

**CLAIRVEST REPORTS FISCAL 2007  
SECOND QUARTER RESULTS****Highlights:**

- Clairvest and Clairvest Equity Partners Limited Partnership (“CEP”) completed the closing of a \$17.0 million commitment to invest in Tsuu T’ina Gaming Limited Partnership in Calgary, \$3.0 million of which was funded during the quarter
- Clairvest and CEP invested an additional \$10.2 million in WarrenShepell to support its acquisition of FGI World
- Clairvest and CEP III acquired an interest in KUBRA Data Transfer Limited for \$13.0 million
- Clairvest committed \$25.0 million to Wellington Financial Fund III, \$3.0 million of which was funded during the quarter
- September 30, 2006 book value \$13.46 per share, versus \$12.51 at June 30, 2006. Book value per share decreased subsequent to quarter end as a result of the Federal government announcement of the taxation of income trusts

**Toronto, Ontario (November 13, 2006)** – Clairvest Group Inc. (TSX:CVG) today reported its results for the second quarter ended September 30, 2006. *(All figures are in Canadian dollars unless otherwise stated).*

Clairvest’s book value increased by \$15.2 million during the quarter to \$214.1 million, or to \$13.46 per share, compared with \$12.51 per share at June 30, 2006. The increase resulted from net income of \$15.2 million, which was primarily a result of unrealized gains on Clairvest’s investments in Gateway Casinos Income Fund (“Gateway Income Fund”) and Gateway Casinos Inc (“Gateway Casinos”). The increase in the carrying value of Gateway Income Fund and a portion of the increase in the carrying value of Gateway Casinos resulted from the increase in the unit trading price of Gateway Income Fund from \$15.15 at June 30, 2006 to \$17.90 at September 30, 2006.

As a result of the announcement by the Federal government of the proposed changes to the taxation of income trusts, the trading price of Gateway Income Fund and Voxcom Income Fund decreased subsequent to quarter end. As described in note 12 to the September 30, 2006 consolidated financial statements, Gateway Income Fund closed at \$15.25 and Voxcom Income Fund at \$9.13 on November 10, 2006, the impact of which is a decrease in Clairvest’s book value of \$8.5 million, or \$0.53 per share, everything else being equal.

As previously announced, Clairvest and CEP completed the closing of a \$17.0 million commitment to invest in Tsuu T’ina Gaming Limited Partnership (“Tsuu T’ina”). 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. Of the \$17.0 million investment, \$3.0 million has been funded at September 30, 2006.

During the quarter, Clairvest and CEP invested an additional \$10.2 million in WarrenShepell to support the company’s acquisition of FGI World. Post-closing, the company operates as Shepell·fgi. “Shepell·fgi enjoys a strong market position in the employee health and wellness market” said Ken Rotman, Co-CEO of Clairvest. “We are optimistic about the growth opportunities that this business combination creates.”

All new investments to be made by Clairvest will be made alongside Clairvest Equity Partners III Limited Partnership (“CEP III”), which has a combined capital pool as of today’s date, including Clairvest’s commitment, of \$260 million. Clairvest and CEP III’s inaugural investment was the acquisition of an interest in KUBRA Data Transfer Limited, a leading provider of customer communication solutions. The \$13.0 million investment was made based on pro rata capital commitments to the investment pool, of 23.5% from Clairvest and 76.5% from CEP III respectively.

During the quarter Clairvest committed \$25.0 million to Wellington Fund III, a successor fund to Wellington Fund II. Clairvest funded \$3.0 million of this commitment during the quarter. At quarter end, Clairvest had also funded \$12.4 million of its commitment to Wellington Fund II. All new Wellington loans will be provided by Wellington Fund III. Wellington Fund III had its final closing on October 2, 2006, closing above their target size of \$125 million of recirculating commitments.

“We had a very active quarter completing new investments and supporting the growth of our existing investments. We are encouraged by the value creation potential of these initiatives and the new opportunities we are currently reviewing” said Jeff Parr, Co-CEO of Clairvest.

*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.*

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*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, including the uncertainty introduced by the Federal government's proposed changes to the taxation of income trusts. 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.*

**CLAIRVEST GROUP INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED SEPTEMBER 30, 2006**

**November 13, 2006**

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 September 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 income for the second quarter of fiscal 2007 was \$15.2 million compared with a net loss of \$7.2 million for the second quarter of fiscal 2006. Net income for the second quarter of fiscal 2007 is comprised primarily of \$17.4 million of net unrealized gains on investments. This compares with net unrealized losses on investments of \$8.3 million for the second quarter of fiscal 2006. The net unrealized gains for the first quarter of fiscal 2007 resulted from:

- A \$10.7 million upward adjustment to the fair value of Clairvest's investment in Gateway Casinos Inc. ("Gateway Casinos"), as a result of the upward movement in the trading price of Gateway Income Fund, to which Clairvest's valuation of the casinos in Gateway Casinos is linked, and the recognition of the units held in escrow following the sale of the Cascades Casino. These escrowed units, which were not previously recognized, were recognized during the quarter as Gateway management believes that the conditions of

release will be satisfied. The escrowed units are expected to be released on the completion of the 2006 audit for the Cascades Casino;

- A \$6.7 million upward adjustment to the fair value of Clairvest's investment in Gateway Casinos Income Fund ("Gateway Income Fund") as a result of the upward movement in the trading price;
- A \$2.8 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; and
- Movements in quoted market prices, movements in foreign exchange, dividends that are accruing on cumulative shares and distributions that are accruing on partnership units.

Interest and distribution income for the quarter was \$4.1 million, compared with \$2.1 million for the same quarter last year. Interest and distribution income for the second quarter of fiscal 2007 includes priority distributions of \$0.6 million from Clairvest Equity Partners III Limited Partnership ("CEP III"), income distributions of \$0.9 million from Gateway Income Fund, \$0.5 million from Voxcom and \$0.3 million from Wellington Fund II. Interest and distribution income for the second quarter of fiscal 2006 included distributions of \$0.5 million from Gateway Income Fund, \$0.5 million from Voxcom Income Fund and \$0.4 million from Wellington Fund II.

Dividend income for the quarter was \$0.1 million, compared with \$0.1 million for the same quarter last year. Dividend income for the second quarter of fiscal 2007 and 2006 represented dividends from Clairvest's temporary investments.

Net management fees from CEP were negative \$0.2 million, compared with \$0.6 million for the same quarter last year. The CEP management fee is reduced to the extent of 75% of fees earned by Clairvest from joint Clairvest/CEP corporate investments. The net management fee is in a negative position as a result of the fees earned by Clairvest during the quarter from joint Clairvest/CEP corporate investments exceeding the CEP management fee for the quarter.

Administration and other expenses for the quarter were \$4.0 million, compared with \$1.2 million for the same quarter last year. Included in Administrative and other expenses for the second quarter of fiscal 2007 was management bonuses totalling \$2.8 million, compared to \$0.2 million for the same quarter last year.

Finance and foreign exchange expenses of \$1.5 million for the quarter represents \$0.6 million in interest on the loan payable to a subsidiary of Gateway Casinos, \$0.5 million in interest on the loan payable to a financial institution, \$0.3 million in costs relating to foreign exchange and \$0.1 million in bank charges and interest. Finance and foreign exchange expenses of \$0.6 million for the second quarter of fiscal 2006 represented \$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 \$
September 30, 2006	22,508	15,202	0.95	0.93
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

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 \$82.8 million at September 30, 2006, Clairvest has a \$20.0 million credit facility with a Canadian Chartered Bank, of which \$14.4 million is available at September 30, 2006. Temporary investments consist of corporate notes, debentures and preferred shares with maturities greater than 90 days and through to September 2010.

Loans of \$7.1 million were made to CEP during the second quarter of fiscal 2007. The loans bore interest at the prime rate, and were payable on demand. The loans, together with interest thereon, were repaid subsequent to quarter end.

At September 30, 2006, Clairvest had loans payable totalling \$76.7 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) \$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) \$0.6 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.
- (f) \$30.7 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 quarter, Clairvest repaid \$2.3 million in accordance with the terms of the note, bringing the principal balance to \$30.7 million.

Clairvest has a normal course issuer bid in place which enables it to purchase up to 840,959 common shares during the 12-month period ending March 6, 2007. During the quarter, Clairvest cancelled 54,200 of its common shares previously purchased under its normal course issuer bid. Clairvest made no purchases during the quarter. 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 September 30, 2006.

Clairvest's main asset is its corporate investments. All changes in the carrying value of Clairvest's investments during the second quarter of fiscal 2007 are as a result of unrealized gains/losses on investments, follow-on and new investments made and capital returned to Clairvest. The changes in carrying value, other than with respect to unrealized gains/losses which are described above, are described below.

### **KUBRA Data Transfer Ltd.**

During the quarter, Clairvest invested in KUBRA Data Transfer Ltd. ("Kubra"), a leading provider of customer communication solutions. Clairvest acquired a minority ownership interest in Kubra for \$1.9 million.

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

During the quarter, Clairvest invested an additional \$2.6 million in Shepell-fgi to support its acquisition of FGI World, bringing Clairvest's total investment to \$6.6 million.

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

During the quarter, 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. At September 30, 2006, \$0.7 million of the commitment has been funded.

### **Wellington Fund II**

In the second quarter of fiscal 2007, Clairvest received a \$1.2 million capital distribution from Wellington Financial Fund II ("Wellington Fund II"), reducing Clairvest's funded amount in Wellington Fund II to \$12.4 million. Subsequent to quarter end, Clairvest received a further \$1.2 million capital distribution from Wellington Fund II, reducing the funded amount to \$11.2 million.

### **Wellington Fund III**

In the second quarter of fiscal 2007, Clairvest committed to invest \$25.0 million in Wellington Financial Fund III ("Wellington Fund III"). At September 30, 2006, \$3.0 million of the commitment has been funded.

### **TRANSACTIONS WITH RELATED PARTIES**

Clairvest, as manager of CEP and parent company of the General Partner of CEP, has entered into various transactions with CEP. As manager of CEP, Clairvest is entitled to a management fee as compensation for its services in the administration of the portfolio of CEP. The management fee is reduced to the extent of 75% of any fees earned by Clairvest from corporate investments of CEP. During the second quarter of fiscal 2007, Clairvest assigned the Management Agreement to a wholly-owned subsidiary of Clairvest. During the second quarter of fiscal 2007, net management fees were negative \$0.2 million. Management fees are negative for the second quarter of fiscal 2007 as fees from corporate investments exceed the gross management fee for the quarter.

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 gains of CEP. These 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 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 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.

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 from CEP III. The 2% priority distribution began in August 2007, the month in which CEP III made its first investment. The priority distribution is reduced to the extent of 76.5% of any fees earned by GP I from corporate investments of CEP III. During the second quarter of fiscal 2007, CEP III paid GP I net priority distributions of \$0.6 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 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 gains of CEP III. These distributions 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"). The Participation III Investors purchased, at fair market value, units of the Participation III Partnership during the second quarter of 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.

Included in accounts receivable and other assets were 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 \$0.6 million. At September 30, 2006 Clairvest also had loans receivable from certain officers of Wellington Financial totalling \$0.6 million. The loans are interest bearing and have full recourse to the individual.

Also included in accounts receivable and other assets are receivables from Clairvest's corporate investments totalling \$2.3 million and a nominal amount from CEP III. Included in accounts payable are amounts owing to CEP totalling 1.7 million and to Clairvest's corporate investments totalling \$0.3 million.

Loans of \$10.0 million, bearing interest at the prime rate, were made by the Company to CEP III during the second quarter of fiscal 2007. The loans were repaid during the quarter. Interest of \$39,000 was earned from loans to CEP III during the second quarter of fiscal 2007.

Loans of \$7.1 million, bearing interest at the prime rate, were made by the Company to CEP during the second quarter of fiscal 2007. The loans were repaid subsequent to quarter end. Interest of \$3,000 was earned from loans to CEP during the second quarter of fiscal 2007

Clairvest has also entered into various transactions with its corporate investments. During the second quarter of fiscal 2007 Clairvest received \$2.4 million in interest and distributions and \$1.3 million in advisory and other fees from its corporate investments. Also during the second quarter of fiscal 2007 Clairvest paid \$0.6 million in interest to a Gateway Casinos entity.

### **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, \$13.5 million of which remains unfunded at September 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, and a \$4.3 million commitment to Tsuu T'ina. Of these commitments, \$3.2 million has been funded to N-Brook and \$0.7 million has been funded to Tsuu T'ina at September 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, \$56.9 million of which remains unfunded at September 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.

During the second quarter of fiscal 2007, Clairvest committed \$25.0 million to Wellington Fund III, \$3.0 million of which has been funded at September 30, 2006. 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 \$12.4 million to Wellington Fund II at September 30, 2006.

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.

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 \$3.6 million would be owing to management under the Incentive Bonus Program. This amount has not been reflected in Clairvest's consolidated financial statements.

Clairvest enters into foreign exchange forward contracts to manage the risks arising from fluctuations in exchange rates on its foreign investments. At September 30, 2006, Clairvest had entered into forward contracts to sell US\$15.7 million. The fair value of these contracts at September 30, 2006 is nil. The contracts which are required to be marked to market in accordance with Generally Accepted Accounting Principles 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. The contracts which are not required to be marked to market in accordance with Generally Accepted Accounting Principles have a fair value of a loss of \$0.1 million.

Wholly-owned subsidiaries of Clairvest together with certain other unit holders (the "Unit Holders") currently hold 31% (32% upon the release of the escrowed units) 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 interest amongst the Unit Holders and in connection with any additional issue of units of Gateway Income Fund to ensure that their collective ownership of Gateway Income Fund is maintained at 20% of the issued and outstanding units.

During fiscal 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. The guarantee expires on December 31, 2009. At September 30, 2006, the guarantee has been reduced to \$3.8 million.

During the second quarter of fiscal 2007, Clairvest provided a US\$3.5 million (CDN\$3.9 million) letter of credit to the senior lenders of Winters Bros. in support of their credit facility. Any amounts paid under the letter of credit 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 letter of credit. The letter of credit expires on August 31, 2007.

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\$29.5 million) combined proceeds and escrowed amounts. The amount indemnified will reduce over time.

## **OUTLOOK**

Clairvest continues to assist our investee companies in developing and executing their strategies and enhancing their value propositions. Clairvest also continues to actively pursue investment opportunities, using our domain-based proprietary research to explore a number of industries and uncover new potential investments.

Subsequent to quarter end, the trading prices of Gateway Income Fund and Voxcom Income Fund decreased, following the announcement by the Federal government of the proposed changes to the taxation of income trusts. Gateway Income Fund closed at \$15.25 and Voxcom Income Fund at \$9.13 on November 10, 2006, the combined impact of which would be a decrease in Clairvest's corporate investments of \$10.0 million, and an increase in future tax asset of \$1.5 million.

*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)

<b>\$000's</b>	<b>September 30 2006</b>	<b>March 31 2006</b>
<b>ASSETS</b>		
Cash and cash equivalents (Note 9)	\$ 5,291	\$ 12,395
Temporary investments (Notes 3 and 11j)	77,551	101,897
Accounts receivable and other assets (Note 7e)	7,910	5,011
Loans receivable (Note 7f and 7g)	7,166	800
Future tax asset	3,987	3,539
Derivative instruments market valuation (Note 10)	94	—
Corporate investments (Note 4)	199,470	165,165
	<b>\$ 301,469</b>	<b>\$ 288,807</b>
<b>LIABILITIES</b>		
Accounts payable (Note 7e)	\$ 4,102	\$ 4,945
Loans payable (Note 5)	76,675	27,699
Derivative instruments market valuation (Note 10)	—	330
Deferred gain on foreign exchange forward contracts (Note 10)	970	928
Future tax liability	1,886	1,385
Stock-based compensation (Note 8)	3,716	3,583
	<b>87,349</b>	<b>38,870</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 6)	82,166	103,496
Retained earnings	131,954	146,441
	<b>214,120</b>	<b>249,937</b>
	<b>\$ 301,469</b>	<b>\$ 288,807</b>

(see accompanying notes to interim consolidated financial statements)

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

<b>\$000's (except per share information)</b>	<b>Quarter ended September 30</b>		<b>Six months ended September 30</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Net investment gains (losses)</b>				
Net realized gains on investments	\$ —	\$ —	\$ —	\$ 261
Previously recognized net unrealized gains	(266)	(403)	(524)	(619)
Net unrealized gains (losses) on investments	<u>17,443</u>	<u>(8,315)</u>	<u>2,991</u>	<u>(5,912)</u>
	<u>17,177</u>	<u>(8,718)</u>	<u>2,467</u>	<u>(6,270)</u>
<b>Other income</b>				
Interest and distribution income (Note 7)	4,144	2,062	6,668	3,508
Dividend income	114	85	4,901	164
Management fees (Note 7a)	(239)	590	63	1,237
Advisory and other fees (Note 7h)	<u>1,312</u>	<u>353</u>	<u>2,041</u>	<u>722</u>
	<u>5,331</u>	<u>3,090</u>	<u>13,673</u>	<u>5,631</u>
Administration and other expenses (Note 8)	(3,995)	(1,059)	(6,250)	(6,516)
Loss on temporary investments (Note 11j)	—	—	(10,000)	—
Finance and foreign exchange expense (Note 7h and 10)	<u>(1,473)</u>	<u>(589)</u>	<u>(2,208)</u>	<u>(1,210)</u>
	<u>(5,468)</u>	<u>(1,648)</u>	<u>(18,458)</u>	<u>(7,726)</u>
Income (loss) before income taxes	17,040	(7,276)	(2,318)	(8,365)
Income tax recovered (expense)	<u>(1,838)</u>	<u>121</u>	<u>1,120</u>	<u>(786)</u>
Net income (loss)	<u>\$ 15,202</u>	<u>\$ (7,155)</u>	<u>\$ (1,198)</u>	<u>\$ (9,151)</u>
Basic net income (loss) per share	<u>\$ 0.95</u>	<u>\$ (0.37)</u>	<u>\$ (0.07)</u>	<u>\$ (0.47)</u>
Fully diluted net income (loss) per share	<u>\$ 0.93</u>	<u>\$ (0.37)</u>	<u>\$ (0.07)</u>	<u>\$ (0.47)</u>

(see accompanying notes to interim consolidated financial statements)

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

<b>\$000's</b>	<b>Quarter ended September 30</b>		<b>Six months ended September 30</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Retained earnings, beginning of period	\$ 117,037	\$ 143,050	\$ 146,441	\$ 150,268
Net income (loss)	<u>15,202</u>	<u>(7,155)</u>	<u>(1,198)</u>	<u>(9,151)</u>
	<u>132,239</u>	<u>135,895</u>	<u>145,243</u>	<u>141,117</u>
Dividends declared	—	—	(1,590)	(1,925)
Purchase and cancellation of shares (Note 6)	<u>(285)</u>	<u>(226)</u>	<u>(11,699)</u>	<u>(3,523)</u>
Retained earnings, end of period	<u>\$ 131,954</u>	<u>\$ 135,669</u>	<u>\$ 131,954</u>	<u>\$ 135,669</u>

(see accompanying notes to interim consolidated financial statements)

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

\$000's	Quarter ended September 30		Six months ended September 30	
	2006	2005	2006	2005
<b>Cash flows from operating activities</b>				
Net income (loss)	\$ 15,202	\$ (7,155)	\$ (1,198)	\$ (9,151)
Add (deduct) items not involving a current cash outlay				
Amortization	10	22	19	45
Stock-based compensation	(283)	(367)	133	3,471
Future income taxes (recovered)	1,857	(1,004)	54	(672)
Net realized losses on investments	—	—	—	(261)
Previously recognized net unrealized gains	266	403	524	619
Net unrealized (gains) losses on investments	(17,443)	8,315	(2,991)	5,912
Loss on temporary investments	—	—	10,000	—
Non-cash income relating to corporate investments	(1,628)	(378)	(4,037)	58
	<u>(2,019)</u>	<u>(164)</u>	<u>2,504</u>	<u>21</u>
Net change in non-cash working capital balances related to operations	<u>(1,162)</u>	<u>(3,329)</u>	<u>(3,761)</u>	<u>(3,030)</u>
	<u>(3,181)</u>	<u>(3,493)</u>	<u>(1,257)</u>	<u>(3,009)</u>
<b>Cash flows from financing activities</b>				
Cancellation of common shares	(569)	(459)	(569)	(7,344)
Shares purchased for cancellation	569	(1,103)	—	(1,103)
Issuance of common shares	—	—	540	1,297
Dividends paid	(1,590)	(1,925)	(1,590)	(1,925)
Loans payable	277	140	18,322	281
Repayment of loans payable	(2,346)	—	(2,346)	(1,137)
	<u>(3,659)</u>	<u>(3,347)</u>	<u>14,357</u>	<u>(9,931)</u>
<b>Cash flows from investing activities</b>				
Net temporary investments	4,870	1,691	14,346	47,312
Acquisition of corporate investments	(9,276)	(1,529)	(31,913)	(6,316)
Proceeds on corporate investments	—	—	—	360
Loan receivable	(28,472)	(3,477)	(28,472)	(16,892)
Receipt of loan receivable	21,306	252	22,106	19,149
Proceeds (costs) on realization of foreign exchange forward contracts	(6)	152	93	(1,009)
Return of capital from corporate investments	3,638	—	3,638	299
	<u>(7,940)</u>	<u>(2,911)</u>	<u>(20,204)</u>	<u>42,903</u>
<b>Net increase in cash and cash equivalents</b>	<b>(14,780)</b>	<b>(9,751)</b>	<b>(7,104)</b>	<b>29,963</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>20,071</b>	<b>41,542</b>	<b>12,395</b>	<b>1,828</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 5,291</b>	<b>\$ 31,791</b>	<b>\$ 5,291</b>	<b>\$ 31,791</b>
<b>Supplemental cash flow information</b>				
Income taxes paid	\$ 984	\$ 398	\$ 5,951	\$ 2,901
Interest paid	\$ 1,059	\$ 301	\$ 1,733	\$ 610

(see accompanying notes to interim consolidated financial statements)

**CLAIRVEST GROUP INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS`**  
*September 30, 2006 (Tabular Dollar Amounts in Thousands)*  
*(unaudited)*

**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 September 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 Shepell•fgi (formerly WarrenShepell) [see Note 11g] and by the guarantee provided by the Company to the credit provider of Winters Bros. Waste Systems, Inc. ("Winters Bros.") [see Note 11h]. The line of credit available at September 30, 2006 is \$14.4 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 4.2% and 12.0% with a weighted average rate of 4.6% (See Note 11j).

#### 4. CORPORATE INVESTMENTS

	September 30, 2006			March 31, 2006		
	Fair Value	Cost	Difference	Fair Value	Cost	Difference
<b>Investments in publicly-traded companies</b>						
Datamark Systems Group Inc.	\$ 7,508	\$ 14,454	\$ (6,946)	\$ 12,871	\$ 14,421	\$ (1,550)
Gateway Casinos Income Fund	43,023	32,913	10,110	22,874	15,007	7,867
Voxcom Income Fund	16,221	11,187	5,034	15,549	11,187	4,362
	<b>66,752</b>	<b>58,554</b>	<b>8,198</b>	<b>51,294</b>	<b>40,615</b>	<b>10,679</b>
<b>Investments in privately-held companies</b>						
Allied Global Holdings Inc.	5,845	3,000	2,845	4,755	3,000	1,755
Consolidated Vendors Corporation	530	5,620	(5,090)	–	7,423	(7,423)
Gateway Casinos Inc.	77,734	24,000	53,734	68,233	24,000	44,233
Integral Orthopedics Inc.	4,604	4,604	–	4,120	4,120	–
Kubra Data Transfer Ltd.	3,059	1,959	1,100	–	–	–
Landauer Metropolitan Inc.	4,606	3,636	970	4,982	4,088	894
N-Brook Mortgage LP	3,324	3,199	125	2,741	2,658	83
NRI Industries Inc.	–	17,613	(17,613)	5,080	17,613	(12,533)
Shepell·fgi (formerly WarrenShepell)	6,550	6,550	–	4,000	4,000	–
Tsuu T'ina Gaming Limited Partnership	746	746	–	–	–	–
Van-Rob Inc.	5,000	5,000	–	5,000	5,000	–
Wellington Financial Fund II	13,280	12,396	884	14,922	13,571	1,351
Wellington Financial Fund III	3,019	3,019	–	–	–	–
Winters Bros. Waste Systems, Inc.	4,326	4,326	–	–	–	–
	<b>132,623</b>	<b>95,668</b>	<b>36,955</b>	<b>113,833</b>	<b>85,473</b>	<b>28,360</b>
<b>Other investments</b>	<b>95</b>	<b>74</b>	<b>21</b>	<b>38</b>	<b>36</b>	<b>2</b>
	<b>\$199,470</b>	<b>\$154,296</b>	<b>\$ 45,174</b>	<b>\$165,165</b>	<b>\$126,124</b>	<b>\$39,041</b>

In the second quarter of fiscal 2007, Consolidated Vendors Corporation (“Consolidated Vendors”) sold approximately two-thirds of its business assets to two unrelated vending operators. Consolidated Vendors repaid \$2.0 million of loans outstanding to Clairvest. Clairvest reinvested \$0.2 million into Consolidated Vendors during the quarter.

During fiscal 2002, Clairvest sold certain shares of 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. The maximum guarantee amount under the guarantee agreement is US\$3.5 million (CDN\$3.9 million). During the second quarter of fiscal 2007, Clairvest paid CDN \$4.0 million of the guarantee to CEP. At September 30, 2006, the guaranteed amount was (\$0.1 million), which was reflected as an increase in the fair value of Clairvest’s investment in Consolidated Vendors.

In the second quarter of fiscal 2007, Clairvest invested in KUBRA Data Transfer Ltd. (“Kubra”), a leading provider of customer communication solutions. Clairvest acquired a minority ownership interest in Kubra for \$1.9 million.

In the second quarter of fiscal 2007, Clairvest invested an additional \$2.6 million in Shepell·fgi (formerly WarrenShepell) to support its acquisition of FGI World, bringing Clairvest’s total investment to \$6.6 million.

In the second quarter of 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. At September 30, 2006, \$0.7 million of the commitment has been funded.

In the second quarter of fiscal 2007, Clairvest received a \$1.2 million capital distribution from Wellington Financial Fund II ("Wellington Fund II"), reducing Clairvest's funded amount in Wellington Fund II to \$12.4 million. Subsequent to quarter end, Clairvest received a further \$1.2 million capital distribution from Wellington Fund II, reducing the funded amount to \$11.2 million.

In the second quarter of fiscal 2007, Clairvest committed to invest \$25.0 million in Wellington Financial Fund III ("Wellington Fund III"). At September 30, 2006, \$3.0 million of the commitment has been funded.

## **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) \$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 \$0.6 million from the limited partnership that owns Gateway Casinos. The loans outstanding are non-interest bearing and payable on demand at any time after December 31, 2006.
- (f) \$30.7 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 quarter, Clairvest repaid \$2.3 million in accordance with the terms of the note, bringing the principal balance 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 second quarter of fiscal 2007, the Company cancelled 54,200 of its common shares previously purchased under its normal course issuer bid. Clairvest made no purchases during the quarter. 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 September 30, 2006.

15,903,566 common shares were outstanding at September 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. During the second quarter of fiscal 2007, Clairvest assigned the Management Agreement to a 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 any fees earned by Clairvest from corporate investments of CEP. During the second quarter of fiscal 2007, net management fees was negative \$0.2 million (2006 - \$0.6 million). Management fees are negative for the second quarter of fiscal 2007 as fees from corporate investments exceed the gross management fee for the quarter. As per the Management Agreement, fees of \$1.3 million (2006 - \$0.5 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 equal to 20% of gains of CEP. These 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 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 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 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 from CEP III. The 2% priority distribution began in August 2007, the month in which CEP III made its first investment. The priority distribution is reduced to the extent of 76.5% of any fees earned by GP I from corporate investments of CEP III. During the second quarter of fiscal 2007, CEP III paid GP I net priority distributions of \$0.6 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 gains of CEP III 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 equal to 18% of gains of CEP III. These distributions to GP II will be determined based on the overall performance of CEP III and no such distributions are 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"). The Participation III Investors purchased, at fair market value, units of the Participation III Partnership during the second quarter of 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) and other loans made to certain officers of Wellington Financial totalling \$0.6 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 \$0.6 million (2006 - \$0.6 million). The loans to officers of Wellington Financial bear interest at the prime rate on the date of drawdown less 1% or at the prime rate on the date of drawdown, interest is paid quarterly and the loans have full recourse to the individual. Loans are repayable upon departure of the officer. Also included in accounts receivable and other assets are receivables from Clairvest's corporate investments totalling \$2.3 million (2006 - \$1.4 million), from CEP totalling nil (2006 - 1.6 million) and a nominal amount from CEP III (2006 - \$0.1 million). Included in

accounts payable are amounts owing to CEP totalling 1.7 million and to Clairvest's corporate investments totalling \$0.3 million.

- (f) Loans of \$10.0 million, bearing interest at the prime rate, were made by the Company to CEP III during the second quarter of fiscal 2007. The loans were repaid during the quarter. Interest of \$39,000 was earned from loans to CEP III during the second quarter of fiscal 2007.
- (g) Loans of \$7.1 million, bearing interest at the prime rate, were made by the Company to CEP during the second quarter of fiscal 2007. The loans were repaid subsequent to quarter end. Interest of \$3,000 was earned from loans to CEP during the second quarter of fiscal 2007.
- (h) During the second quarter of fiscal 2007, Clairvest received \$2.4 million (2006 - \$2.1 million) in interest and distributions, nil (2006 - \$0.1 million) in dividends, and \$1.3 million (2006 - \$0.4 million) in advisory and other fees from its corporate investments. Also during the second quarter of fiscal 2007 Clairvest paid \$0.6 million (2006 - \$0.3 million) in interest to a Gateway Casinos Inc. entity.

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

No options were issued or exercised during the second quarter of fiscal 2007. At September 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 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 September 30, 2006, Clairvest recognized stock-based compensation expense of (\$0.3) million.

As at September 30, 2006, a total of 71,263 (2006 - 62,933) Deferred Share Units were held by directors of the Company, the accrual in respect of which was \$0.7 million (2006 - \$0.6 million)

As at September 30, 2006, a total of 443,250 (2005 - 382,250) Book Value Appreciation Rights Units were held by employees of Clairvest and a company affiliated with Clairvest, the accrual in respect of which was \$0.2 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:

	<b>2006</b>	2005
Accounts receivable and other assets	\$ (654)	\$ (354)
Accounts payable	(508)	(2,975)
	<b>\$ (1,162)</b>	<b>\$ (3,329)</b>

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

	<b>2006</b>	2005
Cash	\$ 1,358	\$ 66
Cash equivalents	3,933	31,725
	<b>\$ 5,291</b>	<b>\$ 31,791</b>

## 10. FINANCIAL INSTRUMENTS

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

Forward contracts to sell US\$15.7 million (2006 – US\$14.0 million) at rates of Canadian \$1.0864 to \$1.1376 per U.S. dollar through May 2007 (average rate of \$1.1177; 2006 - average rate of \$1.1378). The fair value of these contracts at September 30, 2006 is nil (2006 – loss of \$0.4 million). The contracts which 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. The contracts which are not required to be marked to market in accordance with Generally Accepted Accounting Principles have a fair value of a loss of \$0.1 million.

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 \$1.0 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, \$13.5 million of which remains unfunded at September 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, and a \$4.3 million commitment to Tsuu T'ina. Of these commitments, \$3.2 million has been funded to N-Brook and \$0.7 million has been funded to Tsuu T'ina at September 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, \$56.9 million of which remains unfunded at September 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) During the second quarter of fiscal 2007, Clairvest committed \$25.0 million to Wellington Fund III, \$3.0 million of which has been funded at September 30, 2006. 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 \$12.4 million to Wellington Fund II at September 30, 2006.
- (d) 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.
- (e) 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 \$3.6 million (2006 - \$3.5 million) would be owing to management under the Incentive Bonus Program.
- (f) Wholly-owned subsidiaries of Clairvest together with certain other unit holders (the "Unit Holders") currently hold 31% (32% upon the release of the escrowed units) 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.
- (g) During fiscal 2006, Clairvest, together with CEP and WarrenShepell management, purchased WarrenShepell. As part of the transaction, Clairvest guaranteed a \$4.6 million note payable by

WarrenShepell to the vendors, as well as interest payable on the note. The note is subject to claims Clairvest may have with respect to representations and warranties. Any amounts paid under the guarantee will result in additional equity ownership being granted to Clairvest and CEP, allocated 25% to Clairvest and 75% to CEP. CEP will reimburse Clairvest for 75% of any amounts paid under the guarantee. The guarantee expires on December 31, 2009. At September 30, 2006, the guarantee was \$3.8 million.

- (h) During the second quarter of fiscal 2007, Clairvest provided a US\$3.5 million (CDN\$3.9 million) letter of credit to the senior lenders of Winters Bros. in support of their credit facility. Any amounts paid under the letter of credit 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 letter of credit. The letter of credit expires on August 31, 2007.
- (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\$29.5 million) combined proceeds and escrowed amounts. The amount indemnified will reduce over time.
- (j) In the first quarter of fiscal 2007, Clairvest recorded 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**

The trading prices of Gateway Income Fund and Voxcom Income Fund decreased subsequent to quarter end, following the announcement by the Federal government of the proposed changes to the taxation of income trusts. Gateway Income Fund closed at \$15.25 and Voxcom Income Fund at \$9.13 on November 10, 2006, the combined impact of which would be a decrease in Clairvest’s corporate investments of \$10.0 million, and an increase in future tax asset of \$1.5 million.

## **13. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS**

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