Canaccord Capital Inc.

Second Quarter 2005 Report to Shareholders

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CANACCORD CAPITAL INC. REPORTS SECOND QUARTER 2005 RESULTS

Strong demand in European market continues to drive growth in revenue

VANCOUVER, November 3, 2004 – Canaccord Capital Inc. (CCI: TSX) announced that its net income for the six month period ended September 30, 2004 (year-to-date fiscal 2005), was $14.5 million, up by $6.4 million from the same period a year ago. Revenue for the six month period was $166.2 million, up $33.3 million compared to the same period a year ago and fully diluted earnings per share (EPS) was $0.35, up $0.11 from the first six months of fiscal 2004. For the three month period ended September 30, 2004 (second quarter fiscal 2005), net income was $6.1 million, down by $2.5 million from the same period a year ago. Revenue for the second quarter was $85.6 million, up $4.2 million compared to the same quarter a year ago. EPS was $0.13, down $0.11 from the previous year.

Peter M. Brown, Chairman & CEO stated, "Despite the traditionally slower summer trading months for the industry, Canaccord continues to deliver solid revenue growth in line with our expectations." Michael G. Greenwood, President & COO added, "Although market conditions in North America have been mixed, equity markets in Europe have remained robust. Our presence in Europe has enabled us to mitigate the seasonal downturn in North America and reconfirms that the strategy we have in place will deliver long-term growth to our shareholders."

Highlights of year-to-date fiscal 2005 results for the six months ended September 30, 2004, compared to the year-to-date fiscal 2004 results for the six months ended September 30, 2003:

- Net income of $14.5 million, up $6.4 million from $8.1 million
- Fully diluted EPS of $0.35, up $0.11 from $0.24
- ROE was 13.3%, down from a return on average capital employed (ROCE) of 21.3%
- Revenue of $166.2 million was up $33.3 million, or 25%, from $132.9 million
- Expenses of $137.9 million were up $24.3 million, or 21%, from $113.6 million
- Operating income before other items of $28.2 million up 47%, from $19.2 million
- Book value per common share at the period end grew to $4.37, up $2.20 from $2.17

Highlights of second quarter fiscal 2005 results compared with second quarter fiscal 2004 results:

- Net income of $6.1 million, declined by $2.5 million from $8.6 million
- Fully diluted EPS of $0.13, down $0.11 from $0.24
- ROE was 7.3%, down from a ROCE of 44.9%
- Revenue of $85.6 million was up $4.2 million, or 5%, from $81.4 million
- Expenses of $72.6 million were up 12%, from $64.9 million
- Operating income before other items of $13.0 million declined by 21%, from $16.5 million
- A common share dividend of $0.05 per share was declared by the board payable on December 10, 2004, to shareholders of record on November 23, 2004
- Repayment of $10.0 million in subordinated debt on July 30, 2004

A key quarterly highlight for Canaccord was the continued growth in our Global Capital Markets business. Capital markets activity has been extremely favourable in Europe, driven largely by a high demand for resource-related equities, which contributed to our total Global Capital Markets revenue for the quarter of $46.7 million, up $7.7 million, or 20%, compared to a year ago.

CANACCORD CAPITAL

Chairman & CEO's Message

Stable revenue in line with historic seasonality

Canaccord's performance for the second quarter fiscal 2005 was in line with our expectations and consistent with our outlook last quarter. We experienced the traditional seasonal slowdown in equity market activity typically seen during the summer months in North America. Notably, this seasonality was not a factor in the comparative quarter last year as it was one of the strongest summer quarters in our history, due to activity generated by filling the backlog that had been building in North America because of weak capital markets in 2002 and early 2003. This past summer has been more typical however, and notwithstanding the inherent seasonality factor within the industry, we have been able to utilize the strengths of our different business sectors to generate solid growth during this slower period. Revenue for the first half of fiscal year 2005 was up 25% from the same period a year ago and up 5% from the same quarter a year ago. This robust performance is a reflection of the benefit derived from our diversification among geographic areas, business segments, product lines and broker composition – a unique advantage for a Canadian independent investment dealer. If fiscal 2005 matches our past experience in eight of the last ten years, we expect to generate approximately 60% of our annual revenue in the second half of our fiscal year. The slowest month so far this fiscal year was August and the upward trend that started in September has continued, boding well for our third quarter.

Prudent and effective management of growth capital continues

Since becoming a public company on June 30, 2004, we have continued to implement our strategy for long-term growth. The capital entrusted to us is being carefully utilized to effectively and prudently enhance and expand the business units that offer the best opportunity for growth: Private Client Services, Global Capital Markets, our on-line trading capabilities and correspondent brokerage service operations.

Canaccord's success stems from our ability to attract and retain individuals who are among the best in the business. In Private Client Services, we continue to focus on the recruitment and retention of qualified Investment Advisors by creating an environment at Canaccord which makes us the logical dealer of choice for advisors and their clients. We offer an entrepreneurial culture, allowing our Investment Advisors the flexibility to recommend those products and services that best meet their clients' needs. We have been very successful in our recruitment efforts and have added 30 new highly qualified advisors to our team since April 2004. I am also pleased to report that assets under administration currently stand at $8.7 billion as of September 2004, an increase of 39% from a year ago. Along with freedom and independence, we provide our advisors with leading technology and a back office support group that is considered one of the best in the industry.

Our Global Capital Markets group has delivered solid growth again this quarter, following on from their outstanding first quarter results. Strong demand for equity capital in the resource sector, combined with our established presence in both the North American and European capital markets, has enabled us to continue to deliver solid value to our shareholders. To increase our penetration in these markets we are continuing to expand our product lines and capabilities in this business sector. Although our initiatives will lead to increased expenses in the short term, our investments in this area will add to our revenue base providing long term benefits and returns as we move forward.

We are pleased with the confidence shown in us by the market and believe that we are well positioned both for the remainder of fiscal 2005 and longer-term into the future. I look forward to updating you, our shareholders, clients, and employees on our developments next quarter.

Peter M. Brown
Chairman & Chief Executive Officer

Letter From the President & COO

Canaccord has three key performance drivers: strong people, a dynamic strategy and effective execution capabilities. With our diversification across key partners, geographies, businesses and products, we have a more distributed revenue profile and therefore lower risk than we would otherwise.

Revenue growth continues

Our revenue is derived from diverse sources: different business lines, varied geographical locations and a broad range of product offerings. The revenue profile for Private Client Services has been between 40% and 54% of overall revenue over the past six quarters, while that of Global Capital Markets has been between 40% and 57%. We also benefit from geographic diversity with Private Client Services available across Canada and our Global Capital Markets team operating in both North America and Europe. Furthermore, no single product or client has a substantial impact on our revenue mix. Given this diversification and despite mixed conditions in the North American economy during our second quarter fiscal 2005, Canaccord has continued to see positive revenue growth. Our revenue for the quarter was $85.6 million, up 5% for the quarter and up 25% for the six months ending September 30, 2004, compared to the same periods a year ago. The increase in revenue in the second quarter was largely a result of the strength in the European market of our Global Capital Markets operations, which generated a 20% increase in revenue compared to the same quarter last year. This growth is largely attributable to our strategy of targeting the Alternative Investment Market (AIM), the world's leading small-cap growth market and the junior arm of the London Stock Exchange (LSE). We believe this is an under-serviced market niche, and one in which we have particular expertise. At the end of September 2004, Canaccord was a broker to 37 AIM listed companies and seven companies listed on the LSE. We were also the Nominated Advisor (Nomad) to 32 of the 37 companies listed on AIM for which we are brokers. Furthermore, as of September 30, 2004, we were either the Nomad or broker for six of the top 10 AIM companies by market capitalization.

Investment in strategic initiatives contributes to expense growth

Despite our revenue momentum, net income for the quarter was down 29% year over year and EPS declined by 46%. Contributing to the reduction in EPS this quarter was the additional equity that was issued with our public offering at the end of the first fiscal quarter 2005, which has not yet been fully deployed within our different business units. The decrease in earnings is primarily a reflection of expense growth ahead of revenue growth as we lay the foundation for the future. We have made a significant investment to further develop and enhance our oil and gas franchise in Calgary and we have continued to invest in our European operations as a whole. Shareholders are benefiting from the diversification in our revenue sources, but the cost of doing business in Europe is higher than in North America, especially as the high level of payroll taxes in the UK is incremental to any of our payout arrangements for the European producers. In addition, the European-based members of our Global Capital Markets segment have exceeded targeted returns on capital and, as a result, certain incentive compensation payouts are now at previously agreed higher-levels commensurate with such returns.

Fiscal 2005 is a transitional year for Canaccord. Many of the payout agreements in place, including those referred to above, were developed as a private company and remain in place for this fiscal year. As we move forward beyond fiscal 2005 we will continue to manage the balance between the interests of our shareholders and the retention of high-performance individuals. By, working with our partners and by leveraging various incentive tools, such as stock-based compensation, we will be able to develop alternative-compensation structures that better reflect our new public company status.

Deal participation leadership continues

The Financial Post Data Group has continued to rank Canaccord as number one among its peers. Canaccord participated in more equity deals than any other dealer in Canada in each of the last two quarters June 30, 2004 and September 30, 2004. We are continuing to increase our participation in equity offerings both as lead bookrunner and as a syndicate member. This increasing level of deal activity has a flow-through contribution to our growth in the Private Client Services sector by enabling us to offer our private clients access to a variety of additional products. Our Global Capital Markets operations are well capitalized and able to execute on all forms of corporate finance transactions including bought deals. We will continue our long-term strategy to expand and deepen our presence in this sector, particularly in the REIT, royalty trust, mining and oil and gas segments.

On-line trading and Pinnacle growth

Since our Initial Public Offering, we have been working hard to deliver on our strategy to generate long-term growth. One of the key areas of our strategic plan is to grow our on-line trading and correspondent brokerage services business known as Pinnacle, which will enable us to leverage our infrastructure investments and technological capability. At present, Pinnacle provides secure and confidential fully integrated administrative, trading and research services to other brokerage firms. The Pinnacle business unit was developed as an extension and application of Canaccord's substantial investment in its information technology platform and back office operating infrastructure. We believe that there is a strong growth opportunity available for providing correspondent brokerage services through the Pinnacle business unit to dealers in the boutique or specialized categories. We plan to grow this area of our business by aligning ourselves through strategic acquisitions and partnerships and hope to continue to make more progress as we move forward into the rest of the year.

Strength and breadth of talent is reflected in our robust performance

Our strong entrepreneurial culture creates an environment where everyone is accountable to their peers and is driven to continue to create and add value. Regardless of the market environment, our partners are working hard to stay 'top-of-mind' with our clients by generating strategic and actionable investment ideas. This dynamic approach is paying dividends as our revenue and reputational franchise continue to grow. As Canada's pre-eminent independent full-service investment dealer, we will strive to execute effectively on our vision, generating client and shareholder value.

I look forward to reporting our results to you over the balance of our inaugural year as a public company.

MICHAEL G. GREENWOOD
President & Chief Operating Officer

Management's Discussion & Analysis

Second quarter ending September 30, 2004 - this document is dated November 3, 2004.

The following discussion of Canaccord Capital Inc.'s (Canaccord) financial condition and results of operations is provided to enable a reader to assess material changes in financial condition and results of operations for the three and six month periods ended September 30, 2004, compared to the corresponding periods in the preceding fiscal year, with an emphasis on the most recent three month period. Canaccord's fiscal year end is March 31. Canaccord's second quarter fiscal 2005 for the three month period ended September 30, 2004, is also referred to as second quarter 2005 and as Q2/05 in the following discussion. Canaccord's year-to-date fiscal 2005 for the six month period ended September 30, 2004, is also referred to as year-to-date 2005 and as 6 Mos. YTD/05 in the following discussion. This discussion should be read in conjunction with the unaudited interim consolidated financial statements for the three and six month periods ended September 30, 2004, beginning on page 16 of this report, and Management's Discussion and Analysis (MD&A) and the audited consolidated financial statements for the fiscal year ended March 31, 2004, in Canaccord's final prospectus dated June 23, 2004 (the Prospectus). There has been no material change to the information contained in the annual MD&A for fiscal 2004 except as disclosed in this MD&A. Canaccord's financial information is expressed in Canadian dollars and is prepared in accordance with Canadian generally accepted accounting principles (GAAP). All the financial data below is unaudited except for the fiscal year end data.

Caution regarding forward-looking statements:

This document may contain certain forward-looking statements. These statements relate to future events or future performance and reflect management's expectations regarding 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" 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, which may cause actual results to differ materially from any forward-looking statement. These factors include, but are not limited to, market and general economic conditions, the nature of the financial services industry and the risks and uncertainties detailed from time to time in Canaccord's interim and annual financial statements and its prospectus and annual information form filed on www.sedar.com. These forward-looking statements are made as of the date of this document, and Canaccord assumes no obligation to update or revise them to reflect new events or circumstances.

Overview:

Canaccord is a leading independent full service investment dealer. Canaccord has substantial operations in each of the two principal segments of the securities industry: Private Client Services and Global Capital Markets. Together these operations offer a wide range of complementary investment products, brokerage services and investment banking services to Canaccord's retail, institutional and corporate clients.

Canaccord's strong capital base enables the firm to support expansion in Private Client Services and Global Capital Markets and to respond quickly to competitive changes in the industry. Canaccord's independent ownership structure, with over 65% of its outstanding shares employee-owned, is key to promoting an entrepreneurial culture and providing a distinct recruiting advantage for attracting and retaining highly qualified professionals.

Non-GAAP Measures:

Certain non-GAAP measures are utilized by Canaccord as measures of financial performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

Operating income before other items is a non-GAAP performance measure, which is calculated as income before income taxes before amortization, development costs and restructuring and other costs. Reconciliation between operating income before other items and income before income taxes is included in the interim consolidated statements of operations and retained earnings in the interim consolidated financial statements. Management uses operating income before other items as a measure of financial performance.

Capital employed is a non-GAAP measure of capital. Capital employed was capital in the business, which included shareholders' equity and convertible debentures. On June 30, 2004, the convertible debentures were converted to share capital. Return on average capital employed is net income divided by average capital employed during the period expressed as a percentage. Management uses this measure to assess the financial performance relative to average capital employed. As the capital base of Canaccord is now comprised of only common shareholders' equity, it is management's intention to use return on average common equity in future periods, and when comparing to results up to June 30, 2004, use return on average capital employed as the comparison.

Assets under administration (AUA) is a non-GAAP measure of client assets that is common to the wealth management aspects of the private client services industry. AUA is the market value of client assets administered by Canaccord in respect of which Canaccord earns commissions or fees. This measure includes funds held in client accounts as well as the aggregate market value of long and short security positions. Canaccord's method of calculating AUA may differ from the methods used by other companies and therefore may not be comparable to other companies. Management uses this measure to assess operational performance of the Private Client Services business segment.

Consolidated overview:

Six months year-to-date summary data[1]:

(C$ thousands, except per share, employee and % amounts)	For the six months ended September 30, 2004	September 30, 2003	6 Mos. YTD/05 versus 6 Mos. YTD/04 Increase (decrease)	
Revenue	**166,166**	132,831	33,335	25.1%
Expenses	**137,944**	113,626	24,318	21.4%
Operating income before other items	**28,222**	19,205	9,017	47.0%
Other items	**5,482**	5,888	(406)	(6.9)%
Net income	**14,529**	8,170	6,359	77.8%
Earnings per share (EPS) – fully diluted	**0.35**	0.24	0.11	45.8%
Return on average common equity (ROE) /return on average capital employed (ROCE)[2]	**13.3%**	21.3%		
Book value per common share – period end	**4.37**	2.17	2.20	101.4%
Number of employees	**1,257**	1,145	112	9.8%

(1) Some of this data is considered to be non-GAAP. See above – "Non-GAAP measures".
(2) Effective June 30, 2004, Canaccord's capital in the business consisted of only common shareholders' equity. Management uses return on average common equity for analysis purposes, but as Canaccord's historical capital in the business involved elements other than common equity, such as convertible debentures, comparisons to historical periods are to return on average capital employed.

Net income for the six month period was $14.5 million, up $6.4 million, or 77.8%, from a year ago. Six month fully diluted EPS was $0.35, up $0.11, or 46%, and reflects stronger growth in net income during the first half of fiscal 2005 compared to the same period a year ago.

Six month revenue was $166.2 million, up $33.3 million, or 25.1%, compared to the same period a year ago and is primarily due to an increase in market activity resulting from better economic conditions and a recovery in the North American equity market relative to the first half of fiscal 2004.

Expenses for the first half of fiscal year 2005 were $137.9 million, up $24.3 million, or 21.4%, from a year ago, reflecting an increase in incentive compensation of $14.8 million and an increase in salary and benefits of $4.4 million. These expenses are largely due to the addition of 112 net new employees as of September 30, 2004 compared to September 30, 2003. The additional employees were hired to support building out future revenue activity in our business segments and additional staff to support the additional requirements of being a public company.

Six month operating income before other items for fiscal 2005 was $28.2 million, up 47.0%, compared to the same period a year ago.

Second fiscal quarter summary data[1]:

(C$ thousands, except per share, and % amounts)	For the three months ended September 30, 2004	September 30, 2003	Q2/05 versus Q2/04 Increase (decrease)	
Revenue	**85,601**	81,403	4,198	5.2%
Expenses	**72,617**	64,869	7,748	11.9%
Operating income before other items	**12,984**	16,534	(3,550)	(21.5)%
Other items	**2,715**	2,783	(68)	(2.4)%
Net income	**6,123**	8,601	(2,478)	(28.8)%
EPS – fully diluted	**0.13**	0.24	(0.11)	(45.8)%
ROE/ROCE[2]	**7.3%**	44.9%		

(1) Some of this data is considered to be non-GAAP. See above – "Non-GAAP measures".
(2) Effective June 30, 2004, Canaccord's capital in the business consisted of only common shareholders' equity. Management uses return on average common equity for analysis purposes, but as Canaccord's historical capital in the business involved elements other than common equity, such as convertible debentures, comparisons to historical periods are to return on average capital employed.

Net income for the quarter was $6.1 million, down $2.5 million from $8.6 million for the same quarter a year ago. Fully diluted EPS was $0.13, down $0.11. ROE was 7.3% compared to a ROCE of 44.9% a year ago.

Revenue for the quarter of $85.6 million was up $4.2 million, or 5.2%, from $81.4 million compared to a year ago and largely reflects increased activity in Global Capital Markets.

Expenses for the quarter of $72.6 million were up $7.7 million, or 11.9%, from $64.9 million a year ago, reflecting increases in incentive compensation of $3.1 million and salary and benefits of $2.1 million. These increases are largely related to the additional employees over the same quarter a year ago. These additional employees were hired to support the additional requirements of being a public company and to support expansion and future revenue growth in our business segments.

Operating income before other items for the quarter of $13.0 million was down $3.5 million from $16.5 million a year ago reflecting the fact that revenues increased less than expenses.

Book value per common share grew 101.4% to $4.37, up $2.20 from $2.17 a year ago. This increase largely reflects the issuance from treasury of 6,829,268 common shares in connection with our Initial Public Offering.

Industry outlook:

For the first half of calendar 2004 economic conditions were mixed. According to industry sources, the second quarter of calendar 2004 saw operating profits in the securities industry drop by 30% due mainly to decreased investor activity arising from concerns over rising interest rates, higher commodity prices and mixed economic news. The slow summer trading months affected most of the third quarter of the calendar year, but the quarter ended with a turnaround beginning in early September. Equity markets witnessed a substantial increase in trading volumes on the TSX, driven mainly by investor demand for resource-related equities, particularly in oil and gas. The overall Canadian economy is expected to remain positive for the remainder of the calendar year 2004 and into 2005, despite the recent increase in the Canadian dollar, which has reached an 11-year high against the US dollar, rising interest rates and high oil prices.

In Europe, equity markets have been more robust, particularly the Alternative Investment Market (AIM), which is the global market for smaller growing companies and the junior arm of the London Stock Exchange (LSE). The success of this market is largely due to the lower costs and less stringent regulations than those imposed on companies seeking a full listing on the main market of the LSE and also by the increase in demand from investors looking for small to mid-cap resource-related equities.

Results of operations:

Revenue:

	Revenue for the six months ended				6 Mos. YTD/05 versus 6 Mos. YTD/04	
(C$ thousands, except % amounts)	**September 30, 2004**		September 30, 2003		Increase (decrease)	
Private Client Services	**74,821**	**45.0%**	66,776	50.3%	8,045	12.0%
Global Capital Markets	**85,842**	**51.7%**	59,818	45.0%	26,024	43.5%
Other	**5,503**	**3.3%**	6,237	4.7%	(734)	(11.8)%
Total	**166,166**		132,831		33,335	25.1%

The consolidated revenue growth of $33.3 million for the first six months of fiscal year 2005 principally reflects solid growth in Global Capital Markets which has increased by $26.0 million, or 44%, compared to the first half of fiscal year 2004.

	Revenue for the three months ended				Q2/05 versus Q2/04	
(C$ thousands, except % amounts)	**September 30, 2004**		September 30, 2003		Increase (decrease)	
Private Client Services	**36,499**	**42.7%**	39,144	48.1%	(2,645)	(6.8)%
Global Capital Markets	**46,671**	**54.5%**	39,001	47.9%	7,670	19.7%
Other	**2,431**	**2.8%**	3,258	4.0%	(827)	(25.4)%
Total	**85,601**		81,403		4,198	5.2%

Consolidated revenue growth of $4.2 million in the second quarter over the second quarter last year principally reflects solid growth in the European market of Global Capital Markets, which more than doubled its revenue in Q2/05 compared to the same quarter a year ago.

Geographic revenue:

Revenue from the UK and Europe is derived entirely from Canaccord's Global Capital Markets activity, while revenue in North America is derived from Canaccord's Private Client Services, Global Capital Markets, and Other segments.

	Geographic revenue for the six months ended				6 Mos. YTD/05 versus 6 Mos. YTD/04	
(C$ thousands, except % amounts)	September 30, 2004		September 30, 2003		Increase	
Canada	**124,493**	**74.9%**	115,134	86.7%	9,359	8.1%
UK	**41,673**	**25.1%**	17,697	13.3%	23,976	135.5%
Total	**166,166**		132,831		33,335	25.1%

Six month revenue in North America was up $9.4 million, or 8.1%, while revenue in the UK and Europe increased by $23.9 million, or 135.5%, reflecting increased corporate finance activity.

	Geographic revenue for the three months ended				Q2/05 versus Q2/04	
(C$ thousands, except % amounts)	September 30, 2004		September 30, 2003		Increase (decrease)	
Canada	**60,277**	**70.4%**	69,460	85.3%	(9,183)	(13.2)%
UK	**25,324**	**29.6%**	11,943	14.7%	13,381	112.0%
Total	**85,601**		81,403		4,198	5.2%

Revenue for the second quarter in North America was down by 13.2% from a year ago and is indicative of the generally slow summer trading months in the North American capital markets. Private Client Services and North America Global Capital Markets revenue declined by $2.6 million and $5.7 million, respectively, compared to the same quarter last year. Revenue in the UK and Europe increased 112.0%, largely due to high investor demand for resource-related companies listed on the LSE and AIM. The table on page 25 of the interim unaudited consolidated financial statements provides further detail on Canaccord's geographic results.

Expenses:

	Expenses and Expenses as a % of Revenue for the six months ended				6 Mos. YTD/05 versus 6 Mos. YTD/04	
(C$ thousands, except % amounts)	September 30, 2004		September 30, 2003		Increase	
Incentive compensation	**78,194**	**47.1%**	63,343	47.7%	14,851	23.4%
Salaries and benefits	**21,628**	**13.0%**	17,239	13.0%	4,389	25.5%
Other overhead expenses[1]	**38,122**	**22.9%**	33,044	24.9%	5,078	15.4%
Total	**137,944**		113,626		24,318	21.4%

[1] Consists of trading costs, premises and equipment, communication and technology, interest and general and administrative expenses.

Incentive compensation

For the six months ended September 30, 2004, incentive compensation, as a percentage of revenue, decreased to 47.1% from 47.7% compared to the first six months of fiscal year 2004. The dollar amount paid out increased by $14.9 million for the first half of fiscal year 2005 compared to last year, which largely reflects increased trading and financing activity arising from an overall improvement in the economy and improved market conditions compared to the same period a year ago.

Salaries and benefits and other overhead expenses

Salaries and benefits and other overhead expenses increased by $9.5 million during the first half of fiscal 2005 and were largely driven by the overall growth of the firm. The increase is mainly due to a firm wide talent retention initiative in connection with the remuneration for salaried employees in all business segments relative to current market levels and an increase of 112 net new employees for the first six months of fiscal year 2005 compared to the same period a year ago. The majority of these new employees were hired to support our expansion and future growth strategy in Private Client Services, Global Capital Markets, particularly in Calgary and in Europe, and operational support related to Canaccord's transition to becoming a public company.

General and administrative

Included as a component of other overhead expenses are general and administrative expenses, which increased by $3.7 million for the first half of the fiscal year 2005 reflecting increases in such items as travel expenses, various office costs, insurance and professional fees.

	Expenses and Expenses as a % of Revenue for the three months ended				Q2/05 versus Q2/04	
(C$ thousands, except % amounts)	September 30, 2004		September 30, 2003		Increase	
Incentive compensation	**42,721**	**49.9%**	39,669	48.7%	3,052	7.7%
Salaries and benefits	**10,414**	**12.2%**	8,338	10.2%	2,076	24.9%
Other overhead expenses[1]	**19,482**	**22.8%**	16,862	20.7%	2,620	15.5%
Total	**72,617**		64,869		7,748	11.9%

[1] Consists of trading costs, premises and equipment, communication and technology, interest and general and administrative expenses.

Incentive compensation

Incentive compensation, as a percentage of revenue, increased to 49.9% in the second quarter of 2005 from 48.7% compared to the same quarter a year ago. The dollar amount paid out increased by $3.1 million in the second quarter compared to last year, which largely reflects the increased revenue between the two periods arising from an improvement in the economy and a return to healthier trading activity in the Global Capital Markets group.

Salaries and benefits and other overhead expenses

Salaries and benefits and other overhead expenses increased by $4.7 million for the quarter and were largely driven by the overall growth of the firm. In addition to a firm wide talent retention initiative in connection with the remuneration for salaried employees in all business segments relative to current market levels, there was an increase of 112 net new employees in the second quarter 2005 compared to the same quarter a year ago. A majority of those recently hired are to support our expansion and future growth strategy in Private Client Services and Global Capital Markets that includes a newly established oil and gas research team in Calgary and expansion of our Corporate Finance department in Europe.

General and administrative

General and administrative expenses, which increased by $2.8 million for the quarter, mainly due to increases in promotion and travel expenses of $1.0 million, $0.5 million in professional fees, $0.4 million in office and administrative expenses, $0.2 million in insurance costs and an increase of $0.1 million in regulatory and professional development costs.

Operating income before other items:

Operating income before other items reflects the factors that impacted revenue and expenses as discussed above. Operating income before other items was $13.0 million, down $3.5 million, or 21%, from the same quarter a year ago, and largely reflected higher salaries and benefits and general and administrative costs related to supporting the overall growth of the firm during this transitional period.

Other items:

Other items are principally related to developing and upgrading Canaccord's information technology platform, incentive payments to new hires and restructuring costs.

	Other items for the six months ended	
(C$ thousands)	September 30, 2004	September 30, 2003
Amortization	**1,431**	1,787
Development costs	**4,051**	3,786
Restructuring and other costs	—	315
Total	**5,482**	5,888

	Other items for the three months ended	
(C$ thousands)	September 30, 2004	September 30, 2003
Amortization	**739**	875
Development costs	**1,976**	1,955
Restructuring and other costs	—	(47)
Total	**2,715**	2,783

Development costs

Development costs include hiring incentives and systems development costs. Hiring incentives are often incurred when Canaccord hires new Investment Advisors or capital markets professionals. Systems development costs are expenditures that Canaccord has made in conjunction with the development of its information technology platform.

	Development costs for the six months ended	
	September 30,	September 30,
(C$ thousands)	2004	2003
Hiring incentives	**1,552**	1,812
Systems development	**2,499**	1,974
Total	**4,051**	3,786

	Development costs for the three months ended	
	September 30,	September 30,
(C$ thousands)	2004	2003
Hiring incentives	**824**	943
Systems development	**1,152**	1,012
Total	**1,976**	1,955

Net income:

Net income for the year-to-date 2005 was $14.5 million, up $6.4 million, or 77.8%, compared to net income of $8.1 million for the same period a year ago. This increase in earnings is mainly due to a strong start to fiscal 2005 in both primary business segments during the first quarter and continued revenue growth in Global Capital Markets in the second quarter. Fully diluted EPS for the six months year-to-date 2005 was $0.35, up $0.11, or 45.8%, from a year earlier. The slower increase in EPS relative to net income is largely due to the dilutive impact of the issuance from treasury of 6,829,268 common shares from the Initial Public Offering on June 30, 2004.

Net income for the quarter was $6.1 million, down $2.5 million compared to net income of $8.6 million for the same quarter a year ago. The decrease in earnings is primarily due to slower trading activity in Private Client Services and Global Capital Markets, which is typically the case during the second half of the calendar year for the securities industry. Fully diluted EPS was $0.13, down $0.11, or 45.8%, from a year earlier. The further decrease in EPS relative to net income is largely due to the dilutive impact of the issuance from treasury of 6,829,268 common shares from the Initial Public Offering on June 30, 2004.

Business segment results:

Detailed financial results for the business segments are shown on page 24 of the interim consolidated financial statements.

Private Client Services

Private Client Services revenue is principally derived from trading commissions generated from a diverse client base of individuals and high net worth accounts. Revenue derived from client activity is very closely tied to general stock market performance and trading activity.

(C$ thousands, except assets under administration is in C$ millions, employees and Investment Advisors are in single digits, and % amounts)	Private Client Services summary for the six months ended		6 Mos. YTD/05 versus 6 Mos. YTD/04	
	September 30, 2004	September 30, 2003	Increase (decrease)	
Revenue	**74,821**	66,776	8,045	12.0%
Expenses	**53,215**	44,631	8,584	19.2%
Other items	**1,754**	2,824	(1,070)	(37.9)%
Income before income taxes	**19,852**	19,321	531	2.7%
Assets under administration (AUA)	**8,678**	6,232	2,446	39.2%
Number of Investment Advisors	**420**	410	10	2.4%
Number of employees	**670**	626	44	7.0%

Six month revenue was up $8.0 million, or 12%, from the same period a year ago.

Six month expenses were up $8.6 million, or 19%, which was faster than revenue growth for the first half of the fiscal year 2005 compared to the first six months in fiscal year 2004. Due to a change in cost allocation, variable trading costs are now applied directly to the relevant business group. During the first half of fiscal year 2005, variable trading costs of $3.6 million were directly applied to Private Client Services. Without this newly allocated cost, expenses for the year-to-date would have increased by only 11%, which is less than revenue growth.

Six month net income for Private Client Services was $19.9 million, up 3%, from the same period a year ago and largely reflects the strong growth in revenue during the first quarter of fiscal 2005.

(C$ thousands, except assets under administration is in C$ millions, employees and Investment Advisors are in single digits, and % amounts)	Private Client Services summary for the three months ended		Q2/05 versus Q2/04	
	September 30, 2004	September 30, 2003	Increase (decrease)	
Revenue	**36,499**	39,144	(2,645)	(6.8)%
Expenses	**25,856**	24,592	1,264	5.1%
Other items	**829**	1,311	(482)	(36.8)%
Income before income taxes	**9,814**	13,241	(3,427)	(25.9)%
Assets under administration (AUA)	**8,678**	6,232	2,446	39.2%
Number of Investment Advisors	**420**	410	10	2.4%
Number of employees	**670**	626	44	7.0%

Revenue from Private Client Services for the quarter declined by $2.6 million, or 7%, from a year ago, which is largely attributable to slower trading activity in the equity markets. The growth in AUA largely reflects the increase in value of equities in the North American capital markets and the addition of assets transferred with newly hired Investment Advisors. There were 420 Investment Advisors at the end of the second quarter of 2005, up 10 from a year ago. The breadth and diversity of our sales force has continued to improve as Investment Advisors with a focus on growth in AUA and increased fee-based business are attracted to Canaccord through our Private Client Services strategy. In total, 44 employees, including the 10 Investment Advisors mentioned above, were hired to support the overall expansion of our Private Client Services for the quarter ended September 30, 2004 compared to the same quarter a year ago. The majority of these new hires include sales assistants and Investment Advisor trainees.

Expenses for the second quarter grew 5%, largely reflecting an increased allocation of trading costs, which are up by $1.7 million, from $0.1 million the same quarter a year ago. Due to a change in cost allocation methodology in fiscal year 2005, variable trading costs are now applied directly to the relevant business group. For the second quarter of 2005, variable trading costs of $1.6 million were directly applied to Private Client Services. Without this newly allocated cost for the quarter, expenses for the period would have decreased 1.4%.

Income before income taxes for the quarter was down $3.4 million, or 26%, largely reflecting the decline in revenue and the allocation of trading costs to the business group that incurred the expense in the quarter compared to the same quarter a year ago.

Global Capital Markets

Global Capital Markets revenue is generated from commissions and fees earned in connection with corporate finance and underwriting transactions, as well as net trading gains and losses from Canaccord's principal and international trading operations. Accordingly, this revenue is directly affected by levels of corporate activity, economic and business conditions.

(C$ thousands, except employees is in single digits and % amounts)	Global Capital Markets summary for the six months ended		6 Mos. YTD/05 versus 6 Mos. YTD/04	
	September 30, 2004	September 30, 2003	Increase (decrease)	
Revenue	**85,842**	59,818	26,024	43.5%
Expenses	**60,677**	42,174	18,503	43.9%
Other items	**918**	931	(13)	(1.4)%
Income before income taxes	**24,247**	16,713	7,534	45.1%
Number of employees	**241**	227	14	6.2%

Six month revenue of $85.8 million was up $26.0 million, or 44% from the same period a year ago.

Six month expenses were $60.7 million, up $18.5 million, or 44%, of which $2.1 million was due to the change in cost allocations where variable trading costs are now directly applied to the relevant business group. Without this newly allocated trading cost, expenses would have only increased 39%.

Overall, net income was up $7.5 million, or 45%, compared to the first half of fiscal year 2004. This increase is largely attributed to the solid growth and performance in the European Capital Markets where revenue increased by $24.0 million, or 136%, from the first half of fiscal year 2004.

	Global Capital Markets summary for the three months ended		Q2/05 versus Q2/04	
(C$ thousands, except employees is in single digits and % amounts)	September 30, 2004	September 30, 2003	Increase (decrease)	
Revenue	**46,671**	39,001	7,670	19.7%
Expenses	**34,898**	24,552	10,346	42.1%
Other items	**572**	418	154	36.8%
Income before income taxes	**11,201**	14,031	(2,830)	(20.2)%
Number of employees	**241**	227	14	6.2%

Revenue from Global Capital Markets for the quarter was up $7.7 million, or 20%, compared to the same quarter a year ago. The increase largely reflects the continued growth momentum in Europe. $13.4 million of the revenue increase was a direct result of our unique advisory role as a broker and/or Nominated Advisor (Nomad) to companies listed on the LSE and on AIM, which generates a recurring revenue base for this segment. As of September 30, 2004, we were a Nomad to 32 AIM companies and brokers to seven LSE companies. In North America, revenue for the quarter was $21.3 million, down $5.7 million compared to the same quarter a year ago, which was an unusually strong quarter that was driven by the pent up demand for capital that had developed earlier in the decade. Compared to the first fiscal quarter of 2005, revenue in North America was actually down only $1.5 million. According to the Financial Post Data Group, Canaccord continued to maintain its number one ranking as the firm with the highest number of deal participations in equity offerings for the quarters ended June 2004 and September 2004, despite the general slowdown in activity. International Trading revenue for the quarter decreased by $0.5 million, or 15%, due to a general decline in trading activity in the North American equity markets compared to the same quarter a year ago. Our Registered Trading business revenue was $0.2 million this quarter, down from $2.4 million a year ago but virtually unchanged from the first quarter of 2005, reflecting structural changes implemented earlier this fiscal year.

Expenses for the quarter grew 42% compared to the same quarter a year ago, which was higher than revenue growth and largely reflects higher incentive compensation in Europe. For the quarter ended September 30, 2004, incentive compensation expense was $23.4 million, up $5.6 million, or 31%, from a year ago. This is largely due to the addition of 14 new employees over the same quarter a year ago, in part, to support the increase in market activity in our Global Capital Markets, but to also expand our presence in key markets particularly in Europe and Calgary where we expect strong revenue growth opportunities for the future. During this quarter, our European business has achieved much earlier than anticipated returns on capital for this fiscal year, therefore, the producers in this business are now receiving incentive compensation at a higher payout level. Another reason for the increase in incentive compensation is the inherent payroll tax, or National Health Insurance (NHI) tax, associated with doing business in the UK. NHI is a variable tax of approximately 12% to 13% and depends on the payout levels. For the second quarter of fiscal 2005, NHI expense was $0.8 million up $0.5 million compared to the same quarter a year ago. Trading costs increased by $1.1 million compared to the same quarter a year ago due to the allocation of variable trading costs from the Other business segment. Without the newly allocated trading costs, expenses for the quarter would have only increased 38%.

Income before income taxes for the quarter was down $2.8 million, or 20%, reflecting the fact that revenue grew slower than expenses.

Other segment

The Other segment includes correspondent brokerage services, interest, foreign exchange revenue and expenses not specifically allocable to Private Client Services and Global Capital Markets.

	Other segment summary for the six months ended		6 Mos. YTD/05 versus 6 Mos. YTD/04	
(C$ thousands, except employees is in single digits and % amounts)	September 30, 2004	September 30, 2003	Increase (decrease)	
Revenue	**5,503**	6,237	(734)	(11.8)%
Expenses	**24,052**	26,821	(2,769)	(10.3)%
Other items	**2,810**	2,133	677	31.7%
Loss before income taxes	**(21,359)**	(22,717)	1,358	6.0%
Number of employees	**346**	292	54	18.5%

Six month loss before income taxes was $21.4 million, a 6% improvement from the same period a year ago, reflecting reductions in expenses that were greater than the decrease in revenue.

Revenue for the first half of fiscal year 2005 was $5.5 million, down 12%, compared to the first half of fiscal year 2004 and largely reflects the 26% decline in revenue from Operations and Support Services business.

Six month expenses declined by 10%, largely due to substantial decreases in trading costs of $5.0 million which is related to a change in cost allocation where variable trading costs are now allocated directly to business segments. For the six month period, $5.7 million was allocated between Private Client Services and Global Capital Markets. Without this change in cost allocation, total expenses for the Other segment would have increased 11%.

(C$ thousands, except employees is in single digits and % amounts)	Other segment summary for the three months ended September 30, 2004	September 30, 2003	Q2/05 versus Q2/04 Increase (decrease)	
Revenue	**2,431**	3,258	(827)	(25.4)%
Expenses	**11,864**	15,725	(3,861)	(24.6)%
Other items	**1,313**	1,054	259	24.6%
Loss before income taxes	**(10,746)**	(13,521)	2,775	20.5%
Number of employees	**346**	292	54	18.5%

Revenue for the quarter related to treasury activities was $1.2 million, down $1.0 million, or 45%, compared to the same quarter a year ago. The reduction in revenue is largely attributed to a decline in foreign exchange revenue of $0.6 million, mainly due to a general decline in client demand for US securities, and a $0.3 million decline in interest revenue.

Expenses for the quarter declined by $3.9 million largely due to reductions in trading costs of $3.2 million. The reduction was due to the change in cost allocation where variable trading costs are applied directly to each business group. Also contributing to the decline in expenses was incentive compensation, which was down $2.3 million from a year ago. As a result, loss before income taxes was $10.7 million in second quarter of fiscal 2005 compared to a loss of $13.5 million in the same quarter a year ago. For the second quarter of fiscal 2005, the number of employees increased by 54 compared to the same quarter a year ago, as a result, salary and benefit expenses increased by $0.9 million, or 26%. The increase in the number of salaried employees for this segment is primarily due to Canaccord's transition to becoming a public company. The majority of these new hires were added to financial accounting, branch administration and operations.

Financial conditions:

Below are certain changes in selected balance sheet items.

Accounts receivable

Client security purchases are entered into on either a cash or margin basis. When securities are purchased on margin, the company extends a loan to the client for the purchase of securities, using securities purchased and/or securities in the client's account as collateral. Therefore, client account receivable balances, which were $0.4 billion as at September 30, 2004, may vary significantly on a day-to-day basis and are based on trading volumes and market prices. As at September 30, 2004, total accounts receivable were $1.0 billion compared with $998 million as at March 31, 2004.

Call loans

Loan facilities utilized by the company may vary significantly on a day-to-day basis and depend on securities traded activity. Amounts borrowed pursuant to these call loan facilities, at September 30, 2004, totaled $0.7 million compared with $2.5 million as at March 31, 2004.

Cash and cash equivalents

Cash and cash equivalents were $158.6 million as at September 30, 2004 compared to 92.0 million as at March 31, 2004. Significant cash sources or uses of cash include the repayment of $10.0 million in subordinated debt on July 30, 2004, the issuance of share capital for net proceeds of $71.3 million, increases in accounts payable of $51.3 million, decreases in securities owned of $70.8 million and securities sold short of $90.9 million as at September 30, 2004.

Liquidity and capital resources:

Canaccord's capital in the business has historically been provided through retained earnings, the sale of equity securities, convertible debentures, and subordinated debt in the form of bank loans. Canaccord now has a capital structure completely underpinned by share capital, retained earnings, and cumulative foreign currency translation adjustments.

As at September 30, 2004, total cash and cash equivalents were $158.6 million, compared to $92.0 million as of March 31, 2004. For the six months ended September 30, 2004, operating activities was a source of cash in the amount of $13.7 million, which was primarily due to net changes in non-cash working capital items offsetting net income and items not involving cash. For the six months ended September 30, 2004, financing activities provided cash in the amount of $68.1 million, which was primarily due to a net issuance of share capital, an increase in notes payable and repayment of our subordinated debt. Investing activities used cash in the amount of $11.6 million, which was primarily due to an increase in notes receivable and the purchase of equipment and leasehold improvements. The increases in notes payable and notes receivable correspond to each other and are in connection with Canaccord's Quebec immigrant investor program.

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

Outstanding share data:

	Outstanding shares as at	
	September 30, 2004	**September 30 2003**
Shares outstanding – basic [(1)]	**45,305,345**	27,762,096
Shares outstanding – diluted [(2)]	**46,129,268**	36,851,893
Average shares outstanding – basic	**45,305,345**	28,042,717
Average shares outstanding – diluted	**46,095,478**	37,053,420

(1) Excludes 33,790 shares held by a group subsidiary as well as 790,133 unvested shares outstanding, which relate to share purchase loans. See Note 8 of the interim unaudited consolidated financial statements on page 21.

(2) Includes 33,790 shares held by a group subsidiary and the 790,133 unvested shares referred to in footnote (1) above.

As of September 30, 2004, Canaccord had 46.1 million common shares issued and outstanding on a fully diluted basis, up from 36.9 million a year ago, largely reflecting the issuance of shares from the Initial Public Offering and various other share issuances throughout the year.

Although Canaccord has received shareholder approval for a stock option plan, there are no existing grants at this time. Canaccord does plan to continue to use equity-based compensation plans as a means to recruit and retain highly-skilled professionals, but we are still in the process of evaluating alternative programs to incentivize performance while enhancing shareholder value.

Critical accounting estimates:

The following is a summary of Canaccord's critical accounting estimates. Canaccord's accounting policies are in accordance with GAAP and are described in note 1 to the interim unaudited consolidated financial statements for the fiscal second quarter ended September 30, 2004. The accounting policies described below require estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses recorded in the financial statements. Because of their nature, estimates require judgment based on available information. Actual results or amounts could differ from estimates and the difference could have a material impact on the financial statements.

Revenue recognition and valuation of securities

Securities held, including share purchase warrants and options, are recorded at market value and accordingly, the interim unaudited consolidated financial statements reflect unrealized gains and losses associated with such securities. In the case of publicly-traded securities, market value is determined on the basis of market prices from independent sources such as listed exchange prices or dealer price quotations. Adjustments to market prices are made for liquidity relative to the size of the position and holding periods and other resale restrictions, if applicable. Investments in illiquid or non-publicly-traded securities are valued on a basis determined by management using information available and prevailing market prices of securities with similar qualities and characteristics, if known.

There is inherent uncertainty and imprecision in estimating the factors which can affect value and in estimating values generally. The extent to which valuation estimates differ from actual results will affect the amount of revenue or loss recorded for a particular security position in any particular period. With Canaccord's security holdings consisting primarily of publicly-traded securities, its procedures for obtaining market prices from independent sources, the validation of estimates through actual settlement of transactions and the consistent application of its approach from period to period, Canaccord believes that the estimates of market value recorded are reasonable.

Provisions

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

Tax

Accruals for income tax liabilities require management to make estimates and judgments with respect to the ultimate outcome of tax filings and assessments. Actual results could vary from these estimates. Canaccord operates within different tax jurisdictions and is subject to assessment in these different jurisdictions. Tax filings can involve complex issues, which may require an extended period of time to resolve in the event of a dispute or re-assessment by tax authorities. Canaccord believes that adequate provisions for income taxes have been made for all years.

Related party transactions:

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

Dividend policy:

Canaccord intends to pay dividends on the outstanding common shares equal to approximately 25% of annual net income. 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. Such determination will depend on general business conditions and Canaccord's financial condition, results of operations and capital requirements and such other factors as the board determines to be relevant.

Dividend declaration:

The board of directors of Canaccord declared, on November 2, 2004, a common share dividend of $0.05 per share to be payable on December 10, 2004, with a record date of November 23, 2004. Dividend payments to common shareholders will total approximately $2.3 million, or approximately 38% of second quarter net income. Total declared dividends for the six month period ended September 30, 2004, are approximately $4.6 million, or approximately 32% of six month net income.

Risks:

The securities industry and Canaccord's activities are by their very nature subject to a number of inherent risks. Economic conditions, competition and market factors such as volatility in the Canadian and international markets, interest rates, commodity prices, market prices, trading volumes and liquidity will have a significant impact on Canaccord's profitability. Revenue from Private Client Services activity is dependent on trading volumes and, as such, is dependent on the level of market activity and investor confidence. Revenue from Global Capital Markets 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, accordingly, revenue and net income will fluctuate, as they have historically.

An investment in the common shares involves a number of risks, some of which, including market, liquidity, credit, operational, legal and regulatory risks, could be substantial and are inherent in Canaccord's business.

Additional information:

Additional information relating to Canaccord, including Canaccord's prospectus and annual information form, can also be found on SEDAR at www.sedar.com.

Interim Consolidated Balance Sheets

(Unaudited)

Notice required under National Instrument 51-102, "Continuous Disclosure Obligations" part 4.3(3)(a)

The comparative consolidated financial statements for the three month and six month periods ended September 30, 2003, presented in these interim consolidated financial statements have not been reviewed by an external auditor.

As at	(in thousands of dollars)	
	September 30, 2004	**March 31, 2004**
	$	**$**
ASSETS		[Restated – Note 1]
Current		
Cash and cash equivalents	158,560	91,966
Securities owned, at market *[note 2]*	305,611	376,447
Accounts receivable *[notes 4 and 9]*	1,011,210	997,621
Income taxes recoverable	701	—
Future income taxes	1,609	—
Total current assets	1,477,691	1,466,034
Equipment and leasehold improvements	12,373	12,373
Notes receivable *[note 5]*	39,251	28,765
Deferred charges	632	1,194
	1,529,947	1,508,366
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Call loans	677	2,541
Securities sold short, at market *[note 2]*	190,796	281,723
Accounts payable and accrued liabilities *[notes 4 and 9]*	1,099,731	1,048,395
Income taxes payable	—	16,905
Future income taxes	—	973
Total current liabilities	1,291,204	1,350,537
Notes payable *[note 5]*	39,251	28,765
Convertible debentures *[note 6]*	—	20,377
Subordinated debt *[note 7]*	—	10,000
Total liabilities	1,330,455	1,409,679
Contingencies *[note 11]*		
Shareholders' equity		
Share capital *[note 8]*	150,881	60,409
Cumulative foreign currency translation adjustment	(1,433)	265
Retained earnings	50,044	38,013
Total shareholders' equity	199,492	98,687
	1,529,947	1,508,366

See accompanying notes

Interim Consolidated Statements of Operations and Retained Earnings

(Unaudited)

(in thousands of dollars, except per share amounts)	For the three months ended		For the six months ended	
	September 30, 2004 $	September 30, 2003 $	September 30, 2004 $	September 30, 2003 $
		[Restated – Note 1]		[Restated – Note 1]
REVENUE				
Private client services	36,499	39,144	74,821	66,776
Global capital markets	46,671	39,001	85,842	59,818
Other	2,431	3,258	5,503	6,237
	85,601	81,403	166,166	132,831
EXPENSES				
Incentive compensation	42,721	39,669	78,194	63,343
Salaries and benefits	10,414	8,338	21,628	17,239
Trading costs	3,540	3,808	7,993	7,352
Premises and equipment	2,920	3,117	5,949	6,124
Communication and technology	3,573	3,072	6,794	6,230
Interest	726	938	2,172	1,807
General and administrative	8,723	5,927	15,214	11,531
	72,617	64,869	137,944	113,626
Operating income before other items	12,984	16,534	28,222	19,205
Other items				
Amortization	739	875	1,431	1,787
Development costs	1,976	1,955	4,051	3,786
Restructuring and other costs	—	(47)	—	315
	2,715	2,783	5,482	5,888
Income before income taxes	10,269	13,751	22,740	13,317
Income taxes	4,146	5,150	8,211	5,147
Net income for the period	6,123	8,601	14,529	8,170
Retained earnings, beginning of period	46,226	564	38,013	2,352
Dividends				
Stock dividend	—	—	—	(1,357)
Cash dividend	(2,305)	—	(2,305)	—
Excess on redemption of common shares *[note 8]*	—	(414)	(193)	(414)
Retained earnings, end of period	50,044	8,751	50,044	8,751
Basic earnings per share *[note 8]*	0.14	0.31	0.38	0.29
Diluted earnings per share *[note 8]*	0.13	0.24	0.35	0.24

See accompanying notes

Interim Consolidated Statements of Cash Flows

(Unaudited)

	(in thousands of dollars)			
	For the three months ended		For the six months ended	
	September 30, 2004 $	September 30, 2003 $	September 30, 2004 $	September 30, 2003 $
OPERATING ACTIVITIES				
Net income for the period	6,123	8,601	14,529	8,170
Items not affecting cash				
Amortization	859	976	1,665	1,996
Future income taxes (recovery)	36	381	(2,582)	533
Changes in non-cash working capital				
Decrease (increase) in securities owned	72,178	(25,065)	70,836	(18,225)
Decrease (increase) in accounts receivable	41,199	(198,487)	(13,589)	(202,105)
Decrease (increase) in income taxes recoverable	(701)	866	(701)	558
Decrease in securities sold short	(79,432)	(4,212)	(90,927)	(27,557)
Increase in accounts payable and accrued liabilities	142,369	182,273	51,336	225,851
Increase (decrease) in income taxes payable	(2,742)	3,780	(16,905)	3,780
Cash provided by (used in) operating activities	179,889	(30,887)	13,662	(6,999)
FINANCING ACTIVITIES				
Increase in notes payable	3,896	275	10,486	442
Redemption of convertible debentures	—	—	(20)	(10)
Decrease in subordinated debt	(10,000)	—	(10,000)	—
Issuance of share capital (net of issuance costs)	(347)	1,092	71,309	1,093
Decrease (increase) in unvested common share purchase loans	242	(251)	(1,008)	(226)
Redemption of share capital	—	(2,306)	(379)	(2,631)
Dividends paid	(2,305)	—	(2,305)	—
Cash provided by (used in) financing activities	(8,514)	(1,190)	68,083	(1,332)
INVESTING ACTIVITIES				
Purchase of equipment and leasehold improvements	(930)	(253)	(1,431)	(431)
Increase in notes receivable	(3,896)	(275)	(10,486)	(442)
Increase in deferred charges	—	—	328	—
Cash used in investing activities	(4,826)	(528)	(11,589)	(873)
Unrealized foreign exchange loss (gain)	(1,929)	146	(1,698)	(514)
Increase (decrease) in cash and cash equivalents	164,620	(32,459)	68,458	(9,718)
Cash and cash equivalents, beginning of period	(6,737)	122,765	89,425	100,024
Cash and cash equivalents, end of period	157,883	90,306	157,883	90,306
Cash and cash equivalents is comprised of:				
Cash and cash equivalents	158,560	90,306	158,560	90,306
Call loans	(677)	—	(677)	—
	157,883	90,306	157,883	90,306
Supplemental cash flow information				
Interest paid	136	620	1,059	1,292
Income taxes paid	6,087	259	20,388	523

See accompanying notes

Notes To Interim Consolidated Financial Statements

(Unaudited)

For the six months ended September 30, 2004 (in thousands of dollars, except per share amounts)

Canaccord Capital Inc. (the "Company") is an independent full service investment dealer. The Company has operations in each of the two principal segments of the securities industry: Private Client Services and Global Capital Markets. Together these operations offer a wide range of complementary investment products, brokerage services and investment banking services to the Company's retail, institutional and corporate clients.

Historically, the Company's operating results are characterized by a seasonal pattern and it earns the majority of its revenue in the last two quarters of its fiscal year.

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

These interim unaudited consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") with respect to interim financial statements, applied on a consistent basis. These interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in Note 1 to the Company's audited consolidated financial statements as at and for the year ended March 31, 2004 ("Audited Annual Consolidated Financial Statements") except as noted below. Accordingly, they do not include all the information and footnotes required for compliance with Canadian GAAP for annual financial statements. These interim unaudited consolidated financial statements and notes thereon should be read in conjunction with the Audited Annual Consolidated Financial Statements.

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

Canadian generally accepted accounting principles

On April 1, 2004, the Company adopted the requirements of The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1100, *"Generally Accepted Accounting Principles."* This section establishes standards for financial reporting in accordance with GAAP, and provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures when a matter is not dealt with explicitly in the primary sources of GAAP. The implementation of CICA Section 1100 impacted the classification of Convertible Debentures [note 6] and Subordinated Debt [note 7]. These interim consolidated financial statements have been adjusted to reflect the reclassification of these items as liabilities from the capital section of the balance sheet. In addition, this implementation has affected the presentation of client interest revenue and expense which had been previously netted.

Hedging relationships

On April 1, 2004, the Company prospectively adopted the requirements of CICA Accounting Guideline 13, *"Hedging Relationships"* ("AcG 13") which provides detailed guidance on the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The implementation of AcG 13 did not have a material impact on the interim unaudited consolidated financial statements.

2. SECURITIES OWNED AND SECURITIES SOLD SHORT

	September 30, 2004		March 31, 2004	
	Securities owned $	Securities sold short $	Securities owned $	Securities sold short $
Corporate and government debt	219,794	146,829	327,224	275,285
Equities and convertible debentures	85,817	43,967	49,223	6,438
	305,611	**190,796**	**376,447**	**281,723**

As at September 30, 2004, corporate and government debt maturities range from 2004 to 2051 [March 31, 2004 - 2005 to 2054] and bear interest ranging from 1.75% to 14% [March 31, 2004 – 2.35% to 14%].

3. FINANCIAL INSTRUMENTS

Foreign exchange risk

Foreign exchange risk arises from the possibility that changes in the price of foreign currencies will result in losses. Foreign exchange contracts are traded periodically to manage and hedge foreign exchange risk on pending settlements in foreign currencies. Realized and unrealized gains and losses related to those contracts are recognized in income during the year.

Forward contracts outstanding at September 30, 2004:

	Notional amounts (millions of USD)	Average price (CAD/USD)	Maturity	Fair value (millions of USD)
To sell US dollars	$9.5	$1.27	October 5, 2004	$0.1
To buy US dollars	$8.0	$1.27	October 5, 2004	($0.1)

Forward contracts outstanding at March 31, 2004:

	Notional amounts (millions of USD)	Average price (CAD/USD)	Maturity	Fair value (millions of USD)
To sell US dollars	$22.75	$1.32	April 5, 2004	$0.1
To buy US dollars	$20.75	$1.32	April 5, 2004	($0.1)

4. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts receivable

	September 30, 2004 $	March 31, 2004 $
Brokers and investment dealers	428,111	471,073
Clients	352,354	268,062
RRSP cash balances held in trust	214,974	237,806
Other	15,771	20,680
	1,011,210	997,621

Accounts payable and accrued liabilities

	September 30, 2004 $	March 31, 2004 $
Brokers and investment dealers	347,529	247,944
Clients	686,015	698,999
Other	66,187	101,452
	1,099,731	1,048,395

Accounts payable to clients include $214,974 [March 31, 2004 - $237,806] payable to clients for RRSP cash balances held in trust.

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

Amounts due from and to clients are due by the settlement date of the trade transaction. Margin loans are due on demand and are collateralized by the assets in the client accounts. Interest on margin loans and amounts due to clients is based on a floating rate [September 30, 2004 – 6.00% and 1.00%, respectively, and March 31, 2004 – 6.00% and 1.00%, respectively].

5. IMMIGRANT INVESTOR PROGRAM OF QUEBEC

The Company sponsors an immigrant investor program that provides assistance to Canadian immigrant applicants under the investor category and to their professional consultants and advisors. Included in these services is a program that enables Immigrant Investors to borrow, through a credit facility arranged by the Company, the requisite funds for making a qualifying investment for immigration purposes. The Company borrows as notes payable the investment funds through a non-recourse bank facility, loans the borrowed funds to the immigrant investor by way of notes receivable and then pledges the notes receivable to the lending bank as collateral for the notes payable.

[a] Notes receivable

Under the provisions of the Immigrant Investor Program of Quebec, funds have been advanced to various Immigrant Investors by Canaccord Capital Credit Corporation ("CCCC") and Canaccord Financial Holdings Inc. ("CFHI"), both wholly-owned subsidiaries of the Company. The Immigrant Investors sign a note receivable for the principal amount advanced plus accrued interest, which are both due on the fifth anniversary from the date the funds were advanced to the investors.

The terms of the notes receivable, including interest rate and maturity date, are identical to the notes payable and are ultimately pledged to guarantee the obligations of CCCC and CFHI.

The recourse of notes payable is limited, ultimately, to these notes receivable and is not against CCCC, CFHI, any related company or any of their respective assets.

[b] Notes payable

Notes payable are collateralized by the notes receivable with interest capitalized annually and repayable at maturity. The notes payable bear interest ranging from 4.57% to 7.27% (weighted average at September 30, 2004 – 5.83%) and mature between 2007 and 2010 [March 31, 2004 - 4.57% to 7.27% with a weighted average of 5.98%, maturing between 2007 and 2009].

The notes payable, including accrued interest, are due as follows:

	September 30, 2004 $	March 31, 2004 $
2007	6,594	6,385
2008	12,357	12,004
2009	10,645	10,376
2010	9,655	—
	39,251	28,765

6. CONVERTIBLE DEBENTURES

	September 30, 2004 $	March 31, 2004 $
2006 debentures	—	10,377
2007 debenture	—	10,000
	—	20,377

On June 22, 2004, the 2006 and 2007 debentures were either redeemed or converted into share capital as part of a reorganization of capital [see note 8 (ii)].

Each 2006 debenture issued by the Company was either redeemed (in whole or in part, including a 5% premium) or exchanged for Class B common shares of the Company at a rate of one such share for each $2.57275 of principal amount.

The 2007 debenture issued by the Company was either redeemed (in whole or in part) or exchanged for Class C common shares of the Company at a rate of one such share for each $2.9823 of principal amount.

7. SUBORDINATED DEBT

	September 30, 2004 $	March 31, 2004 $
Loan payable, interest payable monthly at prime + 1% per annum (July 30, 2004 – 4.75%; March 31, 2004 - 5.0%), due on demand	—	10,000

The loan payable was subject to a subordination agreement and was repaid on July 30, 2004 with the prior approval of the Investment Dealers Association of Canada.

Subordinated debt has been reclassified as a liability due to the requirements of CICA Handbook Section 1100.

8. SHARE CAPITAL

On June 21, 2004 the Company's shareholders approved a two-for-one subdivision of the Company's outstanding Class A, Class B and Class C common shares. All common share and per share data included herein have been adjusted to reflect the two-for-one subdivision as if it had occurred at the beginning of the periods reflected.

	September 30, 2004 $	March 31, 2004 $
Issued and fully paid		
Share capital		
Common shares	152,962	61,292
Unvested share purchase loans	(2,600)	(1,514)
Preferred shares	—	190
Contributed surplus	519	441
	150,881	60,409

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

[i] Authorized

Unlimited Common shares without par value

Unlimited Preferred shares without par value

[ii] Issued and fully paid
Common shares

	Common Shares		Class B		Class C		Total	
	# of shares	Amount $	# of shares	Amount $	# of shares	Amount $	# of shares	Amount $
Balance, March 31, 2003	—	—	24,779,672	41,306	3,809,524	10,000	28,589,196	51,306
Shares issued for cash	—	—	5,435,838	15,624	—	—	5,435,838	15,624
Shares cancelled	—	—	(4,031,206)	(7,006)	—	—	(4,031,206)	(7,006)
Shares issued on conversion of Class 4 preferred shares Series A	—	—	357,838	822	—	—	357,838	822
Shares issued on conversion of serial debentures	—	—	209,340	546	—	—	209,340	546
Balance, March 31, 2004	—	—	26,751,482	51,292	3,809,524	10,000	30,561,006	61,292
Shares issued for cash	—	—	897,454	33,568	442,100	1,536	1,339,554	5,104
Shares cancelled	—	—	(95,826)	(186)	—	—	(95,826)	(186)
Shares issued on conversion of Class 4 preferred shares Series A	—	—	82,816	190	—	—	82,816	190
Shares issued on conversion of convertible debentures	—	—	7,378,660	20,357	—	—	7,378,660	20,357
Exchange into common shares [1]	39,266,210	86,757	(35,014,586)	(75,221)	(4,251,624)	(11,536)	—	—
Shares issued in connection with initial public offering [2]	6,829,268	66,205	—	—	—	—	6,829,268	66,205
Balance, September 30, 2004 [3]	46,095,478	152,962	—	—	—	—	46,095,478	152,962

[1] Pursuant to an order obtained on June 22, 2004 from the Supreme Court of British Columbia, a capital reorganization which included the creation of a class of Common shares and the exchange of all Class B and C Common shares for Common shares was approved.

[2] Net of share issue costs of $3,794,176

[3] Net of 33,790 shares held by a subsidiary in the group (nil at March 31, 2004)

Preferred shares

	Class 4 Series A	
	# of shares	Amount $
Balance, March 31, 2002 and 2003	—	—
Shares issued as a stock dividend	1,356,781	1,357
Shares redeemed for cash	(344,017)	(345)
Shares converted into Class B common shares	(822,287)	(822)
Balance, March 31, 2004	190,477	190
Exchange into common shares [1]	(190,477)	(190)
Balance, September 30, 2004	—	—

[1] Pursuant to an order obtained on June 22, 2004 from the Supreme Court of British Columbia, a capital reorganization which included the creation of a class of Common shares and the exchange of all Preferred shares for Common shares was approved.

[iii] Excess on redemption of common shares

The excess on redemption of common shares represents amounts paid to shareholders, by the Company and its subsidiaries, on redemption of their shares in excess of the book value of those shares at the time of redemption.

	For the three months ended		For the six months ended	
	September 30, 2004 $	September 30, 2003 $	September 30, 2004 $	September 30, 2003 $
Redemption price	—	2,306	379	2,306
Book value	—	1,892	186	1,892
Excess on redemption of common shares	—	414	193	414

[iv] Earnings per share

	For the three months ended		For the six months ended	
	September 30, 2004 $	September 30, 2003 $	September 30, 2004 $	September 30, 2003 $
Basic earnings per share				
Net income for the period	6,123	8,601	14,529	8,170
Weighted average number of common shares (number)	45,305,345	28,042,718	37,846,992	28,000,552
Basic earnings per share ($)	0.14	0.31	0.38	0.29
Diluted earnings per share				
Net income for the period	6,123	8,601	14,529	8,170
Income effect of convertible debentures	—	263	282	520
Adjusted net income for the period	6,123	8,864	14,811	8,690
Weighted average number of common shares (number)	45,305,345	28,042,718	37,846,992	28,000,552
Dilutive effect of convertible debentures	—	7,953,930	3,624,070	7,953,930
Dilutive effect of preferred shares	—	416,972	40,729	309,878
Dilutive effect of unvested shares	790,133	639,800	790,133	635,928
Adjusted weighted average number of common shares (number)	46,095,478	37,053,420	42,301,924	36,900,288
Diluted earnings per share ($)	0.13	0.24	0.35	0.24

9. RELATED PARTY TRANSACTIONS

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

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

	September 30, 2004 $	March 31, 2004 $
Accounts receivable	28,554	26,394
Accounts payable and accrued liabilities	44,357	47,311

Accounts receivable from and payable to related parties result from transactions in accordance with the terms and conditions applicable to all clients.

10. SEGMENTED INFORMATION

The Company operates in two industry segments as follows:

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

Global Capital Markets – includes investment banking, research and trading activities on behalf of corporate, institutional and government clients as well as principal trading activities.

Corporate and Other includes correspondent brokerage services, interest and foreign exchange revenue and expenses not specifically allocable to private client services and global capital markets.

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

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

For the three months ended September 30

	2004				2003			
	Private Client Services $	Global Capital Markets $	Corporate and Other $	Total $	Private Client Services $	Global Capital Markets $	Corporate and Other $	Total $
Revenues	36,499	46,671	2,431	85,601	39,144	39,001	3,258	81,403
Expenses	25,856	34,898	11,864	72,617	24,592	24,552	15,725	64,869
Other items								
Amortization	253	291	195	739	330	304	241	875
Other	576	281	1,118	1,976	981	114	813	1,908
Income (loss) before income taxes	9,814	11,201	(10,746)	10,269	13,241	14,031	(13,521)	13,751

For the six months ended September 30,

	2004				2003			
	Private Client Services $	Global Capital Markets $	Corporate and Other $	Total $	Private Client Services $	Global Capital Markets $	Corporate and Other $	Total $
Revenues	74,821	85,842	5,503	166,166	66,776	59,818	6,237	132,831
Expenses	53,215	60,677	24,052	137,944	44,631	42,174	26,821	113,626
Other items								
Amortization	495	556	380	1,431	658	666	463	1,787
Other	1,259	362	2,430	4,051	2,166	265	1,670	4,101
Income (loss) before income taxes	19,852	24,247	(21,359)	22,740	19,321	16,713	(22,717)	13,317

The Company's business operations are grouped into two geographic segments as follows:

	For the three months ended		For the six months ended	
	September 30, 2004 $	September 30, 2003 $	September 30, 2004 $	September 30, 2003 $
Canada				
Revenue	60,277	69,460	124,493	115,134
Net income	2,679	6,874	7,362	6,623
Equipment and leasehold improvements	10,824	8,783	10,824	8,783
United Kingdom				
Revenue	25,324	11,943	41,673	17,697
Net income	3,444	1,727	7,167	1,547
Equipment and leasehold improvements	1,549	1,882	1,549	1,882

11. CONTINGENCIES

During the period, there have been no material changes to the Company's contingencies from those described in the Audited Annual Consolidated Financial Statements.

12. SUBSEQUENT EVENTS

[i] **Dividend**

On November 2, 2004, the Board of Directors declared a common share dividend of $0.05 per share payable on December 10, 2004, with a record date of November 23, 2004.

Shareholder Information

Corporate headquarters:

Street address:
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Stock exchange listing:
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For information about stock transfers, address changes, dividends, lost stock certificates, tax forms, estate transfers, contact:

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computershare.com

On-line financial information:
Canaccord's second quarter supplementary information and archived Webcast of the conference call with analysts and institutional investors can be found at: canaccord.com/investor

General shareholder inquiries and information:
The Investor Relations & Communications department is responsible for communicating Canaccord Capital Inc.'s financial results and handling all inquiries related to our common shares.

For more information, please contact:
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Principal subsidiaries:
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Canaccord Capital (Europe) Limited
Canaccord Capital Corporation (U.S.A.), Inc.
Canaccord International Ltd.

Institutional investors, brokers and security analysts:
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Fiscal quarter end dates:

Period	End Date
First quarter	June 30, 2004
Second quarter	September 30, 2004
Third quarter	December 31, 2004
Fourth quarter	March 31, 2005

Nothing in Canaccord's Website, Canaccord.com, should be considered incorporated herein by reference.