



**CANACCORD FINANCIAL INC.  
ANNUAL INFORMATION FORM**

**For the fiscal year ended March 31, 2012**

May 29th, 2012

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## **Caution regarding forward-looking statements:**

This document may contain “forward-looking statements” (as defined under applicable securities laws). These statements relate to future events or future performance and reflect management’s expectations, beliefs, plans, estimates, intentions and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts, 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”, “could” 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 discussed from time to time in the Company’s interim condensed and annual consolidated financial statements and its annual report and the AIF filed on [www.sedar.com](http://www.sedar.com) as well as the factors discussed in the sections entitled “Risks Management” and “Risk Factors” in this AIF, which includes market, liquidity, credit, operational, legal and regulatory risks. Material factors or assumptions that were used by the Company to develop the forward-looking information contained in this document include, but are not limited to, those set out in the Fiscal 2013 Outlook section in the annual MD&A and those discussed from time to time in the Company’s interim condensed and annual consolidated financial statements and its annual report and the AIF filed on [www.sedar.com](http://www.sedar.com). The preceding list is not exhaustive of all possible risk factors that may influence actual results. Readers are cautioned that the preceding list of material factors or assumptions is not exhaustive.

Although the forward-looking information contained in this document is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this document are made as of the date of this document and should not be relied upon as representing the Company’s views as of any date subsequent to the date of this document. Certain statements included in this document may be considered “financial outlook” for purposes of applicable Canadian securities laws, and such financial outlook may not be appropriate for purposes other than this document. Except as may be required by applicable law, the Company does not undertake, and specifically disclaims, any obligation to update or revise any forward-looking information, whether as a result of new information, further developments or otherwise.

## ***Notes***

Unless otherwise indicated or the context otherwise requires, the “Company” refers to Canaccord Financial Inc. “Canaccord”, the “Groups” and the “Canaccord group” refers to the Company and its direct and indirect subsidiaries.

The Company’s fiscal year end is March 31. Unless otherwise indicated, “fiscal” in connection with a year relates to the 12 month period ended March 31 in that year.

Unless otherwise indicated, the information provided herein is as of March 31, 2012 and expressed in Canadian dollars.

## Corporate Structure

### *Name, address and incorporation*

Canaccord Financial Inc. was incorporated as Canaccord Holdings Ltd. on February 14, 1997 by the filing of a memorandum and articles with the Registrar of Companies for British Columbia under the *Company Act* (British Columbia) and continues in existence under the *Business Corporations Act* (British Columbia). Pursuant to resolutions of the shareholders passed at the annual general meeting of the Company on June 21, 2004 and the subsequent filing of a notice of alteration to its articles and pursuant to an arrangement approved by an order of the Supreme Court of British Columbia made June 22, 2004, the Company changed its name to Canaccord Capital Inc. and altered its capital by converting all previously outstanding classes of common shares, preferred shares and debentures into common shares. The arrangement was made effective on June 30, 2004. The Company was amalgamated in a short-form vertical amalgamation with its wholly-owned subsidiary 0719880 B.C. Ltd. on April 1, 2007. The Company changed its name to Canaccord Financial Inc. on December 1, 2009.

The Company's head office is located at Suite 2200 - 609 Granville Street, Vancouver, British Columbia, V7Y 1H2. The Company's registered office is located at Suite 1000 – 840 Howe Street, Vancouver, British Columbia, V6Z 2M1.

Details of the Company's principal subsidiaries are set out in Note 19 to the Company's annual consolidated financial statements on page 112 of the Annual Report.

### *Intercorporate relationships*

#### Canaccord Financial Inc. Corporate Structure

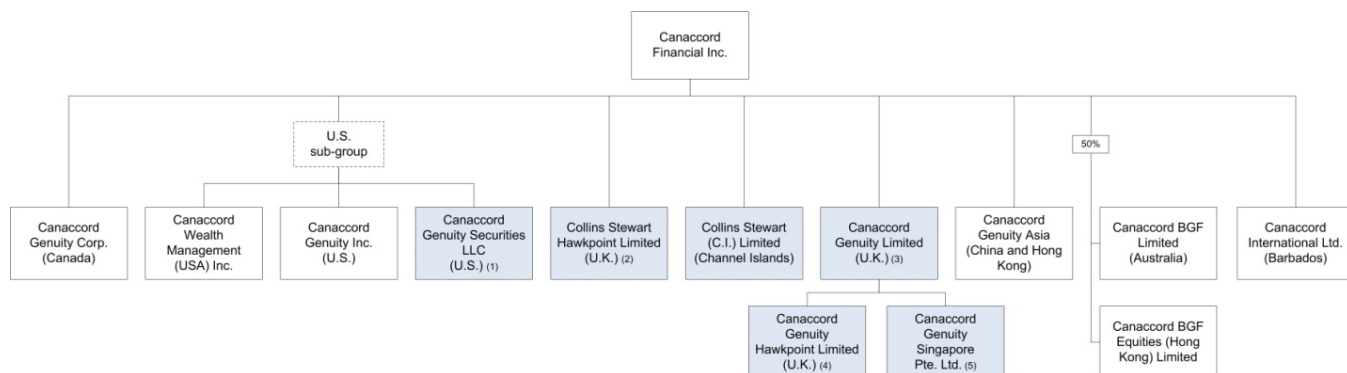


Chart shows principal operating companies of the Canaccord group and certain other companies referred to in this Prospectus. Companies of the CSH group are shown hatched. Canaccord Genuity Limited combines the businesses of Collins Stewart Europe Limited and the Canaccord U.K. operating company before the Acquisition of CSH.

1. Formerly Collins Stewart LLC

2. Formerly Collins Stewart Hawkpoint plc

3. Formerly Collins Stewart Europe Limited; transferee of business of Canaccord Genuity Limited (the Canaccord U.K. operating company before the Acquisition of CSH)

4. Formerly Hawkpoint Partners Limited

5. Formerly Collins Stewart Pte. Ltd.

The Company owns, either directly or indirectly, all of the outstanding shares of the following principal subsidiaries, except for Canaccord BGF which the Company owns 50% equity interest:

<b>Name of Subsidiary <sup>(1)</sup></b>	<b>Country Incorporation</b>	<b>of % equity interest</b>	<b>Principal Business</b>
Canaccord Genuity Corp.	<b>Canada</b>	<b>100%</b>	Investment dealer in Canada
Canaccord Genuity Securities Limited (formerly Canaccord Genuity Limited)	<b>United Kingdom</b>	<b>100%</b>	Investment dealer in the United Kingdom
Collins Stewart Hawkpoint Limited	<b>United Kingdom</b>	<b>100%</b>	Investment dealer in the United Kingdom
Canaccord Genuity Hawkpoint Limited	<b>United Kingdom</b>	<b>100%</b>	Investment dealer in the United Kingdom
Canaccord Genuity Hawkpoint SAS	<b>France</b>	<b>100%</b>	Investment dealer in the United Kingdom
Collins Stewart (CI) Ltd	<b>Guernsey</b>	<b>100%</b>	Wealth Management in Channel Islands
Collins Stewart 360° Limited	<b>United Kingdom</b>	<b>100%</b>	Wealth Management in the United Kingdom
Canaccord Genuity Singapore Pte. Ltd	<b>Singapore</b>	<b>100%</b>	Investment dealer in the Singapore
Canaccord Genuity Limited (formerly Collins Stewart Europe Ltd.)	<b>United Kingdom</b>	<b>100%</b>	Investment dealer in the United Kingdom
Canaccord Genuity Securities LLC	<b>United States</b>	<b>100%</b>	Investment dealer in the United States
Canaccord Genuity Inc.	<b>United States</b>	<b>100%</b>	Broker dealer in the United States
Canaccord Wealth Management (USA) Inc. <sup>(2)</sup>	<b>United States</b>	<b>100%</b>	Broker dealer in the United States
Canaccord BGF Limited	<b>Australia</b>	<b>50%</b>	Broker dealer in Australia
Canaccord BGF (Hong Kong) Limited	<b>Hong Kong</b>	<b>50%</b>	Broker dealer in Hong Kong
Beijing Parkview Balloch Investment Advisory Company Limited (to be renamed Canaccord Genuity Asia)	<b>China</b>	<b>100%</b>	Financial advisory and consultancy services in China
Canaccord International Ltd.	<b>Barbados</b>	<b>100%</b>	Bank and investment dealer outside Canada, the United States, the United Kingdom, and China

<sup>(1)</sup> In addition to the principal subsidiaries listed above, there are four smaller operating subsidiaries: Canaccord Independence Asset Management Inc., Canaccord Estate Planning Services Ltd., Stockwave Equities Ltd. and CLD Financial Opportunities Limited.

## General Development of the Business

### *Introduction*

Canaccord, through the succession of various predecessor corporations, has been in business since 1950. Beginning in 1992, Canaccord adopted a focused growth strategy to become one of the leading independent investment dealers in Canada. Canaccord has achieved this through significant investments in its business infrastructure, with a focus on building strong client relationships.

Canaccord continually invests in its employees, IT systems and office infrastructure, and the results of these initiatives have allowed the Company to grow into a global independent investment bank, with operations in 12 countries. Today, Canaccord Financial has:

- An integrated global capital markets group that provides financing and advisory services to a broad range of corporate clients; global sales and trading for institutional clients; and in-depth research coverage of a growing universe of companies.
- An extensive network of Wealth Management offices located across Canada, the UK and Europe. With 280 Advisory Teams in Canada and 106 Investment Professionals and Fund Managers in the UK and Europe, as of March 31, 2012, Canaccord's wealth management operations provide quality financial planning and wealth management solutions and trading services to individual investors, institutions and intermediaries, and charities.

Canaccord's independent nature means the Company is free from institutional constraints that sometimes afflict larger financial institutions. This independence allows Canaccord to provide a wider range of local and international products for its clients and the ability to act quickly when opportunities arise or when prompt solutions need to be found.

Canaccord has devoted substantial resources to growing its global presence. Today, the Company has capital markets operations in the US, Europe, Australia, China, Singapore and Barbados. These offices focus on providing services to Canaccord Genuity's corporate and institutional clients from the domestic and international community. Given its capital markets expertise, combined with its capital markets strength in eleven countries, Canaccord remains in a favourable position to provide its clients with a wide array of international financing services and alternatives.

Two important corporate development initiatives were completed during fiscal 2012:

- In November 2011, Canaccord expanded its operations into Australia and Hong Kong with the acquisition of a 50% interest in BGF Capital Group Pty Ltd ("BGF"). Following the close of the transaction, BGF was rebranded as Canaccord BGF.
- In March 2012, Canaccord acquired Collins Stewart Hawkpoint plc ("CSHP"), which expanded Canaccord's capital market operations in UK, Europe, the US and Singapore. In addition, Canaccord gained a UK and European wealth management business.

In addition to its growth and expansion, Canaccord continues to maintain an integrated global team and a corporate culture that is instrumental in attracting and retaining highly qualified professionals. Canaccord has successfully developed and nurtured an entrepreneurial culture among its capital markets employees, wealth management professionals and support staff.

Canaccord is committed to maintaining its high level of employee ownership, to best align the interests of its employees with shareholders. The company encourages this through Long-Term Incentive Plans, which provides a portion of employees' compensation in Canaccord shares, and an employee stock purchase plan.

### *Three year history*

Through its principal subsidiaries, Canaccord Financial Inc. is a leading independent, full-service financial services firm, with operations in two principal segments of the securities industry: global capital markets and wealth management. Together, these operations offer a wide range of complementary investment products, brokerage services and investment banking services to the Company's corporate, institutional, and private clients.

Canaccord continues to build on the foundation it has established and focus on its complementary capabilities that include:

- Capital markets strength and expertise in North America, the UK and Europe, Australia and Asia
- Strong private, corporate and institutional client relationships
- Globally integrated international trading operations
- Broad venture capital capability
- Comprehensive, timely and focused research coverage

In the last three years Canaccord has concentrated on the development of its two principal business units, Canaccord Genuity and Canaccord Wealth Management, and its operating infrastructure to support their operations, including the development of leading proprietary information systems and technology. During fiscal 2012 and 2011, Canaccord also increased its focus on improving the operational efficiency of its businesses. Additionally, several important corporate development initiatives were completed during fiscal 2012. This includes the acquisition of a 50% interest in Canaccord BGF and the acquisition of CSHP. Please see page 10 for more information.

As an investment banking firm, Canaccord derives its revenue primarily from sales commissions, underwriting and advisory fees, and principal trading activity. Canaccord's business is materially affected by conditions in the financial marketplace and economic conditions, primarily in North America and Europe. With the challenging market conditions that prevailed throughout most of fiscal 2012 and with significant transaction and restructuring costs incurred as a result of the acquisition of CSHP and in response to the decline in market conditions, the Company's revenue and net income have both decreased compared to fiscal 2011.

Canaccord's revenue for the three year period ending March 31, 2012 was:

<i>(C\$ thousands)</i>	<u>Revenue for the years ended March 31</u>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<i>IFRS</i>	<i>IFRS</i>	<i>CGAAP</i>
Commission	<b>\$252,877</b>	\$ 294,650	\$ 235,606
Investment banking	<b>175,225</b>	327,499	215,237
Advisory fees	<b>107,370</b>	84,914	39,200
Principal trading	<b>10,647</b>	43,644	45,982
Interest	<b>31,799</b>	24,040	12,965
Other	<b>26,946</b>	28,884	28,547
<b>Total</b>	<b>\$604,864</b>	<b>\$803,631</b>	<b>\$ 577,537</b>

The following table provides a breakdown of Canaccord's segmented revenue for the three years ending March 31, 2012:

<i>(C\$ thousands)</i>	<u>Revenue for the years ended March 31</u>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<i>IFRS</i>	<i>IFRS</i>	<i>CGAAP</i>
Canaccord Genuity	<b>\$373,477</b>	\$538,644	\$363,558
Canaccord Wealth Management	<b>201,290</b>	233,049	187,046
Corporate and Other	<b>30,097</b>	31,938	26,933
<b>Total</b>	<b>\$604,864</b>	<b>\$803,631</b>	<b>\$577,537</b>

## Operations by Geography

Canaccord's revenue by geographic segment for the three year period is as follows:

<i>(C\$ thousands)</i>	<b>Revenue for the years ended March 31</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<i>IFRS</i>	<i>IFRS</i>	<i>CGAAP</i>
Canada	\$ 458,131	\$598,556	\$388,772
UK and Europe	53,180	92,677	82,454
US	83,061	111,170	100,417
Other Foreign Locations <sup>(1)</sup>	10,492	1,228	5,894
<b>Total</b>	<b>\$604,864</b>	<b>\$803,631</b>	<b>\$577,537</b>

<sup>(1)</sup> Revenue derived from capital markets activity outside of Canada, the US and the UK and Europe is reported as Other Foreign Locations, which includes operations for Canaccord International Ltd., Canaccord Genuity Asia, Canaccord Genuity Singapore, and Canaccord's 50% interest in Canaccord BGF. Results of former CSHP entities are included since March 22, 2012.

Revenue in Canada is derived from the Canaccord Genuity, Canaccord Wealth Management, and the Corporate and Other segments. Revenue from the UK and Europe is mainly included in the Canaccord Genuity segment; however, beginning March 22, 2012, subsequent to the acquisition of CSHP, the UK and Europe operations also includes revenue earned from wealth management activity. Revenue in the US is principally included in the Canaccord Genuity segment with an approximate 4.3% included in the Canaccord Wealth Management segment in the US during fiscal 2012. Revenue from Other Foreign Locations is entirely made up of Canaccord Genuity activity.

During fiscal 2012, a number of key developments occurred at Canaccord:

- Canaccord Genuity led 106 transactions globally, each over \$1.5 million, to raise total proceeds of \$2.7 billion<sup>(1)</sup> during fiscal 2012. Of this:
  - Canada led 82 transactions, which raised \$1.5 billion<sup>(2)</sup>
  - UK and Europe led 10 transactions, which raised \$630 million
  - The US led 14 transactions, which raised \$590 million
- During fiscal 2012, Canaccord Genuity participated in a total of 323 transactions globally, each over \$1.5 million, to raise gross proceeds of \$6.8 billion<sup>(1)</sup>. Of this:
  - Canada participated in 274 transactions, which raised \$2.4 billion<sup>(2)</sup>
  - UK and Europe participated in 11 transactions, which raised \$723 million
  - The US participated in 38 transactions, which raised \$3.7 billion
- During fiscal 2012, Canaccord Genuity led or co-led the following equity transactions:
  - US\$550.0 million for Manabi Holdings S.A. (non-exchange listed)
  - Four transactions raising a total of C\$381.7 million for Artis Real Estate Investment Trust on the TSX
  - £250.0 million for HICL Infrastructure Company Ltd. on the LSE
  - C\$230.0 million offering for Wi-LAN Inc. on the TSX
  - US\$230.0 million for Neo Material Technologies Inc. on the TSX
  - Three transactions raising a total of C\$129.3 million for Pure Industrial Real Estate Trust on the TSX-Venture
  - C\$125.0 million for Griffiths Energy International Inc. (non-exchange listed)

<sup>(1)</sup> Source: FP Infomart and Company information. Transactions over \$1.5 million

<sup>(2)</sup> For all transactions completed in Canada, the number of led transactions and total proceeds are captured by FPinfomart "Full Credit Bookrunner" and participation in transactions and total proceeds are captured by FPinfomart "Bonus Credit Bookrunner".



- Two transactions raising a total of C\$120.1 million for Pinecrest Energy Inc. on the TSX-Venture
  - C\$113.5 million for Canaccord Financial Inc. on the TSX
  - US\$100.6 million for Aveo Pharmaceuticals on the NASDAQ
  - C\$103.1 million offering for EcoSynthetix Inc. on the TSX
  - Two transactions raising a total of C\$85.4 million for New Zealand Energy Corp. on the TSX-Venture
  - US\$74.0 million for Dexcom Inc. on the NASDAQ
  - C\$65.1 million offering for Nevada Copper Corp. on the TSX
- During fiscal 2012, Canaccord Genuity advised on 30 transactions, including the following:
    - Daylight Energy on its acquisition by Sinopec International Petroleum Exploration and Production Corporation
    - Second Lien Noteholders of Opti Canada Inc. with respect to restructuring of debt and sale of the company
    - Viterra Inc. on its pending acquisition by Glencore International plc
    - Hathor Exploration Ltd. on its acquisition by Rio Tinto plc
    - Kruger Products LP on its US\$211 million debt private placement
    - Canadian Satellite Radio Holdings Inc. on its merger with Sirius Canada Inc.
    - Canmarc Real Estate Investment Trust on its acquisition by Cominar Real Estate Investment Trust
    - ChemGenex Pharmaceuticals Limited on its acquisition by Cephalon, Inc.
    - Alteris Renewables Inc. on its acquisition by Real Goods Solar
    - Gennum Corp. on its acquisition by Semtech Corp.
- During fiscal 2012, Canaccord opened five new Canaccord Wealth Management branches in Canada on the Independent Wealth Management (IWM) platform, and closed three IWM locations.
    - Two corporate branches were converted to the IWM platform during fiscal 2012.
- Canaccord had 280 Advisory (IA) Teams in Canada as of March 31, 2012, up nine from 271 at March 31, 2011.
  - As a result of Canaccord's acquisition of CSHP, Canaccord now has 106 Investment Professionals in the UK and Europe as of March 31, 2012.

## ***Acquisitions***

### **i) BGF Capital Group Pty Ltd**

On July 31, 2011, the Company announced that it had signed a definitive agreement to acquire a 50% interest in BGF Capital Group Pty Ltd, a boutique investment bank based in Australia, with offices in Melbourne, Sydney and Hong Kong. The transaction was completed on November 1, 2011 for consideration consisting of 623,796 Canaccord common shares valued at \$5.7 million [AUD\$5.5 million] and cash of \$36.5 million [AUD\$34.7 million]. The shares issued were valued at \$9.20 per common share based on the closing share price as of November 1, 2011, the closing date of the transaction, in accordance with IFRS 3, "*Business Combinations*" (IFRS 3). All of the Canaccord common shares issued as part of the purchase price were placed in escrow at closing and will be released ratably over five years. Subsequent to the closing of the transaction, BGF was rebranded as Canaccord BGF.

The purchase agreement grants the Company a call option to purchase the remaining 50% interest in BGF. The option will be exercisable by the Company for a three-month period commencing on November 1, 2016 at a price to be determined at that time by reference to Canaccord BGF profits as set out in the purchase agreement. As the option price is expected to approximate fair market value at the time of exercise, the value of this call option is nominal.

### **ii) Collins Stewart Hawkpoint plc**

On December 15, 2011, the Company announced that it had made an offer to acquire 100% of Collins Stewart Hawkpoint plc ("CSHP"), an independent investment bank based in the UK, with operations in Europe, the US and Singapore. This transaction closed on March 21, 2012. The total purchase consideration of \$400.1 million (£254.2 million) was paid as a combination of cash and Canaccord common shares.

The cash consideration was funded through a combination of borrowing under a short term credit facility, pursuant to a \$150 million senior secured credit agreement, and the Company's existing cash resources. Net proceeds of \$97 million from the issuance of Series C Preferred Shares, which closed on April 10, 2012, were used towards reducing the outstanding borrowings under this short term credit facility.

## Description of the Business

### Overview

Canaccord has substantial operations in each of the two principal segments of the financial services industry: capital markets and wealth management, which are segmented as two divisions Canaccord Genuity and Canaccord Wealth Management, respectively. These activities are supported by an infrastructure comprised of information technology, compliance and risk management, legal, operations and finance teams.

<b>Canaccord Genuity</b> <i>(Includes Canaccord Genuity Hawkpoint, Canaccord Genuity Asia, Canaccord Genuity Singapore and Canaccord BGF operations)</i>  Approximately 1090 employees	<b>Canaccord Wealth Management</b> <i>(Includes Canaccord Wealth Management in Canada and Collins Stewart Wealth Management in the UK and Europe)</i>  Approximately 960 employees
<i>Research</i> <i>Institutional equity sales and trading</i> <i>Investment banking</i> <i>Mergers &amp; acquisitions and advisory services</i> <i>Venture capital</i> <i>International and principal trading</i> <i>Fixed income trading</i>	<i>Investment advice</i> <i>Brokerage services</i> <i>Managed accounts</i> <i>Fee-based accounts</i> <i>Wealth management services</i> <i>Insurance and estate planning</i>
<ul style="list-style-type: none"> <li>• Offices in Toronto, London, Boston, Vancouver, New York, Calgary, Montreal, San Francisco, Houston, Chicago, Minneapolis, Edinburgh, Dublin, Milan, Frankfurt, Paris, Melbourne, Sydney, Hong Kong, Barbados, Beijing, Shanghai, Hangzhou, and Singapore.</li> </ul>	<ul style="list-style-type: none"> <li>• 35 retail offices throughout Canada</li> <li>• 280 Advisory Teams in Canada</li> <li>• 6 offices in UK and Europe</li> <li>• 106 investment professionals and fund managers in UK and Europe</li> </ul>
<ul style="list-style-type: none"> <li>• Revenue for fiscal 2012 of \$373.5 million</li> <li>• Canaccord Genuity led 106 transactions globally, each over \$1.5 million, with total proceeds of \$2.7 billion. Also in fiscal 2012, the team participated in 323 transactions globally, each over \$1.5 million, with total proceeds of \$6.8 billion. This includes:                         <ul style="list-style-type: none"> <li>▪ Canada – 274 financing transactions with an aggregate deal value of \$2.4 billion</li> <li>▪ UK and Europe – 11 financing transactions with an aggregate deal value of \$723 million</li> <li>▪ US – 38 financing transactions with an aggregate deal value of \$3.7 billion</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Revenue for fiscal 2012 of \$201.3 million</li> <li>• Assets under management in Canada (discretionary) of \$677 million</li> <li>• Assets under administration in Canada of \$14.8 billion</li> <li>• Assets under management in UK and Europe (discretionary and non-discretionary) of \$13.1 billion</li> </ul>
<b>Corporate and Other</b> Approximately 378 employees  <i>Compliance and Risk Management</i> <i>Finance</i> <i>Information Technology</i> <i>Legal</i> <i>Operations</i> <i>Pinnacle Correspondent Brokerage Services</i>	

## Canaccord Genuity

Canaccord Genuity consists of approximately 1,090 employees and professionals located in Toronto, London, Boston, Vancouver, New York, Calgary, Montreal, San Francisco, Houston, Chicago, Minneapolis, Edinburgh, Dublin, Milan, Frankfurt, Paris, Melbourne, Sydney, Hong Kong, Barbados, Beijing, Shanghai, Hangzhou, and Singapore. Canaccord Genuity is comprised of the following geographic operating divisions:

- Canada (Canaccord Genuity)
- UK and Europe (Canaccord Genuity and Canaccord Genuity Hawkpoint)
- US (Canaccord Genuity)
- Other Foreign Locations (Canaccord Genuity, Canaccord Genuity Asia, Canaccord Genuity Singapore, and 50% interest in Canaccord BGF)

### Canaccord Genuity's revenue

<i>(C\$ thousands)</i>	<b>Revenue for the years ended March 31</b>		
	<b>2012</b>	2011	2010
	<b><i>IFRS</i></b>	<i>IFRS</i>	<i>CGAAP</i>
Canada			
Capital Markets	<b>\$ 209,092</b>	\$ 301,002	\$148,214
International Trading	<b>9,816</b>	14,362	11,561
Registered Traders	<b>857</b>	4,882	5,856
Fixed Income	<b>12,541</b>	18,274	11,950
Total Canada	<b>232,306</b>	338,520	177,581
UK and Europe	<b>51,193</b>	92,677	82,454
US	<b>79,486</b>	106,219	97,629
Other Foreign Locations	<b>10,492</b>	1,228	5,894
<b>Total Canaccord Genuity</b>	<b><u>\$373,477</u></b>	<u>\$538,644</u>	<u>\$363,558</u>

### Revenue

Canaccord Genuity's revenue 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 trading operations. Accordingly, this revenue is directly affected by the level of corporate and institutional activity and general economic, market and business conditions in Canada and internationally. Furthermore, revenue from Canadian operations includes revenues generated from four business sub-segments: Capital Markets, Registered Traders, International Trading, and Fixed Income. In March 2012, as part of a reorganization of Canaccord Genuity, the Company closed the Registered Traders business.

Canaccord's revenue and income for both Canaccord Genuity and Canaccord Wealth Management is cyclical and experiences considerable variations from quarter-to-quarter and year-to-year due to factors beyond Canaccord's control. The business is affected by the overall condition and seasonal variance in the worldwide market. Historically, North American capital markets have been slower during the first half of the fiscal year, when we typically generate approximately 40% to 50% of the annual revenue. Conversely, during the second six months of the fiscal year, we have typically generated over 50% of the annual revenue. In fiscal 2012, the second half of fiscal 2012 generated 53.8% of total revenue for fiscal 2012.

Canaccord Genuity operates out of 26 offices internationally and provides a broad range of research, sales and trading, and investment banking services to its clients. Canaccord Genuity has developed comprehensive investment banking knowledge and expertise, and strong research capabilities in the following key sectors of the global economy: Mining & Metals, Energy, Technology, Healthcare & Life Sciences, Agriculture & Fertilizers, Media & Telecommunications, Financials, Consumer & Retail, Real Estate & Hospitality, Infrastructure, Transportation & Industrial Products, Paper & Forestry Products, CleanTech & Sustainability, Support Services, Aerospace & Defense, Leisure, and Private Equity

The integrated team at Canaccord Genuity provides comprehensive and high quality services to its corporate and institutional clients in:

- Research
- Institutional equity sales and trading
- Investment banking
- Mergers & acquisitions and advisory services
- Venture capital
- International and principal trading
- Fixed income trading

Canaccord Genuity's ability to target and service key clients in global equity financing is a strong differentiator and competitive advantage for the Company. In fiscal 2012, Canaccord Genuity led 106 transactions globally for clients to raise total proceeds of \$2.7 billion. Also in fiscal 2012, the team participated in 323 transactions globally for clients to raise total proceeds of \$6.8 billion. These transactions included 30.1% from the Mining and Metals and Energy sectors due to strong global market demand for natural resources.

**Top 10 investment dealers in Canada ranked by participation and number of led transactions – equity offerings of \$1.5 million and greater**  
(Fiscal year 2012)

Dealer	Rank	Number of led transactions	Rank	Participation in # of transactions led <sup>(1)</sup>
<b>Canaccord Genuity</b>	<b>1</b>	<b>106</b>	<b>1</b>	<b>323</b>
RBC Capital Markets	2	97	8	186
CIBC World Markets Inc.	3	80	5	203
National Bank Financial Inc.	4	56	2	232
TD Securities Inc.	5	54	7	188
BMO Capital Markets	6	53	4	212
Scotia Capital Inc.	7	41	3	223
GMP Securities Inc.	8	38	6	193
Cormark Securities Inc.	9	36	10	102
Dundee Securities Ltd.	10	33	9	149

<sup>(1)</sup> Number of transactions led reflects both led and joint led transactions. Figures for other investment dealers are for Canadian operations only. Source: FP Infomart and Company information. Canaccord's figure also includes transactions from its UK and Europe, US, Australia, Singapore and China operations.

Canaccord Genuity – Overall

Sectors	For the year ended March 31, 2012	
	% of investment banking transactions	% of investment banking revenue
Mining & Metals	14.2%	33.0%
Energy	15.9%	16.6%
Structured Products	21.5%	3.1%
Technology	7.5%	10.2%
Healthcare & Life Sciences	10.8%	10.5%
Financials	7.8%	3.9%
Real Estate & Hospitality	11.3%	6.6%
Diversified	2.7%	8.4%
Other	8.3%	7.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

(Note: Other includes Infrastructure, Consumer & Retail, CleanTech & Sustainability, Media & Communications, Investment Trusts, Support services, Agriculture and Transportation & Industrials)

Canaccord Genuity – Canada

Sectors	For the year ended March 31, 2012	
	% of investment banking transactions	% of investment banking revenue
Mining & Metals	14.1%	42.9%
Energy	19.0%	16.2%
Financials	6.3%	3.0%
Real Estate & Hospitality	15.6%	9.3%
Structured Products	29.7%	4.3%
Healthcare & Life Sciences	4.8%	2.4%
Technology	2.2%	7.8%
Diversified	3.0%	11.7%
Other	5.3%	2.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

(Note: Other includes Media & Telecommunications, Infrastructure, Agriculture, Consumer & Retail, CleanTech & Sustainability, Transportation & Industrials, Investment Trusts, and Support Services)

Canaccord Genuity – UK and Europe

Sectors	For the year ended March 31, 2012	
	% of investment banking transactions	% of investment banking revenue
Mining & Metals	26.5%	15.0%
Energy	5.9%	17.8%
Financials	8.8%	17.3%
Technology	29.4%	12.5%
Investment Trusts	17.6%	2.8%
Infrastructure	2.9%	31.8%
Diversified	2.9%	2.4%
Other	6.0%	0.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

(Note: Other includes Support Services and Healthcare & Life Sciences)

Canaccord Genuity – US

Sectors	<b>For the year ended March 31, 2012</b>	
	<b>% of investment banking transactions</b>	<b>% of investment banking revenue</b>
Energy	11.3%	19.1%
Technology	22.6%	19.1%
Healthcare & Life Sciences	47.2%	46.5%
Cleantech & Sustainability	11.3%	7.5%
Consumer & Retail	5.7%	7.5%
Metals & Mining	1.9%	0.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Canaccord Genuity – Other Foreign Locations

Sectors	<b>For the year ended March 31, 2012</b>	
	<b>% of investment banking transactions</b>	<b>% of investment banking revenue</b>
Metals & Mining	31.3%	73.5%
Financials	56.3%	12.1%
Other	12.4%	14.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

(Note: Other includes Healthcare & Life Sciences, Energy, Diversified, and Consumer & Retail)

**Equity offerings of \$1.5 million and greater participated in by Canaccord**

(C\$ billions except for # of transactions)	<b>For the years ended March 31</b>			
	<b>2012</b>		<b>2011</b>	
Market	# of transactions	Aggregate transaction value	# of transactions	Aggregate transaction value
Canada	274	\$2.4	352	\$3.4
UK and Europe	11	0.7	13	1.7
US	38	3.7	61	6.0
<b>Total</b>	<b>323</b>	<b>6.8</b>	<b>426</b>	<b>\$11.1</b>

Sources: Financial Post Data Group and Company sources.

Revenue from Canadian operations

Capital Markets

Capital markets revenue in Canada originates from equity financing transactions, commissions, underwriting fees and management fees related to capital markets activity in Canada.

International Trading

Canaccord has an extensive international trading operation with approximately 12 employees who deal principally with US brokerage firms, executing orders on their behalf in Canadian listed equities. Canaccord has developed a secure online trading capability, for selected US dealers to process trades in Canadian securities through Canaccord's international trading operation. This system accesses Canaccord's order management system and delivers orders directly to the applicable exchange for execution and reporting. As part of the reorganization of the Canaccord Genuity Canada trading operations at the end of fiscal 2012, the International Trading group has been consolidated in the Toronto office.

Registered Traders

During fiscal 2012, Canaccord had a group of registered traders that traded on behalf of Canaccord in its principal and inventory accounts. The registered traders group operated by taking positions, trading and making markets in equity securities including securities of companies with small to medium sized market capitalizations. Revenue was generated through principal trading gains and losses. This business was closed in March 2012 as part of the Company's reorganization of its Canaccord Genuity Canada operations.

### Fixed Income

Canaccord Genuity's Fixed Income department operates from offices in Toronto and Montreal. Canaccord trades on a principal basis in various fixed income instruments including Canadian and US government bonds and treasury bills, provincial bonds, securities of federal, provincial government agencies and crown corporations and corporate debt. Inventories of fixed income securities are generally carried to facilitate sales to clients. Canaccord also auctions, underwrites or acts as a selling group member in the distribution of various government and corporate fixed income securities.

### Revenue from the UK and Europe operations

Canaccord Genuity's operations in the UK and Europe include institutional sales and trading, investment banking and research teams. Canaccord Genuity Hawkpoint mainly provides M&A and advisory services to its UK and Europe operations. Canaccord is an approved broker, sponsor and Nomad for AIM and LSE companies. In March 2012, the Company completed its acquisition of CSHP which resulted in an expansion of our business into Europe. Canaccord is in a strong position to serve its private, corporate and institutional clients and capitalize on the opportunities in this market area. This division serves its clients through offices in London, Edinburgh, Dublin, Milan, Frankfurt and Paris.

### Revenue from US operations

Canaccord Genuity's US segment includes institutional sales and trading, investment banking and research activities. This division serves its clients through offices in Boston, New York, San Francisco, Houston, Chicago and Minneapolis.

### Revenue from Other Foreign Locations operations

Revenue derived from capital markets activity outside of Canada, the US, and the UK is reported as Other Foreign Locations, which includes operations for Canaccord International Ltd., Canaccord Genuity Asia, Canaccord Genuity Singapore, and Canaccord BGF. This division serves its clients through offices Barbados, Beijing, Shanghai, Hangzhou, Singapore, Melbourne and Sydney.

## **Competition**

In the capital markets sector, Canaccord Genuity competes with other domestic and foreign securities firms. Canaccord Genuity competes on the basis of the caliber and abilities of its professional personnel, relative prices of the services and products it offers, available capital, institutional relationships, ability to assist with financing arrangements, access to global markets, and quality of service.

There is also competition for securities industry professionals. Canaccord Genuity competes with other financial institutions for investment bankers, trading professionals and other specialized personnel on the basis of its services and product breadth, its management, its entrepreneurial culture, and its ownership compensation structure.

## ***Canaccord Wealth Management***

### **Revenue**

<i>(C\$ thousands)</i>	<u>Revenue for the years ended March 31</u>		
	2012	2011	2010
	<i>IFRS</i>	<i>IFRS</i>	<i>CGAAP</i>
Canada	\$195,728	228,098	184,258
UK and Europe	1,987	—	—
US	3,575	4,951	2,788
<b>Total Canaccord Wealth Management</b>	<b>\$201,290</b>	<b>\$233,049</b>	<b>\$187,046</b>



Globally, Canaccord's wealth management segment provides tailored financial planning and brokerage services to individual Canadian, UK and European investors, institutions and intermediaries, and charities. The division offers a broad range of investment products to its client base, including both proprietary and third party products. As of May 22, 2012, this business segment consisted of Canaccord Wealth Management in Canada and Collins Stewart Wealth Management in the UK and Europe. It is planned that Collins Stewart Wealth Management will be rebranded Canaccord Wealth Management during fiscal 2013.

Wealth management revenue is generated through traditional commission based brokerage services; fee-based products and services; client-related interest; and fees and commissions earned by Advisory Teams for investment banking and venture capital transactions. Commission revenue from the sale of investment products and the provision of brokerage and other financial services is based on an established commission schedule. Discounts and adjustments to this schedule are based on the client's level of business, transaction size, complexity and other relevant factors.

As of March 31, 2012, Canaccord's Wealth Management division had 280 Advisory Teams in Canada. 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 licensed 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.

In the UK and Europe, the wealth management business has 106 investment professionals and fund managers. Investment professionals include all staff with direct sales responsibilities, which include brokers and assistants with direct client contacts. Fund managers include all staff who manages client assets.

Canaccord's Wealth Management group has 41 offices throughout Canada, and in UK and Europe in the following locations:

<b><u>British Columbia</u></b>	<b><u>Alberta</u></b>	<b><u>Ontario</u></b>	<b><u>Quebec</u></b>	<b><u>Nova Scotia</u></b>	<b><u>Saskatchewan</u></b>	<b><u>UK and Europe</u></b>
<i>Abbotsford</i>	<i>Calgary (3)</i>	<i>Toronto (2)</i>	<i>Montreal</i>	<i>Halifax</i>	<i>Saskatoon</i>	<i>London</i>
<i>Campbell River</i>	<i>Edmonton</i>	<i>London</i>	<i>Quebec City</i>			<i>Jersey</i>
<i>Kelowna</i>		<i>Ottawa (2)</i>	<i>Gatineau</i>			<i>Guernsey(2)</i>
<i>Nanaimo</i>		<i>Simcoe</i>				<i>Isle of Man</i>
<i>Prince George (2)</i>		<i>Waterloo</i>				<i>Geneva</i>
<i>Vancouver – Head Office</i>		<i>Cobourg</i>				
<i>Vernon</i>		<i>Burlington</i>				
<i>Victoria</i>		<i>Barrie</i>				
<i>White Rock</i>		<i>Brampton</i>				
<i>Summerland</i>		<i>Kitchener</i>				
<i>Trail</i>		<i>Vaughan</i>				
		<i>Thunder Bay</i>				

## **Services**

Canaccord's wealth management group is dedicated to providing a variety of comprehensive brokerage services and wealth management products and services to its clients. Advisory Teams, investment professionals, and fund managers assist their clients in building their financial assets and maximizing their returns within the context of their investment objectives and risk tolerance. Canaccord offers its clients various account structures such as commission-based accounts, fee-based accounts, managed accounts and margin accounts.

The division offers wealth management services with a fee-based structure, in addition to traditional commission-based investment offerings. With more individuals approaching retirement, the demand for various wealth management products and financial planning services is on the rise. With these changing demographics, more clients are choosing fee-based alternatives over the traditional commission-based products and services.

Canaccord Wealth Management provides the following services:

- Investment advice
- Brokerage services
- Managed accounts
- Portfolio Management
- Fee-based accounts
- Wealth management services
- Insurance and estate planning

The products and services listed above are complementary and enable Canaccord's Advisory Teams, Investment Professionals and Fund Managers to provide a full suite of investment services to their clients. Traditionally, revenue in this segment in Canada is generated through transaction-based commissions. However, changing demographics over the last decade has brought about a change in clients' financial needs and, as a result, demand for managed account products such as separately managed accounts, retirement planning and wealth management services has increased. By responding to these needs, Canaccord expects the composition of Canaccord Wealth Management's Canadian revenue will increasingly reflect a greater proportion of recurring, fee-based revenue.

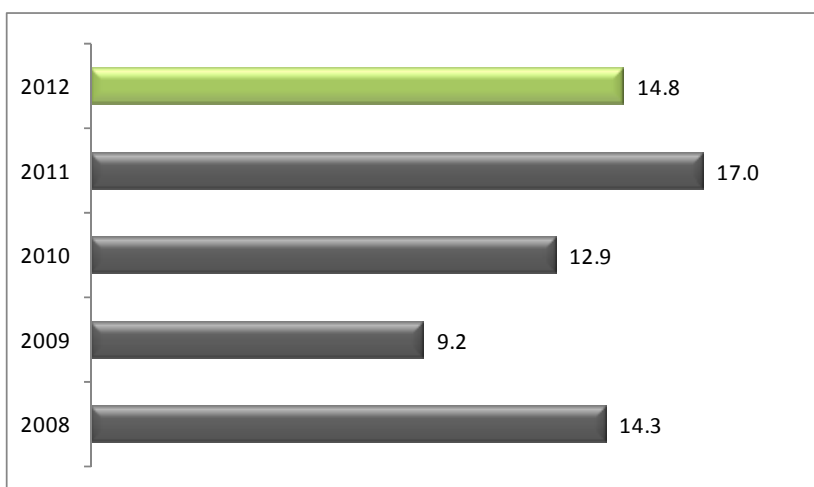
In the UK and Europe, Collins Stewart Wealth Management has historically had high levels of fee-based client accounts, and the business derives most of its revenue from fee-based activities.

As discussed earlier in this document, Canaccord's revenue and income for both Canaccord Genuity and Canaccord Wealth Management is cyclical and experiences considerable variations from quarter-to-quarter and year-to-year due to factors beyond Canaccord's control. In wealth management these factors include the macro economic environment, market volatility, and investor risk appetite.

#### **Assets under administration in Canada<sup>(1)</sup>**

As of March 31, 2012, assets under administration (AUA) in Canada were \$14.8 billion. AUA was up annually by 40.7% in fiscal 2010 and 31.4% in fiscal 2011 due to improved economic conditions year over year. In 2012, AUA decreased by 12.7% as market value of assets declined due to poor global markets conditions.

**Assets under administration in Canada<sup>(1)</sup>**  
(C\$ billions)

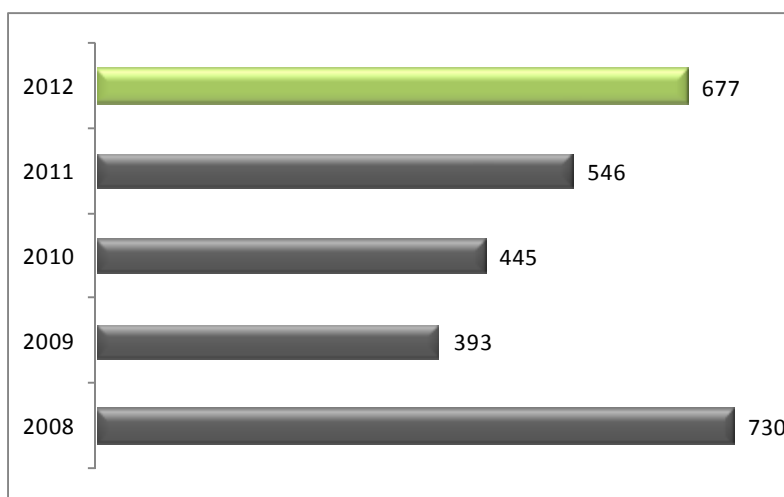


<sup>(1)</sup> AUA is the market value of client assets administered by Canaccord, for which Canaccord earns commissions or fees. This measure includes funds in client accounts, as well as the aggregate market value of long and short security positions. Canaccord's method of calculating AUA may differ from approaches used by other companies and therefore may not be comparable. Management uses this measure to assess operational performance of the Canaccord Wealth Management business segment. This measure is non-IFRS.

### Assets under management (discretionary) in Canada

As of March 31, 2012, assets under management (AUM) in Canada were \$677 million. We reclassified AUM in Canada commencing in fiscal 2009 to include all separately managed accounts and advisor managed accounts. AUM in Canada increased by \$52 million in fiscal 2010 and \$101 million in fiscal 2011, consistent with the improved market conditions during these fiscal years. AUM in Canada further increased by \$131 million in fiscal 2012 due to an increase in the number of managed accounts.

**Assets under management <sup>(2)</sup>**  
(C\$ millions)



<sup>(2)</sup> AUM in Canada are assets managed on a discretionary basis under the programs generally described as or known as the *Complete Canaccord Investment Counselling Program* and *Complete Canaccord Managed Accounts*. Services provided include the selection of investments and the provision of investment advice. AUM is also administered by Canaccord and is therefore included in AUA. This measure is non-IFRS.

### Assets under management in the UK and Europe

Canaccord expanded its wealth management operations into the UK and Europe through the acquisition of CSHP in fiscal 2012. AUM in the UK and Europe as of March 31, 2012 were \$13.1 billion. AUM in the UK and Europe is the market value of client assets administered and managed by Canaccord, for which Canaccord earns commissions or fees. This measure includes both discretionary and non-discretionary accounts.

### Separately managed accounts (Canada)

Separately Managed Accounts (SMAs) are designed so that each account has individual ownership of securities rather than ownership of a pooled fund. Accounts are charged an all inclusive fee, based on account size.

Canaccord's SMA Program is known as the *Complete Canaccord Investment Counselling Program*. Since 2005, Canaccord has expanded its SMA program to include a selection of eight external portfolio managers. In December 2009, exchange-traded fund (ETF) Portfolios were also launched within the *Complete Canaccord Investment Counselling Program*. Together, these accounts offer professional portfolio management with a choice of strategies based on a client's investment objectives. The minimum account size for the *Complete Canaccord Investment Counselling Program* is \$100,000.

### Advisor managed accounts (Canada)

In addition to the *Complete Canaccord Investment Counselling Program*, Canaccord Wealth Management provides an advisor managed account program known as *Complete Canaccord Managed Accounts*. Through this program,

Investment Advisors who have their Associate Portfolio Manager or Portfolio Manager designation have the ability to provide discretionary management services similar to those offered by a registered investment counsel.

Canaccord continues to develop products and services with the purpose of offering Advisory Teams the freedom to present the best product mix to their clients, while reinforcing an entrepreneurial culture in which Advisory Teams may continue their business. As part of the *Complete Canaccord Managed Accounts* platform, we added a sophisticated suite of Portfolio Management application tools designed specifically to support Portfolio and Associate Portfolio Managers. National training sessions have also been offered to aid these Advisors in building the *Complete Canaccord Managed Accounts* platform.

## Competition

In the retail brokerage sector, Canaccord faces competition from other investment dealers, online brokerage firms, banks, insurance companies and other financial institutions. Canaccord competes on the basis of quality of its service, price, product selection, expertise, innovation, and reputation.

There is also competition for Investment Advisors and other securities industry professionals. Similar to the competition for personnel in the Canaccord Genuity division of the business, the Canaccord's wealth management division competes with other financial institutions for advisors and other specialized personnel on the basis of its services and products breadth, its management, its entrepreneurial culture, and its compensation structure, including ownership programs.

## Corporate and Other segment

### Revenue

<i>(C\$ thousands)</i>	<b>Revenue for the years ended March 31</b>		
	<b>2012</b>	2011	2010
	<b><i>IFRS</i></b>	<i>IFRS</i>	<i>CGAAP</i>
Corporate and Other	<b>\$30,097</b>	\$31,938	\$26,933

The Corporate and Other segment includes Pinnacle Correspondent Brokerage Services along with interest, foreign exchange revenue and expenses not specifically allocable to Canaccord Genuity and Canaccord Wealth Management.

Canaccord operates a correspondent brokerage services operation under Pinnacle Correspondent Brokerage Services (Pinnacle). Pinnacle provides secure and confidential fully integrated clearing and settlement, administrative, trading and research services to other brokerage firms. The development of Pinnacle was a natural extension and application of Canaccord's substantial investment in its information technology and operating infrastructure. Canaccord's management believes that with the segregation of the Canadian securities industry into groups (bank or foreign owned large dealers; large, full service independent dealers; and an increasing number of small boutique and specialized dealers) there is significant growth potential for Pinnacle to provide correspondent brokerage services to the dealers in the boutique or specialized dealer category.

The Corporate and Other segment also includes operations and support services such as front and back office information technology (IT), compliance and risk management, operations, legal, finance and other administrative functions. The information technology team maintains and supports Canaccord's front and back office information technology systems. The compliance department is responsible for client credit and account monitoring in relation to certain legal and regulatory requirements. The operations group carries out all activity in connection with processing securities transactions including trade execution and settlement of securities transactions. They are also responsible for the custody of client securities. The finance department is responsible for internal financial accounting and controls, and external financial and regulatory reporting and compliance.

Operations and support staff, on March 31, 2012, numbered approximately 378. Most of these employees are located in Canaccord's Vancouver, British Columbia office.

Canaccord's front office information technology systems include applications for providing and enhancing client service and increasing the effectiveness and information access capabilities of Canaccord's Advisory Teams, investment professionals and fund managers, as well as Canaccord Genuity professionals. Canaccord's back-office information technology systems include applications for information and transaction processing, control systems and management information reporting. All information technology systems are supported by an overall network architecture comprised of hardware, software and key relationships with strategic service providers. For more information, please refer to the Information Technology section.

Canaccord's risk management and compliance activities include procedures to identify, control, measure and monitor Canaccord's risk exposure at all times. These principal risk areas relate to market risk, credit risk, operational risk, and other risks. For more information, please refer to the Risk Management section.

### *Information Technology*

Canaccord Financial Inc. is committed to providing its Advisory Teams and other Wealth Management professionals, Capital Markets professionals and management with the information processing capability and real-time solutions required for maintaining a superior level of client service. Canaccord is also committed to ensuring that its technology platform continues to provide the resources necessary to meet the increased level of service, access to information and processing requirements critical to future growth and business development. To accomplish these objectives, Canaccord's strategy is to invest in the best, most cost effective, proven technology available and utilize strategic, business technology relationships to provision the latest in hardware, software and business process solutions to Canaccord.

An important factor in Canaccord's success to date has been the development of strategic, adaptive relationships with key financial industry suppliers providing flexibility to adopt new technologies on a cost effective basis. With this strategy, Canaccord has developed key relationships with the following organizations:

- Broadridge Financial Solutions — a real-time integrated transaction system for client recordkeeping and reporting, multi-functional order management, transaction processing, account maintenance and account history
- Hewlett Packard — computer hardware and software related to servers, network storage, desktop hardware and critical systems support
- Telus — fully managed wide area network and telecommunications services
- Microsoft — software support for servers, workstations and business systems
- Cisco — network and telecommunications equipment and network monitoring software
- Thomson Reuters — real-time stock quotes and market information

Canaccord also draws on the key relationships described above and others for project development and non-strategic services allowing Canaccord's technology department to focus more on strategic, value added initiatives, business applications and systems and network management.

Other projects include continued improvements to Canaccord's network and hardware architecture, enhancement of client services through the addition of value-added information processing applications and improvements to control systems, information processing and management information reporting.

Canaccord's continued investment in improving its information technology platform and business solutions are significant factors in the overall efficiency and effectiveness of Canaccord's business.

## *Share-based payment plans*

Canaccord has the following share-based payment plans in place:

### **Share options**

The Company grants share options to purchase common shares of the Company to independent directors and senior management. Share options to independent directors 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. Share options to senior management vest over a five-year period and expire on the earliest of: (a) seven years from the grant date; (b) three years after death or any other event of termination of employment; (c) after any unvested optioned shares held by the optionee are cancelled for any reason (other than early retirement but including resignation without entering into a formal exit agreement and termination for cause); and (d) in the case of early retirement, after a determination that the optionee has competed with the Company or violated any non-competition, non-solicitation or non-disclosure obligations. The exercise price is based on the fair market value of the common shares at grant date. The weighted average exercise price of the share options was \$9.83 at March 31, 2012.

The following is a summary of the Company's share options awarded to directors and senior management as at March 31, 2012 and changes during the nine-month period then ended:

	<b>Number of options</b>	<b>Weighted average exercise price (\$)</b>
Balance, March 31, 2010	2,449,993	9.91
Granted	150,000	8.39
Exercised	(58,659)	9.47
Balance, March 31, 2011	2,541,334	9.82
Granted	—	—
Exercised	(58,659)	(9.47)
<b>Balance, March 31, 2012</b>	<b>2,482,675</b>	<b>9.83</b>

Compensation expense of \$1.6 million was recognized for the year ended March 31, 2012 (\$2.1 million for the year ended March 31, 2011).

### **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 US and the UK, 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 \$29.6 million has been recognized for the year ended March 31, 2012 (March 31, 2011: \$22.2 million).

### **Deferred Share Units**

Beginning April 1, 2011, the Company adopted a deferred share unit (DSU) plan for its independent directors. Independent directors must elect annually as to how they wish their directors' fees to be paid and can specify the allocation of their directors' fees between DSUs and cash. When a director leaves the Board of Directors, outstanding DSUs are paid out in cash, with the amount equal to the number of DSUs granted multiplied by the closing share price as of the end of the fiscal quarter immediately following such terminations. Under the plan, the Directors are not

entitled to receive any common shares in the Company, and under no circumstances will DSUs confer on any participant any of the rights or privileges of a holder of common shares.

During the year ended March 31, 2012, the Company granted 33,769 DSUs. The carrying amount of the liability relating to DSUs at March 31, 2012 was \$0.3 million.

### **Retention Plan**

In connection with the acquisition of the Balloch Group Limited, the Company established a retention plan that provides for the issuance of up to approximately 1,187,800 common shares of the Company to key employees of Canaccord Genuity Asia over a five-year graded vesting period based on future Asia-linked revenue. As of March 31, 2012, the award of 87,989 shares was forfeited upon the departure of a key employee. The estimated retention payments are amortized as development costs on a graded basis based on the expected revenue to be earned related to Canaccord Genuity Asia over the five-year vesting period. In addition, the applicable number of retention shares is included in diluted common shares outstanding. The maximum retention payments are estimated to be \$12.7 million if all vesting conditions are met. Compensation expense of \$2.3 million has been recognized for the year ended March 31, 2012 (March 31, 2011: nil).

### **Forgivable Common Share Purchase Loans**

#### Employee Stock Incentive Plan

The Employee Stock Incentive Plan (ESIP), implemented in fiscal 2006, is aimed at Canaccord's key executive-level employees as a reward and retention program and to balance employee share ownership. Canaccord loaned 40% of the purchase price of Canaccord shares, which were purchased on the open market. These loans are forgivable over a four-year period as long as the employee works for Canaccord. The ESIP cost for fiscal 2012 of \$0.6 million (2011: \$0.2 million), or 0.09% (2011: 0.02%) of Canaccord's annual consolidated revenue, is included in incentive compensation expense.

#### Bonus Compensation Plan (BCP)

On October 1, 2005, Canaccord implemented a Bonus Compensation Plan aimed at rewarding and retaining IAs within the Canaccord Wealth Management business segment. Canaccord rewards IAs through this program based on their gross production and certain minimum requirements. The cost of the BCP program for fiscal 2012 was \$0.3 million (2011: \$0.9 million) as most IAs transferred to the Partnership Program discussed below.

#### Partnership Program

In fiscal 2010, Canaccord introduced the Partnership Program for the purpose of retaining IAs within the Canaccord Wealth Management business segment. Canaccord rewards IAs through this program based on their historical production and certain minimum requirements. The cost for fiscal 2012 of the Partnership Program was \$3.7 million (2011: \$4.2 million) or 0.6% (2011: 0.5%) of consolidated revenue.

#### Forgiveness of equity incentive loans

Canaccord provides loans to certain employees for the purpose of partially funding the purchase of shares of the Company and increasing share ownership by the employees. These loans are forgiven over a three to five-year period from the initial advance of the loan or at the end of that three to five year period. During fiscal 2012, the forgiven portion of these loans was \$8.3 million (2011: \$10.7 million) or 1.3% (2011: 1.3%) of Canaccord's annual consolidated revenue.

### **Other Retention and Incentive Plans**

#### Employee Stock Purchase Plan

On April 1, 2005, Canaccord implemented the Employee Stock Purchase Plan (ESPP). The ESPP is available to all non-UK based Canaccord full-time permanent employees. Employee contributions are matched on a one-to-one basis by Canaccord to a maximum of \$3,000 per year per employee. The ESPP is managed by an independent company, and all stock purchases through the ESPP take place in the open market. The ESPP cost for fiscal 2012 of \$2.2 million

(2011: \$2.2 million), or 0.3% (2011: 0.3%) of Canaccord's annual consolidated revenue, is included in salaries and benefits expense.

During the course of the fiscal year, the Company may have other retention and incentive plans with individual employees, for which the amount incurred was not significant in aggregate.

## **Replacement Plans**

As a result of the acquisition of CSHP, the following share-based payment plans were introduced to replace the share-based payment plans that existed at CSHP at acquisition date:

### Canaccord Financial Inc. Collins Stewart Hawkpoint Replacement Annual Bonus Equity Deferral (ABED) Plan

On March 21, 2012, the Company introduced the Replacement ABED Plan which replaced the ABED plans that existed at CSHP on acquisition date. Eligible employees who participated in the CSHP ABED plans were granted awards under the Replacement ABED Plan. The shares granted vest between one and three years from the acquisition date of CSHP. In accordance with IFRS 3, "*Business Combinations*" (IFRS 3), a portion of the awards granted is included as part of the purchase consideration for the acquisition of CSHP and a portion will be deferred and amortized to acquisition-related expense over the vesting period. The amount recognized \$1.1 million through restructuring costs for the year ended March 31, 2012 as per IFRS 3. The number of outstanding awards at March 31, 2012 was 573,538 Canaccord shares.

### Canaccord Financial Inc. Collins Stewart Hawkpoint Replacement Long Term Incentive Plan Award

On March 21, 2012, the Company introduced the Replacement LTIP which replaced the existing LTIPs at CSHP on acquisition date. Eligible employees who participated in the CSHP LTIPs were granted awards under the Replacement LTIP. The shares granted vest annually on a graded basis over a three-year period. In accordance with IFRS 3, a portion of the awards granted is included as part of the purchase consideration for the acquisition of CSHP and a portion will be deferred and amortized to incentive compensation expense over the vesting period. The amount recognized through incentive compensation expense was not significant as the acquisition closed on March 21, 2012. The number of outstanding awards at March 31, 2012 was 842,036 Canaccord shares.

### Corazon Capital Group Limited Share Plan

In connection with the acquisition of CSHP, the Company assumed the outstanding obligation under the Corazon Capital Group Limited Share Plan (the "Corazon Share Plan"). The Corazon Share Plan was entered into by CSHP in relation to its acquisition of Corazon Capital Group Limited, an independent, Guernsey-based investment management firm.

The obligation will be paid in the form of 170,562 number of Canaccord common shares, which will vest in March 2013, and cash consideration of \$2.2 million (£1.4 million). In accordance with IFRS 3, a portion of the awards granted is included as part of the purchase consideration for the acquisition of CSHP and a portion will be deferred and amortized to incentive compensation expense over the vesting period. The cash consideration was included as part of the determination of the fair value of CSHP's net assets when calculating the purchase price allocation.



## Risk Management

### Overview

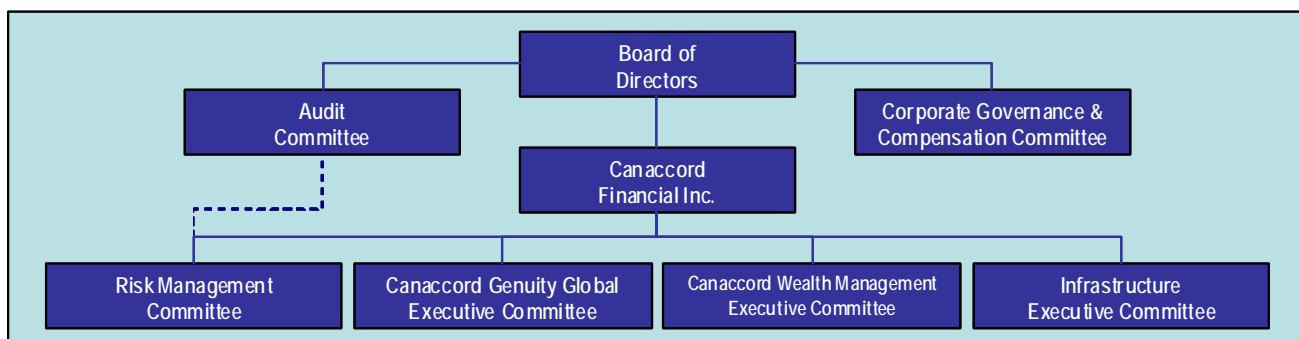
Uncertainty and risk are inherent in any financial markets activity. As an active participant in the Canadian and international capital markets, Canaccord is exposed to risks that could result in financial losses. Canaccord has identified its principal risks as: market risk, credit risk, operational risk and other risks. Accordingly, risk management and control of the balance between risk and return are critical elements in maintaining Canaccord's financial stability and profitability. Therefore, an effective risk management framework is integral to the success of Canaccord.

### Risk management structure and governance

Canaccord's disciplined risk management process encompasses a number of functional areas and requires frequent communication, judgment and knowledge of the business, products and markets. The Company's senior management is actively involved in the risk management process and has developed policies and reports that require specific administrative procedures and actions to assess and control risks. These policies and procedures are subject to ongoing review and modification as activities, markets and circumstances change.

As part of Canaccord's risk philosophy, the first line of responsibility for managing risk lies with branch managers, department heads and trading desk managers (within prescribed limits). The monitoring and control of Canaccord's risk exposure is conducted through a variety of separate, but complementary, financial, credit, operational, compliance and legal reporting systems.

Canaccord's governance structure includes the following elements:



The Board of Directors (the Board) has oversight of the company-wide risk management framework. These responsibilities are mandated to the Audit and Risk Management Committees.

The Audit Committee assists the Board in fulfilling its oversight responsibility by monitoring the effectiveness of internal controls and the control environment. It also receives and reviews various quarterly and annual updates and reports on key risk metrics and the overall risk management program.

The Risk Management Committee assists the Board in fulfilling its responsibilities for monitoring risk exposures against the defined risk appetite and for general oversight of the risk management process. The Risk Management Committee is led by the CFO, and committee members include the CEO and senior management representation from the key revenue-producing businesses and functional areas of Canaccord. The Committee identifies, measures and monitors the principal risks facing the business through review and approval of Canaccord's risk appetite, policies, procedures, and limits/thresholds.

The segregation of duties and management oversight are important aspects of Canaccord's risk management process. Canaccord has a number of functions that are independent of the revenue-producing businesses that perform risk management activities, including the monitoring, evaluating and analyzing of risk. These functions include Enterprise Risk Management, Compliance, Operations, Internal Controls and Financial Analysis, Treasury, Finance and Legal.

## Market risk

Market risk is the risk that a change in market prices and/or any of the underlying market factors will result in losses. Each business area is responsible for ensuring that market risk exposures are prudent. In addition, Canaccord has established procedures to ensure that risks are measured, closely monitored, controlled and visible to senior levels of management.

Canaccord is exposed to equity price risk, liquidity risk and volatility risk as a result of its principal trading activities in equity securities. Canaccord is also exposed to specific interest rate risk, credit spread risk and liquidity risk in respect of its principal trading in fixed income securities. In addition to active supervision and review of trading activities by senior management, Canaccord mitigates its risk exposure through a variety of limits to control concentration, capital allocation and usage, as well as through trading policies and guidelines. Canaccord manages and monitors its risks in this area using both qualitative and quantitative measures, on a company-wide basis, and also by trading desk and by individual trader. Canaccord operates a firm-wide VaR risk measurement system for its equity and fixed income inventories. Management also reviews and monitors inventory levels and positions, trading results, aging and concentration levels. Consequently, Canaccord can ensure that it is adequately diversified with respect to market risk factors and that trading activity is within the risk tolerance levels established by senior management.

### *Value-at-Risk (VaR)*

In order to better understand the Market Risk of Canaccord's inventories, VaR is calculated daily for each of Canaccord's trading desks as well as for the Company as a whole. These calculations include all of Canaccord's equity and fixed income principal positions and exclude client-related holdings.

The calculation of VaR is a statistical method which attempts to predict the minimum worst-case loss to Canaccord's trading portfolio at a specific confidence level (e.g., 95%) over a certain period of time (e.g., daily) under normal market conditions. Canaccord's VaR is calculated at a 95% confidence level over a single day holding period. This can be interpreted as the single day minimum loss Canaccord should expect to incur in its trading portfolios 5% of the time (i.e., one out of every 20 days). For example, a one-day 95% VaR of \$1 million predicts that the portfolio would lose at least \$1 million, one out of every 20 days. One of the benefits of VaR is that it is a simple metric which allows management to easily assess and compare Market Risk objectively across business units and products.

### *Limitations of VaR*

As VaR does not estimate the maximum daily loss Canaccord could incur, additional scenario analysis and stress testing are performed in order to attempt to understand how the value of the trading portfolio will change under extreme market conditions. Under this additional analysis, individual market factors such as market indices, credit spreads, key interest rates or commodity prices are shocked, and the resulting predicted change in the portfolio is examined to understand how the portfolio would react under extreme market conditions. Combining the stress testing/scenario analysis with VaR reporting helps Canaccord management better understand the risk profile of the Company's trading portfolios.

VaR is limited in its effectiveness as its predictions are based on the historical price movements of assets within the trading portfolio as well as the historical correlations between assets over a trailing 12-month period. As the past is no indication of the future, VaR's reliance on historical data is one of its main drawbacks. To help ensure that the calculated VaR is adequately capturing the Company's true Market Risk, periodic backtesting is performed. The process involves examining the Company's past trading P&L and comparing it to the trading losses predicted by VaR. In the event that actual P&L is inconsistent with VaR's predicted losses at the specified confidence interval, the inputs and assumptions used in the VaR calculation are examined and modified as necessary.

Another drawback to the one-day VaR calculation is that it assumes that positions can be liquidated in a single day, which, depending on the size and liquidity of the position, may not always be the case. To mitigate this, Canaccord calculates liquidity risk statistics to highlight the Company's most illiquid positions. This is done by comparing the size of each of the Company's positions with each position's average exchange traded volume. This liquidity risk statistic gives management useful additional information in assessing the Company's riskiest positions.

## **Credit risk**

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. One of the primary sources of credit risk to Canaccord is in connection with trading activity by clients in the Canaccord Wealth Management business segment and private client margin accounts. In order to minimize financial exposure in this area, Canaccord applies certain credit standards and conducts financial reviews with respect to clients and new accounts.

Canaccord provides financing to clients by way of margin lending. In a margin-based transaction, Canaccord extends credit for a portion of the market value of a securities transaction in a client's account, up to certain limits. Margin loans are collateralized by securities in the client's account. In connection with this lending activity, Canaccord faces a risk of financial loss in the event that a client fails to meet a margin call if market prices for securities held as collateral decline and if Canaccord is unable to recover sufficient value from the collateral held. For margin lending purposes, Canaccord has established limits that are generally more restrictive than those required by applicable regulatory policies.

Canaccord also faces a risk of financial loss with respect to trading activity by clients if such trading results in overdue or unpaid amounts in under-secured cash accounts. Canaccord has developed a number of controls within its automated trade order management system to ensure that trading by individual account and advisor is done in accordance with customized limits and risk parameters.

Canaccord is engaged in various trading and brokerage activities whose counterparties primarily include broker dealers, banks, clearing agents, exchanges, financial intermediaries and other financial institutions. These activities include agency trading, securities borrowing and lending, and entering into repurchase agreements and reverse repurchase agreements. In the event that counterparties do not fulfill their obligations, Canaccord may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty and/or the issuer of the instrument. Canaccord manages this risk by imposing and monitoring individual and aggregate position limits within each business segment, for each counterparty, conducting regular credit reviews of financial counterparties, reviewing security and loan concentrations, holding and marking to market collateral on certain transactions, and conducting business through clearing organizations that guarantee performance.

Canaccord records a provision for bad debts in general and administrative expenses. Any actual losses arising from or associated with client trading activity as described above are charged to this provision. Historically, this provision has been sufficient to cover actual losses.

## **Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, fraud, people and systems, or from external events such as the occurrence of disasters or security threats. Operational risk exists in all of Canaccord's activities, including processes, systems and controls used to manage other risks. Failure to manage operational risk can result in financial loss, reputational damage, regulatory fines and failure to manage market or credit risks.

Canaccord operates in different markets and relies on its employees and systems to process a high number of transactions. In order to mitigate this risk, Canaccord has developed a system of internal controls and checks and balances at appropriate levels, which include overnight trade reconciliation, control procedures related to clearing and settlement, cash controls, physical security, independent review procedures, documentation standards, billing and collection procedures, and authorization and processing controls for transactions and accounts. In addition, Canaccord has implemented an operational risk program that helps Canaccord measure, manage, report and monitor operational risk issues (see 'RCSA' below). Canaccord also has disaster recovery procedures in place, business continuity plans and built-in redundancies in the event of a systems or technological failure. In addition, Canaccord utilizes third party service agreements and security audits where appropriate.

## *Risk and Control Self-Assessment (RCSA)*

The purpose of RCSAs is to:

- Identify and assess key risks inherent to the business
- Rate the effectiveness of the control environment associated with the key risks
- Mitigate the risks through the identification of action plans to improve the control environment where appropriate
- Provide management with a consistent approach to articulate and communicate the risk profiles of their areas of responsibility
- Meet regulatory requirements and industry standards

Canaccord has established a process to determine what the strategic objectives of each group/unit/department are and identify, assess, and quantify operational risks that hinder the Company's ability to achieve those objectives. The RCSA results are specifically used to calculate the operational risk regulatory capital requirements for Canaccord in the UK and operational risk exposure in all geographies. The RCSAs are periodically updated and results are reported to the Risk Management and Audit Committees.

## **Other Risks**

Other Risks encompass those risks that can have an adverse material affect on the business but do not belong to market, credit or operational risk categories.

### *Regulatory and legal risk*

Regulatory risk results from non-compliance with regulatory requirements, which could lead to fines and/or sanctions. Canaccord has established procedures to ensure compliance with all applicable statutory and regulatory requirements in each jurisdiction. These procedures address issues such as regulatory capital requirements, disclosure requirements, internal controls over financial reporting, sales and trading practices, use of and safekeeping of client funds, credit granting, collection activity, anti-money laundering, insider trading, conflicts of interest and recordkeeping.

Legal risk results from potential criminal, civil or regulatory litigation against Canaccord which could materially affect Canaccord's business, operations or financial condition. Canaccord has in-house legal counsel as well as access to external legal counsel to assist the Company in addressing legal matters related to operations and defending Canaccord in various legal actions.

Losses or costs associated with routine regulatory and legal matters are included in general and administrative expenses in Canaccord's consolidated financial statements.

### *Reputational risk*

Reputational risk is the risk that an activity undertaken by an organization or its representatives will impair its image in the community or lower public confidence in it, resulting in loss of business, legal action or increased regulatory oversight. Possible sources of reputational risk could come from operational failures, non-compliance with laws and regulations, or taking an incompetent Company to market. Reputational risk can also be reflected within customer satisfaction and external ratings, such as equity analyst reports. In addition to its various risk management policies, controls and procedures, Canaccord has a formal Code of Business Conduct and Ethics and an integrated program of marketing, branding, communications and investor relations to help manage and support Canaccord's reputation.

## **Control risk**

As of March 31, 2012 senior officers and directors of Canaccord collectively owned approximately 24% of the issued and outstanding common shares of Canaccord Financial Inc. If a sufficient number of these shareholders act or vote together, they will have the power to exercise significant influence over all matters requiring shareholder approval,

including the election of the Company's directors, amendments to its articles, amalgamations and plans of arrangement under Canadian law and mergers or sales of substantially all of its assets. This could prevent Canaccord from entering into transactions that could be beneficial to the Company or its other shareholders. Also, third parties could be discouraged from making a tender offer or takeover bid to acquire any or all of the outstanding common shares of the Company. In addition, as at March 31, 2012 the single largest shareholder that management was aware of was Franklin Templeton Investments Corp. by one or more of its mutual funds or other managed accounts. As of the last public filing Franklin Templeton Investment Corp. made regarding its CF share ownership (dated December 15, 2011) it held 5,464,873 common shares of Canaccord Financial Inc., which represents 5.37% of common shares outstanding on March 31, 2012. Any significant change in these shareholdings through sale or other disposition, or significant acquisitions by others of the common shares in the public market or by way of private transactions could result in a change of control and changes in business focus or practices that could affect the profitability of Canaccord's business.

#### *Restrictions on ownership and transfer of common shares*

Restrictions on ownership and transfer of common shares in the articles of Canaccord to prevent unauthorized change in control without regulatory approval, in certain cases, could affect the marketability and liquidity of the common shares.

### ***Risk factors***

#### **Overview**

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. Revenue from Canaccord Wealth Management's activity is dependent on assets under management and trading volumes and, therefore, is linked to the level of market activity and investor confidence. Revenue from Canaccord Genuity's activity 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 the level of Canaccord's market activity and the impact that these factors have on Canaccord's operating results and financial position. Furthermore, Canaccord's business is cyclical and thus experiences considerable variations in revenue and income from quarter to quarter and year to year due to the factors discussed above. These factors are beyond Canaccord's control and, as a result, revenue and net income will fluctuate, as they have historically.

An investment in the common or preferred shares of Canaccord involves a number of risks. Some of these, including market risk, credit risk, operational risk and other risks could be substantial and are inherent in Canaccord's business. Risk management at Canaccord is a significant priority due to the importance of its effectiveness on Canaccord's operations. For the discussion on risk management, please see page 64 in the Annual Report.

A summary of the other risk factors and risk factors specific to preferred shares related to the Company are listed below. Risks include, but are not necessarily limited to, those set out below. Investors should carefully consider the following information about risks, together with the other information in this document, before making investment decisions. It should be noted that this list is not exhaustive, but contains risks that Canaccord considers to be of particular relevance. Other risk factors may apply. The risk factors are broken out into 3 sections:

- A. Summary of Risk Factors Relating to the Collins Stewart Hawkpoint Acquisition
- B. Summary of Other Risk Factors
- C. Summary of Risk Factors Specific to Preferred Shares

#### **A. Summary of Risk Factors Relating to the Collins Stewart Hawkpoint Acquisition:**

On March 21, 2012, the Company completed its acquisition of Collins Stewart Hawkpoint ("CSH"). The risks related to this acquisition are as follows:

1. There can be no assurance that Canaccord will realise anticipated benefits of the Collins Stewart Hawkpoint Acquisition.
2. The integration of Canaccord and Collins Stewart Hawkpoint may not occur as planned.
3. Canaccord's results of operations may differ significantly from the financial information relating to the financial effects of the CSH Acquisition included in this document.
4. The Group has incurred significant expenses related to the integration of the Group and CSH and could incur significant additional expenses in connection with that integration.
5. If goodwill or other intangible assets that Canaccord records in connection with the Collins Stewart Hawkpoint Acquisition become impaired, the Group could have to take significant charges against earnings.
6. Canaccord must continue to retain, motivate and recruit executives and other key employees, which may be difficult in light of any uncertainty following completion of the Collins Stewart Hawkpoint Acquisition, and failure to do so could negatively affect Canaccord.

### **1. There Can Be No Assurance that Canaccord Will Realize Anticipated Benefits of the Collins Stewart Hawkpoint Acquisition**

Management believes that the Acquisition will provide benefits for the Company. However, there is a risk that some or all of the expected benefits will fail to materialize, or may not occur within the time periods anticipated by the Company. The Company's expectations, including expectations with respect to the future financial performance of the business acquired in the Acquisition of CSH, are based on certain assumptions and information available to the Company as of the date of this Prospectus which may not materialize. The realization of such expected benefits may be affected by a number of factors and risks, including those described herein and in the documents incorporated by reference, many of which are beyond the control of the Company and as such, actual results may differ materially from those currently anticipated.

### **2. The Integration of Canaccord and Collins Stewart Hawkpoint May Not Occur As Planned**

The anticipated benefits of the Collins Stewart Hawkpoint Acquisition will depend in part on whether the operations, systems, management and cultures of Collins Stewart Hawkpoint and Canaccord can be integrated in an efficient and effective manner. The integration of the two groups will present significant challenges to management, including the integration of systems and personnel, and special risks, including possible unanticipated liabilities, significant one-time write-offs or restructuring charges, unanticipated costs and the loss of key employees. There can be no assurance that there will be operational or other synergies realized by the combined company, or that the integration of the two companies' operations, systems, management and cultures will be timely or effectively accomplished, or ultimately will be successful in increasing earnings and reducing costs.

### **3. Canaccord's Results of Operations May Differ Significantly From the Financial Information Relating to the Financial effects of the CSHP acquisition**

The short form prospectus dated April 2, 2012 included descriptive financial information to illustrate the effects of the CSHP Acquisition on Canaccord's historical financial position and operating results. The financial information provided was unaudited, and was included for illustrative purposes only and does not necessarily indicate the results of operations or the combined financial position that would have resulted had the CSHP Acquisition been completed as of 1 April 2011, nor is it indicative of the results of operations in future periods or the future financial position of the combined group.

### **4. If Goodwill or Other Intangible Assets That Canaccord Records in Connection With The Collins Stewart Hawkpoint Acquisition Become Impaired, Canaccord Could Have to Take Significant Charges Against Earnings**

In connection with the accounting for the Collins Stewart Hawkpoint acquisition, Canaccord expects to record a significant amount of goodwill and other intangible assets. Under IFRS, Canaccord must assess, at least annually and potentially more frequently, whether the value of goodwill and other indefinite-lived intangible assets has been impaired. Amortizing intangible assets will be assessed for impairment in the event of an impairment indicator. Any

reduction or impairment of the value of goodwill or other intangible assets will result in a charge against earnings, which could materially adversely affect Canaccord's results of operations and shareholders' equity in future periods.

**5. The Group must continue to retain, motivate and recruit executives and other key employees, which may be difficult in light of any uncertainty following completion of the CSH Acquisition, and failure to do so could negatively affect the Group**

Canaccord must be successful at retaining, recruiting and motivating key employees following the completion of the Collins Stewart Hawkpoint acquisition. Experienced employees in the financial services industry are in high demand and competition for their talents can be intense. Those who were employees of Canaccord and Collins Stewart Hawkpoint before the acquisition may experience uncertainty about their future role with the combined company until, or even after, strategies with regard to the combined company are announced or executed. These potential distractions related to the Collins Stewart Hawkpoint acquisition may adversely affect Canaccord's ability to attract, motivate and retain executives and other key employees and keep them focused on applicable strategies and goals. A failure to retain and motivate executives and other key employees during the period following the completion of the Collins Stewart Hawkpoint acquisition could have an adverse impact on Canaccord's business.

**B. Summary of Other Risk Factors:**

1. Risks Associated with the Financial Services Business Generally
2. Regulation Risk
3. Risk from Changes in Market Volume, Prices or Liquidity
4. Risk from Changes in Global Economic, Political or Market Conditions
5. Risk from Periods of Declining Prices or Reduced Activity in Targeted Industries
6. Significant Fluctuations in Results
7. Foreign Exchange Risk
8. Interest Rate Risk
9. Liquidity Risk
10. Underwriting Risk
11. Credit/Counterparty Risk
12. Depository Receipt Risk
13. Derivatives Trading Risk
14. Employee Misconduct
15. Inadequate Risk Management Policies and Procedures
16. Dependence on Information and Communication Systems
17. Inability to Retain and Recruit Skilled Personnel
18. Potential Conflicts of Interest
19. Legal Risk
20. Significant Competition
21. Lack of Available Funding or Regulatory Capital
22. Insufficient Management of Growth

**1. Risks Associated with the Financial services Business Generally**

The financial services business is, by its nature, subject to numerous and substantial risks, particularly in volatile or illiquid markets and in markets influenced by sustained periods of low or negative economic growth. In addition, there is the risk of losses resulting from the underwriting or ownership of securities, trading, counterparty failure to meet commitments, customer fraud, employee errors, misconduct and fraud (including unauthorized transactions by traders), failures in connection with the processing of securities transactions, the risk of litigation, the risk of lower revenue in periods of reduced demand for public offerings or less activity in the secondary markets, and the risk of smaller spreads on the trading of securities.

**2. Regulation Risk**

The financial services business is subject to extensive regulation in Canada, the US, the UK and elsewhere. Compliance with many of the regulations applicable to Canaccord involves a number of risks, particularly in areas

where applicable regulations may be subject to interpretation. In the event of non-compliance with applicable regulation securities regulators, the Investment Industry Regulatory Organization of Canada (IIROC), the Financial Industry Regulatory Authority (FINRA), the Financial Services Authority (FSA) and other authorities may institute administrative or judicial proceedings that may result in censure, fines, civil penalties, issuance of cease-and-desist orders, deregistration or suspension, loss of status as a Nomad, suspension or disqualification of the investment dealer's officers or employees, or other adverse consequences. The imposition of any such penalties or orders on Canaccord could have a material adverse effect on its operating results and financial condition.

Additional regulation, changes in existing laws and rules, or changes in interpretations or enforcement of existing laws and rules often directly affect the method of operation and profitability of securities firms. Canaccord cannot predict the effect any such changes might have. Furthermore, Canaccord's business may be materially affected not only by regulations applicable to Canaccord as a financial market intermediary, but also by regulations of general application. For example, Canaccord's revenue in a given time period could be adversely affected by, among other things, proposed tax legislation, changes to competition policy and other governmental regulations and policies.

Canaccord's ability to comply with all applicable laws and regulations is dependent on the creation, implementation and maintenance of effective compliance systems, policies and procedures and on its ability to hire and retain qualified compliance personnel.

### **3. Risk from Changes in Market Volume, Prices or Liquidity**

Canaccord's revenue may decrease in the event of a decline in market volume, prices or liquidity. Declines in the volume of securities transactions and in market liquidity generally result in lower revenue from trading activities and commissions. Lower price levels of securities may also result in a decreased volume of underwriting transactions and could cause a reduction in revenue from corporate finance activities as well as losses from declines in the market value of securities held in trading, investment and underwriting positions, reduced Canaccord Wealth Management's fees, and withdrawals of assets under management. Sudden sharp declines in market values of securities can result in illiquid markets and the failure of issuers and counterparties to perform their obligations, as well as increases in claims and litigation. In such markets, Canaccord may also experience declining revenue or losses in its principal trading and market-making activities.

### **4. Risk from Changes in Global Economic, Political or Market Conditions**

Reductions in the number and size of public offerings and mergers and acquisitions, and reduced securities trading activities, due to changes in global economic, political or market conditions that are beyond Canaccord's control, could cause revenues from Canaccord Wealth Management's and Canaccord Genuity's activities to decline materially. The amount and profitability of these activities are affected by many national and international factors, including economic, political and market conditions; the level and volatility of interest rates; legislative and regulatory changes; exposure to fluctuations in currency values; inflation; inflows and outflows of funds of mutual and pension funds; financial scandals; war or insurgency; and availability of short-term and long-term funding and capital.

### **5. Risk from Periods of Declining Prices or Reduced Activity in Targeted Industries**

Canaccord's revenue is likely to be lower during periods of declining prices or inactivity in the market for securities of companies in Canaccord's focus sectors. Canaccord's business is particularly dependent on the market for equity offerings by companies in the Metals & Mining, Energy, Agriculture, Technology, CleanTech & Sustainability, Transportation & Industrials, Financials, Healthcare & Life Sciences, Real Estate & Hospitality, Consumer & Retail, Support Services, Media & Communications, Paper & Forestry Products, Infrastructure, Investment Trusts, Aerospace & Defense, Leisure, and Private Equity sectors. These markets have historically experienced significant volatility, not only in the number and size of equity offerings, but also in the aftermarket trading volume and prices of newly issued securities.

Canaccord's revenue growth in prior years is attributable in large part to the significantly increased number and size of underwritten transactions by companies in Canaccord's target industries and by the related increase in aftermarket trading for such companies. Underwriting activities in Canaccord's target industries can decline for a number of



reasons, including market uncertainty, inflation, rising interest rates and related issues. Underwriting and brokerage activity can also be materially adversely affected for a company or industry segment by disappointments in quarterly performance relative to an analyst's expectations or by changes in long-term prospects.

Canaccord's investment banking clients generally retain Canaccord on a short-term, non-recurring basis for specific capital markets or advisory transactions. During reduced market activity in its target industries, if Canaccord is unable to generate a substantial number of new engagements that generate fees from the successful completion of transactions, then its business and results of operations would likely be adversely affected.

## **6. Significant Fluctuations in Results**

Canaccord's revenue and operating results may fluctuate from quarter to quarter and from year to year due to a combination of factors, including the number of underwriting and advisory transactions completed, the realized and unrealized gains or losses on proprietary trading inventories, the level of institutional and retail brokerage transactions, variations in expenditures for personnel, litigation expenses and expenses of establishing or expanding new business units or product and service offerings. Canaccord's revenue from underwriting and advisory transactions are recorded only when the underlying transaction is substantially complete under the engagement terms and related revenue is reasonably determinable. Accordingly, the timing of recognition of revenue from a significant transaction can materially affect quarterly and annual operating results. Canaccord's cost structure is oriented to meeting the current level of demand for investment banking transactions. As a result, despite the variability of incentive compensation, Canaccord could experience losses if demand for these transactions declines more quickly than its ability to change its cost structure, which includes fixed salaries and benefits expenses. Due to the foregoing and other factors, there can be no assurance that Canaccord will be able to sustain profitability on a quarterly or annual basis.

## **7. Foreign Exchange Risk**

Canaccord incurs foreign exchange risk primarily on its net investments in foreign subsidiaries and on financial instruments held by its operating subsidiaries that are denominated in currencies other than its functional currency. Canaccord's results are reported in Canadian dollars. A portion of Canaccord's business is conducted and denominated in UK pounds sterling, in US dollars, in Australian dollars and in Chinese Yuan. Any fluctuations in the value of the pound sterling, the US dollar, the Australian dollar, the Hong Kong dollar and the Chinese Yuan relative to the Canadian dollar may result in variations in the comprehensive income of Canaccord. Canaccord manages some of its foreign exchange settlement risk by periodically hedging pending settlements in foreign currencies. However, these procedures may not be adequate and do not address the impact that any changes in currency values may have on Canaccord's financial reporting in Canadian dollars and the possibility that such changes may have an adverse impact on Canaccord's business and financial condition.

## **8. Interest Rate Risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments and fixed income securities held by Canaccord. Canaccord strives to reduce and monitor its exposure to interest rate risk through quantitative analysis of its net positions in fixed income securities. Canaccord hedges its positions when required in order to minimize its net exposure to interest rate risk.

Related to interest rate risk is the risk that there is a change in the difference between interest rates charged on risky assets and risk-free assets, commonly referred to as credit spread. This change in credit spreads may adversely affect the value of fixed income securities held by Canaccord.

## **9. Liquidity Risk**

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they become due. Liquidity, or ready access to funds, is essential to the Company and all financial services firms generally. Insufficient liquidity can be a cause of failure for financial services firms. In addition, perceived liquidity issues rather than actual liquidity problems may also be a cause of failure for such firms. Perceptions of insufficient liquidity may affect Canaccord's customers and counterparties' willingness to engage in brokerage transactions with the Company.

Canaccord's liquidity could be impaired because of circumstances that the Company may be unable to control, such as operating losses, counterparty failure, a general market disruption, a prolonged market downturn or operational problems.

Lack of adequate funding would also limit the Company's ability to pay dividends or to repay debt. The Company has, in the past, satisfied its need for funding from internally generated funds, sales of shares of common and preferred stock and short-term loans or term debt from third parties. While the Company currently has adequate capital and liquid resources, adequate funding may not continue to be available to the Company in the future on terms that are acceptable to the Company or at all.

## **10. Underwriting Risk**

Canaccord's participation in underwritings involves both financial and regulatory risks. Canaccord may incur losses if it is unable to resell the securities it has committed to purchase or if it is forced to liquidate its commitment below the agreed purchase price.

In addition, Canaccord may retain a significant concentration in individual securities. Increasing competition is expected to continue to erode underwriting spreads, thereby reducing profitability. Canaccord may also be subject to substantial liability for material misstatements or omissions in prospectuses and other communications or offering documents with respect to underwritten offerings, and may be exposed to claims and litigation arising from such offerings.

## **11. Credit/Counterparty Risk**

Canaccord is exposed to the risk that third parties owing Canaccord money, securities or other assets will not meet their obligations. These parties include trading counterparties, clients, clearing agents, exchanges, clearing houses and other financial intermediaries as well as issuers whose securities are held by Canaccord. These parties may default on their obligations due to bankruptcy, lack of liquidity, operational failure or other reasons.

Canaccord provides financing to private clients by way of margin lending. In a margin-based transaction, Canaccord extends credit for a portion of the market value of a securities transaction in a client's account up to certain limits. Margin loans are collateralized by securities in the client's account. In connection with this lending activity, Canaccord faces a risk of financial loss in the event that a client fails to meet a margin call if market prices for securities held as collateral decline and if Canaccord is unable to sell the securities held as collateral at a price that will cover the amount of the outstanding loan.

Although Canaccord regularly reviews credit exposure to specific clients, counterparties, industries, countries and regions that it believes may present credit concerns, default risk may arise from events or circumstances that are difficult to detect, such as fraud. Canaccord may also fail to receive full or accurate information with respect to the credit risks of a counterparty.

## **12. Depository Receipt Risk**

Canaccord is exposed to market risk arising from its trading in depository receipts. Banks or other financial institutions, known as depositories, issue depository receipts that represent the value of securities issued by foreign companies. These receipts are most often known as American Depository Receipts (ADRs), Global Depository Receipts (GDRs), or European Depository Receipts (EDRs), depending on the location of the depository. The currency of a depository receipt may be different than the currency of the underlying non-local security to which it relates and, for a number of reasons, the value of a depository receipt may not be equal to the value of the underlying non-local security.

The terms of a depository receipt are not within the control of Canaccord. If the depository changes the terms of a depository receipt (including terminating the depository receipt program under which such receipts were originally issued) and Canaccord holds only depository receipts rather than the underlying security, Canaccord may be forced to dispose of the depository receipt at an inopportune time, which could result in a loss. In the alternative, if the

depository changes the terms of a depository receipt (including terminating the depository receipt program) and Canaccord holds a position (either long or short) in both the depository receipt and the underlying security, it may be difficult to unwind both positions which, in turn, could result in a loss.

### **13. Derivatives Trading Risk**

In addition to the risks that are associated with all investments, Canaccord faces certain derivative specific risks, including, without limitation, the following: derivative prices are affected by several factors other than the price of the underlying security; there is no guarantee a market will exist when Canaccord wants to buy or sell one of these derivative contracts; the other party to the contract may not be able to meet its financial obligations; a derivative hedging strategy to reduce risk may not be effective and the market value of the investment being hedged and the derivative instrument being used may not be perfectly correlated; and investors may speculate in derivatives, driving the price up or down, all of which could result in a loss to Canaccord. Although many derivatives are exchange traded (e.g. equity options and futures) which helps mitigate against counterparty risk via a central clearing house and liquidity risk via standardized contracts with publicly available market prices, Canaccord may also engage in over the counter derivative trading where there is neither a central clearing house nor a public market and, as a result, the counterparty and liquidity risks may be greater.

### **14. Employee Misconduct**

Within the financial services industry, there have been a number of highly publicized cases involving fraud or other misconduct by employees in recent years, and Canaccord runs the risk that employee misconduct could occur. Misconduct by employees could include binding Canaccord to transactions that exceed authorized limits or present unacceptable risks, or hiding from Canaccord unauthorized or unsuccessful activities, which may result in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use of confidential information, which could result in regulatory sanctions and serious reputational harm. It is not always possible to deter employee misconduct and the precautions Canaccord takes to prevent and detect this activity may not be effective in all cases.

### **15. Inadequate Risk Management Policies and Procedures**

Canaccord's risk management policies and procedures are based on historical market behaviour and depend on evaluations of certain information regarding markets, clients and other matters. Canaccord's risk management strategies and techniques may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk, and there may be situations where existing procedures and methods do not adequately identify existing risk exposure or predict future risk exposure or where risk exposure may be substantially higher than historical measures indicate. Accordingly, there is no certainty that Canaccord's risk management policies, systems and procedures will be adequate to prevent substantial financial loss.

### **16. Dependence on Information and Communication Systems**

Canaccord's business is highly dependent on communications and information systems. Any failure or interruption of Canaccord's systems, or those of third parties such as service providers, clearing corporations and exchanges, could cause delays or other problems in Canaccord's sales, trading, clearing, settlement and other client services, which could have a material adverse effect on its operating results and financial condition. There can be no assurance that Canaccord will be able to prevent any systems failures or interruptions, including those caused by an earthquake, fire, other natural disaster, power or telecommunications failure, act of God, act of war or terror or otherwise, or that back-up procedures and capabilities in the event of failure or interruption will be adequate. Even though Canaccord has back-up procedures, duplicate systems, excess capacity and business continuity plans in place, there is no assurance that procedures and plans will be sufficient or adequate in the event of a failure or catastrophe and, consequently, such an event could have a material adverse effect on Canaccord's operating results and financial condition.

Canaccord's operations also rely on the secure processing, storage and transmission of confidential and other information in computer systems and networks. Although Canaccord takes protective measures and tries to modify them as circumstances warrant, computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and events that could have a security impact. If one or more of these events

occur, this could potentially jeopardize Canaccord's, or its clients' or counterparties' confidential and other information processed and stored in, and transmitted through, computer systems and networks, or otherwise cause interruptions or malfunctions in clients', counterparties' or third parties' operations. Canaccord may be required to expend significant additional resources to modify protective measures or to investigate and remediate vulnerabilities or other exposures, and Canaccord may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by Canaccord.

#### **17. Inability to Retain and Recruit Skilled Personnel**

Canaccord's business is dependent on highly skilled and, often, highly specialized employees. The establishment and maintenance of relationships with clients and potential clients depends in part on individuals. Retention of investment advisors, investment banking, research, sales and trading professionals, and management and administrative personnel is particularly important to Canaccord.

The level of competition for key personnel is very high, particularly due to the market entry efforts of new retail brokerage operations, certain non-brokerage financial services companies and other investment banks targeting or increasing their efforts in all or some of the areas in which Canaccord operates. While Canaccord aims to limit the turnover in professional employees, there can be no assurance that losses of key personnel, due to competition or otherwise, will not occur in the future. The loss of an investment advisor, investment banking, research, or sales and trading professional, particularly any member of senior management or other senior professional with a broad range of contacts in an industry, could materially and adversely affect Canaccord's operating results.

Competition for the recruiting and retention of employees has increased compensation costs, and Canaccord expects that competition will cause compensation costs to continue to rise. There can be no assurance that Canaccord will be able to recruit a sufficient number of new employees with the desired qualifications, in a timely manner and on financial terms that are acceptable to Canaccord. The failure to recruit new employees could materially and adversely affect future operating results.

#### **18. Potential Conflicts of Interest**

Executive officers, directors and employees of Canaccord from time to time may invest in securities of private or public companies or investment funds in which Canaccord, or an affiliate of Canaccord, is an investor or for which Canaccord carries out investment banking assignments, publishes research or acts as a market maker. There are certain risks that, as a result of such investment, a director, officer or employee may take actions that would conflict with the best interests of Canaccord.

In addition, certain directors of Canaccord also serve as directors of other companies involved in a wide range of industry sectors. Consequently, there exists the possibility these directors could potentially be in a conflict of interest.

#### **19. Legal Risk**

Many aspects of Canaccord's business involve substantial risks of liability. An underwriter is exposed to substantial liability under securities laws, other laws and court decisions, including decisions with respect to underwriters' liability and limitations on indemnification of underwriters by issuers. For example, a firm that acts as an underwriter may be held liable for misstatements or omissions of fact in a prospectus used in connection with the securities being offered and firms may be held liable for statements made by its securities analysts or other personnel. Risks also include potential liability for fairness opinions and other advice Canaccord provides to participants in strategic transactions. Such advice frequently requires complex analysis and professional judgment, which could give rise to subsequent disputes. In recent years, there has been increasing litigation involving the securities industry, including class actions that seek substantial damages. Canaccord is subject to the risk of litigation, including litigation that may be without merit. As Canaccord intends to actively defend itself against any such litigation, significant legal expenses could be incurred, and the Company could suffer substantial reputational harm which could adversely affect future business opportunities and activity. An adverse resolution of any actions or claims against Canaccord may materially affect its operating results and financial condition.

The legal risks facing Canaccord also include potential liability under securities laws or through civil litigation in the event that Canaccord's investment advisors or employees violate investor suitability requirements, make materially false or misleading statements in relation to securities transactions, effect unauthorized transactions, fail to properly implement instructions, commit fraud, misuse client funds, or breach any other statute, regulatory rule or requirement. This could have a material adverse effect on Canaccord's operating results or financial condition.

When Canaccord recruits investment advisors with existing clients from other employers, there may be existing non-competition or non-solicitation agreements and other contractual or common law obligations. The former employer may claim damages or injunctive relief against the investment advisor or Canaccord, and Canaccord may incur expenses in awards, settlements and legal expenses.

## **20. Significant Competition**

Canaccord is engaged in the highly competitive securities brokerage and financial services business. Canaccord competes directly with large domestic and international securities firms, securities subsidiaries of major chartered banks, major regional firms and smaller niche players. Many other companies have more personnel and greater financial resources than Canaccord does. These companies compete directly with Canaccord for private clients, investment banking clients, investment advisors, professional staff and other industry personnel. Larger competitors are able to advertise their products and services on a regional or national basis and may have a greater number and variety of distribution outlets for their products, including retail distribution. Discount brokerage firms market their services through aggressive pricing and promotional efforts. In addition, some competitors have a much longer history of investment banking activities than Canaccord and, therefore, may possess a relative advantage with regard to access to deal flow and capital. This competition could have a material adverse effect on Canaccord's operating results as well as Canaccord's ability to attract and retain highly skilled individuals. There can be no assurance that Canaccord will be able to compete effectively.

## **21. Lack of Available Funding or Regulatory Capital**

Canaccord's business depends on the availability of adequate funding and regulatory capital under applicable regulatory requirements. Underwriting commitments require a charge against capital and, accordingly, Canaccord's ability to make underwriting commitments may be limited by the requirement that it must at all times be in compliance with applicable net capital regulations. Other Canaccord Genuity activity and Canaccord Wealth Management activity also require charges against capital for regulatory purposes. Although Canaccord expects to have sufficient capital to satisfy all of its capital requirements, there can be no assurance that any, or sufficient, funding or regulatory capital will continue to be available to Canaccord in the future on acceptable terms.

## **22. Insufficient Management of Growth**

Over the past several years, Canaccord has experienced significant growth in its business activities, including the number of employees. This growth has required and will continue to require increased investment in management personnel, financial and management systems, and controls and facilities, which, in the absence of continuing revenue growth, would cause Canaccord's operating margins to decline from current levels.

As part of Canaccord's business strategy, Canaccord has acquired and may make further acquisitions of assets or businesses related to, or complementary to, its current operations. Any acquisitions will be accompanied by certain risks including inability to retain key employees of acquired companies, impairment of relationships with clients and business partners, exposure to unknown liabilities of acquired companies, higher than anticipated acquisition costs and expenses, increased investments in management and operational personnel, financial and management systems and facilities, the difficulty and expense of integrating operations and personnel of acquired companies, disruption of ongoing business, diversion of management's time and attention, and possible dilution to shareholders. In addition, acquisitions often involve the recording of a significant amount of goodwill and other intangible assets. Under IFRS, Canaccord must assess, at least annually and potentially more frequently, whether the value of goodwill and other indefinite-lived intangible assets has been impaired. Amortizing intangible assets will be assessed for impairment in the event of an impairment indicator. Any reduction or impairment of the value of goodwill or other intangible assets will result in a charge against earnings, which could materially adversely affect Canaccord's results of operations and shareholders' equity in future periods.

Canaccord may not be able to successfully address these risks and other problems associated with acquisitions, which could adversely affect the Company's results of operations and shareholders' equity in future periods.

### **C. Risk Factors Specific to Preferred Shares:**

1. Unpredictability and Volatility of Market Price
2. Inability to Meet Its Financial Obligations
3. Preferred Share Rating
4. Limitations on Ability to Liquidate Preferred Shares
5. Limitations on the Payment of Dividends
6. Limitations on Repurchase of Shares
7. The Company May Redeem the Preferred Shares
8. Creditors of the Company Rank Ahead of Preferred Shareholders
9. Dividend Rates of the Preferred Shares Will Reset
10. Interest Rate Risk for Floating Rate Preferred Shares
11. Redemption of Preferred Shares Without the Holders' Consent
12. Dividends Declared at the Board's Discretion
13. No Voting Rights, Except Under Limited Circumstances

#### **1. Unpredictability and Volatility of Market Price**

From time to time, the stock market experiences significant price and volume volatility that may affect the market price of the Preferred Shares for reasons unrelated to the Company's performance. The value of the Preferred Share are also subject to market fluctuations based upon factors which influence the Company's operations, such as legislative or regulatory developments, competition, technological change and global capital market activity. The value of the Preferred Shares will also be affected by the general creditworthiness of the Company.

The market value of the Company's Preferred Shares, as with other preferred shares, is primarily affected by changes (actual or anticipated) in prevailing interest rates and in the rating assigned to such shares. Real or anticipated changes in ratings on the Preferred Shares may also affect the cost at which the Company can transact or obtain funding, and thereby affect its liquidity, business, financial condition or results of operations.

Prevailing yields on similar securities will affect the market value of the Preferred Shares. Assuming all other factors remain unchanged, the market value of the Preferred Shares would be expected to decline as prevailing yields for similar securities rise and would be expected to increase as prevailing yields for similar securities decline. Spreads over the Government of Canada Yield, T-Bill Rate and comparable benchmark rates of interest for similar securities may affect the market value of the Preferred Shares in an analogous manner.

The market value of the Preferred Shares may also depend on the market price of the Common Shares. The prices at which the Common Shares will trade cannot be predicted. Trading prices of the Common Shares will be influenced by the Company's financial results and by complex and interrelated political, economic, financial and other factors that can affect the capital markets generally, the stock exchanges on which the Common Shares are traded and the market segment of which the Company is a part.

#### **2. Inability to Meet Its Financial Obligations**

As the Company is a holding company, the Company's ability to pay dividends and other operating expenses and interest and to meet its obligations depends to a significant extent upon receipt of sufficient funds from its principal subsidiaries, the returns generated by its investments, its ability to raise additional capital and the value of its underlying business and assets. Accordingly, the likelihood that holders of the Preferred Shares will receive dividends will depend to a significant extent upon the financial position and creditworthiness of the Company's principal subsidiaries and affiliates, the principal entities in which the Company invests and its underlying business and assets. The payment of interest and dividends to the Company by certain of these principal subsidiaries or investee entities is also subject to restrictions set forth in certain laws and regulations which require that solvency and capital standards be maintained by such companies.

### **3. Preferred Share Rating**

The preferred share rating applied to the Preferred Shares is an assessment, by DBRS, of the Company's ability to pay its obligations. The rating is based on certain assumptions about the future performance and capital structure of the Company that may or may not reflect the actual performance or capital structure of the Company. Changes in rating of the Preferred Shares may affect the market price or value and the liquidity of the Preferred Shares. There is no assurance that any rating assigned to the Preferred Shares will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely by the relevant rating organization.

### **4. Limitations on Ability to Liquidate Preferred Shares**

The Preferred Shares do not have a fixed maturity or redemption date and they are not redeemable at the option of the holders thereof. The ability of a holder to liquidate his, her or its holdings of Preferred Shares, as applicable, may be limited.

### **5. Limitations on the Payment of Dividends**

Although the Preferred Shares carry cumulative dividends, the Company may not be in a position pursuant to law to declare and pay such dividends. The Company may not declare or pay a dividend if there are reasonable grounds for believing that (i) the Company is unable to pay its debts as they become due in the ordinary course of its business, or (ii) the payment of the dividend would render the Company unable to pay its debts as they become due in the ordinary course of its business.

### **6. Limitations on the Repurchase of Shares**

The Company may not make a payment or provide any consideration to purchase or otherwise acquire any of its shares if there are reasonable grounds for believing that (i) the Company is unable to pay its debts as they become due in the ordinary course of its business, or (ii) the making of the payment or providing the consideration would render the Company unable to pay its debts as they become due in the ordinary course of its business.

### **7. The Company May Redeem the Preferred Shares**

The Company may choose to redeem the Preferred Shares from time to time, including when prevailing interest rates are lower than yields borne by the Preferred Shares. If prevailing rates are lower at the time of redemption, a purchaser would not be able to reinvest the redemption proceeds in a comparable security at an effective yield as high as the yields on the Preferred Shares being redeemed. The Company's redemption right also may adversely impact a purchaser's ability to sell the Preferred Shares as the optional redemption date or period approaches.

The Company may not make a payment or provide any consideration to redeem any of its shares if there are reasonable grounds for believing that (i) the Company is unable to pay its debts as they become due in the ordinary course of its business, or (ii) the making of the payment or providing the consideration would render the Company unable to pay its debts as they become due in the ordinary course of its business.

### **8. Creditors of the Company Rank Ahead of Preferred Shareholders**

All the Company's Preferred Shares that may be outstanding in the event of an insolvency or winding-up of the Company rank equally. If the Company becomes insolvent or is wound-up, the Company's assets must be used to pay debt, including subordinated and inter-company debt, before payments may be made on the Preferred Shares.

### **9. Dividend Rates of the Preferred Shares Will Reset**

The dividend rate in respect of the Series A Preferred Shares will reset on September 30, 2016 and on September 30 every five years thereafter. The dividend rate in respect of the Series C Preferred Shares will reset on June 30, 2017 and on June 30 every five years thereafter. The dividend rate in respect of the floating rate Preferred Shares will reset

quarterly. In each case, the new dividend rate is unlikely to be the same as, and may be lower than, the dividend rate for the applicable preceding dividend period.

#### **10. Interest Rate Risk for Floating Rate Preferred Shares**

The resetting of the applicable rate on a floating rate Preferred Share may result in a lower yield compared to fixed rate Preferred Shares. The applicable rate on a floating rate Preferred Share will fluctuate in accordance with fluctuations in the T-Bill Rate on which the applicable rate is based, which in turn may fluctuate and be affected by a number of interrelated factors, including economic, financial and political events over which the Company has no control.

#### **11. Redemption of Preferred Shares Without the Holders' Consent**

The Preferred Shares may be redeemed by the Company in certain circumstances without the holder's consent. The Company may not make a payment or provide any consideration to redeem any of its shares if there are reasonable grounds for believing that (i) the Company is unable to pay its debts as they become due in the ordinary course of its business, or (ii) the making of the payment or providing the consideration would render the Company unable to pay its debts as they become due in the ordinary course of its business.

In addition, an investment in the fixed rate Preferred Shares, or in the floating rate Preferred Shares, as the case may be, may become an investment in floating rate Preferred Shares, or in fixed rate Preferred Shares, respectively, without the consent of the holder in the event of an automatic conversion in the circumstances described in the Short Form Prospectus. Upon the automatic conversion of the fixed rate Preferred Shares into floating rate Preferred Shares, the dividend rate on the floating rate Preferred Shares will be a floating rate that is adjusted quarterly by reference to the T-Bill Rate which may vary from time to time while, upon the automatic conversion of the floating rate Preferred Shares into fixed rate Preferred Shares, the dividend rate on the fixed rate Preferred Shares will be, for each five-year period, a fixed rate that is determined by reference to the Government of Canada Yield on the 30th day prior to the first day of each such five-year period. In addition, holders may be prevented from converting their fixed rate Preferred Shares into floating rate Preferred Shares, and vice versa, in certain circumstances.

#### **12. Dividends Declared at the Board's Discretion**

Holders of the Preferred Shares do not have a right to dividends on such shares unless declared by the Board of Directors of the Company. The declaration of dividends is in the discretion of the Board of Directors even if the Company has sufficient funds, net of its liabilities, to pay such dividends.

The Company may not declare or pay a dividend if there are reasonable grounds for believing that (i) the Company is unable to pay its debts as they become due in the ordinary course of its business, or (ii) the payment of the dividend would render the Company unable to pay its debts as they become due in the ordinary course of its business. Debts of the Company will include those arising in the course of its business, indebtedness, including inter-company debt, and amounts, if any, that are owing by the Company under guarantees in respect of which a demand for payment has been made.

#### **13. No Voting Rights, Except Under Limited Circumstances**

Holders of Preferred Shares will generally not have voting rights at meetings of the shareholders of the Company except under limited circumstances. Holders of Preferred Shares will have no right to elect the Board of Directors of the Company.

#### **Risk Factors Specific to Canaccord's Outstanding Preferred Shares**

For a detailed list of the risk factors specific to the Series A and Series B Preferred Shares, see "Risk Factors" in Canaccord's Short Form Prospectus dated June 16, 2011.

For a detailed list of the risk factors specific to the Series C and Series D Preferred Shares, see "Risk Factors" in Canaccord's Short Form Prospectus dated April 2, 2012.



## Dividends

The Company declared the following dividends on its common shares for the three years ending March 31, 2012:

Quarter	Dividends	Record date	Payment date
Q1/10	suspended	suspended	suspended
Q2/10	\$0.05	November 20, 2009	December 10, 2009
Q3/10	\$0.05	February 26, 2010	March 10, 2010
Q4/10	\$0.05	June 4, 2010	June 15, 2010
Q1/11	\$0.05	August 27, 2010	September 10, 2010
Q2/11	\$0.05	November 19, 2010	December 10, 2010
Q3/11	\$0.075	March 4, 2011	March 15, 2011
Q4/11	\$0.10	June 3, 2011	June 15, 2011
Q1/12	\$0.10	August 26, 2011	September 15, 2011
Q2/12	\$0.10	December 2, 2011	December 15, 2011
Q3/12	\$0.10	March 2, 2012	March 15, 2012
Q4/12	\$0.10	June 1, 2012	June 15, 2012

The Company declared the following dividends on its preferred shares for the year ended March 31, 2012:

Quarter	Series A Preferred Dividends	Series C Preferred Dividends	Record date	Payment date
Q1/12	\$0.37295	n/a	September 16, 2011	September 30, 2011
Q2/12	\$0.34375	n/a	December 16, 2011	January 3, 2012
Q3/12	\$0.34375	n/a	March 16, 2012	April 2, 2012
Q4/12	\$0.34375	\$0.3190	June 15, 2012	July 3, 2012

*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 and capital requirements and such other factors as the Board determines to be relevant.*

## 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.

## Description of Capital Structure

The authorized capital of the Company consists of an unlimited number of common shares, without nominal or par value and three classes of preferred shares, each unlimited in number and issuable in series, of which 101,722,220 common shares, 4,540,000 Series A Preferred Shares, and 4,000,000 Series C Preferred Shares are issued and outstanding as of May 29, 2012.

Holders of common shares are entitled to receive dividends as and when declared by the Board of Directors of the Company and are entitled to one vote per share on all matters to be voted on at all meetings of shareholders. Upon voluntary or involuntary liquidation, dissolution or winding-up of the Company, the holders of common shares are entitled to share ratably in the remaining assets available for distribution, after payment of liabilities.

The preferred shares may be issued from time to time in one or more series. The Board of Directors of the Company may:

- (a) Determine the maximum number of shares of each series or determine that there is no such maximum number or alter any such determination
- (b) Create an identifying name for the shares of each series or alter such identifying name
- (c) Attach special rights and restrictions to the shares of each series or alter any such special rights and restrictions

*i. Series A Preferred Shares*

On June 23, 2011, the Company issued 4,000,000 Cumulative 5-Year Rate Reset First Preferred Shares, Series A (Series A Preferred Shares) at a purchase price of \$25.00 per share, for gross proceeds of \$100 million. On July 7, 2011, the Company closed the over-allotment option and issued an additional 540,000 Series A Preferred Shares at \$25.00 per share for gross proceeds of \$13.5 million. Quarterly cumulative cash dividends, if declared, will be paid at an annual rate of 5.5% for the initial five-year period ending on September 30, 2016. Thereafter, the dividend rate will be reset every five years at a rate equal to the five-year Government of Canada bond yield plus 3.21%.

Holders of Series A Preferred Shares have the right, at their option, to convert any or all of their shares into an equal number of Cumulative Floating Rate First Preferred Shares, Series B (Series B Preferred Shares), subject to certain conditions, on September 30, 2016 and on September 30 every five years thereafter. Holders of the Series B Preferred Shares will be entitled to receive floating rate, cumulative, preferential dividends payable quarterly, if declared, at a rate equal to the three-month Government of Canada Treasury Bill yield plus 3.21%.

The Company has the option to redeem the Series A Preferred Shares on September 30, 2016 and on September 30 every five years thereafter, in whole or in part, at \$25.00 per share together with all declared and unpaid dividends. The Series B Preferred Shares are redeemable at the Company's option on September 30, 2021 and on September 30 every five years thereafter, in whole or in part, at \$25.00 per share together with all declared and unpaid dividends.

*ii. Series C Preferred Shares*

On March 22, 2012, the Company announced that it had agreed to issue 4,000,000 Cumulative 5-Year Rate Reset First Preferred Shares, Series C (Series C Preferred Shares) at a purchase price of \$25.00 per share, for gross proceeds of \$100 million. Quarterly cumulative cash dividends, if declared, will be paid at an annual rate of 5.75% for the initial five-year period ending on September 30, 2016. Thereafter, the dividend rate will be reset every five years at a rate equal to the five-year Government of Canada bond yield plus 4.03%.

Holders of Series C Preferred Shares have the right, at their option, to convert any or all of their shares into an equal number of Cumulative Floating Rate First Preferred Shares, Series D (Series D Preferred Shares), subject to certain conditions, on June 30, 2017 and on June 30 every five years thereafter. Holders of the Series C Preferred Shares will be entitled to receive floating rate, cumulative, preferential dividends payable quarterly, if declared, at a rate equal to the three-month Government of Canada Treasury Bill yield plus 4.03%.

The Company has the option to redeem the Series C Preferred Shares on June 30, 2017 and on June 30 every five years thereafter, in whole or in part, at \$25.00 per share together with all declared and unpaid dividends. The Series D Preferred Shares are redeemable at the Company's option on June 30, 2022 and on June 30 every five years thereafter, in whole or in part, at \$25.00 per share together with all declared and unpaid dividends.

The offering closed subsequent to fiscal year-end on April 10, 2012. The amount recognized after deducting issue costs, net of deferred taxes of \$1.0 million, were \$97.3 million.

The net proceeds from the offering were used to partially repay \$97.0 million of the short term credit facility of \$150.0 million that the Company secured for bridge financing related to the acquisition of CSHP. The balance of the short term credit facility was repaid in full on May 22, 2012.

### ***Restrictions on ownership and transfer of shares of the Company***

Pursuant to rules established by certain securities regulatory authorities in Canada and the United States, the ownership of shares of an investment dealer is subject to certain restrictions. To enable Canaccord to comply with these requirements, the articles of the Company contain the following provisions:

- The Company may require a proposed subscriber or transferee of shares to submit a declaration with respect to the holding of shares of the Company as beneficial owner and any other matter that the directors consider relevant to determine if the registration of the subscription or transfer would result in a violation of the articles or applicable legislative or regulatory requirements. The Company also may require a declaration at any time if proxies are solicited from shareholders at any meeting of shareholders or before such a meeting or when, in the opinion of the directors, the holding of shares by any person could violate the articles or applicable legislative or regulatory requirements.
- The Company has the power to refuse to issue or record a transfer and to withdraw the voting rights, of any share of any class if:
  - (a) Following the issue or recording of the transfer, the shareholder (along with his or her associates and affiliates) would beneficially own or control, directly or indirectly, a “significant equity interest” in the Company, unless the required approvals from all relevant securities regulatory authorities have been obtained; or
  - (b) The person requesting the issue or recording of the transfer refuses to sign and deliver a declaration with respect to his or her beneficial ownership of shares of the Company.

For these purposes, a “significant equity interest” in the context of the Company means:

- (a) In respect of the applicable rules of the IROC and the TSX Venture Exchange Inc., the holding of: (i) voting securities carrying 10% or more of the votes carried by all voting securities of the Company, (ii) 10% or more of the outstanding participating securities of the Company or (iii) an interest of 10% or more of the total equity in Canaccord Genuity Corp.;
- (b) In respect of the applicable rules of the Toronto Stock Exchange, the holding, directly or indirectly and alone or in combination with any other person, of securities: (i) carrying 20% or more of the votes carried by all voting securities, (ii) carrying the right to receive 20% or more of any distribution of earnings and (iii) accounting for 20% or more of the total capital or equity of the Company;
- (c) In respect of the applicable rules of the Bourse de Montréal Inc. (the Bourse) (where a significant equity interest is referred to as a “major position”), having the power to direct or cause the direction of the management or policies of Canaccord Genuity Corp. whether through ownership of securities, by contract or otherwise and a person is considered to hold a major position in the capital of the Company pursuant to the rules of the Bourse if such person, directly or indirectly: (i) has the right to vote 10% or more of the voting securities or (ii) is entitled to receive 10% or more of the net profits of the Company;
- (d) In respect of the applicable rules of the Autorité des marchés financiers in Quebec, the direct or indirect ownership or holding of more than 10% of the voting rights attached to securities issued by the Company; and
- (e) In respect of the applicable rules of the Financial Industry Regulatory Authority (FINRA) in the United States, a change in the equity ownership of the Company that results in one person or entity directly or indirectly owning or controlling 25% or more of the equity.

The Company is entitled to sell, as agent, through a stock exchange designated by the directors of the Company or, in the absence of such a designation, by private contract or in any other manner, any number of shares of any class held

by any person in violation of the articles, if the directors of the Company determine that the sale is necessary or advisable to ensure compliance with the articles and applicable legislative and regulatory requirements. The Company is also entitled to affect such a sale if a person fails to reply to a request for a declaration contemplated by the articles. Any such sale will be subject to certain procedural requirements (which are set out in the articles) including notice of the proposed sale.

These restrictions relating to the transfer and the issue of shares of the Company do not generally apply in the case of an issue or a transfer in favour of an investment dealer or a holding company of an investment dealer so long as the transfer is affected in the ordinary course of the activities of its securities business. The board of directors of the Company has the power to establish the rules and procedures that it considers necessary and appropriate to implement these provisions.

The *Financial Services and Markets Act 2000* (UK) places an obligation on controllers and proposed controllers of Canaccord Genuity Limited to obtain the approval of the Financial Services Authority (FSA) before becoming a controller or increasing the level of control held (in certain circumstances). Failure to obtain approval is an offence under section 191(3) of the *Financial Services and Markets Act 2000* (UK). The FSA has up to three months to consider whether to approve such a change in control. A controller or proposed controller should take this period into account when deciding when to give their notification. A “controller” in the context of Canaccord Genuity Limited is a person who (along with his or her associates) holds 10% or more of the shares in the Company or is able to exercise significant influence over the management of the Company through his or her shareholding in the Company.

Similar obligations exist under the laws of Hong Kong, Singapore, and Jersey and Guernsey in the Channel Islands in relation to the subsidiaries of the Company which are regulated by the securities and future regulatory authorities in those jurisdictions.

These restrictions on the ownership and transfer of the common shares may have an effect on the marketability and liquidity of the common shares. For more information, please refer to the Risk factors section.

## Market for Securities

The common shares of the Company are listed on the Toronto Stock Exchange (TSX) under the symbol “CF”. The common shares are also listed on AIM, a market operated by the London Stock Exchange, under the symbol “CF.”.

Canaccord’s Series A Preferred Shares are listed on the TSX under the symbol “CF.PR.A”. Canaccord’s Series C Preferred Shares are listed on TSX under the symbol “CF.PR.C”.

### *Trading price and volume*

The following table presents the high and low closing prices and the monthly trading volume for the Company’s common shares on the TSX.

<b>Month</b>	<b>High</b>	<b>Low</b>	<b>Monthly Trading Volume</b>
April 2012	8.27	7.80	4,483,040
March 2012	9.17	7.97	4,525,300
February 2012	9.44	7.83	5,856,000
January 2012	8.50	7.61	3,905,200
December 2011	9.72	6.94	6,351,500
November 2011	9.68	8.21	2,473,900
October 2011	9.74	8.32	3,562,400
September 2011	10.71	9.32	3,171,300
August 2011	12.90	9.42	4,219,300
July 2011	13.05	12.05	1,116,000
June 2011	14.00	11.65	1,629,100
May 2011	14.86	12.66	7,543,400
April 2011	15.31	13.91	1,336,700

## Escrowed Securities

To the Company’s knowledge, the following common shares are held in escrow as of March 31, 2012 or are subject to contractual restrictions which prohibit transfer before a certain date. In the case of all escrows, the Company may exercise discretion to release the shares from the escrow or from the date restrictions before the date otherwise set for the release.

	<b>Total number of common shares held in escrow or subject to date restriction</b>	<b>Percentage of diluted shares outstanding</b>	<b>2012</b>	<b>2013</b>	<b>2014 or later</b>
<b>Employee retention escrow</b>	32,280,723	30.2%	7,631,750	5,979,931	18,699,042

The “Employee retention escrow” are shares restricted from trading held in connection with retention plans and hiring agreements for employees of the company as of March 31, 2012. The shares are held in escrow and released based on the terms of each individual agreement. As a result of the acquisition of Genuity, 26.5 million shares were issued and held in escrow on April 23, 2010. These shares are released ratably over five years; consequently, 5.3 million shares were released on April 23, 2011 and an additional 5.3 million shares were released on April 23, 2012. Furthermore, as

a result of the acquisition of BGF, 623,796 shares were issued and held in escrow on November 1, 2011. These shares are released ratably over five years.

## Directors and Officers

### *Name, occupation and security holding*

Set forth below, for each director of the Company, is his name, municipality of residence, office, period of service and principal occupation during the immediately preceding five years. Each director of the Company holds office until the next annual general meeting of the shareholders of the Company (which has been called for July 12, 2012) or until his successor is duly elected or appointed, unless his office is earlier vacated in accordance with the articles of the Company or he becomes disqualified to act as a director.

Each director holds office at the pleasure of the Board of Directors.

<b>Name, municipality of residence and position held</b>	<b>Principal occupation for the past five years</b>	<b>Director since</b>
CHARLES N. BRALVER Westport, Connecticut Director	Partner, Massif Partners LLP; Senior Associate Dean of International Business and Finance and Executive Director of Center for Emerging Market Enterprises, The Fletcher School, Tufts University	2010
PETER M. BROWN <sup>(1)</sup> Vancouver, British Columbia Founder and Honorary Chairman	Founder and Honorary Chairman of the Company	1997 <sup>(1)</sup>
MASSIMO C. CARELLO <sup>(2)</sup> London, England Director	Corporate director and private investor in public companies	2008
WILLIAM J. EEUWES <sup>(2,3,4)</sup> Burlington, Ontario Director	Senior Vice-President and Managing Director of Manulife Capital	2002
MICHAEL D. HARRIS <sup>(3,5)</sup> Vaughan, Ontario Director	Senior business advisor of Cassels Brock & Blackwell LLP; Senior business advisor of Goodmans LLP	2004
DAVID J. KASSIE <sup>(6)</sup> Toronto, Ontario Chairman of the Board and Director	Chairman of the Company and Canaccord Genuity Corp.; Partner of Genuity Capital Markets	2010
TERRENCE A. LYONS <sup>(2,3,7)</sup> Vancouver, British Columbia Lead Director	Chairman of the Board of EACOM Timber Corporation; Chairman of the Board of Northgate Minerals Corporation	2004
PAUL D. REYNOLDS Toronto, Ontario Chief Executive Officer and director	President and Chief Executive Officer of the Company	2005
MICHAEL A. WALKER West Vancouver, British Columbia Director	Private equity investor; Senior Fellow of The Fraser Institute and President of The Fraser Institute Foundation	2006

(1) In 1968, Mr. Brown joined the company that formerly carried on the business of Canaccord Genuity Corp.; he became a director of the Company in 1997 when the Canaccord corporate group was reorganized and the Company was incorporated.

(2) Member of the Audit Committee.

(3) Member of the Corporate Governance and Compensation Committee.

(4) Mr. Eeuwes was a director of a private company, Micro-Optics Development Corp., until April 2003. Within a year after his resignation as a director, that company was subject to a court appointed trustee and filed for court protection under insolvency statutes.

(5) Mr. Harris was a director of Naturade, Inc., a company publicly traded in the United States, until August 2006. Within a year after his resignation as a director, that company filed for reorganization under Chapter 11 of the US Bankruptcy Code. Mr. Harris was a director of Grant Forest Products Inc. On June 25, 2009, the Ontario Superior Court of Justice (Commercial List) made an order under the Companies' Creditors Arrangement Act (CCAA) in respect of Grant Forest Products Inc. Mr. Harris remained a director of Grant Forest Products Inc. until June 30, 2010 to assist with the orderly completion of the arrangement under the CCAA.

- (6) Mr. Kassie was Chairman and a director of SkyPower Corporation at the time when, on August 12, 2009, the Ontario Superior Court of Justice (Commercial List) made an order under the CCAA in respect of SkyPower Corporation. The realizations in the estate of the corporation (now called Interwind Corp.) are ongoing and any shortfall to the creditors is unknown at this time. Mr. Kassie is also a director of ACE Aviation Holdings Inc. which passed a shareholder resolution on April 25, 2012 approving liquidation of the company pursuant to the Canada Business Corporations Act. The liquidation process is continuing.
- (7) Mr. Lyons was a director and executive officer of FT Capital Ltd. (FT Capital) which was subject to cease trade orders in each of the provinces of British Columbia, Alberta, Manitoba and Ontario due to the failure of FT Capital to file financial statements since the financial year ended December 31, 2001. FT Capital was wound up and dissolved on June 30, 2009 and Mr. Lyons ceased to be a director. Mr. Lyons is also a director of Royal Oak Ventures Inc. (Royal Oak), which is currently subject to cease trade orders in each of the provinces of British Columbia, Alberta, Ontario and Quebec due to the failure of Royal Oak to file financial statements since the financial year ended December 31, 2003. Mr. Lyons was a director of International Utilities Structures Inc. (IUSI) which, on October 17, 2003 IUSI was granted creditor protection by the Court of Queen's Bench in Alberta under the CCAA. On March 31, 2005 an order was granted approving the final IUSI restructuring plan under the CCAA at which time Mr. Lyons resigned as a director. Mr. Lyons was elected to the boards of directors of each of FT Capital, Royal Oak and IUSI largely because of his valuable experience and expertise in financial restructurings in the insolvency context.

In addition to Paul Reynolds, the only other executive officers of Canaccord Financial Inc. are Brad Kotush of Toronto, Ontario, who is an Executive Vice President and Chief Financial Officer of Canaccord Financial Inc. and Canaccord Genuity Corp., Peter Virvilis of Vancouver, British Columbia, who is the Executive Vice President of Operations and Treasurer of Canaccord Financial Inc. and Canaccord Genuity Corp., and Scott Davidson of Toronto, Ontario, who is the Executive Vice President, Global Head of Corporate Development and Strategy of Canaccord Financial Inc. Mr. Kotush joined Canaccord in 1998 as Vice President of Special Projects and has served as Chief Financial Officer and Corporate Secretary for Canaccord Capital (Europe) Limited (now Canaccord Genuity Limited), and Chief Information Officer and Senior Vice President of Finance for Canaccord Genuity Corp. Mr. Virvilis joined Canaccord in 1987 as Treasurer. Mr. Davidson joined Canaccord in 2002 and is currently responsible for assessing strategies for the company's global growth and for corporate communications.

As of May 29, 2012, the twelve directors and executive officers of the Company mentioned above, as a group, beneficially own, directly or indirectly, or exercise control or direction over an aggregate of 6,343,474 common shares, representing 6.2% of the common shares issued and outstanding at that time.

#### ***Conflicts of interest***

Executive officers, directors and employees of Canaccord from time to time may invest in securities of private or public companies, or investment funds in which Canaccord, or an affiliate of Canaccord, is an investor or for which Canaccord carries out investment banking assignments, publishes research or acts as a market maker. There are certain risks that, because of such investment, a director, officer or employee may take actions, which would conflict with the best interests of Canaccord. In addition, certain of the directors of Canaccord also serve as directors of other companies involved in a wide range of industry sectors; consequently, there exists the possibility for such directors to be in a conflict of interest.

#### **Legal Proceedings**

The Company and/or its subsidiaries, in the normal course of business as an investment dealer, is involved in litigation and as of March 31, 2012, it was a defendant in various legal actions. The Company has established accruals for matters where payments are probable and can be reasonably estimated. While the outcome of these actions is subject to future resolution, management's evaluation and analysis of these actions indicates that, individually and in the aggregate, the probable ultimate resolution of these actions will not have a material effect on the financial condition of the Company. The actions described below have been commenced against the Company and/or its subsidiaries, and, although the Company has denied the allegations and intends to vigorously defend itself in each case, the outcome of each action cannot be predicted with certainty. The amounts claimed in respect of these actions, or which could potentially be claimed, are material and, accordingly, these actions are described in this Annual Information Form.

- i) In 2002, two actions were commenced in the Superior Court of Quebec against Canaccord Genuity Corp. and other defendants including another investment dealer. Both are class action proceedings in which the plaintiffs make allegations of certain wrongful trading and disclosure practices by the Company and another defendant and that the Company was negligent in respect of a private placement in 2000. Discoveries are complete and the parties are in the process of exchanging experts reports. Canaccord intends to vigorously defend itself against these claims.

- ii) Genuity has been named as co-defendant in an action initiated by CIBC World Markets Inc. in 2005 in the Ontario Superior Court of Justice alleging improper solicitation of the plaintiffs' employees, conspiracy, inducing breach of contract, interference with commercial relations, breach of fiduciary duties, misuse of confidential information and misappropriation of corporate opportunities. The claim against Genuity is for general damages to be determined by the court and an accounting of benefits received by all the parties as a result of these alleged activities. There is also a claim against all the parties for \$10.0 million for punitive and exemplary damages. Management believes these claims can be wholly defended and no liability will be determined against Genuity. As Canaccord Genuity Corp. assumed all the assets and liabilities of Genuity, it may be subject to any judgment that may be made against Genuity in connection with this litigation.
- iii) The Company and Collins Stewart Hawkpoint and its US subsidiary, Collins Stewart LLC, among others, are defendants in an action commenced by Morgan Joseph TriArtisan Group Inc. and Morgan Joseph TriArtisan LLC in State Court in New York City alleging that a proposed joint venture in New York between Collins Stewart LLC and Morgan Joseph TriArtisan LLC is fundamentally inconsistent with the acquisition of Collins Stewart Hawkpoint by the Company. The claims against the Company are for tortious interference with contract, tortious interference with prospective business advantage, and aiding and abetting breach of fiduciary duty. Remedies requested by the plaintiff against the Company are for compensatory damages in an amount not less than \$35 million and punitive damages in an amount of three times the compensatory damages or approximately \$100 million. The defences to these claims and the quantification of damages are yet to be determined. The Company considers that the allegations are spurious and entirely unfounded and will strenuously defend itself against these claims.

## **Interest of Management and Others in Material Transactions**

To the best of the Company's knowledge, except as described below, after due inquiry, none of the directors, executive officers or principal shareholders of the Company, nor any associate or affiliate of those directors, executive officers or principal shareholders, has had any direct or indirect material interest in any transaction or proposed transaction which has materially affected or will materially affect the Company during the three most recently completed financial years or during the current financial year.

David Kassie, the Group Chairman and a director of the Company; and Joao Esteireiro, Dvaipayan Ghose, Earl Rotman, Barry Goldberg, Daniel Daviau, Edward Hirst and David Morrison, who are all executive officers of Canaccord Genuity Corp., a wholly-owned subsidiary of the Company, had the interests in the acquisition of Genuity Capital Markets which are described in the management information circular dated March 24, 2010, for the special meeting of shareholders held on April 22, 2010, under the headings "The Acquisition" and "The Company After the Acquisition", which sections are incorporated by reference herein, and the Business Acquisition Report dated May 10, 2010, which is incorporated by reference herein.

## **Transfer Agent and Registrar**

The Company's transfer agent and registrar is Computershare Investor Services Inc., at its principal offices in Vancouver and Toronto.

## **Material Contracts**

On November 1, 2011, the Company completed the transaction to acquire a 50% interest in BGF Capital Group Pty Ltd, a boutique investment bank based in Australia, with offices in Melbourne, Sydney, and Hong Kong. Total consideration consisted of 623,796 Canaccord common shares valued at \$5.7 million and cash of \$36.5 million. The purchase agreement also grants Canaccord a call option to purchase the remaining 50% interest in BGF. The option is exercisable by the Company for a three-month period commencing on November 1, 2016 at a price to be determined at that time by reference to Canaccord BGF profits as set out in the purchase agreement. Refer to page 10 for more details on the acquisition.

On March 21, 2012, the Company completed its 100% acquisition of Collins Stewart Hawkpoint plc, an independent investment bank based in the UK, with operations in Europe, the US and Singapore. The total purchase consideration



of \$400.1 million was paid as a combination of cash and Canaccord common shares. Refer to page 10 for more details on the acquisition.

The Company entered into a \$150 million senior secured credit agreement to finance a portion of the cash consideration for its acquisition of CSHP. The balance outstanding as of March 31, 2012 was \$150.0 million. This short-term credit facility bears a step-up prime-rate linked interest rate (up to + 75 basis points) per annum, and the facility must be repaid within 180 days of the initial drawdown on March 21, 2012.

As part of the acquisition of Genuity, the Company issued 26.5 million Canaccord common shares valued at \$271.9 million, which were placed in escrow at closing and are released ratably over five years; consequently, 5.3 million shares were released on April 23, 2011 and an additional 5.3 million shares were released on April 23, 2012.

Other than these contracts and contracts entered into in the ordinary course of business, Canaccord has not entered into any contract before the most recently completed financial year but that is still in effect, which can reasonably be regarded as material.

## Experts

The Company's auditors are Ernst & Young, LLP who have prepared the Independent Auditors' Report on page 69 of the fiscal 2012 Annual Report.

## External Auditor Service Fees

The aggregate fees billed for professional services rendered for the years ended March 31, 2012 and March 31, 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Audit fees	\$2,446,980	\$1,657,150
Audit related fees <sup>(1)</sup>	534,907	190,800
Tax fees <sup>(2)</sup>	979,377	792,850
All other fees	—	—

<sup>(1)</sup> Include accounting and advisory work on various matters

<sup>(2)</sup> Preparation and review of corporate and commodity tax returns. Also includes advisory work on various corporate tax matters, including acquisition related tax advisory fees

## Board Committees

### *Audit Committee*

The Audit Committee assists the board of directors in fulfilling its oversight responsibilities by monitoring Canaccord's financial reporting practices and financial disclosures. The members of the Audit Committee are Terrence Lyons (Chair), Massimo Carello and William Eeuwes. Each of them is financially literate. Mr. Lyons, Mr. Carello and Mr. Eeuwes are independent of management.

Specific responsibilities and duties of the Audit Committee include:

- Reviewing Canaccord's annual and interim consolidated financial statements, annual and interim management's discussion and analyses and press releases prior to dissemination to the public
- Assessing Canaccord's accounting policies and discussing the appropriateness of such policies with management and Canaccord's external auditors
- Assisting management to identify Canaccord's principal business risks
- Reviewing the external auditor's plans for evaluating and testing Canaccord's internal financial controls
- Overseeing Canaccord's external auditors, including the approval of the external auditor's terms of engagement

The education and related experience (as applicable) of each Audit Committee member is described below.

**Terrence Lyons (Chair)** – Terry Lyons is the past Chairman, Northgate Minerals Corporation recently acquired by Aurico Gold creating a new mid-cap gold company with a value of over \$3 billion. He is a director of several public and private corporations including Sprott Resource Corp.; Polaris Minerals Corporation; EACOM Timber Corporation; BC Pavilion Corporation (Pavco) and currently serves as the Lead Director and Chairman of the Audit Committee of Canaccord Financial Inc.

Terry is a Civil Engineer (UBC) with an MBA from the University of Western Ontario. He sits on the Advisory Board of the Richard Ivey School of Business and is active in sports and charitable activities, is a past Governor of the Olympic Foundation of Canada, past Chairman of the Mining Association of BC and in 2007 was awarded the INCO Medal by the Canadian Institute of Mining and Metallurgy for distinguished service to the mining industry.

**Massimo Carello** - Mr. Carello is a corporate director and a private investor in public companies. Mr. Carello was the Chairman and Chief Executive Officer of Diners Club UK Ltd. from 2001 to 2004 and was the Chairman and Chief Executive Officer of Fiat UK Ltd. from 1990 to 2001. Mr. Carello served as a member of the Confederation of British Industry (CBI) President's Committee from 1998 to 2003 and was a member of the CBI European Committee. He was Vice President of the Italian Chamber of Commerce in the UK from 1998 to 2005. In addition to Canaccord Financial Inc., Mr. Carello is a director and a member of the Audit Committees of the following public companies: Canadian Overseas Petroleum Ltd. and Orsu Metals Corporation. Until December 2010, he was also a director and a member of the Audit Committee of Uranium One Inc.

**William J. Eeuwes** – Mr. Eeuwes is Senior Vice President and Managing Director of Manulife Capital, a division of The Manufacturers Life Insurance Company. He has executive responsibility for four alternative assets teams in Canada: Manulife Capital (private equity and mezzanine), Project Finance (power and infrastructure), Regional Power Inc. and NAL Resource Management Limited (oil and gas). Before joining Manulife in 1999, Mr. Eeuwes was a career banker with 25 years of experience in underwriting and the management of a broad range of financing including LBOs, corporate lending and project finance. Mr. Eeuwes is a graduate of the Richard Ivey School of Business at the University of Western Ontario. In addition to Canaccord Financial Inc., Mr. Eeuwes is a director of the following public company: NAL Energy Corporation which is listed on the Toronto Stock Exchange.

A copy of the Audit Committee charter is attached hereto as Schedule "A". The auditors track on an ongoing basis all fees for audit related and non-audit services. The board of directors has established a policy that fees for services other than audit and tax must not exceed 25% of the fees for audit and tax services without the prior approval of the Committee.

### ***Corporate governance and compensation committee***

The Corporate Governance and Compensation Committee strives to maintain the high standards of corporate governance with a focus on a strong and diligent board of directors and prudent management of executive compensation. The committee must be comprised of at least three members appointed annually by the board of directors. The members of the Corporate Governance and Compensation Committee currently are Michael Harris (Chair), William Eeuwes and Terrence Lyons, each of whom is independent of management as determined under applicable securities legislation.

The Corporate Governance and Compensation Committee's mandate includes:

- The development and recommendation to the board of directors of appropriate corporate governance guidelines
- The identification of future board and committee members and the annual review of the board's performance
- Evaluating the Chief Executive Officer's performance and determining his compensation
- Reviewing and making recommendations to the board of directors with respect to the compensation of all executive officers
- Fixing and determining (or delegating the authority to fix and determine) awards to employees of stock or share options under Canaccord's incentive plans
- Reviewing key human resources policies and programs

The education and related experience (as applicable) of each committee member is described below.

**Michael D. Harris, ICD.D. (Chair)** – Michael Harris, ICD.D, is a senior business advisor with the law firm of Cassels Brock & Blackwell LLP in Toronto, and the President of his own consulting firm, Steane Consulting Ltd., and, in this capacity, acts as a consultant to various Canadian companies. Prior to joining Cassels Brock in March 2010, he was a senior business advisor with the law firm of Goodmans LLP in Toronto.

Mr. Harris was born in Toronto in 1945, and was raised in Callander and North Bay, Ontario. Before his election to the Ontario Legislature in 1981, Mike Harris was a schoolteacher, a school board trustee and chair and an entrepreneur in the Nipissing area. On June 8, 1995 Mr. Harris became the 22nd Premier of Ontario following a landslide election victory. In 1999, he was re-elected – making him the first Ontario Premier in over 30 years to form a second consecutive majority government.

In addition to sitting on several boards of Canadian corporations, he also serves as a director of the Tim Horton Children’s Foundation. He is the Honorary Chair of the North Bay District Hospital Capital Campaign and the Nipissing University and Canadore College Capital Campaign. Mr. Harris is also a Senior Fellow of The Fraser Institute. He has received his ICD.D certification from the Institute of Corporate Directors.

In addition to Canaccord Financial Inc., Mr. Harris is a director of the following public companies: Chartwell Seniors Housing Real Estate Investment Trust (Chair), FirstService Corporation, Routel Inc. (Chair), and Element Financial.

**William J. Eeuwes** – refer to profile presented under “Audit Committee”.

**Terrence A. Lyons** – refer to profile presented under “Audit Committee”.

### **Additional information**

Additional information relating to the Company may be found on SEDAR’s website at [sedar.com](http://sedar.com).

Additional information including directors’ and executive officers’ remuneration and indebtedness, principal holders of the Company’s securities and options to purchase securities is contained in the Company’s information circular for its most recent annual meeting of shareholders.

Additional financial information is also provided in the Company’s consolidated financial statements and management’s discussion and analysis for its most recently completed financial year.

## **Schedule “A” Audit Committee Charter**

(As approved by the Audit Committee on January 27, 2005, and amended on May 22, 2012)

### **1. MANDATE**

The primary mandate of the audit committee (the “Audit Committee”) of the Board of Directors of the Company (the “Board”) is to assist the Board in overseeing the Company’s financial reporting and disclosure. This oversight includes:

- (a) reviewing the consolidated financial statements and financial disclosure that is provided to shareholders and disseminated to the public
- (b) reviewing the systems of internal controls to ensure integrity in the financial reporting of the Company
- (c) monitoring the independence and performance of the Company’s external auditors and reporting directly to the Board on the work of the external auditors.

### **2. COMPOSITION AND ORGANIZATION OF THE COMMITTEE**

2.1 The Audit Committee must have at least three directors.

2.2 Subject to the applicable securities legislation (including exemptions), every Audit Committee member must be independent. A member of the Audit Committee is independent if the member has no direct or indirect material relationship with an issuer. A material relationship means a relationship which could, in the view of the issuer’s board of directors, reasonably interfere with the exercise of a member’s independent judgment.<sup>(1)</sup>

2.3 Every Audit Committee member must be financially literate. Financial literacy is the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuer’s financial statements.<sup>(2)</sup>

2.4 The Board will appoint from themselves the members of the Audit Committee on an annual basis for one year terms. Members may serve for consecutive terms.

2.5 The Board will also appoint a chair of the Audit Committee (the “Chair of the Audit Committee”) for a one year term. The Chair of the Audit Committee may serve as the chair of the committee for any number of consecutive terms.

2.6 A member of the Audit Committee may be removed or replaced at any time by the Board. The Board will fill any vacancies in the Audit Committee by appointment from among members of the Board.

### **3. MEETINGS**

3.1 The Audit Committee will meet at least four times a year. Special meetings may be called by the Chair of the Audit Committee as required.

3.2 Quorum for a meeting of the Audit Committee will be a majority of the members in attendance.

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<sup>(1)</sup> National Instrument 52-110 (*Audit Committees*) section 1.4.

<sup>(2)</sup> National Instrument 52-110 (*Audit Committees*) section 1.6.

3.3 Members may attend meetings of the Audit Committee by teleconference, videoconference, or by similar communication equipment by means of which all persons participating in the meeting can communicate with each other.

3.4 The Audit Committee Chair will set the agenda for each meeting, after consulting with management and the external auditor. Agenda materials such as draft consolidated financial statements must be circulated to Audit Committee members for members to have a reasonable time to review the materials prior to the meeting.

3.5 The Company's auditors will be advised of the names of the members of the Audit Committee and will receive notice of and be invited to attend meetings of the Audit Committee and to be heard at those meetings on matters related to the Auditor's duties.

3.6 Minutes of the Audit Committee meetings will be accurately recorded, with such minutes recording the decisions reached by the committee. Minutes of each meeting must be distributed to members of the Board, the Chief Executive Officer, the Chief Financial Officer and the external auditor.

#### **4. RESPONSIBILITIES OF THE COMMITTEE**

4.1 To assist the Board, the Audit Committee will:

##### **External Auditor**

- (a) select, evaluate and recommend to the Board, for shareholder approval, the external auditor to examine the Company's accounts, controls and financial statements
- (b) evaluate, prior to the annual audit by external auditors, the scope and general extent of their review, including their engagement letter
- (c) set the compensation to be paid to the external auditors and recommend such payment to the Board
- (d) obtain written confirmation from the external auditor that it is objective and independent within the meaning of the Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of Chartered Accountants to which it belongs
- (e) recommend to the Board, if necessary, the replacement of the external auditor
- (f) meet at least annually with the external auditors, independent of management, and report to the Board on such meetings
- (g) pre-approve any non-audit services to be provided to the Company by the external auditor and the fees for those services

##### **Consolidated Financial Statements and Financial Information**

- (h) review and discuss with management and the external auditor the annual audited consolidated financial statements of the Company and recommend their approval by the Board
- (i) review and discuss with management, the quarterly consolidated financial statements and, if appropriate, recommend their approval by the Board
- (j) review and if appropriate, recommend to the Board for approval the financial content of the annual report
- (k) review the process for the certification of financial statements by the Chief Executive Officer and Chief Financial Officer

- (l) review the Company's management discussion and analysis, earnings guidance press releases, annual and interim earnings press releases, and audit committee reports before the Company publicly discloses this information
- (m) review annually with external auditors, the Company's accounting principles and the reasonableness of managements judgments and estimates as applied in its financial reporting
- (n) review and consider any significant reports and recommendations issued by the external auditor, together with management's response, and the extent to which recommendations made by the external auditors have been implemented

#### **Risk Management, Internal Controls and Information Systems**

- (o) review with the external auditors and with management, the general policies and procedures used by the Company with respect to internal accounting and financial controls
- (p) review adequacy of security of information, information systems and recovery plans
- (q) review management plans regarding any changes in accounting practices or policies and the financial impact thereof
- (r) review with the external auditors and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Company and the manner in which these matters are being disclosed in the consolidated financial statements
- (s) discuss with management and the external auditor correspondence with regulators, employee complaints, or published reports that raise material issues regarding the Company's financial statements or disclosure
- (t) assisting management to identify the Company's principal business risks
- (u) review the Company's insurance, including directors' and officers' coverage, and provide recommendations to the Board

#### **Other**

- (v) review Company significant loans to employees/consultants
- (w) conduct special reviews and/or other assignments from time to time as requested by the Board.

### **5. PROCESS FOR HANDLING COMPLAINTS REGARDING FINANCIAL MATTERS**

5.1 The Audit Committee will establish a procedure for the receipt, retention and follow-up of complaints received by the Company regarding accounting, internal controls, financial reporting, or auditing matter.

5.2 The Audit Committee will ensure that any procedure for receiving complaints regarding accounting, internal controls, financial reporting, or auditing matters will allow the confidential and anonymous submission of concerns by employees.

### **6. REPORTING**

6.1 The Audit Committee will report to the Board on:

- (a) the external auditor's independence
- (b) the performance of the external auditor and the Audit Committee's recommendations

- (c) regarding the reappointment or termination of the external auditor
- (d) the adequacy of the Company's internal controls and disclosure controls
- (e) the Audit Committee's review of the annual and interim consolidated financial statements
- (f) the Audit Committee's review of the annual and interim management discussion and analysis
- (g) the Company's compliance with legal and regulatory matters to the extent they affect the financial statements of the Company
- (h) all other material matters dealt with by the Audit Committee.

## **7. AUTHORITY OF THE COMMITTEE**

7.1 The Audit Committee will have the resources and authority appropriate to discharge its duties and responsibilities. The Audit Committee may at any time retain outside financial, legal or other advisors at the expense of the Company without approval of management.

7.2 The external auditor will report directly to the Audit Committee.