

**CLAIRVEST GROUP INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

**November 13, 2018**

The Management's Discussion and Analysis ("MD&A") of financial condition and results of operations analyze significant changes in the unaudited interim condensed consolidated financial statements of Clairvest Group Inc. ("Clairvest" or the "Company"). It should be read in conjunction with the accompanying unaudited interim condensed consolidated financial statements and notes of Clairvest as at and for the quarter ended September 30, 2018, and the quarterly news release.

The Company's consolidated financial statements include those subsidiaries which 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. 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 General Partner IV Limited Partnership  
Clairvest General Partner V Limited Partnership

The Company employs various acquisition entities in structuring its investments, all of which are controlled by Clairvest. These acquisition entities, which are accounted for at fair value in accordance with International Financial Reporting Standards ("IFRS") as described in the Critical Accounting Estimates section below, include the following:

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")

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 the Transactions with Related Parties and Off-Statement of Financial Position Arrangements sections of the MD&A.

Clairvest is considered an agent of the third-party funds which it manages. Accordingly, the financial positions and operating results of Clairvest Equity Partners III Limited Partnership ("CEP III"), Clairvest Equity Partners IV Limited Partnership ("CEP IV") and Clairvest Equity Partners IV-A Limited Partnership ("CEP IV-A"), and 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"), and other funds it manages for certain co-investors are not included in Clairvest's financial position and operating results.

All amounts are in Canadian dollars unless otherwise indicated.

**CRITICAL ACCOUNTING ESTIMATES**

The consolidated financial statements as at and for the year ended March 31, 2018, contain certain disclosures not included in the unaudited interim condensed consolidated financial statements as at and for the quarter ended September

30, 2018, accordingly, this MD&A should be read in conjunction with the audited consolidated financial statements as at and for the year ended March 31, 2018.

Clairvest prepared its consolidated financial statements in accordance with IFRS 10, "Consolidated Financial Statements", as issued by the International Accounting Standards Board. For a discussion of all significant accounting policies which includes a discussion of the Company's critical accounting estimates, refer to note 2 to the consolidated financial statements. A description of critical accounting estimates is provided below.

**Fair value of financial assets or liabilities**

When a financial asset or liability 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 bid price on the principal exchange on which the investment is traded. Investments that are escrowed or otherwise restricted on sale or transfer are recorded at amounts at fair values which take into account the escrow terms or other restrictions. In determining the fair value of 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 market 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 for which the underlying security is traded on a recognized securities exchange, and 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 for 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.

A change to an estimate with respect to Clairvest's privately-held corporate investments or publicly-traded corporate investments would impact corporate investments and net investment gain.

**Recognition of carried interest and corresponding expenses**

The Company recognizes unrealized carried interest from the CEP Funds on its consolidated statements of financial position which 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 carried interest receivable and the resulting accrued liabilities for future payouts relating to these carried interest receivables at the statement of financial position date. The Company would only recognize unrealized carried interest in the event a significant reversal during a future period is highly improbable.

**CLAIRVEST GROUP INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

**November 13, 2018**

**Deferred income taxes**

The process of determining deferred income tax assets and liabilities requires management to exercise judgment while considering the anticipated timing of disposal of corporate investments, and proceeds thereon, tax planning strategies, changes in tax laws and rates, and loss carryforwards. Deferred income tax assets are only recognized to the extent that, in the opinion of management, it is probable that the deferred income tax asset will be realized. A change to an accounting estimate with respect to deferred income taxes would impact deferred income tax liability and income tax expense.

**FINANCIAL CONDITION AND BOOK VALUE**

The following table summarizes the Company's financial position and book value:

<b>Financial Position</b>			
(\$000's) (except share information)			
<b>As at</b>	<b>September 30, 2018</b>	<b>June 30, 2018</b>	<b>March 31, 2018</b>
Cash, cash equivalents and temporary investments ("treasury funds")	406,236	158,067	147,924
Carried interest receivable from the CEP Funds	66,898	147,099	127,900
Corporate investments, at fair value	349,350	560,569	515,172
Total assets	865,250	914,546	834,889
Management participation	47,436	106,683	91,267
Total liabilities	136,839	199,460	167,568
Book value	728,411	715,086	667,321
Book value per share	48.06	47.18	44.01
Dividend per share declared <sup>(1)</sup>	—	0.4401	—
Number of common shares outstanding	15,156,895	15,157,895	15,162,995

<sup>(1)</sup> Declared annually during quarter ended June 30

Clairvest's book value increased by \$0.88 per share during the second quarter of fiscal 2019. The increase was primarily due to \$13.4 million, or \$0.88 per share, in net income and comprehensive income ("net income"), which was primarily the result of net unrealized gains of the Company's investment in its underlying investee companies. During the quarter, the Company received \$212.4 million of distributions from its acquisition entities resulting primarily from the realization of Centaur Gaming net of a corresponding decrease of \$205.7 million in the fair value of these acquisition entities primarily as a result of these distributions made. Also during the quarter, the Company recorded \$2.2 million in net carried interest income, \$2.3 million in management participation, and \$6.5 million in compensation expenses.

For the six months ended September 30, 2018, book value grew by \$4.05 per share. The increase was primarily due to \$4.48 per share in net income net of the \$0.4401 per share in dividends paid.

**ASSETS**

As a result of investment realizations during the second quarter of fiscal 2019, the Company's treasury funds increased by \$248.2 million during the quarter. As at September 30, 2018, the Company's treasury funds of \$406.2 million were held in cash, money market savings accounts rated not below R1-High, investment savings accounts, guaranteed investment certificates and corporate bonds either rated not below A or principally protected by the Canada Deposit Insurance Corporation and other securities as permitted by the Company's treasury policy (see *notes 4 and 15* to the consolidated financial statements for a detailed discussion of the Company's treasury funds). 2141788 Ontario also held \$39.8 million in cash, investment savings accounts and guaranteed investment certificates rated comparably. In addition, Clairvest is the beneficial owner of \$4.0 million in cash held in various acquisition entities which are controlled by Clairvest.

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. The amount available under the credit facility as at September 30, 2018 was \$100.0 million, which is based on debt covenants and certain restrictions within the banking arrangement. During the second quarter of fiscal 2019, the credit facility was extended to December 2023 under the same terms and

**CLAIRVEST GROUP INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

**November 13, 2018**

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.

As at September 30, 2018, Clairvest had corporate investments with a carrying value of \$349.4 million, a decrease of \$211.2 million during the second quarter of fiscal 2019, \$327.8 million of the carrying value represented the fair value of Clairvest's investee companies and the remaining \$21.5 million represented other net assets held by Clairvest's acquisition entities. Certain of these acquisition entities, as further described in the Off-Statement of Financial Position Arrangements section of the MD&A, are responsible for investing alongside the CEP Funds.

Excluding net assets held by Clairvest's acquisition entities, the aggregate carrying value of Clairvest's investee companies decreased by \$224.9 million during the second quarter of fiscal 2019, which primarily comprised the following:

- The sale of Centaur Gaming which, excluding the deferred consideration as described below, had a carrying value of \$219.4 million as at June 30, 2018;
- Partial realization of Top Aces' common shares which had a carrying value of \$11.0 million as at June 30, 2018;
- Return of capital from Digital Media Solutions totalling \$7.1 million as described below;
- Foreign exchange losses of \$8.4 million; partially offset by
- Net changes in unrealized gains on its investee companies of \$13.5 million;
- Follow-on investments made in Also Energy totalling \$5.2 million;
- Net interest accrued on debt investments totaling \$2.3 million.

During the second quarter of fiscal 2019 and subsequent to the sale of Centaur Gaming as described below, CEP IV Co-Invest repaid loans owing to Clairvest and 2141788 Ontario totalling \$1.3 million and \$0.7 million respectively and made distributions to Clairvest and MIP IV totalling \$208.6 million and \$3.2 million respectively. CEP IV Co-Invest also declared distributions totalling \$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.

During the second quarter of fiscal 2019 and subsequent to the completion of a financing by Digital Media Solutions as described below, CEP V Co-Invest repaid loans owing to Clairvest and 2141788 Ontario totalling \$5.0 million and \$6.1 million respectively.

Clairvest has implemented a hedging strategy because it has, directly and indirectly, several investments outside of Canada, currently in the United States, Chile and India. In order to limit its exposure to changes in the value of these investments denominated in foreign currencies relative to the Canadian dollar, Clairvest and its acquisition entities enter into foreign exchange forward contracts as economic hedging positions against these foreign-denominated currencies. For the quarter ended September 30, 2018, the foreign exchange adjustments made in Clairvest's valuation of its investee companies is primarily offset by the foreign exchange adjustments made in the forward exchange forward contracts used to support its foreign exchange hedging strategy, except for its foreign exchange exposure in approximately 38% of its Chilean Pesos ("CLP") investment in Chilean Gaming Holdings, 22% of its Indian Rupees-denominated ("INR") debt investment in Ace2Three and the equity investment in Ace2Three which were unhedged as at September 30, 2018. The foreign exchange adjustments made in the forward exchange forward contracts are described in the Derivative Financial Instruments section of the MD&A.

The following table summarizes the carrying value and cost of Clairvest's investee companies as at September 30, 2018 and March 31, 2018:

**CLAIRVEST GROUP INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

**November 13, 2018**

(\$000's)	September 30, 2018			March 31, 2018		
	Fair value	Cost	Difference	Fair value	Cost	Difference
<b>Investments made by CEP III Co-Invest alongside CEP III</b>						
Chilean Gaming Holdings <sup>(1)</sup>	59,220	28,754	30,466	60,113	28,754	31,359
<b>Investments made by CEP IV Co-Invest alongside CEP IV</b>						
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 <sup>(2)</sup>	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 <sup>(3)</sup>	—	—	—	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
<b>Investments made by CEP V Co-Invest alongside CEP V</b>						
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)
AlsoEnergy, Inc. ("Also Energy")	11,487	11,285	202	6,189	6,038	151
Digital Media Solutions, LLC ("Digital Media Solutions")	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
	<b>305,315</b>	<b>235,673</b>	<b>69,642</b>	<b>487,639</b>	<b>264,525</b>	<b>223,114</b>
Other investments <sup>(4)</sup>	22,496	625	21,871	20,866	788	20,078
	<b>327,811</b>	<b>236,298</b>	<b>91,513</b>	<b>508,505</b>	<b>265,313</b>	<b>243,192</b>

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

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

<sup>(3)</sup> Realized during the first quarter of fiscal 2019

<sup>(4)</sup> Comprised primarily 199,459 CIBC common shares received on the sale of Wellington Financial. The common shares are restricted for sale until January 2021

Significant events relating to these investee companies, other than with respect to valuation changes and foreign exchange adjustments, are described below.

### **Centaur Gaming**

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.

### **Discovery Air / Top Aces**

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 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.

### **MAG Aerospace**

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.

### **Also Energy**

During the second quarter of fiscal 2019, CEP V Co-Invest advanced US\$4.1 million (C\$5.2 million) to 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.

### **Digital Media Solutions**

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 of 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).

### **LIABILITIES**

As at September 30, 2018, Clairvest had \$136.8 million in liabilities, which included \$10.9 million in accrued management and director compensation, \$38.6 million in share-based compensation, \$47.4 million in management participation and \$32.4 million current and deferred income tax liability. \$58.0 million of these liabilities are payable only upon the cash realization of certain investments of Clairvest or the CEP Funds, and the cash realizations are expected to far exceed the payments required upon these realizations.

The \$38.6 million in share-based compensation included \$8.3 million accrued under the Non-Voting Option Plan, \$3.8 million under the Employee Deferred Share Units ("EDSU") plan, \$9.9 million under the Book Value Appreciation Rights Units plan, and \$16.6 million under the Directors Deferred Share Units and Appreciation Deferred Share Units plan.

Management participation is further described in the Transaction with Related Parties section of the MD&A.

### **EQUITY AND SHARE INFORMATION**

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

**CLAIRVEST GROUP INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

**November 13, 2018**

As at September 30, 2018, Clairvest had 15,156,895 common shares issued and outstanding. Subsequent to quarter end, an additional 4,700 common shares were purchased and cancelled under the NCIB for \$0.2 million.

In June 2016, the Board of Directors of the Company 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 new stock option program as described below. No Non-Voting Shares had been issued as at September 30, 2018 and November 13, 2018.

Also in June 2016, 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 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 5-year period. As at September 30, 2018, 412,091 options were outstanding, 111,269 options of which had vested.

In addition, 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 had been issued based on the terms and conditions of the EDSU Plan.

**FINANCIAL RESULTS**

Net income for the quarter and six months ended September 30, 2018 was \$13.4 million and \$68.0 million, compared with \$42.6 million and \$31.0 million for the same periods during the last fiscal year. The following table summarizes the composition of net income:

**CLAIRVEST GROUP INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

**November 13, 2018**

**FINANCIAL RESULTS**

(\$000's) (except per share information)	Quarter ended September 30		Six months ended September 30	
	2018	2017	2018	2017
Net investment gain (loss)				
- Investee companies inclusive of foreign exchange hedging activities	<b>12,368</b>	42,496	<b>68,685</b>	29,536
- Acquisition entities including distributions, interest, dividends and fees received from investee companies and net of taxes paid or payable by these acquisition entities	<b>(205,685)</b>	1,126	<b>(201,604)</b>	(9,078)
	<b>(193,317)</b>	43,622	<b>(132,919)</b>	20,458
Distributions, interest income, dividends and fees				
- CEP Funds	<b>2,393</b>	2,967	<b>5,014</b>	6,222
- Investee companies	<b>763</b>	1,235	<b>2,123</b>	2,742
- Treasury funds <sup>(1)</sup>	<b>1,986</b>	320	<b>2,705</b>	494
- Acquisition entities and other	<b>212,358</b>	652	<b>212,903</b>	12,759
	<b>217,500</b>	5,174	<b>222,745</b>	22,217
Net carried interest income – realized and unrealized changes	<b>2,170</b>	14,708	<b>25,765</b>	16,998
Total expenses	<b>10,536</b>	15,569	<b>36,961</b>	25,593
Net income before income taxes	<b>15,817</b>	47,935	<b>78,630</b>	34,080
Income taxes	<b>2,444</b>	5,326	<b>10,602</b>	3,031
Net income	<b>13,373</b>	42,609	<b>68,028</b>	31,049
Net income per share	<b>0.88</b>	2.80	<b>4.48</b>	2.04
Net income per share - fully diluted	<b>0.88</b>	2.80	<b>4.48</b>	2.04

<sup>(1)</sup> Includes realized gains/losses and market value changes to Clairvest's treasury funds.

The Company fair values its acquisition entities which hold Clairvest's interest in its investee companies as well as other assets and liabilities. Distributions, interest, dividends and fees earned from and realized gains or losses and net changes in unrealized gains or losses on the investee companies held by acquisition entities, including foreign exchange fluctuations and the hedging activities related to managing the foreign currency exposure of these investments, and income taxes incurred by these acquisition entities, are reflected in net investment gain (loss) until the net proceeds are distributed out of these acquisition entities, at which point the Company would record a distribution or a dividend from acquisition entities and reverse the net investment gain or loss which had previously been recorded.

During the second quarter of fiscal 2018, Clairvest received distributions totalling \$211.8 million from CEP IV Co-Invest as a result of the realization of Centaur Gaming as described above. Accordingly, Clairvest's fair value in CEP IV Co-Invest decreased as a result of these distributions.

The following tables summarize the net investment gain or loss of investee companies for the quarters and six months ended September 30, 2018 and 2017. These net investment gain or loss are inclusive of the foreign exchange hedging activities related to these investments:



**CLAIRVEST GROUP INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

**November 13, 2018**

**NET INVESTMENT GAIN (LOSS) ON INVESTEE COMPANIES**

Quarter ended September 30 (\$000's)	2018			Total	2017
	Net realized gain (loss)	Net unrealized gain (loss)	Foreign Exchange gain (loss) <sup>(1)</sup>		Total
Accel Entertainment	—	1,932	(57)	1,875	3,347
Ace2Three	—	3,427	(3,038)	389	(1,876)
Also Energy	—	—	(11)	(11)	(14)
Centaur Gaming	523	255	67	845	34,589
Chilean Gaming Holdings	—	2,539	(805)	1,734	749
County Waste	—	(2,491)	20	(2,471)	(60)
CRS Contractors Rental Supply Limited Partnership	—	—	—	—	30
Davenport Land Investments	—	—	2	2	13
Digital Media Solutions <sup>(2)</sup>	—	(3,342)	519	(2,823)	(13)
Discovery Air / Top Aces	1,951	(316)	—	1,635	(3,149)
Grey Eagle Casino	—	7	—	7	(671)
Impero Waste / Winters Bros. of CT	(16)	(1,091)	(250)	(1,357)	4,898
Lyophilization Services of New England, Inc.	—	—	—	—	(14)
MAG Aerospace	178	1	(49)	130	(8)
The Meadowlands	—	—	(32)	(32)	(34)
Rivers Casino	—	14,003	(59)	13,944	5,555
Wellington Financial	—	(282)	—	(282)	(818)
Winters Bros. of LI	—	(2,320)	(62)	(2,382)	(28)
Other investments	—	1,165	—	1,165	—
<b>Net investment gain (loss) on investee companies</b>	<b>2,636</b>	<b>13,487</b>	<b>(3,755)</b>	<b>12,368</b>	<b>42,496</b>

<sup>(1)</sup> Inclusive of foreign exchange hedging activities

<sup>(2)</sup> Net unrealized loss on Digital Media Solutions was the result of a \$12.5 million distribution made during the second quarter of fiscal 2019

**CLAIRVEST GROUP INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

**November 13, 2018**

**NET INVESTMENT GAIN (LOSS) ON INVESTEE COMPANIES**

Six months ended September 30 (\$000's)	2018			2017	
	Net realized gain	Net unrealized gain (loss)	Foreign Exchange gain (loss) <sup>(1)</sup>	Total	Total
Accel Entertainment	—	3,957	(101)	3,856	4,067
Ace2Three	—	12,521	(4,172)	8,349	(19,998)
Also Energy	—	—	(22)	(22)	(14)
Centaur Gaming	28,677	1,130	(450)	29,357	36,878
Chilean Gaming Holdings	—	3,713	(2,188)	1,525	1,945
County Waste	—	(3,140)	(38)	(3,178)	45
CRS Contractors Rental Supply Limited Partnership	—	—	—	—	2,950
Davenport Land Investments	—	—	(16)	(16)	20
Digital Media Solutions <sup>(2)</sup>	—	708	500	1,208	(25)
Discovery Air / Top Aces	1,951	(226)	—	1,725	(5,113)
Grey Eagle Casino	—	(1,177)	—	(1,177)	(1,655)
Impero Waste / Winters Bros. of CT	323	(2,962)	(544)	(3,183)	4,914
Lyophilization Services of New England, Inc.	—	—	—	—	234
MAG Aerospace	18,218	1	154	18,373	27
The Meadowlands	—	—	(17)	(17)	(67)
Rivers Casino	—	15,374	(106)	15,268	6,274
Wellington Financial	—	(1,139)	—	(1,139)	(865)
Winters Bros. of LI	—	(3,369)	(133)	(3,502)	(81)
Other investments	—	1,258	—	1,258	—
<b>Net investment gain (loss) on investee companies</b>	<b>49,169</b>	<b>26,649</b>	<b>(7,133)</b>	<b>68,685</b>	<b>29,536</b>

<sup>(1)</sup> Inclusive of foreign exchange hedging activities.

<sup>(2)</sup> Net unrealized loss on Digital Media Solutions was the result of a \$12.5 million distribution made during the second quarter of fiscal 2019.

The Company and its acquisition entities receive distributions, interest, dividends or fees from various investee companies. The following table summarizes the income earned by the Company and its acquisition entities for the quarters and six months ended September 30:

**CLAIRVEST GROUP INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

**November 13, 2018**

**DISTRIBUTIONS, INTEREST, DIVIDENDS AND FEES FROM INVESTEE COMPANIES (\$000's)**

Quarter ended September 30 (\$000's)	2018			2017
	Earned directly by Clairvest	Earned through acquisition entities	Total	Total
<b>Distributions and interest income</b>				
Ace2Three	—	789	789	886
Also Energy	—	14	14	—
Centaur Gaming	—	10	10	50
County Waste	—	68	68	—
CRS	—	—	—	245
Davenport Land Investments	—	30	30	22
Digital Media Solutions	—	5,257	5,257	142
Discovery Air / Top Aces	—	599	599	387
Grey Eagle Casino	136	409	545	360
GTA Gaming	—	694	694	—
MAG Aerospace	123	—	123	77
Rivers Casino	—	248	248	—
The Meadowlands	—	266	266	222
Wellington Financial	—	—	—	896
	259	8,384	8,643	3,287
<b>Dividend income</b>				
Chilean Gaming Holdings	—	343	343	248
Other investments	271	—	271	—
	271	343	614	248
<b>Advisory and other fees</b>	233	187	420	304
<b>Distributions, interest, dividends and fees from investee companies</b>	<b>763</b>	<b>8,914</b>	<b>9,677</b>	<b>3,839</b>

**CLAIRVEST GROUP INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

**November 13, 2018**

Six months ended September 30 (\$000's)	2018			2017
	Earned directly by Clairvest	Earned through acquisition entities	Total	Total
<b>Distributions and interest income</b>				
Ace2Three	—	1,630	1,630	1,523
Also Energy	—	14	14	—
Centaur Gaming	—	63	63	89
County Waste	—	137	137	—
CRS	—	—	—	245
Davenport Land Investments	—	60	60	44
Digital Media Solutions	—	5,410	5,410	262
Discovery Air / Top Aces	—	2,609	2,609	688
Grey Eagle Casino	399	1,199	1,598	1,209
GTA Gaming	—	971	971	—
MAG Aerospace	391	23	414	152
Rivers Casino	—	622	622	459
The Meadowlands	—	528	528	457
Wellington Financial	—	—	—	1,841
	790	13,266	14,056	6,969
<b>Dividend income</b>				
Chilean Gaming Holdings	—	1,038	1,038	543
Other investments	533	—	533	—
	533	1,038	1,571	543
<b>Advisory and other fees</b>	800	347	1,147	720
<b>Distributions, interest, dividends and fees from investee companies</b>	2,123	14,651	16,774	8,232

The Company also receives distributions, fees and interest from the CEP Funds as described in the Transaction with Related Parties section of the MD&A. The following table summarizes the distributions, fees and interest earned from the CEP Funds for the quarters and six months ended September 30:

**DISTRIBUTIONS, FEES AND INTEREST FROM THE CEP FUNDS**

Quarter ended September 30 (\$000's)	2018			2017
	Earned directly by Clairvest	Earned through acquisition entities	Total	Total
Priority distributions	2,043	—	2,043	2,498
Management fees	318	—	318	324
Interest on loans advanced	32	13	45	181
<b>Distributions, fees and interest from the CEP Funds</b>	2,393	13	2,406	3,003

Six months ended September 30 (\$000's)	2018			2017
	Earned directly by Clairvest	Earned through acquisition entities	Total	Total
Priority distributions	4,208	—	4,208	5,115
Management fees	654	—	654	646
Interest on loans advanced	152	29	181	538
<b>Distributions, fees and interest from the CEP Funds</b>	5,014	29	5,043	6,299

**CLAIRVEST GROUP INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

**November 13, 2018**

The Company also earns carried interest income from CEP and the CEP Funds, as described in the Transaction with Related Parties section of the MD&A. The following table summarizes net carried interest income earned by the Company for the quarters and six months ended September 30:

**NET CARRIED INTEREST INCOME (\$000's)**

	Quarter ended		Six months ended	
	2018	September 30 2017	2018	September 30 2017
Realized carried interest from CEP	160	100	220	140
Realized carried interest from the CEP Funds	82,210	—	86,547	16,340
Net change in unrealized carried interest from CEP and the CEP Funds	(80,200)	14,608	(61,002)	518
<b>Net carried interest income<sup>(1)</sup></b>	<b>2,170</b>	<b>14,708</b>	<b>25,765</b>	<b>16,998</b>

<sup>(1)</sup> Includes carried interest which are ultimately paid to non-Clairvest participants if and when they are payable, which are recorded as management participation as described below

During the quarter ended September 30, 2018, the Company earned \$2.0 million in income from its treasury funds, compared to \$0.3 million for the same quarter last year.

Total expenses for the second quarter of fiscal 2019 were \$5.8 million, compared with \$15.6 million for the same quarter last year. The following table summarizes expenses incurred by the Company for the quarters and six months ended September 30:

**TOTAL EXPENSES, EXCLUDING INCOME TAXES (\$000's)**

	Quarter ended September 30		Six months ended September 30	
	2018	2017	2018	2017
Employee compensation and benefits	3,003	3,253	6,175	5,594
Share-based compensation expenses	3,529	121	9,735	4,866
Administration and other expenses	1,437	1,000	2,903	2,070
Finance and foreign exchange expenses	304	279	469	489
Management participation	2,263	10,916	17,679	12,574
<b>Total expenses, excluding income taxes</b>	<b>10,536</b>	<b>15,569</b>	<b>36,961</b>	<b>25,593</b>

Included in share-based compensation expenses for the second quarter of fiscal 2019 was \$1.3 million on the Non-Voting Options, \$0.5 million on the Deferred Share Units ("DSUs") and Appreciation Deferred Share Units ("ADSUs"), \$1.5 million on the Book Value Appreciation Rights ("BVARs") and \$0.1 million on EDSUs.

Management participation is further described in *note 10* to the consolidated financial statements.

The Company recorded \$2.4 million in income tax expense, and its acquisition entities incurred \$0.4 million in income tax expense during the second quarter of fiscal 2019, compared with \$5.3 million and \$0.7 million respectively for the same quarter last year. Income tax expense incurred by the Company's acquisition entities are reflected in net investment gain (loss).

**CLAIRVEST GROUP INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

**November 13, 2018**

Quarterly results (\$000's except per share information)	Gross Revenue <sup>(1)</sup>	Net income (loss)	Net income (loss) per common share	Net income (loss) per common share fully diluted <sup>(2)</sup>
	\$	\$	\$	\$
September 30, 2018	26,353	13,373	0.88	0.88
June 30, 2018	89,238	54,655	3.61	3.61
March 31, 2018	26,845	18,626	1.23	1.23
December 31, 2017	121,671	74,103	4.88	4.88
September 30, 2017	63,504	42,609	2.80	2.80
June 30, 2017	(3,831)	(11,560)	(0.76)	(0.76)
March 31, 2017	33,361	17,268	1.14	1.14
December 31, 2016	52,368	30,764	2.02	2.02

<sup>(1)</sup> Includes net investment gain (loss)

<sup>(2)</sup> The sum of quarterly net income per common share may not equal the year to date net income per common share due to rounding and the dilutive effect on any quarters which may not be applicable for the full year.

**OUTLOOK & SUBSEQUENT EVENTS**

As a long-term investor, Clairvest is focused on building value in its investee companies by contributing strategic expertise, guiding management through volatile times and helping its investee companies capitalize on new opportunities that arise.

As at September 30, 2018, Clairvest had \$882.9 million of capital available for future investments through treasury funds, credit facilities and access to funds at its acquisition entities and uncalled capital in the CEP Funds. With the available funds, Clairvest has ample liquidity to support its investee companies as appropriate and to continue its active pursuit of new investment opportunities to enhance shareholder value.

Subsequent to quarter end, CEP V Co-Invest invested US\$5.2 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 reflected a discount to the transaction price to account for the uncertainty to closing.

**TRANSACTIONS WITH RELATED PARTIES**

Clairvest, though its consolidated subsidiaries, is entitled to priority distributions, management fees and carried interest from the CEP Funds. Clairvest is also entitled to other entitlements from CEP III Co-Invest, CEP IV Co-Invest, and CEP V Co-Invest (the "CEP Co-Invest Partnerships") as specified in the respective limited partnership agreements. MIP III, MIP IV and MIP V are entitled to certain carried interest from the CEP Funds and the CEP Co-Invest Partnerships. Further details are described in *note 10* to the consolidated financial statements.

As at September 30, 2018, Clairvest had accounts receivable from its investee companies totalling \$0.9 million, from CEP III totalling \$0.4 million, from CEP IV totalling \$1.2 million, from CEP IV-A totalling \$0.2 million, from CEP V totalling \$2.2 million, from CEP V India totalling \$0.5 million and from CEP V-A totalling \$3.9 million. Additionally, acquisition entities of Clairvest which were not consolidated in accordance with IFRS held receivables from CEP IV totalling \$0.2 million, from CEP V totalling \$23 thousand, from CEP V-A totalling \$4 thousand and from Clairvest's investee companies totalling \$1.6 million.

In addition, the Company advances loans to its acquisition entities and the CEP Funds. During the second quarter of fiscal 2019, the Company received net repayment of \$1.8 million on these loans, such that \$15.7 million in loans remained outstanding as at September 30, 2018. Further details are described in *note 10(l)* to the consolidated financial statements.

As at September 30, 2018, Clairvest had share purchase loans receivable from certain officers of Clairvest (the "Officers") totalling \$3.4 million. The loans are interest bearing, have full recourse to the individual and are collateralized by the common shares of Clairvest owned by the Officers with a market value of \$6.5 million. None of these loans were made to key management.

Key management at Clairvest includes the Chief Executive Officer ("CEO"), the Vice Chairman, the President and its directors. 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, the stock option plans, the BVAR Plan and the EDSU Plan. Annual salaries and compensation under these plans paid to the CEO, the Vice Chairman, and the President during the second quarter of fiscal 2019 was \$3.0 million. As at September 30, 2018, the total amounts payable to the CEO, the Vice Chairman, and the President under the aforementioned plans were \$14.1 million. During the second quarter of fiscal 2019, no compensation was paid to directors under the BVAR, DSU or ADSU plans. As at September 30, 2018, the total amounts payable to the directors of Clairvest under the DSU, ADSU and Non-Voting Option plans were \$17.5 million.

During the second quarter of fiscal 2019, Clairvest earned \$0.3 million in distributions and interest income, \$0.3 million in dividend income and \$0.2 million in advisory and other fees from its investee companies. Additionally, acquisition entities of Clairvest which were not consolidated earned \$8.4 million in distributions and interest income, \$0.3 million in dividend income and \$0.2 million in advisory and other fees from its investee companies.

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 has 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.

#### **OFF-STATEMENT OF FINANCIAL POSITION ARRANGEMENTS**

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 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.

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 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.

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 \$180.0 million, \$99.6 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.

Clairvest has committed \$25.2 million to Wellington Fund IV, all of which was unfunded at September 30, 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.

Clairvest has also committed \$30.3 million to Wellington Fund V, all of which of which remained unfunded at September 30, 2018. As specified in the Limited Partnership Agreement, Wellington Fund V may no longer invest in new investments.

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 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 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.

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, no claims had been made and no amounts with respect to this guarantee had been funded.

As part of the holding structure of Chilean Gaming Holdings, an acquisition entity of CEP III Co-Invest had loans totalling \$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 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.

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 due within one year, \$2.1 million due after one year but not more than five years and \$1.5 million due after 5 years.

In connection with its normal business operations, Clairvest 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, Clairvest does not believe that it will incur any material loss in connection with such actions.

### **DERIVATIVE FINANCIAL INSTRUMENTS**

Clairvest 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 second quarter of fiscal 2019, Clairvest paid \$8 thousand to settle realized foreign exchange forward contracts. In addition, acquisition entities of Clairvest paid \$4.0 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 at an average rate of Canadian \$1.2770 per U.S. dollar through to August 2019. The fair value of the forward contracts at September 30, 2018 was a loss of \$1.2 million.



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

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

## **RISK MANAGEMENT**

The private equity investment business involves accepting risk for potential return, and is therefore affected by a number of risk factors. These factors, categorized as market risk, investing process risk and other risks, are described below. Additional risks not currently known to us or that we currently believe to be immaterial may also have a material adverse effect on future business of the Company.

### **Market risk**

#### ***Fair value risk***

Fair value risk includes exposure to fluctuations in the fair market value of the Company's investments. Included in corporate investments are investee companies for which the fair values have been estimated based on assumptions that may not be supported by observable market prices. The most significant unobservable input is the multiple of earnings before interest, taxes, 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 of up to 12 months. 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 and 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.

The Company's corporate investment portfolio was diversified across 15 investee companies in 6 industries and 4 countries as at September 30, 2018. 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 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%, 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.

***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 and the INR totalling \$30.6 million. For the quarter ended September 30, 2018, the Company's acquisition entities had foreign exchange losses of \$0.8 million on the CLP and \$3.0 million on the INR, the amounts of which had 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 carrying 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.

***Commodity price risk***

Certain of Clairvest's investee companies are subject to price fluctuations in commodities. Clairvest understands the risk of investing in cyclical industries which are largely tied to commodity prices and takes such risk into account in making these investments. The Company manages this risk through oversight responsibilities with existing investee companies and by reviewing the financial condition of investee companies regularly.

***Investing process risk***

***Competition risk***

Clairvest and the CEP Funds compete for acquisition of investments with many other investors, some of which may have greater depth of investment experience in particular industries or segment or greater financial resources. There may be intense competition for investments in which Clairvest intends to invest, and such competition may result in less favorable investment terms than would otherwise be the case. There can, therefore, be no assurance that the investments ultimately acquired by Clairvest will meet all the investment objectives of Clairvest, or that Clairvest will be able to invest all of the capital it has committed to invest alongside the CEP Funds. The Company manages this risk through a disciplined approach to investing its capital and that of the CEP Funds, and has strict investment policies where investments above a certain threshold require the approval of the Board of Directors.

***Uncompleted and unspecified investment risk***

The due diligence of each specific investment opportunity that Clairvest looks at and the negotiation, drafting and execution of the relevant agreements require substantial management time and attention and may incur substantial third-party costs. In the event that Clairvest elects not to complete a specific investment, the costs incurred up to that point for the proposed transaction are often not recoverable by Clairvest and the CEP Funds. Furthermore, in the event that Clairvest reaches an agreement relating to a specific investment, it may fail to complete such an investment for any number of reasons, including those beyond Clairvest's control. Any such occurrence could similarly result in a financial loss to Clairvest and the CEP Funds due to the inability to recoup any of the related costs incurred to complete a transaction. A shareholder must rely upon the ability of Clairvest's management in making investment decisions consistent with its investment objectives and policies. Shareholders will not have the opportunity to evaluate personally the relevant economic, financial and other information which is utilized by Clairvest in its selection of investments.

***Minority investment risk***

Clairvest and the CEP Funds may make minority equity investments in entities in which they do not legally control all aspects of the business or affairs of such entities. As at September 30, 2018, 14 of the 15 investments made by Clairvest were minority equity investments. In all investments, Clairvest monitors the performance of each investment, maintains an ongoing dialogue with each investee's management team and seeks board representation and negative controls as conditions of each investment.

***Gaming investment risk***

As at September 30, 2018, Clairvest's exposure to gaming investments represented 28.4% of its net book value. These investments are subject to the risks of any other investment but have heightened exposure to political and regulatory risk whereby a change in the political or regulatory regime governing the gaming industry in a particular jurisdiction where Clairvest's gaming assets are located, including those in Chile or India, could have an impact on the ultimate returns of that investment. In addition, many of these investments involve the construction of a gaming facility whereby not only is Clairvest underwriting the risk of completing the facility on budget, but it is also relying on forecasted gaming revenue, versus historical results, which is only a best estimate. While a project is in construction and for a specified period thereafter, the owners of a newly constructed gaming facility may have to guarantee some or all of the bank facility or agree to fund any operating shortfall. The Company manages this risk through oversight responsibilities with existing investee companies and by reviewing the financial condition of investee companies regularly. Historically, Clairvest has been able to manage all of these risks but past performance of Clairvest provides no assurance of future success.

***Risks upon sale of investments***

In connection with the disposition of an investee company, Clairvest and the CEP Funds may be required to make representations about the business and financial affairs of the business. Clairvest and the CEP Funds may also be required to indemnify the purchasers of such investee companies to the extent that any such representation turns out to be incorrect, inaccurate or misleading.

***Investment structure and taxation risks***

Clairvest structures its investments in a manner that is intended to achieve its investment objectives. There can be no assurance that the structure of any investment will be as tax efficient as designed or that any particular tax result will be achieved, due to unanticipated tax law changes or unforeseen circumstances during the planning phase of the tax structuring. Furthermore, Clairvest's returns in respect of its investments may be reduced by withholding or other taxes imposed by jurisdictions in which Clairvest's investee companies are organized.

***Other risks***

***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 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 its investee companies regularly.

The Company is also subject to credit risk on its accounts receivable and loans receivable, 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 their financial conditions 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. The Company believes the counterparty risk with respect to its and its acquisition entities' derivative instruments is minimal.

The Company manages credit risk on its 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.

***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 have been previously discussed. 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 were \$136.0 million as at September 30, 2018. 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 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 and access to \$100.0 million in credit to support its obligations and current and anticipated corporate investments. Clairvest also had access to \$43.8 million in treasury funds held by its acquisition entities and \$332.8 million in uncalled committed third-party capital through the CEP Funds as at September 30, 2018 to invest along with Clairvest's capital.

***Conflicts of interest risk***

Clairvest's primary business is that of a private equity investor investing its own capital but it also manages third-party capital through the CEP Funds. In accordance with the various fund agreements for the CEP Funds, Clairvest is required to invest alongside the CEP Funds unless the relevant CEP Fund investor committee approves such an investment to be invested by Clairvest without the CEP Funds' participation. Accordingly, Clairvest shareholders may not realize the full benefit of Clairvest investment opportunities as such opportunities are required to be shared with the CEP Funds.

***Risk of CEP Fund Limited Partners' failure to meet capital calls***

The general partner of the CEP Funds is responsible to manage the affairs of the CEP Funds, which includes calling capital for investments made by the CEP Funds. If a limited partner of the CEP Funds fails to make the required capital contribution when due, Clairvest could be required to increase its investment under certain conditions. The general partner of the CEP Funds manages this risk through designing the terms of the CEP Funds appropriately and due diligence of potential limited partners of the CEP Funds prior to admitting them to the partnership.

***Minority shareholder risks***

As at September 30, 2018, Clairvest's Board of Directors and employees owned approximately 90% of Clairvest's common shares and Kenneth B. Rotman owned or controlled over 50% of the common shares of Clairvest. Accordingly, Mr. Rotman and other insider shareholders have the ability to exercise substantial influence with respect to Clairvest's affairs and can usually dictate the outcome of shareholder votes and may have the ability to prevent certain fundamental transactions.

Accordingly, Clairvest shares may be less liquid and trade at a relative discount compared to circumstances where such large shareholders did not have the ability to significantly influence or determine matters affecting Clairvest.

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

In accordance with National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", issued by the Canadian Securities Administrators ("CSA"), Management has evaluated the effectiveness of Clairvest's disclosure controls and procedures as at September 30, 2018 and concluded that the disclosure controls and procedures are effective in ensuring that information required to be disclosed by Clairvest in its corporate filings is recorded, processed, summarized and reported within the required time period for the quarter then ended.

National Instrument 52-109 also requires certification from the Chief Executive Officers and Chief Financial Officer to certify their responsibilities for establishing and maintaining internal controls with regards to the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management has evaluated Clairvest's design effectiveness of internal controls over financial reporting for the quarter ended September 30, 2018. Management has concluded that the design effectiveness of internal controls over financial reporting are effective as at September 30, 2018 based on this evaluation. No changes were made to internal controls over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

**USE OF NON-IFRS MEASURES**

This MD&A contains references to various non-IFRS financial measures, including "book value" and "book value per share". Book value is calculated as the value of total assets less the value of total liabilities. Book value per share is calculated as book value divided by the total number of common shares of the Company outstanding as at a specific date. The terms book value and book value per share do not have any standardized meaning according to IFRS. There is no comparable IFRS financial measure presented in the Company's consolidated financial statements and thus no applicable quantitative reconciliation for such non-IFRS financial measure. The Company believes that the measure provides information useful to its shareholders in understanding our performance, and may assist in the evaluation of the Company's business relative to that of its peers.

**FORWARD-LOOKING STATEMENTS**

*A number of the matters discussed in this MD&A deal with potential future circumstances and developments and may constitute "forward-looking" statements. These forward-looking statements can generally be identified as such because of the context of the statements and often include words such as the Company "believes", "anticipates", "expects", "plans", "estimates" or words of a similar nature.*

*The forward-looking statements are based on current expectations and are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The impact of any one risk factor on a particular forward-looking statement is not determinable with certainty as such factors are interdependent upon other factors, and management's course of action would depend upon its assessment of the future considering all information then available.*

*All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change.*