

# CLAIRVEST

ANNUAL REPORT 2006



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**CONSISTENT AND DISCIPLINED INVESTMENT  
STRATEGY GENERATED ANOTHER YEAR OF POSITIVE  
RETURNS FOR OUR SHAREHOLDERS.**

**FELLOW SHAREHOLDER,**

Clairvest's consistent and disciplined investment strategy generated another year of positive returns during fiscal 2006. Our process for shareholder value creation led to growth in book value as the majority of our investee companies increased their net worth.

For the year ended March 31, 2006, Clairvest's book value per share rose to \$13.10, compared to \$12.99 a year earlier. This gain, when combined with the annual dividend of \$0.10 per share, represents an increase of 1.6%. While this growth is below our targets, it is the ninth consecutive year of rising book value and we anticipate continued growth in 2007 as we expect many fiscal 2006 initiatives to come to fruition in fiscal 2007. Growth in value is best measured over several years as single year changes in value can vary widely. Including dividends, our compound annual growth in book value of the past 5 years was 11.6% compared to 2.2% for the S&P 500.

Our returns on our private equity investments are solid. We have fully or partially realized our investments on 15 different companies. The internal rate of return generated on those investments is 25% as of March 31, 2006.

During the year we also continued our Normal Course Issuer Bid, purchasing a significant number of common shares for cancellation. Since initiating the Bid in 2003, we have purchased a total of 5.7 million voting and non-voting shares for, in aggregate, \$54.9 million, or an average of \$9.61 per share.

**KEY STRENGTHS**

Clairvest's steady growth in book value is derived from three key strengths. First and foremost is our people, who provide a comprehensive balance of experience and talent in the most important areas of our work. That bench strength was further bolstered during fiscal 2006 with several internal promotions to reflect broadened responsibilities among existing executives.

A second key strength is the alignment of interests between Clairvest's board, executives and senior management of our investee firms. We ensure all these groups share a common focus and direction by requiring them to hold significant personal financial investments in our and their businesses.

A third key strength is the way we make investments. The buoyant North American economy and increasingly competitive investment environment have pushed up prices of investee prospects, often to exorbitant levels. As a result, instead of bidding against a number of other players for companies in play, we prefer to stay out of broad auctions. Instead we find our own opportunities through Clairvest's proprietary domain-based research. This process identifies business sectors and industries where prospects for achieving investment objectives are most promising, and then locates appropriate prospects within those domains. This modus operandi was extensively deployed during fiscal 2006 and afterward to make new investments.

## **NEW INVESTMENTS**

The first new Clairvest investment in fiscal 2006 was Integral Orthopedics Inc. Through acquisition, Integral brought together Obus Forme, North America's leading brand in backcare, with the leading technology in the industry. Back care remains an exceptionally promising domain and we are very optimistic about its future.

In October 2005, Clairvest joined with management of WarrenShepell, one of North America's leading providers of employee assistance programs, to acquire ownership of the company. As employers become increasingly cognizant of the importance of employee productivity, program specialists such as Toronto-based WarrenShepell are growing rapidly to meet demand.

Clairvest continued to make investments following the March 31 conclusion of fiscal 2006. In June we announced two transactions. The first was with Winters Bros. Waste Systems, Inc., an expanding and highly profitable refuse collection and disposal company in Long Island, New York. The second was Tsuu T'ina Gaming Limited Partnership, created to develop a charitable casino on Tsuu T'ina First Nation reserve land outside Calgary, a market that is underpenetrated. The gaming domain is an area of specialization for Clairvest, which also holds investments in successful casinos in Alberta and British Columbia.

## **CEP FUND III LAUNCHED**

The Tsuu T'ina investment used up the remaining capital in the \$219 million Clairvest Equity Partners (CEP) Fund, which is now fully allocated. As we concluded due diligence on Tsuu T'ina, we were busy laying the groundwork for further growth of Clairvest's investment portfolio with the creation of CEP Fund III. The capitalization target of up to \$240 million will be invested alongside at least \$60 million of Clairvest capital to form a \$300 million co-investment pool. At second closing on May 19 we were 82% toward that objective with \$245 million raised.

## **WELLINGTON FINANCIAL PORTFOLIO GROWS**

Wellington Financial LP, our bridge lending vehicle operated in partnership with fund management, was also quite active during 2006. Wellington Fund II, capitalized at \$83 million in December 2004, grew its loan portfolio to \$51 million at March 31, 2006. The fund had 10 loans outstanding to companies that provide wireless data communications, entertainment software, information technology training, corporate performance management software and medical imaging devices.

## **ACKNOWLEDGEMENTS**

The achievements of fiscal 2006 were made possible by a combination of talents and energy that make Clairvest the dynamic and exciting enterprise that it is. Our thanks to the management teams of our investee companies for their entrepreneurship, to our fund partners for their engagement, to Clairvest management for their leadership, to our staff for their expertise and energy, and to our board of directors for their guidance, advice and counsel. But most of all, we thank our shareholders for their confidence in the people of Clairvest Group.



Jeff Parr  
Co-Chief Executive Officer  
July 6, 2006



Ken Rotman  
Co-Chief Executive Officer

The Management's Discussion and Analysis ("MD&A") of financial condition and results of operations analyzes significant changes in Clairvest Group Inc.'s financial results, financial position, risks and opportunities. It should be read in conjunction with the Consolidated Financial Statements.

The following MD&A is the responsibility of management and is as of June 21, 2006. The Board of Directors carries out its responsibility for review of this disclosure through its Audit Committee. The Audit Committee reviews the disclosure and recommends its approval to the Board of Directors.

## **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.

The Company's shares are traded on the Toronto Stock Exchange under the stock symbol "CVG".

At March 31, 2006, Clairvest had 12 core investments in ten different industries. Seven of these investments are joint investments with CEP. Clairvest also held an investment in Wellington Financial Fund II ("Wellington Fund II").

## **OVERVIEW OF FISCAL 2006**

An overview of the significant events during fiscal 2006 follows:

- Clairvest sold its interests in Signature Security Group Holdings Pty Limited ("Signature") and Equity SPV Pty Limited ("SPV") as part of a sale of 100% of Signature and SPV. Clairvest received total proceeds of \$29.2 million, and has the potential, subject to a number of conditions, to receive over time up to an additional AUS\$2.1 million (CDN\$1.8 million) now being held in escrow.
- Clairvest acquired a 17.2% interest in WarrenShepell, a leading Canadian provider of employee assistance programs, for \$4.0 million. CEP acquired a 51.5% interest in WarrenShepell for \$12.0 million.
- Clairvest invested in Integral Orthopedics Inc. ("Integral Orthopedics"), which acquired the business assets of Obus Forme Ltd. and Moller LLC. Clairvest made a \$4.1 million investment in Integral Orthopedics, to acquire a 23.0% ownership interest. CEP acquired a 68.9% interest in Integral Orthopedics for \$12.4 million.
- Voxcom Incorporated completed an initial public offering. All of the convertible retractable preferred shares held by Clairvest in Voxcom Incorporated were purchased by Voxcom Incorporated. Clairvest reinvested virtually all of its proceeds on the IPO into 1,645,015 units of Voxcom Income Fund. As a result Clairvest holds a 20.1% interest in Voxcom Income Fund.
- Clairvest filed a new normal course issuer bid enabling it to make market purchases of up to 840,959 of its common shares in the 12-month period commencing March 6, 2006. As at June 21, 2006, Clairvest had purchased a total of 2,490,224 common shares under previous normal course issuer bids at a total cost of \$21.3 million. Clairvest can purchase a further 840,959 common shares under its current normal course issuer bid.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OUTLOOK

- The first quarter of fiscal 2007 has been extremely productive, with Clairvest closing several transactions that enhance shareholder value. We 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.
- In April and May 2006, Clairvest completed the first two closings of Clairvest Equity Partners III Limited Partnership ("CEP III"), a successor fund to CEP. CEP III, to be capitalized at up to \$240 million, will be invested alongside at least \$60 million of Clairvest capital to form a \$300 million co-investment pool for the Company's next round of private equity investments. Total capital raised to date is \$245 million.
- In April 2006, Clairvest purchased and cancelled 934,200 Clairvest common shares and 2,230,954 Clairvest non-voting shares in a transaction outside of Clairvest's normal course issuer bid. The Ontario Securities Commission granted an exemption requested by Clairvest from the issuer bid requirements of the Securities Act in connection with the purchase of these shares. The \$33.0 million purchase price was satisfied by an unsecured promissory note with a term of 10 years at a floating interest rate. Upon the disposition of certain investments, Clairvest will be required to make principal payments on the note. As a result of the transaction, Clairvest's book value per share increased by approximately 53 cents subsequent to year end.
- In May 2006, Gateway Casinos Income Fund ("Gateway Income Fund") acquired the operating assets of the Cascades Langley Casino and Hotel from a subsidiary of Gateway Casinos Inc. ("Gateway Casinos"). As a result of the transaction, Clairvest received \$17.9 million in loans from Gateway Casinos entities, and acquired 1.1 million units in Gateway Income Fund. The increase in book value as a result of this transaction is included in the March 31, 2006 Consolidated Financial Statements. Subject to certain conditions, Clairvest may be entitled to receive an additional 0.2 million units in Gateway Income Fund currently being held in escrow. Also, subject to certain conditions, Clairvest may be entitled to an additional \$3.0 million in units issued at a price equal to the 10-day weighted average price of the units on the date of issue. The contingent amounts are not included in the March 31, 2006 Consolidated Financial Statements. Following the transaction, Clairvest owned 28.4% of Gateway Casinos and 9.1% of Gateway Income Fund. Gateway Income Fund also announced an increase in monthly distributions to shareholders by \$0.0045 per unit, for a monthly distribution of \$0.1195 per unit or \$1.4340 per unit on an annualized basis. As a result, annualized distributions to Clairvest increased by 83% to \$3.7 million annually.
- In June 2006, Datamark Systems Group Inc. ("Datamark") paid a special dividend, Clairvest's share of which was \$4.7 million.
- In June 2006, Clairvest invested in Winters Bros. Waste Systems, Inc. ("Winters Bros."), a leading Long Island, New York-based waste management company. Clairvest acquired a minority ownership interest in Winters Bros. for \$4.3 million.

At March 31, 2006, Clairvest had \$114.3 million in cash, cash equivalents and temporary investments and \$68.9 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

### **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.

### **REGULATORY FILINGS**

The Company's continuous disclosure materials, including interim filings, annual MD&A and audited consolidated financial statements, Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Canadian Securities Administrations' website at [www.sedar.com](http://www.sedar.com).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SUMMARY OF CLAIRVEST'S INVESTMENTS AT MARCH 31, 2006

| Investment                                      | Trading Symbol and Exchange | Ownership Percentage <sup>(14)</sup> | Cost of Investment (millions) | Net Cash Investment (millions) <sup>(15)</sup> | Fair Value of Investment (millions) <sup>(16)</sup> | Description of Business  |
|---|-----------------------------|--------------------------------------|-------------------------------|--|---|--|
| <b>PUBLICLY-TRADED INVESTMENTS</b>              |                             |                                      |                               |  |   |  |
| Datamark Systems Group Inc. <sup>(11)</sup>     | DMK - TSX                   | 36.5%                                | \$ 14.4                       | \$ 1.5   | \$ 12.9   | 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                       | \$ (24.9)                                      | \$ 22.97  | A leading casino operator that operates casinos in Western Canada.   |
| VOXCOM Income Fund <sup>(3)</sup>               | VOX.UN - TSX                | 20.1%                                | \$ 11.2                       | \$ 7.2   | \$ 15.5   | A security company that sells, installs, services and monitors security alarm systems for residential and commercial subscribers in Canada.                |
| <b>PRIVATELY-HELD INVESTMENTS</b>               |                             |                                      |                               |  |   |  |
| Allied Global Holdings Inc. <sup>(4)</sup>      | Private                     | 8.4%                                 | \$ 3.0                        | \$ 3.0   | \$ 4.8  | 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>(5)</sup> | Private                     | 24.8%                                | \$ 7.4                        | \$ 7.4   | —   | 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>(6)</sup>             | Private                     | 28.4%                                | \$ 24.0                       | \$ 2.7   | \$ 68.2   | A gaming management company that operates casinos in Western Canada.   |
| Integral Orthopedics Inc. <sup>(7)</sup>        | Private                     | 23.0%                                | \$ 4.1                        | \$ 4.1   | \$ 4.1  | A back care company that manufactures and markets Obus Forme and Moller branded products. CEP owns 68.9% of Integral Orthopedics.                          |
| Landauer Metropolitan Inc. <sup>(8)</sup>       | Private                     | 13.4%                                | \$ 4.1                        | \$ 4.1   | \$ 5.0  | The dominant supplier of home medical equipment in the New York City area. CEP owns 40.1% of Landauer.   |
| N-Brook Mortgage L.P. <sup>(9)</sup>            | Private                     | 14.7%                                | \$ 2.7                        | \$ 2.7   | \$ 2.7  | A company that originates, adjudicates and underwrites mortgages in Ontario, Canada. CEP owns 44.1% of N-Brook.  |
| NRI Industries Inc. <sup>(10)</sup>             | Private                     | 84.7%                                | \$ 17.6                       | \$ 17.6  | \$ 5.1  | A North American company that converts scrap rubber into value-added manufactured products.  |
| Van-Rob Inc. <sup>(11)</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.  |
| WarrenShepell <sup>(12)</sup>                   | Private                     | 17.2%                                | \$ 4.0                        | \$ 4.0   | \$ 4.0  | A leading Canadian provider of employee assistance programs and related organizational health and wellness services. CEP owns 51.5% of WarrenShepell.      |
| Wellington Financial Fund II <sup>(13)</sup>    | Private                     | 24.1%                                | \$ 13.6                       | \$ 11.3  | \$ 14.9   | Provides debt capital and operating lines to technology, biotechnology, communications and industrial product companies.                                   |
| <b>TOTAL INVESTMENTS</b>                        |                             |                                      | <b>\$ 126.1</b>               | <b>\$ 45.7</b>                                 | <b>\$ 165.1</b>                                     |  |

- (1) Clairvest owns 4,675,670 common shares and held 20,000 options in Datamark. Clairvest received a total of \$12.9 million in tax-free dividends from Datamark to March 31, 2006, resulting in a net cash investment at March 31, 2006 of \$1.5 million. Subsequent to year end, Datamark declared a special dividend, Clairvest's share of which is \$4.7 million, such that Clairvest has recouped 100% of its invested capital and is in a \$3.2 million net proceeds position.
- (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, \$11.9 million of distributions received and \$15.0 million in loans, net of 7.8 million of interest paid on the interest bearing loan.
- (3) Clairvest owns 1,645,015 units in Voxcom. Clairvest rolled \$3.6 million of fees and interest into shares, incurred a \$1.1 million loss on the sale of common shares and received total distributions of \$1.4 million, resulting in a net cash investment of \$7.2 million.
- (4) Clairvest owns 43,299 10% convertible Class B preferred shares in Allied.
- (5) Clairvest owns 2,500 Class A preferred shares, 26,830 common shares and 45,000 warrants in Consolidated Vendors. Clairvest also holds US\$3.3 million of senior debt, a \$0.5 million short-term loan and \$0.7 million of demand notes. Clairvest would owe CEP \$3.5 million under a guarantee payable to CEP if Consolidated Vendors were disposed of at the current fair value. \$3.3 million of the guarantee payable was reflected as a reduction in the fair value of Clairvest's investment in Consolidated Vendors, bringing the net carrying value of the investment to nil. The remaining \$0.2 million was reflected in accounts payable.
- (6) Clairvest owns 28.4% of a limited partnership that owns Gateway Casinos. The net cash investment is \$2.7 as a result of \$12.7 million of loans received from Gateway Casinos, and \$8.6 million in distributions received.
- (7) Clairvest owns 4,120,250 Class A Voting common shares in Integral Orthopedics.
- (8) Clairvest owns 1,906,250 10% cumulative convertible preferred shares and 446,858 common shares in Landauer. Clairvest also holds a US\$0.4 million bridge loan.
- (9) Clairvest has committed to fund \$5.0 million to N-Brook, subject to N-Brook's management achieving certain targets, \$2.7 million of which was funded at March 31, 2006.
- (10) 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.
- (11) Clairvest owns 5,000,000 Class A special convertible shares in Van-Rob.
- (12) Clairvest owns 4,000,000 limited partnership units in WarrenShepell.
- (13) Clairvest has committed to fund \$20.0 million to Wellington Fund II, \$13.6 million of which was funded at March 31, 2006. The net cash investment is reduced by \$2.3 million of distributions received.
- (14) Ownership percentage calculated on a fully diluted basis at March 31, 2006.
- (15) Net cash investment is cost net of dividends, interest and other distributions received but excludes advisory and other fees received.
- (16) 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

### FINANCIAL HIGHLIGHTS

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 for which no sales restrictions apply is based on the quoted market price. The fair value for Clairvest's publicly-traded investments for which are escrowed or otherwise restricted as to sale or transfer are recorded at amounts discounted from market value. 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. Estimated costs of disposition are not included in the fair value determination.

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.

### SELECTED FINANCIAL PERFORMANCE MEASURES

| Year ended March 31, (\$000's, except per share amounts) | 2006    | 2005     | 2004    |
|--|---------|----------|---------|
| <b>Financial Performance Measures</b>                    |         |          |         |
| Net realized gains on investments                        | 4,239   | 14,591   | 8,786   |
| Previously recognized net unrealized (gains)             | (3,516) | (40,211) | (4,700) |
| Net unrealized gains on investments                      | 2,056   | 32,248   | 6,943   |
| Net income   | 2,248   | 29,890   | 12,827  |
| Basic net income per share                               | 0.12    | 1.50     | 0.62    |
| Fully diluted net income per share                       | 0.11    | 1.43     | 0.59    |
| Dividends declared per share                             | 0.10    | 0.10     | 0.10    |
| <b>Financial Condition Measures</b>                      |         |          |         |
| Total assets   | 288,807 | 293,563  | 301,486 |
| Total cash, cash equivalents and temporary investments   | 114,292 | 103,031  | 93,608  |
| Total corporate investments                              | 165,165 | 180,246  | 199,448 |
| Total liabilities  | 38,870  | 36,533   | 67,045  |

### Income Statement Highlights

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, 2006 was \$2.2 million, versus \$29.9 million for the year ended March 31, 2005 and \$12.8 million for the year ended March 31, 2004.

Clairvest realized gains on investments of \$4.2 million in fiscal 2006 versus \$14.6 million in fiscal 2005 and \$8.8 million in fiscal 2004. The gain in 2006 resulted from the sale of Clairvest's interest in Signature and gains on the sale of the remainder of the warrants that were distributed to Clairvest on the wind up of Wellington Financial Fund I ("Wellington Fund I"). 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 Water Limited ("Sparkling Spring") in fiscal 2003 and gains on the sale of warrants that were distributed to Clairvest on the wind up of Wellington Fund I, net

## MANAGEMENT'S DISCUSSION AND ANALYSIS

of a loss on the sale of Voxcom Incorporated 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.

Clairvest reversed previously recognized unrealized gains of \$3.5 million in fiscal 2006 versus \$40.2 million in fiscal 2005 and \$4.7 million in fiscal 2004. Previously recognized unrealized gains that were reversed in fiscal 2006 relate primarily to unrealized gains that were recognized in fiscal 2006 and prior years with respect to the MKS Inc. warrants that were sold in fiscal 2006 and partnership income allocations that were received from Wellington Financial Fund II ("Wellington Fund II") in fiscal 2006. 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 Incorporated 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.

Clairvest had net unrealized gains on investments of \$2.1 million in fiscal 2006 versus \$32.2 million in fiscal 2005 and \$6.9 million in fiscal 2004. 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,                            | 2006            | 2005      | 2004       |
|---|-----------------|-----------|------------|
| <b>Investments in publicly-traded companies</b> |                 |           |            |
| Datamark Systems Group Inc.                     | \$ (1,643)      | \$ 4,367  | \$ (1,551) |
| Gateway Casinos Income Fund                     | (5,216)         | 7,832     | 24,498     |
| Voxcom Incorporated / Voxcom Income Fund        | 4,018           | —         | 35         |
|   | <b>(2,841)</b>  | 12,199    | 22,982     |
| <b>Investments in privately-held companies</b>  |                 |           |            |
| Allied Global Holdings Inc.                     | 432             | 392       | 368        |
| Consolidated Vendors Corporation                | (788)           | (1,393)   | (3,930)    |
| Gateway Casinos Inc.                            | 8,312           | 17,370    | 2,006      |
| Landauer Metropolitan Inc.                      | 284             | 274       | 241        |
| NRI Industries Inc.                             | (5,000)         | —         | (14,827)   |
| Signature Security Group Holdings Pty. Limited  | —               | —         | (113)      |
| Voxcom Incorporated                             | —               | 345       | —          |
| Wellington Financial Fund I                     | —               | 990       | 231        |
| Wellington Financial Fund II                    | 1,345           | 1,413     | —          |
|   | <b>4,585</b>    | 19,391    | (16,024)   |
| Other investments                               | 312             | 658       | (15)       |
|   | <b>\$ 2,056</b> | \$ 32,248 | \$ 6,943   |

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

Net income in fiscal 2006 included interest income of \$8.1 million, dividend income of \$0.9 million, management and advisory fees from Clairvest investee companies and temporary investments of \$1.7 million and from CEP of \$2.3 million, general and administration expenses of \$8.7 million, finance and foreign exchange expense of \$3.2 million and income tax expense of \$1.6 million. Included in general and administrative expenses was a \$3.5 million accrual with respect to Clairvest's stock option plan.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In fiscal 2006, Clairvest amended its stock option plan so as to allow for a cash settlement of stock options. As a result, effective fiscal 2006, compensation expense is recognized and recorded as a liability based upon the intrinsic value of the outstanding stock options at the balance sheet date and the proportion of their vesting periods that have elapsed. On the exercise of stock options for shares, the liability recorded with respect to the options and consideration paid by the employees are credited to share capital.

Net income in fiscal 2005 included interest income of \$6.7 million, dividend income of \$28.1 million, management and advisory fees from Clairvest investee companies of \$1.3 million and from CEP of \$2.6 million, general and administration expenses of \$7.8 million, finance and foreign exchange expense of \$4.3 million and income tax expense of \$3.4 million. Included in dividend income was a \$28.0 million tax-free dividend received from a Gateway Casinos entity.

Net income in fiscal 2004 included interest income of \$8.8 million, dividend income of \$1.8 million, management and advisory fees from Clairvest investee companies of \$1.0 million and from CEP of \$2.7 million, general and administration expenses of \$6.6 million, finance and foreign exchange expense of \$4.7 million and income tax expense of \$1.2 million.

### Balance Sheet Highlights

Total assets at March 31, 2006 was \$288.8 million, a decrease of \$4.8 million from \$293.6 million at March 31, 2005. The decrease in total assets was primarily due to the cash dividends paid and the purchase and cancellation of common shares under the normal course issuer bid, partially offset by the net income for the year.

With \$114.3 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%. The line of credit is decreased by the guarantee provided by Clairvest to the vendors of WarrenShepell. The line of credit available at March 31, 2006 is \$15.7 million.

As is typical of a merchant bank, Clairvest's main asset is its corporate investments. Corporate investments decreased \$15.1 million to \$165.2 million at March 31, 2006. The decrease is comprised primarily of:

- The sale of Signature with a fair value at March 31, 2005 of \$30.2 million;
- The sale of MKS warrants with a fair value at March 31, 2005 of \$1.8 million;
- A \$4.1 million investment in Integral Orthopedics;
- A \$4.0 million investment in WarrenShepell;
- Follow on investments totalling \$6.7 million in Consolidated Vendors Corporation ("Consolidated Vendors"), Landauer Metropolitan Inc. ("Landauer"), N-Brook Mortgage L.P. ("N-Brook") and Wellington Fund II; and
- Net unrealized gains on investments of \$2.1 million.

Corporate investments decreased \$19.2 million to \$180.2 million from March 31, 2004 to March 31, 2005.

A discussion on the activity in each corporate investment for the year ended March 31, 2006 follows.

### Datamark Systems Group Inc.

At March 31, 2006 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 decreased \$1.6 million to \$12.9 million at March 31, 2006. The decrease was due to a \$1.6 million unrealized loss resulting from the decrease in share price from \$3.10 per share at March 31, 2005 to \$2.75 per share at March 31, 2006. Clairvest recorded an unrealized gain of \$4.4 million for the year ended March 31, 2005, as a result of movements in the quoted market price.

The fair value of \$12.9 million at March 31, 2006 compares to a cost of \$14.4 million. The net cash investment at March 31, 2006 was \$1.5 million as a result of \$12.9 million of tax-free dividends received to March 31, 2006. Subsequent to year end, Datamark declared a special dividend, Clairvest's share of which is \$4.7 million, such that Clairvest has recouped 100% of its invested capital and is in a \$3.2 million net proceeds position at June 21, 2006.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Gateway Casinos Income Fund**

At March 31, 2006, 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 \$5.2 million to \$22.9 million at March 31, 2006. The decrease was due to a \$5.2 million unrealized loss resulting from the decrease in unit price from \$20.57 per unit at March 31, 2005 to \$16.75 per unit at March 31, 2006. Clairvest recorded an unrealized gain of \$7.8 million for the year ended March 31, 2005 as a result of an increase in unit price.

The fair value of \$22.9 million at March 31, 2006 compares to a cost of \$15.0 million. The net cash investment is in a net proceeds position of \$24.9 million at March 31, 2006 as a result of a total of \$50.8 million of net proceeds on the sale of units, \$11.9 million of distributions received and \$15.0 million in loans, net of 7.8 million of interest paid on the 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.

Subsequent to year end, Clairvest received an additional 1,140,481 units in Gateway Income Fund upon Gateway Income Fund's acquisition of the operating assets of the Cascades Langley Casinos and Hotel ("Cascades Casino") from Gateway Casinos. The increase in book value as a result of this transaction is included in the March 31, 2006 fair value of Gateway Casinos Inc. Subject to certain conditions, Clairvest may be entitled to receive up to an additional 0.2 million units in Gateway Income Fund currently being held in escrow. Also, subject to certain conditions, Clairvest may be entitled to an additional \$3.0 million in units issued at a price equal to the 10-day weighted average price of the units on the date of issue. The contingent amounts are not included in the March 31, 2006 fair value of Gateway Casinos Inc.

### **Voxcom Incorporated / Voxcom Income Fund ("Voxcom")**

At March 31, 2006, Clairvest owned 1,645,015 units in Voxcom Income Fund.

During fiscal 2006, Voxcom Incorporated completed an initial public offering ("IPO"). All of the convertible retractable preferred shares held by Clairvest in Voxcom Incorporated were purchased by Voxcom Incorporated. Clairvest reinvested virtually all of its proceeds on the IPO into 1,645,015 units of Voxcom Income Fund. As a result Clairvest holds a 20.1% interest in Voxcom Income Fund.

The fair value of Clairvest's investment in Voxcom increased \$3.7 million to \$15.5 million at March 31, 2006. The increase is due to a \$4.0 million unrealized gain resulting from the increase in value upon the initial public offering net of \$0.3 million in net cash received upon the initial public offering.

The fair value of \$15.5 million at March 31, 2006 compares to a cost of \$11.2 million. The net cash investment at March 31, 2006 was \$7.2 million as a result of the rolling of a total of \$3.6 million of fees and interest into shares of Voxcom Incorporated, the realization of a \$1.1 million unrealized loss on the sale of common shares and total distributions of \$1.4 million.

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

At March 31, 2006, Clairvest owned 43,299 10% convertible Class B preferred shares in Allied.

The fair value of Clairvest's investment in Allied increased \$0.4 million to \$4.8 million at March 31, 2006. The unrealized gain of \$0.4 million resulted from dividends accruing on the preferred shares. The accrued dividends were received during the year by way of a stock dividend of 3,936 preferred shares. Clairvest recorded an unrealized gain of \$0.4 million for the year ended March 31, 2005, as a result of dividends accruing on the preferred shares.

The fair value of \$4.8 million at March 31, 2006 compares to a cost of \$3.0 million.

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

At March 31, 2006, Clairvest owned 2,500 Class A preferred shares, 26,830 common shares, 45,000 warrants, US\$3.3 million of senior debt, a \$0.5 million demand loan and \$0.7 million of demand notes in Consolidated Vendors.

Clairvest sold certain shares of Consolidated Vendors to CEP during fiscal 2002, and Clairvest guaranteed to compensate

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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 \$3.5 million under this guarantee. \$3.3 million of the guarantee payable has been netted against the fair value of the investment, bringing net carrying value of the investment to nil. The remaining \$0.2 million has been included in accounts payable.

During fiscal 2006, Clairvest loaned \$0.2 million to Consolidated Vendors. Clairvest recorded an unrealized loss of \$0.8 million for fiscal 2006 and \$1.4 million for fiscal 2005. The unrealized losses of \$0.8 million resulted from an increase in the guarantee payable to CEP, the provision on amounts advanced during the fiscal year and movements in foreign exchange.

The fair value of Clairvest's investment in Consolidated Vendors was (\$0.2 million) at March 31, 2006 and \$0.2 million at March 31, 2005.

The fair value of (\$0.2 million) at March 31, 2006 compares to a cost of \$7.4 million.

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

At March 31, 2006, 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 increased \$8.3 million to \$68.2 million at March 31, 2006. The increase is due to an \$8.3 million unrealized gain during the year, resulting from 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 the increase in the fair value of the Cascades Casino, as evidenced by the proceeds received on the sale of the Cascades Casino subsequent to year end, excluding amounts held in escrow on the sale.

The fair value of \$68.2 million at March 31, 2006 compares to a cost of \$24.0 million. The net cash investment at March 31, 2006 was \$2.7 million as a result of \$12.7 million of loans received from Gateway Casinos, and \$8.6 million of distributions received.

Included in Clairvest's financial liabilities are \$27.7 million of loans payable to Gateway Casinos entities which arose as part of the IPO of Gateway Casinos Income Fund in fiscal 2003. 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. During fiscal 2006, Clairvest repaid \$1.1 million of the 30-year non-interest bearing loan, and in fiscal 2005, repaid \$3.3 million of this loan. The balance outstanding on the 30-year non-interest bearing loan at March 31, 2006 is \$12.6 million.

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 2006, Clairvest repaid nil of the 30-year interest bearing loan, and in fiscal 2005, repaid \$18.7 million of this loan. The balance outstanding on the 30-year interest-bearing loan at March 31, 2006 is \$15.0 million. Subsequent to year end, Clairvest received an additional \$17.9 million in loans from Gateway Casinos to acquire 1.1 million units in Gateway Income Fund.

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. The balance outstanding at March 31, 2006 is \$0.1 million.

### **Integral Orthopedics Inc. ("Integral Orthopedics")**

During the year, the Company acquired 4,120,250 Class A voting common shares of Integral Orthopedics for \$4.1 million. The fair value of \$4.1 million at March 31, 2006 compares to a cost of \$4.1 million.

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

At March 31, 2006, Clairvest, through its wholly-owned subsidiary, owned 1,906,250 10% cumulative convertible preferred shares and 446,858 common shares in Landauer.

During the year, the Company provided a \$0.5 million bridge loan to Landauer. The loan bears interest at a rate of 14% to July 21, 2006, 17% from July 22, 2006 to January 21, 2007, and 20% thereafter. If the loan has not been repaid by January 2007, the Company has the option to convert it to common shares.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The fair value of Clairvest's investment in Landauer increased \$0.8 million to \$5.0 million at March 31, 2006. The increase is due to an unrealized gain of \$0.3 million as a result of dividends accruing on the preferred shares and the \$0.5 million bridge loan provided during the year.

The fair value of \$5.0 million at March 31, 2006 compares to a cost of \$4.1 million.

### **N-Brook Mortgage LP ("N-Brook")**

At March 31, 2006, Clairvest had funded \$2.7 million of its \$5.0 million commitment to N-Brook. The fair value of \$2.7 million compares to a cost of \$2.7 million at March 31, 2006.

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

At March 31, 2006, 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.

The fair value of Clairvest's investment in NRI decreased \$5.0 million to \$5.1 million at March 31, 2006. Clairvest recorded an unrealized loss of \$5.0 million for the year ended March 31, 2006, due to a 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 \$5.1 million at March 31, 2006 compares to a cost of \$17.6 million.

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

During the year, Clairvest and Clairvest Group International (Netherlands) B.V. ("B.V.") sold their interests in Signature and SPV as part of a sale of 100% of Signature and SPV. SPV is a special purpose corporate entity formed to facilitate the loaning of certain funds to Signature. As part of the transaction, Signature and SPV repaid all loans outstanding to Clairvest. Clairvest and B.V. received total proceeds of \$29.2 million, and has the potential, subject to a number of conditions, to receive over time up to an additional AUS\$2.1 million (CDN\$1.8 million) now being held in escrow. As part of the transaction, B.V. has indemnified the purchaser for various claims up to the entire AUS\$35.5 million (CDN\$29.7 million) combined proceeds and escrowed amounts. The amount indemnified will reduce over time.

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

At March 31, 2006, Clairvest owned 5,000,000 Class A special convertible shares in Van-Rob. The fair value of \$5.0 million at March 31, 2006 compares to a cost of \$5.0 million.

### **WarrenShepell**

During the year, the Company, through its wholly-owned subsidiaries, acquired 4,000,000 units of WarrenShepell for \$4.0 million. The fair value of \$4.0 million at March 31, 2006 compares to a cost of \$4.0 million.

### **Wellington Financial Fund II**

At March 31, 2006, Clairvest had funded \$13.6 million of its \$20.0 million commitment to Wellington Fund II.

The fair value of Clairvest's investment in Wellington Fund II increased \$6.1 million to \$14.9 million at March 31, 2006. The increase is comprised of the funding of \$6.2 million of Clairvest's commitment during the year and a \$1.3 million unrealized gain net of distributions totalling \$1.4 million. The unrealized gain of \$1.3 million is a result of undistributed income and movements in the price of the shares underlying the warrants held by Wellington Fund II.

The fair value of \$14.9 million compares to a cost of \$13.6 million at March 31, 2006. The net cash investment at March 31, 2006 was \$11.3 million as a result of \$2.3 million of distributions received to March 31, 2006.

## **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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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 2006 CEP paid Clairvest net management fees of \$2.3 million.

Loans, bearing interest at the prime rate, were made by Clairvest to CEP during fiscal 2006, of which \$0.8 million were outstanding at March 31, 2006. The loan was repaid subsequent to year end. Interest of \$71,000 was received from CEP during fiscal 2006. Also, at year end, Clairvest had accounts receivable from CEP totalling \$1.6 million and from CEP III totalling \$0.1 million.

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 \$3.5 million under this guarantee if Consolidated Vendors were disposed of at the current fair value. \$3.3 million of the guarantee payable has been netted against the fair value of the investment, bringing net carrying value of the investment to nil. The remaining \$0.2 million has been included in accounts payable.

Clairvest has also entered into various transactions with its corporate investments. During fiscal 2006 Clairvest received \$5.4 million in interest, \$0.5 million in dividends and \$1.7 million in advisory and other fees from its corporate and temporary investments. During fiscal 2006 Clairvest paid \$1.2 million in interest on a loan from a Gateway Casinos entity. At March 31, 2006, Clairvest had accounts receivable from corporate investments totalling \$1.4 million.

At March 31, 2006, Clairvest had loans receivable from certain officers of the Company or officers of corporate investments (the "Officers") totalling \$0.5 million. The loans have full recourse and are collateralized by the common shares of Clairvest purchased by the Officers with a market value of \$0.6 million. At March 31, 2006, Clairvest also had loans receivable from certain officers of a company affiliated with Clairvest totalling \$0.2 million. Interest of \$22,000 was received during fiscal 2006.

Interest of \$44,000 was received from Wellington Fund II during fiscal 2006 as a result of the loan receivable which was outstanding at March 31, 2005. The loan was repaid during fiscal 2006.

### SUMMARY OF QUARTERLY RESULTS

|  | Net Revenue<br>\$ | Net Income(Loss)<br>\$ | Net Income(Loss)<br>Per Common Share<br>\$ | Net Income (Loss)<br>Per Common Share<br>Fully Diluted<br>\$ |
|--|-------------------|------------------------|--|--|
| (\$000's except per share information) |                   |                        |  |  |
| March 31, 2006                         | 14,611            | 11,264                 | 0.58                                       | 0.57   |
| December 31, 2005                      | 1,771             | 135                    | 0.01                                       | 0.01   |
| September 30, 2005                     | (5,628)           | (7,155)                | (0.37)                                     | (0.37)   |
| June 30, 2005                          | 4,989             | (1,996)                | (0.10)                                     | (0.10)   |
| 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   |

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Net income for the fourth quarter of 2006 was \$11.3 million compared with \$14.3 million for the fourth quarter of 2005.

Clairvest had realized gains on investments of \$2.8 million for the quarter, compared with \$2.6 million for the same quarter last year. The realized gains for the fourth quarter of fiscal 2006 were comprised of a \$1.5 million gain from the sale of Signature and a \$1.3 million gain from the sale of the remaining MKS Inc. shares that Clairvest had previously received on the windup of Wellington Financial Fund I. The realized gains for the fourth quarter of fiscal 2005 resulted from the release of the remaining \$2.6 million of funds that were held in escrow following the sale of Sparkling Spring Water in fiscal 2003.

Clairvest reversed previously recognized unrealized gains of \$1.7 million for the quarter, compared with \$27.9 million for the same quarter last year. \$0.7 million of the previously recognized unrealized gains relate to unrealized gains that were recognized on the MKS Inc. shares in prior quarters, and that were reversed upon the sale of MKS shares during the quarter. \$1.0 million of the previously recognized unrealized gains relate to unrealized gains that were recognized on Wellington Financial Fund II in prior quarters, and were reversed upon the receipt of distributions from Wellington Financial Fund II during the quarter. The distributions from Wellington Financial Fund II were included in interest income for the fourth quarter of fiscal 2006.

The previously recognized unrealized gains that were reversed in the fourth quarter of fiscal 2005 relate to unrealized gains that were recognized in fiscal 2005 and prior years with respect to Gateway Casinos Inc. that were reversed upon the receipt of a \$28.1 million dividend from Gateway Casinos Inc. in the fourth quarter of fiscal 2005.

Clairvest had net unrealized gains on investments of \$9.3 million for the fourth quarter of 2006, compared with \$13.6 million for the fourth quarter of 2005. The net unrealized gains for the fourth quarter of 2006 resulted from:

- An \$11.9 million upward adjustment to the fair value of Clairvest's investment in Gateway Casinos Inc., as a result of an increase in the fair value of the Cascades Casino operated by Gateway Casinos Inc. and the upward movement in the trading price of Gateway Casinos Income Fund, to which Clairvest's valuation of the casinos in Gateway Casinos Inc. is linked;
- A \$5.0 million downward adjustment to the fair value of Clairvest's investment in NRI Industries Inc. 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;
- A \$1.3 million upward adjustment to the fair value of Clairvest's investment in Voxcom Income Fund as a result of an upward movement in the trading price;
- A \$1.1 million upward adjustment to the fair value of Clairvest's investment in Gateway Casinos Income Fund as a result of the upward movement in the trading price;
- A \$0.6 million downward adjustment to the fair value of Clairvest's investment in Consolidated Vendors Corporation as a result of movements in foreign exchange and guarantee payable to CEP; and
- Movements in quoted market prices, movements in foreign exchange, dividends that are accruing on cumulative shares and distributions that are accruing on partnership units.

Interest income for the quarter was \$2.7 million, compared with \$1.6 million for the same quarter last year. Interest income for the fourth quarter of fiscal 2006 includes distributions of \$0.5 million from Gateway Casinos Income Fund, \$0.5 million from Voxcom Income Fund and \$0.7 million from Wellington Financial Fund II. Interest income for the fourth quarter of fiscal 2005 included distributions of \$0.5 million from Gateway Casinos Income Fund and \$0.1 million from Wellington Financial Fund II.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Dividend income for the quarter was \$0.6 million, compared with \$28.1 million for the fourth quarter of 2005. Dividend income for the fourth quarter of fiscal 2006 includes \$0.5 million of tax-free dividends from Gateway Casinos Inc. and \$0.1 million of dividends from Clairvest's temporary investments. Dividend income for the fourth quarter of 2005 represented tax-free dividends from Gateway Casinos Inc.

Clairvest earned \$0.6 million in management fees during the quarter for its services in the administration of CEP's portfolio and \$0.3 million in advisory and other fees from its corporate investments.

Administration and other expenses for the quarter were \$1.7 million, compared with \$1.6 million for the same quarter last year.

Finance and foreign exchange expense of \$1.2 million for the quarter represents \$0.3 million in interest on the loan payable to a subsidiary of Gateway Casinos Inc., a \$0.8 million loss on foreign exchange and \$0.1 million in interest on foreign exchange forward contracts. Finance and foreign exchange expense of \$1.7 million for the fourth quarter of fiscal 2005 represents \$0.3 million in interest on the loan payable to a subsidiary of Gateway Casinos Inc., a \$1.4 million loss on foreign exchange and \$0.1 million on other interest and bank charges net of a \$0.1 million gain on foreign exchange forward contracts.

### 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, \$22.2 million of which remains outstanding at March 31, 2006. 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. Included in the commitment to co-invest with CEP is \$5.0 million to N-Brook, which is subject to N-Brook management achieving certain targets. Of this commitment, \$2.7 million has been funded to March 31, 2006.

Clairvest has committed to fund \$20.0 million to Wellington Fund II, \$13.6 million of which has been funded to March 31, 2006.

Clairvest enters into foreign exchange forward contracts to manage the risks arising from fluctuations in exchange rates on its foreign investments. At March 31, 2006, Clairvest had entered into forward contracts to sell US\$14.0 million. The fair value of these contracts at March 31, 2006 is a loss of \$0.4 million. The U.S. dollar contracts which have been entered into as a hedge against the debt portion of Clairvest's investments have a fair value of a loss of \$0.3 million, 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.

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 \$3.5 million would be owing to management under the Incentive Bonus Program. This amount has not been reflected in Clairvest's consolidated financial statements.

During fiscal 2006, Clairvest, together with CEP and WarrenShepell management, purchased WarrenShepell. As part of this purchase, Clairvest also guaranteed a \$4.55 million note payable by WarrenShepell to the vendors, as well as interest payable on the note. The note is subject to claims Clairvest may have with respect to representations and warranties. Any amounts paid under the guarantee will result in additional equity ownership being granted to Clairvest and CEP, allocated 25% to Clairvest and 75% to CEP. CEP will reimburse Clairvest for 75% of any amounts paid under the guarantee. At March 31, 2006, the guarantee has been reduced to \$4.29 million, and subsequent to year end was further reduced to \$3.8 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

During the year, Clairvest and Clairvest Group International (Netherlands) B.V. ("B.V.") sold their interests in Signature and SPV as part of a sale of 100% of Signature and SPV. Clairvest and B.V. received total proceeds of \$29.2 million, and has the potential, subject to a number of conditions, to receive over time up to an additional AUS\$2.1 million (CDN\$1.8 million) now being held in escrow. As part of the transaction, B.V. has indemnified the purchaser for various claims up to the entire AUS\$35.5 million (CDN\$29.7 million) combined proceeds and escrowed amounts. The amount indemnified will reduce over time.

### 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, liquidity of the security and the size of Clairvest's ownership block and any other factors that may be relevant to the ongoing and realizable value of the investments.

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.

### 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 the United States. In order to limit its exposure to changes in the value of the United States 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 31.1% of the fair value of Clairvest's investments at March 31, 2006, 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

### DERIVATIVE FINANCIAL INSTRUMENTS

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 were valued at \$0.3 million liability at March 31, 2006 versus \$0.1 million liability at March 31, 2005. Derivative instruments market valuation at March 31, 2006 represents the valuation of the foreign exchange forward contracts being held at March 31, 2006 as hedges against the debt portion of Clairvest's foreign-denominated investments. Derivative instruments market valuation was not significant at March 31, 2004.

Deferred gain on foreign exchange forward contracts at March 31, 2006 was \$0.9 million versus \$0.6 million at March 31, 2005 and a deferred loss of \$2.8 million at March 31, 2004. The \$0.9 million deferred gain at March 31, 2006 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.

### UPDATED SHARE INFORMATION

At March 31, 2006, Clairvest had 16,841,966 common shares and 2,230,954 non-voting shares issued and outstanding. At March 31, 2006, Clairvest had 1,522,000 stock options outstanding, 1,050,800 of which were exercisable at March 31, 2006. Each option is exercisable for one common share.

During fiscal 2006, Clairvest purchased and cancelled under its normal course issuer bid 868,972 of its common shares at a total purchase cost of \$8.6 million and cancelled 8,500 of its common shares that were purchased in fiscal 2005 at a total purchase cost of \$0.1 million. Share capital decreased \$4.5 million and retained earnings decreased \$4.2 million as a result of the purchases during the year ended March 31, 2006. As at June 21, 2006, Clairvest had purchased a total of 2,490,224 common shares under this, and previous, normal course issuer bids at a total cost of \$21.3 million.

During fiscal 2006, 170,000 common shares were issued on the exercise of stock options, increasing share capital by \$1.2 million.

Subsequent to year end, Clairvest purchased and cancelled 934,200 Clairvest common shares and 2,230,954 Clairvest non-voting shares in a transaction outside of Clairvest's normal course issuer bid. The Ontario Securities Commission granted an exemption requested by Clairvest from the issuer bid requirements of the Securities Act in connection with the purchase of these shares. The \$33.0 million purchase price was satisfied by an unsecured promissory note with a term of 10 years at a floating interest rate. Upon the disposition of certain investments, Clairvest will be required to make principal payments on the note. Upon cancellation of the shares, Clairvest had 15,907,766 common shares and nil non-voting shares outstanding.

Clairvest paid cash dividends of \$0.10 per share on the common shares and non-voting shares in each of fiscal 2006, fiscal 2005 and fiscal 2004.

### DISCLOSURE CONTROLS

Management has evaluated the effectiveness of Clairvest's disclosure controls and procedures as of March 31, 2006. Management has concluded that the disclosure controls and procedures are effective as of March 31, 2006 based on this evaluation.

## MANAGEMENT'S REPORT

The consolidated financial statements of Clairvest Group Inc. were prepared by management, which is responsible for the integrity and fairness of the financial information presented. These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual 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.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee. The Audit Committee, comprised of three non-management Directors, meets periodically with management and with external auditors to discuss the scope and results with respect to financial reporting of the Company. The Audit Committee has reviewed the consolidated statements with management and with the independent auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Ernst & Young LLP, appointed external auditors by the shareholders, have audited the consolidated financial statements and their report is included herewith.



B. Jeffrey Parr

Co-Chief Executive Officer and Managing Director



Lana Reiken, C.A.

Chief Financial Officer and Corporate Secretary

## AUDITORS' REPORT

### TO THE SHAREHOLDERS OF CLAIRVEST GROUP INC.

We have audited the consolidated balance sheets of Clairvest Group Inc. as at March 31, 2006 and 2005 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Canada,  
June 6, 2006.

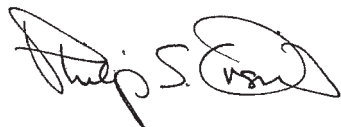
## CONSOLIDATED BALANCE SHEETS

As at March 31

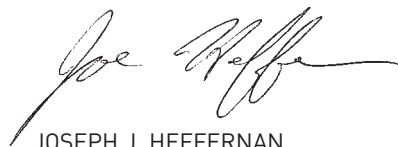
| \$000's  | 2006              | 2005              |
|--|-------------------|-------------------|
| <b>ASSETS</b>  |                   |                   |
| Cash and cash equivalents (Note 12)                            | \$ 12,395         | \$ 1,828          |
| Temporary investments (Note 3)                                 | 101,897           | 101,203           |
| Accounts receivable and other assets (Notes 4c and 5h)         | 5,011             | 4,529             |
| Loans receivable (Notes 4d and 4e)                             | 800               | 5,623             |
| Future tax asset (Note 9)                                      | 3,539             | 134               |
| Corporate investments (Note 5)                                 | 165,165           | 180,246           |
|  | <b>\$ 288,807</b> | <b>\$ 293,563</b> |
| <b>LIABILITIES</b>   |                   |                   |
| Accounts payable (Notes 4c, 5, 11 and 14b)                     | \$ 4,945          | \$ 4,759          |
| Loans payable (Note 7)   | 27,699            | 28,788            |
| Derivative instruments market valuation (Note 13b)             | 330               | 112               |
| Deferred gain on foreign exchange forward contracts (Note 13b) | 928               | 558               |
| Future tax liability (Note 9)                                  | 1,385             | 2,316             |
| Stock-based compensation (Note 11)                             | 3,583             | —                 |
|  | <b>38,870</b>     | <b>36,533</b>     |
| Contingencies and commitments (Notes 4, 5, 8, 13, 14 and 15)   |                   |                   |
| <b>SHAREHOLDERS' EQUITY</b>                                    |                   |                   |
| Share capital (Note 10)  | 103,496           | 106,704           |
| Shares purchased for cancellation (Note 10)                    | —                 | (80)              |
| Stock-based compensation (Note 11)                             | —                 | 138               |
| Retained earnings  | 146,441           | 150,268           |
|  | <b>249,937</b>    | <b>257,030</b>    |
|  | <b>\$ 288,807</b> | <b>\$ 293,563</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 STATEMENTS OF INCOME

For the years ended March 31

| \$000's (except per share information)                         | 2006          | 2005      |
|--|---------------|-----------|
| <b>NET INVESTMENT GAINS</b>                                    |               |           |
| Net realized gains on investments                              | \$ 4,239      | \$ 14,591 |
| Previously recognized net unrealized gains (Note 2f)           | (3,516)       | (40,211)  |
| Net unrealized gains on investments                            | 2,056         | 32,248    |
|  | <b>2,779</b>  | 6,628     |
| <b>OTHER INCOME</b>  |               |           |
| Interest income (Notes 4c, 4d, 4e and 4g)                      | 8,051         | 6,676     |
| Dividend income (Note 4g)                                      | 860           | 28,080    |
| Management fees (Note 4a)                                      | 2,307         | 2,629     |
| Advisory and other fees (Notes 4a and 4g)                      | 1,746         | 1,305     |
|  | <b>12,964</b> | 38,690    |
| Administration and other expenses                              | 8,694         | 7,793     |
| Finance and foreign exchange expense (Notes 4g, 5e, 5h and 5k) | 3,162         | 4,257     |
|  | <b>11,856</b> | 12,050    |
| Income before income taxes                                     | 3,887         | 33,268    |
| Provision for income taxes (Note 9)                            | 1,639         | 3,378     |
| Net income   | \$ 2,248      | \$ 29,890 |
| Basic net income per share (Note 10)                           | \$ 0.12       | \$ 1.50   |
| Fully diluted net income per share (Note 10)                   | \$ 0.11       | \$ 1.43   |

(see accompanying notes to consolidated financial statements)

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended March 31

| \$000's                                       | 2006           | 2005       |
|---|----------------|------------|
| Retained earnings, beginning of year          | \$ 150,268     | \$ 124,640 |
| Net income                                    | 2,248          | 29,890     |
|   | <b>152,516</b> | 154,530    |
| Dividends paid                                | (1,925)        | (2,007)    |
| Purchase and cancellation of shares (Note 10) | (4,150)        | (2,255)    |
| Retained earnings, end of year                | \$ 146,441     | \$ 150,268 |

(see accompanying notes to consolidated financial statements)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31

| \$000's   | 2006             | 2005      |
|---|------------------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                     |                  |           |
| Net income  | \$ 2,248         | \$ 29,890 |
| Add (deduct) items not involving a current cash outlay                          |                  |           |
| Amortization  | 71               | 84        |
| Stock-based compensation  | 3,445            | 81        |
| Future income taxes (recovered)   | (4,336)          | (183)     |
| Net realized gains on investments   | (4,239)          | (14,591)  |
| Previously recognized net unrealized gains                                      | 3,516            | 40,211    |
| Net unrealized gains on investments   | (2,056)          | (32,248)  |
| Non-cash income relating to corporate investments                               | 898              | 1,516     |
|   | <b>(453)</b>     | 24,760    |
| Net change in non-cash working capital balances related to operations (Note 12) | <b>(367)</b>     | 2,319     |
|   | <b>(820)</b>     | 27,079    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                     |                  |           |
| Cancellation of common shares (Note 10)   | <b>(8,735)</b>   | (5,895)   |
| Shares purchased for cancellation (Note 10)                                     | —                | (80)      |
| Issuance of common shares   | 1,297            | 194       |
| Loans payable   | 418              | 17,502    |
| Repayment of loans payable  | <b>(1,507)</b>   | (49,938)  |
| Dividends paid  | <b>(1,925)</b>   | (2,007)   |
|   | <b>(10,452)</b>  | (40,224)  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                     |                  |           |
| Net temporary investments   | <b>(694)</b>     | (12,290)  |
| Acquisition of corporate investments  | <b>(17,450)</b>  | (11,523)  |
| Proceeds on sale of corporate investments                                       | <b>32,925</b>    | 34,886    |
| Loans receivable  | <b>(33,466)</b>  | (5,623)   |
| Receipt of loans receivable   | <b>38,289</b>    | —         |
| Proceeds on realization of foreign exchange forward contracts                   | <b>1,936</b>     | 920       |
| Return of capital from corporate investments                                    | <b>299</b>       | 3,908     |
|   | <b>21,839</b>    | 10,278    |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                     | <b>10,567</b>    | (2,867)   |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                             | <b>1,828</b>     | 4,695     |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 12)</b>                         | <b>\$ 12,395</b> | \$ 1,828  |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>                                       |                  |           |
| Income taxes paid   | <b>\$ 2,388</b>  | \$ 3,624  |
| Interest paid   | <b>\$ 1,213</b>  | \$ 2,029  |

[see accompanying notes to consolidated financial statements]

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006 and 2005 (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. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The 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.

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

#### (a) Corporate Investments

Investments in securities 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. Estimated costs of disposition are not included in the fair value determination.

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, liquidity of the security and the size of Clairvest's ownership block and any other factors that may be relevant to the ongoing and realizable value of the investments. Estimated costs of disposition are not included in the fair value determination.

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. Estimated costs of disposition are not included in the fair value determination.

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.

#### (b) 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, bankers' acceptances and short-term corporate bonds.

#### (c) Temporary Investments

Temporary investments are carried at cost plus accrued interest.

#### (d) 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 and items that are hedged but not eligible for hedge accounting.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **(e) Derivative 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's 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 included in income in the current period.

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.

### **(f) Income Recognition**

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

### **(g) Income Taxes**

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

### **(h) Stock-Based Compensation Plan**

In the first quarter of fiscal 2006, Clairvest amended its stock option plan so as to allow a cash settlement of stock options. As a result, effective fiscal 2006, compensation expense is recognized and recorded as a liability based on the intrinsic value of the outstanding stock options at the consolidated balance sheet dates and the proportion of their vesting periods that have elapsed. On the exercise of stock options for shares, the liability recorded with respect to the options and consideration paid by the employees are credited to share capital.

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

Directors of the Company may elect to receive all or a portion of their compensation in deferred share units ("DSUs"). On the date directors fees are payable, the number of DSUs to be credited to a participant is determined by dividing the amount of the fees to be received by way of DSUs by the market value of a common share on the Toronto Stock Exchange. Upon redemption of DSUs, the Company pays to the participant a lump sum cash payment equal to the number of DSUs 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 DSUs only following termination of board service.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### **(j) 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 ("BVARs"). Upon the redemption of BVARs, the Company pays to the participant a lump sum cash payment equal to the number of BVARs to be redeemed multiplied by the increase in book value per share between the grant date and the redemption date. The BVARs vest over a five-year period and the participant may only redeem his or her BVARs at the earlier of i) five years from the grant date or ii) cessation of employment with the Company.

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

### **(k) 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. Fully diluted net income per share is determined 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.

### **(l) Use of Estimates**

The preparation of 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, 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 periods. Actual results could differ from those estimates.

### **(m) 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 was 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 was not material given that Clairvest measured its investments at fair value prior to the adoption of the Guideline.

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. The impact on the consolidated financial statements resulting from the adoption of the Guideline was 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 was no impact on the consolidated financial statements resulting from the adoption of the Guideline.

### 3. TEMPORARY INVESTMENTS

Temporary investments have maturities greater than 90 days and through to September 2010. Temporary investments consist of corporate notes, debentures and loans. The yield on these investments ranges between 3.9% and 12.0% (2005 – between 2.3% and 3.7%) with a weighted average yield thereon of 4.5% (2005 – 3.1%).

### 4. 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 2006, CEP paid Clairvest net management fees of \$2.3 million (2005 – \$2.6 million) as compensation for its services in the administration of the portfolio of CEP. As per the Management Agreement, fees of \$1.0 million (2005 – \$0.7 million) from corporate investments of CEP were netted against the management fees.
- (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 \$0.5 million (2005 – \$0.7 million) and other loans made to certain officers of a company affiliated with Clairvest totalling \$0.2 million (2005 – \$0.2 million). 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 \$0.6 million (2005 – \$1.1 million). 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 quarterly. Loans are repayable upon departure of the officer. Interest of \$22,000 (2005 – \$45,000) was received during fiscal 2006. Also included in accounts receivable and other assets are receivables from Clairvest's corporate investments totalling \$1.4 million (2005 – \$0.7 million), from a corporate investment previously disposed of totalling nil (2005 – \$2.7 million), from CEP totalling \$1.6 million (2005 – nil) and from Clairvest Equity Partners III Limited Partnership ("CEP III") totalling \$0.1 million (2005 – nil). Included in accounts payable is nil (2005 – \$13,000) owing to CEP.
- (d) Loans, bearing interest at the prime rate, were made by the Company to CEP during fiscal 2006, of which \$0.8 million (2005 – nil) were outstanding at March 31, 2006. The loans were repaid subsequent to year end. Interest of \$71,000 (2005 – \$3,000) was received from CEP during fiscal 2006.
- (e) Clairvest has committed to fund \$20.0 million to Wellington Financial Fund II ("Wellington Fund II"). Clairvest also owns 48.6% of the general partner of Wellington Fund II. At March 31, 2006, there were no loans (2005 – \$5.6 million) provided to Wellington Fund II. The loans bore interest at the prime rate, and were payable on demand. The loans provided in fiscal 2005 were repaid in fiscal 2006. Interest of \$44,000 (2005 – \$10,000) was received from Wellington Fund II during fiscal 2006.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (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 2006, Clairvest received \$5.4 million (2005 – \$3.9 million) in interest, \$0.5 million (2005 – \$28.1 million) in dividends and \$1.7 million (2005 – \$1.3 million) in advisory and other fees from its temporary and corporate investments. During fiscal 2006, Clairvest paid \$1.2 million (2005 – \$1.9 million) in interest to Gateway Casinos Inc.

### 5. CORPORATE INVESTMENTS

|   | 2006       |            |            | 2005       |            |            |
|---|------------|------------|------------|------------|------------|------------|
|   | Fair value | Cost       | Difference | Fair value | Cost       | Difference |
| <b>Investments in publicly-traded companies</b> |            |            |            |            |            |            |
| Datamark Systems Group Inc.                     | \$ 12,871  | \$ 14,421  | \$ (1,550) | \$ 14,514  | \$ 14,421  | \$ 93      |
| Gateway Casinos Income Fund                     | 22,874     | 15,007     | 7,867      | 28,090     | 15,007     | 13,083     |
| Voxcom Income Fund                              | 15,549     | 11,187     | 4,362      | —          | —          | —          |
|   | 51,294     | 40,615     | 10,679     | 42,604     | 29,428     | 13,176     |
| <b>Investments in privately-held companies</b>  |            |            |            |            |            |            |
| Allied Global Holdings Inc.                     | 4,755      | 3,000      | 1,755      | 4,323      | 3,000      | 1,323      |
| Consolidated Vendors Corporation                | —          | 7,423      | (7,423)    | 239        | 7,172      | (6,933)    |
| Gateway Casinos Inc.                            | 68,233     | 24,000     | 44,233     | 59,921     | 24,000     | 35,921     |
| Intergral Orthopedics Inc.                      | 4,120      | 4,120      | —          | —          | —          | —          |
| Landauer Metropolitan Inc.                      | 4,982      | 4,088      | 894        | 4,234      | 3,636      | 598        |
| N-Brook Mortgage LP                             | 2,741      | 2,658      | 83         | 1,169      | 1,150      | 19         |
| NRI Industries Inc.                             | 5,080      | 17,613     | (12,533)   | 10,080     | 17,613     | (7,533)    |
| Signature Security Group Holdings Pty. Limited  | —          | —          | —          | 30,230     | 28,421     | 1,809      |
| Van-Rob Inc.                                    | 5,000      | 5,000      | —          | 5,000      | 5,000      | —          |
| Voxcom Incorporated                             | —          | —          | —          | 11,830     | 11,486     | 344        |
| WarrenShepell                                   | 4,000      | 4,000      | —          | —          | —          | —          |
| Wellington Financial Fund II                    | 14,922     | 13,571     | 1,351      | 8,775      | 7,361      | 1,414      |
|   | 113,833    | 85,473     | 28,360     | 135,801    | 108,839    | 26,962     |
| Other investments                               | 38         | 36         | 2          | 1,841      | 42         | 1,799      |
|   | \$ 165,165 | \$ 126,124 | \$ 39,041  | \$ 180,246 | \$ 138,309 | \$ 41,937  |

#### (a) Datamark Systems Group Inc. (“Datamark”)

Datamark is a business document management company with operations in Canada and the United States. At March 31, 2006 and 2005, Clairvest owned 4,675,670 common shares of Datamark, representing a 36.5% interest on a fully diluted basis.

At March 31, 2006 and 2005, Clairvest also held 20,000 options to acquire Datamark shares, 14,000 (2005 – 12,000) of which have been vested at March 31, 2006. 10,000 of the options have an exercise price of \$2.02 per share and expiry date of October 7, 2009. The remaining 10,000 options have an exercise price of \$2.21 per share and expiry date of June 25, 2013.

Since the inception of the investment to March 31, 2006, Clairvest has received a total of \$12.9 million in cash dividends from Datamark, which have been accounted for as income. Subsequent to year-end, Datamark declared a special dividend, Clairvest's share of which is \$4.7 million.

#### (b) Gateway Casinos Income Fund (“Gateway Income Fund”)

Gateway Income Fund is a trust which operates casinos in Western Canada. At March 31, 2006 and 2005, Clairvest owned 1,500,650 units in Gateway Income Fund through a wholly-owned subsidiary. Clairvest's indirect ownership interest on a fully diluted basis at March 31, 2006 and 2005 was 5.7%.

During fiscal 2005, Clairvest, after obtaining gaming regulatory approval, sold 1,865,226 units for gross proceeds of \$32.3 million.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

### **(c) Voxcom Income Fund / Voxcom Incorporated ("Voxcom")**

Voxcom is an Edmonton-based electronic security alarm monitoring company operating throughout Canada.

During fiscal 2006, Voxcom Incorporated completed an initial public offering ("IPO"). All of the convertible retractable preferred shares held by Clairvest in Voxcom Incorporated were purchased by Voxcom Incorporated. Clairvest reinvested virtually all of its proceeds into 1,645,015 units of Voxcom Income Fund. As a result Clairvest holds a 20.1% interest in Voxcom Income Fund.

At March 31, 2005, Clairvest owned 11,485,900 convertible retractable preferred shares of 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. These warrants were fully vested. These securities represented a 26.6% interest on a fully diluted basis. The warrants expired on the completion of the IPO of Voxcom Income Fund.

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

Allied Global is an international accounts receivable management firm with operations across Canada, the United States and the United Kingdom. At March 31, 2006, Clairvest owned 43,299 (2005 – 39,363) 10% convertible Class B preferred shares in Allied Global. Clairvest's ownership on a fully diluted basis was 8.4% at March 31, 2006 and 2005.

During fiscal 2006, Clairvest received 3,936 (2005 – 3,759) 10% convertible Class B preferred shares in Allied Global by way of a stock dividend.

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

Consolidated Vendors is an independent vending operator in the U.S. Midwest. At March 31, 2006 and 2005, Clairvest owned 2,500 Class A preferred shares, 26,830 common shares and 45,000 warrants in Consolidated Vendors, representing a 24.8% interest on a fully diluted basis. At March 31, 2006, Clairvest also held US\$3.3 million (2005 – US\$3.3 million) of senior debt, a \$0.5 million (2005 – \$0.3 million) demand loan bearing interest at 9.0% and \$0.7 million (2005 – \$0.7 million) of demand notes bearing interest at 12.0%.

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 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, 2006, the guaranteed amount was \$3.5 million (2005 – \$3.1 million), of which \$3.3 million (2005 – \$3.1 million) was reflected as a reduction in the fair value of Clairvest's investment in Consolidated Vendors, bringing the net carrying value of the investment to nil (2005 – \$0.2 million), and \$0.2 million (2005 – nil) was reflected in accounts payable.

During the year, the Company loaned \$0.2 million to Consolidated Vendors, which has been fully provided for. The above provision and the increase in the guarantee payable resulted in a \$0.6 million write-down to the carrying value of 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.

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In accordance with hedge accounting, the senior 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 carrying values of the investment in Consolidated Vendors at March 31, 2006 were reduced by \$0.1 million (2005 - \$1.2 million). The amount is offset by a net realized gain of \$0.1 million on the rolling of these foreign exchange forward contracts. In addition, \$0.5 million of the prior years' deferred losses have been realized in the current year as a result of designating all expected proceeds to the debt investment. The net result of these adjustments is a foreign exchange loss of \$0.5 million (2005 - \$0.2 million) on the consolidated statements of income.

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

Gateway Casinos is a gaming management company operating casinos in Western Canada. At March 31, 2006 and 2005, Clairvest owned, through a wholly-owned subsidiary, 28.4% of a limited partnership that owns Gateway Casinos.

### **(g) Integral Orthopedics Inc. ("Integral Orthopedics")**

Integral Orthopedics, which acquired the assets of Obus Forme Ltd. and Moller LLC, manufactures and markets back care products worldwide. During the year, the Company acquired 4,120,250 Class A voting common shares of Integral Orthopedics for \$4.1 million. The Company's fully diluted interest in Integral Orthopedics at March 31, 2006 was 23.0%.

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

Landauer is a supplier of home medical equipment in the New York City area. At March 31, 2006 and 2005, Clairvest, through its wholly-owned subsidiary, owned 1,906,250 10% cumulative convertible preferred shares and 446,858 common shares in Landauer. Clairvest's ownership on a fully diluted basis was 13.4% at March 31, 2006 and 2005.

During the year, the Company provided a \$0.5 million bridge loan to Landauer. The loan bears interest at a rate of 14% to July 21, 2006, 17% from July 22, 2006 to January 21, 2007, and 20% thereafter. If the loan has not been repaid by January 2007, the Company has the option to convert it into common shares. At March 31, 2006, interest receivable of \$0.2 million related to the bridge loan is included in accounts receivable.

In accordance with hedge accounting, the bridge loan held by Clairvest, as well as the foreign exchange forward contracts that hedge this amount, are marked-to-market at the consolidated balance sheet dates. As a result, the fair value of the investment in Landauer at March 31, 2006 was reduced by \$18,000. The amount is offset by an increase in derivative financial instruments of \$12,000. The net result of these adjustments is a foreign exchange loss of \$6,000 on the consolidated statements of income.

### **(i) N-Brook Mortgage LP ("N-Brook")**

N-Brook originates, adjudicates and underwrites first-ranking mortgages on owner-occupied, residential real estate in Ontario, British Columbia and Alberta. 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 \$2.7 million (2005 - \$1.2 million) had been funded at March 31, 2006. Clairvest's fully diluted interest in N-Brook at March 31, 2006 and 2005 was 14.7%.

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

NRI converts scrap rubber into value-added manufactured products. At March 31, 2006 and 2005, Clairvest, directly and through its wholly-owned subsidiary, 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, 2006 and 2005 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

During the year, management determined that a downward adjustment of \$5.0 million was necessary to the carrying value of NRI.

### **(k) Signature Security Group Holdings Pty. Limited ("Signature")**

Signature is an electronic security company serving Australia and New Zealand.

During fiscal 2006, Clairvest and Clairvest Group International (Netherlands) B.V. ("B.V.") sold their interests in Signature and Equity SPV Pty Limited ("SPV") as part of a sale of 100% of Signature and SPV. As part of the transaction, Signature and SPV repaid all loans outstanding to Clairvest. Clairvest and B.V. received combined proceeds of \$29.2 million [see note 14(h)].

At March 31, 2005, Clairvest owned 227,404,097 ordinary shares in Signature, through its wholly-owned subsidiary, B.V.. Clairvest's indirect ownership on a fully diluted basis at March 31, 2005 was 41.7%.

At March 31, 2005, Clairvest also held \$8.2 million in loans to Signature and SPV. SPV was a special purpose corporate entity formed to facilitate the loaning of these funds to Signature. The loans bore interest either at (i) the net cash interest earned by SPV or (ii) prime plus 5%. Interest at prime plus 5% was due and payable when Signature's senior debt was repaid and interest at the net cash interest earned by SPV was due and payable when earned. The loans were repaid during fiscal 2006.

In accordance with hedge accounting, the loans held by Clairvest, as well as the foreign exchange forward contracts that hedge the loans, were marked to market at the consolidated balance sheet dates. The net result of these hedges is a \$0.7 million (2005 - \$0.9 million) foreign exchange loss on the consolidated statements of income.

### **(l) 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, 2006 and 2005, Clairvest owned 5,000,000 Class A special convertible shares in Van-Rob, representing a 5.0% fully diluted ownership interest.

### **(m) Warrenshepell**

WarrenShepell is a provider of employee assistance programs in Canada and the United States. During the year, the Company, through its subsidiaries, acquired 4,000,000 units of WarrenShepell for \$4.0 million. The Company's fully diluted interest in WarrenShepell at March 31, 2006 was 17.2%.

### **(n) Wellington Financial Fund II ("Wellington Fund II")**

Wellington Fund II provides debt capital and operating lines to technology, biotechnology, communications and industrial product companies across Canada. Clairvest, as a limited partner, has committed to fund \$20.0 million to Wellington Fund II. At March 31, 2006, \$13.6 million (2005 - \$7.4 million) of Clairvest's commitment was funded. Clairvest's commitment represents a 24.1% (2005 - 24.1%) interest in Wellington Fund II. Clairvest also owns 48.6% of the general partner of Wellington Fund II.

## **6. VARIABLE INTEREST ENTITIES**

The Canadian Institute of Chartered Accountants' Accounting Guideline 15 requires Clairvest to identify Variable Interest Entities ("VIEs") 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, 2006 and 2005, the VIE in which Clairvest held an interest was CEP. Clairvest's relationship with CEP is described in note 4. As at March 31, 2006 and 2005, Clairvest was not considered the primary beneficiary of CEP. Clairvest

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

### 7. LOANS PAYABLE

Loans payable consist of the following:

- (a) \$12.6 million (2005 – \$13.7 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 \$1.1 million (2005 – \$3.3 million) of this loan during fiscal 2006.
- (b) \$15.0 million (2005 – \$15.0 million) 30-year loan from a subsidiary of Gateway Casinos Inc. The loan bears interest at 8.05% per annum and is collateralized by the units held by Clairvest in Gateway Income Fund. The loan must be repaid as the units in Gateway Income Fund are disposed of. Clairvest repaid nil (2005 – \$18.7 million) of this loan during the year.
- (c) Loans totalling \$0.1 million (2005 – \$0.1 million) from the limited partnership that owns Gateway Casinos Inc. The loans that were outstanding at March 31, 2005, together with an additional \$0.4 million loaned during the first three quarters of fiscal 2006, were non-interest bearing and repayable on demand at any time after December 31, 2005. These loans were paid in full in the fourth quarter of fiscal 2006. The loans outstanding at March 31, 2006 are non-interest bearing and payable on demand at any time after December 31, 2006.

### 8. BANKING FACILITY

The Company has a \$20.0 million line of credit available, bearing interest at prime plus 0.5% per annum. The prime rate at March 31, 2006 was 5.50% (2005 – 4.25%).

The line of credit is decreased by the guarantee provided by the Company of a note payable by WarrenShepell to the vendors (see note 14(g)). The line of credit available at March 31, 2006 is \$15.7 million (2005 – \$20.0 million).

### 9. INCOME TAXES

Provision for income taxes consists of the following:

|  | 2006     | 2005     |
|--|----------|----------|
| Current income tax expense   | \$ 5,975 | \$ 3,561 |
| Future income tax recovery relating to origination and reversal of temporary differences | (4,336)  | (183)    |
| Provision for income taxes   | \$ 1,639 | \$ 3,378 |

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

|   | 2006     | 2005      |
|---|----------|-----------|
| Income before income taxes                        | \$ 3,887 | \$ 33,268 |
| Statutory Canadian income tax rate                | 36.12%   | 36.12%    |
| Statutory Canadian income taxes                   | 1,404    | 12,016    |
| Non-taxable dividends received                    | (183)    | (10,142)  |
| Non-taxable portion of net investment gains       | (502)    | (1,197)   |
| Taxable (non-taxable) portion of unrealized gains | (964)    | 1,098     |
| Taxable portion of realized gains                 | 594      | 836       |
| Non-deductible portion of finance expense         | 71       | 398       |
| Non-deductible portion of other expenses          | 1,310    | (87)      |
| Recovery of prior years' taxes                    | (279)    | —         |
| Other   | 188      | 456       |
|   | \$ 1,639 | \$ 3,378  |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The future tax asset relates primarily to the temporary differences on corporate investments, derivative instruments market valuation, deferred gain on foreign exchange forward contracts, and accounts payable. The future tax liability relates to the temporary differences on corporate investments of a wholly-owned subsidiary.

### 10. SHARE CAPITAL

#### Authorized

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

Unlimited number of common shares

10,000,000 non-voting shares

| Issued and outstanding                                 | 2006              |                   | 2005             |            |
|--|-------------------|-------------------|------------------|------------|
|  | Number of shares  | Amount            | Number of shares | Amount     |
| Common shares, opening balance                         | 17,549,438        | \$ 89,904         | 18,231,438       | \$ 93,351  |
| Purchased and cancelled under normal course issuer bid | (877,472)         | (4,505)           | (711,000)        | (3,641)    |
| Issued on exercise of stock options                    | 170,000           | 1,297             | 29,000           | 194        |
| Common shares, closing balance                         | 16,841,966        | \$ 86,696         | 17,549,438       | \$ 89,904  |
| Non-voting shares                                      | 2,230,954         | 16,800            | 2,230,954        | 16,800     |
|  | <b>19,072,920</b> | <b>\$ 103,496</b> | 19,780,392       | \$ 106,704 |

During fiscal 2006, the Company filed a normal course issuer bid enabling it to make market purchases of up to 840,959 (2005 – 877,472) of its common shares in the 12-month period commencing March 6, 2006.

During fiscal 2006, the Company purchased and cancelled under its normal course issuer bid 868,972 (2005 – 662,000) of its common shares at a total purchase cost of \$8.6 million (2005 – \$5.5 million) and cancelled 8,500 (2005 – 49,000) of its common shares that were purchased in fiscal 2005 at a total purchase cost of \$0.1 million (2005 – \$0.4 million). The excess of the purchase cost of these shares over the average paid-in amount was \$4.2 million (2005 – \$2.3 million), which was charged to retained earnings. In total, 2,490,224 (2005 – 1,621,252) common shares at a cost of \$21.3 million (2005 – \$12.7 million) have been purchased under this and all previous normal course issuer bids as at March 31, 2006.

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 [see note 15(b)].

The weighted average number of common and non-voting shares outstanding during fiscal 2006 was 17,010,127 (2005 – 17,754,578) and 2,230,954 (2005 – 2,230,954) respectively, for a total of 19,241,081 (2005 – 19,985,532). The weighted average number of fully diluted shares outstanding during fiscal 2006 was 20,230,112 (2005 – 20,933,896).

The difference between the basic and fully diluted net income per share computations for 2006 and 2005 consists of the following:

|                                    | 2006       |                  |                  | 2005       |                  |                  |
|------------------------------------|------------|------------------|------------------|------------|------------------|------------------|
|                                    | Net income | Number of shares | Per share amount | Net income | Number of shares | Per share amount |
| Basic net income per share         | \$ 2,248   | 19,241,081       | \$ 0.12          | \$ 29,890  | 19,985,532       | \$ 1.50          |
| Effect of dilutive securities      |            |                  |                  |            |                  |                  |
| Convertible non-voting shares      |            | 580,228          |                  |            | 620,484          |                  |
| Stock options                      |            | 408,803          |                  |            | 327,880          |                  |
| Fully diluted net income per share | \$ 2,248   | 20,230,112       | \$ 0.11          | \$ 29,890  | 20,933,896       | \$ 1.43          |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2006, there were 210,000 (2005 – nil) 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, 1,908,900 (2005 – 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, 2006 and 2005 and changes during the years ended on those dates is presented below:

|                                     | Number<br>of options | Weighted average<br>exercise price<br>per share |
|-------------------------------------|----------------------|---|
| 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 granted                     | 210,000              | 9.95  |
| Options exercised                   | (190,000)            | 7.63  |
| Options forfeited                   | (10,000)             | 7.25  |
| Options outstanding, March 31, 2006 | 1,522,000            | \$ 7.20   |
| Options exercisable, March 31, 2006 | 1,050,800            | \$ 6.69   |

The following table summarizes information about stock options outstanding and exercisable at March 31, 2006:

| Range of exercise prices | Options outstanding |   |                                    | Options exercisable |                                    |
|--------------------------|---------------------|---|------------------------------------|---------------------|------------------------------------|
|                          | Number outstanding  | Weighted average<br>remaining<br>contractual life | Weighted average<br>exercise price | Number exercisable  | Weighted average<br>exercise price |
| \$4.00 to \$4.99         | 215,000             | 4.9 years   | \$ 4.62                            | 190,000             | \$ 4.60                            |
| \$5.00 to \$5.99         | 261,000             | 5.3 years   | 5.85                               | 190,600             | 5.85                               |
| \$6.00 to \$6.99         | 55,000              | 6.3 years   | 6.75                               | 33,000              | 6.75                               |
| \$7.00 to \$7.99         | 615,000             | 2.2 years   | 7.43                               | 540,000             | 7.37                               |
| \$8.00 to \$8.99         | 166,000             | 5.5 years   | 8.46                               | 97,200              | 8.59                               |
| \$9.00 to \$9.99         | 210,000             | 9.2 years   | 9.95                               | —                   | —                                  |
|                          | 1,522,000           |   |                                    | 1,050,800           |                                    |

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

As a result of an amendment to add a cash settlement feature to Clairvest's stock option plan during the first quarter of fiscal 2006, Clairvest is required to recognize compensation expense based upon the intrinsic value of the outstanding stock options at the consolidated balance sheet dates, and the proportion of their vesting periods that have elapsed. For the year ended March 31, 2006, Clairvest recognized stock-based compensation expense of \$3.6 million with respect to the stock options currently outstanding.

During fiscal 2005, the Company recorded compensation expense of \$81,000 with an offsetting credit to stock-based compensation in shareholders' equity. 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%.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2006, a total of 62,933 (2005 – 48,609) DSUs were held by directors of the Company, the accrual in respect of which is included in accounts payable.

As at March 31, 2006, a total of 382,250 (2005 – 220,000) BVARs were held by employees of Clairvest and a company affiliated with Clairvest, the accrual in respect of which is included in accounts payable.

### 12. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

|                                      | 2006     | 2005     |
|--------------------------------------|----------|----------|
| Accounts receivable and other assets | \$ (553) | \$ 1,016 |
| Accounts payable                     | 186      | 1,303    |
|                                      | \$ (367) | \$ 2,319 |

Cash and cash equivalents at March 31, 2006 and 2005 are comprised of the following:

|                  | 2006      | 2005     |
|------------------|-----------|----------|
| Cash             | \$ 582    | \$ 459   |
| Cash equivalents | 11,813    | 1,369    |
|                  | \$ 12,395 | \$ 1,828 |

### 13. FINANCIAL INSTRUMENTS

#### (a) Fair Value of Financial Instruments

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

The fair value of the loans 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 approximates 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, 2006, the Company had entered into foreign exchange forward contracts as hedges against its foreign investments as follows:

Forward contracts to sell US\$14.0 million (2005 – US\$12.3 million) at rates of Canadian \$1.1262 to \$1.2016 per U.S. dollar through February 2007 (average rate of \$1.1378; 2005 – average rate of \$1.2227). The fair value of these contracts at March 31, 2006 is a loss of \$0.4 million (2005 – gain of \$0.1 million). The contracts which, were entered into as hedges against the debt portion of Clairvest's investments, are required to be marked-to-market have a fair value of a loss of \$0.3 million, and have 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, 2006, Clairvest has realized and deferred to the consolidated balance sheets net exchange gains, net of the amortization of forward premiums or points, of \$0.9 million (2005 – \$0.6 million).

#### (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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 14. 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, \$22.2 million (2005 - \$32.5 million) of which remains outstanding at March 31, 2006. 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. Included in the commitment to co-invest with CEP is a \$5.0 million commitment to N-Brook, which is subject to N-Brook management achieving certain targets. Of this commitment, \$2.7 million (2005 - \$1.2 million) has been funded to March 31, 2006.
- (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 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, 2006, the guaranteed amount was \$3.5 million (2005 - \$3.1 million), of which \$3.3 million (2005 - \$3.1 million) was reflected as a reduction in the fair value of Clairvest's investment in Consolidated Vendors, bringing the net carrying value of the investment to nil (2005 - \$0.2 million), and \$0.2 million (2005 - nil) was reflected in accounts payable.
- (c) Clairvest has committed \$20.0 million to Wellington Fund II, \$13.6 million (2005 - \$7.4 million) of which has been funded to March 31, 2006. Clairvest also owns 48.6% of the general partner of Wellington Fund II.
- (d) 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.
- (e) 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.
- (f) 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 all of its corporate investments at their current fair values, a bonus of \$3.5 million (2005 - \$3.1 million) would be owing to management under the Incentive Bonus Program.
- (g) During fiscal 2006, Clairvest, together with CEP and WarrenShepell management, purchased WarrenShepell. As part of the transaction, Clairvest guaranteed a \$4.6 million note payable by WarrenShepell to the vendors, as well as interest payable on the note. The note is subject to claims Clairvest may have with respect to representations and warranties. Any amounts paid under the guarantee will result in additional equity ownership being granted to Clairvest and CEP, allocated 25% to Clairvest and 75% to CEP. CEP will reimburse Clairvest for 75% of any amounts paid under the guarantee. At March 31, 2006, the guarantee has been reduced to \$4.3 million, and subsequent to year end was further reduced to \$3.8 million.
- (h) During the year, Clairvest and B.V. sold their interests in Signature and SPV as part of a sale of 100% of Signature and SPV. Subject to a number of conditions, Clairvest and B.V. may be entitled to receive over time up to an additional AUS\$2.1 million (CDN\$1.8 million) currently being held in escrow. This amount has not been reflected on the consolidated balance sheets. As part of the transaction, B.V. has indemnified the purchaser for various claims up to the entire AUS\$35.5 million (CDN\$29.7 million) combined proceeds and escrowed amounts. The amount indemnified will reduce over time.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 15. SUBSEQUENT EVENTS

- (a) Subsequent to year end, the Company completed the first two closings of Clairvest Equity Partners III Limited Partnership ("CEP III"), a successor fund to CEP. Clairvest has committed to co-invest alongside CEP III in all investments undertaken by CEP III. Clairvest's total co-investment commitment is \$60.0 million.
- (b) Subsequent to year end, Clairvest purchased and cancelled 934,200 Clairvest common shares and 2,230,954 Clairvest non-voting shares in a transaction outside of Clairvest's normal course issuer bid. The Ontario Securities Commission granted an exemption requested by Clairvest from the issuer bid requirements of the Securities Act in connection with the purchase of these shares. The \$33.0 million purchase price was satisfied by an unsecured promissory note with a term of 10 years at a floating interest rate. Upon the disposition of certain investments, Clairvest will be required to make principal payments on the note.  
Upon cancellation of the shares, Clairvest had 15,907,766 common shares and nil non-voting shares outstanding.
- (c) Subsequent to year end, Gateway Income Fund acquired the operating assets of the Cascades Langley Casino and Hotel from a subsidiary of Gateway Casinos. As a result of the transaction, Clairvest received \$17.9 million in loans from Gateway Casinos and acquired 1.1 million units in Gateway Income Fund. The increase in book value as a result of this transaction is included in the March 31, 2006 fair value of Gateway Casinos Inc. Subject to certain conditions, Clairvest may be entitled to receive an additional 0.2 million units in Gateway Income Fund currently being held in escrow. Also, subject to certain conditions, Clairvest may be entitled to an additional \$3.0 million in units issued at a price equal to the 10-day weighted average price of the units on the date of issue. The contingent amounts are not included in the March 31, 2006 fair value of Gateway Casino Inc.
- (d) Subsequent to year end, Datamark declared a special dividend, Clairvest's share of which is \$4.7 million.
- (e) Subsequent to year end, Clairvest invested in Winters Bros. Waste Systems, Inc. ("Winters Bros."), a leading Long Island, New York-based waste management company. Clairvest acquired a minority ownership interest in Winters Bros. for \$4.3 million.

### 16. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2006 consolidated financial statements.

## SHAREHOLDER INFORMATION

As at, and for the year ended, March 31, 2006

### 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><br>and Non-Voting Shares |
| Shares outstanding: <sup>(1)</sup>             | 15,907,766  |
| Public float: <sup>(1,2)</sup>                 | 5,882,439   |
| Market capitalization: <sup>(1)</sup>          | \$ 167,349,698  |
| Market value of public float: <sup>(1,2)</sup> | \$ 61,883,258   |
| Stock market:                                  | Toronto Stock Exchange                                |
| Stock symbol:                                  | CVG   |

(1) As at May 31, 2006.

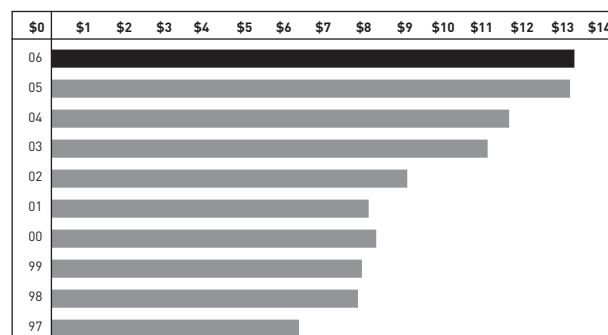
(2) Excludes holders of 10% or more of the outstanding common shares.

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

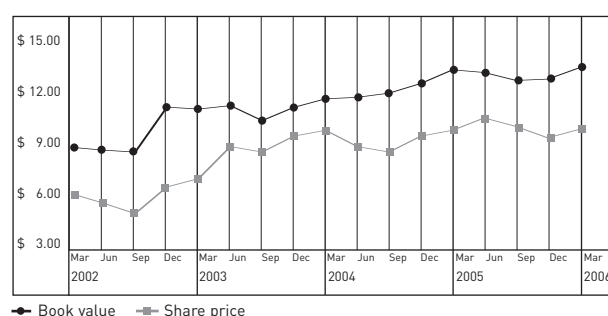
### DIVIDEND INFORMATION

Clairvest has consistently paid a dividend over the last eighteen years. Over the last fourteen years the annual dividend has been \$0.10 per common share. It is Clairvest's current intention to continue to pay an annual dividend.

### 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, 2006</b> |              |             |              |                  |
| <b>First Quarter</b>          | <b>10.50</b> | <b>9.50</b> | <b>10.45</b> | <b>1,189,964</b> |
| <b>Second Quarter</b>         | <b>10.45</b> | <b>9.66</b> | <b>10.00</b> | <b>580,509</b>   |
| <b>Third Quarter</b>          | <b>10.19</b> | <b>9.14</b> | <b>9.40</b>  | <b>125,658</b>   |
| <b>Fourth Quarter</b>         | <b>9.99</b>  | <b>9.25</b> | <b>9.85</b>  | <b>142,371</b>   |
| <b>Year to March 31, 2005</b> |              |             |              |                  |
| First Quarter                 | 8.99         | 8.15        | 8.94         | 435,295          |
| Second Quarter                | 8.65         | 7.65        | 8.65         | 569,913          |
| Third Quarter                 | 9.49         | 8.50        | 9.49         | 179,334          |
| Fourth Quarter                | 9.90         | 9.25        | 9.80         | 138,053          |

### 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)

#### **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)  
e-mail: [inquiries@cibcmellon.ca](mailto:inquiries@cibcmellon.ca)

#### **CORPORATE INFORMATION**

CORPORATE OFFICE  
22 St. Clair Avenue East, Suite 1700  
Toronto, Ontario M4T 2S3  
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web: [www.clairvest.com](http://www.clairvest.com)

AUDITORS  
Ernst & Young LLP

THE ANNUAL MEETING OF  
SHAREHOLDERS  
August 10, 2006, at 10:30 a.m.  
St. Andrews Club & Conference Centre,  
150 King Street West,  
Toronto, Ontario.

All shareholders are encouraged to attend.

#### **CLAIRVEST GROUP INC.**

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