

**CLAIRVEST REPORTS FISCAL 2008  
SECOND QUARTER RESULTS****Highlights**

- September 30, 2007 book value increased 2.6% to \$16.24 per share, versus \$15.82 at June 30, 2007
- Clairvest and a limited partnership managed by Clairvest sold their interests in Winters Bros. Waste Systems Inc.; proceeds to date equal US\$54.4 million, a pre-tax return of 3.5x invested capital
- New World Gaming Partners Ltd. extended its offer for Gateway Casinos to November 14

**Toronto, Ontario (November 12, 2007)** – Clairvest Group Inc. (TSX:CVG) today reported results for the second quarter ended September 30, 2007. *(All figures are in Canadian dollars unless otherwise stated).*

Clairvest's book value increased 2.6% during the quarter to \$258.9 million, or \$16.24 per share, compared with \$15.82 per share at June 30, 2007. The increase in book value was attributable to net income for the quarter of \$6.6 million, or \$0.41 per share.

During the quarter, Clairvest and Clairvest Equity Partners Limited Partnership ("CEP"), a partnership managed by Clairvest, sold their interests in Winters Bros. Waste Systems Inc ("Winters Bros"). Clairvest and CEP received combined cash proceeds of US\$54.4 million, US\$2.0 million of which was received subsequent to quarter end. Additional consideration of up to approximately US\$10 million could be received by Clairvest and CEP, subject to the performance of certain covenants. On an initial combined US\$15.7 million investment, Clairvest and CEP have realized a 196% internal rate of return on this investment to date, which amounts to 3.5 times invested capital. To date, Clairvest has received sale proceeds totalling C\$14.3 million.

"Our success with Winters Bros. demonstrates the capabilities of our domain-based system for locating superior investment opportunities," said Ken Rotman, Co-CEO of Clairvest. "By teaming with Winters Bros. management, we pioneered the consolidation of the waste management industry in Long Island, resulting in superior returns in a short period."

As previously announced, Clairvest has entered into agreements to realize on its interests in Gateway Casinos Inc. and Gateway Casinos Income Fund. The acquirer, New World Gaming Partners Ltd., has extended the offer to November 14, 2007.

During the quarter Lana Reiken was re-appointed Chief Financial Officer and Corporate Secretary of Clairvest. Ms. Reiken has been with Clairvest for over eight years and was the CFO from 2004 to January 2007 at which time she resigned the CFO and Corporate Secretary position and became Vice President Special Projects.

## **About 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.*

## **Contact Information**

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## **Forward-looking Statements**

*This news 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.*

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

**CLAIRVEST GROUP INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED SEPTEMBER 30, 2007**

**November 12, 2007**

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 for the quarter ended September 30, 2007 and the attached news 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 ongoing 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. Market value is defined as the last bid price as of the quarter date. 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 2008 was \$6.6 million compared with \$15.2 million for the second quarter of fiscal 2007. Net income for the second quarter of fiscal 2008 is comprised primarily of \$7.4 million of net investment gains and \$0.7 million of net operating income offset by \$1.5 million of income tax expense. This compares with net investment gains on investments of \$17.2 million, \$0.1 million of net operating losses, and \$1.9 million of income tax expense for the second quarter of fiscal 2007.

The net investment gains of \$7.4 million for the second quarter of fiscal 2008 comprised \$9.7 million of net realized gains on investments and \$2.3 million of net unrealized losses on investments.

Net realized gains on investments for the second quarter of fiscal 2008 of \$9.7 million primarily resulted from a \$9.0 million gain on Winters Bros. Waste System, Inc. (“Winters Bros”) comprised of a \$9.7 million realized gain this quarter net of previously recognized unrealized gains of \$0.7 million in prior quarters.

Clairvest had net unrealized losses on investments of \$2.3 million for the second quarter of 2008, compared with net unrealized gains on investments of \$17.2 million for the second quarter of 2007. The net unrealized losses for the second quarter of 2008 resulted from:

- A \$1.1 million downward adjustment to the fair value of Clairvest’s investment in Gateway Casinos Inc. (“Gateway Casinos”) primarily as a result of the downward movement in the trading price of Gateway Casinos Income Fund, to which Clairvest’s valuation of the casinos in Gateway Casinos is linked;
- A \$0.9 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 \$0.6 million downward adjustment to the fair value of Clairvest’s investment in Komunik Corporation (“Komunik”) as a result of the downward movement in the trading price; and
- Other movements in quoted market prices, movements in foreign exchange, dividends accruing on preferred shares and distributions on partnership units.

Distributions and interest income for the quarter was \$4.3 million, compared with \$4.1 million for the same quarter last year. Distributions and interest income for the second quarter of fiscal 2008 includes priority distributions of \$1.1 million from Clairvest Equity Partners III Limited Partnership (“CEP III”), distributions of \$1.0 million from Gateway Income Fund and distributions totalling \$1.0 million from Wellington Financial Fund II and Wellington Financial Fund III (“Wellington Funds”). Distributions and interest income for the second quarter of fiscal 2007 included priority distributions of \$0.6 million from CEP III, distributions of \$0.9 million from Gateway Income Fund, \$0.5 million from Voxcom Income Fund (“Voxcom”) and \$0.3 million from Wellington Funds. The distributions from CEP III are reduced to the extent of 75% of fees earned by Clairvest from joint Clairvest/CEP III corporate investments.

Clairvest earned \$0.4 million in management fees during the quarter for its services in the administration of Clairvest Equity Partners Limited Partnership’s (“CEP”) portfolio and \$0.3 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 \$3.4 million, compared with \$4.0 million for the same quarter last year. The decrease in administrative and other expenses for the second quarter of fiscal 2008 was primarily due to a \$2.4 million decrease in management bonuses, net of an increase in other incentive plan expenses totalling \$1.3 million.

Finance and foreign exchange expenses of \$1.0 million for the quarter represents \$0.5 million in interest on the loan payable to a subsidiary of Gateway Casinos, \$0.2 million in interest on the loan payable to a financial institution, foreign exchange costs of \$0.2 million, and interest and bank charges of \$0.1 million. Finance and foreign exchange expenses of \$1.5 million for the second quarter of fiscal 2007 represented \$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, foreign exchange costs of \$0.3 million and interest and bank charges of \$0.1 million.

## 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, 2007	12,403	6,562	0.41	0.40
June 30, 2007	30,757	19,758	1.24	1.22
March 31, 2007	25,655	20,342	1.28	1.25
December 31, 2006	1,819	(879)	(0.05)	(0.05)
September 30, 2006	22,508	15,202	0.95	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	1,773	135	0.01	0.01

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 \$105.8 million at September 30, 2007, Clairvest has a \$20.0 million credit facility with a Canadian chartered bank, of which \$16.8 million was available at September 30, 2007. Temporary investments consist of corporate notes, debentures and preferred shares with maturities greater than 90 days and through to September 2010.

At September 30, 2007, Clairvest had loans payable totalling \$59.3 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 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 \$0.8 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, 2007.
- (f) \$13.0 million 10-year promissory note from a financial institution, bearing interest at a floating rate. Upon the disposition of certain investments, Clairvest will be required to make principal payments on the note. During the quarter, Clairvest repaid \$9.3 million in accordance with the terms of the note, bringing the principal balance to \$13.0 million. Interest of \$0.2 million was paid during the quarter. Subsequent to quarter end, a further \$10.6 million was repaid in accordance with the terms of the note, bringing the principal balance to \$2.4 million.

During the fourth quarter of fiscal 2007, Clairvest filed a new normal course issuer bid enabling it to purchase up to 795,178 common shares during the 12-month period ending March 5, 2008. During the second quarter of fiscal 2008, Clairvest made no purchases. In total 2,544,424 common shares at a cost of \$21.9 million have been purchased under this, and previous, normal course issuer bids as of September 30, 2007. An additional 3,165,154 common and non-voting shares have been purchased for cancellation from a financial institution outside of the normal course issuer bid.

15,943,566 common shares were outstanding at September 30, 2007.

Clairvest's main asset is its corporate investments. Changes in the carrying value of Clairvest's corporate investments during the second quarter of fiscal 2008 are primarily a result of realizations on investments, unrealized gains/losses on investments, follow-on investments made and capital returned to Clairvest. Clairvest's corporate investments decreased \$2.1 million during the second quarter of fiscal 2008. Significant events relating to Clairvest's corporate investments, other than with respect to unrealized gains/losses, are described below.

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

During the second quarter of fiscal 2008, Clairvest funded an additional \$1.8 million to Tsuu T'ina Gaming Limited Partnership, bringing the total funded amount to \$4.6 million.

### **Wellington Financial Fund III**

During the second quarter of fiscal 2008, Clairvest funded an additional \$1.8 million to Wellington Financial Fund III, bringing the total funded amount to \$10.4 million.

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

During the second quarter of fiscal 2008, Clairvest sold its interest in Winters Bros. Waste Systems, Inc. ("Winters Bros") for cash proceeds of \$13.8 million. Subject to the performance of certain covenants, Clairvest may receive additional consideration of up to US\$3.4 million, of which US\$0.5 million (C\$0.5 million) has been received subsequent to quarter end.

## **TRANSACTIONS WITH RELATED PARTIES**

Clairvest, as manager of CEP and parent company of the General Partner of CEP, has entered into various transactions with CEP. As manager of CEP, Clairvest is entitled to a management fee as compensation for its services in the administration of the portfolio of CEP. During fiscal 2007, Clairvest assigned the Management Agreement to a wholly-owned subsidiary of Clairvest. 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 2008, CEP paid net management fees of \$0.4 million. As per the Management Agreement, corporate advisory fees of \$0.2 million from corporate investments of CEP were netted against the management fees.

The General Partner of CEP, a limited partnership, the general partner of which is a wholly-owned subsidiary of Clairvest, is entitled to participate in distributions made by CEP equal to 20% of net gains of CEP. The distribution to the General Partner will be determined based on the overall performance of CEP and no such 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 75% of any fees earned by GP I from corporate investments of CEP III. During the second quarter of fiscal 2008, CEP III paid GP I net priority

distributions of \$1.1 million. As per the Limited Partnership Agreement, fees of \$0.1 million from corporate investments of CEP III were netted against the priority distributions. GP I is also entitled to distributions made by CEP III equal to 2% of net gains of CEP III determined as described below.

GP II, a limited partnership, the general partner of which is a wholly-owned subsidiary of Clairvest, is entitled to participate in distributions made by CEP III equal to 18% of net gains of CEP III. The 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 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.

At September 30, 2007 Clairvest had loans receivables from certain officers of Clairvest or officers of corporate investments (the "Officers") totalling \$0.6 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 \$0.9 million. At September 30, 2007 Clairvest also had loans receivable from certain officers of Wellington Financial totalling \$0.7 million. The loans are interest bearing and have full recourse to the individual.

Included in accounts receivable and other assets are receivables from Clairvest's corporate investments totalling \$1.9 million, from CEP of \$0.3 million and from CEP III of \$2.4 million. Included in accounts payable are amounts owing to Clairvest's corporate investments totalling \$0.5 million.

Net loans totalling \$1.8 million, bearing interest at the prime rate, were made by the Company to CEP during the second quarter of fiscal 2008. Interest of \$31,000 was earned from loans to CEP during the second quarter of fiscal 2008.

Net loans totalling \$4.6 million, bearing interest at the prime rate, were made by the Company to CEP III during the second quarter of fiscal 2008. Interest of \$54,000 was earned from loans to CEP III during the second quarter of fiscal 2008.

Loans totalling \$1.0 million, bearing interest at the prime rate, made by the Company to a related party during the first quarter of fiscal 2008 were repaid in full during the quarter. Interest of \$18,000 was earned from loans to this related party during the second quarter of fiscal 2008.

During the second quarter of fiscal 2008, Clairvest received \$2.2 million in interest and distributions and \$0.3 million in fee income from its corporate investments. Also during the second quarter of fiscal 2008, Clairvest paid \$0.5 million in interest to a Gateway Casinos Inc. 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, \$5.7 million of which remains unfunded at September 30, 2007. Clairvest may only sell all or a portion of a corporate investment that is a joint investment with CEP if it, as manager of CEP, concurrently sells a proportionate number of securities of that corporate investment held by CEP. Included in the commitment to co-invest with CEP is a \$5.0 million commitment to N-Brook, which is subject to N-Brook management achieving certain targets. Of this commitment, \$4.9 million has been funded to N-Brook at September 30, 2007. Also included in the commitment to co-invest with CEP is a commitment to invest in Tsuu T'ina, the amount of which was increased from \$4.3 million to \$5 million during the quarter. Of this commitment, \$4.6 million has been funded to September 30, 2007.

Clairvest has also committed to co-invest alongside CEP III in all investments undertaken by CEP III. Clairvest's total co-investment commitment is \$75.0 million, \$69.8 million of which remains unfunded at September 30, 2007.

Clairvest may only sell all or a portion of a corporate investment that is a joint investment with CEP III if it, as manager of CEP III, concurrently sells a proportionate number of securities of that corporate investment held by CEP III.

Clairvest has committed \$25.0 million to Wellington Fund III, \$10.4 million of which has been funded to September 30, 2007. As a result of the closing of Wellington Fund III, the unfunded capital commitments to Wellington Fund II may no longer be called. At September 30, 2007, net funds invested in Wellington Fund II was \$4.4 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.

Under Clairvest's Incentive Bonus Program, a bonus of 10% of after-tax cash income and realizations on Clairvest's corporate investments would be paid to management as a bonus. If Clairvest were to sell its corporate investments at their current fair values, a bonus of \$8.0 million would be owing to management under the Incentive Bonus Program. Amounts are accrued under this plan to the extent that the cash income and investment realizations have occurred and the bonus has become payable. Accordingly, the \$8.0 million has not been accrued at September 30, 2007 as no such income and realizations have occurred and the terms of the bonus plan have not yet been fulfilled.

Clairvest enters into foreign exchange forward contracts to manage the risks arising from fluctuations in exchange rates on its foreign investments. At September 30, 2007, Clairvest had entered into forward contracts to sell US\$11.5 million at rates of Canadian \$0.9951 to \$1.0592 per U.S. dollar through March 2008. The fair value of these contracts at September 30, 2007 is a gain of \$0.3 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 "unitholders") currently hold approximately 33% of the outstanding units of Gateway Income Fund. The unitholders have agreed that they will take all necessary steps to ensure that their collective ownership of Gateway Income Fund is maintained at 20% of the issued and outstanding units. The unitholders have collectively entered into an agreement to sell the units of the Fund.

During fiscal 2006, Clairvest, together with CEP and Shepell-fgi (formerly WarrenShepell) management, purchased Shepell-fgi. As part of the purchase, Clairvest also guaranteed a \$4.6 million note payable by Shepell-fgi to the vendors, as well as interest payable on the note. The note is subject to claims Clairvest and CEP 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, 2007, the guarantee was \$3.2 million. Subsequent to quarter end, the guarantee has been reduced to \$1.8 million.

During fiscal 2006, Clairvest and Clairvest Group International (Netherlands) B.V. ("B.V.") sold their interests in Signature Security Group Holdings Pty Limited ("Signature") and Equity SPV Pty Limited ("SPV") as part of a sale of 100% of Signature and SPV. Subject to a number of conditions, Clairvest and B.V. may be entitled to receive over time up to an additional AUD\$2.1 million (CDN\$1.9 million) being held in escrow. As at September 30, 2007, AUD\$1.3 million (CDN\$1.1 million) has been released and taken into income. As part of the transaction, B.V. has indemnified the purchaser for various claims which will reduce over time.

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

During fiscal 2007, Clairvest, together with CEP committed to invest in the development of the Tsuu T'ina charitable casino. As part of third party financing of the casino with a Canadian chartered bank, Clairvest has guaranteed certain cost overruns on the project, and any debt servicing shortfalls by Tsuu T'ina which reduce over a period of time. As at September 30, 2007, no amounts subject to this guarantee have been funded by the bank..

## **OUTLOOK**

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

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management has evaluated the effectiveness of Clairvest's disclosure controls and procedures as of September 30, 2007. Management has concluded that the disclosure controls and procedures are effective as of September 30, 2007 based on this evaluation.

Management has evaluated the Company's internal controls over financial reporting to ensure that they had been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. Management has concluded that the design of internal controls over financial reporting are effective as of September 30, 2007 based on this evaluation. There were no changes in its internal controls during its most recent interim period that has materially affected, or is reasonably likely to materially affect, its internal controls over financial reporting.

*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 2007</b>	<b>March 31 2007</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 36,953	\$ 13,981
Temporary investments (Note 4)	68,875	76,305
Accounts receivable and other assets (Note 9e)	6,789	3,768
Income taxes recoverable	8,313	10,803
Loans receivable (Note 9f , 9g and 9h)	6,530	1,824
Derivative instruments market valuation (Note 12)	244	—
Corporate investments (Note 6)	206,689	207,929
	<u>\$ 334,393</u>	<u>\$ 314,610</u>
<b>LIABILITIES</b>		
Accounts payable (Note 9e and 10)	\$ 3,877	\$ 3,473
Loans payable (Note 7)	59,311	68,766
Derivative instruments market valuation (Note 12)	<sup>3/4</sup>	300
Future tax liability	6,360	4,062
Stock-based compensation (Note 10)	5,989	4,426
	<u>75,537</u>	<u>81,027</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	82,713	82,166
Retained earnings	176,143	151,417
	<u>258,856</u>	<u>233,583</u>
	<u>\$ 334,393</u>	<u>\$ 314,610</u>

(see accompanying notes to interim consolidated financial statements)

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

\$000's (except per share information)	Quarter ended September 30		Six months ended September 30	
	2007	2006	2007	2006
<b>Net investment gains</b>				
Net realized gains on investments (Note 5)	\$ 9,663	\$ ?	\$ 15,568	\$ ?
Net unrealized gains (losses) on investments	(2,256)	17,177	17,840	2,467
	<u>7,407</u>	<u>17,177</u>	<u>33,408</u>	<u>2,467</u>
<b>Other income</b>				
Distributions and interest income (Note 9c and 9i)	4,342	4,144	8,430	6,668
Dividend income	31	114	52	4,901
Management fees (Note 9a)	365	(239)	644	63
Advisory and other fees (Note 9i)	258	1,312	626	2,041
	<u>4,996</u>	<u>5,331</u>	<u>9,752</u>	<u>13,673</u>
Administration and other expenses (Note 10)	(3,365)	(3,995)	(9,788)	(6,250)
Loss on temporary investments (Note 13i)	—	—	<sup>3</sup> / <sub>4</sub>	(10,000)
Finance and foreign exchange expense (Note 9i and 12)	(986)	(1,473)	(1,959)	(2,208)
	<u>(4,351)</u>	<u>(5,468)</u>	<u>(11,747)</u>	<u>(18,458)</u>
Income (loss) before income taxes	8,052	17,040	31,413	(2,318)
Income tax recovered (expense)	(1,490)	(1,838)	(5,093)	1,120
Net income (loss)	\$ 6,562	\$ 15,202	\$ 26,320	\$ (1,198)
Basic net income (loss) per share	\$ 0.41	\$ 0.95	\$ 1.65	\$ (0.07)
Fully diluted net income (loss) per share	\$ 0.40	\$ 0.93	\$ 1.62	\$ (0.07)

(see accompanying notes to interim consolidated financial statements)

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

\$000's	Quarter ended September 30		Six months ended September 30	
	2007	2006	2007	2006
Retained earnings, beginning of period	\$ 169,581	\$ 117,037	\$ 151,417	\$ 146,441
Net income (loss)	6,562	15,202	26,320	(1,198)
	<u>176,143</u>	<u>132,239</u>	<u>177,737</u>	<u>145,243</u>
Dividends declared	—	—	(1,594)	(1,590)
Purchase and cancellation of shares	—	(285)	<sup>3</sup> / <sub>4</sub>	(11,699)
Retained earnings, end of period	<u>\$ 176,143</u>	<u>\$ 131,954</u>	<u>\$ 176,143</u>	<u>\$ 131,954</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	
	2007	2006	2007	2006
<b>Cash flows from operating activities</b>				
Net income (loss)	\$ 6,562	\$ 15,202	\$ 26,320	\$ (1,198)
Add (deduct) items not involving a current cash outlay				
Amortization of fixed assets	9	10	19	19
Stock-based compensation expense accrued	584	(283)	1,563	133
Future income tax expense (recovered)	(24)	1,857	2,298	54
Net realized gains on investments	(9,663)	—	(15,568)	—
Net unrealized (gains) losses on investments	2,256	(17,177)	(17,840)	(2,467)
Loss on temporary investments	<sup>3</sup> / <sub>4</sub>	—	<sup>3</sup> / <sub>4</sub>	10,000
Non-cash items relating to corporate investments	(205)	(1,628)	(228)	(4,037)
	<b>(481)</b>	<b>(2,019)</b>	<b>(3,436)</b>	<b>2,504</b>
Net change in non-cash working capital balances related to operations	<b>(2,042)</b>	<b>(1,162)</b>	<b>(146)</b>	<b>(3,761)</b>
	<b>(2,523)</b>	<b>(3,181)</b>	<b>(3,582)</b>	<b>(1,257)</b>
<b>Cash flows from financing activities</b>				
Shares purchased for cancellation	<sup>3</sup> / <sub>4</sub>	(569)	<sup>3</sup> / <sub>4</sub>	(569)
Cancellation of share capital	<sup>3</sup> / <sub>4</sub>	569	<sup>3</sup> / <sub>4</sub>	—
Issuance of share capital	<sup>3</sup> / <sub>4</sub>	—	547	540
Dividend paid	(1,594)	(1,590)	(1,594)	(1,590)
Receipt of loans	260	277	516	18,322
Repayment of loans	(9,309)	(2,346)	(9,971)	(2,346)
	<b>(10,643)</b>	<b>(3,659)</b>	<b>(10,502)</b>	<b>14,357</b>
<b>Cash flows from investing activities</b>				
Net proceeds on temporary investments	5,156	4,870	7,430	14,346
Acquisition of corporate investments	(6,182)	(9,276)	(9,960)	(31,914)
Proceeds on corporate investments	14,798	—	42,979	—
Loans advanced	(11,686)	(28,472)	(12,686)	(28,473)
Receipt of loans advanced	6,156	21,306	7,980	22,106
Proceeds (cost) on realization of foreign exchange forward contracts	65	(6)	391	93
Return of capital from corporate investments	771	3,638	922	3,638
	<b>9,078</b>	<b>(7,940)</b>	<b>37,056</b>	<b>(20,204)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(4,088)</b>	<b>(14,780)</b>	<b>22,972</b>	<b>(7,104)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>41,041</b>	<b>20,071</b>	<b>13,981</b>	<b>12,395</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 36,953</b>	<b>\$ 5,291</b>	<b>\$ 36,953</b>	<b>\$ 5,291</b>
<b>Supplemental cash flow information</b>				
Income taxes paid	\$ 323	\$ 984	\$ 414	\$ 5,951
Interest paid	\$ 728	\$ 1,059	\$ 1,560	\$ 1,733

(see accompanying notes to interim consolidated financial statements)

**CLAIRVEST GROUP INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS`**  
*September 30, 2007 (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, 2007.

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, 2007.

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.

**2. CHANGES IN ACCOUNTING POLICY**

Effective fiscal 2008, the Company adopted Canadian Institute of Chartered Accountants Handbook (“CICA Handbook”) Section 1506, “Accounting Changes”, which requires that voluntary changes in accounting policy be made only if the changes result in financial statements that provide more reliable and more relevant information. The adoption of this standard has provided no impact to Clairvest’s unaudited interim consolidated financial statements for the quarter ended September 30, 2007.

Effective fiscal 2008, the Company also adopted CICA Handbook Section 3855, “Financial Instruments – Recognition and Measurement”; Section 3865, “Hedges”; Section 1530, “Comprehensive Income”; and Section 3861, “Financial Instruments – Disclosure and Presentation”.

Section 3855 requires financial assets and financial liabilities to be initially recognized at fair value and subsequently accounted for based on their classification as either held-for-trading, available for sale, or held to maturity. In accordance with CICA Accounting Guideline 18, “Investment Companies”, which the Company has previously adopted, the Company is required to classify all of its financial assets and liabilities as held-for-trading. These instruments are accounted for at fair value with the change in fair value recognized in income. The impact of the adoption of Section 3855 to Clairvest’s unaudited interim consolidated financial statements for the quarter ended September 30, 2007 was not material.

For the quarter ended September 30, 2007, the Company has no items requiring disclosure under other comprehensive income.

The comparative unaudited interim consolidated financial statements have not been restated for the adoption of these standards.

### 3. BANKING FACILITY

Clairvest has a \$20.0 million line of credit available, bearing interest at prime plus 0.5%. The line of credit available at September 30, 2007 is \$16.8 million and is based on debt covenants within the banking arrangement.

### 4. 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 4.0% and 12.0% with a weighted average rate of return of 4.8%.

### 5. NET INVESTMENT GAINS

Net realized gains (losses) on investments during the period are comprised of the following:

\$000's	Quarter ended September 30		Six months ended September 30	
	2007	2006	2007	2006
Net realized gains on investments	\$ 10,381	\$ ?	\$ 17,678	\$ ?
Previously recognized net unrealized gains	(718)	?	(2,110)	?
	\$ 9,663	\$ ?	\$ 15,568	\$ ?

### 6. CORPORATE INVESTMENTS

	September 30, 2007			March 31, 2007		
	Fair Value	Cost	Difference	Fair Value	Cost	Difference
<b>Investments in publicly-traded companies</b>						
Komunik Corporation (formerly Datamark Systems Group Inc.)	\$ 943	\$ 4,762	\$ (3,819)	\$ 9,762	\$ 14,454	\$ (4,692)
Gateway Casinos Income Fund	59,511	32,913	26,598	47,614	32,913	14,701
Voxcom Income Fund	?	?	?	15,644	11,187	4,457
	<b>60,454</b>	<b>37,675</b>	<b>22,779</b>	<b>73,020</b>	<b>58,554</b>	<b>14,466</b>
<b>Investments in privately-held companies</b>						
Gateway Casinos Inc.	92,064	24,000	68,064	84,724	24,000	60,724
Integral Orthopedics Inc.	5,872	5,872	?	5,347	5,347	?
Kubra Data Transfer Ltd.	3,250	2,150	1,100	3,250	2,150	1,100
Landauer Metropolitan Inc.	3,494	3,636	(142)	3,894	3,636	258
N-Brook Mortgage LP	5,120	4,912	208	3,865	3,699	166
Shepell-fgi	7,910	6,550	1,360	7,910	6,550	1,360
Tsui T'ina Gaming Limited Partnership	5,002	4,611	391	2,226	2,091	135
Van-Rob Inc.	5,000	5,000	?	5,000	5,000	?
Wellington Financial Fund II	5,187	4,398	789	6,618	5,319	1,299
Wellington Financial Fund III	11,168	10,357	811	6,974	6,704	270
Winters Bros. Waste Systems, Inc.	?	?	?	5,065	4,292	773
	<b>144,067</b>	<b>71,486</b>	<b>72,581</b>	<b>134,873</b>	<b>68,788</b>	<b>66,085</b>
<b>Other investments</b>	<b>2,168</b>	<b>1,783</b>	<b>385</b>	<b>36</b>	<b>47</b>	<b>(11)</b>
	<b>\$206,689</b>	<b>\$110,944</b>	<b>\$95,745</b>	<b>\$207,929</b>	<b>\$127,389</b>	<b>\$80,540</b>

During the first quarter of fiscal 2008, Gateway Casinos Income Fund (the "Fund") entered into an agreement with an unrelated third party for the purchase of all outstanding units of the Fund for \$25.26 per unit in cash. The transaction is subject to certain conditions, which are not yet settled, including at least 66 2/3 % of the unitholders tendering to the offer and regulatory approvals. At the same time, Clairvest has entered into agreements in support of the transaction. The acquirer has extended the offer to November 14, 2007.

During the first quarter of fiscal 2008, Gateway Casinos Inc. entered into agreements with an unrelated third party for the purchase of substantially all of its assets, as well as shares of a joint venture entity in which it holds a 50% interest. The transaction is subject to certain conditions which are not yet settled, including regulatory approvals. At the same time, Clairvest has entered into agreements in support of this transaction. The acquirer has extended the offer to November 14, 2007.

During the first quarter of fiscal 2008, Clairvest sold its interest in Datamark Systems Group Inc. ("Datamark") for a combination of \$6.4 million in cash and 1,546,473 shares in a new combined public entity involving Datamark and Komunik Corporation, now operating as Komunik Corporation ("Komunik"). Clairvest's diluted interest in Komunik is 4.54%. The cost assigned to the Komunik shares is the pro-rata portion of the cost on the Datamark shares.

During the second quarter of fiscal 2008, Clairvest funded an additional \$1.8 million to Tsuu T'ina Gaming Limited Partnership.

During the second quarter of fiscal 2008, Clairvest funded an additional \$1.8 million to Wellington Fund III.

During the second quarter of fiscal 2008, Clairvest sold its interest in Winters Bros. Waste Systems, Inc for cash proceeds of \$13.8 million. Subject to the performance of certain covenants, Clairvest may receive additional consideration of up to US\$3.4 million, of which US\$0.5 million (C\$0.5 million) has been received subsequent to quarter end.

## **7. 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 \$0.8 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, 2007.
- (f) \$13.0 million 10-year promissory note from a financial institution, bearing interest at a floating rate. Upon the disposition of certain investments, Clairvest will be required to make principal payments on the note. During the quarter, Clairvest repaid \$9.3 million in accordance with the terms of the note, bringing the principal balance to \$13.0 million. Interest of \$0.2 million was paid during the quarter. Subsequent to quarter end, a further \$10.6 million was repaid in accordance with the terms of the note, bringing the principal balance to \$2.4 million.

## 8. SHARE CAPITAL

During the fourth quarter of fiscal 2007 the Company filed a new normal course issuer bid enabling it to make purchases of up to 795,178 common shares in the 12-month period ending March 5, 2008. During the second quarter of fiscal 2008, the Company made no purchases. In total 2,544,424 common shares at a cost of \$21.9 million have been purchased under this, and previous, normal course issuer bids as of September 30, 2007. An additional 3,165,154 common and non-voting shares have been purchased for cancellation from a financial institution outside of the normal course issuer bid.

15,943,566 common shares were outstanding at September 30, 2007.

## 9. 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 (“Subsidiary”). The Management Agreement provides that a management fee be paid to Clairvest as compensation for its services in the administration of the portfolio of CEP. During fiscal 2007, Clairvest assigned the Management Agreement to 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 less distributions on account of capital and any write-downs of capital invested. The management fee is reduced to the extent of 75% of fees earned by Clairvest from corporate investments of CEP. During the second quarter of fiscal 2008, net management fees were \$0.4 million (2007 – negative \$0.2 million).
- (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 net 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 fiscal 2007, the Company completed closings totalling \$225.0 million 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 75% of fees earned by GP I from corporate investments of CEP III. During the second quarter of fiscal 2008, net priority distributions were \$1.1 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 in note 9(d) below.
- (d) GP II, a limited partnership, the general partner of which is a wholly-owned subsidiary of Clairvest, is entitled to participate in distributions made by CEP III equal to 18% of net gains of CEP III. These distributions to GP II, and GP I as noted in note 9(c) above, 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 \$0.6 million (2007 - \$0.5 million). The share purchase loans bear interest fixed at either 4% or the prime rate on the date of drawdown less 1%, interest is paid annually, and the loans have full recourse and are collateralized by the common shares of the Company purchased by the officers with a market value of \$0.9 million (2007 - \$0.7 million). Also included in accounts receivable and other assets are other loans made to certain officers of a company affiliated with Clairvest totalling \$0.7 million (2007 - \$0.6 million). The loans to officers of a company affiliated with Clairvest bear interest at rates commensurate with prime, and interest is paid quarterly. Loans are repayable upon departure of the officer. Interest of \$13,000 (2007 - \$8,000) was earned from these loans during the second quarter of fiscal 2008. Also included in accounts receivable and other assets are receivables from Clairvest's corporate investments totalling \$1.9 million (2007 - \$2.2 million), from CEP totalling \$0.3 million (2007 - nil), and from CEP III totalling \$2.4 million (2007 - \$0.1 million). Included in accounts payable is nil (2007 - \$0.1 million) owing to CEP and \$0.5 million (2007 - \$0.5 million) owing to corporate investments.
- (f) Net loans totalling \$1.8 million, bearing interest at the prime rate, were made by the Company to CEP during the second quarter of fiscal 2008. Interest of \$31,000 was earned from loans to CEP during the second quarter of fiscal 2008.
- (g) Net loans totalling \$4.6 million, bearing interest at the prime rate, were made by the Company to CEP III during the second quarter of fiscal 2008. Interest of \$54,000 was earned from loans to CEP III during the second quarter of fiscal 2008.
- (h) Loans totalling \$1.0 million, bearing interest at the prime rate, made by the Company to a related party during the first quarter of fiscal 2008 were repaid in full during the quarter. Interest of \$18,000 was earned from loans to this related party during the second quarter of fiscal 2008.
- (i) During the second quarter of fiscal 2008, Clairvest received \$2.2 million (2007 - \$2.4 million) in interest and distributions and \$0.3 million in fee income (2007 - \$1.3 million) from its corporate investments. Also during the first quarter of fiscal 2008, Clairvest paid \$0.5 million (2007 - \$0.6 million) in interest to a Gateway Casinos Inc. entity.

## **10. STOCK-BASED COMPENSATION AND OTHER COMPENSATION PLANS**

No options were issued or exercised during the second quarter of fiscal 2008. At September 30, 2007, a total of 1,262,000 options were outstanding under Clairvest's stock option plan.

As a result of a cash settlement feature in Clairvest's stock option plan, 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, 2007, Clairvest recognized a stock-based compensation expense of \$0.6 million (2006 - negative \$0.3 million).

As at September 30, 2007, a total of 96,863 (2007 - 74,736) Deferred Share Units were held by directors of the Company, the accrual in respect of which was \$1.3 million (2007 - \$0.8 million) and has been included in Accounts Payable.

During the first quarter of fiscal 2008, the Deferred Share Unit Plan was amended to facilitate the issuance of Appreciation Deferred Share Units ("Appreciation DSUs") to the directors of the Company. As at September 30, 2007, 90,000 Appreciation DSUs were held by directors of the Company, the accrual in respect of which was \$0.1 million and has been included in Accounts Payable.

As at September 30, 2007, a total of 456,000 (2007 - 443,250) Book Value Appreciation Rights Units were held by employees of Clairvest and a company affiliated with Clairvest, the accrual in respect of which was \$1.1 million (2007 - \$0.4 million) and has been included in Accounts Payable.

## 11. CONSOLIDATED STATEMENTS OF CASH FLOWS

Net change in non-cash working capital balances related to operations at September 30 is detailed as follows:

	<u>2007</u>	<u>2006</u>
Accounts receivable and other assets	\$ (1,257)	\$ (654)
Accounts payable	(785)	(508)
	<u>\$ (2,042)</u>	<u>\$ (1,162)</u>

Cash and cash equivalents at the balance sheet dates are comprised of the following:

	<u>September 30 2007</u>	<u>March 31 2007</u>
Cash	\$ 735	\$ 3,640
Cash equivalents	36,218	10,341
	<u>\$ 36,953</u>	<u>\$ 13,981</u>

## 12. FINANCIAL INSTRUMENTS

As at September 30, 2007, the Company had entered into foreign exchange forward contracts as hedges against its foreign investments as follows:

Forward contracts to sell US\$11.5 million (2007 – US\$7.2 million) at rates of Canadian \$0.9951 to \$1.0592 per U.S. dollar through March 2008 (average rate of \$1.0184; 2007 - average rate of \$1.0618). The fair value of these contracts at September 30, 2007 is a gain of \$0.3 million (2007 – loss of \$0.3 million) and have been recognized on the balance sheet as derivative instruments market valuation.

## 13. 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, \$5.7 million of which remains unfunded at September 30, 2007. Clairvest may only sell all or a portion of a corporate investment that is a joint investment with CEP if it, as manager of CEP, concurrently sells a proportionate number of securities of that corporate investment held by CEP. Included in the commitment to co-invest with CEP is a \$5.0 million commitment to N-Brook, which is subject to N-Brook management achieving certain targets. Of this commitment, \$4.9 million has been funded to N-Brook at September 30, 2007. Also included in the commitment to co-invest with CEP is a commitment to invest in Tsuu T'ina, the amount of which was increased from \$4.3 million to \$5 million during the quarter. Of this commitment, \$4.6 million has been funded to September 30, 2007.
- (b) Clairvest has also committed to co-invest alongside CEP III in all investments undertaken by CEP III. Clairvest's total co-investment commitment is \$75.0 million, \$69.8 million of which remains unfunded at September 30, 2007. Clairvest may only sell all or a portion of a corporate investment that is a joint investment with CEP III if it, as manager of CEP III, concurrently sells a proportionate number of securities of that corporate investment held by CEP III.
- (c) Clairvest has also committed \$25.0 million to Wellington Fund III, \$10.4 million of which has been funded at September 30, 2007. As a result of the closing of Wellington Fund III, the unfunded capital commitments to Wellington Fund II may no longer be called. At September 30, 2007, net funds invested in Wellington Fund II was \$4.4 million.

- (d) 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.
- (e) Under Clairvest's Incentive Bonus Program, a bonus of 10% of after-tax cash income and realizations on Clairvest's corporate investments would be paid to management as a bonus. If Clairvest were to sell its corporate investments at their current fair values, a bonus of \$8.0 million (2007 - \$5.1 million) would be owing to management under the Incentive Bonus Program. Amounts are accrued under this plan to the extent that the cash income and investment realizations have occurred and the bonus has become payable. Accordingly, the \$8.0 million has not been accrued at September 30, 2007 as no such income and realizations have occurred and the terms of the bonus plan have not yet been fulfilled.
- (f) Wholly-owned subsidiaries of Clairvest together with certain other unit holders (the "unitholders") currently hold approximately 33% of the outstanding units of Gateway Income Fund (the "Fund"). The unitholders have agreed that they will take all necessary steps to collectively maintain a 20% ownership of the issued and outstanding units of the Fund. The unitholders have collectively entered into an agreement to sell the units of the Fund (see note 6).
- (g) During fiscal 2006, Clairvest, together with CEP and Shepell-fgi management, purchased Shepell-fgi. As part of the transaction, Clairvest guaranteed a \$4.6 million note payable by Shepell-fgi to the vendors, as well as interest payable on the note. The note is subject to claims Clairvest and CEP 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, 2007, the guarantee was \$3.2 million. Subsequent to quarter end, the guarantee was reduced to \$1.8 million.
- (h) During fiscal 2006, Clairvest and Clairvest Group International (Netherlands) B.V. ("B.V.") sold their interests in Signature Security Group Holdings Pty Limited ("Signature") and Equity SPV Pty Limited ("SPV") as part of a sale of 100% of Signature and SPV. Subject to a number of conditions, Clairvest and B.V. may be entitled to receive over time up to an additional AUS\$2.1 million (CDN\$1.9 million) being held in escrow. As at September 30, 2007, AUD\$1.3 million (CDN\$1.1 million) has been released from the escrow and taken into income. As part of the transaction, B.V. has indemnified the purchaser for various claims which will reduce over time.
- (i) During fiscal 2007, Clairvest recorded a \$10.0 million impairment charge on loans Clairvest made to an unrelated party as the loans may not be recoverable. The loans were advanced in two tranches of \$5 million in each of December 2005 and May 2006 and were collateralized by treasury bills deposited with a Canadian bank-owned brokerage firm. The loans are currently in default. Any amounts recovered will be taken into income in the period of recovery.
- (j) During fiscal 2007, Clairvest, together with CEP committed to invest in the development of the Tsuu T'ina charitable casino. As part of third party financing of the casino with a Canadian chartered bank, Clairvest has guaranteed certain cost overruns on the project, and any debt servicing shortfalls by Tsuu T'ina which reduce over a period of time. As at September 30, 2007, no amounts subject to this guarantee have been funded by the bank.

#### **14. 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, 2007 consolidated financial statements.