# CLAIRVEST GROUP INC. NEWS RELEASE

## CLAIRVEST REPORTS FISCAL 2007 FIRST QUARTER RESULTS

**Highlights:**

- Clairvest completed the first two closings of CEP III, a new $300 million private equity investment pool receiving total commitments of $245 million
- Clairvest and CEP acquired a minority interest in Winters Bros. Waste Systems, Inc. for $17.3 million
- Clairvest received $17.9 million in loans from Gateway Casinos Inc. from the sale of the Cascades Casino and acquired 1.1 million units of Gateway Casinos Income Fund
- Datamark paid a special dividend, Clairvest's share of which was $4.7 million
- Clairvest provided for a $10.0 million reserve on temporary investments
- Clairvest purchased and cancelled 934,200 common shares and 2,230,954 non-voting shares for a total of $33.0 million outside of the normal course issuer bid
- Clairvest purchased 54,200 common shares for $0.6 million under the normal course issuer bid
- Clairvest declared a $1.6 million dividend, or $0.10 per share
- Subsequent to quarter end, Clairvest and CEP completed the closing of a combined $17.0 million investment in Tsuu T'ina Gaming Limited Partnership
- June 30, 2006 book value $12.51 per share, versus $13.10 at March 31, 2006

**Toronto, Ontario (August 14, 2006)** – Clairvest Group Inc. (TSX:CVG) today reported its results for the first quarter ended June 30, 2006. *(All figures are in Canadian dollars unless otherwise stated)*.

During the quarter, Clairvest purchased $33.0 million of Clairvest shares at a discount to book value. Also during the quarter, Clairvest recorded a net loss of $16.4 million. The net effect was a decrease in book value per share from $13.10 at March 31, 2006 to $12.51 at June 30, 2006.

Clairvest completed the first two closings of Clairvest Equity Partners III Limited Partnership ("CEP III"), a successor fund to Clairvest Equity Partners Limited Partnership ("CEP"). The CEP III Fund, to be capitalized at up to $240 million, will be invested alongside at least $60 million of Clairvest capital to form a $300 million co-investment pool for the Company's next round of private equity investments. The first two closings accounted for $245 million of the $300 million target pool.

Clairvest and CEP acquired a minority interest in Winters Bros. Waste Systems, Inc., a leading Long Island, New York-based waste management company. The $17.3 million investment was made based on pro rata capital commitments to the investment pool, of 25% from Clairvest and 75% from CEP respectively.

Gateway Casinos Income Fund acquired the operating assets of the Cascades Langley Casino and Hotel from a subsidiary of Gateway Casinos Inc. As a result of the transaction, Clairvest received $17.9 million in loans from Gateway Casinos Inc. entities, and acquired 1.1 million units in Gateway Casinos Income Fund. Subject to certain conditions, Clairvest may be entitled to receive additional units in Gateway Casinos Income Fund currently being held in escrow. The contingent amounts are not included in the June 30, 2006 book value per share. Gateway Casinos Income Fund also announced an increase in monthly distributions to shareholders by $0.0045 per unit, for a monthly distribution of $0.1195 per unit or $1.4340 per unit on an annualized basis. As a result, annualized distributions to Clairvest increased by 83% to $3.7 million annually.

During the quarter, Datamark paid a special dividend in the amount of $1.00 per common share. Clairvest received $4.7 million, bringing total dividends received to date from Datamark to $17.6 million. This compares to Clairvest's cost of $14.4 million and its remaining fair value of $10.3 million.

As part of Clairvest's treasury function, Clairvest made a $10.0 million loan to an unrelated party. During the quarter, Clairvest fully provided for this loan as the loan may be unrecoverable. The loan was advanced in two tranches of $5 million in each of December 2005 and May 2006 and was collateralized by treasury bills deposited with a Canadian bank-owned brokerage firm. The loan is in default and Clairvest has learned that the collateral arrangements required for the loan have been mishandled by one or more third parties. The circumstances surrounding this potential loss are limited to these particular loans, and have no impact on any of Clairvest's other assets or investments or the partnerships that Clairvest manages. Clairvest is investigating the circumstances of the default and the mishandling of the collateral arrangements and is pursuing all avenues to recover the funds. Any amounts recovered will be booked in the period of recovery.

Clairvest purchased and cancelled 934,200 Clairvest common shares and 2,230,954 Clairvest non-voting shares in a transaction outside of Clairvest's normal course issuer bid. The Ontario Securities Commission granted an exemption requested by Clairvest from the issuer bid requirements of the Securities Act in connection with the purchase of these shares. The $33.0 million purchase price was satisfied by an unsecured promissory note with a term of 10 years at a floating interest rate. Upon the disposition of certain investments, Clairvest will be required to make principal payments on the note. Subsequent to quarter end, Clairvest repaid $2.3 million of the promissory note.

During the quarter, Clairvest also purchased 54,200 of its common shares at a total purchase cost of $0.6 million under its normal course issuer bid. The purchased shares were cancelled subsequent to quarter end. In total 2,544,424 common shares at a cost of $21.9 million had been purchased under this, and previous, normal course issuer bids as of June 30, 2006.

Subsequent to quarter end, Clairvest and CEP completed the closing of a combined $17.0 million investment in Tsuu T'ina Gaming Limited Partnership ("Tsuu T'ina"), a wholly-owned entity of the Tsuu T'ina First Nation Band. Clairvest and CEP will provide financing to Tsuu T'ina for the development of a charitable casino on Tsuu T'ina First Nation reserve lands located immediately southwest of the City of Calgary. Clairvest and CEP will fund the $17.0 million on an ongoing basis, as required to fund the construction project, pre-development and opening costs. $3.0 million of the $17.0 million investment was funded subsequent to quarter end.

"The first quarter of fiscal 2007 saw Clairvest make substantial gains in several areas," said Jeff Parr, Co-CEO of Clairvest. "Clairvest's shareholders benefited from the purchase and cancellation of all non-voting shares and a significant number of Clairvest common shares, the special dividend from Datamark and the regular Clairvest dividend. We are very pleased with the launch of CEP III, plus our new investment in the waste management industry. Our investment with CEP in the Tsuu T'ina Gaming Limited Partnership, which closed following the end of the first quarter, capitalizes on Clairvest's profitable gaming industry experience in Western Canada."

*Clairvest Group Inc. is a Canadian merchant bank that invests its own capital, and that of third parties through Clairvest Equity Partners Limited Partnership and Clairvest Equity Partners III Limited Partnership, in businesses that have the potential to generate superior returns. In addition to providing financing, Clairvest contributes strategic expertise and execution ability to support the growth and development of its investee partners. Clairvest realizes value through investment returns and the eventual disposition of its investments.*

For further information, please contact:
Lana Reiken
Chief Financial Officer and Corporate Secretary
Clairvest Group Inc.
Tel: (416) 925-9270
Fax: (416) 925-5753
www.clairvest.com

*This press release contains forward-looking statements with respect to Clairvest Group Inc., its subsidiaries and their investments. These statements are based on current expectations and are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Clairvest, its subsidiaries and their investments to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include general and economic business conditions. Clairvest is under no obligation to update any forward-looking statements contained herein should material facts change due to new information, future events or otherwise.*

The Management's Discussion and Analysis ("MD&A") analyzes significant changes in the unaudited consolidated financial statements of Clairvest Group Inc. ("Clairvest"). It should be read in conjunction with the accompanying unaudited consolidated financial statements and notes of Clairvest Group Inc. for the quarter ended June 30, 2006 and the attached press release.

All amounts are in Canadian dollars unless otherwise indicated.

## CRITICAL ACCOUNTING ESTIMATES

Clairvest prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of Clairvest's consolidated financial statements in conformity with Canadian GAAP 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 asset and liability.

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

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

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.

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 asset/liability and provision for income taxes.

## OPERATING RESULTS

Net loss for the first quarter of fiscal 2007 was $16.4 million compared with $2.0 million for the first quarter of fiscal 2006. The net loss for the first quarter of fiscal 2007 is comprised primarily of $14.7 million of unrealized losses and previously recognized unrealized gains on investments, a $10.0 million loss reserve on temporary investments and $8.3 million of other income.

Clairvest had realized gains on investments of nil for the quarter, compared with $0.3 million for the same quarter last year. The realized gains for the first quarter of fiscal 2006 resulted from the sale of 170,184 MKS Inc. warrants that Clairvest had previously received on the windup of Wellington Financial Fund I.

Clairvest reversed previously recognized unrealized gains of $0.3 million for the quarter, compared with $0.2 million for the same quarter last year. The previously recognized unrealized gains for the first quarter of fiscal 2007 relate to unrealized gains that were recognized on Wellington Financial Fund II ("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 interest and distribution income for the first quarter of fiscal 2007.

The previously recognized unrealized gains that were reversed in the first quarter of fiscal 2006 relate to unrealized gains that were recognized in prior quarters with respect to MKS warrants that were reversed upon the sale of these warrants in the first quarter of fiscal 2006.

Clairvest had net unrealized losses on investments of $14.5 million for the first quarter of fiscal 2007, compared with net unrealized gains on investments of $2.4 million for the first quarter of fiscal 2006. The net unrealized losses for the first quarter of fiscal 2007 resulted from:

- A $5.1 million downward adjustment to the fair value of Clairvest's investment in NRI Industries Inc. Management determined this write-down to be appropriate in light of the continued slowdown in auto sales and in the US economy, and the negative impact of a stronger Canadian dollar;
- A $4.5 million downward adjustment to the fair value of Clairvest's investment in Gateway Casinos Income Fund ("Gateway Income Fund") as a result of the downward movement in the trading price;
- A $1.2 million downward adjustment to the fair value of Clairvest's investment in Gateway Casinos Inc. ("Gateway Casinos"), as a result of the downward movement in the trading price of Gateway Income Fund, to which Clairvest's valuation of the casinos in Gateway Casinos is linked;
- A $2.6 million downward adjustment to the fair value of Clairvest's investment in Datamark Systems Group Inc. ("Datamark") as a result of the downward movement in the trading price;
- A $2.0 million downward adjustment to the fair value of Clairvest's investment in Consolidated Vendors Corporation ("Consolidated Vendors") as a result of a downward revision in estimated proceeds, movements in foreign exchange and an increase in the estimate of the amount payable to Clairvest Equity Partners Limited Partnership ("CEP") under Clairvest's guarantee;
- A $1.0 million upward adjustment to the fair value of Clairvest's investment in Allied Global Holdings Inc. ("Allied"), as a result of an upward revision in estimated proceeds; and
- Movements in quoted market prices, movements in foreign exchange, dividends that are accruing on cumulative shares and distributions that are accruing on partnership units.

In addition to the net unrealized losses on investments, Clairvest also incurred a $10.0 million loss for a reserve on temporary investments for the first quarter of fiscal 2007. This represents an impairment charge on a loan of $10.0 million Clairvest had made to an unrelated party as the loan may be unrecoverable. The loan was advanced in two tranches of $5 million in each of December 2005 and May 2006 and was collateralized by treasury bills deposited with a Canadian bank-owned brokerage firm. The loan is in default and Clairvest has learned that the collateral arrangements required for the loan have been mishandled by one or more third parties. The circumstances surrounding this potential loss are limited to these particular loans, and have no impact on any of Clairvest's other assets or investments or the partnerships that Clairvest manages. Clairvest is investigating the circumstances of the default and the mishandling of the collateral arrangements and is pursuing all avenues to recover the funds. Any amounts recovered will be booked in the period of recovery.

Interest and distribution income for the quarter was $2.5 million, compared with $1.4 million for the same quarter last year. Interest and distribution income for the first quarter of fiscal 2007 includes distributions of $0.5 million from Gateway Income Fund, $0.5 million from Voxcom Income Fund ("Voxcom"), $0.3 million from Wellington Fund II and $0.2 million from WarrenShepell. Interest and distribution income for the first quarter of fiscal 2006 included distributions of $0.5 million from Gateway Income Fund.

Dividend income for the quarter was $4.8 million, compared with $0.1 million for the same quarter last year. Dividend income for the first quarter of fiscal 2007 includes a $4.7 million special dividend from Datamark and $0.1 million of dividends from Clairvest's temporary investments. Dividend income for the first quarter of 2006 represented dividends from Clairvest's temporary investments.

Clairvest earned $0.3 million in management fees during the quarter for its services in the administration of CEP portfolio and $0.7 million in advisory and other fees from its corporate investments. The CEP management fee is reduced to the extent of 75% of fees earned by Clairvest from joint Clairvest/CEP corporate investments.

Administration and other expenses for the quarter were $2.3 million, compared with $5.5 million for the same quarter last year. Included in Administrative and other expenses for the first quarter of fiscal 2007 was stock based compensation expense totalling $0.9 million, compared to $3.9 million for the same quarter last year. In fiscal 2006, Clairvest amended its stock option plan so as to allow for a cash settlement of stock options. As a result, effective the first quarter of fiscal 2006, compensation expense was 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. The stock based compensation expense in the first quarter of fiscal 2006 represents the initial accrual based on the outstanding stock options at June 30, 2005.

Finance and foreign exchange expenses of $0.7 million for the quarter represents $0.3 million in interest on the loan payable to a subsidiary of Gateway Casinos, $0.3 million in interest on the loan payable to Canadian Pension Plan Investment Board ("CPPIB") and $0.1 million in costs relating to foreign exchange. Finance and foreign exchange expenses of $0.6 million for the first quarter of fiscal 2006 represents $0.3 million in interest on the loan payable to a subsidiary of Gateway Casinos and $0.3 million in costs relating to foreign exchange.

## SUMMARY OF QUARTERLY RESULTS

| Quarterly results ($000's except per share information) | **Gross income (loss) $ (Note)** | **Net income (loss) $** | **Net income (loss) per common share $** | **Net income (loss) per common share fully diluted $** |
|---|---|---|---|---|
| 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) |
| March 31, 2005 | 18,947 | 14,345 | 0.73 | 0.69 |
| December 31, 2004 | 11,920 | 8,995 | 0.45 | 0.43 |
| September 30, 2004 | 8,229 | 4,458 | 0.22 | 0.21 |

Note – comprised of net investment gains (losses) and other income.

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.

## FINANCIAL POSITION AND LIQUIDITY

Clairvest has sufficient capital to support its current and anticipated new investments. In addition to cash, cash equivalents and temporary investments of $102.5 million at June 30, 2006, Clairvest has a $20.0 million credit facility with a Canadian Chartered Bank, of which $16.2 million is available at June 30, 2006. Temporary investments consist of corporate notes, debentures and preferred shares with maturities greater than 90 days and through to September 2010.

Loans totalling $0.8 million made to CEP in prior quarters were repaid in the first quarter of fiscal 2007. The loans bore interest at the prime rate, and were payable on demand.

At June 30, 2006, Clairvest had loans totalling $78.7 million comprised of:

(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.

(b) $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 1.5 million units held by Clairvest in Gateway Income Fund. The loan must be repaid as these Gateway Income Fund units are disposed of.

(c) $0.3 million of non-interest bearing loans from the limited partnership that owns Gateway Casinos. The loans are repayable on demand at any time after December 31, 2006.

(d) $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.

(e) $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.

(f) $33.0 million 10-year promissory note from Canadian Pension Plan Investment Board, bearing interest at a floating rate. Upon the disposition of certain investments, Clairvest will be required to make principal payments on the note. Subsequent to quarter end, Clairvest repaid $2.3 million of the loan, reducing the amount outstanding to $30.7 million.

In the first quarter of fiscal 2006, Clairvest amended its stock option plan to allow for a cash settlement of stock options. As a result, effective fiscal 2006, compensation expense was 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. At June 30, 2006, Clairvest had recognized stock-based compensation of $4.0 million with respect to the stock options currently outstanding.

Clairvest had a normal course issuer bid in place which enabled it to purchase up to 840,959 common shares during the 12-month period ending March 6, 2007. During the quarter, Clairvest purchased 54,200 of its common shares at a total purchase cost of $0.6 million under its normal course issuer bid. The purchased shares were cancelled subsequent to quarter end. In total 2,544,424 common shares at a cost of $21.9 million had been purchased under this, and previous, normal course issuer bids as of June 30, 2006.

During the first quarter of 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.

During the first quarter of fiscal 2007, 152,200 stock options were exercised, 50,000 of which were exercised for shares, increasing share capital by $0.5 million. The remaining 102,200 options were exercised under the cash settlement plan.

Also during the quarter, Clairvest declared a $1.6 million dividend, or $0.10 per share. The dividend was paid subsequent to quarter end.

Clairvest's main asset is its corporate investments. All increases/decreases in the carrying value of Clairvest's investments during the first quarter of fiscal 2007 are as a result of unrealized gains/losses on the investments, except as noted below.

**Gateway Casinos Income Fund**

During the quarter, Gateway Income Fund acquired all of the operating assets of the Cascades Langley Casino and Hotel ("Cascades") 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. Subject to certain conditions, Clairvest may be entitled to receive an additional 0.2 million units in Gateway Casinos Income Fund currently being held in escrow. Also, subject to certain conditions, Clairvest may be entitled to an additional $3.0 million in units issued at a price equal to the 10-day weighted average price of the units on the date of issue. The contingent amounts are not included in the June 30, 2006 fair value of corporate investments.

**Winters Bros. Waste Management Inc.**

During the quarter, Clairvest invested in Winters Bros. Waste Systems, Inc. (“Winter Bros.”), a leading Long Island, New York-based waste management company. Clairvest acquired a minority ownership interest in Winters Bros. for $4.3 million.

**N-Brook Mortgage LP**

During the quarter, Clairvest funded $0.2 million of its $5.0 million commitment to N-Brook Mortgage L.P., bringing the total funded amount to $2.9 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 the first quarter of fiscal 2007 CEP paid Clairvest net management fees of $0.3 million.

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

Clairvest is also the parent company of the two General Partners of CEP III (“GP I” and “GP II”). GP I is entitled to a 2% priority distribution as compensation for its services in the administration of the portfolio of CEP III. The 2% priority distribution begins on the date on which CEP III makes its first investment. GP I is also entitled to two points of carried interest 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 in the form of eighteen points of carried interest. The distribution to GP II will be determined based on the overall performance of CEP III and no such distribution is permitted until CEP III’s limited partners have received all amounts contributed to CEP III and an 8% compound annual return on that amount. The distributions received by the 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”). From time to time, 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.

Clairvest has also entered into various transactions with its corporate investments. During the first quarter of fiscal 2007 Clairvest received $1.8 million in interest and distributions, $4.7 million in dividends, and $0.7 million in advisory and other fees from its corporate investments. Also during the first quarter of fiscal 2007 Clairvest paid $0.3 million in interest to a Gateway Casinos entity.

At June 30, 2006, Clairvest had loans receivable from certain officers of the Company or officers of corporate investments (the “Officers”) totalling $0.5 million. The loans are interest bearing, have full recourse to the individual and are collateralized by the common shares of Clairvest purchased by the Officers with a market value of $0.7 million. At March 31, 2006 Clairvest also had loans receivable from certain officers of a company affiliated with Clairvest totalling $0.5 million.

Included in accounts receivable and other assets are receivables from Clairvest's corporate investments totalling $1.5 million, from CEP totalling $0.2 million and from Clairvest Equity Partners III Limited Partnership totalling $0.4 million.

## 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, $17.2 million of which remains outstanding at June 30, 2006. Clairvest may only sell all or a portion of a corporate investment that is a joint investment with CEP if it, as manager of CEP, concurrently sells a proportionate number of securities of that corporate investment held by CEP. Included in the commitment to co-invest with CEP is a $5.0 million commitment to N-Brook, which is subject to N-Brook management achieving certain targets. Of this commitment, $2.9 million has been funded at June 30, 2006.

Clairvest has also committed to co-invest alongside CEP III in all investments undertaken by CEP III. Clairvest's total co-investment commitment is $60.0 million, none of which has been funded at June 30, 2006. 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 $20.0 million to Wellington Fund II, $13.6 million of which has been funded at June 30, 2006. Clairvest also owns 49.5% of the general partner of Wellington Fund II. Subsequent to quarter end, Clairvest received a $1.2 million capital distribution from Wellington Fund II, reducing Clairvest's commitment to $18.8 million and the amount funded to $12.4 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 2002, Clairvest sold certain shares of Consolidated Vendors to CEP, and guaranteed to compensate CEP for up to $5.7 million for certain deficiencies that CEP may incur on these shares. Based on Clairvest's current fair value of its investment in Consolidated Vendors, Clairvest would owe CEP $4.6 million under this guarantee, of which $2.4 million was reflected as a reduction in the fair value of Clairvest's investment in Consolidated Vendors, bringing the net carrying value to nil, and $2.2 million was reflected in accounts payable.

Clairvest enters into foreign exchange forward contracts to manage the risks arising from fluctuations in exchange rates on its foreign investments. At June 30, 2006, Clairvest had entered into forward contracts to sell US$17.9 million. The fair value of these contracts at June 30, 2006 is a gain of $0.1 million. The contracts which, in accordance with hedge accounting, are required to be marked to market have a fair value of a gain of $0.1 million, and have been recognized on the consolidated balance sheet as derivative instruments market valuation.

Wholly-owned subsidiaries of Clairvest together with certain other unit holders (the "Unit Holders") currently hold 32% 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 and in connection with any additional issue of units of Gateway Income Fund to ensure that their collective ownership of Gateway Income Fund is maintained at 20% of the issued and outstanding units.

Under Clairvest's Incentive Bonus Program, a bonus of 10% of after-tax income, based on cash realizations on Clairvest's corporate investments, is paid to management as a bonus. Amounts are accrued under this plan with respect to cash realizations made during the year. If Clairvest were to sell its corporate investments at their current fair values, a bonus of $1.9 million would be owing to management under the Incentive Bonus Program. This amount has not been reflected in Clairvest's consolidated financial statements.

During fiscal 2006, Clairvest, together with CEP and WarrenShepell management, purchased WarrenShepell. As part of the purchase, Clairvest also guaranteed a $4.6 million note payable by WarrenShepell to the vendors, as well as interest payable on the note. The note is subject to claims Clairvest may have with respect to representations and warranties. Any amounts paid under the guarantee will result in additional equity ownership being granted to Clairvest and CEP, allocated 25% to Clairvest and 75% to CEP. CEP will reimburse Clairvest for 75% of any amounts paid under the guarantee. At June 30, 2006, the guarantee has been reduced to $3.8 million.

During fiscal 2006, Clairvest and B.V. sold their interests in Signature and SPV as part of a sale of 100% of Signature and SPV. Subject to a number of conditions, Clairvest and B.V. may be entitled to receive over time up to an additional AUS$2.1 million (CDN$1.7 million) currently being held in escrow. This amount has not been reflected on the balance sheet. As part of the transaction, B.V. has indemnified the purchaser for various claims up to the entire AUS$35.5 million (CDN$29.4 million) combined proceeds and escrowed amounts. The amount indemnified will reduce over time.

## OUTLOOK

Throughout the quarter, Clairvest continued to assist our investee companies in developing and executing their strategies and enhancing their value propositions. Clairvest also continued to actively pursue investment opportunities, using our domain-based proprietary research to explore a number of industries and uncover new potential investments. Clairvest also had several significant developments subsequent to quarter end, as noted below.

Subsequent to quarter end, Clairvest completed the closing of a $4.3 million investment in Tsuu T'ina Gaming Limited Partnership ("Tsuu T'ina"), a wholly-owned entity of the Tsuu T'ina First Nation Band. Clairvest will provide financing to Tsuu T'ina for the development of a charitable casino on Tsuu T'ina First Nation reserve lands located immediately southwest of the City of Calgary. Clairvest will fund the $4.3 million on an ongoing basis, as required to fund the construction project, pre-development and opening costs. $0.7 million of the $4.3 million investment was funded subsequent to quarter end.

Also subsequent to quarter end, Consolidated Vendors sold two-thirds of its business assets to two unrelated vending operators. The net proceeds of approximately US$1.0 million (CDN$1.1 million) received by Clairvest are owing to CEP under Clairvest's guarantee payable to CEP.

*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.*

**CLAIRVEST GROUP INC.**
**CONSOLIDATED BALANCE SHEETS**
**(unaudited)**

| $000's | June 30 2006 | March 31 2006 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents (Note 9) | **$ 20,071** | $ 12,395 |
| Temporary investments (Notes 3 and 11j) | **82,421** | 101,897 |
| Accounts receivable and other assets (Note 7e) | **7,266** | 5,011 |
| Loans receivable (Note 7f) | **—** | 800 |
| Future tax asset | **4,933** | 3,539 |
| Derivative instruments market valuation (Note 10) | **128** | — |
| Corporate investments (Note 4) | **174,962** | 165,165 |
| | **$ 289,781** | $ 288,807 |
| **LIABILITIES** | | |
| Accounts payable (Note 4) | **$ 4,610** | $ 4,945 |
| Dividend payable | **1,596** | — |
| Loans payable (Note 5) | **78,744** | 27,699 |
| Derivative instruments market valuation (Note 10) | **—** | 330 |
| Deferred gain on foreign exchange forward contracts (Note 10) | **944** | 928 |
| Future tax liability | **976** | 1,385 |
| Stock-based compensation (Note 8) | **3,999** | 3,583 |
| | **90,869** | 38,870 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 6) | **82,444** | 103,496 |
| Shares purchased for cancellation (Note 6) | **(569)** | — |
| Retained earnings (Note 6) | **117,037** | 146,441 |
| | **198,912** | 249,937 |
| | **$ 289,781** | $ 288,807 |

(see accompanying notes to interim consolidated financial statements)

**CLAIRVEST GROUP INC.**
**CONSOLIDATED STATEMENTS OF LOSS**
**For the Quarter Ended June 30**
**(unaudited)**

| $000's (except per share information) | 2006 | 2005 |
|---|---|---|
| **Net investment gains (losses)** | | |
| Net realized gains (losses) on investments | $ — | $ 261 |
| Previously recognized net unrealized gains | (258) | (216) |
| Net unrealized gains (losses) on investments | (14,452) | 2,403 |
| | (14,710) | 2,448 |
| **Other income** | | |
| Interest and distribution income (Note 7f and 7g) | 2,524 | 1,446 |
| Dividend income (Note 7g) | 4,787 | 79 |
| Management fees (Note 7a) | 302 | 647 |
| Advisory and other fees (Note 7g) | 729 | 369 |
| | 8,342 | 2,541 |
| Administration and other expenses (Note 8) | (2,255) | (5,457) |
| Loss on temporary investments (Note 11j) | (10,000) | — |
| Finance and foreign exchange expenses (Note 10) | (735) | (621) |
| | (12,990) | (6,078) |
| Loss before income taxes | (19,358) | (1,089) |
| Income tax recovered (expense) | 2,958 | (907) |
| Net loss | $ (16,400) | $ (1,996) |
| Basic net loss per share | $ (0.99) | $ (0.10) |
| Fully diluted net loss per share | $ (0.99) | $ (0.10) |

(see accompanying notes to interim consolidated financial statements)

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**
**For the Quarter Ended June 30**
(**unaudited**)

| $000's | 2006 | 2005 |
|---|---|---|
| Retained earnings, beginning of period | $ 146,441 | $ 150,268 |
| Net loss | (16,400) | (1,996) |
| | 130,041 | 148,272 |
| Dividends declared | (1,596) | (1,925) |
| Purchase and cancellation of shares (Note 6) | (11,408) | (3,297) |
| Retained earnings, end of period | $ 117,037 | $ 143,050 |

(see accompanying notes to interim consolidated financial statements)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**For the Quarter Ended June 30**
**(unaudited)**

| $000's | 2006 | 2005 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss | **$ (16,400)** | $ (1,996) |
| Add (deduct) items not involving a current cash outlay | | |
| Amortization | **9** | 23 |
| Net Stock-based compensation accrued | **416** | 3,838 |
| Future income taxes (recovered) | **(1,803)** | 332 |
| Net realized gains on investments | — | (261) |
| Previously recognized net unrealized gains | **258** | 216 |
| Net unrealized (gains) losses on investments | **14,452** | (2,403) |
| Loss on temporary investments | **10,000** | — |
| Non-cash income relating to corporate investments | **(2,409)** | 436 |
| | **4,523** | 185 |
| Net change in non-cash working capital balances related to operations | **(2,599)** | 299 |
| | **1,924** | 484 |
| **Cash flows from financing activities** | | |
| Cancellation of common shares | **—** | (6,885) |
| Shares purchased for cancellation | **(569)** | — |
| Issuance of common shares | **540** | 1,297 |
| Loans payable | **18,045** | 141 |
| Repayment of loans payable | **—** | (1,137) |
| | **18,016** | (6,584) |
| **Cash flows from investing activities** | | |
| Net temporary investments | **9,476** | 45,621 |
| Acquisition of corporate investments | **(22,639)** | (4,787) |
| Proceeds on corporate investments | — | 360 |
| Loans receivable | — | (13,415) |
| Receipt of loans receivable | **800** | 18,897 |
| Proceeds on realization of foreign exchange forward contracts | **99** | (1,161) |
| Return of capital from corporate investments | — | 299 |
| | **(12,264)** | 45,814 |
| **Net increase in cash and cash equivalents** | **7,676** | 39,714 |
| **Cash and cash equivalents, beginning of period** | **12,395** | 1,828 |
| **Cash and cash equivalents, end of period** | **$ 20,071** | $ 41,542 |
| **Supplemental cash flow information** | | |
| Income taxes paid | **$ 4,967** | $ 2,503 |
| Interest paid | **$ 304** | $ 309 |

(see accompanying notes to interim consolidated financial statements)

## 1. NATURE OF ACTIVITIES AND BASIS OF PRESENTATION

The disclosures contained in these unaudited interim consolidated financial statements of Clairvest Group Inc. ("Clairvest" or the "Company") do not include all requirements of generally accepted accounting principles for annual financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended March 31, 2006.

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements for the quarter ended June 30, 2006.

Clairvest's consolidated financial statements are prepared using the fair value method of accounting. Under fair value accounting, each of Clairvest's investments are 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.

The unaudited interim consolidated financial statements are based upon accounting principles consistent with those used and described in the annual audited consolidated financial statements, except as disclosed herein.

## 2. BANKING FACILITY

Clairvest has a $20.0 million line of credit available, bearing interest at prime plus 0.5%. Clairvest's line of credit is decreased by the guarantee provided by the Company to the vendors of WarrenShepell [see Note 11h]. The line of credit available at June 30, 2006 is $16.2 million.

## 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 3.8% and 12.0% with a weighted average rate of 4.4% (See Note 11j).

## 4. CORPORATE INVESTMENTS

| | **June 30, 2006** | | | March 31, 2006 | | |
|---|---|---|---|---|---|---|
| | **Fair Value** | **Cost** | **Difference** | Fair Value | Cost | Difference |
| **Investments in publicly-traded companies** | | | | | | |
| Datamark Systems Group Inc. | **$ 10,322** | **$ 14,454** | **$ (4,132)** | $ 12,871 | $ 14,421 | $ (1,550) |
| Gateway Casinos Income Fund | **36,277** | **32,913** | **3,364** | 22,874 | 15,007 | 7,867 |
| Voxcom Income Fund | **15,378** | **11,187** | **4,191** | 15,549 | 11,187 | 4,362 |
| | **61,977** | **58,554** | **3,423** | 51,294 | 40,615 | 10,679 |
| **Investments in privately-held companies** | | | | | | |
| Allied Global Holdings Inc. | **5,722** | **3,000** | **2,722** | 4,755 | 3,000 | 1,755 |
| Consolidated Vendors Corporation | **–** | **7,563** | **(7,563)** | – | 7,423 | (7,423) |
| Gateway Casinos Inc. | **67,019** | **24,000** | **43,019** | 68,233 | 24,000 | 44,233 |
| Integral Orthopedics Inc. | **4,120** | **4,120** | **–** | 4,120 | 4,120 | – |
| Landauer Metropolitan Inc. | **5,046** | **4,088** | **958** | 4,982 | 4,088 | 894 |
| N-Brook Mortgage LP | **3,015** | **2,912** | **103** | 2,741 | 2,658 | 83 |
| NRI Industries Inc. | **–** | **17,613** | **(17,613)** | 5,080 | 17,613 | (12,533) |
| Van-Rob Inc. | **5,000** | **5,000** | **–** | 5,000 | 5,000 | – |
| WarrenShepell | **4,000** | **4,000** | **–** | 4,000 | 4,000 | – |
| Wellington Financial Fund II | **14,677** | **13,571** | **1,106** | 14,922 | 13,571 | 1,351 |
| Winters Bros. Waste Systems, Inc. | **4,326** | **4,326** | **–** | – | – | – |
| | **112,925** | **90,193** | **22,732** | 113,833 | 85,473 | 28,360 |
| **Other investments** | **60** | **36** | **24** | 38 | 36 | 2 |
| | **$174,962** | **$148,783** | **$ 26,179** | $165,165 | $126,124 | $39,041 |

In the first quarter of fiscal 2007, Clairvest invested in Winters Bros. Waste Systems, Inc. ("Winter Bros."), a leading Long Island, New York-based waste management company. Clairvest acquired a minority ownership interest in Winters Bros. for $4.3 million.

In the first quarter of fiscal 2007, Gateway Casinos Income Fund ("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 [see notes 5d and 5e], and acquired 1.1 million units in Gateway Income Fund. Subject to certain conditions, Clairvest may be entitled to receive an additional 0.2 million units in Gateway Income Fund currently being held in escrow. Also, subject to certain conditions, Clairvest may be entitled to an additional $3.0 million in units issued at a price equal to the 10-day weighted average price of the units on the date of issue. The contingent amounts are not included in the June 30, 2006 fair value of Gateway Income Fund. Clairvest's indirect ownership interest of Gateway Income Fund on a fully diluted basis at June 30, 2006 was 9.1% and of Gateway Casinos was 28.4%.

In the first quarter of fiscal 2007, Clairvest funded $0.2 million of its $5.0 million commitment to N-Brook Mortgage L.P., bringing the total funded amount to $2.9 million.

In the first quarter of fiscal 2007, Datamark paid a special dividend of $1.00 per common share. Clairvest received $4.7 million, bringing net cash cost to a proceeds position of $3.2 million.

During the first quarter of fiscal 2007, management determined that a downward adjustment of $5.1 million was necessary to the carrying value of NRI.

During fiscal 2002, Clairvest sold certain shares of Consolidated Vendors Corporation ("Consolidated Vendors") to Clairvest Equity Partners Limited Partnership ("CEP") for $5.7 million. Clairvest has guaranteed to compensate CEP for any deficiency between (i) CEP's purchase price for these shares and (ii) the amount CEP receives from its investment in these shares, including proceeds of disposition and any other amounts and including proceeds of disposition or other amounts attributable to any other of CEP's holdings in

Consolidated Vendors over and above the cost of these holdings. At June 30, 2006, the guaranteed amount was $4.6 million, of which $2.4 million was reflected as a reduction in the fair value of Clairvest's investment in Consolidated Vendors, bringing the net carrying value of the investment to nil, and $2.2 million was reflected in accounts payable.

## 5. LOANS PAYABLE

Loans payable consist of the following:

(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.

(b) $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 1.5 million units held by Clairvest in Gateway Income Fund. The loan must be repaid as these units in Gateway Income Fund are disposed of.

(c) Loans totalling $0.3 million from the limited partnership that owns Gateway Casinos. The loans outstanding at June 30, 2006 are non-interest bearing and payable on demand at any time after December 31, 2006.

(d) $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.

(e) $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.

(f) $33.0 million 10-year promissory note from Canadian Pension Plan Investment Board [see note 6], bearing interest at a floating rate. Upon the disposition of certain investments, Clairvest will be required to make principal payments on the note. Subsequent to quarter end, Clairvest repaid $2.3 million of the loan, reducing the amount outstanding to $30.7 million.

## 6. SHARE CAPITAL AND RETAINED EARNINGS

During the fourth quarter of fiscal 2006 the Company filed a new normal course issuer bid enabling it to make purchases of up to 840,959 common shares in the 12-month period commencing March 6, 2006. During the first quarter of fiscal 2007, the Company purchased 54,200 of its common shares at a total purchase cost of $0.6 million under its normal course issuer bid. The purchased shares were cancelled subsequent to quarter end. In total 2,544,424 common shares at a cost of $21.9 million had been purchased under this, and previous, normal course issuer bids as of June 30, 2006.

During the first quarter of 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 the first quarter of fiscal 2007, 152,200 options were exercised, 50,000 of which were exercised for shares, increasing share capital by $0.5 million. The remaining 102,200 options were exercised under the cash settlement plan and had no impact on share capital (see note 8).

15,903,566 common shares and nil non-voting shares were outstanding at June 30, 2006.

## 7. RELATED PARTY TRANSACTIONS

**(a)** Clairvest has entered into a Management Agreement with the General Partner of CEP, appointing Clairvest as the Manager of CEP. The General Partner is a wholly-owned subsidiary of Clairvest. The Management Agreement provides that a management fee be paid to Clairvest as compensation for its services in the administration of the portfolio of CEP. The fee is calculated annually as 2% of committed capital until the fifth anniversary of the last closing of CEP (August 2006), and thereafter at 2% of contributed capital of CEP less distributions on account of capital and any write-downs of capital invested. The management fee is reduced to the extent of 75% of any fees earned by Clairvest from corporate investments of CEP. During the first quarter of fiscal 2007, CEP paid Clairvest net management fees of $0.3 million (2006 - $0.6 million) as compensation for its services in the administration of the portfolio of CEP. As per the Management Agreement, fees of $0.5 million (2006 - $0.2 million) from corporate investments of CEP were netted against the management fees.

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

**(c)** During the first quarter of fiscal 2007, the Company completed the first two closings of Clairvest Equity Partners III Limited Partnership ("CEP III"), a successor fund to CEP. Clairvest is the parent company of the two General Partners of CEP III ("GP I" and "GP II"). GP I is entitled to a 2% priority distribution as compensation for its services as general partner in the administration of the portfolio of CEP III. The 2% priority distribution begins in the month in which CEP III makes its first investment. GP I is also entitled to two points of carried interest determined as described 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 in the form of eighteen points of carried interest. The distribution to GP II will be determined based on the overall performance of CEP III and no such distribution is permitted until CEP III's limited partners have received all amounts contributed to CEP III and an 8% compound annual return on that amount. The distributions received by the 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"). From time to time, 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) and other loans made to certain officers of a company affiliated with Clairvest totalling $0.5 million (2006 - $0.2 million). The share purchase loans bear interest fixed at either 4% or the prime rate on the date of drawdown less 1%, interest is paid annually, and the loans have full recourse and are collateralized by the common shares of the Company purchased by the officers with a market value of $0.7 million (2006 - $0.6 million). The loans to officers of a company affiliated with Clairvest bear interest at the prime rate on the date of drawdown less 1% or at the prime rate on the date of drawdown, and interest is paid quarterly. Loans are repayable upon departure of the officer. Also included in accounts receivable and other assets are receivables from Clairvest's corporate investments totalling $1.5 million (2006 - $1.4 million), from CEP totalling $0.2 million (2006 – 1.6 million) and from CEP III totalling $0.4 million (2006 - $0.1 million).

**(f)** Loans, bearing interest at the prime rate, made by the Company to CEP during fiscal 2006 were repaid in the first quarter of fiscal 2007. Interest of $35,000 (2006 – $15,000) was received from CEP during the first quarter of fiscal 2007.

**(g)** During the first quarter of fiscal 2007, Clairvest received $1.8 million (2006 - $0.8 million) in interest and distribution, $4.7 million (2006 - nil) in dividends, and $0.7 million (2006 - $0.3 million) in advisory and other fees from its corporate investments. Also during the first quarter of fiscal 2007 Clairvest paid $0.3 million (2006 - $0.3 million) in interest to a Gateway Casinos Inc. entity.

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

During the first quarter of fiscal 2007, 152,200 options were exercised, 102,200 of which were exercised under Clarivest's cash settlement plan for a total cost of $0.3 million, of which $0.1 million was expensed in the current quarter. Also during the first quarter of fiscal 2007, 120,000 options with a strike price of $10.51 and an expiry of June 2016 were granted, subject to shareholder approval.

At June 30, 2006, a total of 1,489,800 options were outstanding under Clairvest's stock option plan.
As a result of an amendment to add a cash settlement feature to Clairvest's stock option plan during the first quarter of fiscal 2006, Clairvest is required to recognize compensation expense based upon the intrinsic value of the outstanding stock options at the balance sheet date, and the proportion of their vesting periods that have elapsed. For the quarter ended June 30, 2006, Clairvest recognized stock-based compensation expense of $0.9 million, $0.8 million of which relates to the stock options currently outstanding.

As at June 30, 2006, a total of 69,597 (2006 − 62,933) DSU's were held by directors of the Company, the accrual in respect of which was $0.7 million (2006 - $0.6 million)

As at June 30, 2006, a total of 449,750 (2005 − 382,250) BVAR's were held by employees of Clairvest and a company affiliated with Clairvest, the accrual in respect of which was $0.6 million (2006 - $0.5 million).

## 9. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

| | **2006** | 2005 |
|---|---|---|
| Accounts receivable and other assets | **$ (2,264)** | $ 139 |
| Accounts payable | **(335)** | 160 |
| | **$ (2,599)** | $ 299 |

Cash and cash equivalents at June 30, 2006 and 2005 are comprised of the following:

| | **2006** | 2005 |
|---|---|---|
| Cash | **$ 686** | $ 617 |
| Cash equivalents | **19,384** | 40,925 |
| | **$ 20,071** | $ 41,542 |

## 10. FINANCIAL INSTRUMENTS

As at June 30, 2006, the Company had entered into foreign exchange forward contracts as hedges against its foreign investments as follows:

Forward contracts to sell US$17.9 million (2006 – US$14.0 million) at rates of Canadian $1.0864 to $1.2016 per U.S. dollar through May 2007 (average rate of $1.1204; 2006 - average rate of $1.1378). The fair value of these contracts at June 30, 2006 is a gain of $0.1 million (2006 – loss of $0.4 million). The contracts which, in accordance with hedge accounting, are required to be marked to market have a fair value of a gain of $0.1 million, and have been recognized on the consolidated balance sheet as derivative instruments market valuation.

As a result of the rolling of foreign exchange forward contracts to June 30, 2006, Clairvest has realized and deferred to the consolidated balance sheet net exchange gains, net of the amortization of forward premiums or points, of $0.9 million.

## 11. 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, $17.2 million of which remains outstanding at June 30, 2006. Clairvest may only sell all or a portion of a corporate investment that is a joint investment with CEP if it, as manager of CEP, concurrently sells a proportionate number of securities of that corporate investment held by CEP. Included in the commitment to co-invest with CEP is a $5.0 million commitment to N-Brook, which is subject to N-Brook management achieving certain targets. Of this commitment, $2.9 million (2005 - $1.5 million) has been funded to June 30, 2006.

**(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 $60.0 million, none of which has been funded at June 30, 2006. 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 $20.0 million to Wellington Financial Fund II, $13.6 million (2005 - $7.8 million) of which has been funded to June 30, 2006. Clairvest also owns 49.5% of the general partner of Wellington Financial Fund II. Subsequent to quarter end, Clairvest received a $1.2 million capital distribution from Wellington Financial II, reducing Clairvest's commitment to $18.8 million and the amount funded to $12.4 million.

**(d)** During fiscal 2002, Clairvest sold certain shares of Consolidated Vendors to CEP for $5.7 million. Clairvest has guaranteed to compensate CEP for any deficiency between (i) CEP's purchase price for these shares and (ii) the amount CEP receives from its investment in these shares, including proceeds of disposition and any other amounts including proceeds of disposition or other amounts attributable to any other of CEP's holdings in Consolidated Vendors over and above the cost of these holdings. At June 30, 2006, the guaranteed amount was $4.6 million, of which $2.4 million was reflected as a reduction in the fair value of Clairvest's investment in Consolidated Vendors, bringing the net carrying value to nil, and $2.2 million was reflected in accounts payable.

**(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 cash realizations on Clairvest's corporate investments would be paid to management as a bonus. Amounts are accrued under this plan with respect to cash realizations made during the year. If Clairvest were to sell its corporate investments at their current fair values, a bonus of $1.9 million (2005 - $3.3 million) would be owing to management under the Incentive Bonus Program.

**(g)** Wholly-owned subsidiaries of Clairvest together with certain other unit holders (the "Unit Holders") currently hold 32% 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 and 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.

**(h)** During fiscal 2006, Clairvest, together with CEP and WarrenShepell management, purchased WarrenShepell. As part of the transaction, Clairvest guaranteed a $4.6 million note payable by WarrenShepell to the vendors, as well as interest payable on the note. The note is subject to claims Clairvest may have with respect to representations and warranties. Any amounts paid under the guarantee will result in additional equity ownership being granted to Clairvest and CEP, allocated 25% to Clairvest and 75% to CEP. CEP will reimburse Clairvest for 75% of any amounts paid under the guarantee. At June 30, 2006, the guarantee had been reduced to $3.8 million.

**(i)** 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 AUS$2.1 million (CDN$1.7 million) currently being held in escrow. This amount has not been reflected on the balance sheet. As part of the transaction, B.V. has indemnified the purchaser for various claims up to the entire AUS$35.5 million (CDN$29.4 million) combined proceeds and escrowed amounts. The amount indemnified will reduce over time.

**(j)** Included in loss on temporary investments is a $10.0 million impairment charge on a loan of $10.0 million Clairvest made to an unrelated party as the loan may be unrecoverable. The loan was advanced in two tranches of $5 million in each of December 2005 and May 2006 and was collateralized by treasury bills deposited with a Canadian bank-owned brokerage firm. The loan is in default and Clairvest has learned that the collateral arrangements required for the loan have been mishandled by one or more third parties. Clairvest is investigating the circumstances of the default and the mishandling of the collateral arrangements and is pursuing all avenues to recover the funds. Any amounts recovered will be booked in the period of recovery.

## 12. SUBSEQUENT EVENTS

**(a)** Subsequent to quarter end, Clairvest completed the closing of a $4.3 million investment in Tsuu T'ina Gaming Limited Partnership, a wholly-owned entity of the Tsuu T'ina First Nation Band. Clairvest will fund the $4.3 million on an ongoing basis. $0.7 million of the $4.3 million investment was funded subsequent to quarter end.

**(b)** Subsequent to quarter end, Consolidated Vendors sold two-thirds of its business assets to two unrelated vending operators. The net proceeds of approximately US$1.0 million (CDN$1.1 million) received by Clairvest are owing to CEP under Clairvest's guarantee payable to CEP (see note 11d).

## 13. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the June 30, 2006 consolidated financial statements.