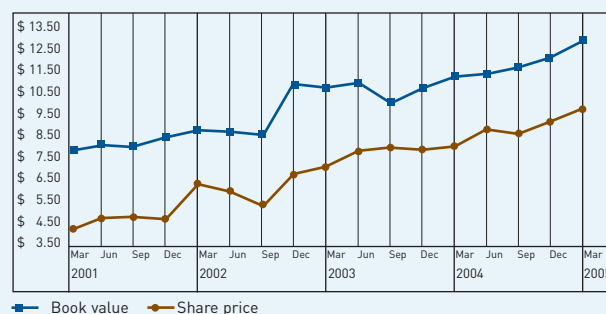
### DIVIDEND INFORMATION

Clairvest has consistently paid a dividend over the last seventeen years. Over the last thirteen years the annual dividend has been \$0.10 per common share. It is Clairvest's current intention to continue this dividend practice.

### BOOK VALUE PER SHARE



### SHARE PRICE VS BOOK VALUE PER SHARE



### SHARE TRADING VOLUME

Common Shares	High	Low	Close	Volume
<b>Year to March 31, 2005</b>				
<b>First Quarter</b>	<b>8.99</b>	<b>8.15</b>	<b>8.94</b>	<b>435,295</b>
<b>Second Quarter</b>	<b>8.65</b>	<b>7.65</b>	<b>8.65</b>	<b>569,913</b>
<b>Third Quarter</b>	<b>9.49</b>	<b>8.50</b>	<b>9.49</b>	<b>179,334</b>
<b>Fourth Quarter</b>	<b>9.90</b>	<b>9.25</b>	<b>9.80</b>	<b>138,053</b>
<b>Year to March 31, 2004</b>				
First Quarter	7.94	7.20	7.80	591,779
Second Quarter	8.34	7.36	8.10	341,348
Third Quarter	8.50	7.65	7.80	549,393
Fourth Quarter	8.56	7.89	8.25	1,340,924

### SHAREHOLDER INQUIRIES

Lana Reiken, Chief Financial Officer  
and Corporate Secretary

tel: 416.925.9270 fax: 416.925.5753

e-mail: [lanar@clairvest.com](mailto:lanar@clairvest.com)

# CLAIRVEST GROUP INC.

## MANAGEMENT

B. JEFFREY PARR  
Co-Chief Executive Officer  
and Managing Director

KENNETH B. ROTMAN  
Co-Chief Executive Officer  
and Managing Director

JOHN B. FISHER  
Managing Director

MICHAEL A. WAGMAN  
Managing Director

LANA REIKEN  
Chief Financial Officer  
and Corporate Secretary

DAVID I. STURDEE  
Principal

HEATHER G. CRAWFORD  
In-House Counsel

MICHAEL CASTELLARIN  
Vice-President

MITCHELL S. GREEN  
Vice-President

KAMAL PASTAKIA  
Associate

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Managing Director, Clairvest Group Inc.

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ISADORE SHARP O.C.\*\*  
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Four Seasons Hotels Inc.

## TRANSFER AGENT AND REGISTRAR

Investors are encouraged to contact  
CIBC Mellon Trust Company for information  
regarding their security holdings.

Information can be obtained at:

CIBC Mellon Trust Company  
Adelaide Street Postal Station  
P.O. Box 7010  
Toronto, Ontario M5C 2W9  
Answerline: 416.643.5500  
or toll-free throughout North America at  
1.800.387.0825  
web: [www.cibcmellon.ca](http://www.cibcmellon.ca)  
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## CORPORATE INFORMATION

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web: [www.clairvest.com](http://www.clairvest.com)

AUDITORS  
Ernst & Young LLP

THE ANNUAL MEETING OF  
SHAREHOLDERS  
September 16, 2005, at 10:30 a.m.  
TSX Conference Centre,  
Ground Level in the Exchange Tower,  
130 King Street West (at York Street),  
Toronto, Ontario.

All shareholders are encouraged to attend.

\* Member of Audit Committee

\*\* Member of Compensation and Human Resources Committee

**Clairvest believes it is important to contribute time, energy and money to the communities in which we live and work. Clairvest has donated over \$800,000 over the past 10 years.**

Bay Street Fore a Cau\$e Inc. • Baycrest Centre Foundation • Baycrest Centre for Geriatric Care • BC Lung Association • Boys and Girls Club of Ottawa • Canadian Friends of the Israel Museum • Canadian Institute of Health Research • Canadian Opera Company • Canadian Opera House Corporation • Canadian Technion • C.D. Howe Institute • Canadian Council of Christians and Jews • The Canadian Ditchley Foundation • The Canadian Institute for Advanced Research • The Canadian Shaare Zedek Hospital Foundation • The Council for Canadian Unity • Community Safety Village • Gairdner Foundation • HonestReporting Canada • Interim Place • Juvenile Diabetes Research • L.E.A.P. • Make-A-Wish Foundation • M.A.R.S. (Medical and Related Sciences Discovery District) • Mount Sinai Hospital • Mount Sinai Hospital Foundation • Miles Nadal JCC Toronto • National Terry Fox Run • North York General Hospital • The National Ballet of Canada • Ontario Genomics Institute • Ontario Crafts Council • Orchestre Symphonique de Montreal • The Power Plant • Princess Margaret Hospital Foundation • Premier's Advisory Committee on Executive Resources, Province of Ontario • Reena Foundation • Renascent Treatment Centre • Regent Park School of Music • Shaare Zedek Tourney • Shaw Festival Foundation • Southlake Regional Health Centre • Tastes of Heaven Charitable Dinner • Technion Institute of Technology, Israel • Terry Fox Humanitarian Award Program • Toronto Symphony Orchestra • UJA Federation of Greater Toronto • United Jewish Appeal of Metropolitan Toronto • United Way of Greater Toronto • University Health Network • University of Toronto Centre for Research in Neurodegenerative Diseases • University of Western Ontario President's Council • The Writer's Trust of Canada

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