# Q1 CANACCORD CAPITAL INC.

## REPORTS FISCAL FIRST QUARTER 2010 RESULTS

### FIRST QUARTER FISCAL 2010 REPORT TO SHAREHOLDERS

*(All dollar amounts are stated in Canadian dollars unless otherwise indicated)*

**VANCOUVER, August 6, 2009** – Canaccord Capital Inc.'s revenue for the first quarter of fiscal year 2010, ended June 30, 2009, was $137.5 million, up 28.5% from the previous quarter. Net income for the first quarter was $9.1 million, up 148.6% from the previous quarter. Diluted earnings per share (EPS) for fiscal Q1/10 were $0.16, an increase of $0.09 from the previous quarter. Commenting on the quarter, Paul Reynolds, President and CEO said "Our results this quarter are not only an indication of our improving business environment, but also our commitment to improving margins. Though we are pleased with our first quarter performance, we remain fully engaged in increasing the value of Canaccord for shareholders."

**First quarter 2010 vs. fourth quarter 2009**

- Revenue of $137.5 million, up 28.5% or $30.5 million from $107.0 million
- Expenses of $121.5 million, up 21.1% or $21.2 million from $100.3 million
- Net income of $9.1 million compared to a net income of $3.7 million
- Diluted EPS of $0.16 compared to a diluted EPS of $0.07 in the fourth quarter of 2009

**Financial condition at end of first quarter 2010 vs. first quarter 2009**

- Cash and cash equivalents balance of $734.3 million, up $179.3 million from $555.0 million
- Working capital of $301.6 million, down $31.7 million from $333.3 million due to a decrease in client receivables balance net of client payables
- Total shareholders' equity of $385.4 million, down $54.5 million from $439.9 million
- Book value per diluted common share for the period end was $6.73, down 12.1% or $0.93 from $7.66

**First quarter 2010 vs. first quarter 2009**

- Revenue of $137.5 million, down 20.4% or $35.2 million from $172.7 million
- Expenses of $121.5 million, down 18.6% or $27.7 million from $149.2 million
- Net income of $9.1 million compared to a net income of $16.5 million in the same period of the prior year
- Return on equity (ROE) of 9.7%, down from 15.7%
- Diluted EPS of $0.16 compared to a diluted EPS of $0.31
- On August 5, 2009 the Board of Directors considered the dividend policy in the context of the market environment and Canaccord's business activity and approved the continued suspension of Canaccord's quarterly dividend for this quarter. This measure was taken to enable Canaccord to preserve its working capital and book value, as well as to position the Company to take advantage of growth opportunities that may become available.

**CONTENTS**



CANACCORD CAPITAL

**Highlights of operations:**

- Canaccord Adams led 23 transactions globally to raise total proceeds of $551.8 million (1) during fiscal Q1/10
- Canaccord Adams participated in a total of 74 transactions globally to raise total proceeds of $1.5 billion (1) during fiscal Q1/10
- During Q1/10, Canaccord Adams led or co-led the following equity transactions:
  - £132.0 million for Heritage Oil Corporation (LSE)
  - US$167.6 million for Itron Inc. (NASDAQ)
  - C$162.3 million for TransAtlantic Petroleum Corp.(TSX)
  - US$87.4 million for BPZ Resources, Inc. (AMEX)
  - US$66.2 million for Telvent GIT S.A. (NASDAQ)
  - C$50.1 million for Capstone Mining Corp. (TSX)
- Canaccord continued to rank first in Canada for block trading market share on the TSX Venture, with 16.9% of market share in Q1/10, up from 10.5% in Q1/09 (2)
- Canaccord Adams completed 6 Private Investment in Public Equity (PIPE) transactions in North America that raised US$151.1 million in proceeds during fiscal Q1/10 (3)
- Assets under administration of $10.3 billion, down 29.6% from $14.7 billion at the end of Q1/09, and up 12.6% from $9.2 billion at the end of Q4/09
- Assets under management of $443.0 million, down 40.7% from $747.0 million at the end of Q1/09, and up 12.7% from $393.0 million at the end of Q4/09
- As at June 30, 2009 Canaccord had 335 Advisory Teams (4), down 19 from 354 Advisory Teams as of June 30, 2008, and down three from 338 teams as of March 31, 2009. The decrease is largely due to a strategic review of our Private Client Services division.
- On June 23, 2009, George Karkoulas joined Canaccord Capital Corporation as Senior Vice President & Head of Independent Financial Management in Toronto.
- On June 29, 2009, Giles Fitzpatrick joined Canaccord Adams Limited as President of Canaccord Adams' UK operations.

### Non-GAAP Measures

Management believes that the non-GAAP measures presented provide useful information by excluding certain items that may not be indicative of Canaccord's core operating results. Management believes that these non-GAAP measures will allow for a better evaluation of the operating performance of Canaccord's business and facilitate meaningful comparison of results in the current period to those in prior periods and future periods. Reference to these non-GAAP measures should not be considered as a substitute for results that are presented in a manner consistent with GAAP. These non-GAAP measures are provided to enhance investors' overall understanding of Canaccord's current financial performance.

A limitation of utilizing these non-GAAP measures is that the GAAP accounting effects of the significant items do in fact reflect the underlying financial results of Canaccord's business and these effects should not be ignored in evaluating and analyzing Canaccord's financial results. Therefore, management believes that Canaccord's GAAP measures of net income (loss) and diluted earnings (loss) per share and the same respective non-GAAP measures of financial performance should be considered together.

(1) Source: FPinfomart and Company information
(2) Source: Canada Equity. Market share by trade volume
(3) Source: Placement Tracker. Includes placements for companies incorporated in Canada and the US
(4) Advisory Teams are normally comprised of one or more Investment Advisors (IAs) and their assistants and associates, who together manage a shared set of client accounts. Advisory Teams that are led by, or only include, an IA who has been licenced for less than three years are not included in our Advisory Team count, as it typically takes a new IA approximately three years to build an average sized book.

# LETTER TO SHAREHOLDERS

Overall, we were satisfied with Canaccord's performance during the first quarter of fiscal 2010. While market volatility continued to keep some investors and issuers on the sidelines during the quarter, all of our divisions found opportunities to successfully leverage the current marketplace. The cost containment initiatives that we announced over the course of the year are also providing tangible results. Sequentially, Canaccord's margins are improving, and we expect further gains from ongoing cost-reduction programs.

### FINANCIAL OVERVIEW

Revenues for the three months ended June 30th, 2009 totaled $137.5 million, a 29% increase compared to the previous quarter, but a 20% decrease from revenues of $172.7 million for the first quarter of fiscal 2009. Expenses declined 19% to $121.5 million compared to the same quarter last year, due primarily to a 17% decrease in incentive compensation and a 38% reduction in general and administrative costs. Net income was $9.1 million, a significant improvement over the $3.7 million earned in the previous quarter, but a 45% decline from the first quarter of fiscal 2009.

At 9.7%, our return on equity for the first quarter of 2010 was below what we believe is a suitable long-term ROE for Canaccord. We are committed to finding more efficiencies and revenue growth opportunities in all parts of the organization, and ultimately expect to achieve a long-term target of 20% average ROE over our next business cycle.

We will continue to make investments to support the growth of our operations, but while we are committed to growth, we cannot support it at any cost. Even as our businesses build revenue, they each must appropriately contribute to our long-term ROE target. To ensure that all of Canaccord's divisions are equally transparent to shareholders, beginning next quarter, we will be providing additional financial disclosures to allocate certain direct and other costs to our divisions. We believe this initiative will enhance accountability as we continue being vigilant with costs. We are determined to make whatever changes are necessary to unlock the inherent value we know exists in all of our businesses.

### SOLID PERFORMANCE FROM CANACCORD ADAMS

Canaccord Adams performed very well during the first quarter of 2010 despite general weakness in the global capital markets. Revenues from all geographies declined 18% from the far more robust first quarter of our last fiscal year. But there are signs that a gradual recovery is underway. Revenues from our Canadian, U.K. and U.S. capital markets operations advanced 17%, 31% and 60%, respectively since last quarter, a marked improvement due in part to the improved capital markets during Q1.

Globally, the Canaccord Adams team led 23 transactions that raised more than $550 million and participated in 74 transactions that raised total proceeds of $1.5 billion. A number of significant transactions occurred during the quarter as a result of our strong balance sheet, capital base and global distribution for clients. These included a £132 million offering for Heritage Oil on the London Stock Exchange and a C$162 million underwriting on the Toronto Stock Exchange for TransAtlantic Petroleum Corp.

Canaccord Adams acted as lead bookrunner on two U.S. underwritings that were particularly notable – Itron Inc., a US$168 million offering, and Telvent GIT, S.A., a US$66.2 million offering. These transactions demonstrated our team's expertise in an emerging investment theme: energy efficiency and infrastructure – the strength of both these companies.

In the UK, we were very pleased to welcome Giles Fitzpatrick as the new president of Canaccord Adams Limited – our U.K. operations – at the end of the quarter. Giles was formerly CEO of a highly regarded global investment bank and his well-established relationships in Europe, Asia and North America will enable us to continue to strengthen our U.K. equity capital markets business.

### PROGRESS IN PRIVATE CLIENT SERVICES

Private Client Services' revenues were dampened by market volatility that reduced trading activity during the first three months of fiscal 2010. Revenues declined 30% from the comparable quarter last year. Sequentially, however, revenues advanced about 8%, suggesting a gradual return of a more normalized business environment. At $10.3 billion, our assets under administration increased by 12.6% since last quarter, however AUA declined 29.6% year-over-year due primarily to lower market values.

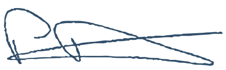
PCS is making significant progress under the leadership of John Rothwell. The division is in the first year of a three-year program of strategic repositioning intended to build revenues through pricing, products and services and to reduce costs through more-efficient use of resources. We continue to have a strong commitment to advancing this group through quality improvement programs, while also aggressively pursuing new opportunities for growth.

We recently hired George Karkoulas to head PCS's new Independent Financial Management initiative. This program is a new strategically complementary segment of our Private Client platform that will leverage Canaccord's independence, infrastructure and operational strengths. It also provides an opportunity to recruit brokers who wish to retain their independence but operate under the prominence of the Canaccord brand. George is the ideal executive to lead this growth initiative for us, having built a similar business for one of our peers over the past seven years.

**LOOKING AHEAD**

We remain cautiously optimistic about the immediate future for Canaccord. We're pleased with the achievements we've had to date in reducing our breakeven costs and the continuing success our teams are having in executing great ideas for clients in still-challenging market conditions. With the lingering global economic downturn, we feel the need to continue to protect the strength of Canaccord's capital base in the event the global recovery is more prolonged.

To our employees, we say thank you, as always, for your hard work and dedication to the interests of our clients and shareholders. More importantly, thank you for understanding the need for the changes we are making, and taking them seriously. Progress requires change, and it is something we all know is important for the ongoing success of Canaccord.



**PAUL D. REYNOLDS**
*President & Chief Executive Officer*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*Fiscal first quarter 2010 for the three months ended June 30, 2009 – this document is dated August 6, 2009*

The following discussion of the financial condition and results of operations for Canaccord Capital Inc. (Canaccord) is provided to enable the reader to assess material changes in our financial condition and to assess results for the three-month period ended June 30, 2009 compared to the corresponding period in the preceding fiscal year. The three-month period ended June 30, 2009 is also referred to as first quarter 2010, Q1/10 and fiscal Q1/10 in the following discussion. This discussion should be read in conjunction with the unaudited interim consolidated financial statements for the three-month period ended June 30, 2009, beginning on page 19 of this report; our Annual Information Form dated May 26, 2009; and the 2009 annual Management's Discussion and Analysis (MD&A) including the audited consolidated financial statements for the fiscal year ended March 31, 2009 (Audited Annual Consolidated Financial Statements) in Canaccord's Annual Report dated May 20, 2009 (the Annual Report). There has been no material change to the information contained in the annual MD&A for fiscal 2009 except as disclosed in this MD&A. Canaccord's financial information is expressed in Canadian dollars unless otherwise specified. The financial information presented in this document is prepared in accordance with Canadian generally accepted accounting principles (GAAP) unless specifically noted. This MD&A is based on unaudited interim and Audited Annual Consolidated Financial Statements prepared in accordance with Canadian GAAP.

### CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document may contain certain forward-looking statements. These statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events including business and economic conditions and Canaccord's growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue", "target", "intend" or the negative of these terms or other comparable terminology. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and a number of factors could cause actual events or results to differ materially from the results discussed in the forward-looking statements. In evaluating these statements, readers should specifically consider various factors that may cause actual results to differ materially from any forward-looking statement. These factors include, but are not limited to, market and general economic conditions, the nature of the financial services industry and the risks and uncertainties detailed from time to time in Canaccord's interim and annual consolidated financial statements and its Annual Report and Annual Information Form filed on sedar.com. These forward-looking statements are made as of the date of this document, and Canaccord assumes no obligation to update or revise them to reflect new events or circumstances.

### NON-GAAP MEASURES

Certain non-GAAP measures are utilized by Canaccord as measures of financial performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Non-GAAP measures included are: return on average common equity (ROE), assets under administration (AUA), assets under management (AUM), expenses as a % of revenue, and book value per diluted share.

Canaccord's capital is represented by common shareholders' equity and, therefore, management uses return on average common equity (ROE) as a performance measure.

Assets under administration (AUA) and assets under management (AUM) are non-GAAP measures of client assets that are common to the wealth management aspects of the private client services industry. AUA is the market value of client assets administered by Canaccord from which Canaccord earns commissions or fees. This measure includes funds held in client accounts as well as the aggregate market value of long and short security positions. Canaccord's method of calculating AUA may differ from the methods used by other companies and therefore may not be comparable to other companies. Management uses this measure to assess operational performance of the Private Client Services business segment. AUM includes all assets managed on a discretionary basis under our programs generally described as or known as the *Alliance Program* and *Private Investment Management*. Services provided include the selection of investments and the provision of investment advice. AUM is also administered by Canaccord and is included in AUA.

## BUSINESS OVERVIEW

Through its principal subsidiaries, Canaccord Capital Inc. (TSX & AIM: CCI) is a leading independent, full-service investment dealer in Canada with capital markets operations in the United Kingdom and the United States. Canaccord is publicly traded on both the Toronto Stock Exchange (TSX) and AIM, a market operated by the London Stock Exchange (LSE). The Company has operations in two of the principal segments of the securities industry: capital markets and private client services. Together, these operations offer a wide range of complementary investment banking services, investment products and brokerage services to Canaccord's institutional, corporate and private clients.

Canaccord's business is cyclical and experiences considerable variations in revenue and income from quarter to quarter and year to year due to factors beyond Canaccord's control. Our business is affected by the overall condition of the North American and European equity markets, including seasonal fluctuations.

### Business environment

Aggressive liquidity injections by governments and central banks continued into the first quarter of Canaccord's 2010 fiscal year. Much of the pessimism in fiscal Q4 2009 was replaced with a return of optimism. The markets produced the best returns for equities since 2003 and the capital environment saw great improvement as new issues occurred at a healthy pace. Equity markets became a 'buy on pullback' opportunity versus the stance in Q4 2009 where investors looked to reduce exposure. Risky credit also saw much reduced yields.

The real economy continued to be negatively impacted. Manufacturing activity in both Canada and the US was weak. Capacity utilization remains low. Higher loan delinquencies and heightened unemployment occurred, as did a US budget gap that exceeded the $1 trillion mark sooner than any time in history. The government-led restructuring of the US auto industry changed the nature of American business.

Businesses continued to cut costs and many were forced to reorganize. In some cases, they had to declare bankruptcy. With the assumption that emerging nations such as China and India were in recovery, the price of raw materials was bid-up. By quarter-end, weak demand from the real economy allowed for a significant pullback in many commodity prices and new losses for speculative traders.

Short interest rates were kept low by the central banks throughout fiscal Q1 2010, however 10-year yields rose significantly. This is a concern for any sustainable housing recovery in the US. Housing activity in Canada rose to near historic levels and kept a brisk pace. The UK, especially in the city of London, saw stabilization of prices and renewed activity.

By quarter's end however, many market participants believed that the economic environment would be much improved by calendar year-end.

*Market data*

The TSX, TSX Venture, and AIM all experienced gains in trading volumes during fiscal Q1/10 compared to Q4/09, though volume on the NASDAQ decreased slightly. The TSX and AIM recorded increases in trading volumes compared to the first quarter of fiscal 2009, while trading volumes on the TSX Venture and NASDAQ experienced lower trading volumes than a year ago.

Financing values were up significantly on the TSX/TSX Venture, AIM and NASDAQ compared to last quarter, with financings on the NASDAQ nearly tripling since last quarter. Compared to the same quarter last year, financings on the AIM fell by 45%, while North American markets gained momentum with increased financing values on the TSX/TSX Venture and NASDAQ.

### Trading volume by exchange (billions of shares)

| | April 2009 | May 2009 | June 2009 | Fiscal Q1/10 | Change from fiscal Q1/09 | Change from fiscal Q4/09 |
|---|---|---|---|---|---|---|
| TSX | 10.7 | 11.5 | 10.9 | 33.1 | 32.4% | 10.3% |
| TSX Venture | 3.1 | 3.8 | 4.2 | 11.1 | (19.6)% | 37.0% |
| AIM | 15.0 | 22.4 | 17.9 | 55.3 | 40.7% | 81.3% |
| NASDAQ | 16.0 | 15.5 | 17.0 | 48.5 | (13.6)% | (6.1)% |

Source: TSX Statistics, LSE AIM Statistics, Thomson One

### Total financing value by exchange

| | April 2009 | May 2009 | June 2009 | Fiscal Q1/10 | Change from fiscal Q1/09 | Change from fiscal Q4/09 |
|---|---|---|---|---|---|---|
| TSX and TSX Venture (C$ billions) | 4.0 | 2.5 | 8.0 | 14.5 | 27.2% | 16.9% |
| AIM (£ billions) | 0.1 | 0.6 | 0.4 | 1.1 | (45.0)% | 83.3% |
| NASDAQ (US$ billions) | 2.8 | 3.3 | 5.9 | 12.0 | 135.3% | 287.1% |

Source: TSX Statistics, LSE AIM Statistics, Equidesk

**Financing value for relevant AIM industry sectors**

| (£ millions, except for percentage amounts) | April 2009 | May 2009 | June 2009 | Fiscal Q1/10 | Change from fiscal Q1/09 | Change from fiscal Q4/09 |
|---|---|---|---|---|---|---|
| Oil and gas | £ 4.8 | £ 152.0 | £ 124.2 | £ 281.0 | (8.9)% | 1,452.5% |
| Mining | 19.9 | 87.1 | 11.5 | 118.5 | (74.1)% | (47.9)% |
| Pharmaceutical and Biotech | 3.0 | 5.2 | 56.4 | 64.6 | 67.4% | 994.9% |
| Media | 1.0 | 1.8 | 20.5 | 23.3 | 25.9% | 308.8% |
| Technology | 3.1 | 3.6 | 51.0 | 57.7 | (57.0)% | 1,703.1% |
| **Total (of relevant sectors)** | **£ 31.8** | **£ 249.7** | **£ 263.6** | **£ 545.1** | **(43.1)%** | **109.4%** |

Source: LSE AIM Statistics

**Financing value for relevant TSX and TSX Venture industry sectors**

| ($ millions, except for percentage amounts) | April 2009 | May 2009 | June 2009 | Fiscal Q1/10 | Change from fiscal Q1/09 | Change from fiscal Q4/09 |
|---|---|---|---|---|---|---|
| Oil and gas | $ 162.4 | $ 1,014.2 | $ 1,110.7 | $ 2,287.3 | (19.8)% | 3.2% |
| Mining | 34.7 | 1,697.2 | 1,057.4 | 2,789.3 | 127.8% | 44.1% |
| Biotech | – | – | – | – | (100.0)% | n/c |
| Media | – | – | – | – | (100.0)% | n/c |
| Technology | – | 23.0 | 18.9 | 41.9 | (25.0)% | n/c |
| **Total (of relevant sectors)** | **$ 197.1** | **$ 2,734.4** | **$ 2,187.0** | **$ 5,118.5** | **13.7%** | **22.0%** |

Source: FPinfomart
n/c: no change

**About Canaccord's operations**

Canaccord Capital Inc.'s operations are divided into two business segments: Canaccord Adams (our capital markets operations) and Private Client Services. Together, these operations offer a wide range of complementary investment banking services, investment products and brokerage services to Canaccord's institutional, corporate and private clients. Canaccord's administrative segment is referred to as Corporate and Other.

*Canaccord Adams*

Canaccord Adams offers mid-market corporations and institutional investors around the world an integrated platform for equity research, sales and trading, and investment banking services that is built on extensive operations in Canada, the United States and the United Kingdom.

- Canaccord's research analysts have deep knowledge of more than 600 companies across eight focus sectors: Mining and Metals, Energy, Technology, Life Sciences, Consumer, Real Estate, Infrastructure and Sustainability.
- Our Sales and Trading desk executes timely transactions for more than 1,500 institutional relationships around the world, operating as an integrated team on one common platform.
- With more than 65 skilled investment bankers, Canaccord Adams provides clients with deep sector expertise and broad equity transaction and M&A advisory experience.

Revenue from Canaccord Adams is generated from commissions and fees earned in connection with investment banking transactions and institutional sales and trading activity, as well as trading gains and losses from Canaccord's principal and international trading operations.

*Private Client Services*

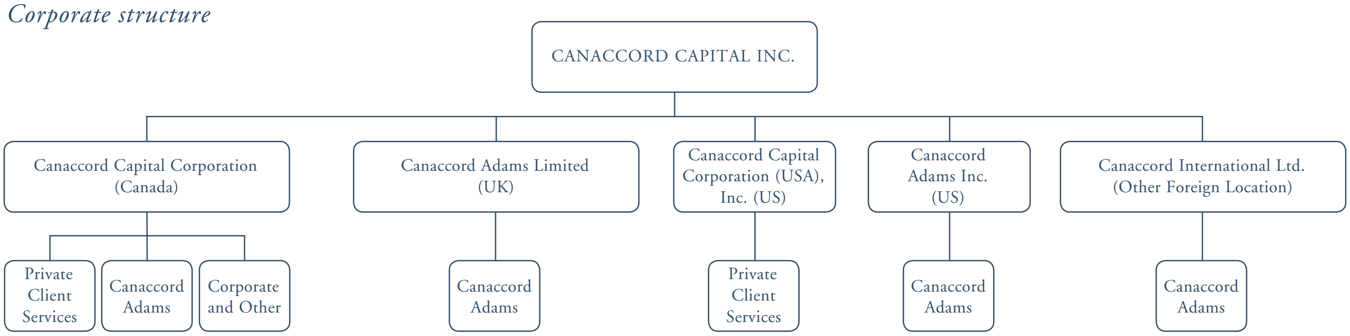
As a leading independent investment dealer, Canaccord's Private Client Services has built its reputation on the quality of our investment ideas. We recognize that the growing complexity of many clients' financial circumstances demands experienced Advisory Teams who can provide solutions and ideas that meet our clients' needs. Many of our Investment Advisors have completed the training required for advanced industry designations such as Chartered Financial Analyst or Certified Investment Manager. We continue to provide our advisors with ongoing training opportunities.

Revenue from Private Client Services is generated through traditional commission-based brokerage services; the sale of fee-based products and services; client-related interest; and fees and commissions earned by Advisory Teams in respect of investment banking and venture capital transactions by private clients.

*Corporate and Other*

Canaccord's administrative segment, described as Corporate and Other, includes correspondent brokerage services, bank and other interest, foreign exchange gains and losses and expenses not specifically allocable to either the Canaccord Adams or Private Client Services divisions. Also included in this segment are Canaccord's operations and support services, which are responsible for front and back-office information technology systems, compliance and risk management, operations, finance, and all administrative functions.

*Corporate structure*




## Consolidated operating results

*First quarter and fiscal 2010 summary data* (1)

| (C$ thousands, except per share, number of employee and % amounts) | Three months ended June 30 2009 | 2008 | Year-over-year change |
|---|---|---|---|
| **Canaccord Capital Inc.** | | | |
| Revenue | | | |
| Commission | $ **55,456** | $ 71,996 | (23.0)% |
| Investment banking | **55,886** | 76,147 | (26.6)% |
| Principal trading | **11,470** | 5,911 | 94.0% |
| Interest | **3,476** | 12,329 | (71.8)% |
| Other | **11,175** | 6,325 | 76.7% |
| Total revenue | $ **137,463** | $ 172,708 | (20.4)% |
| Expenses | | | |
| Incentive compensation | $ **68,463** | $ 82,727 | (17.2)% |
| Salaries and benefits | **13,802** | 15,443 | (10.6)% |
| Other overhead expenses (2) | **39,203** | 51,009 | (23.1)% |
| Total expenses | $ **121,468** | $ 149,179 | (18.6)% |
| Income before income taxes | **15,995** | 23,529 | (32.0)% |
| Net income | **9,112** | 16,459 | (44.6)% |
| Earnings per share (EPS) – diluted | **0.16** | 0.31 | (48.4)% |
| Return on average common equity (ROE) | **9.7%** | 15.7% | (6.0)p.p. |
| Book value per share – period end | **6.73** | 7.66 | (12.1)% |
| Number of employees | **1,509** | 1,698 | (11.1)% |

(1) Data is considered to be GAAP except for ROE, book value per share and number of employees.
(2) Consists of trading costs, premises and equipment, communication and technology, interest, general and administrative, amortization and development costs.
p.p.: percentage points

## Geographic distribution of revenue for the first quarter of fiscal 2010 (1)

| (C$ thousands, except % amounts) | Three months ended June 30 2009 | 2008 | Year-over-year change |
|---|---|---|---|
| Canada | $ **87,934** | $ 108,898 | (19.3)% |
| UK | **20,925** | 33,718 | (37.9)% |
| US | **27,179** | 25,621 | 6.1% |
| Other Foreign Location | **1,425** | 4,471 | (68.1)% |

(1) For a business description of Canaccord's geographic distribution please refer to the "About Canaccord's Operations" section on page 7.

*First quarter 2010 vs. first quarter 2009*

On a consolidated basis, revenue is generated through five activities: commissions and fees associated with agency trading and private client wealth management activity, investment banking, principal trading, interest and other. Revenue for the three months ended June 30, 2009 was $137.5 million, a decrease of 20.4% or $35.2 million compared to the same period a year ago.

For the first quarter of fiscal 2010, revenue generated from commissions declined by $16.5 million to $55.5 million compared to the same period a year ago. This decrease was largely attributed to a $12.7 million commission revenue decline in our Private Client Services segment.

Investment banking revenue was $55.9 million, a decline of $20.3 million or 26.6%, primarily due to a drop in capital markets activities from our UK and Canadian operations. Revenue derived from principal trading was $11.5 million, an increase of $5.6 million or 94.0%. This increase was mainly due to higher inventory gains from market making activities in UK and Other Foreign Location.

Interest revenue was $3.5 million, which decreased by $8.9 million or 71.8% due to the decrease in the number and size of margin accounts and lower interest rates.

Other revenue was $11.2 million, an increase of $4.9 million or 76.7% which was mainly attributed to foreign exchange gains in the quarter.

First quarter revenue in Canada was $87.9 million, a decrease of 19.3% or $21.0 million from the same period a year ago. Our operations were affected by the weaker Canadian equity markets compared to Q1/09.

Revenue in the UK was $20.9 million, down 37.9% or $12.8 million compared to the same period a year ago. Revenue from Other Foreign Location was $1.4 million, a decline of 68.1% or $3.0 million. These declines were due to the global economic downturn that started during the last half of fiscal 2009.

Revenue in the US was $27.2 million, up $1.6 million or 6.1% from Q1/09. Revenue in the US operations increased slightly compared to Q1/09 because of our improved banking environment in certain focus sectors.

## Expenses as a percentage of revenue

| | *Three months ended June 30* | | Year-over-year |
|---|---|---|---|
| | **2009** | 2008 | change |
| Incentive compensation | **49.8%** | 47.9% | 1.9p.p. |
| Salaries and benefits | **10.0%** | 8.9% | 1.1p.p. |
| Other overhead expenses [1] | **28.5%** | 29.6% | (1.1)p.p. |
| Total | **88.3%** | 86.4% | 1.9p.p. |

(1) Consists of trading costs, premises and equipment, communication and technology, interest, general and administrative, amortization and development costs.
p.p.: percentage points

*First quarter 2010 vs. first quarter 2009*

Expenses for the three months ended June 30, 2009 were $121.5 million, down 18.6% or $27.7 million from a year ago.

Incentive compensation expense was $68.5 million for the quarter, a decrease of 17.2% or $14.3 million, consistent with the decrease in incentive-based revenue. Consolidated incentive compensation as a percentage of total revenue was 49.8%, up 1.9 percentage points. Salaries and benefits expense was $13.8 million, a decrease of 10.6% in the first quarter of fiscal 2010 from the same period a year ago. This decrease was due to a reduction of employees' salaries during fiscal 2009 as part of the overall cost savings initiative.

The total compensation (incentive compensation plus salaries) payout as a percentage of consolidated revenue for Q1/10 was 59.8%, an increase of 3.0 percentage points from 56.8% in Q1/09.

## Other overhead expenses

| *(C$ thousands, except % amounts)* | *Three months ended June 30* | | Year-over-year |
|---|---|---|---|
| | **2009** | 2008 | change |
| Trading costs | **$ 7,324** | $ 6,321 | 15.9% |
| Premises and equipment | **5,882** | 5,785 | 1.7% |
| Communication and technology | **5,489** | 6,163 | (10.9)% |
| Interest | **845** | 3,959 | (78.7)% |
| General and administrative | **11,888** | 19,277 | (38.3)% |
| Amortization | **1,921** | 2,042 | (5.9)% |
| Development costs | **5,854** | 7,462 | (21.5)% |
| Total other overhead expenses | **$ 39,203** | $ 51,009 | (23.1)% |

*First quarter 2010 vs. first quarter 2009*

Other overhead expenses decreased by 23.1% or $11.8 million from the prior year to $39.2 million for the first quarter of fiscal 2010 mainly due to the decrease in interest, development, and general and administrative expense.

Interest expense decreased by $3.1 million or 78.7%, which was attributable to the decrease in interest rates compared to the prior year. The US operations offered fewer hiring incentives during Q1/10, which was the primary reason for the $1.6 million or 21.5% decrease in development costs compared to Q1/09.

The main contributor to the decrease in general and administrative expense was a $5.1 million or 61.6% decrease in promotion and travel expense and a $1.4 million or 33.1% decrease in professional fees. Promotion and travel expense decreased due to a firm-wide effort to decrease expenses incurred by the firm as part of the restructuring plan. Expense recoveries from compensation pools also contributed to the decline of promotion and travel expense. Professional fees decreased in Q1/10 due to non-recurring consultancy fees incurred in Q1/09 to upgrade internal infrastructure.

Net income for Q1/10 was $9.1 million compared to $16.5 million the same period a year ago. Diluted EPS were $0.16 in Q1/10 compared to $0.31 in Q1/09. ROE for Q1/10 was 9.7% compared to an ROE of 15.7% in Q1/09. Book value per diluted share for Q1/10 was $6.73 versus $7.66 in Q1/09.

Income taxes were $6.9 million for the quarter, reflecting an effective tax rate of 43.0%, an increase of 13.0 percentage points from 30.0% a year ago. The increase was primarily due to a change in future income tax asset.

## RESULTS OF OPERATIONS

### Canaccord Adams [1]

| *(C$ thousands, except number of employees and % amounts)* | *Three months ended June 30* 2009 | 2008 | *Year-over-year change* |
|---|---|---|---|
| **Canaccord Adams** | | | |
| Revenue | **$ 85,497** | $ 104,793 | (18.4)% |
| Direct expenses | | | |
| Incentive compensation | **$ 45,231** | $ 52,529 | (13.9)% |
| Salaries and benefits | **3,404** | 4,223 | (19.4)% |
| Other overhead expenses | **20,497** | 28,268 | (27.5)% |
| Total direct expenses | **$ 69,132** | $ 85,020 | (18.7)% |
| Revenue less direct expenses [2] | **16,365** | 19,773 | (17.2)% |
| Number of employees | **474** | 545 | (13.0)% |

(1) Data is considered to be GAAP except for number of employees.
(2) Revenue less direct expenses excludes overhead and compensation expenses that are included in the Corporate and Other segment that are not specifically allocated to this segment.

Revenue from Canaccord Adams is generated from commissions and fees earned in connection with investment banking transactions and institutional sales and trading activity, as well as trading gains and losses from Canaccord's principal and international trading operations.

*First quarter 2010 vs. first quarter 2009*

Revenue for Canaccord Adams in Q1/10 was $85.5 million, a decline of 18.4% or $19.3 million from the same quarter a year ago, due to the weak global capital markets in Canada and the UK.

Revenue from Canadian operations

Canaccord Adams in Canada generated revenue of $36.5 million in Q1/10, a decrease of 13.2% or $5.6 million from Q1/09. The decrease in revenue in this geographic sector was largely due to the overall drop in capital markets activity in North America since the last half of fiscal 2009. Canadian revenue for Canaccord Adams of $36.5 million represented 42.7% (Q1/09: 40.1%) of Canaccord Adams' total revenue.

Revenue from UK and Other Foreign Location

Canaccord Adams' operations in the UK and Europe include providing institutional sales and trading, corporate finance and research services. Revenue derived from capital markets activity outside of Canada, the UK and the US is reported as Other Foreign Location, which includes operations for Canaccord International Limited. Revenue in this business was $22.4 million, which declined 41.5% or $15.8 million from the same period a year ago due to the global downturn that began in the last half of fiscal 2009. UK and Other Foreign Location revenue of $22.4 million was 26.1% (Q1/09: 36.4%) of Canaccord Adams' total revenue.

Revenue from US operations

The US operations reflect the capital markets activities of Canaccord Adams Inc. First quarter 2010 revenue for Canaccord Adams in the US was $26.7 million (Q1/09: $24.6 million), representing 31.2% (Q1/09: 23.4%) of Canaccord Adams' total revenue.

Expenses

Expenses for Q1/10 were $69.1 million, down 18.7% or $15.9 million. The lower expenses were mainly attributed to the decrease in incentive compensation of $7.3 million or 13.9% due to lower incentive-based revenue in the quarter. Salary and benefits expense for the quarter also decreased by $0.8 million or 19.4%, which was due to the decrease in number of employees as a result of the staff restructuring in fiscal 2009. Total compensation expense as a percentage of revenue for the quarter was 56.9%, an increase of 2.7 percentage points from 54.2% in Q1/09.

General and administrative expense was $5.9 million in Q1/10, a decrease of $6.2 million or 51.1%. This decrease was mainly made up of a drop in promotion and travel expense and professional fees expense. Promotion and travel decreased by $4.4 million or 68.1% due to the cost reduction initiatives announced in fiscal 2009 and changes in expense allocations to compensation pools introduced in fiscal 2009. Professional fees also decreased by $1.1 million due to non-recurring consultancy fees to upgrade internal infrastructure incurred in Q1/09.

Income before income taxes excluding allocated overhead expenses included in Corporate and Other segment for the quarter was $16.4 million, a decline of $3.4 million or 17.2% from the same quarter a year ago. The decline was mainly a result of the global economic downturn that began during the last half of fiscal 2009.

## Private Client Services (1)

| *(C$ thousands, except AUM and AUA, which are in C$ millions; number of employees; number of Advisory Teams; and % amounts)* | *Three months ended June 30* | | | | *Year-over-year change* |
|---|---|---|---|---|---|
| | | ***2009*** | | *2008* | |
| Revenue | **$** | **40,185** | $ | 57,853 | (30.5)% |
| Direct expenses | | | | | |
| Incentive compensation | **$** | **18,643** | $ | 26,950 | (30.8)% |
| Salaries and benefits | | **4,246** | | 3,781 | 12.3% |
| Other overhead expenses | | **12,279** | | 13,952 | (12.0)% |
| Total direct expenses | **$** | **35,168** | $ | 44,683 | (21.3)% |
| Revenue less direct expenses (2) | | **5,017** | | 13,170 | (61.9)% |
| Assets under management (AUM) | | **443** | | 747 | (40.7)% |
| Assets under administration (AUA) | | **10,341** | | 14,695 | (29.6)% |
| Number of Advisory Teams | | **335** | | 354 | (5.4)% |
| Number of employees | | **688** | | 760 | (9.5)% |

(1) Data is considered to be GAAP except for AUM, AUA, number of Advisory Teams and number of employees.
(2) Revenue less direct expenses excludes overhead and compensation expenses that are included in the Corporate and Other segment that are not specifically allocated to this segment.

Revenue from Private Client Services is generated through traditional commission-based brokerage services; the sale of fee-based products and services; client-related interest; and fees and commissions earned by Advisory Teams in respect of investment banking and venture capital transactions by private clients.

*First quarter 2010 vs. first quarter 2009*

Revenue from Private Client Services was $40.2 million, a decline of $17.7 million or 30.5% mainly due to reduced trading activity relative to Q1/09. AUA dropped by 29.6% or $4.4 billion to $10.3 billion compared to Q1/09 primarily due to lower market values. AUM decreased by 40.7% year over year. There were 335 Advisory Teams at the end of the first quarter of fiscal 2010, a decline of 19 from a year ago. Canaccord's fee-based revenue accounted for 13.8% of Private Client Services in Q1/10, compared to 15.7% in Q1/09.

Expenses for Q1/10 were $35.2 million, a decline of 21.3% or $9.5 million. For the current quarter, the largest decrease in expenses related to incentive compensation expense, which was a decrease of 30.8% or $8.3 million. This decrease was consistent with the decrease in revenue during this period. Salaries and benefits expense increased 12.3% compared to Q1/09 due to an ongoing effort to invest additional resources in this segment. In addition, interest expense decreased by 91.7% or $2.7 million due to lower interest rates.

Income before income taxes excluding allocated overhead expenses included in Corporate and Other segments for the quarter was $5.0 million compared to $13.2 million from the same period a year ago. The decline was due to reduced revenue in Q1/10 compared to Q1/09 as described above.

## Corporate and Other [1]

| (C$ thousands, except number of employees and % amounts) | Three months ended June 30 2009 | 2008 | Year-over-year change |
|---|---|---|---|
| Revenue | $ 11,781 | $ 10,062 | 17.1% |
| Direct expenses | | | |
| Incentive compensation | $ 4,589 | $ 3,248 | 41.3% |
| Salaries and benefits | 6,152 | 7,439 | (17.3)% |
| Other overhead expenses | 6,427 | 8,789 | (26.9)% |
| Total direct expenses | $ 17,168 | $ 19,476 | (11.9)% |
| Revenue less direct expenses | (5,387) | (9,414) | (42.8)% |
| Number of employees | 347 | 393 | (11.7)% |

(1) Data is considered to be GAAP except for number of employees.

Canaccord's administrative segment, described as Corporate and Other, includes correspondent brokerage services, bank and other interest, foreign exchange gains and losses and expenses not specifically allocable to either the Canaccord Adams or Private Client Services divisions. Also included in this segment are Canaccord's operations and support services, which are responsible for front and back-office information technology systems, compliance and risk management, operations, finance, and all administrative functions.

*First quarter 2010 vs. first quarter 2009*

Revenue for the three months ended June 30, 2009 was $11.8 million, an increase of 17.1% or $1.7 million from the same quarter a year ago. The change was mainly related to a $3.9 million increase in foreign exchange gains compared to the prior year same quarter. This increase was due to the fluctuation of foreign exchange rates during the year and its impact on foreign currency client receivables. This was partially offset by a decrease in interest revenue, which resulted from the drop in interest rates in the current quarter compared to a year ago.

Expenses for Q1/10 were $17.2 million, a decrease of 11.9% or $2.3 million. There was a decrease in salaries and benefits expense by 17.3% or $1.3 million, a result of the staff restructuring in fiscal 2009. General and administrative expense also decreased by $1.2 million or 35.7% primarily due to a $0.6 million decrease in promotion and travel and a $0.5 million decrease in office expenses.

Overall, loss before income taxes was $5.4 million in the current quarter compared to a loss before income taxes of $9.4 million in the same quarter a year ago.

## FINANCIAL CONDITION

Below are specific changes in selected balance sheet items.

### Assets

Cash and cash equivalents were $734.3 million on June 30, 2009 compared to $701.2 million on March 31, 2009. Refer to the Liquidity and Capital Resources section below for more details.

Securities owned were $169.0 million compared with $133.7 million on March 31, 2009, mainly attributable to an increase in equities and convertible debentures.

Accounts receivable were $1.2 billion at June 30, 2009 compared to $1.1 billion at March 31, 2009.

Other assets were $114.9 million compared to $126.1 million at March 31, 2009 mainly due to a decrease in income taxes receivable and future income taxes.

### Liabilities

Bank overdrafts and call loan facilities utilized by Canaccord may vary significantly on a day-to-day basis and depend on securities trading activity. On June 30, 2009 there was bank indebtedness of $105.8 million compared to $75.6 million on March 31, 2009.

Accounts payable were $1.6 billion compared to $1.5 billion at March 31, 2009, an increase of $0.1 billion mainly related to an increase in payables to clients.

Other liabilities were $71.3 million, a decrease of $33.1 million compared to $104.4 million at March 31, 2009 due to the $10.0 million repayment of subordinated debt and a $23.1 million decrease in securities sold short.

## OFF-BALANCE SHEET ARRANGEMENTS

At June 30, 2009 Canaccord has available credit facilities with banks in Canada and the US in the aggregate amount of $478.5 million [March 31, 2009 – $568.7 million]. These credit facilities, consisting of call loans, letters of credit and daylight overdraft facilities are collateralized by either unpaid client securities and/or securities owned by the Company. As of June 30, 2009 the Company has a balance of $105.8 million outstanding [March 31, 2009 – $75.6 million].

A subsidiary of the Company has entered into irrevocable secured standby letters of credit from a financial institution totalling $2.6 million (US$2.3 million) [March 31, 2009 – $2.9 million (US$2.3 million)] as rent guarantees for its leased premises in Boston, New York and San Francisco.

## LIQUIDITY AND CAPITAL RESOURCES

Canaccord has a capital structure comprised of share capital, retained earnings and accumulated other comprehensive losses. On June 30, 2009 cash and cash equivalents of $734.3 million net of bank indebtedness of $105.8 million were $628.5 million, an increase of $2.9 million from $625.6 million as of March 31, 2009. During the quarter ended June 30, 2009 financing activities used cash in the amount of $13.1 million. Investing activities provided cash in the amount of $0.4 million relating to the proceeds on net redemption of restructured asset-backed commercial paper (ABCP) notes. Operating activities provided cash in the amount of $11.4 million, which was due to an increase in net income and items not affecting cash. An increase in cash of $4.1 million was attributed to the effect of foreign exchange on cash balances. In total, there was an increase in net cash of $2.9 million compared to March 31, 2009.

Canaccord's business requires capital for operating and regulatory purposes. The majority of current assets reflected on Canaccord's balance sheet are highly liquid. The majority of the positions held as securities owned are readily marketable and all are recorded at their fair value. The fair value of these securities fluctuates daily as factors such as changes in market conditions, economic conditions and investor outlook affect market prices. Client receivables are secured by readily marketable securities and are reviewed daily for impairment in value and collectibility. Receivables and payables from brokers and dealers represent the following: current open transactions that generally settle within the normal three-day settlement cycle; collateralized securities borrowed and/or loaned in transactions that can be closed within a few days on demand; and balances on behalf of introducing brokers representing net balances in connection with their client accounts.

During the period, there have been no material changes to the Company's commitments from those described in Note 17 of the March 31, 2009 Audited Annual Consolidated Financial Statements.

## OUTSTANDING SHARE DATA

| | *Outstanding shares as of June 30* | |
|---|---|---|
| | ***2009*** | *2008* |
| Issued shares excluding unvested shares (1) | **49,118,377** | 50,068,905 |
| Issued shares outstanding (2) | **55,233,820** | 54,590,583 |
| Issued shares outstanding – diluted (3) | **57,244,652** | 57,465,952 |
| Average shares outstanding – basic | **48,165,290** | 47,518,618 |
| Average shares outstanding – diluted | **55,331,249** | 52,720,457 |

(1) Excludes 2,863,284 unvested shares that are outstanding relating to share purchase loans for recruitment and retention programs, and 3,252,159 unvested shares purchased by employee benefit trust for the long term incentive plan (LTIP).
(2) Includes 2,863,284 unvested shares that are outstanding relating to share purchase loans for recruitment and retention programs, and 3,252,159 unvested shares purchased by employee benefit trust for the LTIP.
(3) Includes 2,010,832 of share issuance commitments.

At June 30, 2009 Canaccord had 55,233,820 common shares issued and outstanding, an increase of 643,237 common shares from June 30, 2008 due to shares issued in connection with stock compensation plans.

## STOCK-BASED COMPENSATION PLANS

### Stock options

The Company granted stock options to purchase common shares of the Company to independent directors. The independent directors have been granted options to purchase up to an aggregate of 350,000 common shares of the Company. The stock options vest over a four-year period and expire seven years after the grant date. The weighted average exercise price of the stock options is $12.46.

### Long term incentive plan (LTIP)

Under the LTIP, eligible participants are awarded restricted share units (RSUs) which vest over three years. For employees in Canada, an employee benefit trust (the Trust) has been established, and either (a) the Company will fund the Trust with cash which will be used by a trustee to purchase on the open market common shares of the Company that will be held in trust by the trustee until RSUs vest or (b) the Company will issue common shares from treasury to participants following vesting of RSUs. For employees in the United States and the United Kingdom, at the time of each RSU award, the Company will allot common shares and these shares will be issued from treasury at the time they vest for each participant.

## INTERNATIONAL FINANCIAL CENTRE

Canaccord is a member of the International Financial Centre Vancouver and International Financial Centre Montreal, which provide certain tax and financial benefits pursuant to the *International Financial Business (Tax Refund) Act* of British Columbia and the *Act Respecting International Financial Centres* of Quebec. Accordingly, Canaccord's overall income tax rate is less than the rate that would otherwise be applicable.

## FOREIGN EXCHANGE

Canaccord manages its foreign exchange risk by periodically hedging pending settlements in foreign currencies. Realized and unrealized gains and losses related to these transactions are recognized in income during the year. On June 30, 2009 forward contracts outstanding to sell US dollars had a notional amount of US$6.0 million, a decrease of $US12.0 million from a year ago. Forward contracts outstanding to buy US dollars had a notional amount of US$3.0 million, a decrease of US$10.25 million compared to a year ago. The fair value of these contracts was nominal. Some of Canaccord's operations in London, England are conducted in UK pounds sterling; however, any foreign exchange risk in respect of these transactions is generally limited, as pending settlements on both sides of the transaction are typically in UK pounds sterling.

## RELATED PARTY TRANSACTIONS

Security trades executed for employees, officers and directors of Canaccord are transacted in accordance with terms and conditions applicable to all clients. Commission income on such transactions in the aggregate is not material in relation to the overall operations of Canaccord.

## CRITICAL ACCOUNTING ESTIMATES

The following is a summary of Canaccord's critical accounting estimates. Canaccord's accounting policies are in accordance with Canadian GAAP and are described in Note 1 to the Audited Annual Consolidated Financial Statements. The accounting policies described below require estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses recorded in the financial statements. Because of their nature, estimates require judgment based on available information. Actual results or amounts could differ from estimates, and the difference could have a material impact on the financial statements.

### Revenue recognition and valuation of securities

Securities owned and sold short, including share purchase warrants and options, are categorized as held for trading as per Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855 *"Financial Instruments – Recognition and Measurement"*, and are recorded at fair value with unrealized gains and losses recognized in net income. In the case of publicly traded securities, fair value is determined on the basis of market prices from independent sources, such as listed exchange prices or dealer price quotations. Adjustments to market prices are made for liquidity, relative to the size of the position, holding periods and other resale restrictions, if applicable. Investments in illiquid or non-publicly traded securities categorized as held for trading are measured at fair value determined by a valuation model. There is inherent uncertainty and imprecision in estimating the factors that can affect value and in estimating values generally. The extent to which valuation estimates differ from actual results will affect the amount of income or loss recorded for a particular security position in any given period. With Canaccord's security holdings consisting primarily of publicly traded securities except as noted below, our procedures for obtaining market prices from independent sources, the validation of estimates through actual settlement of transactions and the consistent application of our approach from period to period, we believe that the estimates of fair value recorded are reasonable.

**Asset-backed commercial paper**

There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the Company's holdings in ABCP. The Company estimates the fair value of its ABCP holdings by discounting expected future cash flows on a probability weighted basis considering the best available data. Since the fair value of the ABCP is based on the Company's assessment of current conditions, amounts reported may change materially in subsequent periods. Refer to Note 7 in the Audited Annual Consolidated Financial Statements for further details.

**Provisions**

Canaccord records provisions related to pending or outstanding legal matters and doubtful accounts associated with client receivables, loans, advances and other receivables. Provisions in connection with legal matters are determined on the basis of management's judgment in consultation with legal counsel, considering such factors as the amount of the claim, the possibility of wrongdoing by an employee of Canaccord, and precedents. Client receivables are generally collateralized by securities and, therefore, any impairment is generally measured after considering the market value of any collateral.

Provisions in connection with other doubtful accounts are generally based on management's assessment of the likelihood of collection and the recoverable amount. Provisions are also recorded utilizing discount factors in connection with syndicate participation.

**Tax**

Accruals for income tax liabilities require management to make estimates and judgments with respect to the ultimate outcome of tax filings and assessments. Actual results could vary from these estimates. Canaccord operates within different tax jurisdictions and is subject to their individual assessments. Tax filings can involve complex issues, which may require an extended period of time to resolve in the event of a dispute or re-assessment by tax authorities. Accounting standards require a valuation allowance when it is more likely than not that all or a portion of a future income tax asset will not be realized prior to its expiration. Although realization is not assured, Canaccord believes that, based on all evidence, it is more likely than not that all of the future income tax assets, net of the valuation allowance, will be realized. Canaccord believes that adequate provisions for income taxes have been made for all years.

**Consolidation of variable interest entities**

The Company consolidates variable interest entities (VIEs) in accordance with the guidance provided by CICA Accounting Guideline 15 *"Consolidation of Variable Interest Entities"* (AcG-15). AcG-15 defines a VIE as an entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of equity at risk lack the characteristics of a controlling financial interest. The enterprise that consolidates a VIE is called the primary beneficiary of the VIE. An enterprise should consolidate a VIE when that enterprise has a variable interest that will absorb a majority of the entity's expected losses, or receive a majority of the entity's expected residual returns.

The Company has established an employee benefit trust to fulfill obligations to employees arising from the Company's stock-based compensation plan. The employee benefit trust has been consolidated in accordance with AcG-15 as it meets the definition of a VIE and the Company is the primary beneficiary of the employee benefit trust.

**Stock-based compensation plans**

Stock-based compensation represents the cost related to stock-based awards granted to employees. The Company uses the fair value method to account for such awards. Under this method, the Company measures the fair value of stock-based awards as of the grant date and recognizes the cost as an expense over the applicable vesting period with a corresponding increase in contributed surplus. In the case where vesting is also dependent on performance criteria, the cost is recognized over the vesting period in accordance with the rate at which such performance criteria are achieved (net of estimated forfeitures). Otherwise, the cost is recognized on a graded basis. When stock-based compensation awards vest, contributed surplus is reduced by the applicable amount and share capital is increased by the same amount.

## RECENT ACCOUNTING PRONOUNCEMENTS

### Business Combinations and Consolidated Financial Statements

In January 2009 the CICA issued a new accounting standard, CICA Handbook Section 1582 *"Business Combinations"*, which replaces the former Section 1581 *"Business Combinations"*. This standard harmonizes Canadian guidance to the International Financial Reporting Standard (IFRS) 3 *"Business Combinations"*. This standard requires additional use of fair value measurements, provides guidance on the recognition and measurement of goodwill acquired in the business combination, transaction costs to be expensed and requires increased financial statements note disclosure. This standard is to be applied prospectively for business combinations for which the acquisition date is on or after April 1, 2011.

In addition, the CICA has issued Handbook Section 1601 *"Consolidated Financial Statements"* and Handbook Section 1602 *"Non-controlling Interests"*, which replace CICA Handbook Section 1600 *"Consolidated Financial Statements"*. CICA Handbook Section 1601 carries forward guidance from CICA Handbook Section 1600 except for the standards relating to the accounting for non-controlling interests, which are addressed separately in Section 1602. Section 1602 harmonizes Canadian standards with amended International Accounting Standard 27 *"Consolidated and Separate Financial Statements"*. This Canadian standard provides guidance on accounting for non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination. These two standards will be effective for the Company beginning April 1, 2011.

Early adoption prior to April 1, 2011 is permitted, and all three standards must be adopted concurrently. The impact of adoption of these standards is being assessed.

### International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of IFRS will be required commencing in 2011 for publicly accountable, profit-oriented enterprises. IFRS will replace Canadian GAAP currently followed by the Company. The purpose of this adoption is to increase the comparability of financial reporting among countries and to improve transparency. The Company will be required to begin reporting under IFRS for its fiscal year ended March 31, 2012 and will be required to provide information that conforms with IFRS for the comparative periods presented.

The Company is currently in the process of evaluating the potential impact of IFRS to the consolidated financial statements. This is an ongoing process as the International Accounting Standards Board (IASB) and the AcSB continue to issue new standards and recommendations. The Company's consolidated financial performance and financial position as disclosed in the current Canadian GAAP financial statements may differ significantly when presented in accordance with IFRS. Some of the significant differences identified between IFRS and Canadian GAAP may have a material effect on the Company's consolidated financial statements.

## CHANGES IN ACCOUNTING POLICIES

### Goodwill and Intangible Assets

The CICA issued a new accounting standard, CICA Handbook Section 3064 *"Goodwill and Intangible Assets"*, which prescribes when expenditures qualify for recognition as intangible assets and provides increased guidance on the recognition and measurement of internally generated goodwill and intangible assets. The Company adopted Section 3064 effective April 1, 2009. The adoption of this new standard has no impact on the Company's financial statements.

## ASSET-BACKED COMMERCIAL PAPER

As a result of liquidity issues in the ABCP market, there has been no active trading of the ABCP since mid-August 2007. On March 17, 2008 the Pan-Canadian Investors Committee (the Committee) for ABCP filed proceedings for a plan of compromise and arrangement (the Plan) under the *Companies' Creditors Arrangement Act* (Canada) (CCAA) with the Ontario Superior Court (the Court). The Court issued the final implementation order in the ABCP restructuring process on January 12, 2009 and the restructuring closed on January 21, 2009. The first two installments of interest (to August 31, 2008) were made during the year ended March 31, 2009 and one further and final payment is expected, concurrent with reimbursement of restructuring costs under the Canaccord Relief Program. Restructuring fees already incurred and a reserve for additional restructuring fees were deducted from these interest payments.

There has been no active trading of the restructured ABCP notes since January 21, 2009 and as such no meaningful market quote is available. There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. The Company estimates the fair value of its ABCP by discounting expected future cash flows on a probability weighted basis considering the best available data at June 30, 2009.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

### Disclosure controls and procedures

Based on an evaluation performed as of March 31, 2009, the President & CEO and the Executive Vice President & CFO concluded that the design and operation of our disclosure controls and procedures were effective as defined under *National Instrument 52-109*. During the quarter ended June 30, 2009, there were no changes that would have materially affected, or are reasonably likely to materially affect, Canaccord's disclosure controls and procedures.

### Changes in internal control over financial reporting

An evaluation of the Company's internal control over financial reporting was performed as of March 31, 2009. Based on this evaluation, the President & CEO and the Executive Vice President & CFO concluded that our internal control over financial reporting are designed and operating effectively as defined under *National Instrument 52-109* and there were no material weaknesses. There were no changes in internal control over financial reporting that occurred during the quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, Canaccord's internal control over financial reporting.

## DIVIDEND POLICY

Although dividends are expected to be declared and paid quarterly, the Board of Directors, in its sole discretion, will determine the amount and timing of any dividends. All dividend payments will depend on general business conditions, Canaccord's financial condition, results of operations, capital requirements and such other factors as the Board determines to be relevant.

## DIVIDEND DECLARATION

On August 5, 2009 the Board of Directors considered the dividend policy in the context of the market environment and Canaccord's business activity and approved the continued suspension of Canaccord's quarterly dividend for this quarter. This measure was taken to enable Canaccord to preserve its working capital and book value, as well as to position the Company to take advantage of growth opportunities that may become available.

## HISTORICAL QUARTERLY INFORMATION

Canaccord's revenue from an underwriting transaction is recorded only when the transaction has closed. Consequently, the timing of revenue recognition can materially affect Canaccord's quarterly results. The expense structure of Canaccord's operations is geared towards providing service and coverage in the current market environment. If general capital markets activity were to drop significantly, Canaccord could experience losses.

The following table provides selected quarterly financial information for the nine most recently completed financial quarters ended June 30, 2009. This information is unaudited but reflects all adjustments of a recurring nature, which are, in the opinion of management, necessary to present a fair statement of the results of operations for the periods presented. Quarter-to-quarter comparisons of financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

| *(C$ thousands, except per share amounts)* | *Fiscal 2010* | *Fiscal 2009* | | | | *Fiscal 2008* | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Q1* | *Q4* | *Q3* | *Q2* | *Q1* | *Q4* | *Q3* | *Q2* | *Q1* |
| Revenue | | | | | | | | | |
| Canaccord Adams | **$ 85,497** | $ 64,972 | $ 49,250 | $ 58,336 | $ 104,793 | $ 77,965 | $ 109,583 | $ 89,071 | $ 155,023 |
| Private Client Services | **40,185** | 37,255 | 33,532 | 43,844 | 57,853 | 54,463 | 61,166 | 57,415 | 76,083 |
| Corporate and Other | **11,781** | 4,769 | 4,406 | 8,649 | 10,062 | 11,018 | 12,605 | 12,383 | 14,764 |
| Total revenue | **$ 137,463** | $ 106,996 | $ 87,188 | $ 110,829 | $ 172,708 | $ 143,446 | $ 183,354 | $ 158,869 | $ 245,870 |
| Net income | **9,112** | 3,666 | (62,378) | (5,398) | 16,459 | (35,154) | 15,048 | 12,411 | 39,029 |
| EPS – basic | **$ 0.19** | $ 0.07 | $ (1.27) | $ (0.11) | $ 0.35 | $ (0.80) | $ 0.34 | $ 0.28 | $ 0.86 |
| EPS – diluted | **$ 0.16** | $ 0.07 | $ (1.27) | $ (0.11) | $ 0.31 | $ (0.80) | $ 0.31 | $ 0.26 | $ 0.80 |

## RISKS

The securities industry and Canaccord's activities are by their very nature subject to a number of inherent risks. Economic conditions, competition and market factors such as volatility in the Canadian and international markets, interest rates, commodity prices, market prices, trading volumes and liquidity will have a significant impact on Canaccord's profitability. An investment in the common shares of Canaccord involves a number of risks, including market, liquidity, credit, operational, legal and regulatory risks, which could be substantial and are inherent in Canaccord's business. Canaccord is also directly exposed to market price risk, liquidity risk and volatility risk as a result of its principal trading activities in equity securities and to specific interest rate risk as a result of its principal trading in fixed income securities. Private Client Services' revenue is dependent on trading volumes and, as such, is dependent on the level of market activity and investor confidence. Canaccord Adams' revenue is dependent on financing activity by corporate issuers and the willingness of institutional clients to actively trade and participate in capital markets transactions. There may also be a lag between market fluctuations and changes in business conditions and the level of Canaccord's market activity and the impact that these factors have on Canaccord's operating results and financial position. The Company has a capital management framework to maintain the level of capital that will: meet the firm's regulated subsidiaries' target ratios as set out by the respective regulators, fund current and future operations, ensure that the firm is able to meet its financial obligations as they come due, and support the creation of shareholder value. The regulatory bodies that certain of the Company's subsidiaries are subject to are listed in Note 16 of the March 31, 2009 Audited Annual Consolidated Financial Statements.

### ADDITIONAL INFORMATION

A comprehensive discussion of our business, strategies, objectives and risks is available in our Annual Information Form and Management's Discussion and Analysis, including our Audited Annual Consolidated Financial Statements in Canaccord's 2009 Annual Report, which are available on our website at canaccord.com/investor and on SEDAR at sedar.com.

# INTERIM CONSOLIDATED BALANCE SHEETS

*(Unaudited)*

| As at (in thousands of dollars) | June 30, 2009 | March 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | **$ 734,268** | $ 701,173 |
| Securities owned [note 3] | **169,030** | 133,691 |
| Accounts receivable [notes 5 and 11] | **1,166,610** | 1,061,161 |
| Income taxes receivable | **17,740** | 23,771 |
| Future income taxes | **13,358** | 15,680 |
| **Total current assets** | **2,101,006** | 1,935,476 |
| Investment | **5,000** | 5,000 |
| Investment in asset-backed commercial paper [note 6] | **34,418** | 35,312 |
| Equipment and leasehold improvements | **44,366** | 46,311 |
| | **$ 2,184,790** | $ 2,022,099 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Bank indebtedness | **$ 105,788** | $ 75,600 |
| Securities sold short [note 3] | **56,318** | 79,426 |
| Accounts payable and accrued liabilities [notes 5 and 11] | **1,622,288** | 1,469,369 |
| Subordinated debt [note 8] | **15,000** | 25,000 |
| **Total current liabilities** | 1,799,394 | 1,649,395 |
| Commitments and contingencies [note 13] | | |
| **Shareholders' equity** | | |
| Common shares [note 9] | **185,068** | 183,619 |
| Contributed surplus [note 9] | **46,230** | 44,383 |
| Retained earnings | **169,980** | 160,868 |
| Accumulated other comprehensive losses | **(15,882)** | (16,166) |
| **Total shareholders' equity** | 385,396 | 372,704 |
| | **$ 2,184,790** | $ 2,022,099 |

See accompanying notes

# INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

*(Unaudited)*

| *(in thousands of dollars, except per share amounts)* | *For the three months ended* June 30, 2009 | June 30, 2008 |
|---|---|---|
| **REVENUE** | | |
| Commission | $ 55,456 | $ 71,996 |
| Investment banking | 55,886 | 76,147 |
| Principal trading | 11,470 | 5,911 |
| Interest | 3,476 | 12,329 |
| Other | 11,175 | 6,325 |
| | 137,463 | 172,708 |
| **EXPENSES** | | |
| Incentive compensation | 68,463 | 82,727 |
| Salaries and benefits | 13,802 | 15,443 |
| Trading costs | 7,324 | 6,321 |
| Premises and equipment | 5,882 | 5,785 |
| Communication and technology | 5,489 | 6,163 |
| Interest | 845 | 3,959 |
| General and administrative | 11,888 | 19,277 |
| Amortization | 1,921 | 2,042 |
| Development costs | 5,854 | 7,462 |
| | 121,468 | 149,179 |
| Income before income taxes | 15,995 | 23,529 |
| Income tax expense (recovery) [note 7] | | |
| Current | 4,561 | (11,550) |
| Future | 2,322 | 18,620 |
| | 6,883 | 7,070 |
| **Net income for the period** | $ 9,112 | $ 16,459 |
| Basic earnings per share [note 9[iv]] | $ 0.19 | $ 0.35 |
| Diluted earnings per share [note 9[iv]] | $ 0.16 | $ 0.31 |

See accompanying notes

# INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*(Unaudited)*

| *(in thousands of dollars)* | *For the three months ended* June 30, 2009 | June 30, 2008 |
|---|---|---|
| Net income for the period | **$ 9,112** | $ 16,459 |
| Other comprehensive loss, net of taxes | | |
| Net change in unrealized gains (losses) on translation of self-sustaining foreign operations | **284** | (430) |
| **Comprehensive income for the period** | **$ 9,396** | $ 16,029 |

# INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

*(Unaudited)*

| *As at and for the three months ended June 30, 2009 and 2008* *(in thousands of dollars)* | June 30, 2009 | June 30, 2008 |
|---|---|---|
| Common shares, opening | **$ 183,619** | $ 111,142 |
| Shares issued | **1,629** | 67,952 |
| Shares held in treasury | **–** | (221) |
| Shares cancelled | **–** | – |
| Acquisition of common shares for long term incentive plan [note 10] | **(4,461)** | (790) |
| Release of vested common shares from employee benefit trust [note 10] | **4,486** | 3,125 |
| Unvested share purchase loans | **(205)** | (1,416) |
| **Common shares, closing** | **185,068** | 179,792 |
| Contributed surplus, opening | **44,383** | 34,024 |
| Excess on redemption of common shares | **–** | (170) |
| Stock-based compensation [note 10] | **296** | 2,790 |
| Unvested share purchase loans | **1,551** | 1,983 |
| **Contributed surplus, closing** | **46,230** | 38,627 |
| Retained earnings, opening | **160,868** | 222,597 |
| Net income for the period | **9,112** | 16,459 |
| Dividends | **–** | (6,824) |
| **Retained earnings, closing** | **169,980** | 232,232 |
| Accumulated other comprehensive losses, opening | **(16,166)** | (10,319) |
| Other comprehensive income (losses) for the period | **284** | (430) |
| **Accumulated other comprehensive losses, closing** | **(15,882)** | (10,749) |
| **Shareholders' equity** | **$ 385,396** | $ 439,902 |

See accompanying notes

# INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

*(Unaudited)*

| *(in thousands of dollars)* | *For the three months ended* June 30, 2009 | June 30, 2008 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income for the period | $ 9,112 | $ 16,459 |
| Items not affecting cash | | |
| Amortization | 1,921 | 2,042 |
| Stock-based compensation expense | 5,268 | 6,308 |
| Future income tax expense | 2,322 | 18,620 |
| Changes in non-cash working capital | | |
| Increase in securities owned | (34,789) | (24,215) |
| Increase in accounts receivable | (95,038) | (102,446) |
| Decrease (increase) in income taxes receivable | 3,732 | (8,798) |
| (Decrease) increase in securities sold short | (23,322) | 18,451 |
| Increase in accounts payable and accrued liabilities | 142,230 | 143,820 |
| **Cash provided by operating activities** | 11,436 | 70,241 |
| **FINANCING ACTIVITIES** | | |
| Repayment of subordinated debt | (10,000) | – |
| Acquisition of common shares for long term incentive plan | (4,461) | (790) |
| Decrease (increase) in unvested common share purchase loans | 1,346 | 567 |
| Issuance of shares for cash net of issuance costs | – | 66,462 |
| Acquisition of shares held in treasury | – | (391) |
| **Cash (used) provided by financing activities** | (13,115) | 65,848 |
| **INVESTING ACTIVITIES** | | |
| Disposal (purchase) of equipment and leasehold improvements | (452) | (670) |
| Proceeds on net redemption of investment in ABCP | 894 | – |
| **Cash provided by (used in) investing activities** | 442 | (670) |
| **Effect of foreign exchange on cash balances** | 4,144 | (1,013) |
| **Increase in cash position** | 2,907 | 134,406 |
| Cash position, beginning of period | 625,573 | 420,611 |
| **Cash position, end of period** | $ 628,480 | $ 555,017 |
| Cash position is comprised of: | | |
| Cash and cash equivalents | $ 734,268 | $ 555,017 |
| Bank indebtedness | 105,788 | – |
| | $ 628,480 | $ 555,017 |
| **Supplemental cash flow information** | | |
| Interest paid | $ 791 | $ 3,923 |
| Income taxes paid | 824 | 553 |

See accompanying notes

# NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

*(Unaudited)*

*For the three months ended June 30, 2009 (in thousands of dollars, except per share amounts)*

Through its principal subsidiaries, Canaccord Capital Inc. (the Company) is a leading independent, full-service investment dealer in Canada with capital markets operations in the United Kingdom (UK) and the United States of America (US). The Company has operations in each of the two principal segments of the securities industry: capital markets and private client services. Together, these operations offer a wide range of complementary investment products, brokerage services and investment banking services to the Company's private, institutional and corporate clients.

The Company's business is cyclical and experiences considerable variations in revenue and income from quarter to quarter and year to year due to factors beyond the Company's control. The Company's business is affected by the overall condition of the North American and European equity markets, including the seasonal variance in these markets.

## 1. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation and principles of consolidation

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (GAAP) with respect to interim financial statements, applied on a consistent basis. These interim unaudited consolidated financial statements follow the same accounting principles and methods of application as those disclosed in Note 1 to the Company's audited consolidated financial statements as at and for the year ended March 31, 2009 as filed on SEDAR on May 26, 2009 (Audited Annual Consolidated Financial Statements) except for the changes in accounting policies as described in Note 2. Accordingly, they do not include all the information and footnotes required for compliance with Canadian GAAP for annual financial statements. These unaudited interim consolidated financial statements and notes thereon should be read in conjunction with the Audited Annual Consolidated Financial Statements.

The preparation of these unaudited interim consolidated financial statements and the accompanying notes requires management to make estimates and assumptions that affect the amounts reported. In the opinion of management, these unaudited interim consolidated financial statements reflect all adjustments necessary to state fairly the results for the periods presented. Actual results could vary from these estimates and the operating results for the interim periods presented are not necessarily indicative of results that may be expected for the full year.

### Recent accounting pronouncements

*Business Combinations and Consolidated Financial Statements*

In January 2009, the Canadian Institute of Chartered Accountants (CICA) issued a new accounting standard, CICA Handbook Section 1582 *"Business Combinations"*, which replaces the former Section 1581 *"Business Combinations"*. This standard harmonizes Canadian guidance to the International Financial Reporting Standard (IFRS) 3 *"Business Combinations"*. This standard requires additional use of fair value measurements, provides guidance on the recognition and measurement of goodwill acquired in the business combination, transaction costs to be expensed and requires increased financial statements note disclosure. This standard is to be applied prospectively for business combinations for which the acquisition date is on or after April 1, 2011.

In addition, the CICA has issued Handbook Section 1601 *"Consolidated Financial Statements"* and Handbook Section 1602 *"Non-controlling Interests"*, which replace CICA Handbook Section 1600 *"Consolidated Financial Statements"*. CICA Handbook Section 1601 carries forward guidance from CICA Handbook Section 1600 except for the standards relating to the accounting for non-controlling interests, which are addressed separately in Section 1602. Section 1602 substantially harmonizes Canadian standards with amended International Accounting Standard 27 *"Consolidated and Separate Financial Statements"*. This Canadian standard provides guidance on accounting for non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination. These two standards will be effective for the Company beginning April 1, 2011.

Early adoption prior to April 1, 2011 is permitted, and all three standards must be adopted concurrently. The impact of adoption of these standards is being assessed.

*International Financial Reporting Standards (IFRS)*

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of IFRS will be required commencing in 2011 for publicly accountable, profit-oriented enterprises. IFRS will replace Canadian GAAP currently followed by the Company. The purpose of this adoption is to increase the comparability of financial reporting among countries and to improve transparency. The Company will be required to begin reporting under IFRS for its fiscal year ended March 31, 2012 and will be required to provide information that conforms with IFRS for the comparative periods presented.

The Company is currently in the process of evaluating the potential impact of IFRS to the consolidated financial statements. This is an ongoing process as the International Accounting Standards Board (IASB) and the AcSB continue to issue new standards and recommendations. The Company's consolidated financial performance and financial position as disclosed in the current Canadian GAAP financial statements may differ significantly when presented in accordance with IFRS. Some of the significant differences identified between IFRS and Canadian GAAP may have a material impact on the Company's consolidated financial statements.

## 2. CHANGE IN ACCOUNTING POLICIES

### Goodwill and Intangible Assets

The CICA issued a new accounting standard, CICA Handbook Section 3064 *"Goodwill and Intangible Assets"*, which prescribes when expenditures qualify for recognition as intangible assets and provides increased guidance on the recognition and measurement of internally generated goodwill and intangible assets. The Company adopted Section 3064 effective April 1, 2009. The adoption of this new standard has no impact on the consolidated financial statements.

## 3. SECURITIES OWNED AND SECURITIES SOLD SHORT

| | *June 30, 2009* | | *March 31, 2009* | |
|---|---|---|---|---|
| | *Securities owned* | *Securities sold short* | *Securities owned* | *Securities sold short* |
| Corporate and government debt | **$ 45,879** | **$ 27,965** | $ 86,069 | $ 72,315 |
| Equities and convertible debentures | **123,151** | **28,353** | 47,622 | 7,111 |
| | **$ 169,030** | **$ 56,318** | $ 133,691 | $ 79,426 |

As at June 30, 2009 corporate and government debt maturities range from 2009 to 2049 [March 31, 2009 – 2009 to 2049] and bear interest ranging from 2.75% to 11.00% [March 31, 2009 – 3.00% to 10.75%].

## 4. FINANCIAL INSTRUMENTS

During the period, there have been no material changes to the risks associated with the Company's financial instruments from those described in Note 4 of the March 31, 2009 Audited Annual Consolidated Financial Statements. Additional disclosures regarding fair value measurements of financial instruments as required by new amendments made to CICA Handbook Section 3862 are disclosed below.

A fair value hierarchy is presented below that distinguishes the significance of the inputs used in determining the fair value measurements of various financial instruments. The hierarchy contains the following levels: Level 1 uses inputs based on quoted prices, Level 2 uses observable inputs other than quoted prices and Level 3 uses inputs that are not based on observable market data.

| | *Carrying value* | | *Estimated fair value* | | |
|---|---|---|---|---|---|
| | *June 30, 2009* | *March 31, 2009* | | *June 30, 2009* | |
| | | | *Level 1* | *Level 2* | *Level 3* |
| **Held for trading** | | | | | |
| Cash and cash equivalents | **$ 734,268** | $ 701,173 | **$ 734,268** | **$ –** | **$ –** |
| Securities owned, net of securities sold short | **112,712** | 54,265 | **111,583** | **1,129** | **–** |
| Investment in ABCP [note 6] | **34,418** | 35,312 | **–** | **–** | **34,418** |
| **Available for sale financial assets** | | | | | |
| Investment (1) | **5,000** | 5,000 | **n/a** | **n/a** | **n/a** |
| **Other financial liabilities** | | | | | |
| Subordinated debt | **15,000** | 25,000 | **15,000** | **–** | |

(1) Investment is classified as available for sale and carried at cost as the investment does not have a quoted market price. The estimated fair value of the investment cannot be reliably determined and therefore, it is not disclosed in the above table.
(2) The fair value of the Company's bank indebtedness, accounts receivable, and accounts payable and accrued liabilities approximate their carrying value due to their short term nature.

## 5. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

### Accounts receivable

| | June 30, 2009 | March 31, 2009 |
|---|---|---|
| Brokers and investment dealers | $ 301,836 | $ 331,930 |
| Clients | 417,439 | 288,877 |
| RRSP cash balances held in trust | 403,000 | 397,011 |
| Other | 44,335 | 43,343 |
| | $ 1,166,610 | $ 1,061,161 |

### Accounts payable and accrued liabilities

| | June 30, 2009 | March 31, 2009 |
|---|---|---|
| Brokers and investment dealers | $ 393,931 | $ 419,437 |
| Clients | 1,047,365 | 923,902 |
| Other | 180,992 | 126,030 |
| | $ 1,622,288 | $ 1,469,369 |

Accounts payable to clients include $403.0 million [March 31, 2009 – $397.0 million] payable to clients for RRSP cash balances held in trust.

Client security purchases are entered into on either a cash or margin basis. In the case of a margin account, the Company extends a loan to a client for the purchase of securities, using securities purchased and/or other securities in the client's account as collateral. Amounts loaned to any client are limited by margin regulations of the Investment Industry Regulatory Organization of Canada and other regulatory authorities and are subject to the Company's credit review and daily monitoring procedures.

Amounts due from and to clients are due by the settlement date of the trade transaction. Margin loans are due on demand and are collateralized by the assets in the client accounts. Interest on margin loans and amounts due to clients is based on a floating rate [June 30, 2009 – 5.25%–6.25% and 0.00%–0.05%, respectively; March 31, 2009 – 5.50%–6.25% and 0.00%–0.20%, respectively].

## 6. INVESTMENT IN ASSET-BACKED COMMERCIAL PAPER

| | June 30, 2009 | March 31, 2009 |
|---|---|---|
| Investment in asset-backed commercial paper | $ 34,418 | $ 35,312 |

As a result of liquidity issues in the asset-backed commercial paper (ABCP) market, there has been no active trading of the ABCP since mid-August 2007. In January 2009, the Company received restructured ABCP notes upon the final implementation order issued by the Ontario Superior Court in a plan of arrangement under the *Companies' Creditors Arrangement Act* (CCAA) (the Plan). During the quarter ended June 30, 2009, there have been no material changes to the accounting treatment of investment in ABCP. Refer to Note 7 of the March 31, 2009 Audited Annual Consolidated Financial Statements as filed on SEDAR on May 26, 2009 for further information.

The Plan as amended provided for a declaratory release that was effective on implementation of the Plan and that, with the closing of the Canaccord Relief Program, resulted in the release of all existing and future ABCP-related claims against the Company.

There is no assurance that the validity or effectiveness of the declaratory release will not be challenged in actions commenced against the Company and others. Any determination that the declaratory release is invalid or ineffective could materially adversely affect the Company's business, results of operations and financial condition.

There has been no active trading of the restructured ABCP notes since January 21, 2009 and as such no meaningful market quote is available. There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. The Company estimates the fair value of its ABCP by discounting expected future cash flows on a probability weighted basis considering the best available data at the reporting date.

The assumptions used in the valuation model include:

| | June 30, 2009 | March 31, 2009 |
|---|---|---|
| Weighted average interest rate | 5.00% | 4.72% |
| Weighted average discount rate | 6.79% | 6.83% |
| Maturity of notes | 8 years to 19 years | 8 to 19 years |
| Credit losses | 25% to 100% | 25% to 100% |

During the period ended June 30, 2009, certain restructured ABCP notes held by the Company with a fair value of $1.7 million were redeemed by the issuer and received $0.8 million fair value of restructured ABCP notes as part of the client relief program. There was no fair value adjustment of the investment in ABCP during the 3 months ended June 30, 2009.

## 7. INCOME TAXES

The Company's income tax expense differs from the amount that would be computed by applying the combined federal and provincial/state income tax rates as a result of the following:

| | *June 30, 2009* | *June 30, 2008* |
|---|---|---|
| Income taxes at the statutory rate | **4,673** | 7,368 |
| Less: International Finance Business recovery of provincial taxes | **–** | – |
| Less: Difference in tax rates in foreign jurisdictions | **(124)** | (647) |
| Non-deductible items affecting the determination of taxable income | **324** | 341 |
| Change in FIT asset – reversal period of temporary differences | **1,293** | 8 |
| Change in accounting and tax base estimate | **717** | – |
| Income tax expense – current and future | **$ 6,883** | $ 7,070 |

## 8. SUBORDINATED DEBT

| | *June 30, 2009* | *March 31, 2009* |
|---|---|---|
| Loan payable, interest payable monthly at prime + 4% per annum, due on demand | **$ 15,000** | $ 25,000 |

The loan payable is subject to a subordination agreement and may only be repaid with the prior approval of the Investment Industry Regulatory Organization of Canada.

## 9. SHARE CAPITAL

| | *June 30, 2009* | *March 31, 2009* |
|---|---|---|
| Share capital | | |
| Common shares | **$ 251,047** | $ 249,418 |
| Unvested share purchase loans | **(31,116)** | (30,911) |
| Acquisition of common shares for long term incentive plan [note 10] | **(34,863)** | (34,888) |
| | **$ 185,068** | $ 183,619 |

Share capital of Canaccord Capital Inc. is comprised of the following:

**[i] Authorized**
Unlimited common shares without par value
Unlimited preferred shares without par value

**[ii] Issued and fully paid**
*Common shares*

| | *Number of shares* | *Amount* |
|---|---|---|
| Balance, June 30, 2008 | 54,590,583 | $ 241,751 |
| Shares issued in connection with stock compensation plans [note 10] | 827,333 | 9,128 |
| Shares cancelled | (325,072) | (1,461) |
| Balance, March 31, 2009 | 55,092,844 | 249,418 |
| Shares issued in connection with stock compensation plans [note 10] | 140,976 | 1,629 |
| **Balance, June 30, 2009** | **55,233,820** | **$ 251,047** |

**[iii] Common share purchase loans**
The Company provides forgivable common share purchase loans to employees in order to purchase common shares. The unvested balance of forgivable common share purchase loans is presented as a deduction from share capital. The forgivable common share purchase loans are amortized over a vesting period up to five years. The difference between the unvested and unamortized values is included in contributed surplus.

### [iv] Earnings per share

| | For the three months ended June 30, 2009 | June 30, 2008 |
|---|---|---|
| **Basic earnings per share** | | |
| Net income for the period | **$ 9,112** | $ 16,459 |
| Weighted average number of common shares (number) | **48,165,290** | 47,518,618 |
| Basic earnings per share | **$ 0.19** | $ 0.35 |
| **Diluted earnings per share** | | |
| Net income for the period | **$ 9,112** | $ 16,459 |
| Weighted average number of common shares (number) | **48,165,290** | 47,518,618 |
| Dilutive effect of unvested shares (number) | **3,886,761** | 2,895,551 |
| Dilutive effect of share issuance commitment in connection with retention plan (number) | **–** | 552,631 |
| Dilutive effect of unvested shares purchased by employee benefit trust (number) [note 10] | **3,102,761** | 1,594,664 |
| Dilutive effect of share issuance commitment in connection with long term incentive plan (number) [note 10] | **176,437** | 158,993 |
| Adjusted weighted average number of common shares (number) | **55,331,249** | 52,720,457 |
| Diluted earnings per share | **$ 0.16** | $ 0.31 |

## 10. STOCK-BASED COMPENSATION PLANS

### Stock options

The Company granted stock options to purchase common shares of the Company to independent directors. The stock options vest over a four-year period and expire seven years after the grant date or 30 days after the participant ceases to be a director. The exercise price is based on the fair market value of the common shares at grant date. The weighted average exercise price of the stock options is $12.46 at June 30, 2009.

The following is a summary of the Company's stock options to Directors as at June 30, 2009 and changes during the period then ended:

| | Number of shares | Weighted average exercise price |
|---|---|---|
| Balance, June 30, 2008 | 250,000 | $ 16.31 |
| Granted | 25,000 | 7.87 |
| Expired | (50,000) | 16.31 |
| Balance, March 31, 2009 | 225,000 | 15.37 |
| Granted | 125,000 | 7.21 |
| **Balance, June 30, 2009** | **350,000** | **$ 12.46** |

The fair value of each stock option grant has been estimated on grant date using the Black-Scholes option pricing model with the following assumptions:

| | May 2009 grant | August 2008 grant | June 2008 grant |
|---|---|---|---|
| Dividend yield | 2.30% | 5.10% | 5.10% |
| Expected volatility | 44.00% | 30.00% | 30.00% |
| Risk-free interest rate | 0.25% | 2.32% | 2.32% |
| Expected life | 5 years | 5 years | 5 years |

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

Compensation expense of $62 (June 30, 2008 – $51) has been recognized for the three months ended June 30, 2009.

**Long term incentive plan**

Under the long term incentive plan (LTIP), eligible participants are awarded restricted share units (RSUs) which vest over three years. For employees in Canada, an employee benefit trust (the Trust) has been established, and either (a) the Company will fund the Trust with cash, which will be used by a trustee to purchase on the open market common shares of the Company that will be held in trust by the trustee until RSUs vest or (b) the Company will issue common shares from treasury to participants following vesting of RSUs. For employees in the United States and the United Kingdom, at the time of each RSU award, the Company will allot common shares and these shares will be issued from treasury at the time they vest for each participant.

The costs of the RSUs are amortized over the vesting period of three years. Compensation expense of $5,206 (June 30, 2008 – $4,828) has been recognized for the three months ended June 30, 2009.

| | *For the three month period ended* | |
|---|---|---|
| | ***June 30, 2009*** | *June 30, 2008* |
| Number of awards outstanding: | | |
| Awards outstanding, beginning of period | **4,602,385** | 2,221,578 |
| Granted | **908,324** | 1,204,870 |
| Vested | **(536,046)** | (168,050) |
| Awards outstanding, end of period | **4,974,663** | 3,258,398 |

| | *For the three month period ended* | |
|---|---|---|
| | ***June 30, 2009*** | *June 30, 2008* |
| Number of common shares held by Trust: | | |
| Common shares held by Trust, beginning of period | **3,075,300** | 1,621,895 |
| Acquired | **571,929** | 100,000 |
| Released on vesting | **(395,070)** | (145,768) |
| Common shares held by Trust, end of period | **3,252,159** | 1,576,127 |

## 11. RELATED PARTY TRANSACTIONS

Security trades executed by the Company for employees, officers and directors are transacted in accordance with the terms and conditions applicable to all clients. Commission income on such transactions in the aggregate is not material in relation to the unaudited interim consolidated financial statements.

Accounts receivable and accounts payable and accrued liabilities include the following balances with the related parties described above:

| | ***June 30, 2009*** | *March 31, 2009* |
|---|---|---|
| Accounts receivable | **$ 42,095** | $ 38,733 |
| Accounts payable and accrued liabilities | **84,049** | 77,334 |

## 12. SEGMENTED INFORMATION

The Company has two operating segments:

Canaccord Adams – includes investment banking, research and trading activities on behalf of corporate, institutional and government clients as well as principal trading activities in Canada, the UK and the US.

Private Client Services – provides brokerage services and investment advice to retail or private clients in Canada and the US.

The Corporate and Other segment includes correspondent brokerage services, interest and foreign exchange revenue and expenses not specifically allocable to Canaccord Adams and Private Client Services.

The Company's industry segments are managed separately because each business offers different services and requires different personnel and marketing strategies. The Company evaluates the performance of each business based on income (loss) before income taxes.

The Company does not allocate total assets or equipment and leasehold improvements to the segments. Amortization is allocated to the segments based on square footage occupied. There are no significant inter-segment revenues.

| | For the three months ended June 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | | | | 2008 | | | |
| | Canaccord Adams | Private Client Services | Corporate and Other | Total | Canaccord Adams | Private Client Services | Corporate and Other | Total |
| Revenue | $ 85,497 | $ 40,185 | $ 11,781 | $ 137,463 | $ 104,793 | $ 57,853 | $ 10,062 | $ 172,708 |
| Expenses excluding undernoted | 65,230 | 32,661 | 15,802 | 113,693 | 79,985 | 42,708 | 16,982 | 139,675 |
| Amortization | 958 | 602 | 361 | 1,921 | 912 | 409 | 721 | 2,042 |
| Development costs | 2,944 | 1,905 | 1,005 | 5,854 | 4,123 | 1,566 | 1,773 | 7,462 |
| Income (loss) before income taxes | $ 16,365 | $ 5,017 | $ (5,387) | $ 15,995 | $ 19,773 | $ 13,170 | $ (9,414) | $ 23,529 |

The Company's business operations are grouped into the following four geographic segments (revenue is attributed to geographic areas on the basis of the underlying corporate operating results):

| | For the three months ended June 30, 2009 | June 30, 2008 |
|---|---|---|
| **Canada** | | |
| Revenue | $ 87,934 | $ 108,898 |
| Equipment and leasehold improvements | 30,564 | 24,780 |
| Goodwill and other intangible assets | – | 4,020 |
| **United Kingdom** | | |
| Revenue | $ 20,925 | $ 33,718 |
| Equipment and leasehold improvements | 6,792 | 7,798 |
| **United States** | | |
| Revenue | $ 27,179 | $ 25,621 |
| Equipment and leasehold improvements | 7,010 | 6,997 |
| Goodwill and other intangible assets | – | 28,147 |
| **Other Foreign Location** | | |
| Revenue | $ 1,425 | $ 4,471 |

### 13. COMMITMENTS AND CONTINGENCIES

During the period, there have been no material changes to the Company's commitments and contingencies from those described in Note 17 of the March 31, 2009 Audited Annual Consolidated Financial Statements as filed on SEDAR on May 26, 2009.

# SHAREHOLDER INFORMATION

**CORPORATE HEADQUARTERS:**
**Street address:**
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Vancouver, BC, Canada

**Mailing address:**
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**STOCK EXCHANGE LISTING:**
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AIM: CCI

**GENERAL SHAREHOLDER INQUIRIES AND INFORMATION:**
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**INSTITUTIONAL INVESTORS, BROKERS AND SECURITY ANALYSTS:**
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The CCI fiscal 2008 Annual Report is available on our website at canaccord.com. For a printed copy please contact the Investor Relations department.

**FISCAL 2010 EXPECTED EARNINGS RELEASE DATES**

| | *Expected earnings release date* |
|---|---|
| Q1/10 | August 6, 2009 |
| Q2/10 | November 5, 2009 |
| Q3/10 | February 4, 2010 |
| Q4/10 | May 19, 2010 |

**SHAREHOLDER ADMINISTRATION:**
For information about stock transfers, address changes, dividends, lost stock certificates, tax forms and estate transfers, contact:

**COMPUTERSHARE INVESTOR SERVICES INC.:**
100 University Avenue, 9th Floor
Toronto, ON, M5J 2Y1
Phone: 1-800-564-6253
(toll-free within North America)
514-982-7555 (international)
Fax: 1-866-249-7775
(toll-free within North America) or
416-263-9524 (international)
Email: service@computershare.com
Internet: computershare.com
Offers enrolment for self-service account management for registered shareholders through Investor Centre.

**FINANCIAL INFORMATION:**
For present and archived financial information, please visit canaccord.com/financialreports.

**AUDITOR:**
Ernst & Young LLP
Chartered Accountants
Vancouver, BC

**CORPORATE WEBSITE:**
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