

ANNUAL REPORT 2011

# CLAIRVEST

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# CLAIRVEST

KNOWLEDGE BASED – VALUE FOCUSED.

Clairvest is one of Canada's leading providers of private equity financing to mid-market companies and currently has over C\$1 billion of capital under management.

Clairvest manages its own capital and that of third parties, through the Clairvest Equity Partners Limited Partnerships.

Clairvest partners with management to invest in profitable, small and mid-sized North American companies with the goal of helping to build value in the business and generate superior long term financial returns for investors.

Clairvest specializes in consolidating industries within a specified region and in the local market casino industry.

## CO-CHIEF EXECUTIVE OFFICERS' MESSAGE

# CLAIRVEST DELIVERS A 10TH CONSECUTIVE YEAR OF GROWTH IN 2011 AND REACHES \$1B IN CAPITAL UNDER MANAGEMENT

### **FELLOW SHAREHOLDER,**

Clairvest has concluded a successful 2011 fiscal year, marked by a strong balance sheet with ample liquidity, a solid portfolio of investments and the final closing of CEP IV, a \$467 million capital pool – our largest fund to date – for which we have committed \$125 million of our own capital. With a focused strategy, capital to invest and a good team of dedicated professionals, we are well positioned to deliver attractive risk adjusted returns to our limited partners and shareholders.

### **PORTFOLIO**

After surviving a very difficult economic environment, in fiscal 2011 many of our portfolio companies improved their competitive position and achieved significant milestones.

For example, Light Tower Rental Inc. increased its market share in the onshore, U.S. oil field service sector, significantly surpassing pre-recession performance, despite U.S. drilling activity remaining below 2008 levels. The company continues to invest heavily to capitalize on the opportunities in its rapidly expanding regions which include the Permian basin in Texas, the oil rich Bakken shale in North Dakota, and the promising Marcellus shale in Pennsylvania.

Two portfolio companies who had opportunistically invested in infrastructure and acquisitions during the past two years were approached, and ultimately acquired, by strategic buyers in the last few months. Van-Rob Inc. and Hudson Valley Waste Holding, Inc. were Clairvest's first portfolio company sales after a voluntary two-year hiatus from exits during what was a low transaction multiple environment. Both transactions yielded higher returns than public market comparables.

Building on our past gaming experience which started with Gateway Casinos in 2000, Clairvest expanded its gaming portfolio again this year and now has investments in 7 casinos, diversified among geographies, regulatory regimes and development stages.

In fiscal 2011, we closed on our third casino investment in Chile, consolidated all three Chilean casino investments into a single holding structure and brought in strategic partners as co-investors. All of these casinos are profitable and continue to grow. Rivers Casino, located in Des Plaines near Chicago, Illinois, is scheduled to open in July 2011, ahead of plan and below budget. More recently, we allocated \$98 million of our and CEP IV's capital to Centaur LLC, the parent company of Hoosier Park Racing & Casino, a thriving racetrack and gaming complex in Indianapolis.

A challenge for us is the performance of Casino New Brunswick which opened below expectation in May 2010. We are working with its management to turn the performance and expect that this will not be an easy task. We wrote down the investment by half during the year to reflect the current situation.

## **RESULTS**

For the 12 months ended March 31, 2011, Clairvest's book value per share grew to \$19.65 from \$18.32 a year earlier. Our value creation performance continues to be superior to many public market indices. Over the past 10 years, Clairvest has consistently delivered growth in its book value per share, producing a compounded annual growth rate of 10.4% on an after-tax basis, compared with 2.9% pre-tax for the S&P 500. This return is the aggregate of high returns on our invested capital and modest money market returns on our cash balances, which have averaged 43% of our book value over the period, providing our shareholders with a solid risk adjusted return.

## **ACKNOWLEDGEMENT**

Our company has achieved a significant landmark this year, reaching \$1 billion in capital under management but more importantly we achieved record levels of shareholder value. We attribute this success to our investee partners who have demonstrated leadership and astuteness through multiple business cycles, to our board members whose guidance is invaluable, and to our employees who are dedicated to continue to build value for Clairvest and its partners.

We thank our shareholders and limited partners for their confidence in our people and strategy.



Jeff Parr  
Co-Chief Executive Officer



Ken Rotman  
Co-Chief Executive Officer

June 24, 2011

The Management's Discussion and Analysis ("MD&A") of financial condition and results of operations analyzes significant changes in Clairvest Group Inc.'s consolidated financial results, financial position, risks and opportunities. It should be read in conjunction with the Consolidated Financial Statements.

The following MD&A is the responsibility of Management and is as of June 24, 2011. The Board of Directors carries out its responsibility for review of this disclosure through its Audit Committee. The Audit Committee reviews the disclosure and recommends its approval to the Board of Directors. The Board of Directors has approved this disclosure.

## **INTRODUCTION**

Clairvest Group Inc. ("Clairvest" or the "Company") is a Canadian private equity management firm that specializes in partnering with management teams and other stakeholders of both emerging and established companies. Clairvest invests its own capital, and that of third parties, through Clairvest Equity Partners Limited Partnership ("CEP"), 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"] (together, the "CEP Funds") in a small number of carefully selected companies that have the potential to generate superior returns.

The Company's shares are traded on the Toronto Stock Exchange under the stock symbol "CVG".

At March 31, 2011, Clairvest had 14 core investments in 8 different industries. Three of these investments are joint investments with CEP, seven are joint investments with CEP III and two are joint investments with CEP IV and CEP IV-A (together, the "CEP IV Fund"). Clairvest also holds investments in Wellington Financial Fund II ("Wellington Fund II") and in Wellington Financial Fund III ("Wellington Fund III"), both affiliated entities (together, the "Wellington Funds").

## **OVERVIEW OF FISCAL 2011**

An overview of the significant events during fiscal 2011 follows:

- Clairvest completed fundraising for the CEP IV Fund pool, which is comprised of Clairvest, CEP IV and CEP IV-A, with \$467 million in capital commitments, or 117% of the \$400 million CEP IV Fund pool target. Clairvest is committed to investing \$125 million alongside \$342 million raised from third party investors.
- Clairvest, the CEP IV Fund, and co-investors (the "Group"), through various acquisition entities, invested US\$72.0 million for an ultimate 40.0% ownership interest in Midwest Gaming Holdings, LLC ("Midwest Gaming") to build a casino and amenities in Des Plaines, Illinois. In addition to this investment, the Group advanced an additional US\$15.8 million of bridge capital to Midwest Gaming to bridge the raising of equity from minority investors as required by the Illinois legislature. This bridge capital will be repaid as minority investors are approved by the Illinois Gaming Board, US\$8.1 million of which has been repaid to June 24, 2011. The project is expected to open in July 2011. Clairvest's portion of the investment in Midwest Gaming at March 31, 2011 was US\$9.1 million (C\$9.1 million) for a 5.0% ultimate ownership in Midwest Gaming.
- Clairvest, the CEP IV Fund and co-investors invested US\$114.1 million in senior secured first lien debt ("Senior Debt") of Centaur, LLC ("Centaur"). Centaur holds various gaming interests including the Hoosier Park Racing & Casino in Indianapolis, Indiana, one of two gaming facilities serving this 1.7 million person Indianapolis area market. As part of the transaction, Clairvest has entered into an agreement with other holders of Senior Debt to vote together in furtherance of their mutual interest in the ongoing Chapter 11

## MANAGEMENT'S DISCUSSION AND ANALYSIS

proceedings for Centaur. Clairvest's portion of the investment was US\$30.0 million (C\$30.2 million), representing an 8.8% interest of the total Senior Debt issued by Centaur.

- Clairvest and CEP III completed a consolidation of their Chilean gaming investments, now held through Chilean Gaming Holdings. Subsequent to the consolidation, Chilean Gaming Holdings completed a US\$20 million (C\$20.9 million) equity investment in Casino Sol Calama. Latin Gaming Chile, S.A. ("Latin Gaming Chile"), the operator of Casino Sol Calama, repaid the bridge loans advanced in anticipation of this equity investment. As a result of these transactions, Clairvest received net cash proceeds of \$12.7 million and retained a 36.8% ownership interest in Chilean Gaming Holdings, which owns a 50% equity stake in each of Casino Marina del Sol ("Casino del Sol"), Casino Osorno and Casino Sol Calama.
- Clairvest and CEP sold their interests in Van-Rob Inc. ("Van-Rob") for cash proceeds of \$35.0 million. On a combined \$20.0 million investment, Clairvest and CEP generated a pre-tax return of over 1.8 times invested capital over the life of the investment. On closing, cash proceeds to Clairvest were \$8.7 million on a \$5.0 million investment.
- Clairvest filed a new normal course issuer bid enabling it to make market purchases of up to 797,678 of its common shares in the 12-month period commencing March 6, 2011. Clairvest has purchased 560,871 common shares for \$7.9 million under this bid to June 24, 2011. As at June 24, 2011, Clairvest had repurchased a total of 6,270,449 common and non-voting shares over the last eight years.
- Clairvest closed on a new 10-year, \$75 million, committed credit facility. The credit facility is unsecured and bears interest at the rate of 11.0% per annum on drawn amounts and 1.0% per annum on undrawn amounts. The credit facility was not drawn during the current fiscal year and enhances Clairvest's available liquidity.
- Clairvest paid an annual dividend of \$0.10 per share. The dividend was paid on July 26, 2010 to common shareholders of record as of July 9, 2010. The dividend was an eligible dividend for Canadian income tax purposes.

### OUTLOOK

The Company continues to deploy its resources to maximize shareholder value.

With the CEP IV Fund pool fundraising completed during fiscal 2011, Clairvest's capital under management has increased to over \$1 billion. The newly raised capital is expected to generate an annual increase in net management fees and/or priority distributions, providing a steady stream of revenue over the next few years.

At March 31, 2011, Clairvest had \$138.3 million in cash, cash equivalents and temporary investments, access to \$95.0 million in credit facilities and \$297.8 million of additional capital available through the CEP Funds to fund new and follow-on investments. With this capital, Clairvest is in a strong position to support the growth of its investee companies and to continue its active pursuit of new investment opportunities using our domain-based proprietary research to explore a number of industries and uncover new potential investments.

Subsequent to year end, Clairvest and CEP III sold their interests in Hudson Valley Waste Holding, Inc. ("Hudson Valley") for cash proceeds of US\$70.0 million (C\$67.6 million). On a combined US\$35.3 million (C\$36.9 million) investment, Clairvest and CEP III generated a pre-tax return of 1.8 times invested capital, after currency conversion. Clairvest's share of total cash proceeds is C\$16.3 million on a C\$9.2 million investment. At March 31, 2011, Clairvest's carrying value of Hudson Valley Waste was \$16.3 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **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. Such factors include general and economic business conditions and regulatory risks. 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.

### **REGULATORY FILINGS**

The Company's continuous disclosure materials, including interim filings, annual MD&A and audited consolidated financial statements, Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SUMMARY OF CLAIRVEST'S CORPORATE INVESTMENTS AT MARCH 31, 2011

Investment	Industry Segment	Geographic Segment	Ownership Percentage <sup>(15)</sup>	Cost of Investment (millions)	Net Cash Investment (millions) <sup>(16)</sup>	Fair Value of Investment (millions) <sup>(17)</sup>	Description of Business
Casino New Brunswick <sup>(1)</sup>	Gaming	Canada	22.5%	\$ 9.2	\$ 9.2	\$ 4.6	A gaming entertainment complex located in Moncton, New Brunswick. CEP III owns 67.5% of Casino New Brunswick.
Centaur, LLC ("Centaur") <sup>(2)</sup>	Gaming	United States	Debt interest	\$ 30.2	\$ 30.2	\$ 31.4	A company which holds various gaming interests including the Hoosier Park Racing & Casino in Indianapolis, Indiana. CEP IV and CEP IV-A also have a debt interest in Centaur.
Chilean Gaming Holdings <sup>(3)</sup>	Gaming	Chile	36.8%	\$ 29.1	\$ 28.3	\$ 29.9	An investment vehicle which holds a 50% equity interest in various gaming entertainment complexes in Chile. CEP III owns 37.6% of Chilean Gaming Holdings.
Hudson Valley Waste Holding, Inc. ("Hudson Valley") <sup>(4)</sup>	Waste Management	United States	6.2%	\$ 9.2	\$ 9.2	\$ 16.3	A regional solid waste company which collects, processes and recycles nonhazardous solid waste in the northeastern United States. The investment was sold subsequent to year end. CEP III owned 18.6% of Hudson Valley.
Kubra Data Transfer Ltd. ("Kubra") <sup>(5)</sup>	Business Services	United States	12.1%	\$ 2.2	\$ 2.2	\$ 8.0	A business process outsourcing company focused on the distribution of household bills on behalf of its customers. CEP III owns 36.3% of Kubra.
Landauer Metropolitan Inc. ("Landauer") <sup>(6)</sup>	Healthcare	United States	14.2%	\$ 5.1	\$ 5.1	\$ 5.6	A supplier of home medical equipment in the northeastern United States area. CEP owns 42.6% of Landauer.
Light Tower Rentals Inc. ("Light Tower Rentals") <sup>(7)</sup>	Oil Field Service	United States	10.8%	\$ 8.2	\$ 8.2	\$ 14.3	An oilfield equipment rental company operating in major oil and gas drilling basins in the United States. CEP III owns 32.5% of Light Tower Rentals.
Lyophilization Services of New England Inc. ("LSNE") <sup>(8)</sup>	Contract Manufacturing	United States	12.3%	\$ 6.7	\$ 6.7	\$ 5.7	A Manchester, New Hampshire based contract manufacturing organization focused on providing lyophilization services to biotech, pharmaceutical and medical device manufacturers. CEP III owns 36.8% of LSNE.
Midwest Gaming Holdings LLC ("Midwest Gaming") <sup>(9)</sup>	Gaming	United States	5.0% ultimate interest	\$ 9.1	\$ 9.1	\$ 10.3	A gaming entertainment complex currently under construction in Des Plaines, Illinois. CEP IV and CEP IV-A own 11.8% and 1.9% ultimate interest of Midwest Gaming respectively.
N-Brook Mortgage L.P. ("N-Brook") <sup>(10)</sup>	Financial Services	Canada	14.7%	\$ 5.0	\$ 5.0	\$ 2.6	A company that originated, adjudicated and underwrote mortgages in Ontario, BC, Manitoba and Alberta, Canada. CEP owns 44.1 % of N-Brook.
PEER 1 Network Enterprises Inc. <sup>(11)</sup>	Information Technology	United States	4.2%	\$ 6.3	\$ 6.3	\$ 8.8	A publicly traded (TSX: PIX) global online IT infrastructure provider based in Vancouver. CEP III owns 12.6% of PEER 1.
Tsui T'ina Gaming Limited Partnership ("Tsui T'ina") <sup>(12)</sup>	Gaming	Canada	Debt interest and profit participation	\$ 5.6	\$ 3.4	\$ 9.1	A charitable casino on Tsui T'ina First Nation reserve lands, located southwest of the city of Calgary. CEP also has a debt interest and profit participation in Tsui T'ina.
Wellington Financial Fund II ("Wellington Fund II") <sup>(13)</sup>	Financial Services	Canada	24.1%	\$ —	\$ (4.3)	\$ 0.2	Provided debt capital and operating lines to technology, biotechnology, communications and industrial product companies.
Wellington Financial Fund III ("Wellington Fund III") <sup>(14)</sup>	Financial Services	Canada	16.7%	\$ 12.5	\$ 6.6	\$ 14.3	Provides debt capital and operating lines to technology, biotechnology, communications and industrial product companies in Canada and the United States.
<b>OTHER INVESTMENTS</b>				<b>\$ 1.3</b>	<b>\$ 0.3</b>	<b>\$ 1.1</b>	
<b>TOTAL INVESTMENTS</b>				<b>\$ 139.7</b>	<b>\$ 125.5</b>	<b>\$ 162.2</b>	

(1) Clairvest has funded \$9.2 million to Casino New Brunswick by way of debentures and owns units of a limited partnership which holds Casino New Brunswick.

(2) Clairvest invested \$30.2 million in senior secured first lien debt of Centaur.

(3) Clairvest owns 30,446,299 units of Chilean Gaming Holdings which holds a 50% interest in each of Casino Marina del Sol, Casino Osorno and Casino Sol Calama.

(4) Clairvest owned 8,750 Series A convertible preferred shares of Hudson Valley which was sold subsequent to year end.

(5) Clairvest owns 3,250,000 Class A voting common shares of Kubra.

(6) Clairvest owns 1,906,250 10% cumulative convertible preferred shares, 748,133 common shares, a \$0.6 million subordinated secured convertible note at 10% interest per annum and \$0.3 million of bridge loans of Landauer.

(7) Clairvest owns 5,841,250 Series A convertible preferred shares

of Light Tower Rentals and 2,215,736 common shares of LTR Equipment Inc., a company affiliated with Light Tower Rentals.

(8) Clairvest owns 6,406,000 Series A 10% cumulative convertible preferred shares and a \$0.3 million unsecured loan of LSNE.

(9) Clairvest owns 10,627,066 units of Midwest Gaming.

(10) Clairvest has funded \$5.0 million to N-Brook in the form of partnership units and warehouse loans.

(11) Clairvest owns 5,134,617 common shares and 50,000 options for common shares of PEER 1.

(12) Clairvest has funded \$5.6 million to Tsui T'ina by way of 16% debentures.

(13) Clairvest had funded \$13.6 million to Wellington Fund II and had received all of its capital back at March 31, 2011. The net cash investment is reduced by \$4.3 million as a result of income distributions received to date.

(14) Clairvest has committed to fund \$25.0 million to Wellington Fund

III, \$12.5 million of which had been funded at March 31, 2011. The net cash investment is reduced by \$5.9 million as a result of income distributions received to date.

(15) Ownership percentage calculated on a fully diluted basis at March 31, 2011.

(16) Net cash investment is comprised of cost net of dividends, interest and other distributions received but excludes advisory and other fees received and foreign exchange gains or losses on foreign exchange forward contracts entered into as hedges against Clairvest's foreign denominated investments.

(17) The determination of fair value incorporates the quoted market value of Clairvest's publicly-traded investments and an estimate of fair value for privately-held investments. The fair value of foreign exchange forward contracts entered into as hedges against Clairvest's foreign denominated investments is not included in this fair value.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL HIGHLIGHTS

#### Selected Financial Performance Measures

Year ended March 31, (\$000's, except per share amounts)	2011	2010	2009
<b>Financial performance measures</b>			
Net realized gains (losses) on corporate investments	\$ 3,861	\$ 153	\$ (70,876)
Net unrealized gains (losses) on corporate investments	16,249	7,880	(2,518)
Net income	19,564	8,497	26,088
Basic net income per share	1.23	0.53	1.64
Fully diluted net income per share	1.20	0.52	1.59
Dividends declared per share	0.10	0.10	0.73
<b>Financial condition measures (as at March 31)</b>			
Total assets	\$ 318,860	305,960	308,004
Total cash, cash equivalents and temporary investments	138,338	152,228	184,412
Total corporate investments	162,177	118,881	102,865
Total liabilities	16,458	13,675	22,621
Book value	302,402	292,285	285,383
Common shares outstanding	15,392,695	15,953,566	15,953,566
Book value per share	19.65	18.32	17.89

#### Income Statement Highlights

Clairvest's operating results reflect revenue earned from its corporate investments and cash, cash equivalents and temporary investments and realized and unrealized gains and losses on its corporate investments. These results are net of all costs incurred to manage these assets. The operating results of the CEP Funds are not included in Clairvest's operating results.

Net income for the year ended March 31, 2011 was \$19.6 million, versus \$8.5 million for the year ended March 31, 2010 and \$26.1 million for the year ended March 31, 2009.

Clairvest had net realized gains of \$3.9 million in fiscal 2011 versus net realized gains of \$0.2 million in fiscal 2010 and net realized losses of \$70.9 million in fiscal 2009. The net realized gains in 2011 resulted primarily from the realization of Clairvest's interest in Van-Rob. The net realized gains in 2010 resulted primarily from the early repayment of a \$4.4 million promissory note from the acquirer of Shepell•fgi. The net realized losses in 2009 resulted primarily from a loss of \$98.1 million on the realization of Clairvest's interests in Gateway Casinos Inc. ("Gateway Casinos") (which was offset by \$104.5 million in dividends received from Gateway Casinos) and a gain of \$26.3 million on the realization of Shepell•fgi.

Clairvest had net unrealized gains on investments of \$16.2 million in fiscal 2011 versus net unrealized gains on investments of \$7.9 million in fiscal 2010 and net unrealized losses on investments of \$2.5 million in fiscal 2009. Unrealized gains or losses result from changes in the fair value of the investments from one year to the next and do not reflect foreign exchange revaluations. Clairvest has implemented a hedging strategy to limit its exposure to changes in the value of foreign denominated currencies relative to the Canadian dollar by hedging 100% of the fair value of its foreign investments. The unrealized gains or losses on corporate investments are summarized as follows:

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Unrealized Gains (Losses) on Investments (\$'000's)

Year ended March 31,	2011	2010	2009
<b>Investments in publicly-traded companies</b>			
PEER 1 Network Enterprises Inc.	\$ 3,528	\$ (438)	\$ —
	<b>3,528</b>	<b>(438)</b>	<b>—</b>
<b>Investments in privately-held companies</b>			
Casino New Brunswick	<b>(4,606)</b>	—	—
Centaur, LLC	<b>2,266</b>	—	—
Hudson Valley Waste Holding, Inc.	<b>7,712</b>	—	—
Kubra Data Transfer Limited	<b>1,828</b>	1,843	2,640
Landauer Metropolitan Inc.	<b>(2,936)</b>	3,041	358
Light Tower Rentals Inc.	<b>6,545</b>	—	—
Lyophilization Services of New England Inc.	<b>784</b>	—	(2,007)
N-Brook Mortgage LP	—	(490)	(1,922)
Tsuu T'ina Gaming Limited Partnership	<b>459</b>	529	319
Van-Rob Inc.	—	1,103	(1,250)
Wellington Financial Fund II	<b>23</b>	(49)	(415)
Wellington Financial Fund III	<b>538</b>	623	195
	<b>12,613</b>	6,600	(2,082)
<b>Other investments</b>	<b>108</b>	1,718	(436)
	<b>\$ 16,249</b>	<b>\$ 7,880</b>	<b>\$ (2,518)</b>

Further details on unrealized gains/losses on investments can be found in the discussion of Clairvest's corporate investments below.

Net income in fiscal 2011 included distributions and interest income of \$14.8 million, dividend income of \$0.7 million, management fees from CEP and CEP IV-A of \$1.1 million, advisory and other fees from Clairvest investee companies of \$1.0 million, administration and other expenses of \$14.0 million, finance and foreign exchange expense of \$1.1 million and income tax expense of \$3.1 million. Included in distributions and interest income was \$5.6 million in priority distributions from CEP III and CEP IV, \$3.1 million in General Partner income distributions from CEP and \$3.0 million in distributions from Clairvest's investee companies. Included in dividends were dividends totaling \$0.5 million from Clairvest's investee companies. Included in administration and other expenses were management bonuses and share-based compensation expense totaling \$5.8 million.

Net income in fiscal 2010 included distributions and interest income of \$14.4 million, dividend income of \$0.3 million, management fees from CEP of \$1.0 million, advisory and other fees from Clairvest investee companies of \$1.0 million, administration and other expenses of \$18.7 million, finance and foreign exchange expense recovery of \$0.9 million and income tax expense recovery of \$1.5 million. Included in distributions and interest income was \$4.1 million in priority distributions from CEP III, \$3.4 million in General Partner income distributions from CEP and \$3.3 million in distributions from Clairvest's investee companies. Included in administration and other expenses were management bonuses and share-based compensation expense totaling \$7.8 million.

Net income in fiscal 2009 included distributions and interest income of \$11.6 million, dividend income of \$105.2 million, management fees from CEP of \$1.2 million, advisory and other fees from Clairvest investee companies of \$0.9 million, administration and other expenses of \$12.5 million, finance and foreign exchange expense of \$1.8 million and income tax expense of \$5.0 million. Included in distributions and interest income was \$4.1 million in priority distributions from CEP III, \$1.5 million in General Partner income distributions from CEP and \$3.3 million in distributions from Clairvest's investee companies. Included in dividend income were tax-free dividends totaling \$104.5 million from Gateway Casinos. These dividends were received as part of the final distribution of assets from Gateway Casinos. Included in administration and other expenses were management bonuses and share-based compensation expense totaling \$3.5 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Balance Sheet Highlights

#### ASSETS

Total assets at March 31, 2011 were \$318.9 million, an increase of \$12.9 million from \$306.0 million at March 31, 2010.

With \$138.3 million in cash, cash equivalents and temporary investments ("treasury funds") and \$95.0 million in credit facilities, Clairvest has sufficient capital and liquidity to support its current and anticipated investments.

At March 31, 2011, the Company's treasury funds were held in cash and term deposits, money market savings accounts rated R1-High, corporate bonds rated not below BBB, guaranteed investment certificates and investment savings accounts rated not below AA- and preferred shares rated not below P-2 low (see Notes 3 and 14 to the consolidated financial statements for a detailed discussion of the Company's treasury funds).

Clairvest has a \$20.0 million credit facility. The credit facility is unsecured and bears interest at the bank prime rate plus 0.5% per annum. The amount available under the credit facility at March 31, 2011 is \$20.0 million, which is based on debt covenants within the banking arrangement.

During the year, Clairvest closed on a new 10-year, \$75.0 million, committed credit facility, bringing total available credit to \$95.0 million. The new credit facility is unsecured and bears interest at the rate of 11.0% per annum on drawn amounts and 1.0% per annum on undrawn amounts. The amount available under the credit facility at March 31, 2011 is \$75.0 million.

As is typical of a private equity management firm, Clairvest's main asset is its corporate investments. Corporate investments increased \$43.3 million to \$162.2 million at March 31, 2011. The increase is comprised primarily of:

- A \$30.2 million investment in Centaur;
- A \$9.1 million investment in Midwest Gaming;
- Net follow-on investments totaling \$6.5 million in existing investee companies;
- Net unrealized gains on corporate investments of \$16.2 million; partially offset by
- Net return of capital as a result of the consolidation of Chilean gaming investments of \$12.7 million;
- Realization of Van-Rob which was carried at \$4.9 million at March 31, 2010; and
- Repayment of \$1.1 million in promissory notes from the acquirer of Shepell•fji.

Corporate investments increased \$16.0 million to \$118.9 million from March 31, 2009 to March 31, 2010. The increase primarily resulted from a \$9.2 million investment in Hudson Valley, a \$6.3 million investment in PEER 1, \$10.8 million in follow-on investments in existing investee companies partially offset by unrealized depreciation in carrying values due to currency fluctuations net of unrealized gains.

The cost and fair value of corporate investments described below do not reflect foreign exchange gains or losses on the foreign exchange forward contracts entered into as hedges against the Company's foreign denominated investments. A discussion on the activity in each corporate investment held at March 31, 2011 follows.

### Casino New Brunswick

During fiscal 2011, Clairvest funded a further \$0.5 million in Casino New Brunswick. The investments were made in the form of debentures, which bore interest at a rate of 6% per annum until February 28, 2011.

Also during fiscal 2011, management determined that the carrying value of Casino New Brunswick should be written down by \$4.6 million.

At March 31, 2011, Clairvest has funded \$9.2 million to Casino New Brunswick. Clairvest also holds units of a limited partnership which holds Casino New Brunswick, entitling Clairvest to 22.5% of the earnings of the casino.

The fair value of \$4.6 million at March 31, 2011 compares to cost of \$9.2 million. The fair value reflects management's estimated realizable value as a result of operations underachieving against expectations.

Subsequent to year end, Clairvest pledged \$5.4 million to a Schedule 1 Canadian chartered bank which has provided debt financing to Casino New Brunswick. The pledge was made to support the guarantee to fund any operating deficiencies of Casino New Brunswick as described in the Off-Balance Arrangements section of the MD&A.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Centaur, LLC**

During fiscal 2011, Clairvest invested \$29.9 million in senior secured first lien loans ("Senior Debt") of Centaur, which holds various gaming interests including the Hoosier Park Racing & Casino in Indianapolis, Indiana. As part of the investment, Clairvest also purchased a \$0.3 million promissory note ("Promissory Note") from an unrelated investment partner. The Promissory Note is repayable upon Clairvest's realization of its investment in Centaur, and as a result, the Senior Debt and the Promissory Note have been presented on an aggregate basis.

The fair value of \$31.4 million at March 31, 2011 compares to cost of \$30.2 million. The fair value reflects the last known transaction price and is adjusted for foreign exchange fluctuations.

### **Chilean Gaming Holdings**

During fiscal 2011, Clairvest completed a consolidation of its Chilean gaming investments whereby Clairvest sold its interest in Casino del Sol and Casino Osorno as well as the \$14.5 million bridge loans advanced to Latin Gamin Chile, \$2.1 million of which were advanced during fiscal 2011, at original cost to a related holding entity ("Chilean Gaming Holdings") and received net cash proceeds of \$15.9 million and 27,254,185 limited partnership units of Chilean Gaming Holdings. Subsequently, Chilean Gaming Holdings closed on an equity investment in Casino Sol Calama wherein Chilean Gaming Holdings invested \$20.9 million to acquire a 50% ownership interest in Casino Sol Calama. The \$14.5 million of bridge loans which had previously been advanced to Latin Gaming Chile were repaid in full upon the closing of the equity investment in Casino Sol Calama. Clairvest invested an additional \$3.2 million for 3,192,113 limited partnership units of Chilean Gaming Holdings to support this acquisition.

The fair value of \$29.9 million at March 31, 2011 compares to cost of \$29.1 million, with the difference being attributable to foreign exchange adjustments.

### **Hudson Valley Waste Holding, Inc.**

At March 31, 2011, Clairvest owned 8,750 Series A convertible preferred shares of Hudson Valley. The investment was sold subsequent to year end for cash proceeds of \$16.3 million. Over the life of the investment, Clairvest realized a \$7.1 million gain on the investment and a \$0.6 million gain on the foreign exchange forward contracts entered into as hedges against the Company's investment in Hudson Valley.

The fair value of Hudson Valley of \$16.3 million compares to cost of \$9.2 million. The fair value reflects the valuation used for the sale transaction which occurred subsequent to year end.

### **Kubra Data Transfer Limited**

At March 31, 2011, Clairvest owned 3,250,000 Class A voting common shares of Kubra.

The fair value of Kubra of \$8.0 million compares to a cost of \$2.2 million. The fair value reflects management's estimated realizable value as a result of the continuing growth in Kubra and is adjusted for foreign exchange fluctuations.

### **Landauer Metropolitan Inc.**

During fiscal 2011, Clairvest advanced a \$0.1 million bridge loan to Landauer. The loan bears interest at a rate of 12% per annum, payable monthly, and is repayable on September 24, 2015. Any unpaid interest accrues interest at the same rate. The Company has the option to convert the bridge loan to common shares of Landauer at a rate of \$1.00 per share if the loan is not repaid by September 24, 2015. Also during fiscal 2011, Clairvest invested a further \$0.6 million in Landauer. The investment was made in the form of a subordinated secured convertible note with 10% accrued interest per annum. The note is convertible to senior convertible preferred shares which have a two times liquidation preference in lieu of interest. Each senior convertible preferred share is convertible into common shares at a rate of \$0.50 per share in lieu of two times the liquidation preference and the conversion is at Clairvest's discretion.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In addition to the bridge loans and the subordinated secured convertible note, at March 31, 2011, Clairvest owned 1,906,250 10% cumulative convertible preferred shares, 748,133 common shares and \$0.2 million in bridge loans which bear interest at a rate of 25% per annum and convertible to common shares of Landauer at a rate of \$1.00 per share.

The fair value of \$5.6 million at March 31, 2011 compares to a cost of \$5.1 million. The fair value reflects management's estimated realizable value considering the status of the preferred shares and subordinated secured debentures and is adjusted for foreign exchange fluctuations.

### **Light Tower Rentals Inc.**

During fiscal 2011, Clairvest invested \$1.9 million for 1,874,914 common shares of LTR Equipment Inc. ("LTR Equipment"), a company affiliated with Light Tower Rentals which supplies certain equipment to Light Tower Rentals.

At March 31, 2011, Clairvest owned 5,841,250 Series A convertible preferred shares in Light Tower Rentals and 2,215,736 common shares of LTR Equipment.

On an aggregate basis, the fair value of Light Tower Rentals and LTR Equipment (together, "LTR") of \$14.3 million at March 31, 2011 compares to cost of \$8.2 million. The fair value reflects management's estimated realizable value as a result of the growth prospects of LTR and is adjusted for foreign exchange fluctuations.

### **Lyophilization Services of New England Inc.**

During fiscal 2011, Clairvest funded a further \$0.3 million to LSNE in the form of unsecured loans to further support the growth of LSNE.

In addition to the unsecured loans, at March 31, 2011, Clairvest owned 6,406,000 Series A 10% cumulative convertible preferred shares of LSNE.

The fair value of \$5.7 million at March 31, 2011 compares to a cost of \$6.7 million. The fair value reflects management's estimated realizable value and is adjusted for foreign exchange fluctuations.

### **Midwest Gaming Holdings LLC**

During fiscal 2011, Clairvest and a limited partnership referred to as Participation IV Partnership (see Transaction with Related Parties) invested \$10.7 million to acquire 10,627,066 units of Midwest Gaming, a gaming entertainment complex currently under construction in Des Plaines, Illinois. Clairvest's portion of the investment was \$9.1 million. \$2.0 million of this investment represents bridge capital in anticipation of raising equity from minority investors as required by the Illinois legislature.

The fair value of \$10.3 million at March 31, 2011 compares to a cost of \$9.1 million. The fair value reflects management's estimated realizable value and is adjusted for foreign exchange fluctuations.

### **N-Brook Mortgage LP**

At March 31, 2011, Clairvest owned 4,000,000 Series 1 limited partnership units and 15 Class A ordinary limited partnership units of N-Brook and had advanced a \$1.1 million variable rate demand debenture to N-Brook.

The fair value of \$2.6 million at March 31, 2011 compares to a cost of \$5.0 million. The fair value reflects management's estimated realizable value based on the remaining mortgage portfolio held by N-Brook.

### **PEER 1 Network Enterprises Inc.**

At March 31, 2011, Clairvest owned 5,134,617 common shares and 50,000 stock options for common shares of PEER 1.

The fair value of \$8.8 million at March 31, 2011 compares to cost of \$6.3 million. The fair value reflects the last bid price of PEER 1's publicly traded common shares at the balance sheet date.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

At March 31, 2011, Clairvest had funded \$5.6 million in subordinated debt. The subordinated debt has a 16% coupon, and an entitlement to between 2.8% and 9.6% of the earnings of the casino from the date of commencement of operations, December 19, 2007, for a period of 15 years.

The fair value of \$9.1 million at March 31, 2011 compares to a cost of \$5.6 million. The fair value reflects accrued interest on the subordinated debt and management's estimated realizable value on the earnings entitlement.

### **Wellington Financial Fund II**

Clairvest, as a limited partner, had funded \$13.6 million to Wellington Fund II, all of which had been returned at March 31, 2011. Clairvest is also entitled to participate in the profits received by the General Partner of Wellington Fund II. At March 31, 2011, Clairvest had received income distributions totaling \$4.3 million from Wellington Fund II and its General Partner.

The fair value of \$0.2 million at March 31, 2011 reflects management's estimated realizable value of the remaining assets in Wellington Fund II.

### **Wellington Financial Fund III**

Clairvest, as a limited partner, had funded \$12.5 million of its \$25.0 million commitment to Wellington Fund III at March 31, 2011. The commitment to fund capital calls extends until January 2014. Clairvest is also entitled to participate in the profits received by the General Partner of Wellington Fund III. At March 31, 2011, Clairvest has received income distributions totaling \$5.9 million from Wellington Fund III and its General Partner, bringing the net cash investment to \$6.6 million.

The fair value of \$14.3 million at March 31, 2011 reflects management's estimated realizable value of Clairvest's entitlement as a limited partner and a general partner of Wellington Fund III.

Subsequent to year end, a further \$1.2 million was funded to Wellington Fund III.

## LIABILITIES

Total liabilities at March 31, 2011 were \$16.5 million, an increase of \$2.8 million from \$13.7 million at March 31, 2010. The increase in total liabilities was primarily due to a \$1.3 million increase in stock-based compensation liability due to an increase in the closing price of Clairvest common shares and a \$0.9 million liability for the Chilean Pesos ("CLP") foreign exchange forward contracts entered into as hedges against the Company's investments in Chile.

## TRANSACTIONS WITH RELATED PARTIES

A wholly owned subsidiary of Clairvest ("GP I") has entered into a Management Agreement with the General Partner of CEP, appointing GP I as the Manager of CEP. The General Partner is another wholly owned subsidiary of Clairvest. The Management Agreement provides that a management fee be paid to GP I as compensation for its services in the administration of the portfolio of CEP. The fee was calculated annually as 2% of committed capital until August 21, 2006, the fifth anniversary of the last closing of CEP, and thereafter at 2% of contributed capital less distributions on account of capital and write-downs of capital invested. Effective January 1, 2011, the CEP management fee was reduced to 1.5% per annum of contributed capital less distributions on account of capital and write-downs of capital invested. The management fee is reduced to the extent of 75% of fees earned by Clairvest of GP I from corporate investments of CEP. During fiscal 2011, GP I earned net management fees of \$0.9 million as compensation for its services in the administration of the portfolio of CEP. As per the Management Agreement, fees of \$0.2 million from corporate investments of CEP were netted against the management fees.

The General Partner of CEP is entitled to participate in distributions made by CEP equal to 20% of net gains of CEP. The distributions to the General Partner will be determined based on the overall performance of CEP and no such distributions are permitted until CEP's limited partners have received amounts equal to the sum of their contributed capital and a return equal to 6% per annum compounded annually. The distributions received by the General Partner of CEP will be allocated

## MANAGEMENT'S DISCUSSION AND ANALYSIS

50% to each of its limited partners, one of which is another wholly owned subsidiary of Clairvest, and the other of which is another limited partnership (the "Participation Partnership"). The limited partners of the Participation Partnership are principals and employees of Clairvest and GP I (the "Participation Investors"). The Participation Investors have purchased, at fair market value, units of the Participation Partnership. From time to time, additional units in the Participation Partnership may be purchased by the Participation Investors.

During fiscal 2011, CEP declared distributions to the General Partner totaling \$6.2 million, 50% of which, or \$3.1 million, was allocated to Clairvest. At March 31, 2011, CEP had declared and paid distributions to the General Partner totaling \$15.9 million, 50% of which, or \$8.0 million, was allocated to Clairvest. If CEP were to sell its corporate investments at their current fair values, the General Partner would receive up to a further \$10.7 million of distributions, 50% of which, or \$5.3 million, would be payable to Clairvest.

Clairvest is also the parent company of the two General Partners of CEP III (GP I and "GP II"). GP I is entitled to a priority distribution from CEP III. The priority distribution was calculated monthly as 0.1667% of commitment capital until January 13, 2011, the date on which CEP III is closed to new investments, and thereafter 0.1667% of invested capital net of write-downs of capital then invested. The priority distribution is reduced to the extent of 75% of any fees earned by GP I from corporate investments of CEP III.

During fiscal 2011, CEP III declared to GP I net priority distributions of \$3.8 million. As per the Limited Partnership Agreement, fees of \$0.4 million from corporate investments of CEP III were netted against the priority distributions. GP I is also entitled to distributions made by CEP III equal to 2% of net gains of CEP III determined as described below.

GP II, a limited partnership, the General Partner of which is a wholly owned subsidiary of Clairvest, is entitled to participate in distributions made by CEP III equal to 18% of net gains of CEP III. These distributions to GP II, and GP I as noted above, will be determined based on the overall performance of CEP III. No such distributions are permitted until CEP III's limited partners have received amounts equal to the sum of their contributed capital and a return equal to 8% per annum compounded annually. To date, CEP III has not made any distributions to GP II. If CEP III were to sell its corporate investments at their current fair values, GP I and GP II would not receive any distributions other than the priority distributions described above. Any distributions received by GP II will be allocated to each of its two limited partners, one of which is a wholly owned subsidiary of Clairvest which will receive 44.4% of such distributions, and the other of which is another limited partnership (the "Participation III Partnership") which will receive 55.6% of such distributions. The limited partners of the Participation III Partnership are principals and employees of Clairvest and GP I (the "Participation III Investors"). The Participation III Investors have purchased, at fair market value, units of the Participation III Partnership. From time to time, additional units in the Participation III Partnership may be purchased by Participation III Investors.

GP II, as the General Partner of the Participation III Partnership, is entitled to participate in additional distributions equal to the exit value of the first \$1.1 million contributed by the Participation III Investors into the Participation III Partnership plus the first \$0.2 million received by the Participation III Partnership as described above.

GP II is also entitled to 8.25% carried interest in respect of CEP III Co-Investment Limited Partnership ("CEP III Co-Invest"). CEP III Co-Invest was established in fiscal 2007 as the investment vehicle through which Clairvest would co-invest alongside CEP III. Distributions received by GP II from CEP III Co-Invest will be allocated 100% to the Participation III Partnership. To date, CEP III Co-Invest has not made any distributions.

Clairvest is also the parent company of the two General Partners of CEP IV (GP I and "GP III"). GP I is entitled to a priority distribution from CEP IV. The priority distribution is calculated monthly as follows: i) from April 2010, being the month in which CEP IV made its first investment, to January 13, 2011, being the last day on which CEP III calculated its priority distributions based on committed capital ("CEP III Termination Date"), 0.1667% of capital allocated to specifically identifiable investments net of write-downs of capital invested; ii) from January 14, 2011 to January 13, 2016, being the fifth anniversary of the date of final closing of CEP IV, 0.1667% of committed capital; and iii) thereafter 0.1667% of invested capital net of write-downs of capital then invested. The priority distribution is reduced to the extent of 63.2% of any fees earned by GP I from corporate investments of CEP IV.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

During fiscal 2011, CEP IV declared net priority distributions to GP I of \$1.8 million. GP I is also entitled to distributions made by CEP IV equal to 2% of net gains of CEP IV determined as described below.

GP III, a limited partnership, the General Partner of which is a wholly-owned subsidiary of Clairvest, is entitled to participate in distributions made by CEP IV equal to 18% of net gains of CEP IV. These distributions to GP III, and GP I as noted above, will be determined based on the overall performance of CEP IV. No such distributions are permitted until CEP IV's limited partners have received amounts equal to the sum of their contributed capital and a return equal to 8% per annum compounded annually. To date, CEP IV has not made any distributions to GP III. Any distributions received by GP III will be allocated to each of its two limited partners, one of which is a Clairvest Subsidiary which will receive 44.4% of such distributions, and the other of which is another limited partnership (the "Participation IV Partnership") which will receive 55.6% of such distributions. The limited partners of the Participation IV Partnership are principals and employees of Clairvest and GP I (the "Participation IV Investors"). The Participation IV Investors purchased, at fair market value, units of the Participation IV Partnership. From time to time, additional units in the Participation IV Partnership may be purchased by Participation IV Investors.

The General Partner of Participation IV, a wholly owned subsidiary of Clairvest, is entitled to participate in additional distributions equal to the exit value on the first \$1.6 million contributed by the Participation IV Investors into the Participation IV Partnership plus the first \$0.4 million received by the Participation IV Partnership as described above.

GP III is also the General Partner of CEP IV-A. GP III has appointed GP I as the Manager of CEP IV-A. The Limited Partnership Agreement of CEP IV-A provides that a management fee be paid to GP I as compensation for its services in the administration of the portfolio of CEP IV-A. The fee is calculated as follows: i) from April 2010, being the month in which CEP IV-A made its first investment, to January 13, 2011, being the CEP III Termination Date, 0.1667% of capital allocated to specifically identifiable investments net of write-downs of capital invested; ii) from January 14, 2011 to January 13, 2016, being the fifth anniversary of the date of final closing of CEP IV-A, 0.1667% of committed capital; and iii) thereafter 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 GP I from corporate investments of CEP IV-A and other amounts as provided in the Limited Partnership Agreement.

During fiscal 2011, GP I earned net management fees of \$0.2 million as compensation for its services in the administration of the portfolio of CEP IV-A. As per the Limited Partnership Agreement, \$0.1 million was netted against the management fees.

GP III is entitled to participate in distributions made by CEP IV-A equal to 20% of net gains of CEP IV-A. These distributions will be determined based on the overall performance of CEP IV-A. No such distributions are permitted until CEP IV-A's limited partners have received amounts equal to the sum of their contributed capital and a return equal to 8% per annum compounded annually. To date, CEP IV-A has not made any distributions to GP III. Any distributions received by GP III will be allocated to each of its two limited partners, one of which is Clairvest which will receive 50% of such distributions, and the other of which is Participation IV Partnership which will receive 50% of such distributions.

GP III is also entitled to an 8.25% carried interest in respect of CEP IV Co-Investment Limited Partnership ("CEP IV Co-Invest"). CEP IV Co-Invest was established in fiscal 2010 as the investment vehicle through which Clairvest would co-invest alongside CEP IV. Distributions received by GP III from CEP IV Co-Invest will be allocated 100% to the Participation IV Partnership. To date, CEP IV Co-Invest has not made any distributions.

At March 31, 2011, Clairvest had loans receivable from certain officers of the Company and GP I (the "Officers") totaling \$0.7 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 \$1.0 million. At March 31, 2011, Clairvest also had loans receivable from certain officers of a company affiliated with Clairvest totaling \$0.5 million. The loans are interest bearing and have full recourse to the individual. Interest of \$44 thousand was earned on these loans during fiscal 2011.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Loans totaling \$2.1 million, bearing interest at the prime rate, were made by the Company to CEP during fiscal 2011. These loans and the \$0.6 million in loans outstanding at March 31, 2010 were repaid in full during the year. Interest of \$4 thousand was earned from loans to CEP during fiscal 2011.

Loans totaling \$8.2 million, bearing interest at the prime rate, were made by the Company to CEP III during fiscal 2011. During fiscal 2011, these loans were repaid in full. Interest of \$4 thousand was earned from loans to CEP III during fiscal 2011.

Loans totaling \$45.6 million, bearing interest at the prime rate, made by the Company to CEP IV during fiscal 2011 were repaid in full during the year. Interest of \$8 thousand was earned from loans to CEP IV during fiscal 2011.

During fiscal 2011, Clairvest earned \$3.0 million in distributions and interest income and \$1.0 million in fee income from its investee companies. At March 31, 2011, Clairvest had accounts receivable from its investee companies totaling \$3.2 million, from CEP totaling \$5 thousand, from CEP III totaling \$0.4 million, from CEP IV totaling \$0.3 million and from CEP IV-A totaling \$0.2 million.

During fiscal 2011, Clairvest and a director of Clairvest entered into an agreement to purchase an aircraft for a total cost of \$3.5 million, \$1.7 million of which was paid by Clairvest. The aircraft is owned 50% by Clairvest and 50% by the director of Clairvest. Clairvest's portion of the net book value of the aircraft of \$1.7 million is recorded in accounts receivable and other assets.

### SUMMARY OF QUARTERLY RESULTS

	Gross Revenue	Net Income	Net Income Per Common Share*	Net Income Per Common Share Fully Diluted*
(\$000's except per share information)	\$	\$	\$	\$
March 31, 2011	21,122	13,952	0.88	0.86
December 31, 2010	8,439	4,652	0.29	0.29
September 30, 2010	3,704	69	—	—
June 30, 2010	4,501	891	0.06	0.05
March 31, 2010	4,476	1,875	0.12	0.11
December 31, 2009	8,747	2,268	0.14	0.14
September 30, 2009	5,520	3,692	0.23	0.23
June 30, 2009	6,003	662	0.04	0.04

\*The sum of quarterly net income per common share may not equal to the full year net income per common share due to rounding and the anti-dilutive effect on any quarters where the Company reported a net loss.

Significant variations arise in the quarterly results due to realized gains and losses on corporate investments, unrealized gains and losses on corporate investments which are re-valued on a quarterly basis when conditions warrant an adjustment to the fair value of the corporate investment, and stock-based compensation due to the movement in the trading price of Clairvest's common shares.

### FOURTH QUARTER RESULTS

Net income for the fourth quarter of fiscal 2011 was \$14.0 million compared with a net income of \$1.9 million for the fourth quarter of fiscal 2010. Net income for the fourth quarter of fiscal 2011 is comprised of \$13.6 million of net corporate investment gains, \$1.8 million of net operating income, and \$1.4 million of income tax expense. This compares with net corporate investment gains of \$1.2 million, \$0.3 million of net operating loss, and \$1.0 million of income tax expense recoveries for the fourth quarter of fiscal 2010.

The net corporate investment gains of \$13.6 million for the fourth quarter of fiscal 2011 comprised of \$4.3 million in realized gains on the sale of Van-Rob and \$9.3 million in net unrealized gains on corporate investments, \$7.7 million of which pertains to Hudson Valley which was sold subsequent to quarter end at the March 31, 2011 carrying value. The net corporate investment gains of \$1.2 million for the fourth quarter of fiscal 2010 comprised entirely of net unrealized gains on corporate investments.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Distributions and interest income for the quarter was \$6.4 million, compared with \$2.6 million for the same quarter last year. Distributions and interest income for the fourth quarter of fiscal 2011 included yield on cash, cash equivalents and temporary investments of \$0.7 million, General Partner income distributions of \$2.4 million from CEP, net priority distributions of \$2.1 million from CEP III and CEP IV and \$0.7 million in income distributions from the Wellington Funds. Distributions and interest income for the fourth quarter of fiscal 2010 included yield on cash, cash equivalents and temporary investments of \$0.3 million, net priority distributions of \$0.9 million from CEP III and \$0.8 million in income distributions from the Wellington Funds.

Dividend income for the quarter was \$0.5 million, compared with \$47 thousand for the same quarter last year. Dividend income for the fourth quarter of fiscal 2011 included dividends received from Chilean Gaming Holdings of \$0.5 million. Dividend income for the fourth quarter of fiscal 2010 comprised entirely of dividends received from temporary investments.

Clairvest earned \$0.4 million in net management fees during the quarter for its services in the administration of CEP and CEP IV-A's portfolio and \$0.2 million in advisory and other fees from its corporate investments, compared with \$0.3 million and \$0.4 million, respectively, for the same quarter last year. The CEP and CEP IV-A management fee is reduced to the extent of 75% of fees earned by Clairvest from joint Clairvest/CEP and Clairvest/CEP IV-A corporate investments.

Administration and other expenses for the quarter were \$5.1 million, compared with \$3.6 million for the same quarter last year. Included in administration and other expenses for the fourth quarter of fiscal 2011 was \$1.8 million of share based compensation expense as a result of an increase in the trading price of Clairvest's common shares and book value, compared with \$0.5 million for the same quarter last year.

Finance and foreign exchange expense of \$0.6 million for the quarter included foreign exchange cost of \$0.3 million and \$0.3 million in interest and fees expensed on the \$75 million credit facility. Finance and foreign exchange expense recovery of \$29 thousand for the fourth quarter of fiscal 2010 included foreign exchange gains of \$0.2 million as a result of gains on foreign exchange forward contracts entered into in anticipation of future investment gains.

Income tax expense of \$1.4 million for the quarter was primarily the result of realized and unrealized gains on corporate investments.

### OFF-BALANCE SHEET ARRANGEMENTS

Clairvest has committed to co-invest alongside CEP in all investments undertaken by CEP. Clairvest's total co-investment commitment is \$54.7 million, \$3.5 million of which remains unfunded at March 31, 2011. Clairvest may only sell all or a portion of a corporate investment that is a joint investment with CEP if the manager of CEP, GP I, concurrently sells a proportionate number of securities of that corporate investment held by CEP.

Clairvest has also committed to co-invest alongside CEP III in all investments undertaken by CEP III. Clairvest's total co-investment commitment is \$75.0 million, \$15.2 million of which remains unfunded at March 31, 2011. Clairvest may only sell all or a portion of a corporate investment that is a joint investment with CEP III if the manager of CEP III, GP I, concurrently sells a proportionate number of securities of that corporate investment held by CEP III.

Clairvest has also committed to co-invest alongside CEP IV and CEP IV-A in all investments undertaken by CEP IV and CEP IV-A. Clairvest's total co-investment commitment is \$125.0 million, \$88.4 million of which remains unfunded at March 31, 2011. Clairvest may only sell all or a portion of a corporate investment that is a joint investment with CEP IV and CEP IV-A if the manager of CEP IV and CEP IV-A, GP I, concurrently sells a proportionate number of securities of that corporate investment held by CEP IV and CEP IV-A.

Clairvest has committed \$25.0 million to Wellington Fund III, \$12.5 million of which remains unfunded to March 31, 2011.

At March 31, 2011, Clairvest has earned profit distributions totaling \$3.6 million through its ownership interest in the General Partners of the Wellington Funds. Clairvest has guaranteed, up to the amounts received from the respective General Partners, the clawback provisions (the "Clawback") entered into by the general partners in the event the limited partners of the Wellington Funds do not meet their return threshold as specified in the respective Limited Partnership Agreements. At March 31, 2011, there were no accruals made with respect to the Clawback.

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Clairvest has guaranteed up to US\$3.4 million of CEP's obligations to a Schedule 1 Canadian Chartered Bank under CEP's foreign exchange forward contracts with the bank.

Clairvest has guaranteed up to US\$15.0 million of CEP III's obligations to a Schedule 1 Canadian Chartered Bank under CEP III's foreign exchange forward contracts with the bank.

Under Clairvest's Incentive Bonus Program (the "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. Amounts are accrued under this plan to the extent that the cash income and investment realizations have occurred and the bonus has become payable. At March 31, 2011, \$0.8 million has been accrued under the Program. If Clairvest were to sell its corporate investments at their current fair values, an additional bonus of \$1.1 million would be owing to management under this Program. As no such income and realizations have occurred and the terms of the bonus plan with respect to these corporate investments have not yet been fulfilled, the \$1.1 million has not been accrued at March 31, 2011. The Program does not apply to the income generated from investments made by Clairvest through CEP III Co-Invest and CEP IV Co-Invest.

During fiscal 2006, Clairvest and a wholly owned subsidiary sold their interests in Signature Security Group Holdings Pty Limited ("Signature") and a related company as part of a sale of 100% of Signature and the related company. As part of the transaction, the subsidiary has indemnified the purchaser for various potential claims which will reduce over time. No claims have been made to March 31, 2011.

Clairvest has guaranteed to fund 50% of any operating deficiencies upon the opening of Casino Marina del Sol for a specified period of time. Amounts paid under the guarantee will be allocated 37.6% to CEP III and 25.6% to other co-investors, to the extent that the amounts paid thereunder are within the limits of the CEP III Limited Partnership Agreement and the agreements with the other co-investors, with the remainder being allocated to Clairvest. Any amounts paid under the guarantee will result in additional equity being granted to Clairvest, CEP III and the unrelated third-party investors, allocated on the same basis as the participation between Clairvest, CEP III and the unrelated third-party investors in the guarantee funding. As at March 31, 2011, no amounts subject to this guarantee have been funded.

Clairvest, together with CEP III, has guaranteed to fund any operating deficiencies of Casino New Brunswick for a specified period of time. The amount of the guarantee is allocated 75% to CEP III, to the extent that the amounts paid thereunder are within the limits of the CEP III Limited Partnership Agreement, with the remainder being allocated to Clairvest. Any amounts paid under the guarantee will result in additional debentures being granted to Clairvest and CEP III, allocated on the same basis as the participation between Clairvest and CEP III in the guarantee funding. As at March 31, 2011, no amounts subject to this guarantee have been funded.

Clairvest, together with the CEP IV Fund and other investors of Midwest Gaming, have entered into a US\$20 million joint and several guarantee to fund cost overruns during the construction of a casino in Des Plaines, Illinois. Any amounts paid under the guarantee will result in additional units being granted to Clairvest, the CEP IV Fund and the other investors of Midwest Gaming, allocated on the same basis as the participation between Clairvest, the CEP IV Fund and the other investors of Midwest Gaming in the guarantee funding. As at March 31, 2011, no amounts subject to this guarantee have been funded.

An acquisition entity of Chilean Gaming Holdings and other investors of Casino Sol Calama have entered into a joint and several guarantee to fund any operating deficiencies upon the opening of Casino Sol Calama for a specified period of time. Latin Gaming Chile, Casino Sol Calama's operator, has indemnified this acquisition entity with respect to this guarantee. As at March 31, 2011, no amounts subject to this guarantee have been funded.

As part of the holding structure of Chilean Gaming Holdings, Clairvest, together with CEP III and other co-investors, borrowed \$57.0 million through various acquisition entities from an unrelated financial institution, while another acquisition entity deposited \$57.0 million with the financial institution as security for the loan. Clairvest intends to settle the loan, the deposit and related interest accruals simultaneously upon the divestiture of the investments in Chilean Gaming Holdings, and as a result, the deposit and the loan, and the interest revenue and expense have been presented on a net basis. Clairvest's ownership of both acquisition vehicles was 36.8% at March 31, 2011, with CEP III owning 37.6% and the remainder owned by the other co-investors.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

### CRITICAL ACCOUNTING ESTIMATES

The preparation of Clairvest's consolidated financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of income and expenses during the reporting period. On an on-going basis, management reviews its estimates and assumptions. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. The critical accounting estimates that have a material impact on Clairvest's consolidated financial statements are with respect to corporate investments and future tax asset/liability.

Note 2 to the consolidated financial statements describes Clairvest's accounting policy for temporary and corporate investments. In accordance with Accounting Guideline 18, "Investment Companies" ("AcG-18"), the Company designates its temporary investments and corporate investments as held-for-trading and carries them at fair value. Clairvest has also designated its receivables and payables as held-for-trading in accordance with Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855. Accordingly, each of Clairvest's financial assets and liabilities is fair valued on each consolidated balance sheet date.

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, for the fair value of an investment quoted on an active market, the fair value is generally the 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 amounts at fair value which take 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, liquidity of the security and the size of Clairvest's ownership block and any other factors that may be relevant to the ongoing and realizable value of the investments. 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 for which 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, market interest rate, and 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

A change to an accounting estimate with respect to Clairvest's privately-held corporate investments or publicly-traded corporate investments would impact corporate investments and unrealized gains/losses on corporate investments.

Note 2 to the consolidated financial statements describes Clairvest's accounting policy for future income taxes. The process of determining future income tax assets and liabilities requires management to exercise judgment while considering the anticipated timing of disposal of corporate investments, and proceeds thereon, tax planning strategies, changes in tax laws and rates, and loss carry-forwards. Future income tax assets are only recognized to the extent that in the opinion of management, it is more likely than not that the future income tax asset will be realized. A change to an accounting estimate with respect to future income taxes would impact future tax liability and provision for income taxes.

### **RISK MANAGEMENT**

The private equity investment business involves accepting risk for potential return, and is therefore affected by a number of economic factors, including changing economic environments, capital markets and interest rates. As a result, the Company faces various risk factors, inherent in its normal business activities. These risk factors and how the Company manages these risk factors are described below.

#### **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. 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 receivable, a significant portion of which is 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 is also subject to credit risk on its loans receivables, the majority of which is typically with its CEP Funds. The Company manages this risk 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 financial instruments by only contracting with counterparties which are Schedule 1 Canadian chartered banks. At March 31, 2011, a portion of the Company's derivative instruments have an accrued gain and a fair value of \$2.5 million. The Company believes the counterparty risk with respect to its derivative instruments is nominal.

The Company manages credit risk on cash, cash equivalents and temporary investments by conducting activities in accordance with the fixed income securities policy that 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Market Risk

Market risk includes exposure to fluctuations in the market value of the Company's investments, currency rates and interest rates.

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

If interest rates were higher or lower by 1%, the potential effect would be an increase or decrease of \$1.1 million to distributions and interest income on a pre-tax basis for the year ended March 31, 2011.

The Company held \$1.5 million in preferred shares of corporations in its temporary investments portfolio at March 31, 2011. A sensitivity analysis on market risk is therefore not disclosed due to the Company's minimal exposure to market risk.

As at March 31, 2011, approximately 5.5% of the fair value of the Company's corporate investments was in publicly traded companies. If market prices were higher or lower by 5% as at March 31, 2011, the potential effect would be an increase or decrease of \$0.4 million to the carrying value of corporate investments and net unrealized gains (losses) on corporate investments on a pre-tax basis for the year ended March 31, 2011.

Included in corporate investments are investments 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 used in a valuation model based on earnings used for each individual investment. 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 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. Investments which are valued using the earnings multiple approach include Chilean Gaming Holdings, Casino New Brunswick, Kubra, Landauer, Light Tower Rentals, and LSNE. If the Company had used an earnings multiple for each investment that was higher or lower by 0.5 times, the potential effect would be an increase of \$6.9 million or decrease of \$9.1 million to the carrying value of corporate investments and net unrealized gains or losses on corporate investments, on a pre-tax basis for the year ended March 31, 2011. Earnings multiples used are based on public company valuations as well as private market multiples for comparable companies.

The Company's corporate investment portfolio is diversified across 14 companies in 8 industries and 3 countries as at March 31, 2011. The Company has considered current economic events and indicators in the valuation of its corporate investments.

The Company has implemented a hedging strategy because it has, directly and indirectly, several investments outside of Canada, currently in the United States and in Chile. In order to limit its exposure to changes in the value of foreign denominated currencies relative to the Canadian dollar, at March 31, 2011, Clairvest hedges 100% of the fair value of its foreign investments unless a specific exemption is approved by the board.

A number of investee companies are subject to foreign exchange risk. A significant change in foreign exchange rates can have a significant impact to 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.

Certain of the Company's corporate investments are also held in the form of subordinated debentures. Significant fluctuations in market interest rates can have a significant impact in the carrying value of these investments.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 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-balance sheet arrangement have been previously discussed.

The Company maintains a conservative liquidity position that exceeds all liabilities payable on demand. The Company invests its cash equivalents and temporary investments in liquid assets such that they are available to cover any potential funding commitments and guarantees. In addition, the Company maintains various credit facilities.

### DERIVATIVE FINANCIAL INSTRUMENTS

Clairvest enters into foreign exchange forward contracts primarily to manage the risks arising from fluctuations in exchange rates on its foreign denominated investments. Clairvest is required to mark to market its foreign-denominated investments, as well as the foreign exchange forward contracts entered into as hedges against Clairvest's investments.

At March 31, 2011, Clairvest had entered into foreign exchange forward contracts to sell US\$90.3 million and buy US\$2.6 million at an average rate of Canadian \$0.9980 per U.S. dollar through March 2012 and foreign exchange forward contracts to sell 14.7 billion Chilean Pesos ("CLP") at an average rate of Canadian \$0.001976 per CLP through January 2012. The fair value of the US dollar contracts at March 31, 2011 is a gain of \$2.5 million and the fair value of the CLP contracts at March 31, 2011 is a loss of \$0.9 million. These contracts have been recognized on the consolidated balance sheet as derivative instruments.

At March 31, 2011, Clairvest also had entered into foreign exchange forward contracts to sell US\$83.6 million and buy US\$2.3 million on behalf of CEP IV. Any amounts paid or received as a result of settlement of these forward contracts will be reimbursed by or paid to CEP IV and therefore the fair value of these forward contracts has not been recognized on Clairvest's consolidated balance sheets.

### UPDATED SHARE INFORMATION

At March 31, 2011, Clairvest had 15,392,695 common shares issued and outstanding. At March 31, 2011, Clairvest had 977,000 stock options outstanding, 845,000 of which were exercisable at March 31, 2011. Each option is exercisable for one common share.

During fiscal 2011, Clairvest purchased and cancelled 560,871 common shares under its normal course issuer bid for a total purchase cost of \$7.9 million. No further purchases nor cancellations occurred subsequent to year end up to June 24, 2011. As at June 24, 2011, Clairvest had repurchased a total of 6,270,449 common and non-voting shares over the last eight years.

During fiscal 2011, 105,000 options were exercised, all of which were exercised under the cash settlement plan and had no impact on share capital.

Clairvest paid cash dividends of \$0.10 per share on the common shares in each of fiscal 2011, fiscal 2010 and fiscal 2009. Clairvest also paid a one-time special dividend of \$10.0 million, or \$0.6272 per share, in fiscal 2009.

Subsequent to year end, Clairvest declared an annual ordinary dividend of \$1.5 million, or \$0.10 per share, and a special dividend of \$1.5 million, or \$0.0965 per share, such that in aggregate, the dividends represent 1% of book value. The dividends will be payable to common shareholders of record as of July 8, 2011. The dividends will be paid on July 25, 2011. Both dividends are eligible dividends for Canadian income tax purposes.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 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 of March 31, 2011 and concluded that the disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in its corporate filings is recorded, processed, summarized and reported within the required time period for the year 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 Canadian GAAP. Management has evaluated Clairvest's design and operational effectiveness of internal controls over financial reporting for the year ended March 31, 2011. Management has concluded that the design of internal controls over financial reporting are effective and operating as designed as of March 31, 2011 based on this evaluation. There were no changes in internal controls during the most recent interim period that has materially affected, or is reasonably likely to materially affect, internal controls over financial reporting. The Company has not identified any weakness that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

### TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

During fiscal 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the use of International Financial Reporting Standards ("IFRS") for all Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. During fiscal 2011, the AcSB approved an optional two-year deferral from IFRS adoption which would allow Canadian companies that currently follow AcG-18 to continue to use existing Canadian GAAP until fiscal years beginning on or after January 1, 2013. Accordingly, Clairvest will adopt IFRS beginning in the first quarter of fiscal 2014, which begins on April 1, 2013.

The Company continues to be optimistic that fair value accounting will continue to be the method for which the Company accounts for its investee companies when it adopts IFRS. The Company continues to monitor ongoing changes to IFRS and will adjust its transition and implementation plans accordingly. Formal communications with the Audit Committee have been established to ensure timely decisions are made on key issues and risks.

The Company will continue to evaluate the impact to its financial reporting process and its financial statements if IFRS requires the Company to consolidate certain of its investee companies, which would have a significant impact to the Company's financial reporting process and financial statements. Other significant items which may have a significant impact to the Company's financial reporting and financial statements include the accounting for share-based compensation, income taxes and the disclosure requirements for financial instruments.

With respect to the accounting treatment for share-based compensation, the company must adopt a new methodology for valuing stock options given the intrinsic method is not an acceptable methodology under IFRS. The Company has determined that the Black-Scholes method is an acceptable methodology under IFRS. The Company will also cease to vest share-based compensation on a straight-line basis and adopt the prescribed graded vesting method which will result in front-loading of expenses during the vesting period. The Company believes that the effects of this accounting change will not be material.

With respect to income taxes, future income tax positions under IFRS must be evaluated using the probability method which differs from the more likely than not test prescribed under existing Canadian GAAP. The Company is in the process of quantifying the impacts of this methodology change.

The Company continues to monitor new developments to IFRS which may result in additional significant accounting differences.

The Company does not expect current IFRS to have a significant impact on internal controls over financial reporting nor the Company's information technology systems.

## MANAGEMENT'S REPORT

The consolidated financial statements of Clairvest Group Inc. were prepared by management, which is responsible for the integrity and fairness of the financial information presented. These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with the consolidated financial statements.

Management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded, that transactions are properly authorized and that financial records are properly maintained to facilitate the preparation of financial statements in a timely manner. Under the supervision of Management, an evaluation of the effectiveness of the Company's internal control over financial reporting was carried out for the year ended March 31, 2011. Based on that evaluation, Management concluded that the Company's internal control over financing reporting was effective for the year ended March 31, 2011.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee. The Audit Committee, comprised of four non-management Directors, meets periodically with management and with external auditors to discuss the scope and results with respect to financial reporting of the Company. The Audit Committee has reviewed the consolidated financial statements with management and with the independent auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Ernst & Young LLP, appointed external auditors by the shareholders, have audited the consolidated financial statements and their report is included herewith.



B. Jeffrey Parr  
Co-Chief Executive Officer and Managing Director



Daniel Cheng  
Chief Financial Officer

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF CLAIRVEST GROUP INC.

We have audited the accompanying consolidated financial statements of Clairvest Group Inc., which comprise the consolidated balance sheets as at March 31, 2011 and 2010, and the consolidated statements of income, retained earnings and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Clairvest Group Inc. as at March 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,  
June 24, 2011

*Ernst + Young LLP*

Chartered Accountants  
Licensed Public Accountants

## CONSOLIDATED BALANCE SHEETS

As at March 31

\$000's	2011	2010
<b>ASSETS</b>		
Cash and cash equivalents (notes 3, 11 and 14)	\$ 61,332	\$ 43,684
Temporary investments (notes 3 and 14)	77,006	108,544
Accounts receivable and other assets (notes 4(k) and 7)	9,917	20,146
Income taxes recoverable	5,809	7,399
Loans receivable (notes 4(l), 4(m) and 4(n))	126	698
Future tax asset (note 8)	—	708
Derivative instruments (note 12(b))	2,493	5,900
Corporate investments (notes 6 and 14)	162,177	118,881
	<b>\$ 318,860</b>	<b>\$ 305,960</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities (notes 10 and 13(h))	\$ 7,656	\$ 8,017
Derivative instruments (note 12(b))	913	—
Future tax liability (note 8)	2,402	1,455
Stock-based compensation (note 10)	5,487	4,203
	<b>\$ 16,458</b>	<b>\$ 13,675</b>
Contingencies, commitments and guarantees (notes 12 and 13)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 9)	\$ 79,911	\$ 82,823
Retained earnings	222,491	209,462
	<b>302,402</b>	<b>292,285</b>
	<b>\$ 318,860</b>	<b>\$ 305,960</b>

See accompanying notes

On behalf of the Board:



PHILIP S. ORSINO  
Director



JOSEPH J. HEFFERNAN  
Director

## CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31

\$000's (except per share information)	2011	2010
<b>NET INVESTMENT GAINS</b>		
Net realized gains on corporate investments (note 5)	\$ 3,861	\$ 153
Net unrealized gains on corporate investments (note 6)	16,249	7,880
	<b>20,110</b>	8,033
<b>OTHER INCOME</b>		
Distributions and interest income (note 4)	14,827	14,375
Dividend income (note 6(c))	731	278
Management fees (note 4(a) and 4(h))	1,142	1,027
Advisory and other fees (note 4(o))	956	1,033
	<b>17,656</b>	16,713
<b>EXPENSES</b>		
Administration and other expense (note 10 and 13(h))	14,004	18,677
Finance and foreign exchange expense (recovery)	1,132	(947)
	<b>15,136</b>	17,730
Income before income taxes	<b>22,630</b>	7,016
Income tax expense (recovery) (note 8)	3,066	(1,481)
<b>Net income for the year</b>	<b>\$ 19,564</b>	<b>\$ 8,497</b>
Basic net income per share (note 9)	\$ 1.23	\$ 0.53
Fully-diluted net income per share (note 9)	\$ 1.20	\$ 0.52

See accompanying notes

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended March 31

\$000's	2011	2010
Retained earnings, beginning of year	\$ 209,462	\$ 202,560
Net income for the year	19,564	8,497
	<b>229,026</b>	211,057
Dividends paid	(1,595)	(1,595)
Purchase and cancellation of shares (note 9)	(4,940)	—
Retained earnings, end of year	<b>\$ 222,491</b>	<b>\$ 209,462</b>

See accompanying notes

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31

\$000's	2011	2010
<b>OPERATING ACTIVITIES</b>		
Net income for the year	\$ 19,564	\$ 8,497
Add (deduct) items not involving a current cash outlay		
Amortization of fixed assets	372	323
Stock-based compensation expense	1,284	1,111
Future income tax expense	1,655	224
Net realized gains on corporate investments	(3,861)	(153)
Net unrealized gains on corporate investments	(16,249)	(7,880)
Non-cash items relating to foreign exchange forward contracts	(2,446)	(13,375)
Non-cash items relating to corporate investments	(854)	12,167
	(535)	914
Net change in non-cash working capital balances related to operations (note 11)	11,086	(21,156)
<b>Cash provided by (used in) operating activities</b>	<b>10,551</b>	<b>(20,242)</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of corporate investments	(54,270)	(26,368)
Proceeds on sale of corporate investments	31,938	4,779
Return of capital from corporate investments	—	1,439
Proceeds on realized foreign exchange forward contracts	6,766	1,952
Net proceeds on sale (acquisition) of temporary investments	31,538	(36,404)
Loans advanced (notes 4(l), 4(m) and 4(n))	(55,876)	(74,436)
Receipt of loans advanced (notes 4(l), 4(m) and 4(n))	56,448	82,287
<b>Cash provided by (used in) investing activities</b>	<b>16,544</b>	<b>(46,751)</b>
<b>FINANCING ACTIVITIES</b>		
Purchase and cancellation of share capital (note 9)	(7,852)	—
Cash dividends paid	(1,595)	(1,595)
<b>Cash used in financing activities</b>	<b>(9,447)</b>	<b>(1,595)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	<b>17,648</b>	<b>(68,588)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>43,684</b>	<b>112,272</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR (NOTE 11)</b>	<b>61,332</b>	<b>43,684</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Income taxes paid	\$ 218	\$ 7,642
Interest paid, on gross basis (note 13(n))	\$ 1,045	\$ 1,579

See accompanying notes

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011 and 2010 (tabular dollar amounts in thousands, except per share information)

### 1. NATURE OF ACTIVITIES

Clairvest Group Inc. ("Clairvest" or the "Company") is a Canadian private equity management firm publicly traded on the Toronto Stock Exchange ("TSX"). 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 Limited Partnership ("CEP"), 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") (together, the "CEP Funds"). 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.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and its pro-rata ownership of various acquisition entities that exist for investing purposes. All intercompany amounts and transactions have been eliminated upon consolidation.

In accordance with Accounting Guideline 18 ("AcG-18"), the Company designated its temporary investments and its corporate investments as held-for-trading and carries them at fair value. Clairvest also designated its receivables and payables as held-for-trading in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855. Accordingly, each of Clairvest's financial assets and liabilities is fair valued on each consolidated balance sheet date.

#### Future Accounting Changes

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. Subsequently, the AcSB approved an optional two-year deferral from IFRS adoption which would allow Canadian companies that currently follow AcG-18 to continue to use existing Canadian Generally Accepted Accounting Principles ("GAAP") until fiscal years beginning on or after January 1, 2013. Accordingly, Clairvest will adopt IFRS beginning in the first quarter of fiscal 2014, which begins on April 1, 2013.

Clairvest is currently evaluating the impact of adopting IFRS.

#### Significant Accounting Policies

The following is a summary of the significant accounting policies of the Company:

##### (a) Temporary Investments and Corporate Investments

The Company carries its temporary investments 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, for the fair value of an investment quoted on an active market, the fair value is generally the 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, liquidity of the security and the size of Clairvest's ownership block and any other factors that may be relevant to the ongoing and realizable value of the investments. 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, market interest rate, and 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.

### **(b) Foreign Currency Translation**

Income and expenses denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction date. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at historical rates. Exchange gains and losses are included in income in the period in which they occur.

### **(c) Derivative Financial Instruments**

The Company periodically enters into foreign exchange forward contracts, primarily to hedge its exposure to exchange rate fluctuations on its foreign currency denominated investments. These foreign exchange forward contracts and, where applicable, their underlying investments, are valued at exchange rates in effect at the consolidated balance sheet dates.

Foreign exchange forward contracts are included on the consolidated balance sheet as derivative instruments and are valued at fair value representing the estimated amount that the Company would have been required to pay, or received, had the Company settled the outstanding contracts at the consolidated balance sheet dates. Any unrealized gains or losses are included in finance and foreign exchange expense (recovery) on the consolidated statements of income.

### **(d) Income Recognition**

Realized gains or losses on disposition of corporate investments and unrealized gains or losses in the value of corporate investments are calculated based on weighted average cost and are reflected in the consolidated statements of income. Management fees and advisory and other fees are recorded as income on an accrual basis when the services are performed. Distributions and interest income are recognized on an accrual basis and dividend income is recognized on the ex-dividend date.

### **(e) Future Income Taxes**

The Company records future income tax expense or recovery using the asset and liability method. Under this method, future income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their respective income tax bases, as well as certain carryforward items. Future income tax assets and liabilities are determined for each temporary difference based on the income tax rates that are expected to be in effect when the asset or liability is settled. Future income tax assets are only recognized to the extent that, in the opinion of management, it is more likely than not that the future income tax asset will be realized.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **(f) Stock-based Compensation Plan**

The Company's stock option plan allows for a cash settlement of stock options. As a result, compensation expense is recognized and recorded as a liability based on the intrinsic value of the outstanding stock options at the consolidated balance sheet dates and the proportion of their vesting periods that have elapsed. On the exercise of stock options for shares, the liability recorded with respect to the options and consideration paid by the employees 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 administration and other expense.

### **(g) Deferred Share Unit Plan**

Directors of the Company may elect to receive all or a portion of their compensation in deferred share units ("DSUs"). On the date directors' fees are payable, the number of DSUs to be credited to a participant is determined by dividing the amount of the fees to be received by way of DSUs by the market value of a Clairvest common share on the TSX. Upon redemption of DSUs, the Company pays to the participant a lump sum cash payment equal to the number of DSUs to be redeemed multiplied by the market value of a Clairvest common share on the TSX on the redemption date. A participant may redeem his or her DSUs only following termination of board service.

Under the Company's DSU plan, the fair value of the DSUs is charged to administration and other expense based on the number of DSUs outstanding at the consolidated balance sheet dates multiplied by the market value of a Clairvest common share on the TSX at the consolidated balance sheet dates.

During fiscal 2008, the DSU plan was amended to also facilitate the issuance of Appreciation Deferred Share Units ("Appreciation DSUs") to the directors of the Company. Upon redemption of the Appreciation DSUs, the Company pays to the participant a lump sum cash payment equal to the number of Appreciation DSUs to be redeemed multiplied by the difference between the market value of a Clairvest common share on the TSX on the redemption date and the market value of a Clairvest common share on the TSX on the grant date. A participant may redeem his or her Appreciation DSUs only following termination of board service. Under the Company's DSU plan, the fair value of the Appreciation DSUs is charged to administration and other expense based on the number of Appreciation DSUs outstanding at the consolidated balance sheet dates multiplied by the difference between the market value of a Clairvest common share on the TSX at the consolidated balance sheet dates and the market value of a Clairvest common share on the TSX on the grant date.

### **(h) Book Value Appreciation Rights Plan**

The Company may elect to issue all or a portion of an individual's stock option grant by way of book value appreciation rights units ("BVARs"). Upon redemption of BVARs, the Company pays to the participant a lump sum cash payment equal to the number of BVARs to be redeemed multiplied by the increase in book value per share between the grant date and the redemption date, and grossed up such that the participant's after-tax proceeds equate to an amount as if the proceeds were taxed at the capital gains rate. The BVARs vest over a five-year period and the participant may only redeem his or her BVARs at the earlier of (i) five years from the grant date or (ii) cessation of employment with the Company.

As the Company's BVAR plan is a cash settled plan, the fair value of the BVARs is charged to administration and other expense and recorded as a liability over the BVAR vesting period based on the book value per share at the consolidated balance sheet date of the prior quarter.

### **(i) Net Income Per Share**

Basic net income per share is determined by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the year. Fully-diluted net income per share is determined in accordance with the treasury stock method and is based on the weighted average number of common shares and dilutive common share equivalents outstanding during the year.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (j) Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting periods. Actual results could differ from those estimates.

### 3. CASH EQUIVALENTS AND TEMPORARY INVESTMENTS

Cash equivalents consist of deposits in investment and money market savings accounts, term deposits and corporate bonds which have maturities of less than 90 days from the date of acquisition. The yield ranges between 0.9% and 1.2% per annum (2010 – between 0.2% and 0.7%) with a weighted average rate of pre-tax return of 1.2% per annum (2010 – 0.7%).

Temporary investments consist of guaranteed investment certificates, corporate bonds and preferred shares and have maturities greater than 90 days from the date of acquisition and through to February 2014. The yield on these investments ranges between 1.6% and 4.9% per annum (2010 – between 0.7% and 4.9%) with a weighted average rate of pre-tax return of 2.4% per annum (2010 – 2.7%). The composition of Clairvest's temporary investments at March 31 was as follows:

	2011			2010
	Due in 1 year or less	Due after 1 year	Total	Total
Guaranteed investment certificates	\$ 32,039	\$ 5,122	\$ 37,161	\$ 42,049
Corporate bonds	7,267	31,079	38,346	63,020
Preferred shares	1,499	—	1,499	3,475
	<b>\$ 40,805</b>	<b>\$ 36,201</b>	<b>\$ 77,006</b>	<b>\$ 108,544</b>

### 4. RELATED PARTY TRANSACTIONS

- (a) A wholly owned subsidiary of Clairvest ("GP I") has entered into a Management Agreement with the General Partner of CEP, appointing GP I as the Manager of CEP. The General Partner is another wholly owned subsidiary of Clairvest. The Management Agreement provides that a management fee be paid to GP I as compensation for its services in the administration of the portfolio of CEP. The fee was calculated annually as 2% of committed capital until August 21, 2006, the fifth anniversary of the last closing of CEP, and thereafter at 2% of contributed capital less distributions on account of capital and any write-downs of capital invested. Effective January 1, 2011, the CEP management fee was reduced to 1.5% per annum of contributed capital less distributions on account of capital and write-downs of capital invested. The management fee is reduced to the extent of 75% of fees earned by GP I from corporate investments of CEP.

During fiscal 2011, GP I earned net management fees of \$0.9 million (2010 – \$1.0 million) as compensation for its services in the administration of the portfolio of CEP. As per the Management Agreement, fees of \$0.2 million (2010 – \$0.2 million) from corporate investments of CEP were netted against the management fees.

- (b) The General Partner of CEP is entitled to participate in distributions made by CEP equal to 20% of net gains of CEP. The distributions to the General Partner will be determined based on the overall performance of CEP and no such distributions are permitted until CEP's limited partners have received amounts equal to the sum of their contributed capital and a return equal to 6% per annum compounded annually. The distributions received by the General Partner of CEP are allocated 50% to each of its limited partners, one of which is Clairvest, and the other of which is another limited partnership (the "Participation Partnership"). The limited partners of the Participation Partnership are principals and employees of Clairvest and GP I (the "Participation Investors"). The Participation Investors have purchased, at fair market value, units of the Participation Partnership. From time to time, additional units in the Participation Partnership may be purchased by the Participation Investors.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During fiscal 2011, CEP declared distributions to the General Partner totaling \$6.2 million (2010 – \$6.8 million), 50% of which, or \$3.1 million (2010 – \$3.4 million), was allocated to Clairvest. At March 31, 2011, CEP had declared and paid distributions to the General Partner totaling \$15.9 million (2010 – \$9.7 million), 50% of which, or \$8.0 million (2010 – \$4.9 million), was allocated to Clairvest. If CEP were to sell its corporate investments at their current fair values, the General Partner would receive up to a further \$10.7 million (2010 – \$15.3 million) of distributions, 50% of which, or \$5.3 million (2010 – \$7.6 million), would be payable to Clairvest.

- (c) Clairvest is also the parent company of the two General Partners of CEP III (GP I and “GP II”). GP I is entitled to a priority distribution from CEP III. The priority distribution was calculated monthly as 0.1667% of committed capital until January 13, 2011, being the date on which CEP III is closed to new investments, and thereafter 0.1667% of invested capital net of write-downs of capital then invested. The priority distribution is reduced to the extent of 75% of fees earned by GP I from corporate investments of CEP III.

During fiscal 2011, CEP III declared net priority distributions to GP I of \$3.8 million (2010 – \$4.1 million). As per the Limited Partnership Agreement, fees of \$0.4 million (2010 – \$0.4 million) from corporate investments of CEP III were netted against the priority distributions. GP I is also entitled to distributions made by CEP III equal to 2% of net gains of CEP III determined as described in Note 4(d) below. To date, CEP III has not made any distributions to GP I other than priority distributions.

- (d) GP II, a limited partnership, the General Partner of which is a wholly owned subsidiary of Clairvest, is entitled to participate in distributions made by CEP III equal to 18% of net gains of CEP III. These distributions to GP II, and GP I as noted in Note 4(c) above, will be determined based on the overall performance of CEP III. No such distributions are permitted until CEP III’s limited partners have received amounts equal to the sum of their contributed capital and a return equal to 8% per annum compounded annually. To date, CEP III has not made any distributions to GP II. Any distributions received by GP II will be allocated to each of its two limited partners, one of which is a wholly owned subsidiary of Clairvest which will receive 44.4% of such distributions, and the other of which is another limited partnership (the “Participation III Partnership”) which will receive 55.6% of such distributions. The limited partners of the Participation III Partnership are principals and employees of Clairvest and GP I (the “Participation III Investors”). The Participation III Investors have purchased, at fair market value, units of the Participation III Partnership. From time to time, additional units in the Participation III Partnership may be purchased by Participation III Investors.

GP II, as the General Partner of the Participation III Partnership, is entitled to participate in additional distributions equal to the exit value on the first \$1.1 million contributed by the Participation III Investors into the Participation III Partnership plus the first \$0.2 million received by the Participation III Partnership as described above.

- (e) GP II is also entitled to an 8.25% carried interest in respect of CEP III Co-Investment Limited Partnership (“CEP III Co-Invest”). CEP III Co-Invest was established in fiscal 2007 as the investment vehicle through which Clairvest would co-invest alongside CEP III. Distributions received by GP II from CEP III Co-Invest will be allocated 100% to the Participation III Partnership. To date, CEP III Co-Invest has not made any distributions.
- (f) Clairvest is also the parent company of the two General Partners of CEP IV (GP I and “GP III”). GP I is entitled to a priority distribution from CEP IV. The priority distribution is calculated monthly as follows: i) from April 2010, being the month in which CEP IV made its first investment, to January 13, 2011, being the last day on which CEP III calculated its priority distributions based on committed capital (“CEP III Termination Date”), 0.1667% of capital allocated to specifically identifiable investments net of any write-downs of capital invested; ii) from January 14, 2011 to January 13, 2016, being the fifth anniversary of the month of the date of final closing of CEP IV, 0.1667% of committed capital; and iii) thereafter 0.1667% of invested capital net of write-downs of capital then invested. The priority distribution is reduced to the extent of 63.2% of fees earned by GP I from corporate investments of CEP IV.

During fiscal 2011, CEP IV declared to GP I net priority distributions of \$1.8 million. GP I is also entitled to distributions made by CEP IV equal to 2% of net gains of CEP IV determined as described in Note 4(g) below. To date, CEP IV has not made any distributions to GP I other than priority distributions.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(g) GP III, a limited partnership, the General Partner of which is a wholly owned subsidiary of Clairvest, is entitled to participate in distributions made by CEP IV equal to 18% of net gains of CEP IV. These distributions to GP III, and GP I as noted in Note 4(f) above, will be determined based on the overall performance of CEP IV. No such distributions are permitted until CEP IV's limited partners have received amounts equal to the sum of their contributed capital and a return equal to 8% per annum compounded annually. To date, CEP IV has not made any distributions to GP III. Any distributions received by GP III will be allocated to each of its two limited partners, one of which is Clairvest Subsidiary which will receive 44.4% of such distributions, and the other of which is another limited partnership (the "Participation IV Partnership") which will receive 55.6% of such distributions. The limited partners of the Participation IV Partnership are principals and employees of Clairvest and GP I (the "Participation IV Investors"). The Participation IV Investors have purchased, at fair market value, units of the Participation IV Partnership. From time to time, additional units in the Participation IV Partnership may be purchased by Participation IV Investors.

The General Partner of the Participation IV Partnership, a wholly owned subsidiary of Clairvest, is entitled to participate in additional distributions equal to the exit value on the first \$1.6 million contributed by the Participation IV Investors into the Participation IV Partnership plus the first \$0.4 million received by the Participation IV Partnership as described above.

(h) GP III is also the General Partner of CEP IV-A. GP III has appointed GP I as the Manager of CEP IV-A. The Limited Partnership Agreement of CEP IV-A provides that a management fee be paid to GP I as compensation for its services in the administration of the portfolio of CEP IV-A. The fee is calculated as follows: i) from April 2010, being the month in which CEP IV-A made its first investment, to January 13, 2011, being the CEP III Termination Date, 0.1667% of capital allocated to specifically identifiable investments net of write-downs of capital invested; ii) from January 14, 2011 to January 13, 2016, being the fifth anniversary of the date of final closing of CEP IV-A, 0.1667% of committed capital; and iii) thereafter 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 GP I from corporate investments of CEP IV-A and other amounts as provided in the Limited Partnership Agreement.

During fiscal 2011, GP I earned net management fees of \$0.2 million as compensation for its services in the administration of the portfolio of CEP IV-A. As per the Limited Partnership Agreement, \$0.1 million was netted against the management fees.

(i) GP III is entitled to participate in distributions made by CEP IV-A equal to 20% of net gains of CEP IV-A. These distributions will be determined based on the overall performance of CEP IV-A. No such distributions are permitted until CEP IV-A's limited partners have received amounts equal to the sum of their contributed capital and a return equal to 8% per annum compounded annually. To date, CEP IV-A has not made any distributions to GP III. Any distributions received by GP III will be allocated to each of its two limited partners, one of which is Clairvest which will receive 50% of such distributions, and the other of which is Participation IV Partnership which will receive 50% of such distributions.

(j) GP III is also entitled to an 8.25% carried interest in respect of CEP IV Co-Investment Limited Partnership ("CEP IV Co-Invest"). CEP IV Co-Invest was established in fiscal 2010 as the investment vehicle through which Clairvest would co-invest alongside CEP IV and CEP IV-A. Distributions received by GP III from CEP IV Co-Invest will be allocated 100% to the Participation IV Partnership. To date, CEP IV Co-Invest has not made any distributions.

(k) Included in accounts receivable and other assets are share purchase loans made to certain officers of the Company and GP I totaling \$0.7 million (2010 – \$1.0 million). The share purchase loans bear interest fixed at the prime rate on the date of drawdown less 1%, interest is paid annually, and the loans have full recourse and are collateralized by the common shares of the Company purchased by the officers with a market value of \$1.0 million (2010 – \$1.0 million). Also included in accounts receivable and other assets are other loans made to certain officers of a company affiliated with Clairvest totaling \$0.5 million (2010 – \$0.5 million). The loans to officers of the affiliated company bear interest at rates commensurate with prime and interest is paid quarterly. Loans are repayable upon departure of the officer. Interest of \$44 thousand (2010 – \$49 thousand) was earned on these loans during fiscal 2011. Also included in accounts receivable and other assets are receivables from Clairvest's investee companies totaling \$3.2 million (2010 – \$3.0 million), from CEP totaling \$5 thousand (2010 – \$0.7 million), from CEP III totaling \$0.4 million (2010 – \$0.1 million), from CEP IV totaling \$0.3 million (2010 – \$4.6 million) and from CEP IV-A totaling \$0.2 million.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (l) Loans totaling \$2.1 million (2010 – \$3.2 million), bearing interest at the prime rate, were made by the Company to CEP during fiscal 2011. These loans and the \$0.6 million in loans outstanding at March 31, 2010 were repaid in full (2010 – \$2.6 million were repaid) during the year. Interest of \$4 thousand (2010 – \$3 thousand) was earned from loans to CEP during fiscal 2011.
- (m) Loans totaling \$8.2 million (2010 – \$71.0 million), bearing interest at the prime rate, were made by the Company to CEP III during fiscal 2011. During fiscal 2011 and 2010, the respective loans were repaid in full. Interest of \$4 thousand (2010 – \$91 thousand) was earned from loans to CEP III during fiscal 2011.
- (n) Loans totaling \$45.6 million, bearing interest at the prime rate, made by the Company to CEP IV during fiscal 2011 were repaid in full during the year. Interest of \$8 thousand was earned from loans to CEP IV during fiscal 2011.
- (o) During fiscal 2011, Clairvest earned \$3.0 million (2010 – \$3.3 million) in distributions and interest income and \$1.0 million (2010 – \$1.0 million) in advisory and other fees from its investee companies.
- (p) During fiscal 2011, Clairvest and a director of Clairvest entered into an agreement to purchase an aircraft for a total cost of \$3.5 million, \$1.7 million of which was paid by Clairvest. The aircraft is owned 50% by Clairvest and 50% by the director of Clairvest. Clairvest’s portion of the net book value of the aircraft of \$1.7 million is recorded in accounts receivable and other assets.

### 5. NET REALIZED GAINS ON CORPORATE INVESTMENTS

Net realized gains on corporate investments for the years ended March 31, 2011 and 2010 are comprised of the following:

	2011	2010
Net realized gains (losses) during the year	\$ 3,997	\$ (3,538)
Previously recognized net unrealized (gains) losses	(136)	3,691
	<b>\$ 3,861</b>	<b>\$ 153</b>

### 6. CORPORATE INVESTMENTS

	2011			2010		
	Fair value	Cost	Difference	Fair value	Cost	Difference
Casino New Brunswick	\$ 4,601	\$ 9,202	\$ (4,601)	\$ 8,687	\$ 8,687	\$ —
Centaur, LLC	31,386	30,179	1,207	—	—	—
Chilean Gaming Holdings*	29,890	29,093	797	39,076	38,972	104
Hudson Valley Waste Holding, Inc.	16,256	9,221	7,035	8,952	9,221	(269)
Kubra Data Transfer Limited	8,033	2,150	5,883	6,573	2,150	4,423
Landauer Metropolitan Inc.	5,590	5,110	480	7,693	4,429	3,264
Light Tower Rentals Inc.	14,254	8,177	6,077	6,280	6,233	47
Lyophilization Services of New England Inc.	5,697	6,749	(1,052)	4,887	6,454	(1,567)
Midwest Gaming Holdings LLC	10,304	9,120	1,184	—	—	—
N-Brook Mortgage LP	2,625	5,037	(2,412)	2,625	5,037	(2,412)
PEER 1 Network Enterprises Inc.	8,753	6,291	2,462	5,494	6,291	(797)
Tsuu T'ina Gaming Limited Partnership	9,090	5,625	3,465	8,631	5,625	3,006
Van-Rob Inc.	—	—	—	4,853	5,000	(147)
Wellington Financial Fund II	235	1	234	211	1	210
Wellington Financial Fund III	14,271	12,476	1,795	13,733	12,476	1,257
	<b>160,985</b>	<b>138,431</b>	<b>22,554</b>	<b>117,695</b>	<b>110,576</b>	<b>7,119</b>
Other investments	1,192	1,223	(31)	1,186	295	891
	<b>\$ 162,177</b>	<b>\$ 139,654</b>	<b>\$ 22,523</b>	<b>\$ 118,881</b>	<b>\$ 110,871</b>	<b>\$ 8,010</b>

\* Comprised of Casino Marina del Sol, Casino Osorno and Casino Sol Calama

The cost and fair value of corporate investments do not reflect foreign exchange gains or losses on the foreign exchange forward contracts entered into as hedges against these investments (see Note 12(b)). Details of each investment are described below.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **(a) Casino New Brunswick**

Casino New Brunswick is a gaming entertainment complex located in Moncton, New Brunswick. At March 31, 2009, Clairvest had invested \$2.3 million in Casino New Brunswick.

During fiscal 2010, Clairvest funded an additional \$6.4 million in Casino New Brunswick. During fiscal 2011, Clairvest funded a further \$0.5 million, bringing total investment in Casino New Brunswick to \$9.2 million (2010 – \$8.7 million). The investments were made in the form of debentures, which bore interest at a rate of 6% per annum until February 28, 2011. Clairvest also holds units of a limited partnership which holds Casino New Brunswick, entitling Clairvest to 22.5% (2010 – 22.2%) of the earnings of the casino.

During fiscal 2011, management determined that the fair value of Casino New Brunswick should be written down by \$4.6 million as a result of operations underachieving against expectations.

Subsequent to year end, Clairvest pledged \$5.4 million to a Schedule 1 Canadian chartered bank which has provided debt financing to Casino New Brunswick. The pledge was made to support the guarantee to fund any operating deficiencies of Casino New Brunswick as described in note 13(k).

### **(b) Centaur, LLC (“Centaur”)**

Centaur holds various gaming interests including the Hoosier Park Racing & Casino in Indianapolis, Indiana.

During fiscal 2011, Clairvest invested US\$29.7 million (C\$29.9 million) in senior secured first lien loans (“Senior Debt”) of Centaur. As part of the investment, Clairvest also purchased a US\$0.3 million (C\$0.3 million) promissory note (“Promissory Note”) from an unrelated investment partner. The Promissory Note is repayable upon Clairvest’s realization of its investment in Centaur, and as a result, the Senior Debt and the Promissory Note have been presented on an aggregate basis.

At March 31, 2011, Clairvest owned 8.8% of the total Senior Debt issued by Centaur.

### **(c) Chilean Gaming Holdings**

Chilean Gaming Holdings is a limited partnership which has a 50% ownership interest in each of Casino Marina del Sol (“Casino del Sol”) in Concepcion, Chile, Casino Osorno in Osorno, Chile, and Casino Sol Calama in Calama, Chile.

At March 31, 2009, Clairvest, through Canadian and Chilean acquisition entities, had a \$10.6 million equity investment in Casino del Sol, a \$16.6 million equity investment in Casino Osorno, and a US\$8.8 million (C\$9.1 million) loan investment in Latin Gaming Chile S.A. (“Latin Gaming Chile”), the casino operator of Casino Osorno and Casino Sol Calama.

During fiscal 2010, Clairvest, through Canadian and Chilean acquisition entities, loaned an additional US\$3.0 million (C\$3.3 million) to Latin Gaming Chile. During fiscal 2011, an additional US\$2.0 million (C\$2.1 million) was loaned to Latin Gaming Chile, bringing total loans to Latin Gaming Chile to US\$13.8 million (C\$14.5 million).

Also during fiscal 2011, Clairvest completed a consolidation of its Chilean gaming investments whereby Clairvest sold its interest in Casino del Sol and Casino Osorno, as well as the US\$13.8 million (C\$14.5 million) bridge loans advanced to Latin Gaming Chile at original cost to a holding entity (“Chilean Gaming Holdings”) and received net cash proceeds of \$15.9 million and 27,254,185 limited partnership units of Chilean Gaming Holdings. The consolidation did not result in a change to the valuation of the investment. Subsequently, Chilean Gaming Holdings closed on an equity investment in Casino Sol Calama wherein Chilean Gaming Holdings invested US\$20 million (C\$20.9 million) to acquire a 50% ownership interest in Casino Sol Calama. The US\$13.8 million of bridge loans which had previously been advanced to Latin Gaming Chile were repaid in full upon the closing of the equity investment in Casino Sol Calama. Clairvest invested an additional \$3.2 million for 3,192,113 limited partnership units of Chilean Gaming Holdings to support this acquisition.

During fiscal 2011, Clairvest received dividends totaling \$0.5 million from Chilean Gaming Holdings.

At March 31, 2011, Clairvest owned 30,446,299 limited partnership units of Chilean Gaming Holdings, representing a 36.8% interest.

### **(d) Hudson Valley Waste Holding, Inc. (“Hudson Valley”)**

Hudson Valley is a regional solid waste company which collects, processes and recycles non-hazardous solid waste in the northeastern United States.

During fiscal 2010, Clairvest invested \$9.2 million to acquire 8,750 Series A convertible preferred shares in Hudson Valley.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At March 31, 2011 and 2010, Clairvest owned 8,750 Series A convertible preferred shares in Hudson Valley, representing an 8.3% ownership interest unless certain return thresholds were met, at which point ownership interest would be reduced to 6.2%.

Subsequent to year end, Clairvest sold its interest in Hudson Valley for cash proceeds of US\$16.8 million (C\$16.3 million). Over the life of the investment, Clairvest realized a \$7.1 million gain on the investment and a \$0.6 million gain on the foreign exchange forward contracts entered into as hedges against the Company's investment in Hudson Valley.

### **(e) Kubra Data Transfer Limited ("Kubra")**

Kubra is a business process outsourcing company focused on the distribution of household bills on behalf of its customers.

At March 31, 2011 and 2010, Clairvest owned 3,250,000 Class A voting common shares of Kubra, representing a 12.1% (2010 – 12.8%) interest on a fully-diluted basis.

### **(f) Landauer Metropolitan Inc. ("Landauer")**

Landauer is a supplier of home medical equipment primarily in the northeastern United States. At March 31, 2009, Clairvest, through a wholly owned subsidiary, owned 1,906,250 10% cumulative convertible preferred shares and 446,858 common shares in Landauer.

During fiscal 2010, Clairvest, through a wholly owned subsidiary, acquired an additional 301,275 common shares for \$0.6 million. Also during fiscal 2010, Clairvest advanced a US\$0.2 million (C\$0.2 million) bridge loan to Landauer. The loan bears interest at a rate of 25% per annum, payable monthly, and was repayable on April 16, 2010 but remained outstanding as at March 31, 2011. Any unpaid interest accrues interest at the same rate. The Company has the option to convert the bridge loan to common shares of Landauer at a rate of \$1.00 per share.

During fiscal 2011, Clairvest advanced an additional US\$0.1 million (C\$0.1 million) bridge loan to Landauer. The loan bears interest at a rate of 12% per annum, payable monthly, and is repayable on September 24, 2015. Any unpaid interest accrues interest at the same rate. The Company has the option to convert the bridge loan to common shares of Landauer at a rate of \$1.00 per share if the loan is not repaid by September 24, 2015. Also during fiscal 2011, Clairvest invested a further US\$0.6 million (C\$0.6 million) in Landauer. The investment was made in the form of a subordinated secured convertible note with a 10% accrued interest per annum. The note is convertible to senior convertible preferred shares which have a two times liquidation preference in lieu of interest. Each senior convertible preferred share is convertible into common shares at a rate of \$0.50 per share in lieu of two times the liquidation preference and the conversion is at Clairvest's discretion.

In addition to the bridge loans and the subordinated secured convertible note, at March 31, 2011 and 2010, Clairvest, through a wholly owned subsidiary, owned 1,906,250 10% cumulative convertible preferred shares and 748,133 common shares in Landauer, representing a 14.2% (2010 – 13.9%) interest on a fully-diluted basis. The preferred shares are entitled to dividends only in the event that Clairvest does not convert the preferred shares into common shares. Each preferred share is convertible into one common share and the conversion is at Clairvest's discretion.

### **(g) Light Tower Rentals Inc. ("Light Tower Rentals")**

Light Tower Rentals is an oilfield equipment rental company operating in major oil and gas drilling basins in the United States. At March 31, 2009, Clairvest owned 5,841,250 Series A convertible preferred shares of Light Tower Rentals.

During fiscal 2010, Clairvest invested US\$0.3 million (C\$0.3 million) for 340,822 common shares of LTR Equipment Inc. ("LTR Equipment"), a company affiliated with Light Tower Rentals which supplies certain equipment to Light Tower Rentals.

During fiscal 2011, Clairvest invested an additional US\$1.9 million (C\$1.9 million) for 1,874,914 common shares of LTR Equipment.

At March 31, 2011 and 2010, Clairvest owned 5,841,250 Series A convertible preferred shares in Light Tower Rentals, which could be converted into a 10.8% ownership interest on a fully-diluted basis. Each preferred share is convertible into one common share and the conversion is at Clairvest's discretion. Also at March 31, 2011, Clairvest owned 2,215,736 (2010 – 340,822) common shares in LTR Equipment, representing a 14.8% (2010 – 11.0%) interest on a fully-diluted basis.

### **(h) Lyophilization Services of New England Inc. ("LSNE")**

LSNE is a Manchester, New Hampshire based contract manufacturing organization focused on providing lyophilization services to biotech, pharmaceutical and medical device manufacturers. At March 31, 2009, Clairvest owned 6,406,000 Series A 10% cumulative preferred shares of LSNE.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During fiscal 2011, Clairvest funded a further US\$0.3 million (C\$0.3 million) to LSNE in the form of unsecured loans to further support the growth of LSNE.

In addition to the unsecured loans, at March 31, 2011 and 2010, Clairvest owned 6,406,000 Series A 10% cumulative convertible preferred shares of LSNE, which could be converted into a 12.3% ownership interest on a fully-diluted basis. The preferred shares are entitled to dividends only in the event that Clairvest does not convert the preferred shares into common shares. Each preferred share is convertible into one common share and the conversion is at Clairvest's discretion.

### **(i) Midwest Gaming Holdings LLC ("Midwest Gaming")**

Midwest Gaming is a gaming entertainment complex currently under construction in Des Plaines, Illinois.

During fiscal 2011, Clairvest and Participation IV Partnership (note 4(g)) acquired 13,166,360 units of Midwest Gaming for US\$13.2 million (C\$13.2 million). Clairvest's portion of the investment was US\$11.7 million (C\$11.7 million). US\$2.4 million (C\$2.4 million) of this investment represents bridge capital in anticipation of the raising of equity from minority investors as required by the Illinois legislature. Subsequently, Clairvest sold 2,170,899 units of Midwest Gaming for US\$2.2 million (C\$2.2 million) to CEP IV and CEP IV-A as part of the final rebalancing of invested capital in accordance with the Co-Investment Agreement, US\$0.4 million (C\$0.4 million) of which represents the bridge capital in anticipation of raising equity from minority investors. Also during fiscal 2011, 368,395 units of Midwest Gaming were redeemed at cost for US\$0.4 million (C\$0.4 million) upon the raising of certain minority investors.

At March 31, 2011, Clairvest's owned 10,627,066 units of Midwest Gaming, representing a 5.0% ultimate ownership interest on a fully-diluted basis.

### **(j) N-Brook Mortgage LP ("N-Brook")**

N-Brook originated, adjudicated and underwrote first-ranking mortgages on owner-occupied, residential real estate in Ontario, British Columbia and Alberta. Clairvest had fully funded its \$5.0 million commitment to N-Brook in fiscal 2008. During fiscal 2009, N-Brook management made the decision to wind down its mortgage portfolio. Clairvest's fully-diluted interest in N-Brook at March 31, 2011 and 2010 was 14.7%.

### **(k) PEER 1 Network Enterprises Inc. ("PEER 1")**

PEER 1 (TSX: PIX) is a global online IT infrastructure provider based in Vancouver, British Columbia. During fiscal 2010, Clairvest invested \$6.3 million to acquire 5,134,617 common shares in PEER 1.

At March 31, 2011 and 2010, Clairvest owned 5,134,617 common shares of PEER 1, representing a 4.2% interest on a fully-diluted basis. The Company also owned 50,000 stock options of PEER 1 with an exercise price of \$1.07 per share, 36,111 (2010 – 2,778) of which have been vested at March 31, 2011.

### **(l) Tsuu T'ina Gaming Limited Partnership ("Tsuu T'ina")**

Tsuu T'ina is a charitable casino on Tsuu T'ina First Nation reserve lands, located southwest of the City of Calgary, Alberta. The Company's investment is in the form of subordinated debt with a 16% coupon rate. Clairvest also holds units of a limited partnership which holds Tsuu T'ina, entitling Clairvest to between 2.8% and 9.6% of the earnings of the casino from the date of commencement of operations, December 19, 2007, for a period of 15 years. Subject to the priority of senior lenders, debt repayment occurs on a monthly basis, commencing on January 1, 2011, the amount of which is based on the amount of cash available from the casino operations. No debt repayment has been made to March 31, 2011.

At March 31, 2011 and 2010, Clairvest had funded \$5.6 million in 16% subordinated debt to Tsuu T'ina.

### **(m) Van-Rob Inc. ("Van-Rob")**

Van-Rob is a supplier of metal stampings and welded assemblies to the North American auto sector. At March 31, 2010, Clairvest owned 5,000,000 Class A special convertible shares in Van-Rob, representing a 5.5% fully-diluted ownership interest. Each Class A special convertible share was convertible into 1.1285 common shares and the conversion was at Clairvest's discretion.

During fiscal 2011, Clairvest sold its interest in Van-Rob for cash proceeds of \$8.7 million, resulting in a realized gain on the investment of \$3.8 million.

### **(n) Wellington Financial Fund II ("Wellington Fund II")**

Wellington Fund II provided debt capital and operating lines to technology, biotechnology, communications and industrial product companies across Canada. Clairvest, as a limited partner, had committed to fund \$20.0 million to Wellington Fund II.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Clairvest's commitment represents a 24.1% interest in Wellington Fund II. Clairvest is also entitled to participate in the profits received by the General Partner of Wellington Fund II.

As a result of the closing of Wellington Financial Fund III [see Note 6[o]], any unfunded capital commitments to Wellington Fund II were extinguished. At March 31, 2011 and 2010, Clairvest had funded \$13.6 million to Wellington Fund II, all of which had been returned.

### (o) Wellington Financial Fund III ("Wellington Fund III")

Wellington Fund III, a successor to Wellington Fund II, provides debt capital and operating lines to technology, biotechnology, communications and industrial product companies across Canada and the United States. Clairvest, as a limited partner, committed to fund \$25.0 million to Wellington Fund III. Clairvest's commitment represents a 16.7% interest in Wellington Fund III. Clairvest is also entitled to participate in the profits received by the General Partner of Wellington Fund III.

At March 31, 2011 and 2010, \$12.5 million of Clairvest's commitment had been funded. Subsequent to year end, a further \$1.2 million was funded.

## 7. CREDIT FACILITIES

The Company has a \$20.0 million credit facility available, bearing interest at prime plus 0.5% per annum. The prime rate at March 31, 2011 was 3.00% (2010 - 2.25%). The amount available under the credit facility at March 31, 2011 and 2010 was \$20.0 million, which is based on debt covenants within the banking arrangement. No amounts were drawn during fiscal 2011 and 2010.

During fiscal 2011, the Company closed on a 10-year, \$75.0 million, committed credit facility. The credit facility bears interest at 11% per annum on drawn amounts and at 1% per annum on undrawn amounts. The amount available under the credit facility at March 31, 2011 is \$75.0 million. No amounts were drawn during the year. Included in accounts receivable and other assets at March 31, 2011 is capitalized closing fee on this facility totaling \$1.2 million which is to be amortized on a straight line basis to April 2015.

## 8. INCOME TAXES

Income tax expense (recovery) for the years ended March 31, 2011 and 2010 consist of the following:

	2011	2010
Current income tax expense (recovery)	\$ 1,411	\$ (1,705)
Future income tax expense	1,655	224
	<b>\$ 3,066</b>	<b>\$ (1,481)</b>

A reconciliation of the income tax expense (recovery) based on the statutory rate in Canada and the effective rate is as follows:

	2011	%	2010	%
Income before income taxes	\$ 22,630		\$ 7,616	
Statutory Canadian income tax rate		30.13		32.75
Statutory Canadian income taxes	6,817	30.13	2,494	32.75
Non-taxable dividends and distributions received	(1,307)	(5.78)	(2,514)	(33.01)
Non-taxable portion of net investment gains	(3,402)	(15.03)	(2,085)	(27.38)
Non-taxable portion of losses (gains) on temporary investments	326	1.44	(203)	(2.67)
Non-deductible portion of finance expense (recovery)	327	1.45	(135)	(1.77)
Non-deductible portion of other expenses	455	2.01	1,617	21.24
Payment (recovery) of prior years' taxes	(465)	(2.05)	173	2.27
Foreign income tax rate differences	154	0.68	1,429	18.76
Other	161	0.70	(2,257)	(29.63)
	<b>\$ 3,066</b>	<b>13.55</b>	<b>\$ (1,481)</b>	<b>(19.44)</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Future tax assets and liabilities relate to loss carryforwards and temporary differences on corporate and temporary investments, derivative instruments, accounts payable and accrued liabilities and income as follows:

	2011		2010	
	Asset	Liability	Asset	Liability
Loss carryforwards	\$ —	\$ (2,538)	\$ 86	\$ (1,309)
Temporary differences on corporate and temporary investments	—	1,848	(130)	(304)
Temporary differences on derivative instruments	—	219	(384)	504
Temporary differences on accounts payable and accrued liabilities	—	(1,103)	1,286	—
Temporary differences on income	—	3,226	—	2,314
Other	—	750	(150)	250
	\$ —	\$ 2,402	\$ 708	\$ 1,455

### 9. SHARE CAPITAL

#### Authorized

Unlimited number of preference shares issuable in series, with the designation, rights, privileges, restrictions, and conditions to be determined by the Board of Directors prior to the issue of the first shares of a series.

Unlimited number of common shares

10,000,000 non-voting shares

#### Issued and outstanding

	2011		2010	
	Shares	Amount	Shares	Amount
<b>Common shares, beginning of year</b>	<b>15,953,566</b>	<b>\$ 82,823</b>	15,953,566	\$ 82,823
Purchased and cancelled under normal course issuer bid	(560,871)	(2,912)	—	—
<b>Common shares, end of year</b>	<b>15,392,695</b>	<b>\$ 79,911</b>	15,953,566	\$ 82,823

During fiscal 2011, the Company filed a normal course issuer bid enabling it to make market purchases of up to 797,678 (2010 – 797,678) of its common shares in the 12-month period commencing March 6, 2011.

During fiscal 2011, the Company purchased and cancelled 560,871 (2010 – nil) common shares under its normal course issuer bid for a total purchase cost of \$7.9 million. The excess of the purchase cost of these shares over the average paid-in amount was \$4.9 million, which was charged to retained earnings. In total, 3,105,295 (2010 – 2,544,424) common shares at a cost of \$29.7 million (2010 – \$21.8 million) have been purchased under this and all previous normal course issuer bids as at March 31, 2011. An additional 934,200 common and 2,230,954 non-voting shares have been purchased for cancellation outside of the normal course issuer bid.

15,392,695 (2010 – 15,953,566) common shares were outstanding at March 31, 2011.

The weighted average number of common shares outstanding during fiscal 2011 was 15,952,025 (2010 – 15,953,566). The weighted average number of fully-diluted shares outstanding during fiscal 2011 was 16,262,314 (2010 – 16,285,042).

The difference between the basic and fully-diluted net income per share computations for 2011 and 2010 consists of the following:

	2011			2010		
	Net income ('000s)	Number of shares	Per share amount	Net income ('000s)	Number of shares	Per share amount
<b>Basic net income per share</b>	<b>\$ 19,564</b>	<b>15,952,025</b>	<b>\$ 1.23</b>	\$ 8,497	15,953,566	\$ 0.53
Effect of dilutive securities Stock options		310,289			331,476	
<b>Fully-diluted net income per share</b>	<b>\$ 19,564</b>	<b>16,262,314</b>	<b>\$ 1.20</b>	\$ 8,497	16,285,042	\$ 0.52

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Under the Company's stock option plan, 1,535,856 (2010 – 1,127,500) common shares of the Company have been reserved for issuance to eligible participants. At March 31, 2011, 977,000 (2010 – 1,082,000) options were outstanding under the plan, and an additional 558,856 (2010 – 45,500) are available for future grants. Under the plan, options are exercisable for one common share and the exercise price of the option must equal the market price of the underlying share on the day preceding the grant date.

Options granted vest over a period not to exceed 5 years. Once vested, options are exercisable at any time until their expiry 10 years after the grant date.

During fiscal 2011, 105,000 (2010 – 35,000) options were exercised, all of which were exercised under the cash settlement plan and had no impact on share capital. No options were granted in fiscal 2011 (2010 – 35,000).

A summary of the status of the Company's stock option plan as at March 31, 2011 and 2010 and changes during the years then ended are presented below:

	Number of options	Weighted average exercise price per share
Options outstanding, March 31, 2009	1,082,000	\$ 8.29
Options granted	35,000	12.63
Options exercised	(35,000)	5.22
Options outstanding, March 31, 2010	1,082,000	8.53
Options exercised	(105,000)	4.40
Options outstanding, March 31, 2011	<b>977,000</b>	<b>\$ 8.98</b>
Options exercisable, March 31, 2011	<b>845,000</b>	<b>\$ 8.45</b>

\* Adjusted for special dividend paid in fiscal 2009

The following table summarizes information about stock options outstanding and exercisable at March 31, 2011:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life (yrs)	Weighted average exercise price*	Number exercisable	Weighted average exercise price*
\$4.00 to \$4.99	50,000	0.5	\$ 4.32	50,000	\$ 4.32
\$5.00 to \$5.99	110,000	1.2	5.22	110,000	5.22
\$6.00 to \$6.99	55,000	1.7	6.12	55,000	6.12
\$7.00 to \$7.99	197,000	2.5	7.43	197,000	7.43
\$9.00 to \$9.99	330,000	4.6	9.53	306,000	9.50
\$12.00 to \$12.99	235,000	6.6	12.92	127,000	12.95
	977,000			845,000	

\* Adjusted for special dividend paid in fiscal 2009

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

As a result of a cash settlement feature in Clairvest's stock option plan, Clairvest is required to recognize compensation expense based upon the intrinsic value of the outstanding stock options at the consolidated balance sheet dates, and the proportion of their vesting periods that have elapsed. For the year ended March 31, 2011, Clairvest recognized a stock-based compensation expense of \$2.2 million (2010 – \$1.4 million) as a result of an increase in the trading price of Clairvest common shares. As at March 31, 2011, \$5.5 million (2010 – \$4.2 million) has been accrued under the Company's stock option plan, and a further \$0.2 million (2010 – \$0.1 million) not accrued as those options have not vested.

As at March 31, 2011, a total of 186,258 (2010 – 155,135) DSUs were held by directors of the Company, the accrual in respect of which was \$2.8 million (2010 – \$2.0 million) and has been included in accounts payable and accrued liabilities. For the year ended March 31, 2011, Clairvest recognized an expense of \$0.9 million (2010 – \$0.6 million) with respect to DSUs.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2011, 120,000 (2010 – 120,000) Appreciation DSUs were held by directors of the Company, the accrual in respect of which is \$0.3 million (2010 – \$19 thousand) and has been included in accounts payable and accrued liabilities. For the year ended March 31, 2011, Clairvest recognized an expense of \$0.2 million (2010 – \$19 thousand) with respect to Appreciation DSUs.

As at March 31, 2011, a total of 639,112 (2010 – 541,000) BVARs were held by employees of Clairvest, the accrual in respect of which was \$0.9 million (2010 – \$2.3 million) and has been included in accounts payable and accrued liabilities, and a further \$0.7 million (2010 – \$1.1 million) not accrued as those BVARs have not vested. For the year ended March 31, 2011, Clairvest recognized an expense of \$0.8 million (2010 – \$0.8 million) with respect to BVARs.

### 11. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2011	2010
Accounts receivable and other assets	\$ 9,857	\$ (12,006)
Income taxes recoverable	1,590	(7,210)
Accounts payable and accrued liabilities	(361)	85
Income taxes payable	—	(2,025)
	<b>\$ 11,086</b>	<b>\$ (21,156)</b>

Cash and cash equivalents at March 31, 2011 and 2010 are comprised of the following:

	2011	2010
Cash	\$ 2,186	\$ 3,843
Cash equivalents	59,146	39,841
	<b>\$ 61,332</b>	<b>\$ 43,684</b>

### 12. FINANCIAL INSTRUMENTS

#### (a) Fair Value of Financial Instruments

Cash and cash equivalents have fair values which approximate their carrying values due to their short-term nature.

Receivables, payables, temporary investments and corporate investments are being carried at fair value in accordance with the Company's accounting policy as described in Note 2 to the financial statements.

#### (b) Foreign Exchange Forward Contracts

As at March 31, 2011, the Company had entered into foreign exchange forward contracts as hedges against its foreign investments as follows:

Foreign exchange forward contracts to sell US\$90.3 million (2010 – US\$62.8 million) and buy US\$2.6 million (2010 – nil) at an average rate of Canadian \$0.9980 (2010 – \$1.0745) per U.S. dollar through March 2012. The fair value of these contracts at March 31, 2011 is a gain of \$2.5 million (2010 – \$3.7 million) and has been recognized on the consolidated balance sheets as derivative instruments.

Foreign exchange forward contracts to sell US\$83.6 million and buy US\$2.3 million (2010 – nil) on behalf of CEP IV. Any amounts paid or received as a result of settlement of these forward contracts will be reimbursed by or paid to CEP IV and therefore the fair value of these forward contracts has not been recognized on Clairvest's consolidated balance sheets.

Foreign exchange forward contracts to sell 14.7 billion Chilean Pesos ("CLP") at an average rate of Canadian \$0.001976 per CLP through January 2012. The fair value of these contracts at March 31, 2011 is a loss of \$0.9 million and has been recognized on the consolidated balance sheets as derivative instruments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2010, the Company had entered into foreign exchange forward contracts to sell Chilean Unidad de Fomento ("CLF") 0.7 million at an average rate of Canadian \$44.0993 per CLF through to January 2011. The fair value of these contracts at March 31, 2010 was a gain of \$2.2 million and had been recognized on the consolidated balance sheet as derivative instruments. These contracts were settled during fiscal 2011.

### 13. CONTINGENCIES, COMMITMENTS AND GUARANTEES

- (a) Clairvest has committed to co-invest alongside CEP in all investments undertaken by CEP. Clairvest's total co-investment commitment is \$54.7 million, \$3.5 million (2010 – \$3.5 million) of which remains outstanding at March 31, 2011. Clairvest may only sell all or a portion of a corporate investment that is a joint investment with CEP if the manager of CEP, GP I, concurrently sells a proportionate number of securities of that corporate investment held by CEP.
- (b) Clairvest has also committed to co-invest alongside CEP III in all investments undertaken by CEP III. Clairvest's total co-investment commitment is \$75.0 million, \$15.2 million (2010 – \$15.2 million) of which remains unfunded at March 31, 2011. Clairvest may only sell all or a portion of a corporate investment that is a joint investment with CEP III if the manager of CEP III, GP I, concurrently sells a proportionate number of securities of that corporate investment held by CEP III.
- (c) Clairvest has also committed to co-invest alongside CEP IV and CEP IV-A in all investments undertaken by CEP IV and CEP IV-A. Clairvest's total co-investment commitment is \$125.0 million (2010 – nil), \$88.4 million of which remains unfunded at March 31, 2011. Clairvest may only sell all or a portion of a corporate investment that is a joint investment with CEP IV and CEP IV-A if the manager of CEP IV and CEP IV-A, GP I, concurrently sells a proportionate number of securities of that corporate investment held by CEP IV and CEP IV-A.
- (d) Clairvest has committed \$25.0 million to Wellington Fund III, \$12.5 million (2010 – \$12.5 million) of which remains unfunded at March 31, 2011.
- (e) At March 31, 2011, Clairvest has received profit distributions totaling \$1.6 million (2010 – \$1.6 million) through its ownership interest in the General Partner of Wellington Fund II and \$2.0 million (2010 – \$1.5 million) through its ownership interest in the General Partner of Wellington Fund III. Clairvest has guaranteed, up to the amounts received from the respective General Partners, the clawback provisions (the "Clawback") entered into by the General Partners in the event the limited partners of the Wellington Fund II and Wellington Fund III do not meet their return threshold as specified in the respective Limited Partnership Agreements. At March 31, 2011 and 2010, there were no accruals made with respect to the Clawback.
- (f) Clairvest has guaranteed up to US\$3.4 million of CEP's obligations to a Schedule 1 Canadian chartered bank under CEP's foreign exchange forward contracts with the bank.
- (g) Clairvest has guaranteed up to US\$15.0 million of CEP III's obligations to a Schedule 1 Canadian chartered bank under CEP III's foreign exchange forward contracts with the bank.
- (h) Under Clairvest's Incentive Bonus Program (the "Program"), a bonus of 10% of after-tax cash income and realizations on certain of Clairvest's corporate investments would be paid to management annually as applicable. Amounts are accrued under this Program to the extent that the cash income and investment realizations have occurred and the bonus has become payable. At March 31, 2011, \$0.8 million (2010 – \$0.8 million) has been accrued under the Program and charged to administration and other expense. If Clairvest were to sell its corporate investments at their current fair values, an additional bonus of \$1.1 million (2010 – \$1.4 million) would be owing to management under this Program. As no such income and realizations have occurred and the terms of the Program with respect to these corporate investments have not yet been fulfilled, the \$1.1 million (2010 – \$1.4 million) has not been accrued at March 31, 2011. The Program does not apply to the income generated through CEP III Co-Invest and CEP IV Co-Invest.
- (i) During fiscal 2006, Clairvest and a wholly owned subsidiary sold their interests in Signature Security Group Holdings Pty Limited ("Signature") and a related company as part of a sale of 100% of Signature and the related company. As part of the transaction, the subsidiary has indemnified the purchaser for various potential claims which will reduce over time. No claims have been made to March 31, 2011.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (j) Clairvest has guaranteed to fund 50% of any operating deficiencies upon the opening of Casino del Sol for a specified period of time. Amounts paid under the guarantee will be allocated 37.6% to CEP III and 25.6% to unrelated third-party investors, to the extent that the amounts paid thereunder are within the limits of the CEP III Limited Partnership Agreement and the agreements with the unrelated third-party investors, with the remainder being allocated to Clairvest. Any amounts paid under the guarantee will result in additional equity being granted to Clairvest, CEP III and the unrelated third-party investors allocated on the same basis as the participation in the guarantee funding. As at March 31, 2011, no amounts subject to this guarantee have been funded.
- (k) Clairvest, together with CEP III, has guaranteed to fund any operating deficiencies of Casino New Brunswick for a specified period of time. The amount of the guarantee is allocated 75% to CEP III, to the extent that the amounts paid thereunder are within the limits of the CEP III Limited Partnership Agreement, with the remainder being allocated to Clairvest. Any amounts paid under the guarantee will result in additional debentures being granted to Clairvest and CEP III, allocated on the same basis as the participation between Clairvest and CEP III in the guarantee funding. As at March 31, 2011, no amounts subject to this guarantee have been funded.
- (l) Clairvest, together with CEP IV, CEP IV-A and other investors of Midwest Gaming, have entered into a US\$20 million joint and several guarantee to fund any cost overruns during the construction of a casino in Des Plaines, Illinois. Any amounts paid under the guarantee will result in additional units being granted to Clairvest, CEP IV, CEP IV-A and the other investors of Midwest Gaming, allocated on the same basis as the participation between Clairvest, CEP IV, CEP IV-A and the other investors of Midwest Gaming in the guarantee funding. As at March 31, 2011, no amounts subject to this guarantee have been funded.
- (m) An acquisition entity of Chilean Gaming Holdings and other investors of Casino Sol Calama have entered into a joint and several guarantee to fund any operating deficiencies upon the opening of Casino Sol Calama for a specified period of time. Latin Gaming Chile, Casino Sol Calama's operator, has indemnified this acquisition entity with respect to this guarantee. As at March 31, 2011, no amounts subject to this guarantee have been funded.
- (n) As part of the holding structure of Chilean Gaming Holdings, Clairvest, together with CEP III and other co-investors, borrowed \$57.0 million through various acquisition entities from an unrelated financial institution, while another acquisition entity deposited \$57.0 million with the financial institution as security for the loan. Clairvest intends to settle the loan, the deposit and related interest accruals simultaneously upon the divestiture of the investments in Chilean Gaming Holdings, and as a result, the deposit and the loan, and the interest revenue and expense have been presented on a net basis. Clairvest's ownership of both acquisition entities was 36.8% at March 31, 2011, with CEP III owning 37.6% and the remainder owned by the other co-investors.
- (o) 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 14. RISK MANAGEMENT

The private equity investment business involves accepting risk for potential return, and is therefore affected by a number of economic factors, including changing economic environments, capital markets and interest rates. As a result, the Company faces various risk factors, inherent in its normal business activities. These risk factors and how the Company manages these risk factors are described below.

#### 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 years ended March 31, 2011 and 2010, there were no material income effects on changes of credit risk on financial assets. The carrying values of financial assets subject to credit exposure at March 31, 2011 and 2010, net of any allowances for losses, were as follows:

	2011	2010
<b>Financial assets</b>		
Cash and cash equivalents	\$ 61,332	\$ 43,684
Temporary investments	77,006	108,544
Accounts receivable	5,366	18,445
Loans receivable	126	698
Derivative instruments	2,493	5,900
Corporate investments	162,177	118,881
	\$ 308,500	\$ 296,152
<b>Financial liabilities</b>		
Accounts payable	\$ 176	\$ 23
Derivative instruments	913	—
	\$ 1,089	\$ 23

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 receivable, a significant portion of which is with its investee companies and its CEP Funds. The Company manages this risk through its oversight responsibilities with existing investee companies and 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. At March 31, 2011, a portion of the Company's derivative instruments have an accrued gain and a fair value of \$2.5 million. The Company believes the counterparty risk with respect to its derivative instruments is nominal.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company manages credit risk on cash, cash equivalents and temporary investments by conducting activities in accordance with the fixed income securities policy that 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. As at March 31, 2011 and 2010, the credit ratings, based on the Dominion Bond Rating Services ("DBRS") rating scale, for the Company's cash, cash equivalents and temporary investments were as follows:

	2011	2010
<b>Cash and term deposits</b>	<b>\$ 2,714</b>	<b>\$ 30,572</b>
<b>Money market savings accounts</b>		
R1-High	<b>35,716</b>	—
<b>Guaranteed investment certificates and savings accounts</b>		
AA+	<b>5,017</b>	5,025
AA	<b>41,363</b>	37,941
AA-	<b>11,932</b>	6,980
<b>Corporate bonds</b>		
AA	<b>13,375</b>	21,544
AA-	—	25,466
A+	<b>10,049</b>	7,025
A	<b>2,991</b>	2,001
A-	<b>11,931</b>	6,976
BBB	<b>1,751</b>	5,166
<b>Preferred shares</b>		
P-1 low	—	1,954
P-2 low	<b>1,499</b>	1,521
<b>Other fixed income investments</b>		
R1-High	—	49
<b>Other non-rated securities</b>	—	8
<b>Total cash, cash equivalents and temporary investments</b>	<b>\$ 138,338</b>	<b>\$ 152,228</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Market Risk

Market risk includes exposure to fluctuations in the market value of the Company's investments, currency rates and interest rates. The following table presents the financial instruments measured at fair value classified by the fair value hierarchy set out in CICA Handbook Section 3862:

	2011			Assets/ liabilities at fair value
	Fair value measurements using			
	Level 1	Level 2	Level 3	
<b>Financial assets</b>				
Cash	\$ 2,186	\$ —	\$ —	\$ 2,186
Cash equivalents				
Money market savings accounts	35,716	—	—	35,716
Investment savings accounts	21,151	—	—	21,151
Term deposits	528	—	—	528
Corporate bonds	1,751	—	—	1,751
Fixed income mutual funds	—	—	—	—
	<b>59,146</b>	<b>—</b>	<b>—</b>	<b>59,146</b>
Temporary investments				
Guaranteed investment certificates	—	37,161	—	37,161
Corporate bonds	38,346	—	—	38,346
Preferred shares	1,499	—	—	1,499
	<b>39,845</b>	<b>37,161</b>	<b>—</b>	<b>77,006</b>
Accounts receivable	—	—	5,366	5,366
Loans receivable	—	—	126	126
Derivative instruments	—	2,493	—	2,493
Corporate investments	8,930	—	153,247	162,177
	<b>\$ 110,107</b>	<b>\$ 39,654</b>	<b>\$ 158,739</b>	<b>\$ 308,500</b>
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	—	—	176	176
Derivative instruments	—	913	—	913
	<b>\$ —</b>	<b>\$ 913</b>	<b>\$ 176</b>	<b>\$ 1,089</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2010				
	Fair value measurements using			Assets/ liabilities at fair value
	Level 1	Level 2	Level 3	
<b>Financial assets</b>				
Cash	\$ 3,843	\$ —	\$ —	\$ 3,843
Cash equivalents				
Investment savings accounts	7,898	—	—	7,898
Term deposits	26,728	—	—	26,728
Corporate bonds	5,166	—	—	5,166
Fixed income mutual funds	49	—	—	49
	39,841	—	—	39,841
Temporary investments				
Guaranteed investment certificates	—	42,049	—	42,049
Corporate bonds	63,020	—	—	63,020
Preferred shares	3,475	—	—	3,475
	66,495	42,049	—	108,544
Accounts receivable	—	—	18,445	18,445
Loans receivable	—	—	698	698
Derivative instruments	—	5,900	—	5,900
Corporate investments	5,564	—	113,317	118,881
	\$ 115,743	\$ 47,949	\$ 132,460	\$ 296,152
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	—	—	23	23
	\$ —	\$ —	\$ 23	\$ 23

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the changes in fair value measurements for instruments included in Level 3 of the fair value hierarchy set out in CICA Handbook Section 3862:

	Fair value April 1, 2010	Total realized / unrealized gains and foreign exchange reevaluations included in earnings	Purchases of assets / issuances of liabilities	Sales of assets / settlements of liabilities	Fair value March 31, 2011	Unrealized gains and foreign exchange reevaluations included in earnings for the year ended March 31, 2011 for positions still held
<b>Financial assets</b>						
Accounts receivable	\$ 18,445	\$ —	\$ 26,289	\$ (39,368)	\$ 5,366	\$ —
Loans receivable	698	—	55,876	(56,448)	126	—
Corporate investments	113,317	17,598	54,270	(31,938)	153,247	13,737
	<b>132,460</b>	<b>17,598</b>	<b>136,435</b>	<b>(127,754)</b>	<b>158,739</b>	<b>13,737</b>
<b>Financial liabilities</b>						
Accounts payable	23	—	2,234	(2,081)	176	—
	<b>\$ 23</b>	<b>\$ —</b>	<b>\$ 2,234</b>	<b>\$ (2,081)</b>	<b>\$ 176</b>	<b>\$ —</b>

	Fair value April 1, 2009	Total realized / unrealized gains (losses) and foreign exchange reevaluations included in earnings	Purchases of assets / issuances of liabilities	Sales of assets / settlements of liabilities	Fair value March 31, 2010	Unrealized gains (losses) and foreign exchange reevaluations included in earnings for the year ended March 31, 2010 for positions still held
<b>Financial assets</b>						
Accounts receivable	\$ 6,719	\$ —	\$ 50,290	\$ (38,564)	\$ 18,445	\$ —
Loans receivable	8,549	—	74,436	(82,287)	698	—
Corporate investments	102,797	(3,339)	20,077	(6,218)	113,317	(3,003)
	<b>118,065</b>	<b>(3,339)</b>	<b>144,803</b>	<b>(127,069)</b>	<b>132,460</b>	<b>(3,003)</b>
<b>Financial liabilities</b>						
Accounts payable	268	—	529	(774)	23	—
	<b>\$ 268</b>	<b>\$ —</b>	<b>\$ 529</b>	<b>\$ (774)</b>	<b>\$ 23</b>	<b>\$ —</b>

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

If interest rates were higher or lower by 1%, the potential effect would be an increase or decrease of \$1.1 million to distributions and interest income on a pre-tax basis for the year ended March 31, 2011.

The Company held \$1.5 million in preferred shares of corporations in its temporary investments portfolio at March 31, 2011. A sensitivity analysis on market risk is therefore not disclosed due to the Company's minimal exposure to market risk.

As at March 31, 2011, approximately 5.5% of the fair value of the Company's corporate investments was in publicly traded companies. If market prices were higher or lower by 5% as at March 31, 2011, the potential effect would be an increase or decrease of \$0.4 million to the carrying value of corporate investments and net unrealized gains (losses) on corporate investments on a pre-tax basis for the year ended March 31, 2011.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Included in corporate investments are investments 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 used in a valuation model based on earnings used for each individual investment. 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 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. Investments which are valued using the earnings multiple approach include Chilean Gaming Holdings, Casino New Brunswick, Kubra, Landauer, Light Tower Rentals, and LSNE. If the Company had used an earnings multiple for each investment that was higher or lower by 0.5 times, the potential effect would be an increase of \$6.9 million or decrease of \$9.1 million to the carrying value of corporate investments and net unrealized gains or losses on corporate investments, on a pre-tax basis for the year ended March 31, 2011. Earnings multiples used are based on public company valuations as well as private market multiples for comparable companies.

The Company's corporate investment portfolio is diversified across 14 companies in 8 industries and 3 countries as at March 31, 2011. Concentration risk by industry and by country is as follows:

	2011				2010			
	Canada	United States	Chile	Fair value	Canada	United States	Chile	Fair value
Automotive related	\$ —	\$ —	\$ —	\$ —	\$ 4,853	\$ —	\$ —	\$ 4,853
Business services	—	8,033	—	8,033	1,035	6,573	—	7,608
Contract manufacturing	—	5,697	—	5,697	—	4,887	—	4,887
Financial services	17,131	—	—	17,131	16,569	—	—	16,569
Gaming	13,691	41,690	29,890	85,271	17,318	—	39,076	56,394
Health and medical related	—	5,590	—	5,590	—	7,693	—	7,693
Information technology	—	8,753	—	8,753	—	5,494	—	5,494
Oil field service	—	14,254	—	14,254	—	6,280	—	6,280
Waste management	—	16,256	—	16,256	—	8,952	—	8,952
Other	1,192	—	—	1,192	151	—	—	151
<b>Total</b>	<b>\$ 32,014</b>	<b>\$100,273</b>	<b>\$ 29,890</b>	<b>\$ 162,177</b>	<b>\$ 39,926</b>	<b>\$ 39,879</b>	<b>\$ 39,076</b>	<b>\$ 118,881</b>

The Company has considered current economic events and indicators in the valuation of its corporate investments.

The Company has implemented a hedging strategy because it has, directly and indirectly, several investments outside of Canada, currently in the United States and in Chile. In order to limit its exposure to changes in the value of foreign denominated currencies relative to the Canadian dollar, Clairvest hedges 100% of the fair value of its foreign investments unless a specific exemption is approved by the board.

A number of investee companies are subject to foreign exchange risk. A significant change in foreign exchange rates can have a significant impact to 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.

Certain of the Company's corporate investments are also held in the form of subordinated debentures. Significant fluctuations in market interest rates can have a significant impact on the fair value of these investments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. See Note 13 which describes the Company's contingencies, commitments and guarantees.

The Company maintains a conservative liquidity position that exceeds all liabilities payable on demand. The Company invests its cash equivalents and temporary investments in liquid assets such that they are available to cover any potential funding commitments and guarantees. In addition, the Company maintains various credit facilities.

### **15. CAPITAL DISCLOSURES**

Clairvest considers the capital it manages to be the amounts it has in cash, cash equivalents, temporary investments and corporate investments. Clairvest also manages the third-party capital committed or invested in the CEP Funds and co-investments made by other investors. At March 31, 2011, Clairvest had cash, cash equivalents and temporary investments of \$138.3 million (2010 – \$152.2 million), in addition to \$162.2 million (2010 – \$118.9 million) of corporate investments. Clairvest also had access to \$95.0 million (2010 – \$20.0 million) through its credit facilities and \$297.8 million (2010 – \$267.9 million) of uncalled committed third-party capital for acquisitions through the CEP Funds at March 31, 2011.

Clairvest's objectives in managing capital are to:

- Preserve a financially strong company with substantial liquidity such that funds are available to pursue new acquisitions and growth opportunities as well as to support its operations and the growth of its existing corporate investments;
- Achieve an appropriate risk-adjusted return on capital;
- Build the long-term value of its corporate investments; and
- Have appropriate levels of committed third-party capital available to invest along with 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 earning a carried interest.

At March 31, 2011 and 2010, Clairvest had no external capital requirements, other than as disclosed in Note 13.

### **16. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS**

The comparative consolidated financial statements have been restated from statements previously presented to conform to the presentation of the 2011 consolidated financial statements.

## SHAREHOLDER INFORMATION

As at, and for the year ended, March 31, 2011

### SHAREHOLDER COMMUNICATION

Clairvest has both the obligation and desire to provide its shareholders with full and continuous disclosure, on a timely basis, throughout the fiscal year. Annual and quarterly reports are provided as part of this process and the company releases information on material events through the press, as required. Further disclosure can be found on the company's website, [www.clairvest.com](http://www.clairvest.com).

### VALUATION MEASURES

Clairvest's focus is on building the long-term value of its investments. Fair value accounting allows Clairvest to reflect changes in the value of our investments. The fair value method, however, is not without limitations. Clairvest's investments are often carried at values which may vary from the actual realizations.

### OUTSTANDING SECURITIES

Share structure:	Common Shares <sup>(3)</sup>	
Common shares outstanding		15,392,695
Less holders of 10% or more		10,015,327
Public float: <sup>(1,2)</sup>		5,377,368
Market capitalization: <sup>(1)</sup>		\$ 223,194,078
Market value of public float: <sup>(1,2)</sup>		\$ 77,971,836
Stock market:	Toronto Stock Exchange	
Stock symbol:	CVG	

(1) As at May 31, 2011.

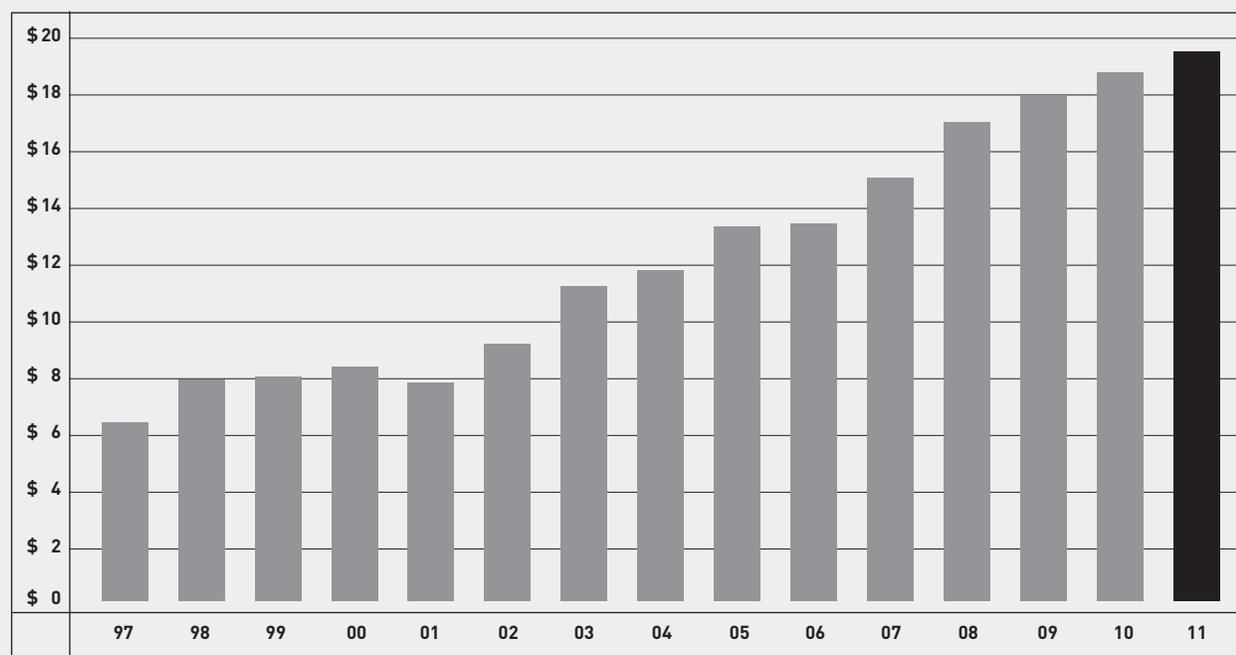
(2) Excludes holders of 10% or more of the outstanding common shares.

(3) During the year, Clairvest filed a new Normal Course Issuer Bid.

### DIVIDEND INFORMATION

Clairvest has consistently paid a dividend over the last twenty-one years. Over the last nineteen years the annual dividend has been \$0.10 per common share. It is Clairvest's current intention to continue to pay an annual dividend.

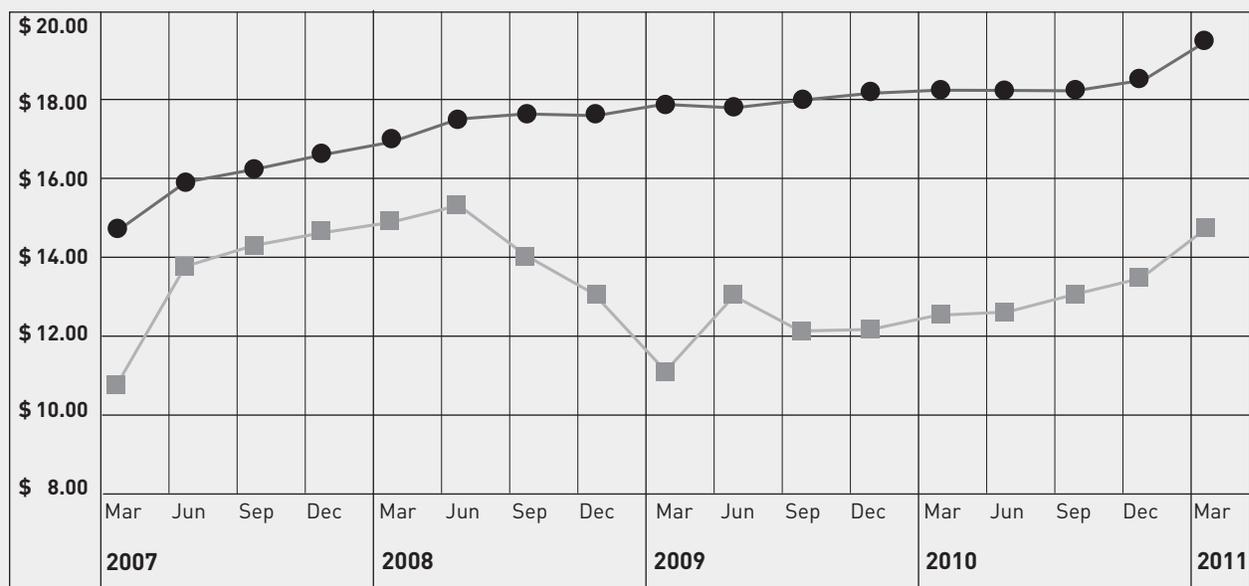
### BOOK VALUE PER SHARE



## SHAREHOLDER INFORMATION

As at, and for the year ended, March 31, 2011

### SHARE PRICE VS BOOK VALUE PER SHARE



● Book value    ■ Share price

### SHARE TRADING VOLUME FISCAL 2011

Common Shares	High	Low	Close	Volume
<b>Year to March 31, 2011</b>				
<b>First Quarter</b>	<b>12.70</b>	<b>12.25</b>	<b>12.47</b>	<b>87,299</b>
<b>Second Quarter</b>	<b>12.97</b>	<b>12.30</b>	<b>12.95</b>	<b>312,932</b>
<b>Third Quarter</b>	<b>13.50</b>	<b>13.04</b>	<b>13.38</b>	<b>50,956</b>
<b>Fourth Quarter</b>	<b>15.06</b>	<b>13.34</b>	<b>14.76</b>	<b>701,552</b>
<b>Year to March 31, 2010</b>				
First Quarter	12.99	10.52	12.99	25,437
Second Quarter	12.59	11.85	12.00	63,825
Third Quarter	12.79	11.91	12.10	66,378
Fourth Quarter	12.60	12.15	12.40	50,550

### SHAREHOLDER INQUIRIES

Daniel Cheng, Chief Financial Officer

tel: **416.925.9270**

fax: 416.925.5753

email: danielc@clairvest.com

## **TRANSFER AGENT AND REGISTRAR**

Investors are encouraged to contact  
CIBC Mellon Trust Company  
for information regarding their security holdings.

Information can be obtained at:  
CIBC Mellon Trust Company  
Adelaide Street Postal Station  
P.O. Box 7010  
Toronto, Ontario M5C 2W9  
Answerline: 416.643.5500  
or toll-free throughout North America at  
1.800.387.0825  
web: [www.cibcmellon.ca](http://www.cibcmellon.ca)  
email: [inquiries@cibcmellon.ca](mailto:inquiries@cibcmellon.ca)

## **CORPORATE INFORMATION**

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AUDITORS  
Ernst & Young LLP

THE ANNUAL MEETING OF  
SHAREHOLDERS  
August 11, 2011  
St. Andrews Club & Conference Centre,  
150 King Street West, 27th Floor  
Toronto, Ontario Canada

All shareholders are encouraged to attend.