

CLAIRVEST GROUP INC.
NOTICE TO READER
September 30, 2018
(unaudited)

NOTICE TO READER PURSUANT TO NATIONAL INSTRUMENT 51-102 – CONTINUOUS DISCLOSURE OBLIGATIONS

Under National Instrument 51-102 – Continuous Disclosure Obligations, if an auditor has not performed a review of a reporting issuer's interim financial statements, the financial statements must be accompanied by a notice indicating that they have not been reviewed by an auditor.

The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

CLAIRVEST GROUP INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(unaudited)

\$000's	September 30	March 31
	2018	2018
ASSETS		
Cash and cash equivalents (Notes 4, 12, and 15)	\$ 330,761	\$ 95,592
Temporary investments (Notes 4 and 15)	75,475	36,582
Restricted cash (Note 4)	—	15,750
Accounts receivable and other assets (Notes 10(m) and 15)	15,565	28,402
Loans receivable (Note 10(l))	15,712	13,601
Income taxes recoverable	—	394
Deferred income tax asset (Note 10)	4,338	—
Carried interest receivable (Note 10)	66,898	127,900
Corporate investments (Notes 7, 15 and 16)	349,350	515,172
Fixed assets (Notes 8 and 10(o))	7,151	1,496
	\$ 865,250	\$ 834,889
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	\$ 7,597	3,708
Income taxes payable	27,046	5,680
Accrued compensation expense	10,865	11,643
Share-based compensation (Notes 11 and 14(h))	38,570	31,326
Management participation (Note 11)	47,436	91,267
Deferred income tax liability (Note 10)	5,325	23,944
	136,839	167,568
Contingencies, commitments and guarantees (Note 14)		
Shareholders' Equity		
Share capital (Note 9)	81,355	81,388
Retained earnings	647,056	585,933
	728,411	667,321
	\$ 865,250	\$ 834,889

(see accompanying notes to interim condensed consolidated financial statements)

CLAIRVEST GROUP INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

\$000's (except per share information)	Quarter ended September 30		Six months ended September 30	
	2018	2017	2018	2017
REVENUE				
Net investment gain (loss) (Notes 5 and 7)	\$ (193,317)	\$ 43,622	\$ (132,919)	\$ 20,458
Distributions and interest income (Notes 4, 7 and 10)	216,678	4,695	220,758	21,161
Net carried interest income (Notes 6 and 10)	2,170	14,708	25,765	16,998
Dividend income (Notes 10(e) and 10(h))	271	—	533	—
Management fees (Note 10(n))	318	324	654	646
Advisory and other fees	233	155	800	410
	26,353	63,504	115,591	59,673
EXPENSES				
Employee compensation and benefits (Notes 11 and 14(h))	3,003	3,253	6,175	5,594
Share-based compensation expenses (Note 11)	3,529	121	9,735	4,866
Administration and other expenses	1,437	1,000	2,903	2,070
Finance and foreign exchange expenses (Note 3)	304	279	469	489
Management participation (Note 10)	2,263	10,916	17,679	12,574
	10,536	15,569	36,961	25,593
Income before income taxes	15,817	47,935	78,630	34,080
Income tax expense	2,444	5,326	10,602	3,031
Net income and comprehensive income for the period	13,373	42,609	68,028	31,049
Basic and fully diluted net income and comprehensive income per share	\$ 0.88	\$ 2.80	\$ 4.48	\$ 2.04

(see accompanying notes to interim condensed consolidated financial statements)

CLAIRVEST GROUP INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

\$000's	Share capital	Retained earnings	Total shareholders' equity
As at April 1, 2018	\$ 81,388	\$ 585,933	\$ 667,321
Changes in shareholders' equity			
Net income and comprehensive income for the period		<u>68,028</u>	<u>68,028</u>
		653,961	735,349
Dividends declared (\$0.4401 per share)		(6,671)	(6,671)
Purchase and cancellation of shares (Note 9)	(33)	(234)	(267)
As at September 30, 2018	\$ 81,355	\$ 647,056	\$ 728,411
As at April 1, 2017	\$ 81,554	\$ 468,650	\$ 550,204
Changes in shareholders' equity			
Net income and comprehensive income for the period		<u>31,049</u>	<u>31,049</u>
		499,699	581,253
Dividends declared (\$0.3621 per share)		(5,502)	(5,502)
Purchase and cancellation of shares (Note 9)	(13)	(74)	(87)
As at September 30, 2017	\$ 81,541	\$ 494,123	\$ 575,664

(see accompanying notes to interim condensed consolidated financial statements)

CLAIRVEST GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

\$000's	Quarter ended		Six months ended	
	September 30		September 30	
	2018	2017	2018	2017
OPERATING ACTIVITIES				
Net income and comprehensive income for the period	\$ 13,373	\$ 42,609	\$ 68,028	\$ 31,049
Add (deduct) items not involving a current cash outlay:				
Amortization and impairment of fixed assets	142	101	285	202
Share-based compensation	4,919	1,284	11,410	6,317
Deferred income tax expense (recovery)	(25,854)	4,157	(22,957)	(4,284)
Net investment (gain) loss	193,317	(43,622)	132,919	(20,458)
Unrealized carried interest income and management participation	20,954	(3,693)	17,171	1,645
Non-cash items relating to foreign exchange forward contracts	8	(48)	8	(94)
Non-cash items relating to corporate investments	(414)	—	(656)	—
	<u>206,445</u>	<u>788</u>	<u>206,208</u>	<u>14,377</u>
Adjustments for:				
Net cost on acquisition of temporary investments	(37,798)	(4,790)	(38,893)	(5,048)
Net loan repaid (advanced) (Note 10(l))	1,786	10,450	(2,111)	(1,250)
Proceeds from (cost of) settlement of realized foreign exchange forward contracts	(8)	167	(8)	204
Decrease (increase) in restricted cash	—	(15,750)	15,750	(15,750)
Investments made in investee companies or acquisition entities	—	(3,442)	(4,000)	(37,709)
Return of capital from investee companies or acquisition entities	18,316	25,659	37,559	25,741
Settlement of share-based compensation liability	(4,166)	(9,042)	(4,166)	(9,042)
	<u>(21,870)</u>	<u>3,252</u>	<u>4,131</u>	<u>(42,854)</u>
Net change in non-cash working capital balances related to operations (Note 12)	<u>38,443</u>	<u>(2,251)</u>	<u>37,708</u>	<u>(2,145)</u>
Cash provided by (used in) operating activities	<u>223,018</u>	<u>1,789</u>	<u>248,047</u>	<u>(30,622)</u>
INVESTING ACTIVITIES				
Purchase of fixed assets, net of disposals	(5,928)	(80)	(5,940)	(773)
Cash used in investing activities	<u>(5,928)</u>	<u>(80)</u>	<u>(5,940)</u>	<u>(773)</u>
FINANCING ACTIVITIES				
Cash dividends paid	(6,671)	(5,502)	(6,671)	(5,502)
Purchase and cancellation of common shares	(48)	(87)	(267)	(87)
Cash used in financing activities	<u>(6,719)</u>	<u>(5,589)</u>	<u>(6,938)</u>	<u>(5,589)</u>
Net increase (decrease) in cash and cash equivalents	210,371	(3,880)	235,169	(36,984)
Cash and cash equivalents, beginning of period	120,390	73,101	95,592	106,205
Cash and cash equivalents, end of period (Note 12)	<u>\$ 330,761</u>	<u>\$ 69,221</u>	<u>\$ 330,761</u>	<u>\$ 69,221</u>
Supplemental cash flow information				
Interest received	\$ 2,424	\$ 1,226	\$ 4,035	\$ 1,649
Distributions received (Notes 7, 10(e), and 10(f))	\$ 311,413	\$ 3,150	\$ 316,878	\$ 21,658
Income taxes paid	\$ 5,200	\$ 5,046	\$ 11,199	\$ 5,165
Interest paid	\$ 174	\$ 9	\$ 347	\$ 347

CLAIRVEST GROUP INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018 (Tabular Dollar Amounts in Thousands)
(unaudited)

1. NATURE OF OPERATIONS

Clairvest Group Inc. (“Clairvest” or the “Company”) is a private equity management firm that specializes in partnering with management team and other stakeholders of both emerging and established companies. The company’s shares are traded on the Toronto Stock Exchange (“TSX”) under symbol CVG. The Company, which operates in only one business segment, actively seeks to form mutually beneficial investments with entrepreneurial corporations. Clairvest invests its own capital, and that of third parties, through Clairvest Equity Partners III Limited Partnership (“CEP III”), Clairvest Equity Partners IV Limited Partnership (“CEP IV”), Clairvest Equity Partners IV-A Limited Partnership (“CEP IV-A”), Clairvest Equity Partners V Limited Partnership (“CEP V”), CEP V HI India Investment Limited Partnership (“CEP V India”) and Clairvest Equity Partners V-A Limited Partnership (“CEP V-A”) (together, the “CEP Funds”) in a small number of carefully selected companies that have the potential to generate superior returns. Clairvest contributes financing and strategic expertise to support the growth and development of its investees in order to create realizable value for all shareholders. Clairvest is incorporated under the laws of the Province of Ontario.

The Company’s head office is located at 22 St. Clair Avenue East, Suite 1700, Toronto, Ontario, Canada, M4T 2S3.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The unaudited interim condensed consolidated financial statements (“financial statements”) of Clairvest are prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including International Accounting Standard 34, “*Interim Financial Reporting*” (“IAS 34”).

Effective April 1, 2018, the Company has adopted IFRS 9, *Financial Instruments* (“IFRS 9”) replacing IAS 39 *Financial Instruments* (“IAS 39”). IFRS 9 provides a new approach for the classification of financial assets, which shall be based on the cash flow characteristics of the asset and the business model of the portfolio in which the asset is held.

Upon transition to IFRS 9, the Company’s financial assets and financial liabilities were classified as fair value through profit or loss (“FVTPL”). This classification differs from the classification under the previous IAS 39, *Financial Instruments: Recognition and Measurement*, therefore there were changes in categorization of certain financial assets and financial liabilities upon transition to IFRS 9. Effective April 1, 2018, all financial assets that had previously been designated as FVTPL and all financial assets and liabilities that were previously classified as financial assets and financial liabilities at amortized cost were reclassified as FVTPL. Derivative assets and derivative liabilities that were previously considered as held-for-trading financial instruments and were classified as FVTPL remain unchanged upon transition to IFRS 9. There were no changes in the measurement attributes for any of the financial assets and financial liabilities upon transition to IFRS 9.

Effective April 1, 2018, the Company has adopted IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”). IFRS 15 replaces prior guidance, including IAS 18 *Revenue*. IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. IFRS 15 has presented a change to the accounting policy relating to carried interest in that the Company is required to assess, prior to accrual, the extent to which it is highly probable that there will not be a significant reversal in future periods. There were no significant transition adjustments as a result of the adoption of IFRS 15.

The Company has consistently applied the same accounting policies throughout all periods presented in these unaudited interim condensed consolidated financial statements, as if these policies had always been in effect.

The accounting policies applied in these unaudited interim condensed consolidated financial statements are based on IFRS as issued by the International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee, all issued and effective as at November 13, 2018, the date the Board of Directors authorized the issuance of these unaudited interim

condensed consolidated financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending March 31, 2019 could result in restatement of these unaudited interim condensed consolidated financial statements.

The disclosures contained in these unaudited interim condensed consolidated financial statements include, in general, only significant changes and transactions occurring since the Company's last year-end and are not fully inclusive of all disclosure requirements of International Financial Reporting Standards for annual financial statements. As a result, the unaudited interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements prepared in accordance with IFRS as at and for the year ended March 31, 2018.

The comparative figures indicated in the notes to the unaudited interim condensed consolidated financial statements are as of September 30, 2017 unless otherwise indicated.

The unaudited interim condensed consolidated financial statements have been presented on a historical cost basis, except for certain financial instruments that have been measured at fair value. The unaudited interim condensed consolidated financial statements have been prepared on a going concern basis and are presented in Canadian dollars, which is the functional currency of the Company, and all values are rounded to the nearest thousand dollars (\$000's), except where otherwise indicated.

Basis of consolidation

These consolidated financial statements have been prepared in accordance with IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), as issued by the IASB and include the accounts of the Company and its consolidated subsidiaries. As discussed under critical accounting estimates and judgments, the Company has determined it meets the definition of an investment entity.

(I) Consolidated subsidiaries

In accordance with IFRS 10, subsidiaries are those entities that provide investment-related services and that the Company controls by having the power to govern the financial and operating policies of these entities. Such entities would include those which earn priority distributions or management fees and carried interest from the CEP Funds. All intercompany amounts and transactions amongst these consolidated entities have been eliminated upon consolidation. The existence and effect of potential voting rights that are currently exercisable and shareholder agreements are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Corporation and are subsequently deconsolidated from the consolidated financial statements on the date that control ceases.

The following entities, which are significant in nature, provide investment-related services on behalf of the Company.

- Clairvest GP Manageco Inc.
- Clairvest GP (GPLP) Inc.
- CEP MIP GP Corporation
- Clairvest USA Limited
- Clairvest General Partner Limited Partnership
- Clairvest General Partner III Limited Partnership ("Clairvest GP III LP")
- Clairvest General Partner IV Limited Partnership ("Clairvest GP IV LP")
- Clairvest General Partner V Limited Partnership (Clairvest GP V LP")

(II) Interests in unconsolidated subsidiaries ("acquisition entities")

In accordance with the amendments for investment entities under IFRS 10, interests in subsidiaries other than those that provide investment-related services are accounted for at fair value through profit or loss rather than consolidating them. As discussed under critical accounting estimates and judgments, management exercised judgement when determining whether subsidiaries are investment entities.

The following entities, which are significant in nature, are controlled by Clairvest either directly or indirectly and are used as acquisition entities of the Company. These entities' principal place of business is in Canada.

- 2141788 Ontario Corporation ("2141788 Ontario")
- 2486303 Ontario Inc. ("2486303 Ontario")
- CEP III Co-Investment Limited Partnership ("CEP III Co-Invest")

MIP III Limited Partnership (“MIP III”)
CEP IV Co-Investment Limited Partnership (“CEP IV Co-Invest”)
MIP IV Limited Partnership (“MIP IV”)
CEP V Co-Investment Limited Partnership (“CEP V Co-Invest”)
MIP V Limited Partnership (“MIP V”)

The Company may also use intermediate subsidiaries whose sole purpose is to hold investments for the Company and therefore not included in the listing above.

(III) Interests in the CEP Funds

Clairvest manages and invests alongside the CEP Funds, which meet the definition of structured entities under IFRS. Clairvest provides loans to and earns priority distributions or management fees and carried interest from the CEP Funds, which are further described in *note 10*. The Company concluded that its ownership interest in the CEP Funds do not meet the definition of control under IFRS. Accordingly, the financial positions and operating results of the CEP Funds and other funds it manages for certain co-investors are not included in Clairvest's consolidated financial statements.

Significant accounting policies, new standards, interpretations and amendments

The following condensed discussion of significant accounting policies, new standards, interpretations and amendments should be read in conjunction with the disclosures presented in the audited consolidated financial statements for the year ended March 31, 2018. The Company has consistently applied the following accounting policies throughout all periods presented in these unaudited interim condensed consolidated financial statements, as if these policies had always been in effect.

(a) Classification and recognition of financial instruments

In accordance with IFRS 9, *Financial Instruments*, financial assets and financial liabilities are classified at initial recognition at fair value through profit or loss (“FVTPL”).

Financial instruments classified as FVTPL would include cash equivalents, temporary investments, accounts receivable, loans receivable, derivative instruments, corporate investments, accounts payable and accrued liabilities and loans payable. Cash equivalents, temporary investments, derivative instruments and corporate investments are classified at initial recognition at FVTPL on the basis that they are part of a group of financial assets that are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Company. The Company does not apply hedge accounting to its derivative instruments. Accounts receivable and loans receivable would include balances relating to its acquisition entities, indirect investee companies (“investee companies”) and the CEP Funds as well as other short-term receivables. These receivable balances, absent of any significant financing components, represent short-term financing arrangements transacted at their approximate fair value. The Company intends to settle its accounts payable, accrued liabilities and loans payable in the short-term and in the absence of any financing components, these balances are considered to be transacted at their approximate fair value.

(b) Temporary investments and corporate investments

The Company carries its temporary investment and its corporate investments at fair value. When a financial instrument is initially recognized, its fair value is generally the value of consideration paid or received. Acquisition costs relating to corporate investments are not included as part of the cost of the investment. Subsequent to initial recognition, the fair value of an investment quoted on an active market is generally the closing bid price on the principal exchange on which the investment is traded. Investments that are escrowed or otherwise restricted as to sale or transfer are recorded at a value which takes into account the escrow terms or other restrictions. In determining the fair value for such investments, the Company considers the nature and length of the restriction, business risk of the investee company, its stage of development, market potential, relative trading volume and price volatility and any other factors that may be relevant to the ongoing and realizable value of the investments. The amounts at which Clairvest's publicly traded investments could be disposed of may differ from this fair value and the differences could be material. Differences could arise as the value at which significant ownership positions are sold is often different than the quoted market price due to a variety of factors such as premiums paid for large blocks or discounts due to illiquidity. Estimated costs of disposition are not included in the fair value determination.

In the absence of an active market, the fair values are determined by management using the appropriate valuation methodologies after considering the history and nature of the business, operating results and financial conditions, the general economic, industry and market conditions, capital market and transaction market conditions, contractual rights relating to the investment, public market comparables, private company transactions multiples and, where applicable, other pertinent considerations. The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had an active market existed. The amounts at which Clairvest's privately held investments could be disposed of may differ from the fair value assigned and the differences could be material. Estimated costs of disposition are not included in the fair value determination.

In determining the fair value of public company warrants the underlying security of which is traded on a recognized securities exchange, if there are sufficient and reliable observable market inputs, including exercise price and term of the warrants; interest rate; current market price; expected dividends; and volatility of the underlying security, a valuation technique is used. If market inputs are insufficient or unreliable, the warrants are valued at intrinsic value, which is equal to the higher of the closing bid price of the underlying security, less the exercise price of the warrant, or nil. For private company warrants, the underlying security of which is not traded on a recognized securities exchange, the fair value is determined consistently with other investments which do not have an active market as described above.

(c) Income recognition

Realized gains or losses on disposition of corporate investments and change in unrealized gains or losses in the value of corporate investments are calculated based on weighted average cost and are included in net investment gain in the consolidated statements of comprehensive income. Management fees and advisory and other fees are recorded as income on an accrual basis when earned. Distributions and interest income are recognized on an accrual basis and dividend income is recognized on the ex-dividend date. Carried interest include amounts receivable from the CEP Funds. Each CEP Fund is separately reviewed at the consolidated statement of financial position date and an accrual for carried interest is made when the performance conditions are achieved in accordance with IFRS 15 based on the assumption that the remaining underlying investments are realized at their estimated fair values. The fair value of the underlying investments is determined consistently with the Company's valuation methodology and is measured at the consolidated statement of financial position date. Carried interest is accrued only in the event that any significant reversal during a future period is highly improbable.

(d) Stock-based compensation plans

The Company's stock option plans allow for cash settlement of stock options. As the economics to choose cash or shares as settlement is the same for all holders, compensation expense is recognized over the applicable vesting period and a corresponding liability is recorded based on the fair value of the outstanding stock options at the consolidated statements of financial position dates. Fair value is measured by use of an appropriate option-pricing model. On the exercise of stock options for shares, the liability recorded with respect to the options and consideration paid by the employees is credited to share capital. On the exercise of stock options for cash, the liability recorded is reduced and any difference between the liability accrued and the amount paid is charged to share-based compensation expense.

(e) Entitlements of partners of a limited partnership

The Company consolidates acquisition entities which includes various limited partnerships as described in *note 2(I)* and the entitlements of partners of these limited partnerships that are external to the consolidated group of the Company are recorded as a liability and an expense of the Company. Accordingly, that portion of the carried interest from the CEP Funds which are ultimately paid to the limited partners of MIP III, MIP IV and MIP V which are external to the consolidated group are recorded as a management participation liability and a management participation expense on the unaudited interim condensed consolidated financial statements.

(f) Critical accounting estimates, assumptions and judgments

The preparation of the unaudited interim condensed consolidated financial statements in conformity with IFRS required management to make estimates, assumptions and judgments that affect the reported amounts. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates could materially differ from the related actual results. The following estimates,

assumptions and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal quarter:

Determination of investment entity

Judgement is required when making the determination that the Company or its various subsidiaries meet the definition of an investment entity under IFRS. In accordance with IFRS 10, an investment entity is an entity that: “obtains funds from one or more investors for the purpose of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis.” In addition, IFRS 10 clarifies that an investment entity may earn fee income from the provision of investment-related services to external parties. The Company has historically invested alongside third-party capital in the CEP Funds that it manages. In determining its status as an investment entity, the Company has determined that fair value is the primary measurement attribute used to monitor and evaluate its investments.

Fair value of financial instruments

Certain financial instruments are recorded in the Company’s consolidated statements of financial position at values that are representative of or approximate fair value. The fair value of a financial instrument that is traded in active markets at each reporting date is determined by reference to its quoted market price or dealer price quotations. The fair values of certain other financial instruments are determined using valuation techniques. By their nature, these valuation techniques require the use of estimates and assumptions. Changes in the underlying estimates and assumptions could materially impact the determination of the fair value of a financial instrument. Imprecision in determining fair value using valuation techniques may affect net investment gain reported in a particular period.

The Company assesses, at each reporting date, whether there is any objective evidence to revise the fair values of its financial instruments. The assessment of the fair value of a financial instrument requires significant judgment, where management evaluates, among other factors, the financial health and business outlook of their investees. Fair value information is presented in *note 16*.

Recognition of carried interest and corresponding expenses

The determination of the Company’s unrealized carried interest receivable recorded on the consolidated statements of financial position is based on the fair values of the financial instruments held by the CEP Funds. As discussed previously, fair values of certain financial instruments are determined using valuation techniques which by their nature involve the use of estimates and assumptions. Changes in the underlying estimates and assumptions could materially impact the determination of the fair value of these financial instruments. Imprecision in determining fair value using valuation techniques may affect the calculation of unrealized carried interest receivable and the resulting accrued liabilities for future payouts relating to these unrealized carried interest receivable at the statement of financial position dates.

Income taxes

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. Judgment is required in determining whether deferred income tax assets should be recognized on the consolidated statements of financial position. Deferred income tax assets are recognized to the extent that the Company believes it is probable that the deferred income tax asset will be realized. Furthermore, deferred income tax balances are recorded using enacted or substantively enacted future income tax rates. Changes in enacted income tax rates are not within the control of management. However, any such changes in income tax rates may result in actual income tax amounts that differ significantly from estimates recorded in deferred income tax balances.

3. CREDIT FACILITIES

Clairvest maintains a \$100.0 million revolving credit facility which is participated in by several Schedule 1 Canadian chartered banks. The credit facility, which had an expiry of December 2022 and is eligible for a one-year extension on each anniversary of the closing date, bears interest at the bank prime rate plus 1.25% per annum on drawn amounts and a standby fee of 0.70% per annum on undrawn amounts. During the second quarter of fiscal 2019, the credit facility was

extended to December 2023 under the same terms and conditions. A renewal fee of \$75 thousand was paid during the quarter. No amounts had been drawn on the facility during the quarter and as at September 30, 2018. The amount available under the credit facility as at September 30, 2018 was \$100.0 million.

4. CASH, CASH EQUIVALENTS, TEMPORARY INVESTMENTS AND RESTRICTED CASH

Cash equivalents consist of deposits in investment and money market savings accounts which have maturities of less than 90 days from the date of acquisition. As at September 30, 2018, the yield for cash and cash equivalents ranged between 1.0% and 2.2% (March 2018 – between 0.9% and 2.0%) per annum with a weighted average rate of pre-tax return of 1.9% (March 2018 – 1.6%) per annum.

Temporary investments consist of guaranteed investment certificates, corporate bonds, and other securities as permitted by the Company’s treasury policy which have maturities greater than 90 days from the date of acquisition and through to July 2020. As at September 30, 2018, the yield on these investments ranged between 1.8% and 9.5% (March 2018 – between 1.5% and 9.2%) per annum with a weighted average rate of pre-tax return of 3.6% (March 2018 – 3.8%) per annum. The composition of Clairvest’s temporary investments was as follows:

	September 30, 2018			March 31, 2018
	Due in 1 year or less	Due after 1 year	Total	Total
Guaranteed investment certificates	\$ 44,065	\$ 607	\$ 44,672	\$ 19,277
Corporate Bonds	—	5,940	5,940	—
Other fixed income securities	5,770	19,093	24,863	17,305
Total	\$ 49,835	\$ 25,640	\$ 75,475	\$ 36,582

Additionally, Clairvest’s acquisition entities held \$27.8 million (March 2018 – \$25.9 million) in cash and cash equivalents and \$16.0 million (March 2018 – \$10.9 million) in temporary investments as described in *note 7*.

5. NET INVESTMENT GAIN (LOSS)

Net investment gain (loss) for the quarters and six months ended September 30, 2018 and 2017 comprised entirely of net changes in unrealized gain (loss) on corporate investments as described in *note 7*.

6. NET CARRIED INTEREST INCOME

Net carried interest income for the quarters and six months ended September 30 comprised the following:

\$000’s	Quarter ended September 30		Six months ended September 30	
	2018	2017	2018	2017
Realized carried interest income (Note 10)	82,370	100	86,767	16,480
Net changes in unrealized carried interest (Note 10)	(80,200)	14,608	(61,002)	518
	2,170	14,708	25,765	16,998

Carried interest receivable is further described in *note 10(j)*.

7. CORPORATE INVESTMENTS

In accordance with IFRS 10, the fair value of the Company’s corporate investments includes the fair value of the net assets of its acquisition entities which are controlled by the Company. Accordingly, Clairvest’s direct corporate investments comprise these acquisition entities, which invest directly or indirectly in various investee companies and other investee companies where Clairvest invested directly.

The following table details the fair value of Clairvest’s direct investments and acquisition entities which are controlled by Clairvest but which are not part of the consolidated group:

	September 30 2018			March 31, 2018		
	Investee companies	Acquisition entity net assets (liabilities)	Total	Investee companies	Acquisition entity net assets (liabilities)	Total
\$000's						
Held directly by Clairvest Group Inc.	27,521	—	27,521	27,325	—	27,325
Held through the following acquisition entities						
2141788 Ontario	52,867	31,366	84,233	51,473	25,886	77,359
2486303 Ontario	7,615	(8,550)	(935)	8,499	(9,253)	(754)
CEP III Co-Invest	21,978	1,977	23,955	22,308	(1,313)	20,995
MIP III	880	(19)	861	893	(12)	881
CEP IV Co-Invest	121,685	501	122,186	314,634	(7,120)	307,514
MIP IV	1,844	(5)	1,839	4,768	(53)	4,715
CEP V Co-Invest	90,138	(3,656)	86,482	75,709	(1,398)	74,311
MIP V	3,283	(75)	3,208	2,896	(70)	2,826
Total	327,811	21,539	349,350	508,505	6,667	515,172

2141788 Ontario, a limited partner of CEP III Co-Invest and CEP V Co-Invest, is a wholly owned acquisition entity of Clairvest. 2486303 Ontario is a wholly owned acquisition entity of Clairvest, which together with Clairvest holds a 100% interest in Clairvest Equity Partners Limited Partnership (“CEP”). CEP was an investment fund held by third-party investors until December 2015. Clairvest’s relationship with CEP III Co-Invest and MIP III, CEP IV Co-Invest and MIP IV, and CEP V Co-Invest and MIP V are described in *notes 10(c), 10(f) and 10(i)*.

During the second quarter of fiscal 2019, CEP IV Co-Invest received total cash proceeds of \$232.4 million as a result of the sale of Centaur Gaming and the partial sale of Top Aces common shares as described below. Subsequently, CEP IV Co-Invest repaid loans owing to Clairvest and 2141788 Ontario totalling \$1.3 million and \$0.7 million respectively and made distributions of \$208.6 million to Clairvest and \$3.2 million to MIP IV respectively. CEP IV Co-Invest also declared distributions totaling \$19.2 million to the general partner, \$0.4 million of which was ultimately received by Clairvest and the remaining \$18.8 million of which was ultimately received by the limited partners of MIP IV as described in *note 10(f)*. Also during the second quarter of fiscal 2019, CEP V Co-Invest received total cash proceeds of \$12.4 million as a result of a financing completed by Digital Media Solutions, LLC (“Digital Media Solutions”) as described below. Subsequently, CEP V Co-Invest repaid loans owing to Clairvest and 2141788 Ontario totalling \$5.0 million and \$6.1 million respectively. As a result of these distributions from its acquisition entities, Clairvest recorded a net investment loss of \$211.8 million in regard to the fair value of these acquisition entities and corresponding distributions during the second quarter of fiscal 2019.

The following table details the assets and liabilities included in the determination of the fair value of the net assets of acquisition entities excluding the investee companies held by these acquisition entities.

\$000's	September 30 2018	March 31 2018
Assets		
Cash and cash equivalents	27,794	25,945
Temporary investments	16,006	10,942
Accounts receivable and other assets	1,924	1,657
Loans receivable	393	—
Income taxes recoverable	127	63
Derivative instruments	2,299	168
Deferred income tax asset	314	142
	48,857	38,917
Liabilities		
Accounts payable and accrued liabilities	2,588	2,293
Loans payable	14,987	12,656
Income taxes payable	459	967
Derivative instruments	936	8,241
Deferred income tax liability	8,348	8,093
	27,318	32,250
Net assets	21,539	6,667

Excluding the net assets from acquisition entities summarized in the table above, the difference between the fair value and the cost of the Company's investment in its investee companies are summarized below.

\$000's	September 30, 2018			March 31, 2018		
	Fair value	Cost	Difference	Fair value	Cost	Difference
Investments made by CEP III Co-Invest alongside CEP III						
Chilean Gaming Holdings ⁽¹⁾	59,220	28,754	30,466	60,113	28,754	31,359
Investments made by CEP IV Co-Invest alongside CEP IV						
Centaur Gaming	6,937	—	6,937	192,394	34,657	157,737
County Waste of Virginia, LLC	16,904	11,314	5,590	19,776	11,314	8,462
Davenport Land Investments ⁽²⁾	3,089	2,196	893	3,018	2,196	822
Discovery Air / Top Aces	45,997	60,037	(14,040)	44,926	55,522	(10,596)
Impero Waste Services, LLC	566	3,019	(2,453)	4,100	3,019	1,081
MAG Aerospace ⁽³⁾	—	—	—	21,164	5,068	16,096
New Meadowlands Racetrack, LLC	10,803	6,444	4,359	10,237	6,444	3,793
Rivers Casino	39,233	9,058	30,175	23,787	9,058	14,729
Investments made by CEP V Co-Invest alongside CEP V						
Accel Entertainment Inc.	31,289	15,978	15,311	27,258	15,978	11,280
Ace2Three	48,961	55,968	(7,007)	40,228	55,968	(15,740)
Also Energy, Inc.	11,487	11,285	202	6,189	6,038	151
Digital Media Solutions, LLC	2,864	995	1,869	9,126	8,254	872
GTA Gaming	8,972	8,972	—	602	602	—
Winters Bros. Waste Systems of Long Island Holdings, LLC	6,353	10,636	(4,283)	9,764	10,636	(872)
Grey Eagle Casino	10,154	11,017	(863)	11,331	11,017	314
Wellington Financial	2,486	—	2,486	3,626	—	3,626
	305,315	235,673	69,642	487,639	264,525	223,114
Other investments ⁽⁴⁾	22,496	625	21,871	20,866	788	20,078
	327,811	236,298	91,513	508,505	265,313	243,192

(1) Comprised Clairvest's indirect investment in Casino Marina del Sol, Casino Osorno and Casino Sol Calama

(2) Comprised two entities which hold real estate surrounding a casino in Davenport, Iowa ("Davenport North" and "Davenport South")

(3) Realized during the first quarter of fiscal 2019

(4) Comprised primarily 199,458 CIBC common shares (March 2018 – 194,876) received on the sale of Wellington Financial. The common shares are restricted for sale until January 2021

During the second quarter of fiscal 2019, the aggregate fair value of Clairvest's investee companies decreased by \$224.9 million, comprised primarily divestures which had an aggregate fair value of \$230.4 million as at June 30, 2018, \$8.4 million loss in foreign exchange revaluation, a \$7.1 million return of capital from Digital Media Solutions, net of \$13.5 million in net changes in unrealized gains in investee companies, \$5.2 million in follow-on investments, and \$2.3 million in interest accrued on debt investments, and. The cost and fair value of investee companies do not reflect foreign exchange gains or losses on these foreign exchange forward contracts (refer to *note 13*). For those investments

which were hedged by acquisition entities, the fair value of these foreign exchange forward contracts was included in the net assets (liabilities) of these acquisition entities. Details of significant events of the investee companies, other than with respect to valuation changes and foreign exchange adjustments, are described below.

During the second quarter of fiscal 2019, CEP IV Co-Invest realized on its investment in Centaur Gaming and received cash proceeds totalling US\$166.8 million (C\$219.4 million) and is entitled to deferred consideration of up to US\$8.4 million over the next three years. Based on the cash proceeds received to date, CEP IV Co-Invest's investment in Centaur Gaming resulted in a \$169.4 million realized gain, \$0.5 million of which was recorded during the second quarter of fiscal 2019. The carrying value of Centaur Gaming as at September 30, 2018 represented the risk adjusted present value of the deferred consideration.

During the second quarter of fiscal 2019, CEP IV Co-Invest and Co-Investors of Discovery Air Inc, (collectively, the "Discovery Air Investor Group"), through 10671541 Canada Inc. ("Northco") which is owned proportionately by the Discovery Air Investor Group, purchased all remaining assets of Discovery Air Inc. ("Discovery Air"). The consideration of the purchase included the assumption of the Convertible Debentures of Discovery Air Inc., which had an accrued value of \$71.0 million as at the date of the transaction, \$70.0 million of which remained as convertible debentures of Northco and \$1.0 million was converted into common shares of Northco. The convertible debentures of Northco has a stated interest of 10% per annum and an annual fee of 2% payable quarterly and a maturity date of January 31, 2019. Subsequently, Clairvest and CEP IV Co-Invest collectively, realized its investment in 24,332,907 common shares of Discovery Air Inc. which had a carrying value of nil and an original cost of \$8.4 million as at June 30, 2018. As at September 30, 2018, CEP IV Co-Invest held \$22.0 million convertible debentures of Northco at a carrying value of \$0.3 million, the carrying value of which represented the interest received subsequent to quarter end, and 3,149 common shares of Northco representing a 31.5% ownership interest in Northco on a fully diluted basis at a carrying value of nil.

Also during the second quarter of fiscal 2019, CEP IV Co-Invest sold 158.5 common shares of Top Aces to third party institutional investors at the same price it purchased these shares from Discovery Air Inc. during the first quarter of fiscal 2019. Total cash proceeds on the transaction was \$13.0 million compared to a carrying value of these shares of \$11.0 million which was calculated on an average cost basis. As at September 30, 2018, CEP IV Co-Invest held 660.3 common shares of Top Aces representing a 25.3% ownership interest on a fully diluted basis.

During the second quarter of fiscal 2019, CEP IV Co-Invest received net escrow proceeds of \$0.2 million from MAG Aerospace which was realized during the first quarter of fiscal 2019. Based on the cash proceeds received to date, CEP IV Co-Invest's investment in MAG Aerospace resulted in a \$33.6 million realized gain, \$0.2 million of which was recorded during the second quarter of fiscal 2019.

During the second quarter of fiscal 2019, CEP V Co-Invest advanced US\$4.1 million (C\$5.2 million) to Also Energy Inc. ("Also Energy") in the form of a promissory note. The promissory note accrues interest at 10% per annum and has a maturity date of March 20, 2019. Interest of \$14 thousand was earned from the promissory note during the quarter. As at September 30, 2018 CEP V Co-Invest also held 1,013,062 Series A preferred stock of Also Energy representing an 11.9% ownership interest on a fully diluted basis.

During the second quarter of fiscal 2019, Digital Media Solutions completed a financing and made a distribution to its owners. CEP V Co-Invest received total distributions of US\$9.4 million (C\$12.4 million) which was recorded as a return of capital of US\$5.4 million (C\$7.1 million) and US\$4.0 million (C\$5.3 million) as distributions which reduced the net unrealized gains for the quarter. Additionally, Digital Media Solutions made regular quarterly distributions totalling US\$0.2 million (C\$0.2 million) to CEP V Co-Invest. To September 30, 2018, Digital Media Solutions had made US\$10.8 million (C\$14.2 million) in total distributions to CEP V Co-Invest, compared to the original cost of investment of US\$6.2 million (C\$8.3 million).

8. FIXED ASSETS

The composition of Clairvest's fixed assets was as follows:

\$000's	Aircraft ⁽¹⁾	IT equipment	Furniture, fixtures and equipment	Leasehold improvements	Total
As at September 30, 2018					
Cost	9,528	16	295	708	10,547
Accumulated amortization	(2,893)	(13)	(216)	(274)	(3,396)
Net book amount	6,635	3	79	434	7,151
As at March 31, 2018					
Cost	3,603	16	280	708	4,607
Accumulated amortization	(2,715)	(11)	(203)	(182)	(3,111)
Net book amount	888	5	77	526	1,496

⁽¹⁾ A corresponding payable equal to 50% of the net book value of the aircrafts had been recorded to reflect the ownership interest of the related parties

9. SHARE CAPITAL

The Company has a normal course issuer bid (“NCIB”) outstanding enabling it to make purchases of up to 760,677 common shares in the 12-month period ending March 6, 2019. During the second quarter of fiscal 2019, the Company purchased and cancelled 1,000 common shares under this normal course issuer bid for an aggregate cost of \$48 thousand.

At September 30, 2018, 15,156,895 (March 2018 – 15,157,895) common shares were outstanding. Subsequent to quarter end, an additional 4,700 common shares were purchased and cancelled under the NCIB for \$0.2 million.

The Board of Directors of the Company had authorized the creation of Non-Voting Series 2 Shares (“Non-Voting Shares”) which have a two times preference over the common shares. The Non-Voting Shares were authorized as part of the stock option program as described in *note 11*. No Non-Voting Shares had been issued as at September 30, 2018.

10. RELATED PARTY TRANSACTIONS

- (a) The general partner of CEP, an entity which is controlled by Clairvest, is entitled to participate in distributions made by CEP equal to 20% of all net gains (a “20% carried interest”) of CEP as governed by its limited partnership agreement. 10% of the carried interest was allocated to Clairvest and the remaining 10% was allocated to principals and employees of Clairvest until December 21, 2015, when 2486303 Ontario purchased the 10% carried interest from principals and employees of Clairvest for \$1.2 million. On January 1, 2018, 2486303 Ontario purchased substantially all of the remaining 10% carried interest from Clairvest for \$0.9 million. During the second quarter of fiscal 2019, the general partner of CEP earned \$0.2 million (2018 – \$0.1 million) in carried interest from CEP.
- (b) As general partner of CEP III, Clairvest is entitled to a priority distribution from CEP III. Effective January 13, 2011, the priority distribution is calculated monthly as 0.1667% of invested capital net of write-downs of capital then invested. The priority distribution received by Clairvest is reduced to the extent of 75% of fees earned by Clairvest from corporate investments of CEP III and other amounts as provided in the Limited Partnership Agreement. During the second quarter of fiscal 2019, Clairvest received priority distributions of \$0.1 million (2018 – \$0.1 million) from CEP III.

Clairvest GP III is entitled to a 20% carried interest in respect of CEP III as governed by its limited partnership agreement. 10% of the carried interest is allocated to Clairvest and the remaining 10% is allocated to MIP III, the general partner of which is Clairvest and the limited partners of which are principals and employees of Clairvest. The limited partners of MIP III have purchased, at fair market value, units of the MIP III. From time to time, additional units in MIP III may be purchased by the limited partners of MIP III. As at September 30, 2018, CEP III had declared carried interest to Clairvest GP III LP totalling \$56.1 million (March 2018 – \$56.1 million), 50% of which, or \$28.1 million (March 2018 – \$28.1 million), was ultimately received by Clairvest and the other 50%, or \$28.1 million (March 2018 – \$28.1 million), was ultimately received by the limited partners of MIP III.

- (c) As described in *note 14(a)*, Clairvest is required to co-invest alongside CEP III in all investments undertaken by CEP III. CEP III Co-Invest was established in fiscal 2007 as the investment vehicle for this purpose. CEP III Co-Invest has three limited partners, Clairvest, 2141788 Ontario and MIP III. MIP III had invested \$1.1 million in CEP III Co-Invest and in addition is entitled to an 8.25% carried interest in respect of CEP III Co-Invest via the general partner of CEP III Co-Invest, an entity controlled by Clairvest. Clairvest is entitled to the first \$0.2 million

in carried interest received by MIP III, and the remaining carried interest is the entitlement of the limited partners of MIP III. As at September 30, 2018, CEP III Co-Invest had declared carried interest to MIP III totalling \$7.4 million (March 2018 – \$7.4 million), \$0.2 million of which was received by Clairvest and \$7.2 million was received by the limited partners of MIP III.

Clairvest, as the general partner of MIP III, is also entitled to participate in distributions equal to the realizable value on the \$1.1 million invested by MIP III in CEP III Co-Invest. As at September 30, 2018, \$2.3 million (March 2018 – \$2.3 million) had been received by Clairvest.

- (d) As general partner of CEP IV, Clairvest is entitled to a priority distribution from CEP IV. Effective January 14, 2016, the priority distribution is calculated monthly as 0.1667% of invested capital net of write-downs of capital then invested. The priority distribution received by Clairvest is reduced to the extent of 63.2% of any fees earned by Clairvest from corporate investments of CEP IV and other amounts as provided in the Limited Partnership Agreement. During the second quarter of fiscal 2019, Clairvest received priority distributions of \$0.4 million (2018 – \$0.7 million) from CEP IV.

Clairvest GP IV LP is entitled to a 20% carried interest in respect of CEP IV as governed by its limited partnership agreement. 10% of the carried interest is allocated to Clairvest and the remaining 10% is allocated to MIP IV, the general partner of which is Clairvest and the limited partners of which are principals and employees of Clairvest. The limited partners of MIP IV have purchased, at fair market value, units of the MIP IV. From time to time, additional units in MIP IV may be purchased by the limited partners of MIP IV. During the second quarter of fiscal 2019, CEP IV declared carried interest of \$73.1 million to Clairvest GP IV LP, 50% of which, or \$36.5 million was ultimately received by Clairvest, and the other 50%, or \$36.5 million was ultimately received by the limited partners of MIP IV, which reduced the management participation liability. During the second quarter of fiscal 2019, \$21.5 million (March 2018 – nil) of the carried interest declared by CEP IV was ultimately received by key management. As at September 30, 2018, CEP IV had declared carried interest to Clairvest GP IV LP totalling \$73.1 million (March 2018 – nil), 50% of which, or \$36.5 million, was ultimately received by Clairvest and the other 50%, or \$36.5 million, was ultimately received by the limited partners of MIP IV.

- (e) As manager of CEP IV-A, Clairvest is entitled to a management fee from CEP IV-A. Effective January 14, 2016, the management fee is calculated monthly as 0.1667% of invested capital net of write-downs of capital then invested. The management fee is reduced to the extent of 10.1% of fees earned by Clairvest from corporate investments of CEP IV-A and other amounts as provided in the Limited Partnership Agreement. During the second quarter of fiscal 2019, Clairvest earned management fees of \$0.1 million (2018 – \$0.1 million) as compensation for its services of the portfolio of CEP IV-A.

Clairvest GP IV LP is entitled to a 20% carried interest in respect of CEP IV-A as governed by its limited partnership agreement. 10% of the carried interest is allocated to Clairvest and the remaining 10% is allocated to MIP IV. During the second quarter of fiscal 2019, CEP IV-A declared carried interest of \$9.2 million to CEP IV-A GP, 50% of which, or \$4.6 million was ultimately received by Clairvest, and the other 50%, or 4.6 million was received by the limited Partners of MIP IV, which reduced the management participation liability. During the second quarter of fiscal 2019, \$4.0 million (March 2018 – nil) of the carried interest declared by CEP IV-A was ultimately received by key management. As at September 30, 2018, CEP IV-A had declared carried interest to Clairvest GP IV LP totalling \$13.5 million (March 2018 – nil), 50% of which, or \$6.7 million was ultimately received by Clairvest and the other 50%, or \$6.7 million was ultimately received by the limited partners of MIP IV.

- (f) As described in *note 14(b)*, Clairvest is required to co-invest alongside CEP IV and CEP IV-A in all investments undertaken by CEP IV and CEP IV-A. CEP IV Co-Invest was established in fiscal 2010 as the investment vehicle for this purpose. CEP IV Co-Invest has two limited partners, Clairvest and MIP IV. MIP IV had invested \$1.6 million in CEP IV Co-Invest and in addition is entitled to an 8.25% carried interest in respect of CEP IV Co-Invest via the general partner of CEP IV Co-Invest, an entity controlled by Clairvest. Clairvest is entitled to the first \$0.4 million in carried interest received by MIP IV, and the remaining carried interest is the entitlement of the limited partners of MIP IV. During the second quarter of fiscal 2019, CEP IV Co-Invest declared \$19.0 million (2018 – nil) to MIP IV with respect to this carried interest entitlement, \$0.4 million of which was received by Clairvest and \$18.6 million was received by the limited partners of MIP IV, which reduced the management participation liability. During the second quarter of fiscal 2019, \$10.9 million (March 2018 – nil) was ultimately received by key management. As at September 30, 2018, CEP IV Co-Invest had declared carried

interest to MIP IV totalling \$19.0 million (March 2018 – nil), \$0.4 million of which was received by Clairvest and \$18.6 million was received by the limited partners of MIP IV.

Clairvest, as general partner of MIP IV, is also entitled to participate in distributions equal to the realizable value on the \$1.6 million invested by MIP IV in CEP IV Co-Invest. During the second quarter of fiscal 2019, \$3.6 million was distributed to Clairvest by MIP IV. As at September 30, 2018, \$5.1 million (March 2018 – \$1.3 million) had been received by Clairvest.

- (g) As general partner of CEP V, Clairvest is entitled to a priority distribution from CEP V. The priority distribution is calculated monthly as follows: from January 14, 2016 to January 13, 2021, 0.1667% of committed capital, and thereafter, 0.1667% of invested capital net of write-downs of capital then invested. The priority distribution received by Clairvest is reduced to the extent of 58.8% of any fees earned by Clairvest from corporate investments of CEP V and other amounts as provided in the Limited Partnership Agreement. During the second quarter of fiscal 2019, Clairvest received priority distributions of \$1.3 million (2018 – \$1.5 million).

In April 2017, CEP V India was formed to facilitate investment in Ace2Three by certain limited partners of CEP V as governed by the CEP V limited partnership agreement. As general partner of CEP V India, Clairvest is entitled to a priority distribution from CEP V India. The priority distribution is calculated monthly as follows: from May 1, 2017 to January 13, 2021, 0.1667% of committed capital, and thereafter, 0.1667% of invested capital net of write-downs of capital then invested. The priority distribution received by Clairvest is reduced to the extent of 58.8% of any fees earned by Clairvest from corporate investments of CEP V India and other amounts provided in the Limited Partnership Agreement. During the second quarter of fiscal 2019, Clairvest received priority distributions of \$0.2 million (2018 – \$0.1 million) from CEP V India.

Clairvest GP V LP is entitled to a 20% carried interest in respect of CEP V and CEP V India as governed by the limited partnership agreements. 10% of the carried interest is allocated to Clairvest and the remaining 10% is allocated to MIP V, the general partner of which is Clairvest and the limited partners of which are principals and employees of Clairvest. The limited partners of MIP V have purchased, at fair market value, units of the MIP V. From time to time, additional units in MIP V may be purchased by the limited partners of MIP V. No carried interest had been declared by CEP V and CEP V India to Clairvest GP V LP as at September 30, 2018 and March 31, 2018.

- (h) As manager of CEP V-A, Clairvest is entitled to a management fee from CEP V-A. The management fee is calculated monthly as follows: from January 14, 2016 to January 13, 2021, 0.1667% of committed capital, and thereafter, 0.1667% of invested capital net of write-downs of capital then invested. The management fee is reduced to the extent of 11.2% of fees earned by Clairvest from corporate investments of CEP V-A and other amounts as provided in the Limited Partnership Agreement. During the second quarter of fiscal 2019, Clairvest earned management fees of \$0.2 million (2018 – \$0.2 million) as compensation for its services of the portfolio of CEP V-A.

Clairvest GP V LP is entitled to a 20% carried interest in respect of CEP V-A as governed by its limited partnership agreement. 10% of the carried interest is allocated to Clairvest and the remaining 10% is allocated to MIP V. No carried interest had been declared by CEP V-A to Clairvest GP V LP as at September 30, 2018 and March 31, 2018.

- (i) As described in *note 14(c)*, Clairvest is required to co-invest alongside CEP V and CEP V-A in all investments undertaken by CEP V, CEP V India and CEP V-A. CEP V Co-Invest was established in fiscal 2015 as an investment vehicle for this purpose. CEP V Co-Invest has three limited partners, Clairvest, 2141788 Ontario and MIP V. MIP V has committed to invest \$2.4 million in CEP V Co-Invest and in addition is entitled to an 8.25% carried interest in respect of CEP V Co-Invest via the general partner of CEP V Co-Invest, an entity controlled by Clairvest. Clairvest is entitled to the first \$1.4 million in carried interest received by MIP V, and the remaining carried interest is the entitlement of the limited partners of MIP V. No carried interest had been declared by CEP V Co-Invest to MIP V as at September 30, 2018 and March 31, 2018.

Clairvest, as the general partner of MIP V, is also entitled to participate in distributions equal to the realizable value on the \$2.4 million invested by MIP V in CEP V Co-Invest. No amounts have been received by Clairvest as at September 30, 2018 and March 31, 2018.

- (j) As described in *note 2(e)*, Clairvest had recorded carried interest receivable on the consolidated statements of financial position as at September 30, 2018 based on the fair value of the investments made by CEP and the CEP Funds, as follows:

\$000's	September 30	March 31
	2018	2018
CEP ⁽¹⁾	1,716	1,812
CEP III	11,349	11,044
CEP IV	46,370	97,796
CEP IV-A	7,463	17,248
CEP V	—	—
CEP V-A	—	—
	66,898	127,900

⁽¹⁾ A corresponding \$1.7 million payable to 2486303 Ontario had been recorded to reflect the carried interest entitled by 2486303 Ontario as described in note 10(a)

- (k) If the CEP Funds were to sell all their corporate investments, CEP III Co-Invest, CEP IV Co-Invest and CEP V Co-Invest (the “CEP Co-Invest Partnerships”) would be required to sell all their corporate investments at their current fair values and as such, MIP III, MIP IV and MIP V would receive carried interest based on the terms previously described. The following details the carried interest entitlements from the CEP Funds and the CEP Co-Invest Partnerships that will be ultimately received by non-Clairvest participants. As described in *note 2(e)*, Clairvest had recorded these as management participation liability on the consolidated statements of financial position.

\$000's	September 30	March 31
	2018	2018
CEP III	5,674	5,522
CEP IV	23,185	48,898
CEP IV-A	3,732	8,624
CEP V	—	—
CEP V-A	—	—
	32,591	63,044
CEP III Co-Invest ⁽¹⁾	4,614	4,464
CEP IV Co-Invest ⁽¹⁾	10,231	23,759
CEP V Co-Invest ⁽¹⁾	—	—
	47,436	91,267

⁽¹⁾ Represent the entitlements of the limited partners of MIP III, MIP IV and MIP V respectively as described in notes 10(c), 10(f) and 10(i)

- (l) Changes to loans receivable for the quarter ended September 30, 2018 were as follows:

\$000's	July 1	Net Loans advanced	September 30
	2018	(repaid)	2018
CEP III ⁽¹⁾	1,665	(940)	725
CEP IV ⁽²⁾	—	—	—
CEP III Co-Invest ⁽³⁾	1,400	(900)	500
CEP IV Co-Invest ⁽³⁾	—	335	335
CEP V Co-Invest ⁽³⁾	4,965	282	5,247
2486303 Ontario ⁽⁴⁾	9,468	(563)	8,905
Loans receivable	17,498	(1,786)	15,712

(1) Loans advanced to CEP III bear interest at the Prime Rate in accordance with the Limited Partnership Agreement. Interest of \$13 thousand (2018 – nil) was earned from loans advanced to CEP III during the second quarter of fiscal 2019

(2) Loans advanced to CEP IV bear interest at the Reference Rate in accordance with the Limited Partnership Agreement. Interest of \$18 thousand (2018 – \$48 thousand) was earned from loans advanced to CEP IV during the second quarter of fiscal 2019

(3) Loans advanced to these acquisition entities are non-interest bearing

(4) Loans advanced to 2486303 Ontario bear interest at 10.0% per annum. Interest of \$0.2 million (2018 – \$0.2 million) was earned from these loans during the second quarter of fiscal 2019

- (m) Accounts receivable and other assets comprised the following:

\$000's	September 30	March 31
	2018	2018
Clairvest's investee companies	878	1,436
CEP III	363	—
CEP IV	1,170	736
CEP IV-A	169	55
CEP V	2,236	17,074
CEP V India	484	118
CEP V-A	3,890	3,250
	9,190	22,669
Other accounts receivable and prepaid expenses	2,951	2,465
Share purchase loans	3,424	3,268
	15,565	28,402

Share purchase loans to employees of the Company totalling \$3.4 million bear interest which is paid annually, have full recourse and are collateralized by the common shares of the Company purchased by employees with a market value of \$6.5 million (March 2018 – \$6.5 million). None of these loans were made to key management. Interest of \$16 thousand (2018 – \$17 thousand) was earned on the loans during the second quarter of fiscal 2019.

Additionally, acquisition entities which were not consolidated by the Company as described in *note 7* held receivables from CEP IV totalling \$0.2 million (March 2018 – \$0.1 million), from CEP V totalling \$23 thousand (March 2018 – \$17 thousand), from CEP V-A totalling \$4 thousand (March 2018 – \$3 thousand) and from Clairvest's investee companies totalling \$1.6 million (March 2018 – \$1.5 million).

- (n) During the second quarter of fiscal 2019, Clairvest earned \$0.3 million (2018 – \$1.1 million) in distributions and interest income, \$0.3 million in dividends (2018 – nil), and \$0.2 million (2018 – \$0.2 million) in advisory and other fees from its investee companies. Additionally, acquisition entities which were not consolidated by the Company as described in *note 7* earned \$8.4 million (2018 – \$2.2 million) in distributions and interest income, \$0.3 million (2018 – \$0.2 million) in dividend income and \$0.2 million (2018 – \$0.1 million) in advisory and other fees from its investee companies.
- (o) Clairvest and a related party of Clairvest, through a limited partnership, purchased an aircraft that is available for use by both parties. Clairvest and the related party each hold a 50% limited partnership interest. As Clairvest, through a wholly-owned subsidiary, is the general partner of the limited partnership, Clairvest had recognized 100% of the net book value of the aircraft and a liability for the 50% ownership held by the related party. The cost of the aircraft had been included in fixed assets and the liability in accounts payable and accrued liabilities.

11. SHARE-BASED COMPENSATION AND OTHER COMPENSATION PLANS

In June 2016, the Company adopted a new stock option plan (the “Non-Voting Option Plan”). Options granted under the Non-Voting Option Plan are exercisable for Non-Voting Shares as described in *note 9*. As at September 30, 2018, 421,669 options had been granted under this plan since its inception. The Non-Voting Option Plan has a cash settlement feature. Options granted under this plan vest at a rate of one-fifth of the grant at the end of each year over a five-year period. As at September 30, 2018, 412,091 options were outstanding, 111,269 options of which had vested.

Clairvest recognizes stock-based compensation expense based upon the fair value of the outstanding stock options as at September 30, 2018 using the Black-Scholes option pricing model with the following assumptions:

As at September 30, 2018

Grant date	June 30, 2018	June 30, 2017	June 30, 2016
# of options granted	49,487	168,829	203,353
# of options exercised	—	—	1,916
# of options forfeited	—	—	7,662
# of options vested	—	33,763	77,506
Option price ⁽¹⁾	93.34	71.22	55.80
Black-Scholes assumptions used			
Expected volatility	10 %	10 %	10 %
Expected forfeiture rate	5 %	5 %	5 %
Expected dividend yield	1.00 %	1.00 %	1.00 %
Risk-free interest rate	2.77 %	2.74 %	2.68 %
Expected life (years)	4.75	3.75	2.75
Liability using Black-Scholes (\$'000s)⁽²⁾	73	2,393	5,794

⁽¹⁾ Based on two times the 5-day weighted average closing price of Clairvest common shares at date of grant and is adjusted for any special dividends paid by the Company.

⁽²⁾ Share price for a Clairvest common share as at June 30, 2018 was \$48.00 (TSX: CVG).

As at September 30, 2018, \$8.3 million (March 2018 – \$5.4 million) had been accrued under the Company’s Non-Voting Option Plan. During the second quarter of fiscal 2019, Clairvest recognized a stock-based compensation expense of \$1.3 million (2018 – \$0.4 million).

In June 2016, the Board of Directors of the Company approved an Employee Deferred Share Units (“EDSU”) Plan. The EDSU Plan provides, among other things, that participants may elect to receive all or a portion of their annual bonus amounts that would otherwise be payable in cash in the form of EDSUs. EDSUs may be redeemed for cash or for common shares of the Company in accordance with the terms of the plan. Clairvest is required to reserve one common share for each EDSU issued under the EDSU Plan. The maximum number of Clairvest common shares reserved for the EDSU Plan is 200,000 which represented approximately 1.3% of the outstanding number of common shares as at September 30, 2018. During the second quarter of fiscal 2019, 27,893 EDSUs were issued to eligible participants at an average cost of \$48.04 per unit. As at September 30, 2018, 78,449 EDSUs (March 2018 – 50,556 EDSUs) had been issued based on the terms and conditions of the EDSU Plan. Accordingly, an accrual of \$3.8 million (March 2018 – \$2.3 million) had been included in share-based compensation liability. During the second quarter of fiscal 2019, Clairvest recognized an expense of \$0.1 million (2018 – recovery of \$9 thousand) with respect to EDSUs.

As at September 30, 2018, a total of 595,948 (March 2018 – 684,920) Book Value Appreciation Rights Units (“BVARs”) were held by employees of Clairvest, the accrual in respect of which was \$9.9 million (March 2018 – \$8.7 million) and had been included in share-based compensation liability, and a further \$4.6 million (March 2018 – \$6.3 million) not accrued as those BVARs had not vested. During the second quarter of fiscal 2019, Clairvest recognized an expense of \$1.6 million (2018 – recovery of \$0.4 million) with respect to BVARs.

Compensation paid and payable to key management

In addition to the directors, key management at Clairvest are the Chief Executive Officer (“CEO”), the Vice Chairman and the President. The CEO and the President are entitled to annual discretionary cash bonuses of up to 175% of their individual annual salary based on individual performance. The Vice Chairman is entitled to annual discretionary cash bonuses of up to 100% of annual salary based on individual performance. There is also an annual objective cash bonus which is based on Clairvest’s Incentive Bonus Program as described in *note 14(h)*, the Non-Voting Option Plan, the BVAR plan and the EDSU plan. Aggregate compensation paid to the CEO, the Vice Chairman, and the President for the quarters ended September 30 were as follows:

\$000’s	Quarter ended September 30		Six months ended September 30	
	2018	2017 ⁽¹⁾	2018	2017 ⁽¹⁾
Paid:				
Salaries	209	163	418	326
Annual incentive plans ⁽²⁾	925	708	1,089	851
Book value appreciation rights	1,821	3,687	1,821	3,687
	2,955	4,558	3,328	4,864

⁽¹⁾ Aggregate compensation paid excludes amounts paid to the President, a role created effective January 1, 2018.

⁽²⁾ Includes quarterly payments from annual discretionary cash bonuses of up to 21.875% of their respective annual base salary.

Compensation payable to the CEO, the Vice-Chairman, and the President at the statement of financial position dates were as follows:

\$000's	September 30	March 31
	2018	2018
Payable:		
Annual incentive plans	4,898	4,849
Stock options	2,812	1,803
Book value appreciation rights	5,277	4,350
Employee deferred share units	1,077	755
	14,064	11,757

As at September 30, 2018, a total of 255,484 (March 2018 – 255,484) DSUs were held by directors of the Company, the accrual in respect of which was \$12.9 million (March 2018 – \$11.6 million) and had been included in share-based compensation liability. For the quarter ended September 30, 2018, Clairvest recognized an expense of \$0.4 million with respect to DSUs.

As at September 30, 2018, a total of 105,000 (March 2018 – 105,000) ADSUs were held by directors of the Company, the accrual in respect of which was \$3.7 million (March 2018 – \$3.3 million) and had been included in share-based compensation liability. For the quarter ended September 30, 2018, Clairvest recognized an expense of \$0.1 million with respect to ADSUs.

As at September 30, 2018, compensation payable to the directors of Clairvest included \$0.9 million (March 2018 – \$0.6 million) under the Non-Voting Option Plan.

12. CONSOLIDATED STATEMENTS OF CASH FLOWS

Net change in non-cash working capital balances related to operations for the quarters ended September 30 are detailed as follows:

\$000's	2018	2017
Accounts receivable and other assets	13,989	1,826
Income taxes recoverable	394	(80)
Accounts payable and accrued liabilities	4,169	982
Income taxes payable	22,088	(3,777)
Accrued compensation expense	(2,197)	(1,202)
	38,443	(2,251)

Cash and cash equivalents at the statement of financial position dates comprised the following:

\$000's	September 30	March 31
	2018	2018
Cash	309,764	93,893
Cash equivalents	20,997	1,699
	330,761	95,592

13. DERIVATIVE INSTRUMENTS

The Company and its acquisition entities enter into foreign exchange forward contracts as economic hedges against the fair value of its foreign-denominated investments and loans in accordance with its foreign exchange hedging policy. During the quarter, Clairvest paid \$8 thousand (2018 – proceeds of \$0.2 million) to settle realized foreign exchange forward contracts. In addition, acquisition entities of Clairvest paid \$4.0 million (2018 – proceeds of \$2.6 million) to settle realized foreign exchange forward contracts during the quarter.

As at September 30, 2018, there were no foreign exchange forward contracts entered into by Clairvest.

As at September 30, 2018, acquisition entities of Clairvest had entered into foreign exchange forward contracts as hedged against its foreign-denominated investments as follows:

Foreign exchange forward contracts to sell US\$89.2 million (March 2018 – US\$246.8 million) at an average rate of Canadian \$1.2770 per U.S. dollar (March 2018 – \$1.2622) through to August 2019. The fair value of the forward contracts as at September 30, 2018 was a loss of \$1.2 million (March 2018 – \$6.3 million).

Foreign exchange forward contracts to sell CLP\$15.5 billion (March 2018 – CLP\$15.5 billion) at an average rate of Canadian \$0.002098 per Chilean Peso (March 2018 – \$0.002098) through to April 2019. The fair value of the forward contracts as at September 30, 2018 was a gain of \$2.3 million (March 2018 – loss of \$1.8 million).

Foreign exchange forward contracts to sell INR₹1.0 billion (March 2018 – nil) at an average rate of Canadian \$0.017866 per Indian Rupee (March 2018 – nil) through to June 2019. The fair value of the forward contracts as at September 30, 2018 was a gain of \$0.3 million (March 2018 – nil).

The fair value of these foreign exchange forward contracts held by acquisition entities has been included in the fair value of these acquisition entities on the consolidated statements of financial position.

14. CONTINGENCIES, COMMITMENTS AND GUARANTEES

- (a) CEP III Co-Invest has committed to co-invest alongside CEP III in all investments undertaken by CEP III. CEP III Co-Invest's co-investment commitment is \$75.0 million, \$15.2 million (March 2018 – \$15.2 million) of which remained unfunded as at September 30, 2018. In accordance with the co-investment agreement, the proportion of the commitment amongst Clairvest, 2141788 Ontario and MIP III is at their own discretion. CEP III Co-Invest may only sell all or a portion of a corporate investment that is a joint investment with CEP III if it concurrently sells a proportionate number of securities of that corporate investment held by CEP III.
- (b) CEP IV Co-Invest has committed to co-invest alongside CEP IV and CEP IV-A in all investments undertaken by CEP IV and CEP IV-A. CEP IV Co-Invest's co-investment commitment is \$125.0 million, \$21.2 million (March 2018 – \$21.2 million) of which remained unfunded as at September 30, 2018. In accordance with the co-investment agreement, the proportion of the commitment between Clairvest and MIP IV is at their own discretion. CEP IV Co-Invest may only sell all or a portion of a corporate investment that is a joint investment with CEP IV and CEP IV-A if it concurrently sells a proportionate number of securities of that corporate investment held by CEP IV and CEP IV-A.
- (c) CEP V Co-Invest has committed to co-invest alongside CEP V, CEP V India and CEP V-A in all investments undertaken by CEP V, CEP V India and CEP V-A. CEP V Co-Invest's co-investment commitment is \$180 million, \$99.6 million (March 2018 – \$103.6 million) of which remained unfunded as at September 30, 2018. In accordance with the co-investment agreement, the proportion of the commitment amongst Clairvest, 2141788 Ontario and MIP V is at their own discretion. CEP V Co-Invest may only sell all or a portion of a corporate investment that is a joint investment with CEP V, CEP V India and CEP V-A if it concurrently sells a proportionate number of securities of that corporate investment held by CEP V, CEP V India and CEP V-A.
- (d) Clairvest has committed \$25.2 million to Wellington Fund IV (March 2018 – \$25.2 million), all of which was unfunded as at September 30, 2018 and March 31, 2018. As specified in the Limited Partnership Agreement, upon the closing of Wellington Fund V, Wellington Fund IV may no longer invest in new investments.
- (e) Clairvest has also committed \$30.3 million to Wellington Fund V (March 2018 – \$30.3 million), all of which was unfunded as at September 30, 2018 and March 31, 2018. Wellington Fund V may no longer invest in new investments.
- (f) Under Clairvest's Incentive Bonus Program, a bonus of 10% of after-tax cash income and realizations on certain Clairvest's corporate investments would be paid to management annually as applicable (the "Realized Amount"). As at September 30, 2018, the Realized Amount under the Bonus Program was \$3.8 million (March 2018 – \$0.7 million) and had been accrued under accrued compensation expense liability. In accordance with IFRS, Clairvest is also required to record a liability equal to a bonus of 10% of the after-tax cash income and realizations which are applicable but which have yet to be realized. Accordingly, Clairvest also recorded a \$5.2 million (March 2018 – \$7.8 million) accrued compensation expense liability which would only be payable to management when the corresponding realization events have occurred. The Bonus Program does not apply to the

income generated from investments made by Clairvest through CEP III Co-Invest, CEP IV Co-Invest and CEP V Co-Invest.

- (g) In conjunction with the sale of Casino New Brunswick, Clairvest has agreed to a net guarantee of \$2.0 million to fund any valid claims made by the purchaser under the indemnity provisions of the sale for a specified period of time. Any funding pursuant to the guarantee will be allocated 25% to CEP III Co-Invest and 75% to CEP III. As at September 30, 2018 and March 31, 2018, no claims had been made and no amounts with respect to this guarantee had been funded.
- (h) As part of the holding structure of Chilean Gaming Holdings, an acquisition entity of CEP III Co-Invest had loans totalling \$41.9 million (March 2018 – \$41.9 million) as at September 30, 2018 from an unrelated financial institution, while another acquisition entity of CEP III Co-Invest held term deposits totalling \$41.9 million (March 2018 – \$41.9 million) as at September 30, 2018 with the same financial institution as security for these loans. CEP III Co-Invest’s ownership of both acquisition entities was 36.8% as at September 30, 2018 and March 31, 2018.
- (i) As at September 30, 2018, the Company had future minimum annual lease payments under non-cancellable operating leases for the use of office space of \$0.5 million (March 2018 – \$0.5 million) due within one year, \$2.1 million due after one year but not more than five years (March 2018 – \$2.1 million) and \$1.5 million due after five years (March 2018 – \$1.8 million).
- (j) In connection with its normal business operations, the Company is from time to time named as a defendant in actions for damages and costs allegedly sustained by plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, the Company does not believe that it will incur any material loss in connection with such actions.

15. RISK MANAGEMENT

The private equity investment business involves accepting risk for potential return, and is therefore affected by a number of risk factors.

Fair Value Risk

Fair value risk includes exposure to fluctuations in the fair market value of the Company’s investments as described in *note 16*.

The Company’s corporate investment portfolio was diversified across 15 companies in 6 industries and 4 countries as at September 30, 2018. Concentration risk by industry and by country, was as follows:

(\$'000s)	September 30, 2018					March 31, 2018				
	Canada	United States	Chile	India	Total	Canada	United States	Chile	India	Total
Defence services	45,997	—	—	—	45,997	44,926	21,164	—	—	66,090
Financial services	23,020	—	—	—	23,020	23,804	—	—	—	23,804
Gaming	19,126	88,262	59,220	48,961	215,569	11,933	253,676	60,113	40,228	365,950
Marketing services	—	2,864	—	—	2,864	—	9,126	—	—	9,126
Renewable Energy	—	11,487	—	—	11,487	—	6,189	—	—	6,189
Waste management	—	23,823	—	—	23,823	—	33,640	—	—	33,640
Other investments	1,962	3,089	—	—	5,051	688	3,018	—	—	3,706
Total	90,105	129,525	59,220	48,961	327,811	81,351	326,813	60,113	40,228	508,505

The Company has considered current economic events and indicators in the valuation of its investee companies.

Interest Rate Risk

Fluctuations in interest rates affect the Company’s income derived from its cash, cash equivalents, temporary investments and restricted cash (“treasury funds”). For financial instruments which yield a floating interest rate, the income received is directly impacted by the prevailing interest rate. The fair value of financial instruments which yield a fixed interest rate would change when there is a change in the prevailing market interest rate. The Company manages interest rate risk on its

treasury funds by conducting activities in accordance with the fixed income securities policy that is approved by the Audit Committee. Management's application of these policies is regularly monitored by the Audit Committee.

As at September 30, 2018, \$379.3 million of its treasury funds were held in cash or fixed income securities which generated a floating yield. If interest rates were higher or lower by 1% per annum, the potential effect would have been an increase or decrease of \$1.0 million to distributions and interest income on a pre-tax basis for the quarter ended September 30, 2018.

Certain of the Company's corporate investments are also held in the form of debentures and loans. Significant fluctuations in market interest rates can have a significant impact on the carrying value of these investments as described in *note 16*.

Currency Risk

The Company has implemented a hedging strategy because it has, directly and indirectly, several investments outside of Canada, currently in the United States, Chile and India. The Company also advances loans to investee companies which may be denominated in foreign currency. In order to limit its exposure to changes in the value of foreign-denominated currencies relative to the Canadian dollar, Clairvest and its acquisition entities enter hedging positions against these foreign-denominated currencies. As at September 30, 2018, the Company had net foreign exchange exposure to the CLP totalling \$18.6 million (March 2018 – \$17.5 million) and the INR totalling \$30.6 million (March 2018 – \$40.2 million). For the quarter ended September 30, 2018, the Company's acquisition entity had foreign exchange losses of \$0.8 million on the CLP and \$3.0 million on the INR, the amount of which have been included as a reduction to net investment gain for the quarter.

A number of investee companies are subject to foreign exchange risk. A significant change in foreign exchange rates can have a significant impact on the profitability of these entities and in turn the Company's fair value of these corporate investments. The Company manages this risk through oversight responsibilities with existing investee companies and by reviewing the financial condition of investee companies regularly.

Credit risk

Credit risk is the risk of a financial loss occurring as a result of default of a counterparty on its obligations to the Company. For the quarter ended September 30, 2018, there were no material income effects on changes of credit risk on financial assets. The carrying values of financial assets subject to credit exposure as at September 30 and March 31, 2018, net of any allowances for losses, were as follows:

	September 30, 2018			March 31, 2018		
	Clairvest	Acquisition entities	Total	Clairvest	Acquisition entities	Total
Financial Assets						
Cash and cash equivalents	\$ 330,761	27,794	358,555	\$ 95,592	25,945	121,537
Temporary investments	75,475	16,006	91,481	36,582	10,942	47,524
Restricted cash	—	—	—	15,750	—	15,750
Accounts receivable ⁽¹⁾	13,146	1,924	15,070	26,223	1,657	27,880
Loans receivable ⁽²⁾	725	393	1,118	945	—	945
Derivative instruments	—	2,299	2,299	—	168	168
Corporate investments ⁽³⁾	—	41,060	41,060	—	60,036	60,036
	\$ 420,107	89,476	509,583	\$ 175,092	98,748	273,840

⁽¹⁾ Excludes prepaid expenses and receivables from acquisition entities

⁽²⁾ Excludes loans receivable from acquisition entities

⁽³⁾ Excludes net assets (liabilities) from acquisition entities

The Company manages credit risk on corporate investments through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and oversight responsibilities with existing investee companies and by conducting activities in accordance with investment policies that are approved by the Board of Directors. Management's application of these policies is regularly monitored by the Board of Directors. Management and the Board of Directors review the financial condition of investee companies regularly.

The Company is also subject to credit risk on its accounts receivables and loan receivables, a significant portion of which are with its investee companies and its CEP Funds. The Company manages this risk through its oversight responsibilities with existing investee companies, by reviewing the financial condition of investee companies regularly, and through its

fiduciary duty as Manager of the CEP Funds and by maintaining sufficient uncalled capital for the CEP Funds to settle obligations as they come due.

The Company manages counterparty credit risk on derivative instruments by only contracting with counterparties which are Schedule 1 Canadian chartered banks. As at September 30, 2018, the Company's acquisition entities held derivative instruments which had net mark-to-market gains totalling \$1.4 million (March 2018 – losses totalling \$8.1 million). The Company believes the counterparty risk with respect to its and its acquisition entities' derivative instruments is minimal.

The Company manages credit risk on treasury funds by conducting activities in accordance with the fixed income securities policy which is approved by the Audit Committee. The Company also manages credit risk by contracting with counterparties which are Schedule 1 Canadian chartered banks or through investment firms where Clairvest's funds are segregated and held in trust for Clairvest's benefit. Management's application of these policies is regularly monitored by the Audit Committee. Management and the Audit Committee review credit quality of cash equivalents and temporary investments regularly. The credit ratings of the Company's treasury funds, based on the Dominion Bond Rating Services rating scale, with the exception of corporate bonds and loans which are based on the Standard and Poor's rating scale, were as follows:

(\$'000s)	September 30 2018	March 31 2018
Cash and restricted cash	309,764	109,643
Money market savings accounts		
R1-High	306	759
Guaranteed investment certificates and investment savings accounts		
AA	53,954	14,988
A+ ⁽¹⁾	101	—
A	10,094	5,026
A- ⁽¹⁾	507	203
BB+ ⁽¹⁾	101	—
BB- ⁽¹⁾	101	—
BBB- ⁽¹⁾	202	—
Not rated ⁽¹⁾	303	—
Corporate Bonds		
A+	2,961	—
A	2,979	—
Other fixed income securities		
Not rated	24,863	17,305
Total cash, cash equivalents and temporary investments	406,236	147,924

⁽¹⁾ Principal protected by the Canada Deposit Insurance Corporation.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Financial obligations arising from off-statement of financial position arrangements are described in *note 14*. Accounts payable, loans payable, and derivative instruments have maturities of less than one year. Management participation liability, share-based compensation liability, and amounts accrued under the Bonus Program are only due upon cash realization or completion of the respective vesting periods. Total unfunded commitments to co-invest alongside the CEP Funds, as described in *note 14* were \$136.0 million as at September 30, 2018 (March 2018 – \$140.0 million). The timing of any amounts to be funded under these commitments is dependent upon the timing of investment acquisitions, which are made at the sole discretion of the Company.

The Company manages liquidity risk by maintaining a conservative liquidity position that exceeds all liabilities payable on demand. The Company invests its treasury funds in liquid assets such that they are available to cover any potential funding commitments and guarantees. In addition, the Company maintains a \$100.0 million credit facility which was undrawn as at September 30, 2018.

As at September 30, 2018, Clairvest had treasury funds of \$406.2 million (March 2018 – \$147.9 million) and access to \$100.0 million (March 2018 – \$100.0 million) in credit to support its current and anticipated corporate investments. Clairvest also had access to \$43.8 million (March 2018 – \$36.9 million) in treasury funds held by its acquisition entities and \$332.8 million (March 2018 – \$355.9 million) in uncalled committed third-party capital through the CEP Funds as at September 30, 2018 to invest along with Clairvest's capital.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash, cash equivalents, temporary investments, corporate investments, and derivative instruments are carried at fair value in accordance with the Company's accounting policy as described in *note 2*. All other financial instruments, including receivables and payables, were short-term in nature.

(a) Fair value hierarchy

The Company classifies financial instruments measured at fair value through profit or loss according to the following hierarchy, based on the lowest level of significant input used in measuring fair value.

Level	Fair value input description	Financial instruments
Level 1	Quoted prices (unadjusted) from active markets	Quoted equity instruments Quoted corporate bonds Money market and investment savings accounts
Level 2	Inputs other than quoted prices included in Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)	Quoted equity instruments which are not actively traded (i.e. significant ownership positions) Guaranteed investment certificates Quoted corporate bonds or loans which are not actively traded
Level 3	Inputs that are not based on observable market data	Unquoted equity instruments or partnership units Corporate bonds, debentures or loans not traded

The following table details the financial instruments measured at fair value classified by the fair value hierarchy:

(\$'000s)	September 30, 2018				March 31, 2018
	Fair value measurements using			Assets / liabilities at fair value	Assets / liabilities at fair value
	Level 1	Level 2	Level 3		
Financial assets					
Cash equivalents					
Money market savings accounts	306	—	—	306	759
Investment savings accounts	20,691	—	—	20,691	940
	20,997	—	—	20,997	1,699
Temporary investments					
Guaranteed investment certificates	—	44,672	—	44,672	19,277
Corporate Bonds	—	5,940	—	5,940	—
Other fixed income securities	—	24,863	—	24,863	17,305
	—	75,475	—	75,475	36,582
Corporate investments	—	21,971	327,379	349,350	515,172
	20,997	97,446	327,379	445,822	553,453

For financial instruments which are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization based on the lowest level input that is significant to the fair value measurement as a whole at the end of each reporting period. Transfers between levels of fair value hierarchy are deemed to have occurred at the date of event.

During the quarter ended September 30, 2018, there were no transfers between the various levels of the fair value hierarchy.

(b) Level 3: Reconciliation between opening and closing balances

The following table details the changes in fair value measurements for instruments included in Level 3 of the fair value hierarchy set out in IFRS 13:

For the quarter ended September 30, 2018

(\$'000s)	Fair value July 1, 2018	Net investment gain (loss) included in earnings	Purchases of assets / issuances of liabilities	Sales of assets / settlements of liabilities	Fair value September 30, 2018	Net unrealized investment gain (loss) included in earnings for positions still held
Financial assets						
Corporate investments	540,035	(194,340)	—	(18,316)	327,379	(194,340)
	540,035	(194,340)	—	(18,316)	327,379	(194,340)

For the six months ended September 30, 2018

(\$'000s)	Fair value April 1, 2018	Net investment gain (loss) included in earnings	Purchases of assets / issuances of liabilities	Sales of assets / settlements of liabilities	Fair value September 30, 2018	Net unrealized investment gain (loss) included in earnings for positions still held
Financial assets						
Corporate investments	494,994	(134,056)	4,000	(37,559)	327,379	(134,056)
	494,994	(134,056)	4,000	(37,559)	327,379	(134,056)

(c) Level 3: Fair value measurement based on reasonably possible alternative assumptions

While Clairvest considers its fair value measurements to be appropriate, the use of reasonable alternative assumptions could result in different fair values. On a given measurement date, it is possible that other market participants could measure a same financial instrument at a different fair value, with the valuation techniques and inputs used by these market participants still meeting the definition of fair value. The fact that different fair value measurements exist reflects the judgment, estimates and assumptions applied as well as the uncertainty involved in determining the fair value of these financial instruments. Included in corporate investments are investee companies (as described in *note 7*) for which the fair values have been estimated based on assumptions that are not supported by observable inputs. The following tables details quantitative information on the primary valuation techniques and unobservable inputs based on the form of investment:

September 30, 2018	Valuation techniques	Significant unobservable input	Range
Unquoted equity instruments (including warrants) or partnership units	Public company comparables	EBITDA multiples	3.5x to 8.0x
	Recent transactions	n/a	n/a
Corporate bonds, debentures or loans not traded or other finite set of cash flows	Discounted cash flows	Discount rates	10.0% to 20.0%

The most significant unobservable input for fair value measurement is the multiple of earnings before interest, tax, depreciation and amortization (“EBITDA”) used for each individual investee company. In determining the appropriate multiple, Clairvest considers (i) public company multiples for companies in the same or similar businesses; (ii) where information is known and believed to be reliable, multiples at which recent transactions in the industry occurred; and (iii) multiples at which Clairvest invested directly or indirectly in the company, or for follow-on investments or financings. The resulting multiple is adjusted, if necessary, to take into account differences between the investee company and those the Company selected for comparisons and factors include public versus private company, company size, same versus similar business, as well as with respect to the sustainability of the company’s earnings and current economic environment. As at September 30, 2018, eight investee companies were valued using the earnings multiple approach. If the Company had used an earnings multiple for each investee company that was higher or lower by 0.5 times, the potential effect would have been an increase of \$14.6 million or a decrease of \$14.6 million to the carrying value of corporate investments and net investment gain, on a pre-tax basis, for the quarter ended September 30, 2018. Earnings multiples used are based on public company valuations as well as private market multiples for comparable companies.

Clairvest may also use information about recent transactions carried out in the market for valuations of private equity investments. When fair value is determined based on recent transaction information, this value is the most representative indication of fair value. The fair value of corporate bonds, debentures or loans is primarily determined using discounted cash flow technique. This technique uses observable and unobservable inputs such as discount rates that take into account the risk associated with the investment as well as future cash flows. For those investments valued based on recent

transactions or discounted cash flows, Clairvest has determined that there are no reasonable alternative assumptions that would change the fair value materially as at September 30, 2018 and March 31, 2018.

17. CAPITAL DISCLOSURES

Clairvest considers the capital it manages to be shareholders' equity. Clairvest also manages capital held in acquisition entities, the third-party capital committed or invested in the CEP Funds and co-investments made by other investors.

Clairvest's objectives in managing capital are to:

- Preserve a financially strong company with substantial liquidity to pursue new acquisitions and growth opportunities as well as to support its operations and the growth of its existing investee companies;
- Achieve an appropriate risk adjusted return on capital;
- Build long-term value in its investee companies to generate superior returns; and
- Have appropriate levels of committed third-party capital available to invest alongside Clairvest's capital. The management of third-party capital also provides management fees and/or priority distributions to Clairvest and the ability to enhance Clairvest's returns by offsetting a portion of its operating costs and by earning a carried interest.

As at September 30, 2018, Clairvest had no external capital requirements, other than as disclosed in *note 14*.

18. FUTURE CHANGES IN ACCOUNTING POLICIES

Leases ("IFRS 16")

IFRS 16 was issued in January 2016 and will replace the previous lease standard, IAS 17 Leases, and related interpretations. Under IFRS 16, lessees are required to recognize assets and liabilities for most leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

19. SUBSEQUENT EVENTS

Subsequent to quarter end, CEP V Co-Invest invested US\$5.3 million (C\$6.7 million) in Meriplex Communications Ltd. ("Meriplex"), a company based in Houston, Texas that designs, installs and manages complex networking solutions for businesses. The investment was made in the form of 5,250 common shares for a 18.1% ownership interest in Meriplex on a fully-diluted basis.

Also subsequent to quarter end, Clairvest announced the proposed sale of its investment in Rivers Casino based in Des Plaines, Illinois. The proposed transaction is subject to regulatory approvals and is anticipated to close prior to the end of the first quarter of fiscal 2020. Clairvest holds its investment in Rivers Casino through CEP IV Co-Invest and its carrying value in Rivers Casino as at September 30, 2018 reflects a discount to the transaction price to reflect the uncertainty to closing.

20. COMPARATIVE FINANCIAL STATEMENTS

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