

# CLAIRVEST

ANNUAL REPORT 2007

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# CLAIRVEST

KNOWLEDGE BASED – VALUE FOCUSED.

Clairvest is one of Canada's leading providers of equity financing to mid-market companies and currently has approximately C\$600 million of equity capital under management.

Clairvest manages the capital of Clairvest Group Inc., a publicly listed merchant bank, and that of third parties, through Clairvest Equity Partners Limited Partnership and Clairvest Equity Partners III Limited Partnership.

Clairvest is an active investor in and supporter of Wellington Financial, a privately held Canadian specialty finance firm providing bridge financing and venture debt to a broad range of industries including software.

Clairvest partners with management to invest in profitable small and mid-sized North American companies with the goal of helping to build value in the business and generate superior long term financial returns for investors.

## CLAIRVEST'S ATTRIBUTES COMBINE TO PROVIDE A STRONG COMPETITIVE EDGE IN THE MID-MARKET FOR GLOBAL PRIVATE EQUITY.

### FELLOW SHAREHOLDER,

During fiscal 2007, Clairvest shareholders were rewarded by another year of positive returns. The company's consistent and disciplined strategy for shareholder value creation continued to grow book value as we laid the groundwork for further joint placements with our investment partners.

For the 12 months ended March 31, 2007, Clairvest's book value per share grew to \$14.69 from \$13.10 a year earlier. This gain, when combined with the annual dividend of \$0.10 per share, represents an increase of 13.7%. Over the past decade (the period over which we have applied fair-value accounting), Clairvest has delivered compounded annual growth in book value of 10.2% on an after-tax basis. These returns are the aggregate of high returns on our invested capital, and market returns on our cash balances which have averaged 23.5% of total assets over the period, providing our shareholders with a great return on a balanced portfolio. Our performance has significantly outperformed comparable equity only measures such as the pre-tax 8.4% gain in the S&P/TSX Composite Index and the pre-tax 6.5% increase in the S&P 500.

### CLAIRVEST'S COMPETITIVE EDGE

The business of private equity is increasingly competitive. As the volume of investment capital grows, the competition for investee firms increases and prices are rising. Amid these changes, we see five distinguishing characteristics in the way we choose to compete.

The first is deal origination. We believe certain industry domains offer superior value-creation opportunities based on specific, measurable criteria. We conduct extensive research within those domains that leads us to a given industry and then we hunt for appropriate investments. Most importantly, we avoid the auction process, which wastes time and increases acquisition costs. None of our last 10 deals was the result of "winning" a broad based auction. On only one of those deals was there direct competition.

The second Clairvest characteristic is our mid-market focus. While the private equity market is getting bigger and more competitive, in Canada (where 15 of our last 21 deals were headquartered) the environment is changing for the better as many of our former competitors have either left the market or are now focusing on larger deals. We see Clairvest's prospects to be most numerous and the competition to be least intensive in the mid-market niche.

A third distinguishing characteristic is that we frequently take minority positions behind proven owner operators. We also take control positions but in every investment, we fundamentally view our role as supportive participants in the strategic direction, growth and development of the company, while management drives the business.

A fourth characteristic is the reputation we have developed over our 20 year history as partners with abilities and integrity. We pride ourselves on the relationships we have generated and continue to build with our partners.

Our fifth characteristic is the value we add to our deals. In addition to our presence on the company's board of directors, we offer assistance in due diligence, negotiation, arranging third party financing and identifying possible acquisitions. Our track record speaks to this value best; the 11 deals originated by the current management team have turned \$159 million of invested equity into \$462 million.

We believe these attributes combine to give Clairvest a strong competitive edge in our chosen mid-market niche of the private equity industry.

### **INVESTMENT ACTIVITY INCREASES**

During fiscal 2007 Clairvest was active making new investments and enhancing current positions in Clairvest Equity Partners (which we refer to as Fund II), a \$219 million capital pool jointly funded by Clairvest and our partner investors. We announced a new \$17.3 million placement with Winters Bros. Waste Systems Inc., a profitable and rapidly expanding refuse collection and disposal company in Long Island, New York. We also signed a \$17.0 million financing agreement with Tsuu T'ina Gaming Limited Partnership. The LP was created to develop a charitable casino on Tsuu T'ina First Nation reserve land outside Calgary, a lucrative and underpenetrated market. In addition, Fund II's investment in WarrenShepell was expanded by \$10.3 million to finance its acquisition of FGI World Inc. The acquisition was very successful and the combined workplace health company now operates as Shepell·fgi.

Clairvest also completed the capitalization of CEP Fund III, a \$300 million capital pool created with investment partners in the same manner as Fund II. The first investment is a \$13.0 million placement in KUBRA, a leading Canadian provider of business customer billing solutions.

During fiscal 2007 Clairvest acted decisively to wind up several investments. While losses were realized on NRI Industries Inc. and Consolidated Vendors Corp., Allied Global Holdings Inc. was concluded with a 17% internal rate of return amounting to 2.2 times capital invested.

During fiscal 2007 and subsequent to our March 31 year end, Clairvest entered into agreements to sell Gateway Casinos and Gateway Casinos Income Fund, Voxcom Income Fund and Datamark Systems Group Inc. The Datamark and Voxcom transactions closed in the first quarter of fiscal 2008 and returned after-tax 1.83 times invested capital and pre-tax 2.94 times invested capital, respectively. Assuming the sale of Gateway closes on announced terms, this investment will have generated a pre-tax return of 8.75 times invested capital.

### **WELLINGTON FINANCIAL FUND III LAUNCHED**

Wellington Financial LP, our short term lending vehicle operated in partnership with fund management, was also active during fiscal 2007. At March 31, 2007, Wellington Fund II and Wellington Fund III combined had 10 loans outstanding to companies in a broad range of industries. Wellington Fund II's loan portfolio, which is in the process of being wound down as loans are repaid, totaled \$22.0 million at March 31, 2007, the Clairvest portion of which is \$5.3 million. During fiscal 2007 Wellington Fund III was created with a capital pool of \$125.9 million, of which the Clairvest commitment is \$25.0 million. Wellington has made 25 loans since inception with no losses realized to date.

### **A PROMISING OUTLOOK**

Clairvest's proven investment strategy continues to yield positive results. As we look ahead to the balance of fiscal 2008, our portfolio companies are performing well and we are investigating a number of prospects for future investment. As always, we express our gratitude to Clairvest's fund partners for their support, to our investee companies for their entrepreneurship, to our employees for their hard work and to our board members for their advice and counsel. Together, they provide the means to continue building shareholder value in Clairvest Group.



Jeff Parr  
Co-Chief Executive Officer  
July 5, 2007



Ken Rotman  
Co-Chief Executive Officer

As at, and for the year ended, March 31, 2007

The Management's Discussion and Analysis ("MD&A") of financial condition and results of operations analyzes significant changes in Clairvest Group Inc.'s consolidated 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 22, 2007. 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") and Clairvest Equity Partners III Limited Partnership ("CEP III"), 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, 2007, Clairvest had 12 core investments in 10 different industries. Seven of these investments are joint investments with CEP and one is a joint investment with CEP III. Clairvest also holds investments in Wellington Financial Fund II ("Wellington Fund II") and in Wellington Financial Fund III ("Wellington Fund III"), both affiliated entities.

## OVERVIEW OF FISCAL 2007

An overview of the significant events during fiscal 2007 follows:

- Clairvest completed closings totalling \$225.0 million of CEP III, a successor fund to CEP.
- Clairvest and CEP sold its interests in Allied Global Holdings Inc. ("Allied") for total sale and fee proceeds of \$25.2 million. On an initial combined \$12.0 million investment, Clairvest and CEP realized a 17% internal rate of return on this investment. Gross proceeds to Clairvest were \$6.3 million.
- Gateway Casinos Income Fund ("Gateway Income Fund") acquired the operating assets of the Cascades Langley Casino and Hotel ("Cascades Casino") from a subsidiary of Gateway Casinos Inc. ("Gateway Casinos"). As a result of the transaction, Clairvest received \$17.9 million in loans from a subsidiary of Gateway Casinos, and acquired 1.1 million units in Gateway Income Fund. Subject to certain conditions, Clairvest was entitled to receive an additional 0.2 million units in Gateway Income Fund being held in escrow, and 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 conditions were met during the year and 0.2 million units were released reflecting the units held in escrow together with the additional \$3.0 million worth of units. These amounts are currently reflected in the fair value of Clairvest's investment in Gateway Casinos who held the units at March 31, 2007.
- Datamark Systems Group ("Datamark") paid a special dividend to Clairvest of \$4.7 million.
- Clairvest, together with CEP, invested an additional \$10.2 million in Shepell-fgi (formerly WarrenShepell) to support the company's acquisition of FGI World. Clairvest's share of the investment was \$2.6 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- Clairvest acquired a 9.0% interest in Winters Bros. Waste Systems Inc. ("Winters Bros."), a leading Long Island, New York-based waste management company, for \$4.3 million. At the same time, CEP acquired 27.0% interest in Winters Bros. for \$12.9 million.
- Clairvest, together with CEP III and a related party, acquired a minority interest in Kubra Data Transfer Limited ("Kubra"), a business process outsourcing company focused on the distribution of household bills on behalf of its customers, for \$13.0 million. Clairvest's share of the investment was \$2.2 million.
- Clairvest committed to invest \$4.3 million in Tsuu T'ina Gaming Limited Partnership ("Tsuu T'ina") alongside CEP's commitment of \$12.8 million, for the purpose of financing the development of a charitable casino on Tsuu T'ina First Nation reserve lands, located immediately southwest of the city of Calgary. Clairvest has funded \$2.1 million and CEP has funded \$6.3 million to March 31, 2007.
- Clairvest committed to fund \$25.0 million to Wellington Fund III. Clairvest's commitment represents a 19.9% interest in Wellington Fund III. \$6.7 million has been funded to March 31, 2007.
- Clairvest disposed of its investment in NRI Industries Inc. ("NRI Industries") when they ceased operations. Clairvest recorded total realized losses of \$17.5 million on this investment during the year, \$12.4 million of which had been written down in prior years.
- Clairvest fully realized its investment in Consolidated Vendors Corporation ("Consolidated Vendors") as Consolidated Vendors sold its business assets to non-related third parties and ceased operations. Clairvest received total proceeds from Consolidated Vendors of \$2.2 million from the sale of its business assets, and recorded a realized loss of \$8.4 million on its investment.
- Clairvest recorded a \$10.0 million impairment charge on loans Clairvest made to an unrelated party as the loans may not be recoverable. The loans were advanced in two tranches of \$5 million in each of December 2005 and May 2006 and were collateralized by treasury bills deposited with a Canadian bank-owned brokerage firm. The loans are currently in default and Clairvest is pursuing the recovery of these loans.
- Clairvest filed a new normal course issuer bid enabling it to make market purchases of up to 795,178 of its common shares in the 12-month period commencing March 6, 2007. No purchases have been made under this bid to March 31, 2007. As at June 22, 2007, Clairvest had purchased a total of 2,544,424 common shares under previous normal course issuer bids at a total cost of \$21.9 million.
- Clairvest purchased and cancelled 934,200 of its common shares and 2,230,954 of its non-voting shares in a transaction outside of the Company's normal course issuer bid. The Ontario Securities Commission granted an exemption requested by the Company 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.

### OUTLOOK

- The first quarter of fiscal 2008 has been extremely productive, with Clairvest entering into various agreements to exit investments 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- In April 2007, Clairvest entered into an agreement to sell its investments in Gateway Income Fund and Gateway Casinos Inc. Under the terms of the agreement, New World Gaming Partners Ltd has offered, by way of a take-over bid at a price of \$25.26 per unit in cash, to acquire all of the outstanding units of Gateway Income Fund and substantially all the assets of Gateway Casinos Inc. Clairvest supports this transaction and total gross proceeds expected by Clairvest upon closing of the sales is approximately \$130 million.
- In June 2007, Clairvest sold its interest in VOXCOM Income Fund ("Voxcom") for cash proceeds of \$21.8 million.
- In June 2007, Clairvest sold its interest in Datamark for a combination of \$6.4 million in cash and 1,546,473 shares in a new combined public entity comprising Datamark and Komunik Corporation. Clairvest's diluted interest in the new entity is 4.54%.
- Should the Gateway transactions close on announced terms, the three subsequent to quarter-end transactions will add \$1.64 to Clairvest's March 31, 2007 book value per share in aggregate.

At March 31, 2007, Clairvest had \$90.3 million in cash, cash equivalents and temporary investments and \$242.5 million of additional capital through CEP and CEP III to fund new investments. With this capital on hand, we are well positioned to support the growth of our existing investments and pursue new investment opportunities. As always, we will stick to our disciplines to find solid investments that fit our investment criteria and provide the potential for superior, risk-adjusted returns.

### 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 System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SUMMARY OF CLAIRVEST'S INVESTMENTS AT MARCH 31, 2007

Investment	Trading Symbol and Exchange	Ownership Percentage <sup>(1,4)</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>(1)</sup>	DMK – TSX	37.1%	\$ 14.5	\$ (3.2)	\$ 9.8	A business document management company with operations in Canada and the United States.
Gateway Casinos Income Fund <sup>(2)</sup>	GCI.UN – TSX	8.5%	\$ 32.9	\$ (22.9)	\$ 47.6	A leading casino operator that operates eight casinos in Western Canada.
VOXCOM Income Fund <sup>(3)</sup>	VOX.UN – TSX	20.1%	\$ 11.2	\$ 4.9	\$ 15.6	A security company that sells, installs, services and monitors security alarm systems for residential and commercial subscribers in Canada.
<b>PRIVATELY-HELD INVESTMENTS</b>						
Gateway Casinos Inc. <sup>(4)</sup>	Private	28.4%	\$ 24.0	\$ 2.7	\$ 84.7	A gaming management company that operates casinos in Western Canada.
Integral Orthopedics Inc. <sup>(5)</sup>	Private	23.3%	\$ 5.3	\$ 5.3	\$ 5.3	A back care company that manufactures and markets Obus Forme and Moller branded products. CEP owns 69.9% of Integral Orthopedics.
Kubra Data Transfer Ltd. <sup>(6)</sup>	Private	14.5%	\$ 2.2	\$ 2.2	\$ 3.3	A business process outsourcing company focused on the distribution of household bills on behalf of its customers. CEP III owns 43.5% of Kubra.
Landauer Metropolitan Inc. <sup>(7)</sup>	Private	13.4%	\$ 3.6	\$ 3.6	\$ 3.9	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>(8)</sup>	Private	14.7%	\$ 3.7	\$ 3.7	\$ 3.9	A company that originates, adjudicates and underwrites mortgages in Ontario, Canada. CEP owns 44.1% of N-Brook.
Shepell-fgi (formerly WarrenShepell) <sup>(9)</sup>	Private	19.2%	\$ 6.6	\$ 6.6	\$ 7.9	A leading Canadian provider of employee assistance programs and related organizational health and wellness services. CEP owns 57.6% of Shepell-fgi.
Tsui T'ina Gaming Limited Partnership <sup>(10)</sup>	Private	Debt interest and profit participation	\$ 2.1	\$ 2.1	\$ 2.2	A charitable casino on Tsui T'ina First Nation reserve lands, located southwest of the city of Calgary. CEP also has a debt interest and profit participation in Tsui T'ina.
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.
Wellington Financial Fund II <sup>(12)</sup>	Private	24.1%	\$ 5.3	\$ 1.7	\$ 6.6	Provides debt capital and operating lines to technology, biotechnology, communications and industrial product companies.
Wellington Financial Fund III <sup>(13)</sup>	Private	24.1%	\$ 6.7	\$ 6.7	\$ 7.0	Provides debt capital and operating lines to technology, biotechnology, communications and industrial product companies.
Winters Bros. Waste Systems Inc. <sup>(14)</sup>	Private	9.0%	\$ 4.3	\$ 4.3	\$ 5.1	A leading Long Island, New York-based waste management company. CEP owns 27.0% of Winters Bros.
<b>TOTAL INVESTMENTS</b>			\$ 127.3	\$ 22.8	\$ 207.9	

- (1) Clairvest owns 4,691,670 common shares and held 4,000 options in Datamark. Clairvest received a total of \$17.6 million in tax-free dividends from Datamark to March 31, 2007, resulting in a net proceeds position at March 31, 2007 of \$3.2 million.
- (2) Clairvest owns 2,641,222 units in Gateway Income Fund. The investment was funded with loans from Gateway Casinos entities. 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 and \$14.7 million of distributions received, net of \$32.9 million in loans and 9.7 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 \$3.8 million, resulting in a net cash investment of \$4.9 million.
- (4) Clairvest owns 28.4% of a limited partnership that owns Gateway Casinos including 355,497 units of Gateway Income Fund to which Clairvest is entitled. The net cash investment is \$2.7 million as a result of \$12.7 million of loans received from Gateway Casinos, and \$8.6 million in distributions received.
- (5) Clairvest owns 5,347,132 Class A voting common shares in Integral Orthopedics.
- (6) Clairvest owns 2,150,000 Class A voting common shares in Kubra
- (7) Clairvest owns 1,906,250 10% cumulative convertible preferred shares and 446,858 common shares in Landauer.
- (8) Clairvest has committed to fund \$5.0 million to N-Brook, subject to N-Brook's management achieving certain targets, \$3.7 million of which was funded at March 31, 2007.
- (9) Clairvest owns 5,902,985 limited partnership units in Shepell-fgi.
- (10) Clairvest has committed to fund \$4.3 million to Tsui T'ina of which \$2.1 million was funded to March 31, 2007. Funding is made by way of a 16% debenture.
- (11) Clairvest owns 5,000,000 Class A special convertible shares in Van-Rob.
- (12) Clairvest has committed to fund \$20.0 million to Wellington Fund II, \$5.3 million of which was funded at March 31, 2007. The net cash investment is reduced by \$3.6 million of income distributions received.
- (13) Clairvest has committed to fund \$25.0 million to Wellington Fund III, \$6.7 million of which was funded at March 31, 2007.
- (14) Ownership percentage calculated on a fully diluted basis at March 31, 2007.
- (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 realization 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 investments could be disposed of may differ from the current fair value assigned.

### SELECTED FINANCIAL PERFORMANCE MEASURES

Year ended March 31, (\$000's, except per share amounts)	2007	2006	2005
Net realized gains (losses) on corporate investments	(21,903)	4,239	14,591
Previously recognized net unrealized losses (gains)	17,054	(3,516)	(40,211)
Net unrealized gains on corporate investments	23,866	2,056	32,248
Net income	18,265	2,248	29,890
Basic net income per share	1.14	0.12	1.50
Fully diluted net income per share	1.11	0.11	1.43
Dividends declared per share	0.10	0.10	0.10
<b>Financial Condition Measures</b>			
Total assets	314,610	287,972	293,563
Total cash, cash equivalents and temporary investments	90,286	114,292	103,031
Total corporate investments	207,929	164,330	180,246
Total liabilities	81,027	38,035	36,533

### Income Statement Highlights

Clairvest's operating results reflect revenue realized from our corporate investments from CEP and CEP III, 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, 2007 was \$18.3 million, versus \$2.2 million for the year ended March 31, 2006 and \$29.9 million for the year ended March 31, 2005.

Clairvest had realized losses on investments of \$21.9 million in fiscal 2007 versus realized gains of \$4.2 million in fiscal 2006 and \$14.6 million in fiscal 2005. The realized loss in 2007 resulted from the realization of Clairvest's interests in NRI Industries and Consolidated Vendors, net of gains from the sale of Clairvest's interest in Allied and the partial release of amounts held in escrow following the sale of Signature Security Group Holdings Pty Limited ("Signature") in fiscal 2006. The realized gains 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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 of a loss on the sale of Voxcom Incorporated common shares.

Clairvest reversed previously recognized unrealized losses of \$17.1 million in fiscal 2007 versus previously recognized unrealized gains of \$3.5 million in fiscal 2006 and \$40.2 million in fiscal 2005. Previously recognized unrealized losses that were reversed in fiscal 2007 relate to unrealized losses that were recognized in fiscal 2006 and prior years primarily with respect to NRI Industries and Consolidated Vendors, net of unrealized gains that were recognized in fiscal 2006 and prior years with respect to Allied, and partnership income allocations that were received from Wellington Fund II in fiscal 2007. 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 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.

Clairvest had net unrealized gains on investments of \$23.9 million in fiscal 2007 versus \$2.1 million in fiscal 2006 and \$32.2 million in fiscal 2005. 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,	2007	2006	2005
<b>Investments in publicly-traded companies</b>			
Datamark Systems Group Inc.	\$ (3,142)	\$ (1,643)	\$ 4,367
Gateway Casinos Income Fund	6,833	(5,216)	7,832
Voxcom Income Fund	95	4,018	—
	<b>3,786</b>	<b>(2,841)</b>	<b>12,199</b>
<b>Investments in privately-held companies</b>			
Allied Global Holdings Inc.	—	432	392
Consolidated Vendors Corporation	—	(788)	(1,393)
Gateway Casinos Inc.	16,492	8,312	17,370
Kubra Data Systems Ltd.	1,100	—	—
Landauer Metropolitan Inc.	334	284	274
NRI Industries Inc.	(6)	(5,000)	—
Shepell-fgi (formerly WarrenShepell)	1,360	—	—
Voxcom Incorporated	—	—	345
Wellington Financial Fund I	—	—	990
Wellington Financial Fund II	284	1,345	1,413
Wellington Financial Fund III	270	—	—
Winters Bros. Waste Systems Inc.	559	—	—
	<b>20,393</b>	<b>4,585</b>	<b>19,391</b>
<b>Other investments</b>	<b>(313)</b>	<b>312</b>	<b>658</b>
	<b>\$ 23,866</b>	<b>\$ 2,056</b>	<b>\$ 32,248</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Net income in fiscal 2007 included distributions and interest income of \$15.1 million, dividend income of \$5.8 million, management fees from CEP of \$1.2 million, advisory and other fees from Clairvest investee companies and temporary investments of \$2.4 million, general and administration expenses of \$11.3 million, loss on temporary investments of \$10.0 million, finance and foreign exchange expense of \$4.0 million and income tax expense of \$0.1 million. Included in distributions and interest income was \$3.0 million in priority distributions to a General Partner of CEP III. Included in dividend income was a \$4.7 million tax-free dividend from Datamark.

Net income in fiscal 2006 included interest income of \$8.1 million, dividend income of \$0.9 million, management fees from CEP of \$2.3 million, advisory and other fees from Clairvest investee companies and temporary investments of \$1.7 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.

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.

### Balance Sheet Highlights

Total assets at March 31, 2007 were \$314.6 million, an increase of \$26.6 million from \$288.0 million at March 31, 2006. The increase in total assets was primarily due to net income for the year, as well as the upwards revaluation of Clairvest's investments in Gateway Income Fund and Gateway Casinos.

With \$90.3 million in cash, cash equivalents and temporary investments, Clairvest has sufficient capital to support its current and anticipated investments. In addition, Clairvest has a \$20.0 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 available at March 31, 2007 is \$20.0 million and is based on debt covenants within the banking arrangement.

As is typical of a merchant bank, Clairvest's main asset is its corporate investments. Corporate investments increased \$43.6 million to \$207.9 million at March 31, 2007. The increase is comprised primarily of:

- Net unrealized gains on investments of \$23.9 million;
- A \$17.9 million investment in Gateway Income Fund;
- A \$6.7 million investment in Wellington Fund III;
- A \$4.3 million investment in Winters Bros.;
- A \$2.2 million investment in Kubra;
- A \$2.1 million investment in Tsuu T'ina; and
- Follow on investments totalling \$4.8 million in Integral Orthopedics Inc. ("Integral Orthopedics"), N-Brook Mortgage L.P. ("N-Brook") and Shepell-fgi; partially offset by
- A return of capital from Wellington Fund II of \$8.3 million;
- The write down to zero of NRI Industries with a fair value of \$5.1 million at March 31, 2006; and
- The sale of Allied with a fair value of \$4.8 million at March 31, 2006.

Corporate investments decreased \$16.0 million to \$164.3 million from March 31, 2005 to March 31, 2006.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

A discussion on the activity in each corporate investment for the year ended March 31, 2007 follows.

### **Datamark Systems Group Inc.**

At March 31, 2007 Clairvest owned 4,691,670 common shares in Datamark, and held 4,000 options to acquire Datamark shares at \$1.21 per share. During the year, Clairvest exercised 16,000 options at an average exercise price of \$2.09 per share. Also during the year, Datamark paid a cash dividend to Clairvest of \$4.7 million.

The fair value of Clairvest's investment in Datamark decreased \$3.1 million to \$9.8 million at March 31, 2007. The decrease was due to a \$3.1 million unrealized loss resulting from the decrease in share price from \$2.75 per share at March 31, 2006 to \$2.08 per share at March 31, 2007. Clairvest recorded an unrealized loss of \$1.6 million for the year ended March 31, 2006 as a result of movements in the quoted market price.

The fair value of \$9.8 million at March 31, 2007 compares to a cost of \$14.5 million. The net cash investment at March 31, 2007 was a \$3.2 million net proceeds position as a result of \$17.6 million of tax-free dividends received to March 31, 2007.

During fiscal 2007, Datamark entered into an acquisition agreement with a third party providing for a Combination Entity. Under the terms of the agreement, Datamark shareholders would be entitled to consideration per share equal to \$2.22 in cash, or one share of the Combined Entity, or a combination thereof subject to pro-ration.

Subsequent to year end, Clairvest sold its interest in Datamark for a combination of \$6.4 million in cash and 1,546,473 shares in a new combined public entity comprising Datamark and Komunik Corporation. Clairvest's diluted interest in the new entity is 4.54%.

### **Gateway Casinos Income Fund**

At March 31, 2007, Clairvest owned 2,641,222 units in Gateway Income Fund through wholly-owned subsidiaries. During fiscal 2007, Gateway Income Fund acquired all of the operating assets of the Cascades Casino 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. As a result of certain conditions being met, Clairvest subsequently received entitlements to a further 0.3 million units in Gateway Income Fund due to the sale. The fair value of these units is included in Clairvest's investment in Gateway Casinos who held the units at March 31, 2007.

The fair value of Clairvest's investment in Gateway Income Fund increased \$24.7 million to \$47.6 million at March 31, 2007. The increase was due to the acquisition of \$17.9 million in units and a \$6.8 million unrealized gain resulting from the increase in unit price from \$16.75 per unit at March 31, 2006 to \$19.81 per unit at March 31, 2007. Clairvest recorded an unrealized loss of \$5.2 million for the year ended March 31, 2006 as a result of a decrease in unit price.

The fair value of \$47.6 million at March 31, 2007 compares to a cost of \$32.9 million. The net cash investment is in a net proceeds position of \$22.9 million at March 31, 2007 as a result of a total of \$50.8 million of net proceeds on the sale of units, \$14.7 million of distributions received, net of \$32.9 million in loans and \$9.7 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 33% of the outstanding units of Gateway Income Fund, have agreed that they will take all necessary steps to ensure that their collective ownership of Gateway Income Fund is maintained at 20% of the issued and outstanding units.

Subsequent to year end, Gateway Income Fund entered into an agreement with New World Gaming Partners Ltd for the purchase of all of its outstanding units for \$25.26 per unit in cash. The transaction is subject to certain conditions, not yet settled, including unit holder and regulatory approvals. At the same time Clairvest has entered into agreements in support of the transaction.

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

At March 31, 2007, Clairvest owned 1,645,015 units representing a 20.1% interest in Voxcom. The fair value of Clairvest's investment in Voxcom increased \$0.1 million to \$15.6 million at March 31, 2007.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The fair value of \$15.6 million at March 31, 2007 compares to a cost of \$11.2 million. The net cash investment at March 31, 2007 was \$4.9 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 \$3.8 million.

Subsequent to year end, Clairvest sold its interest in Voxcom for cash proceeds of \$21.8 million.

### **Allied Global Holdings Inc.**

During the year, Clairvest sold its investment in Allied for total sale and fee proceeds of \$6.3 million. Clairvest recorded a realized gain of \$3.0 million which it took to income upon sale.

Over the life of the investment Clairvest received total proceeds of \$6.6 million which compares to a cost of \$3.0 million.

### **Consolidated Vendors Corporation**

During fiscal 2007, Clairvest fully realized its investment in Consolidated Vendors as Consolidated Vendors sold its business assets to non-related third parties and ceased operations. Clairvest received total proceeds from Consolidated Vendors of \$2.2 million from the sale of its business assets.

Clairvest sold certain shares of Consolidated Vendors to CEP during fiscal 2002, and Clairvest guaranteed to compensate CEP for certain deficiencies that CEP may incur on these shares. During fiscal 2007, the Company paid \$4.0 million (US\$3.5 million) to CEP under the guarantee. This amount represents the maximum amount receivable under the guarantee arrangement.

Over the life of the investment, the Company recorded a realized loss on its investment of \$8.4 million. The cost of the investment to the Company was \$7.5 million, and further costs (net of proceeds) of \$0.9 million were incurred including the guarantee to CEP. Included in proceeds is cash of \$0.9 million from foreign exchange gains as a result of hedging the investment over its life.

As at March 31, 2007, and included in accounts payable, there remains a further \$0.5 million in undistributed proceeds to facilitate the dissolution of Consolidated Vendors.

### **Gateway Casinos Inc.**

At March 31, 2007, 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 \$16.5 million to \$84.7 million at March 31, 2007. The increase is due to a \$16.5 million unrealized gain during the year, resulting from an upward adjustment to the fair value of the casinos operated by Gateway Casinos, and the Gateway Income Fund units received through the purchase price adjustment on the sale of Cascades Casino to Gateway Income Fund. The upward adjustment to the fair value of the casinos was determined by management to be appropriate in light of the proceeds received on the sale of the Cascades Casino during the year.

The fair value of \$84.7 million at March 31, 2007 compares to a cost of \$24.0 million. The net cash investment at March 31, 2007 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 \$45.8 million of loans payable to Gateway Casinos entities, comprised as follows:

- A \$12.6 million, 30-year, loan from Gateway Casinos. 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 did not make any repayment on this loan during fiscal 2007.
- A \$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 1,500,650 units held by Clairvest in Gateway Income Fund. The loan must be repaid as these Gateway Income Fund units are disposed of.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- A \$8.1 million, 30-year, loan from a subsidiary of Gateway Casinos. The loan is non-interest bearing, and repayable on demand. The loan is collateralized by 513,278 units held by Clairvest in Gateway Income Fund. The loan must be repaid as these Gateway Income Fund units are disposed of.
- A \$9.8 million, 30-year, loan from a subsidiary of Gateway Casinos. The loan bears interest at 8.00% per annum, and is collateralized by 627,294 units held by Clairvest in Gateway Income Fund. The loan must be repaid as these Gateway Income Fund units are disposed of.
- 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 loans from Gateway Casinos entities. Gateway Casinos loans a portion of these interest proceeds back to Clairvest on a monthly basis. The balance outstanding at March 31, 2007 is \$0.3 million. These loans are non-interest bearing and repayable on demand at any time after December 31, 2007.

Subsequent to year end, Gateway Casinos entered into agreements with New World Gaming Partners Ltd for the purchase of substantially all of its assets, as well as shares of a joint venture entity in which it holds a 50% interest. The transaction is subject to certain conditions and is not yet settled. At the same time Clairvest has entered into agreements to dispose of its interest in Gateway Casinos.

### **Integral Orthopedics Inc.**

At March 31, 2007, Clairvest owned 5,347,132 Class A voting common shares of Integral Orthopedics. During the year, the Company acquired an additional 1,226,882 Class A voting common shares for \$1.2 million.

The fair value of \$5.3 million at March 31, 2007 compares to a cost of \$5.3 million.

### **Kubra Data Transfer Ltd.**

During the year, Clairvest acquired 2,150,000 Class A Voting Common Shares of Kubra for \$2.2 million. The fair value of Kubra of \$3.2 million compares to a cost of \$2.1 million. The increase in fair value over cost arises due to an entitlement by Clairvest of \$1.1 million from a related party of Clairvest upon the realization of the investment in Kubra.

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

At March 31, 2007, Clairvest, through its wholly-owned subsidiary, owned 1,906,250 10% cumulative convertible preferred shares and 446,858 common shares in Landauer.

During fiscal 2006, the Company provided a \$0.5 million bridge loan to Landauer bearing interest at 14% to July 21, 2006, 17% from July 22, 2006 to January 21, 2007, and 20% thereafter. The loan was repaid in full during fiscal 2007. Clairvest received interest on the loan totalling \$0.1 million.

The fair value of Clairvest's investment in Landauer decreased \$0.2 million to \$3.9 million at March 31, 2007. The decrease is due to the repayment of the bridge loan net of an unrealized gain of \$0.3 million as a result of dividends accruing on the preferred shares.

The fair value of \$3.9 million at March 31, 2007 compares to a cost of \$3.6 million.

### **N-Brook Mortgage LP**

At March 31, 2007, Clairvest had funded \$3.7 million of its \$5.0 million commitment to N-Brook. The fair value of \$3.9 million compares to a cost of \$3.7 million at March 31, 2007.

### **NRI Industries Inc.**

During fiscal 2007, NRI Industries applied for, and was granted, a stay under the *Companies Creditors Arrangement Act* (CCAA) and ceased operations. Clairvest recorded total realized losses of \$17.5 million on this investment during the year, \$12.4 million of which had been recorded as unrealized losses in prior years.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Shepell-fgi (formerly WarrenShepell)**

During the year, the Company, through its wholly-owned subsidiaries, acquired an additional 1,902,985 units of Shepell-fgi for \$2.6 million. The fair value of \$7.9 million at March 31, 2007 compares to a cost of \$6.6 million.

### **Tsuu T'ina Gaming Limited Partnership**

During fiscal 2007, Clairvest committed to invest \$4.3 million in Tsuu T'ina for the purpose of financing the development of a charitable casino on Tsuu T'ina First Nation reserve lands, located immediately southwest of the city of Calgary.

The Company's investment is being made in the form of subordinated debt with a 16% coupon, and entitlement to between 2.8% and 8.5% of the earnings of the casino once it is operating, for a period of 15 years. Clairvest has funded \$2.1 million to March 31, 2007.

The fair value of \$2.2 million at March 31, 2007 compares to a cost of \$2.1 million.

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

At March 31, 2007, Clairvest owned 5,000,000 Class A special convertible shares in Van-Rob. The fair value of \$5.0 million at March 31, 2007 compares to a cost of \$5.0 million.

### **Wellington Financial Fund II**

At March 31, 2007, Clairvest had funded \$13.6 million of its \$20.0 million commitment to Wellington Fund II. As a result of the closing of Wellington Fund III, the unfunded capital commitments to Wellington Fund II may no longer be called. During fiscal 2007, Clairvest received return of capital totalling \$8.3 million for a net investment at March 31, 2007 of \$5.3 million.

The fair value of Clairvest's investment in Wellington Fund II decreased \$8.3 million to \$6.6 million at March 31, 2007. The decrease is primarily comprised of the \$8.3 million return of capital during the year.

The fair value of \$6.6 million compares to a cost of \$5.3 million at March 31, 2007. The net cash investment at March 31, 2007 was \$1.7 million as a result of \$3.6 million of distributions received to March 31, 2007.

### **Wellington Financial Fund III**

During the year, Clairvest committed to fund \$25.0 million to Wellington Fund III. At March 31, 2007, \$6.7 million of Clairvest's commitment was funded.

The fair value of \$7.0 million compares to a cost of \$6.7 million at March 31, 2007. The unrealized gain is the result of undistributed income and movements in the price of the shares underlying the warrants held by Wellington Fund III.

### **Winters Bros. Waste Systems Inc.**

During the year, Clairvest acquired 39,250 Series A 15% cumulative convertible preferred shares of Winters Bros. for \$4.3 million. The fair value of Winters Bros. of \$5.1 million compares to a cost of \$4.3 million.

## **TRANSACTIONS WITH RELATED PARTIES**

Clairvest, as manager of CEP and parent company of the General Partner of CEP, has entered into various transactions with CEP. As manager of CEP, Clairvest is entitled to a management fee as compensation for its services in the administration of the portfolio of CEP. During fiscal 2007, Clairvest assigned the Management Agreement to another wholly-owned subsidiary of Clairvest. The fee is calculated annually as 2% of committed capital until the fifth anniversary of the last closing of CEP (August 21, 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 2007, CEP paid Clairvest net management fees of \$1.2 million as compensation for its services in the administration of the portfolio of CEP. Fees of \$1.2 million from corporate investments of CEP were netted against the management fees.

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 equal to 20% of net gains of CEP. The distribution to the General Partner will be determined based on the overall performance of CEP and no such distribution is permitted until

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

Loans, bearing interest at the prime rate, were made by Clairvest to CEP during fiscal 2007, of which \$1.8 million were outstanding at March 31, 2007. The loan was repaid subsequent to year end. Interest of \$87,000 was earned by Clairvest on the loans during fiscal 2007. At year end, Clairvest had amounts owing to CEP totalling \$0.1 million.

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 2007, Clairvest completed closings totalling \$225.0 million of CEP III, a successor fund to CEP. CEP III is now closed to the issuance of additional Partnership units. Clairvest is the ultimate parent company of the two General Partners of CEP III ("GP I" and "GP II"). GP I is entitled to a 2% priority distribution from CEP III. The 2% priority distribution began in August 2006, the month in which CEP III made its first investment. The priority distribution is reduced to the extent of 75% of fees earned by GP I from corporate investments of CEP III. During the year, CEP III paid GP I net priority distributions of \$3.0 million. As per the Limited Partnership Agreement, fees of \$0.1 million from corporate investments of CEP III were netted against the priority distributions. GP I is also entitled to distributions made by CEP III equal to 2% of net gains of CEP III determined as described below.

GP II, a limited partnership, the general partner of which is a wholly-owned subsidiary of Clairvest, is entitled to participate in distributions made by CEP III equal to 18% of net gains of CEP III. The distributions to GP II, and GP I as noted above, will be determined based on the overall performance of CEP III. No such distributions are permitted until CEP III's limited partners have received amounts equal to the sum of their contributed capital and a return equal to 8% per annum compounded annually. The distributions received by GP II will be allocated to each of the two limited partners, one of which is a wholly-owned subsidiary of Clairvest which will receive 44.4% of such distributions, and the other of which is another limited partnership (the "Participation III Partnership") which will receive 55.6% of such distributions. The limited partners of the Participation III Partnership are principals and employees of Clairvest and a wholly owned subsidiary of Clairvest (the "Participation III Investors"). The Participation III Investors purchased, at fair market value, units of the Participation III Partnership during fiscal 2007. From time to time, additional units in the Participation III Partnership may be purchased by Participation III Investors. To date, CEP III has not made any distributions to GP II.

Loans, bearing interest at the prime rate, were made by the Company to CEP III during fiscal 2007. The loans were repaid in full during the year. Interest of \$39,000 was received from CEP III during fiscal 2007. At March 31, 2007, Clairvest had accounts receivable from CEP III totalling \$0.1 million.

Clairvest has also entered into various transactions with its corporate investments. During fiscal 2007 Clairvest earned \$7.5 million in distributions and interest, \$5.8 million in dividends and \$2.3 million in advisory and other fees from its corporate and temporary investments. During fiscal 2007, Clairvest paid \$1.9 million in interest on loans from Gateway Casinos entities. At March 31, 2007, Clairvest had accounts receivable from corporate investments totalling \$2.2 million and accounts payable to corporate investments totalling \$0.5 million.

At March 31, 2007, 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 \$0.7 million. At March 31, 2007, Clairvest also had loans receivable from certain officers of a company affiliated with Clairvest totalling \$0.6 million. Interest of \$43,000 was received during fiscal 2007.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Interest of \$27,000 was received from Wellington Fund II and Wellington Fund III during fiscal 2007 as a result of loans advanced to the Wellington Funds II and III. The loans were repaid in full during fiscal 2007.

### SUMMARY OF QUARTERLY RESULTS

(\$000's except per share information)	Gross Revenue \$	Net Income(Loss) \$	Net Income(Loss) Per Common Share \$	Net Income (Loss) Per Common Share Fully Diluted \$
March 31, 2007	25,655	20,342	1.28	1.25
December 31, 2006	1,819	(879)	(0.05)	(0.05)
September 30, 2006	22,508	15,202	0.91	0.89
June 30, 2006	(6,368)	(16,400)	(0.99)	(0.99)
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)

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 2007 was \$20.4 million compared with \$11.3 million for the fourth quarter of 2006.

Clairvest had realized gains on investments of \$3.8 million for the quarter, compared with \$2.8 million for the same quarter last year. The realized gains for the fourth quarter of fiscal 2007 were comprised of the gain on the sale of Allied for \$3.0 million, a \$1.1 million gain from the release of amounts held in escrow on the sale of Signature in fiscal 2006, and a \$0.3 million loss on final adjustments to investments disposed of in previous quarters through fiscal 2007. 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 Fund I.

Clairvest reversed previously recognized unrealized gains of \$3.3 million for the quarter, compared with \$1.7 million for the same quarter last year. \$3.0 of the previously recognized unrealized gains relate to unrealized gains that were recognized in prior quarters with respect to Allied that were reversed upon the sale. \$0.3 million of the previously recognized unrealized gains relate to unrealized gains that were recognized on Wellington Fund II in prior quarters, and were reversed upon the receipt of distributions from Wellington Fund II during the quarter. The distributions from Wellington Fund II were included in distributions and interest income for the fourth quarter of fiscal 2007.

\$0.7 million of the previously recognized unrealized gains in the fourth quarter of fiscal 2006 relate to unrealized gains that were recognized on the MKS Inc. shares in prior quarters, and 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 Fund II in prior quarters, and were reversed upon the receipt of distributions from Wellington Fund II during the quarter.

Clairvest had net unrealized gains on investments of \$19.6 million for the fourth quarter of 2007, compared with \$9.3 million for the fourth quarter of 2006. The net unrealized gains for the fourth quarter of 2007 resulted from:

- A \$6.7 million upward adjustment to the fair value of Clairvest's investment in Gateway Casinos primarily as a result of the upward movement in the trading price of Gateway Casinos Income Fund, to which Clairvest's valuation of the casinos in Gateway Casinos is linked;
- A \$6.5 million upward adjustment to the fair value of Clairvest's investment in Gateway Income Fund as a result of the upward movement in the trading price;

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- \$2.0 million upward adjustment to the fair value of Clairvest's investment in Datamark as a result of the upward movement in the trading price;
- \$1.4 million upward adjustment to the fair value of Clairvest's investment in Shepell-fgi as a result of the continuing improvement of Shepell-fgi's profitability;
- \$1.3 million upward adjustment to the fair value of Clairvest's investment in Voxcom as a result of the upward movement in the trading price; and
- Other movements in quoted market prices, movements in foreign exchange, dividends accruing on cumulative shares and distributions accruing on partnership units.

Distributions and interest income for the quarter was \$4.7 million, compared with \$2.7 million for the same quarter last year. Distributions and interest income for the fourth quarter of fiscal 2007 includes priority distributions of \$1.2 million from CEP III, distributions of \$1.4 million from Gateway Income Fund, \$0.5 million from Voxcom and \$0.4 million from Wellington Fund II. Distributions and interest income for the fourth quarter of fiscal 2006 included distributions of \$0.5 million from Gateway Income Fund, \$0.5 million from Voxcom and \$0.7 million from Wellington Fund II.

Dividend income for the quarter was \$0.8 million, compared with \$0.6 million for the fourth quarter of 2006. Both of these amounts represent tax-free dividends received from Gateway Casinos.

Clairvest earned \$0.2 million in net management fees during the quarter for its services in the administration of CEP's portfolio and \$0.4 million in advisory and other fees from its corporate investments.

Administration and other expenses for the quarter were \$3.1 million, compared with \$1.7 million for the same quarter last year. The increase in administrative and other expenses for the fourth quarter of fiscal 2007 was primarily due to an increase in salaries and payroll-related expenses of \$0.6 million, stock-based compensation expense of \$0.3 million, professional and consulting fees of \$0.2 million, and non-income taxes of \$0.2 million.

Finance and foreign exchange expenses of \$0.7 million for the quarter represents \$0.5 million in interest on the loan payable to a subsidiary of Gateway Casinos, \$0.4 million in interest on the loan payable to a financial institution partially offset by a gain of \$0.2 million relating to foreign exchange. Finance and foreign exchange expenses of \$1.2 million for the fourth quarter of fiscal 2006 represented \$0.3 million in interest on the loan payable to a subsidiary of Gateway Casinos, \$0.8 million in costs relating to foreign exchange and \$0.1 million in interest and bank charges.

### 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, \$9.9 million of which remains outstanding at March 31, 2007. 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, and a \$4.3 million commitment to Tsuu T'ina. Of these commitments, \$3.7 million has been funded to N-Brook and \$2.1 million has been funded to Tsuu T'ina at March 31, 2007.

Clairvest has also committed to co-invest alongside CEP III in all investments undertaken by CEP III. Clairvest's total co-investment commitment is \$75.0 million, \$71.8 million of which remains unfunded at March 31, 2007. Clairvest may only sell all or a portion of a corporate investment that is a joint investment with CEP III if it, as manager of CEP III, concurrently sells a proportionate number of securities of that corporate investment held by CEP III.

Clairvest has committed \$25.0 million to Wellington Fund III, \$6.7 million of which has been funded at March 31, 2007. As a result of the closing of Wellington Fund III, the unfunded capital commitments to Wellington Fund II may no longer be called. Clairvest has funded \$5.3 million to Wellington Fund II at March 31, 2007.

Wholly owned subsidiaries of Clairvest together with certain other unit holders (the "unitholders") currently hold approximately 33% of the outstanding units of Gateway Income Fund. The unitholders have agreed that they will take all necessary steps to ensure that their collective ownership of Gateway Income Fund is maintained at 20% of the issued and outstanding units.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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 \$5.1 million (2006 – \$3.5 million) would be owing to management under the Incentive Bonus Program.

During fiscal 2006, Clairvest, together with CEP and Shepell-fgi management, purchased Shepell-fgi. As part of the transaction, Clairvest guaranteed a \$4.6 million note payable by Shepell-fgi to its 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, 2007, the guarantee has been reduced to \$3.1 million.

During fiscal 2006, Clairvest and Clairvest Group International (Netherlands) B.V. ("B.V.") sold their 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. Subject to a number of conditions, Clairvest and B.V. may be entitled to receive over time up to an additional AUD\$2.1 million (CDN\$2.0 million) being held in escrow. As at March 31, 2007, AUD\$1.3 million (CDN\$1.1 million) has been released from the escrow and taken into income. As part of the transaction, B.V. has indemnified the purchaser for various claims which will reduce over time.

During fiscal 2007, Clairvest recorded a \$10.0 million impairment charge on loans Clairvest made to an unrelated party as the loans may not be recoverable. The loans were advanced in two tranches of \$5 million in each of December 2005 and May 2006 and were collateralized by treasury bills deposited with a Canadian bank-owned brokerage firm. The loans are currently in default and Clairvest is pursuing recovery. Any amounts recovered will be taken into income in the period of recovery.

During fiscal 2007, Clairvest, together with CEP committed to invest in the development of the Tsuu T'ina charitable casino. As part of third party financing of the casino with a Canadian chartered bank, Clairvest has guaranteed cost overruns on the project, and any debt servicing shortfalls by Tsuu T'ina which reduce over a period of time. As at March 31, 2007 no financing had taken place under the arrangement.

Clairvest enters into foreign exchange forward contracts to manage the risks arising from fluctuations in exchange rates on its foreign investments. At March 31, 2007, Clairvest had entered into forward contracts to sell US\$7.2 million. The fair value of these contracts at March 31, 2007 is a loss of \$0.3 million, and has been recognized on the balance sheet as derivative instruments market valuation.

### 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 describe 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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 dollar relative to the Canadian dollar, Clairvest hedges 100% of the fair value of its foreign investments.

Clairvest has some exposure to the financial markets, as approximately 35.1% of the fair value of Clairvest's investments at March 31, 2007, was in publicly-traded companies. Clairvest is a value investor and focuses on the intrinsic value related to the specific company's outlook and therefore acts independently of the overall valuation by the market. The entry multiples for its public holdings have generally been less than other public companies in the same industries and therefore the cost of these holdings have a value cushion in the event of any general market value fluctuations.

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

### DERIVATIVE FINANCIAL INSTRUMENTS

Clairvest enters into foreign exchange forward contracts to hedge its exposure to exchange rate fluctuations on its investments. Clairvest is required to mark to market its foreign-denominated investments, as well as the foreign exchange forward contracts entered into as hedges against Clairvest's investments.

There were no derivative instruments entered into as hedges against any debt portion of Clairvest's investments at March 31, 2007. Derivative instruments were valued at \$0.3 million liability at March 31, 2007 versus \$0.4 million liability at March 31, 2006.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### UPDATED SHARE INFORMATION

At March 31, 2007, Clairvest had 15,903,566 common shares and nil non-voting shares issued and outstanding. At March 31, 2007, Clairvest had 1,481,300 stock options outstanding, 1,052,400 of which were exercisable at March 31, 2007. Each option is exercisable for one common share.

During fiscal 2007, Clairvest purchased and cancelled under its normal course issuer bid 54,200 of its common shares at a total purchase cost of \$0.6 million. Share capital decreased \$0.3 million and retained earnings decreased \$0.3 million as a result of the purchases during the year ended March 31, 2007. As at June 22, 2007, Clairvest had purchased a total of 2,544,424 common shares under this, and previous, normal course issuer bids at a total cost of \$21.9 million.

During fiscal 2007, the Company purchased and cancelled 934,200 of its common shares and 2,230,954 of its non-voting shares in a transaction outside of the Company's normal course issuer bid. The Ontario Securities Commission granted an exemption requested by the Company 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. Share capital decreased by \$21.6 million and retained earnings decreased by \$11.4 million as a result of this transaction.

During fiscal 2007, 155,800 options were exercised, 50,000 of which were exercised for shares, increasing share capital by \$0.5 million. The remaining 105,800 options were exercised under the cash settlement plan and had no impact on share capital.

Clairvest paid cash dividends of \$0.10 per share on the common shares and non-voting shares in each of fiscal 2007, fiscal 2006 and fiscal 2005.

### DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has evaluated the effectiveness of Clairvest's disclosure controls and procedures as of March 31, 2007. Management has concluded that the disclosure controls and procedures are effective as of March 31, 2007 based on this evaluation.

Management has evaluated the Company's internal controls over financial reporting to ensure that they had been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. Management has concluded that the design of internal controls over financial reporting are effective as of March 31, 2007 based on this evaluation. There were no changes in its internal controls during its most recent interim period that has materially affected, or is reasonably likely to materially affect, its internal controls over financial reporting.

## 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



Cameron Williamson  
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, 2007 and 2006 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,  
June 1, 2007.



Chartered Accountants  
Licensed Public Accountants

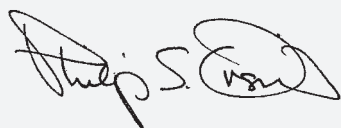
## CONSOLIDATED BALANCE SHEETS

As at March 31

\$000's	2007	2006
<b>ASSETS</b>		
Cash and cash equivalents (Note 13)	\$ 13,981	\$ 12,395
Temporary investments (Notes 3 and 15i)	76,305	101,897
Accounts receivable and other assets (Note 4e)	3,768	5,011
Income taxes recoverable (Note 10)	10,803	—
Loans receivable (Notes 4f, 4g and 4h)	1,824	800
Future tax asset (Note 10)	—	3,539
Corporate investments (Note 6)	207,929	164,330
	<b>\$ 314,610</b>	<b>\$ 287,972</b>
<b>LIABILITIES</b>		
Accounts payable (Notes 4e and 12)	\$ 3,473	\$ 4,945
Loans payable (Note 8)	68,766	27,699
Derivative instruments market valuation (Note 14b)	300	423
Future tax liability (Note 10)	4,062	1,385
Stock-based compensation (Note 12)	4,426	3,583
	<b>81,027</b>	<b>38,035</b>
Contingencies and commitments (Notes 4, 5, 8, 14, 15 and 16)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 11)	82,166	103,496
Retained earnings	151,417	146,441
	<b>233,583</b>	<b>249,937</b>
	<b>\$ 314,610</b>	<b>\$ 287,972</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)	2007	2006
<b>NET INVESTMENT GAINS</b>		
Net realized gains (losses) on investments (Note 5)	\$ (4,849)	\$ 723
Net unrealized gains on investments	23,866	2,056
	19,017	2,779
<b>OTHER INCOME</b>		
Distributions and interest income (Note 4)	15,149	8,051
Dividend income (Note 4j and 6a)	5,842	860
Management fees (Note 4a)	1,220	2,307
Advisory and other fees (Notes 4a and 4j)	2,386	1,746
	24,597	12,964
Administration and other expenses	11,279	8,694
Loss on temporary investments (Note 15i)	10,000	—
Finance and foreign exchange expense (Notes 4j, 6e, 6i, 6q and 8f)	3,979	3,162
	25,258	11,856
Income before income taxes	18,356	3,887
Income tax expense (Note 10)	91	1,639
Net income	\$ 18,265	\$ 2,248
Basic net income per share (Note 11)	\$ 1.14	\$ 0.12
Fully diluted net income per share (Note 11)	\$ 1.11	\$ 0.11

(see accompanying notes to consolidated financial statements)

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended March 31

\$000's	2007	2006
Retained earnings, beginning of year	\$ 146,441	\$ 150,268
Net income	18,265	2,248
	164,706	152,516
Dividends paid	(1,590)	(1,925)
Purchase and cancellation of shares (Note 11)	(11,699)	(4,150)
Retained earnings, end of year	\$ 151,417	\$ 146,441

(see accompanying notes to consolidated financial statements)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31

\$000's	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 18,265	\$ 2,248
Add (deduct) items not involving a current cash outlay		
Amortization	40	71
Stock-based compensation	843	3,445
Future income taxes (recovered)	6,216	(4,336)
Net realized losses (gains) on investments	21,903	(4,239)
Previously recognized net unrealized gains (losses)	(17,054)	3,516
Net unrealized gains on investments	(23,866)	(2,056)
Loss on temporary investments	10,000	—
Non-cash income (loss) relating to corporate investments	(194)	898
	16,153	(453)
Net change in non-cash working capital balances related to operations (Note 13)	(11,072)	(367)
	5,081	(820)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cancellation of share capital (Note 11)	(569)	(8,735)
Issuance of share capital	540	1,297
Issuance of loans	18,918	418
Repayment of loans	(10,852)	(1,507)
Cash dividends paid	(1,590)	(1,925)
	6,447	(10,452)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net proceeds on sale of temporary investments	15,307	(694)
Acquisition of corporate investments	(43,190)	(17,450)
Proceeds on sale of corporate investments	7,115	32,925
Loans advanced	(41,755)	(33,466)
Receipt of loans receivable	40,731	38,289
Proceeds on realization of foreign exchange forward contracts	65	1,936
Return of capital from corporate investments	11,785	299
	(9,942)	21,839
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,586</b>	<b>10,567</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>12,395</b>	<b>1,828</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 13)</b>	<b>\$ 13,981</b>	<b>\$ 12,395</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Income taxes paid	\$ 7,976	\$ 2,388
Interest paid	\$ 3,525	\$ 1,213

(see accompanying notes to consolidated financial statements)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007 and 2006 (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 arms-length transaction and 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 active market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had an active 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 foreign currency denominated investments. Such forward contracts and their underlying investments are valued at exchange rates at each consolidated balance sheet date.

### (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 recognized 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 fiscal 2006, Clairvest amended its stock option plan so as to allow a cash settlement of stock options. As a result, 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 is credited to share capital. On the exercise of stock options for cash, the liability recorded is reversed and the balance taken to income.

### (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 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.

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (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.

### 3. TEMPORARY INVESTMENTS

Temporary investments have maturities greater than 90 days and through to September 2010. Temporary investments consist of corporate notes, debentures and preferred shares. The yield on these investments ranges between 4.2% and 12.0% (2006 – between 3.9% and 12.0%) with a weighted average yield thereon of 4.6% (2006 – 4.5%).

### 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. During fiscal 2007, Clairvest assigned the Management Agreement to another wholly-owned subsidiary of Clairvest. The fee was calculated annually as 2% of committed capital until the fifth anniversary of the last closing of CEP (August 21, 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 fees earned by Clairvest from corporate investments of CEP. During fiscal 2007, CEP paid Clairvest net management fees of \$1.2 million (2006 – \$2.3 million) as compensation for its services in the administration of the portfolio of CEP. As per the Management Agreement, fees of \$1.2 million (2006 – \$1.0 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 equal to 20% of net gains of CEP. The distributions to the General Partner will be determined based on the overall performance of CEP and no such distributions are permitted until CEP’s limited partners have received amounts equal to the sum of their contributed capital and a return equal to 6% per annum compounded annually. 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 “Participation Investors”). The Participation Investors have purchased, at fair market value, units of the Participation Partnership. From time to time, additional units in the Participation Partnership may be purchased by the Participation Investors. To date, CEP has not made any distributions to the General Partner.
- (c) During fiscal 2007, the Company completed closings totalling \$225.0 million of Clairvest Equity Partners III Limited Partnership (“CEP III”), a successor fund to CEP. CEP III is now closed to the issuance of additional Partnership units. Clairvest is the ultimate parent company of the two General Partners of CEP III (“GP I” and “GP II”). GP I is entitled to a 2% priority distribution from CEP III. The 2% priority distribution began in August 2006, the month in which CEP III made its first investment. The priority distribution is reduced to the extent of 75% of fees earned by GP I from corporate investments of CEP III. During the year, CEP III paid GP I net priority distributions of \$3.0 million. As per the Limited Partnership

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Agreement, fees of \$0.1 million from corporate investments of CEP III were netted against the priority distributions. GP I is also entitled to distributions made by CEP III equal to 2% of net gains of CEP III determined as described in note 4(d) below.

- (d) GP II, a limited partnership, the general partner of which is a wholly-owned subsidiary of Clairvest, is entitled to participate in distributions made by CEP III equal to 18% of net gains of CEP III. The distributions to GP II, and GP I as noted in note 4(c) above, will be determined based on the overall performance of CEP III. No such distributions are permitted until CEP III's limited partners have received amounts equal to the sum of their contributed capital and a return equal to 8% per annum compounded annually. The distributions received by GP II will be allocated to each of the two limited partners, one of which is a wholly-owned subsidiary of Clairvest which will receive 44.4% of such distributions, and the other of which is another limited partnership (the "Participation III Partnership") which will receive 55.6% of such distributions. The limited partners of the Participation III Partnership are principals and employees of Clairvest and a wholly owned subsidiary of Clairvest (the "Participation III Investors"). The Participation III Investors purchased, at fair market value, units of the Participation III Partnership during fiscal 2007. From time to time, additional units in the Participation III Partnership may be purchased by Participation III Investors. To date, CEP III has not made any distributions to GP II.
- (e) 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 (2006 – \$0.5 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 \$0.7 million (2006 – \$0.6 million). Also included in accounts receivable and other assets are other loans made to certain officers of a company affiliated with Clairvest totalling \$0.6 million (2006 – \$0.2 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 \$43,000 (2006 – \$22,000) was received during fiscal 2007. Also included in accounts receivable and other assets are receivables from Clairvest's corporate investments totalling \$2.2 million (2006 – \$1.4 million), from CEP totalling nil (2006 – \$1.6 million) and from CEP III totalling \$0.1 million (2006 – \$0.1 million). Included in accounts payable is \$0.1 million (2006 – nil) owing to CEP and \$0.5 million owing to corporate investments (2006 – nil).
- (f) Loans, bearing interest at the prime rate, were made by the Company to CEP during fiscal 2007, of which \$1.8 million (2006 – \$0.8 million) were outstanding at March 31, 2007. The loans were repaid subsequent to year end. Interest of \$87,000 (2006 – \$71,000) was received from CEP during fiscal 2007.
- (g) Loans, bearing interest at the prime rate, were made by the Company to CEP III during fiscal 2007. The loans were repaid in full during the year. Interest of \$39,000 (2006 – nil) was received from CEP III during fiscal 2007.
- (h) Loans, bearing interest at the prime rate, were made by the Company to Wellington Financial Fund II and Wellington Financial Fund III ("Wellington group of companies") during fiscal 2007. The loans were repaid in full during the year. Interest of \$27,000 (2006 – \$44,000) was received from the Wellington group of companies during fiscal 2007.
- (i) 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.
- (j) During fiscal 2007, Clairvest earned \$7.5 million (2006 – \$5.4 million) in distributions and interest income, \$5.8 million (2006 – \$0.5 million) in dividends and \$2.3 million (2006 – \$1.7 million) in advisory and other fees from its corporate investments. During fiscal 2007, Clairvest paid \$1.9 million (2006 – \$1.2 million) in interest to Gateway Casinos Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 5. NET REALIZED GAINS (LOSSES) ON INVESTMENTS

Net realized gains (losses) on investments for the years ended March 31, 2007 and 2006 are comprised of the following:

	2007	2006
Net realized gains (losses) on investments during the year (Notes 6d, 6e, 6k and 15h)	\$ (21,903)	\$ 4,239
Previously recognized net unrealized losses (gains)	17,054	(3,516)
	<b>\$ (4,849)</b>	<b>\$ 723</b>

### 6. CORPORATE INVESTMENTS

	2007			2006		
	Fair value	Cost	Difference	Fair value	Cost	Difference
<b>Investments in publicly-traded companies</b>						
Datamark Systems Group Inc.	\$ 9,762	\$ 14,454	\$ (4,692)	\$ 12,871	\$ 14,421	\$ (1,550)
Gateway Casinos Income Fund	47,614	32,913	14,701	22,874	15,007	7,867
Voxcom Income Fund	15,644	11,187	4,457	15,549	11,187	4,362
	73,020	58,554	14,466	51,294	40,615	10,679
<b>Investments in privately-held companies</b>						
Allied Global Holdings Inc.	—	—	—	4,755	3,000	1,755
Consolidated Vendors Corporation	—	—	—	—	7,423	(7,423)
Gateway Casinos Inc.	84,724	24,000	60,724	68,233	24,000	44,233
Intergral Orthopedics Inc.	5,347	5,347	—	4,120	4,120	—
Kubra Data Transfer Ltd.	3,250	2,150	1,100	—	—	—
Landauer Metropolitan Inc.	3,894	3,636	258	4,147	4,088	59
N-Brook Mortgage LP	3,865	3,699	166	2,741	2,658	83
NRI Industries Inc.	—	—	—	5,080	17,613	(12,533)
Shepell-fgi (formerly WarrenShepell)	7,910	6,550	1,360	4,000	4,000	—
Tsuu T'ina Gaming Limited Partnership	2,226	2,091	135	—	—	—
Van-Rob Inc.	5,000	5,000	—	5,000	5,000	—
Wellington Financial Fund II	6,618	5,319	1,299	14,922	13,571	1,351
Wellington Financial Fund III	6,974	6,704	270	—	—	—
Winters Bros. Waste Systems, Inc.	5,065	4,292	773	—	—	—
	134,874	68,788	66,086	112,998	85,473	27,525
Other investments	36	47	(11)	38	36	2
	<b>\$ 207,929</b>	<b>\$ 127,389</b>	<b>\$ 80,540</b>	<b>\$ 164,330</b>	<b>\$ 126,124</b>	<b>\$ 38,206</b>

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

Datamark is a business document management company with operations in Canada and the United States. At March 31, 2007, Clairvest owned 4,691,670 (2006 – 4,675,670) common shares of Datamark, representing a 37.1% (2006 – 36.5%) interest on a fully diluted basis. During the year, Clairvest exercised 16,000 options at an average exercise price of \$2.09 per share.

At March 31, 2007, Clairvest also held 4,000 (2006 – 20,000) options to acquire Datamark shares, none (2006 – 14,000) of which have been vested at March 31, 2007. The options have an exercise price of \$1.21 per share and expiry date of June 25, 2013.

During the year, Datamark paid a cash dividend to Clairvest of \$4.7 million. Since the inception of the investment to March 31, 2007, Clairvest has received a total of \$17.6 million in cash dividends from Datamark, which have been accounted for as income.

During fiscal 2007, Datamark entered into an acquisition agreement with a third party providing for a Combination Entity. Under the terms of the agreement Datamark shareholders would be entitled to consideration per share equal to \$2.22 in cash, or one share of the Combined Entity, or a combination thereof subject to pro-rata. Subsequent to year end,

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Clairvest disposed of its interest in Datamark [see Note 15 (d)].

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

Gateway Income Fund is a trust which operates casinos in Western Canada. At March 31, 2007, Clairvest owned 2,641,222 (2006 – 1,500,650) units in Gateway Income Fund through wholly-owned subsidiaries of Clairvest. Clairvest's indirect ownership interest on a fully diluted basis at March 31, 2007 was 8.5% (2006 – 5.7%).

During fiscal 2007, Gateway Income Fund acquired all of the operating assets of the Cascades Langley Casino and Hotel (“Cascades”) 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, and acquired 1.1 million units in Gateway Income Fund. As a result of certain conditions being met, Clairvest subsequently received entitlements to a further 0.4 million units in Gateway Income Fund due to the sale. The fair value of these units is included in Clairvest's investment in Gateway Casinos Inc. which holds the units.

Wholly-owned subsidiaries of Clairvest together with certain other unit holders (the “Unit Holders”) hold 33% of the outstanding units of Gateway Income Fund. The Unit Holders have agreed that they will take all necessary steps to collectively maintain a 20% ownership interest amongst the Unit Holders 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”)**

Voxcom is an Edmonton-based electronic security alarm monitoring company operating throughout Canada. At March 31, 2007 and 2006, Clairvest owned 1,645,015 units in Voxcom. Clairvest's ownership interest on a fully diluted basis at March 31, 2007 and 2006 was 20.1%.

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.

### **(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 10% convertible Class B preferred shares in Allied Global, representing an 8.4% ownership on a fully diluted basis.

During fiscal 2007, Clairvest received 4,329 (2006 – 3,936) 10% convertible Class B preferred shares in Allied Global by way of a stock dividend. Subsequently, Clairvest sold its investment in Allied Global for total sale and fee proceeds of \$6.3 million and recorded a realized gain of \$3.0 million which it took to income upon sale.

### **(e) Consolidated Vendors Corporation (“Consolidated Vendors”)**

Consolidated Vendors was an independent vending operator in the U.S. Midwest.

During fiscal 2007, Clairvest fully realized its investment in Consolidated Vendors as Consolidated Vendors sold its business assets to non-related third parties and ceased operations. Clairvest received total proceeds from Consolidated Vendors of \$2.2 million from the sale of its business assets.

During fiscal 2002, Clairvest sold certain shares of Consolidated Vendors to CEP for \$5.7 million. Clairvest guaranteed to compensate CEP for any deficiency between (i) CEP's purchase price for these shares and (ii) the amount CEP received from its investment in these shares, including proceeds of disposition and any other amounts attributable to CEP's holdings in Consolidated Vendors over and above the cost of these holdings. During fiscal 2007, the Company paid \$4.0 million [US\$3.5 million] to CEP under the guarantee. This amount represents the maximum amount receivable under the guarantee arrangement.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the year, the Company recorded a further \$1.6 million write-down on the investment which has been included in the statement of income.

Over the life of the investment, the Company recorded a realized loss on its investment of \$8.4 million. The cost of the investment to the Company was \$7.5 million, and further costs (net of proceeds) of \$0.9 million were incurred including the guarantee to CEP. Included in proceeds is cash of \$0.9 million from foreign exchange gains as a result of hedging the investment over its life.

As at March 31, 2007, and included in accounts payable, there remains a further \$0.5 million in undistributed proceeds to facilitate the dissolution of Consolidated Vendors.

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

Gateway Casinos is a gaming management company operating casinos in Western Canada. At March 31, 2007 and 2006, Clairvest owned, through a wholly-owned subsidiary, 28.4% of a limited partnership that owns Gateway Casinos.

Included in the valuation of Gateway Casinos at March 31, 2007 are units held in escrow following the sale of the Cascades to Gateway Income Fund during the year, together with additional units Clairvest is entitled to through a purchase price adjustment on the sale of Cascades [see note 6b].

### **(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. At March 31, 2007, Clairvest owned 5,347,132 (2006 – 4,120,250) Class A voting common shares of Integral Orthopedics.

During the year, the Company acquired an additional 1,226,882 Class A voting common shares for \$1.2 million. The Company's fully diluted interest in Integral Orthopedics at March 31, 2007 was 23.3% (2006 – 23.0%).

### **(h) Kubra Data Transfer Limited ("Kubra")**

Kubra is a business process outsourcing company focused on the distribution of household bills on behalf of its customers. During fiscal 2007, Clairvest acquired 2,150,000 Class A Voting Common Shares of Kubra for \$2.2 million.

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

Landauer is a supplier of home medical equipment in the New York City area. At March 31, 2007 and 2006, 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, 2007 and 2006.

During fiscal 2006, the Company provided a \$0.5 million bridge loan to Landauer bearing interest at 14% to July 21, 2006, 17% from July 22, 2006 to January 21, 2007, and 20% thereafter. The loan was repaid in full during fiscal 2007. Clairvest received interest on the loan totalling \$0.1 million.

### **(j) 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 \$3.7 million (2006 – \$2.7 million) had been funded at March 31, 2007. Clairvest's fully diluted interest in N-Brook at March 31, 2007 and 2006 was 14.7%.

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

NRI Industries converts scrap rubber into value-added manufactured products.

At March 31, 2006, 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 was 84.7%.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During fiscal 2007, NRI Industries applied for, and was granted, a stay under the Companies Creditors Arrangement Act (CCAA) and ceased operations. Clairvest recorded total realized losses of \$17.5 million on this investment during the year. During the year, the Company recorded a \$5.1 million write-down on the investment which has been included in the statement of income.

### **(l) SHEPELL-FGI (Formerly WARRENSHEPELL)**

Shepell-fgi is a provider of employee assistance programs in Canada and the United States. During the year, the Company, through its subsidiaries, acquired an additional 1,902,985 limited partnership units of Shepell-fgi at a total cost of \$2.6 million.

At March 31, 2007, Clairvest owned 5,902,985 (2006 – 4,000,000) limited partnership units of Shepell-fgi. The Company's fully diluted interest in Shepell-fgi at March 31, 2007 was 19.2% (2006 – 17.2%).

### **(m) Tsuu T'ina Gaming Limited Partnership ("Tsuu T'ina")**

During fiscal 2007, Clairvest committed to invest \$4.3 million in Tsuu T'ina Gaming Limited Partnership ("Tsuu T'ina") for the purpose of financing the development of a charitable casino on Tsuu T'ina First Nation reserve lands, located immediately southwest of the city of Calgary.

The Company's investment is being made in the form of subordinated debt with a 16% coupon, and entitlement to between 2.8% and 8.5% of the earnings of the casino once it is operating for a period of 15 years. Clairvest has funded \$2.1 million to March 31, 2007.

### **(n) 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, 2007 and 2006, Clairvest owned 5,000,000 Class A special convertible shares in Van-Rob, representing a 5.0% fully diluted ownership interest.

### **(o) 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. Clairvest's commitment represents a 24.1% (2006 – 24.1%) interest in Wellington Fund II.

As a result of the closing of Wellington Fund III [see note 5 (p)], the unfunded capital commitments to Wellington Fund II can no longer be called. Clairvest has funded \$13.6 million (2006 – \$13.6 million) to Wellington Fund II and has received return of capital totaling \$8.3 million (2006 – nil) for a net investment at March 31, 2007 of \$5.3 million (2006 – \$13.6 million). Clairvest is also entitled to participate in the profits received by the general partner of Wellington Fund II.

### **(p) Wellington Financial Fund III ("Wellington Fund III")**

Wellington Fund III, a successor to Wellington Fund II, provides debt capital and operating lines to technology, biotechnology, communications and industrial product companies across Canada. During the year, Clairvest, as a limited partner, committed to fund \$25.0 million to Wellington Fund III. Clairvest's commitment represents a 19.9% interest in Wellington Fund III.

At March 31, 2007, \$6.7 million of Clairvest's commitment was funded. Clairvest is also entitled to participate in the profits received by the general partner of Wellington Fund III.

### **(q) Winters Bros. Waste Systems Inc. ("Winter Bros.")**

During fiscal 2007, Clairvest invested in Winters Bros., a leading Long Island, New York-based waste management company. Clairvest acquired 39,250 15% convertible preferred shares at a cost of \$4.3 million representing a 9.0% ownership interest in Winters Bros.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 7. VARIABLE INTEREST ENTITIES

The Canadian Institute of Chartered Accountants' Accounting Guideline 15 (AcG-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.

Clairvest holds interest in various partnerships as a result of its ordinary business operations. Some partnerships are considered VIEs under AcG-15. However, Clairvest is not the primary beneficiary of these VIEs, and accordingly, accounts for its interests in these entities using fair value in accordance with Accounting Guideline AcG-18.

### 8. LOANS PAYABLE

Loans payable consist of the following:

- (a) \$12.6 million (2006 – \$12.6 million) 30-year loan from Gateway Casinos. 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. Clairvest did not make any repayment (2006 – \$1.1 million) on this loan during fiscal 2007.
- (b) \$15.0 million (2006 – \$15.0 million) 30-year loan from a subsidiary of Gateway Casinos. The loan bears interest at 8.05% per annum and is collateralized by the 1,500,650 units held by Clairvest in Gateway Income Fund. The loan must be repaid as the units in Gateway Income Fund are disposed of.
- (c) \$8.1 million 30-year loan from a subsidiary of Gateway Casinos. The loan is non-interest bearing, and repayable on demand. The loan is collateralized by 513,278 units held by Clairvest in Gateway Income Fund. The loan must be repaid as these Gateway Income Fund units are disposed of.
- (d) \$9.8 million 30-year loan from a subsidiary of Gateway Casinos. The loan bears interest at 8.00% per annum, and is collateralized by 627,294 units held by Clairvest in Gateway Income Fund. The loan must be repaid as these Gateway Income Fund units are disposed of.
- (e) Loans totalling \$0.3 million (2006 – \$0.1 million) from the limited partnership that owns Gateway Casinos. The loans that were outstanding at March 31, 2006, together with an additional \$0.7 million loaned during the first three quarters of fiscal 2007, were non-interest bearing and repayable on demand at any time after December 31, 2006. These loans were repaid in full in the fourth quarter of fiscal 2007. The loans outstanding are non-interest bearing and payable on demand at any time after December 31, 2007.
- (f) \$23.0 million 10-year promissory note from a financial institution, bearing interest at a floating rate. Upon the disposition of certain investments, Clairvest will be required to make principal payments on the note. During the year, Clairvest repaid \$10.0 million in accordance with the terms of the note, bringing the principal balance to \$23.0 million. Interest of \$1.7 million was paid during the year.

### 9. 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, 2007 was 6.00% (2006 – 5.50%).

The line of credit available at March 31, 2007 is \$20.0 million (2006 – \$15.7 million) which is based on debt covenants within the banking arrangement.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 10. INCOME TAXES

Income tax expense consists of the following:

	2007	2006
Current income tax expense (recovery)	\$ (6,125)	\$ 5,975
Future income tax expense (recovery) relating to origination and reversal of temporary differences	6,216	(4,336)
Provision for income taxes	\$ 91	\$ 1,639

A reconciliation of the income tax expense based on the statutory rate in Canada and the effective rate is as follows:

	2007	%	2006	%
Income before income taxes	\$ 18,356		\$ 3,887	
Statutory Canadian income tax rate	36.12%		36.12%	
Statutory Canadian income taxes	6,630	36.12	1,404	36.12
Non-taxable dividends received	(2,304)	(12.55)	(183)	(4.71)
Non-taxable portion of net investment gains	(1,579)	(8.60)	(502)	(12.91)
Taxable portion of unrealized gains (loss)	216	1.18	(964)	(24.80)
Non-taxable portion of realized gains (loss)	(4,444)	(24.21)	(594)	15.28
Non-taxable portion of loss on temporary investments	1,806	9.84	—	—
Non-deductible portion of finance expense	85	0.46	71	1.83
Non-deductible portion of other expenses	398	2.17	1,310	33.70
Recovery of prior years' taxes	(755)	(4.11)	(279)	(7.18)
Other	38	0.20	188	4.84
	91	0.50	\$ 1,639	42.17

Future tax assets and liabilities relate to the temporary differences on corporate investments, derivative instruments market valuation, and accounts payable.

### 11. SHARE CAPITAL

#### Authorized

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

Unlimited number of common shares

10,000,000 non-voting shares

	2007		2006	
	Number of shares	Amount	Number of shares	Amount
Common shares, opening balance	16,841,966	\$ 86,696	17,549,438	\$ 89,904
Purchased and cancelled under normal course issuer bid	(54,200)	(278)	(877,472)	(4,505)
Purchased and cancelled outside of normal course issuer bid	(934,200)	(4,792)	—	—
Issued on exercise of stock options	50,000	540	170,000	1,297
Common shares, closing balance	15,903,566	\$ 82,166	16,841,966	\$ 86,696
Non-voting shares	—	—	2,230,954	16,800
	15,903,566	\$ 82,166	19,072,920	\$ 103,496

During fiscal 2007, the Company filed a normal course issuer bid enabling it to make market purchases of up to 795,178 (2006 – 840,959) of its common shares in the 12-month period commencing March 6, 2007.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During fiscal 2007, the Company purchased and cancelled under its normal course issuer bid 54,200 (2006 – 868,972) of its common shares at a total purchase cost of \$0.6 million (2006 – \$8.6 million), and cancelled none (2006 – 8,500) of its common shares that were purchased in the prior fiscal year at a total purchase cost of nil (2006 – \$0.1 million). The excess of the purchase cost of these shares over the average paid-in amount was \$0.3 million (2006 – \$4.2 million), which was charged to retained earnings. In total, 2,544,424 (2006 – 2,490,224) common shares at a cost of \$21.9 million (2006 – \$21.3 million) have been purchased under this and all previous normal course issuer bids as at March 31, 2007.

During fiscal 2007, the Company purchased and cancelled 934,200 of its common shares and 2,230,954 of its non-voting shares in a transaction outside of the Company's normal course issuer bid. The Ontario Securities Commission granted an exemption requested by the Company 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. Share capital decreased by \$21.6 million and retained earnings decreased by \$11.4 million as a result of this transaction.

15,903,566 (2006 – 16,841,966) common shares and nil (2006 – 2,230,954) non-voting shares were outstanding at March 31, 2007.

The weighted average number of common and non-voting shares outstanding during fiscal 2007 was 15,951,471 (2006 – 17,010,127) and 110,020 (2006 – 2,230,954) respectively, for a total of 16,061,491 (2006 – 19,241,081). The weighted average number of fully diluted shares outstanding during fiscal 2007 was 16,477,593 (2006 – 20,230,112).

The difference between the basic and fully diluted net income per share computations for 2007 and 2006 consists of the following:

	2007			2006		
	Net income	Number of shares	Per share amount	Net income	Number of shares	Per share amount
Basic net income per share	\$ 18,265	16,061,491	\$ 1.14	\$ 2,248	19,241,081	\$ 0.12
Effect of dilutive securities						
Convertible non-voting shares		—			580,228	
Stock options		416,102			408,803	
Fully diluted net income per share	\$ 18,265	16,477,593	\$ 1.11	\$ 2,248	20,230,112	\$ 0.11

As at March 31, 2007, there were 120,000 (2006 – 210,000) outstanding stock options that were not included in the calculation of fully diluted net income per share as they are anti-dilutive.

Under the Company's stock option plan, 1,908,900 (2006 – 1,908,900) 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 five years. Once vested, options are exercisable at any time until their expiry ten years after the grant date.

During fiscal 2007, 155,800 options were exercised, 50,000 of which were exercised for shares, increasing share capital by \$0.5 million. The remaining 105,800 options were exercised under the cash settlement plan and had no impact on share capital.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the status of the Company's stock option plan as at March 31, 2007 and 2006 and changes during the years ended on those dates is presented below:

	Number of options	Weighted average exercise price per share
Options outstanding, March 31, 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	1,512,000	\$ 7.20
Options granted	120,000	10.51
Options exercised	(155,800)	8.22
Options forfeited	(4,900)	7.25
Options outstanding, March 31, 2007	1,481,300	\$ 7.43
Options exercisable, March 31, 2007	1,052,400	\$ 6.68

The following table summarizes information about stock options outstanding and exercisable at March 31, 2007:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$4.00 to \$4.99	210,000	3.9 years	\$ 4.63	210,000	\$ 4.63
\$5.00 to \$5.99	255,400	4.3 years	5.85	220,200	5.85
\$6.00 to \$6.99	55,000	5.3 years	6.75	44,000	6.75
\$7.00 to \$7.99	492,400	1.6 years	7.42	442,800	7.36
\$8.00 to \$8.99	138,500	4.9 years	8.44	93,400	8.51
\$9.00 to \$9.99	210,000	8.2 years	9.95	42,000	9.95
\$10.00 to \$10.99	120,000	9.2 years	10.51	—	—
	1,481,300			1,052,400	

### 12. 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 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, 2007, Clairvest recognized stock-based compensation expense of \$1.3 million (2006 – \$3.6 million) with respect to the stock options currently outstanding.

As at March 31, 2007, a total of 74,736 (2006 – 62,933) DSUs were held by directors of the Company, the accrual in respect of which was \$0.8 million (2006 – \$0.6 million) and has been included in accounts payable.

As at March 31, 2007, a total of 443,250 (2006 – 382,250) BVARs were held by employees of Clairvest and a company affiliated with Clairvest, the accrual in respect of which was \$0.4 million (2006 – \$0.5 million) and has been included in accounts payable.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 13. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2007	2006
Accounts receivable and other assets	\$ (9,600)	\$ (553)
Accounts payable	(1,472)	186
	\$ (11,072)	\$ (367)

Cash and cash equivalents at March 31, 2007 and 2006 are comprised of the following:

	2007	2006
Cash	\$ 3,640	\$ 582
Cash equivalents	10,341	11,813
	\$ 13,981	\$ 12,395

### 14. FINANCIAL INSTRUMENTS

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

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

The fair value of the loans receivable and loans payable was determined by discounting future cash flows using rates which the Company could currently use for loans with similar terms and conditions and maturity dates. The estimated fair value of the loans payable 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, 2007, the Company had entered into foreign exchange forward contracts as hedges against its foreign investments as follows:

Forward contracts to sell US\$7.2 million (2006 – US\$14.0 million) at rates of Canadian \$1.0864 to \$1.1446 per U.S. dollar through June 2007 (average rate of \$1.1129; 2006 – average rate of \$1.1378). The fair value of these contracts at March 31, 2007 is a loss of \$0.3 million (2006 – loss of \$0.4 million) and have been recognized on the consolidated balance sheet as derivative instruments market valuation.

#### (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 primarily with Schedule 1 Canadian chartered banks.

### 15. CONTINGENCIES, COMMITMENTS AND GUARANTEES

- (a) Clairvest has committed to co-invest alongside CEP in all investments undertaken by CEP. Clairvest's total co-investment commitment is \$54.7 million, \$9.9 million (2006 – \$22.2 million) of which remains outstanding at March 31, 2007. 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, and a \$4.3 million commitment to Tsuu T'ina. Of these commitments, \$3.7 million (2006 – \$2.7 million) has been funded to N-Brook and \$2.1 million (2006 – nil) has been funded to Tsuu T'ina at March 31, 2007.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (b) Clairvest has also committed to co-invest alongside CEP III in all investments undertaken by CEP III. Clairvest's total co-investment commitment is \$75.0 million, \$71.8 million of which remains unfunded at March 31, 2007. Clairvest may only sell all or a portion of a corporate investment that is a joint investment with CEP III if it, as manager of CEP III, concurrently sells a proportionate number of securities of that corporate investment held by CEP III.
- (c) Clairvest has committed \$25.0 million to Wellington Fund III, \$6.7 million of which has been funded at March 31, 2007. As a result of the closing of Wellington Fund III, the unfunded capital commitments to Wellington Fund II can no longer be called. Clairvest has funded \$5.3 million (2006 – \$13.6 million) to Wellington Fund II at March 31, 2007.
- (d) Wholly-owned subsidiaries of Clairvest together with certain other unit holders (the "Unit Holders") currently hold approximately 33% of the outstanding units of Gateway Casinos Income Fund. The Unit Holders have agreed that they will take all necessary steps to collectively maintain a 20% ownership amongst the Unit Holders in connection with any additional issue of units of Gateway Casinos Income Fund to ensure that their collective ownership of the 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 \$5.1 million (2006 – \$3.5 million) would be owing to management under the Incentive Bonus Program.
- (g) During fiscal 2006, Clairvest, together with CEP and Shepell·fji management, purchased Shepell·fji. As part of the transaction, Clairvest guaranteed a \$4.6 million note payable by Shepell·fji to its 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, 2007, the guarantee has been reduced to \$3.1 million.
- (h) During fiscal 2006, Clairvest and Clairvest Group International (Netherlands) B.V. ("B.V.") sold their 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. Subject to a number of conditions, Clairvest and B.V. may be entitled to receive over time up to an additional AUD\$2.1 million (CDN\$2.0 million) being held in escrow. As at March 31, 2007, AUD\$1.3 million (CDN\$1.1 million) has been released and taken into income. As part of the transaction, B.V. has indemnified the purchaser for various claims which will reduce over time.
- (i) During fiscal 2007, Clairvest recorded a \$10.0 million impairment charge on loans Clairvest made to an unrelated party as the loans may not be recoverable. The loans were advanced in two tranches of \$5 million in each of December 2005 and May 2006 and were collateralized by treasury bills deposited with a Canadian bank-owned brokerage firm. The loans are currently in default. Any amounts recovered will be taken into income in the period of recovery.
- (j) During fiscal 2007, Clairvest, together with CEP committed to invest in the development of the Tsuu T'ina charitable casino. As part of third party financing of the casino with a Canadian chartered bank, Clairvest has guaranteed cost overruns on the project, and any debt servicing shortfalls by Tsuu T'ina which reduce over a period of time. As at March 31, 2007 no financing had taken place under the arrangement.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 16. SUBSEQUENT EVENTS

- (a) Subsequent to year end, Gateway Income Fund (the "Fund") entered into an agreement with an unrelated third party for the purchase of all outstanding units of the Fund for \$25.26 per unit in cash. The transaction is subject to certain conditions, not yet settled, including unitholder and regulatory approvals. At the same time Clairvest has entered into agreements in support of the transaction. If the transaction closes on anticipated terms, the impact to the fair value of Clairvest's investment in the Fund as at March 31, 2007 is an increase of \$19.1 million.
- (b) Subsequent to year end, Gateway Casinos entered into agreements with an unrelated third party for the purchase of substantially all of its assets, as well as shares of a joint venture entity in which it holds a 50% interest. The transaction is subject to certain conditions and is not yet settled. At the same time Clairvest has entered into agreements to dispose of its interest in Gateway Casinos. If the transaction closes on anticipated terms, the impact to the fair value of Clairvest's investment in Gateway Casinos as at March 31, 2007 is an increase of \$18.1 million.
- (c) Subsequent to year end, Clairvest sold its interest in Voxcom for cash proceeds of \$21.8 million
- (d) Subsequent to year end, Clairvest sold its interest in Datamark for a combination of \$6.4 million in cash and 1,546,473 shares in a new combined public entity comprising Datamark and a third party. Clairvest's diluted interest in the new entity is 4.54%.
- (e) Subsequent to year end, Clairvest loaned \$1.0 million to a related party.

### 17. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 consolidated financial statements.

## SHAREHOLDER INFORMATION

As at, and for the year ended, March 31, 2007

### 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. Annual and quarterly reports are provided as part of this process and the company releases information on material events through the press, as required. Further disclosure can be found on the company's website, [www.clairvest.com](http://www.clairvest.com).

### VALUATION MEASURES

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

### OUTSTANDING SECURITIES

Share structure:	Common Shares <sup>(3)</sup> and Non-Voting Shares
Shares outstanding: <sup>(1)</sup>	15,903,566
Public float: <sup>(1,2)</sup>	5,878,239
Market capitalization: <sup>(1)</sup>	\$ 208,654,786
Market value of public float: <sup>(1,2)</sup>	\$ 77,122,496
Stock market:	Toronto Stock Exchange
Stock symbol:	CVG

(1) As at May 31, 2007.

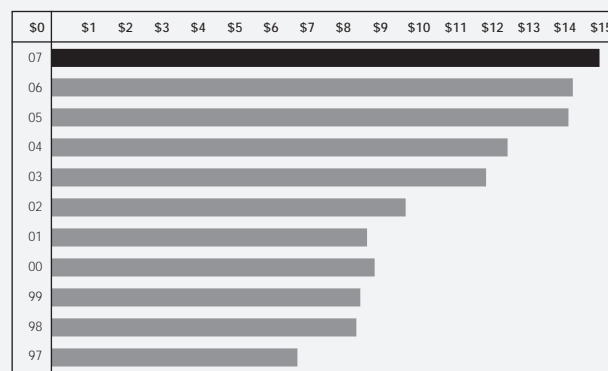
(2) Excludes holders of 10% or more of the outstanding common shares.

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

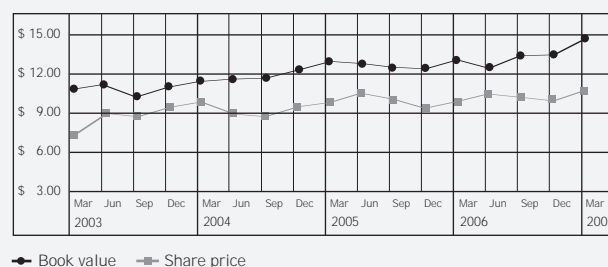
### DIVIDEND INFORMATION

Clairvest has consistently paid a dividend over the last eighteen years. Over the last fifteen 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, 2007</b>				
<b>First Quarter</b>	<b>11.49</b>	<b>9.85</b>	<b>10.50</b>	<b>493,766</b>
<b>Second Quarter</b>	<b>10.65</b>	<b>10.05</b>	<b>10.15</b>	<b>196,600</b>
<b>Third Quarter</b>	<b>10.23</b>	<b>9.80</b>	<b>9.95</b>	<b>28,591</b>
<b>Fourth Quarter</b>	<b>10.65</b>	<b>9.76</b>	<b>10.65</b>	<b>106,575</b>
<b>Year to March 31, 2006</b>				
First Quarter	10.50	9.50	10.45	1,189,964
Second Quarter	10.45	9.66	10.00	580,509
Third Quarter	10.19	9.14	9.40	125,658
Fourth Quarter	9.99	9.25	9.85	142,371

### SHAREHOLDER INQUIRIES

Cameron Williamson, Chief Financial Officer  
and Corporate Secretary

tel: 416.925.9270 fax: 416.925.5753

e-mail: [cameronw@clairvest.com](mailto:cameronw@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  
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Toronto, Ontario M4T 2S3  
tel: 416.925.9270 fax: 416.925.5753  
web: [www.clairvest.com](http://www.clairvest.com)

AUDITORS  
Ernst & Young LLP

THE ANNUAL MEETING OF  
SHAREHOLDERS  
August 13, 2007, at 10:30 a.m.  
St. Andrews Club & Conference Centre,  
150 King Street West,  
Toronto, Ontario Canada

All shareholders are encouraged to attend.

**CLAIRVEST**

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