

AUDITORS' REPORT

To the Shareholders of **Canaccord Financial Inc. (formerly Canaccord Capital Inc.)**

We have audited the consolidated balance sheets of **Canaccord Financial Inc. (formerly Canaccord Capital Inc.)** as at March 31, 2010 and 2009 and the consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada

May 7, 2010, except for Note 19[iii] which is as of May 18, 2010.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in blue ink.

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at March 31 (in thousands of dollars)

2010

2009

Assets

Current

Cash and cash equivalents	\$ 731,852	\$ 701,173
Securities owned [note 3]	362,755	133,691
Accounts receivable [notes 5 and 13]	1,972,924	1,061,161
Income taxes receivable	—	23,771
Future income taxes [note 9]	13,190	15,680
Total current assets	3,080,721	1,935,476
Investment [note 6]	5,000	5,000
Investment in asset-backed commercial paper [note 7]	—	35,312
Equipment and leasehold improvements [note 8]	38,127	46,311
	\$ 3,123,848	\$ 2,022,099

Liabilities and shareholders' equity

Current

Bank indebtedness [note 4]	\$ 29,435	\$ 75,600
Securities sold short [note 3]	364,137	79,426
Accounts payable and accrued liabilities [notes 5 and 13]	2,308,146	1,469,369
Income taxes payable	5,385	—
Subordinated debt [note 10]	15,000	25,000
Total current liabilities	2,722,103	1,649,395
Commitments and contingencies [note 16]		
Shareholders' equity		
Common shares [note 11]	185,691	183,619
Contributed surplus	57,351	44,383
Retained earnings	194,007	160,868
Accumulated other comprehensive loss	(35,304)	(16,166)
Total shareholders' equity	401,745	372,704
	\$ 3,123,848	\$ 2,022,099

See accompanying notes

On behalf of the Board:



Paul D. Reynolds
Director



Terrence A. Lyons
Director

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended March 31 (in thousands of dollars, except per share amounts)

2010

2009

Revenue

Commission	\$ 235,606	\$ 233,104
Investment banking	254,437	169,369
Principal trading	45,982	18,319
Interest	12,965	38,287
Other	28,547	18,642
	577,537	477,721

Expenses

Incentive compensation	299,084	222,006
Salaries and benefits	59,415	56,771
Trading costs	28,884	26,311
Premises and equipment	24,402	24,695
Communication and technology	21,868	25,228
Interest	2,581	11,220
General and administrative	52,153	69,689
Amortization	7,609	8,994
Development costs	24,900	28,773
Acquisition-related costs [note 19[i]]	5,000	—
Asset-backed commercial paper fair value adjustment [note 7]	—	6,700
Canaccord relief program	—	5,347
Impairment of goodwill and intangibles	—	31,524
Restructuring costs	—	7,662
	525,896	524,920
Income (loss) before income taxes	51,641	(47,199)
Income taxes (recovery) [note 9]		
Current	10,533	(12,805)
Future	2,611	13,257
	13,144	452
Net income (loss) for the year	\$ 38,497	\$ (47,651)

Basic earnings (loss) per share [note 11[v]]	\$ 0.79	\$ (0.97)
Diluted earnings (loss) per share [note 11[v]]	\$ 0.69	\$ (0.97)

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended March 31 (in thousands of dollars)

	2010	2009
Net income (loss) for the year	\$ 38,497	\$ (47,651)
Other comprehensive loss, net of taxes		
Net change in unrealized losses on translation of self-sustaining foreign operations	(19,138)	(5,847)
Comprehensive income (loss) for the year	\$ 19,359	\$ (53,498)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

As at and for the years ended March 31 (in thousands of dollars)

	2010	2009
Common shares, opening	\$ 183,619	\$ 111,142
Shares issued [note 11]	5,306	77,080
Shares cancelled [note 11]	(171)	(1,461)
Acquisition of common shares for long term incentive plan [note 12]	(11,691)	(15,027)
Release of vested common shares from employee benefit trust [note 12]	12,997	7,386
Net unvested share purchase loans	(4,369)	4,499
Common shares, closing	185,691	183,619
Contributed surplus, opening	44,383	34,024
Excess on repurchase of common shares [note 11]	(240)	(2,466)
Stock-based compensation [note 12]	8,958	11,506
Unvested share purchase loans	4,250	1,319
Contributed surplus, closing	57,351	44,383
Retained earnings, opening	160,868	222,597
Net income (loss) for the year	38,497	(47,651)
Dividends	(5,358)	(14,078)
Retained earnings, closing	194,007	160,868
Accumulated other comprehensive loss, opening	(16,166)	(10,319)
Other comprehensive loss	(19,138)	(5,847)
Accumulated other comprehensive loss, closing	(35,304)	(16,166)
Shareholders' equity	\$ 401,745	\$ 372,704

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31 (in thousands of dollars)

2010

2009

Operating activities

Net income (loss) for the year	\$ 38,497	\$ (47,651)
Items not affecting cash		
Amortization	7,609	8,994
Future income tax expense	2,611	13,257
Stock-based compensation expense	23,986	17,465
Gain from disposal of ABCP and fair value adjustments [note 7]	(5,481)	6,700
Impairment of goodwill and intangibles	—	31,524
Changes in non-cash working capital		
Increase in securities owned	(230,407)	(41,688)
(Increase) decrease in accounts receivable	(950,349)	347,389
Intelli fair value of net assets [note 17]	5,837	—
Increase (decrease) in income taxes payable	27,842	(9,515)
Increase in securities sold short	285,809	65,417
Increase (decrease) in accounts payable and accrued liabilities	886,425	(219,132)
Cash provided by operating activities	92,379	172,760

Financing activities

Acquisition of common shares for long term incentive plan	(11,691)	(15,027)
Repayment of subordinated debt	(10,000)	—
Cash dividends paid	(5,358)	(13,457)
Issuance of shares in connection with stock-based compensation plans	5,306	12,945
Increase in net unvested share purchase loans	(119)	5,818
Repurchase of share capital	(411)	(3,927)
Issuance of shares for cash	—	66,462
Cash (used in) provided by financing activities	(22,273)	52,814

Investing activities

Purchase of equipment and leasehold improvements	(1,737)	(13,024)
Purchase of Intelli [note 17]	(7,036)	—
Proceeds on disposal of investment in ABCP [note 7]	54,413	(12,152)
Purchase of investment in ABCP [note 7]	(14,470)	—
Cash provided by (used) in investing activities	31,170	(25,176)
Effect of foreign exchange on cash balances	(24,432)	4,564

Increase in cash position	76,844	204,962
Cash position, beginning of year	625,573	420,611
Cash position, end of year	\$ 702,417	\$ 625,573

Cash position comprises:

Cash and cash equivalents	\$ 731,852	\$ 701,173
Bank indebtedness	(29,435)	(75,600)
	\$ 702,417	\$ 625,573

Supplemental cash flow information

Interest paid	\$ 2,331	\$ 11,039
Income taxes paid	3,603	6,112

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED MARCH 31, 2010 AND 2009 (IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

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

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

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of the Company, its subsidiaries and variable interest entities (VIEs) where the Company is the primary beneficiary.

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

The Company has established an employee benefit trust [Note 12] to fulfill obligations to employees arising from the Company's stock-based compensation plan. The employee benefit trust has been consolidated in accordance with AcG-15 as it meets the definition of a VIE and a subsidiary of the Company is the primary beneficiary of the employee benefit trust.

All significant intercompany transactions and balances have been eliminated.

Use of estimates and assumptions

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Therefore, actual results may differ from those estimates and assumptions. The significant estimates include income taxes, tax losses available for carryforward, contingent liabilities, fair value of investment in asset-backed commercial paper (ABCP), stock-based compensation, allowance for doubtful accounts and fair value of financial instruments.

Financial instruments

The Company classifies financial instruments into one of the following categories according to CICA Handbook Section 3855 "*Financial Instruments – Recognition and Measurement*": held for trading, held to maturity, loans and receivables, available for sale assets and other financial liabilities.

The financial assets and liabilities classified as held for trading are measured at fair value with unrealized gains and losses recognized in net income. Section 3855 permits an entity to designate any financial instrument as held for trading on initial recognition or adoption of this standard even if that instrument would not otherwise meet the definition of held for trading as specified in Section 3855 provided that the fair value can be reliably determined. The Company's financial instruments classified as held for trading include cash and cash equivalents, securities owned and sold short, investment in ABCP, foreign exchange forward contracts and broker warrants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Available for sale assets are generally measured at fair value with the difference between fair value and amortized cost recorded in other comprehensive income, net of tax, until the assets are sold at which time the difference is recognized in net income for the year. Investments in equity instruments classified as available for sale that do not have a quoted market price in an active market are measured at cost. Other than temporary declines in the value of available for sale financial assets are recognized in net income. The Company's investment described in Note 6 is classified as available for sale and measured at cost.

The financial assets and liabilities classified as loans and receivables, held to maturity and other financial liabilities are measured at amortized cost. The Company classifies accounts receivable as loans and receivable, and classifies bank indebtedness, accounts payable and accrued liabilities, and subordinated debt as other financial liabilities. The carrying value of the loans and receivables and other financial liabilities approximates their fair value.

The Company's financial instruments are recognized on a trade date basis. Transaction costs relating to the Company's financial instruments are expensed as incurred.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit, commercial paper and bankers' acceptances with a term to maturity of less than three months from the date of purchase.

Securities owned and sold short

Securities owned and sold short are recorded at fair value based on quoted market prices in an active market or a valuation model if no market prices are available. Unrealized gains and losses are reflected in income. Certain securities owned have been pledged as collateral for securities borrowing transactions.

Securities lending and borrowing

Securities borrowed and securities loaned are carried at the amounts of cash collateral delivered and received in connection with the transactions. Securities borrowed transactions require the Company to deposit cash, letters of credit or other collateral with the lender. For securities loaned, the Company receives collateral in the form of cash or other collateral in an amount generally in excess of the market value of the securities loaned. The Company monitors the fair value of the securities borrowed and loaned against the cash collateral on a daily basis and, when appropriate, the Company may require counterparties to deposit additional collateral or it may return collateral pledged to ensure such transactions are adequately secured.

Revenue recognition

Commission revenue consists of revenue generated through commission-based brokerage services, recognized on a trade date basis, and the sale of fee-based products and services, recognized on an accrual basis. Realized and unrealized gains and losses on securities purchased for client-related transactions are reported as net facilitation losses and recorded net of commission revenues.

Investment banking revenue consists of underwriting fees, management and advisory fees, and commissions earned on corporate finance activities. Revenue from underwritings, mergers and acquisitions, and other corporate finance activities are recorded when the underlying transaction is substantially completed under the engagement terms and the related revenue is reasonably determinable. Management and advisory fees are recognized on an accrual basis.

Principal trading revenue consists of income earned in connection with principal trading operations and is recognized on a trade date basis.

Interest revenue consists of interest earned on client margin accounts, interest earned on the Company's cash and cash equivalents balances, and net interest earned on cash delivered in support of securities borrowing activity. Interest revenue is recognized on an accrual basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company introduced registered plan administration fees during the fiscal year ended March 31, 2010. This fee income is received in advance for a one-year period and it is deferred and recognized into income as earned on a straight-line basis.

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is being recorded as follows:

Computer equipment	30% declining balance basis
Furniture and equipment	20% declining balance basis
Leasehold improvements	Straight-line over the term of the respective leases

Translation of foreign currency transactions and foreign subsidiaries

The functional currency of the Company is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at historical rates.

Assets and liabilities of the self-sustaining foreign subsidiaries with a functional currency other than the Canadian dollar are translated into Canadian dollars at rates prevailing at the balance sheet date, and income and expenses are translated at average exchange rates prevailing during the period. Unrealized gains or losses arising as a result of the translation of the foreign subsidiaries are recorded in the accumulated other comprehensive income (loss).

Revenue and expenses are translated at the average exchange rate prevailing during the period. Foreign currency translation gains and losses are included in income in the period in which they occur.

Income taxes

Income taxes are accounted for using the asset and liability method. This method requires that income taxes reflect the expected future tax effect of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Future income tax assets and liabilities are determined for each temporary difference at rates expected to be in effect when the assets or liabilities are settled. A valuation allowance is established, if necessary, to reduce the future income tax asset to an amount that is more likely than not to be realized.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net income (loss) for the year by the weighted average number of common shares outstanding. Diluted earnings (loss) per share reflects the dilutive effect of unvested share purchase loans, share issuance commitments in connection with stock-based compensation plans, unvested shares purchased by the employee benefit trust and share issuance commitments in connection with the long term incentive plan based on the treasury stock method. The treasury stock method determines the number of incremental common shares by assuming that the number of shares the Company has granted to employees has been issued.

Pension plan

The Company provides a defined contribution pension plan on behalf of its current employees. The defined contribution pension plan is available to certain administrative employees after a specified period of service. The Company is required to match the employees' contributions up to a certain maximum percentage of the employees' base salary. Costs of the defined contribution plan, representing the Company's required contribution, are charged to income in the year. The amount of the charge for the year was \$0.4 million [2009 – \$0.8 million].

The Company formerly provided a final pay defined benefit pension plan for certain administrative employees. The plan is closed and has 22 current and retired members. The plan's assets, accrued benefit obligations and related pension expense of the Company are not material to the Company's financial position and results of operations.

Stock-based compensation plans

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

Recent accounting pronouncements

Business Combinations and Consolidated Financial Statements

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

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

The Company early adopted all three standards concurrently for the acquisition of Genuity Capital Markets (Genuity) [Note 19[i]] beginning April 1, 2010. The impact of adoption of these standards is expected to be material to the Company but could not be fully determined as at March 31, 2010.

International Financial Reporting Standards

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

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

2. CHANGE IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

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

Financial Instruments – Disclosures

The AcSB amended CICA Handbook Section 3862 “*Financial Instruments – Disclosures*” to increase disclosure requirements regarding the fair value measurements and liquidity of financial instruments. The Company adopted these new amendments during fiscal 2010 and this information is included in Note 4.

Revenue recognition

The Company introduced registered plan administration fees during the year ended March 31, 2010. This fee income is received in advance for a one-year period and it is deferred and recognized into income as earned on a straight-line basis.

3. SECURITIES OWNED AND SECURITIES SOLD SHORT

	2010		2009	
	<i>Securities owned</i>	<i>Securities sold short</i>	<i>Securities owned</i>	<i>Securities sold short</i>
Corporate and government debt	\$ 282,686	\$ 342,916	\$ 86,069	\$ 72,315
Equities and convertible debentures	79,098	21,221	47,622	7,111
Investment in ABCP [note 7]	971	—	—	—
	\$ 362,755	\$ 364,137	\$ 133,691	\$ 79,426

As at March 31, 2010 corporate and government debt maturities ranged from 2010 to 2060 [March 31, 2009 – 2009 to 2049] and bear interest ranging from 0.50% to 14.00% [March 31, 2009 – 3.00% to 10.75%].

4. FINANCIAL INSTRUMENTS

In the normal course of business the Company is exposed to credit risk, liquidity risk, and market risk, which includes fair value risk, interest rate risk and foreign exchange risk.

Credit risk

Credit risk is the risk of loss associated with a counterparty’s inability to fulfill its payment obligations. Credit risk arises from cash and cash equivalents, net receivables from clients and brokers and investment dealers, and other accounts receivable. The maximum exposure of the Company to credit risk before taking into account any collateral held or other credit enhancements is the carrying amount of the financial instruments as disclosed in the consolidated financial statements as at March 31, 2010 and 2009.

The primary source of credit risk to the Company is in connection with trading activity by private clients and private client margin accounts. To minimize its exposure, the Company applies certain credit standards, applies limits to transactions and requires settlement of securities transactions on a cash basis or delivery against payment. Margin transactions are collateralized by securities in the clients’ accounts in accordance with limits established by the applicable regulatory authorities and are subject to the Company’s credit review and daily monitoring procedures. Management monitors the collectibility of receivables and estimates an allowance for doubtful accounts. It is the Company’s policy to provide an allowance against unsecured balances deemed to be uncollectible. As at March 31, 2010 the allowance for doubtful accounts was \$11.6 million [March 31, 2009 – \$13.6 million].

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company is also exposed to the risk that counterparties to transactions will not fulfill their obligations. Counterparties primarily include investment dealers, clearing agencies, banks and other financial institutions. The Company does not rely entirely on ratings assigned by credit rating agencies in evaluating counterparty risk. The Company mitigates credit risk by performing its own due diligence assessments on the counterparties, obtaining and analyzing information regarding the structure of the financial instruments, and keeping current with new innovations in the market. The Company also manages this risk by imposing and monitoring individual and aggregate position limits for each counterparty, conducting regular credit reviews to assess creditworthiness, reviewing security and loan concentrations, holding and marking to market collateral on certain transactions and conducting business through clearing organizations with performance guarantees.

As at March 31, 2010 and 2009, the Company's most significant counterparty concentrations were with financial institutions and institutional clients. Management believes that they are in the normal course of business and does not anticipate loss for non-performance.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they become due. The Company's management is responsible for reviewing liquidity resources to ensure funds are readily available to meet its financial obligations as they become due, as well as ensuring adequate funds exist to support business strategies and operational growth. The Company's business requires capital for operating and regulatory purposes. The current assets reflected on the balance sheet are highly liquid. The majority of the positions held as securities owned are readily marketable and all are recorded at their fair value. Client receivables are secured by readily marketable securities and are reviewed daily for impairment in value and collectability. Receivables and payables from brokers and dealers represent the following: current open transactions that generally settle within the normal three-day settlement cycle; collateralized securities borrowed and/or loaned in transactions that can be closed within a few days on demand; and balances on behalf of introducing brokers representing net balances in connection with their client accounts. Additional information regarding the Company's capital structure and capital management objectives is discussed in Note 15.

The following table presents the contractual terms to maturity of the financial liabilities owed by the Company as at March 31, 2010:

<i>Financial liability</i>	<i>Carrying amount</i>	<i>Contractual term to maturity</i>
Bank indebtedness	\$ 29,435	Due on demand
Accounts payable and accrued liabilities	2,308,146	Due within one year
Income taxes payable	5,385	Due within one year
Subordinated debt	15,000	Due on demand*

* Subject to Investment Industry Regulatory Organization of Canada's approval.

Market risk

Market risk is the risk that the fair value of financial instruments will fluctuate because of changes in market prices. The Company separates market risk into three categories: fair value risk, interest rate risk and foreign exchange risk.

Fair value risk

When participating in underwriting activities, the Company may incur losses if it is unable to resell the securities it is committed to purchase or if it is forced to liquidate its commitment at less than the agreed upon purchase price. The Company is also exposed to fair value risk as a result of its principal trading activities in equity securities and fixed income securities. Securities held for trading are valued based on quoted market prices and, as such, changes in fair value affect earnings as they occur. Fair value risk also arises from the possibility that changes in market prices will affect the value of the securities the Company holds as collateral for private client margin accounts. The Company mitigates its fair value risk exposure through controls to limit concentration levels and capital usage within its inventory trading accounts, as well as monitoring procedures of the margin accounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the effect on net income (loss) as a result of a fair value change in financial instruments as at March 31, 2010. This analysis assumes all other variables remain constant. The methodology used to calculate the fair value sensitivity is consistent with the prior year.

<i>Financial instrument</i>	<i>March 31, 2010</i>			<i>March 31, 2009</i>		
	<i>Carrying value</i>	<i>Effect of a 10% increase in fair value on net income</i>	<i>Effect of a 10% decrease in fair value on net income</i>	<i>Carrying value</i>	<i>Effect of a 10% increase in fair value on net income</i>	<i>Effect of a 10% decrease in fair value on net income</i>
Equities and convertible debentures owned	\$ 80,069	\$ 2,100	\$ (2,100)	\$ 47,622	\$ 1,356	\$ (1,356)
Equities and convertible debentures sold short	21,221	(557)	557	7,111	(202)	202
Investment ⁽¹⁾	5,000	n/a	(262)	5,000	n/a	(285)

⁽¹⁾ Investment [Note 6] is classified as available for sale and carried at cost as the investment does not have a quoted market price and, therefore, there is no impact on other comprehensive income (loss) (OCI) resulting from any temporary fluctuation in the market price of the investment. An other than temporary decline in the value of the investment is recognized in net income (loss), and the table indicates the impact on net income (loss) as a result of a 10% impairment of the investment.

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

	<i>Estimated fair value</i>			
	<i>March 31, 2010</i>			
	<i>March 31, 2010</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Cash and cash equivalents	\$ 731,852	\$ 731,852	\$ —	\$ —
Securities owned ⁽¹⁾	362,755	358,621	3,163	971
Securities sold short	364,137	364,137	—	—

⁽¹⁾ Securities owned includes \$971 of investment in ABCP and \$3,163 of broker warrants.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or future cash flows of financial instruments held by the Company. The Company incurs interest rate risk on its own cash and cash equivalent balances and bank indebtedness, net clients' balances, and net brokers and investment dealers' balances, as well as its subordinated debt. The Company attempts to minimize and monitor its exposure to interest rate risk through quantitative analysis of its net positions of fixed income securities, clients' balances, securities lending and borrowing activities, and short-term borrowings. The Company does not hedge its exposure to interest rate risk as it believes it is minimal.

All cash and cash equivalents mature within three months. Net clients' receivable (payable) balances charge (incur) interest based on floating interest rates. Subordinated debt bears interest at a rate of prime plus 4%, payable monthly.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides the effect on net income for the year ended March 31, 2010 if interest rates had increased or decreased by 100 basis points applied to balances as of March 31, 2010. Fluctuations in interest rates do not have an effect on OCI. This sensitivity analysis assumes all other variables are constant. The methodology used to calculate the interest rate sensitivity is consistent with the prior year.

	March 31, 2010			March 31, 2009		
	Carrying value	Net income effect of a 100 bps increase in interest rates	Net income effect of a 100 bps decrease in interest rates	Carrying value	Net income effect of a 100 bps increase in interest rates	Net income effect of a 100 bps decrease in interest rates
Cash and cash equivalents, net of bank indebtedness	\$ 702,417	\$ 3,686	\$ (3,686)	\$ 625,573	\$ 3,563	\$ (3,563)
Corporate and government debt owned	282,686	1,483	(1,483)	86,069	490	(490)
Corporate and government debt sold short	(342,916)	(1,799)	1,799	(72,315)	(411)	411
Clients' payable, net	(684,812)	(3,593)	(2,331)	(635,025)	(3,617)	(592)
RRSP cash balances held in trust	475,220	2,493	(2,493)	397,011	2,261	(2,261)
Brokers' and investment dealers' payable, net	(17,187)	(1,002)	50	(87,507)	(889)	177
Subordinated debt	(15,000)	(79)	79	(25,000)	(142)	142

Foreign exchange risk

Foreign exchange risk arises from the possibility that changes in the price of foreign currencies will result in losses. The Company's primary foreign exchange risk results from its investment in its US and UK subsidiaries. These subsidiaries are considered self-sustaining and, therefore, are translated using the current rate method. Any fluctuation in the Canadian dollar against the US dollar and the pound sterling will result in a change in the unrealized gains (losses) on translation of self-sustaining foreign operations recognized in accumulated other comprehensive income (losses).

All of the subsidiaries may also hold financial instruments in currencies other than their functional currency and, therefore, any fluctuations in foreign exchange rates will impact foreign exchange gains or losses.

The following table summarizes the effects on net income (loss) and OCI as a result of a 10% change in the value of the foreign currencies where there is significant exposure. The analysis assumes all other variables remain constant. The methodology used to calculate the foreign exchange rate sensitivity is consistent with the prior year.

As at March 31, 2010:

Currency	Effect of a 10% appreciation in foreign exchange rate on net income	Effect of a 10% depreciation in foreign exchange rate on net income	Effect of a 10% appreciation in foreign exchange rate on OCI	Effect of a 10% depreciation in foreign exchange rate on OCI
US dollar	\$ (3,611)	\$ 3,611	\$ 8,737	\$ (8,737)
Pound sterling	(275)	275	6,320	(6,320)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2009:

<i>Currency</i>	<i>Effect of a 10% appreciation in foreign exchange rate on net income</i>	<i>Effect of a 10% depreciation in foreign exchange rate on net income</i>	<i>Effect of a 10% appreciation in foreign exchange rate on OCI</i>	<i>Effect of a 10% depreciation in foreign exchange rate on OCI</i>
US dollar	\$ (5,521)	\$ 5,521	\$ 2,029	\$ (2,029)
Pound sterling	57	(57)	14,644	(14,644)

Derivative financial instruments

Derivative financial instruments are financial contracts, the value of which is derived from the value of the underlying assets, interest rates, indices or currency exchange rates.

Foreign exchange forward contracts

The Company uses derivative financial instruments to manage foreign exchange risk on pending security settlements in foreign currencies. The fair value of these contracts is nominal due to their short term to maturity. Realized and unrealized gains and losses related to these contracts are recognized in net income (loss) during the reporting period.

Forward contracts outstanding at March 31, 2010:

	<i>Notional amounts (millions of USD)</i>	<i>Average price (CAD/USD)</i>	<i>Maturity</i>	<i>Fair value (millions of USD)</i>
To sell US dollars	\$ 8.3	\$ 1.02	April 6, 2010	\$ 0.0
To buy US dollars	17.0	1.02	April 6, 2010	0.0

Forward contracts outstanding at March 31, 2009:

	<i>Notional amounts (millions of USD)</i>	<i>Average price (CAD/USD)</i>	<i>Maturity</i>	<i>Fair value (millions of USD)</i>
To sell US dollars	\$ 6.00	\$ 1.26	April 3, 2009	\$ 0.0
To buy US dollars	4.30	1.26	April 3, 2009	0.0

Bond futures

The Company is involved in futures contracts, which are agreements to buy or sell standardized amounts of bond indices, at a predetermined future date and price, in accordance with terms specified by a regulated futures exchange and are subject to daily cash margining. The Company trades in futures in order to mitigate against interest rate risk, yield curve risk and liquidity risk. The notional amount of futures contracts outstanding at March 31, 2010 was \$96.9 million (2009 – nil). The fair value of these bond futures is nominal.

Credit risk on bond futures is minimal as the counterparty to every futures trade is a clearing corporation which acts as a third party that matches trade and collects and maintains margins.

Securities lending and borrowing

The Company employs securities lending and borrowing primarily to facilitate the securities settlement process. These arrangements are typically short term in nature, with interest being received when cash is delivered and interest being paid when cash is received. These transactions are fully collateralized and are subject to daily margin calls for any deficiency between the market value of the security given and the amount of collateral received. These transactions are collateralized by either

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

cash or securities, including government treasury bills and government bonds, and are reflected within accounts receivable and accounts payable. The Company manages its credit exposure by establishing and monitoring aggregate limits by customer for these transactions. Interest earned on cash collateral is based on a floating rate. At March 31, 2010 the floating rates for equities and bonds were 0.00%–0.049% and 0.00%, respectively [March 31, 2009 – 0.18% and 0.30%, respectively].

	<i>Cash</i>		<i>Securities</i>	
	<i>Loaned or delivered as collateral</i>	<i>Borrowed or received as collateral</i>	<i>Loaned or delivered as collateral</i>	<i>Borrowed or received as collateral</i>
2010	\$ 135,690	\$ 45,575	\$ 50,703	\$ 140,124
2009	86,291	19,629	2,581	107,494

Credit facilities

Subsidiaries of the Company have credit facilities with banks in Canada and the UK for an aggregate amount of \$411.4 million. These credit facilities, consisting of call loans, letters of credit and daylight overdraft facilities, are collateralized by either unpaid client securities and/or securities owned by the Company. As of March 31, 2010 there were no outstanding balances under these credit facilities.

A subsidiary of the Company has also entered into secured irrevocable standby letters of credit from a financial institution totalling \$2.3 million (US\$2.3 million) as rent guarantees for its leased premises in Boston, New York and San Francisco. As of March 31, 2010 and 2009 there were no outstanding balances under these standby letters of credit.

Bank indebtedness

The Company enters into call loans or overdraft positions primarily to facilitate the securities settlement process for both client and Company securities transactions. The bank indebtedness is collateralized by either unpaid client securities and/or securities owned by the Company. As at March 31, 2010 the Company had a balance of \$29.4 million outstanding [March 31, 2009 – \$75.6 million]. Interest on the bank indebtedness was at a floating rate of 1.70% as at March 31, 2010 [March 31, 2009 – 1.70%].

5. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts receivable

	<i>2010</i>	<i>2009</i>
Brokers and investment dealers	\$ 932,408	\$ 331,930
Clients	503,733	288,877
RRSP cash balances held in trust	475,220	397,011
Other	61,563	43,343
	\$ 1,972,924	\$ 1,061,161

Accounts payable and accrued liabilities

	<i>2010</i>	<i>2009</i>
Brokers and investment dealers	\$ 949,595	\$ 419,437
Clients	1,188,545	923,902
Other	170,006	126,030
	\$ 2,308,146	\$ 1,469,369

Accounts payable to clients include \$475.2 million [2009 – \$397.0 million] due to clients for RRSP cash balances held in trust.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Client security purchases are entered into on either a cash or a margin basis. In the case of a margin account, the Company extends a loan to a client for the purchase of securities, using securities purchased and/or other securities in the client's account as collateral. Amounts loaned to any client are limited by margin regulations of the Investment Industry Regulatory Organization of Canada (IIROC) 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 clients' accounts. Interest on margin loans and on amounts due to clients are based on a floating rate [March 31, 2010 – 5.25%–6.25% and 0.05%–0.00%, respectively; March 31, 2009 – 5.50%–6.25% and 0.20%–0.00%, respectively].

6. INVESTMENT

	2010	2009
Available for sale	\$ 5,000	\$ 5,000

The Company has invested \$5 million in a limited partnership as part of its initiative to operate a new Alternative Trading System. The investment is carried at cost as there is no available quoted market price in an active market.

7. INVESTMENT IN ASSET-BACKED COMMERCIAL PAPER

	2010	2009
Investment in asset-backed commercial paper	\$ —	\$ 35,312

In January 2009, the Company received restructured ABCP notes upon the final implementation order issued by the Ontario Superior Court in a plan of arrangement under the *Companies' Creditors Arrangement Act* (Canada) (CCAA) (the Plan).

The Plan as amended provided for a declaratory release that was effective on implementation of the Plan and that, with the closing of the Canaccord Relief Program, resulted in the release of all existing and future ABCP-related claims against the Company. This release has been given effect in the United States under Chapter 15 of the US Bankruptcy Code.

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

On December 21, 2009 a Hearing Panel of the IIROC accepted a settlement agreement between the IIROC Staff and Canaccord Financial Ltd. regarding matters surrounding ABCP, which resulted in a settlement of \$3.1 million. This amount was paid and expensed in full by the Company prior to March 31, 2010.

The Company estimates the fair value of its ABCP by discounting expected future cash flows on a probability weighted basis considering the best available data at the reporting date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During fiscal 2010, the Company either disposed of or received redemption proceeds for its investment in ABCP that had a carrying value of \$49.1 million for proceeds of \$54.4 million, resulting in a gain of \$5.3 million, which is included in principal trading revenue. A fair value adjustment of \$0.3 million was also included in principal trading revenue.

The assumptions used in the valuation model include:

	<i>March 31, 2010</i>	<i>March 31, 2009</i>
Weighted average interest rate	2.29%	4.72%
Weighted average discount rate	6.08%	6.83%
Maturity of notes	18 years	8 to 19 years
Credit losses	0%	25% to 100%

The following is a summary of ABCP transactions for the year ended March 31, 2010:

	<i>Amount</i>
Balance, March 31, 2009	\$ 35,312
Purchases under the client relief program	14,470
Net redemptions	(2,366)
Disposal of investment	(46,743)
Fair value adjustment	298
Balance, March 31, 2010	\$ 971

The remaining balance of investment in ABCP of \$971 was included in securities owned as at March 31, 2010.

8. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	<i>Cost</i>	<i>Accumulated amortization</i>	<i>Net book value</i>
<i>2010</i>			
Computer equipment	\$ 5,550	\$ 4,676	\$ 874
Furniture and equipment	26,490	16,014	10,476
Leasehold improvements	53,278	26,501	26,777
	\$ 85,318	\$ 47,191	\$ 38,127
<i>2009</i>			
Computer equipment	\$ 5,635	\$ 4,155	\$ 1,480
Furniture and equipment	26,805	14,094	12,711
Leasehold improvements	55,064	22,944	32,120
	\$ 87,504	\$ 41,193	\$ 46,311

9. INCOME TAXES

Future income tax assets (liabilities) are comprised of the following:

	<i>2010</i>	<i>2009</i>
Assets:		
Legal settlements	\$ 1,239	\$ 1,845
Deferred revenue	452	—
Unpaid remuneration	—	87
Unamortized forgivable loans	4,907	4,040
Unamortized capital cost of equipment and leasehold improvements over their net book value	1,559	1,671
Loss carryforwards	5,204	14,072
Share issuance costs	8	13
Long term incentive plan	8,336	8,811
Lease impairment and deferred rent	2,585	3,684
Other	1,015	3,738
	25,305	37,961
Liabilities:		
Unrealized gain on marketable securities	(866)	22
Deferred charges	(171)	(315)
Other intangible assets	(321)	(321)
Investment in Limited Partnership	(268)	—
	(1,626)	(614)
Valuation allowance	(10,489)	(21,667)
Future income tax assets	\$ 13,190	\$ 15,680

Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that these future income tax assets will be realized.

Subsidiaries of the Company have accumulated non-capital losses for income tax purposes totalling \$12.6 million [2009 – \$19.1 million], which are available to reduce taxable income in future years. These losses begin expiring in 2023.

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

	<i>2010</i>	<i>2009</i>
Income taxes at the statutory rate	\$ 15,529	\$ (14,729)
Less: International Finance Business recovery of provincial taxes	(371)	53
Less: Difference in tax rates in foreign jurisdictions	295	(2,686)
Non-deductible items affecting the determination of taxable income	2,674	12,581
Other	851	—
Change in valuation allowance	(5,834)	5,233
Income tax expense – current and future	\$ 13,144	\$ 452

10. SUBORDINATED DEBT

	2010	2009
Loan payable, interest payable monthly at prime + 4% per annum, due on demand	\$ 15,000	\$ 25,000

The loan payable is subject to a subordination agreement and may only be repaid with the prior approval of the IIROC. As at March 31, 2010, the interest rate for the subordinated debt was 6.25%.

11. COMMON SHARES

	2010		2009	
	<i>Number of shares</i>		<i>Number of shares</i>	
Share capital				
Common shares [note 19(i)]	\$ 254,553	55,571,133	\$ 249,418	55,092,844
Unvested share purchase loans	(35,280)	(4,475,468)	(30,911)	(2,674,529)
Shares held by employee benefit trust	(33,582)	(3,201,274)	(34,888)	(3,075,300)
	\$ 185,691	47,894,391	\$ 183,619	49,343,015

Share capital of Canaccord Financial Inc. comprises the following:

[i] Authorized

Unlimited common shares without par value

Unlimited preferred shares without par value

[ii] Issued and fully paid

<i>Common shares</i>	<i>Number of shares</i>	<i>Amount</i>
Balance, March 31, 2008	47,835,051	\$ 173,799
Shares issued for cash	6,733,250	67,341
Shares issued in connection with stock compensation plans [note 12]	849,615	9,739
Shares cancelled	(325,072)	(1,461)
Balance, March 31, 2009	55,092,844	249,418
Shares issued in connection with stock compensation plans [note 12]	519,725	5,306
Shares cancelled	(41,436)	(171)
Balance, March 31, 2010	55,571,133	\$ 254,553

On May 2, 2008 the Company closed a fully underwritten financing of 5,855,000 common shares at a price of \$10.25 per share for total gross proceeds of \$60.0 million. On May 22, 2008 the underwriters exercised an over-allotment option in connection with the financing to purchase an additional 878,250 common shares at a price of \$10.25 per share for gross proceeds of \$9.0 million. Total share issuance costs net of taxes were \$1.6 million, which were reflected in the net proceeds added to share capital.

On March 4, 2010, the Company announced that it signed a definitive agreement to acquire Genuity. Shareholders' approval for this transaction was obtained on April 22, 2010 and the acquisition closed on April 23, 2010. The Company acquired 100% of Genuity for consideration consisting of 26.5 million Canaccord common shares and cash of \$30 million. Refer to Note 19[i] for additional information regarding this subsequent event.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[iii] Excess on repurchase of common shares

The excess on repurchase of common shares represents amounts paid to shareholders, by the Company and its subsidiaries, on repurchase of their shares in excess of the book value of those shares at the time of repurchase. The excess on repurchase of common shares has been charged against contributed surplus.

	2010	2009
Repurchase price	\$ 411	\$ 3,927
Book value	(171)	(1,461)
Excess on repurchase of common shares	\$ 240	\$ 2,466

[iv] Common share purchase loans

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

[v] Earnings (loss) per share

	2010	2009
Basic earnings (loss) per share		
Net income (loss) for the year	\$ 38,497	\$ (47,651)
Weighted average number of common shares (number)	48,698,163	48,929,259
Basic earnings (loss) per share	\$ 0.79	\$ (0.97)
Diluted earnings (loss) per share		
Net income (loss) for the year	\$ 38,497	\$ (47,651)
Weighted average number of common shares (number)	48,698,163	48,929,259
Dilutive effect of unvested shares (number)	3,502,150	2,674,529
Dilutive effect of stock options (number)	29,855	—
Dilutive effect of unvested shares purchased by employee benefit trust (number) [note 12]	3,137,411	2,416,746
Dilutive effect of share issuance commitment in connection with long term incentive plan (number) [note 12]	294,841	168,950
Adjusted weighted average number of common shares (number)	55,662,420	54,189,484
Diluted earnings (loss) per share	\$ 0.69	\$ (0.97)

12. STOCK-BASED COMPENSATION PLANS

Stock options

The Company grants stock options to purchase common shares of the Company to independent directors and senior managers. Stock 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. Stock options to senior managers 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 stock options was \$9.91 at March 31, 2010.

In May 2009 the Company granted an aggregate of 125,000 stock options to five independent directors with an exercise price of \$7.21 per share. The options vest over a four-year period and expire seven years after the grant date or 30 days after the participant ceases to be a director.

In August 2009 the independent directors of the Company approved the grant of stock options to certain senior managers of the Company and its subsidiaries. An aggregate of 2,099,993 options were granted at an exercise price of \$9.47 per share and vest over five years.

The following is a summary of the Company's stock options as at March 31, 2010 and 2009 and changes during the periods then ended.

	<i>Number of options</i>	<i>Weighted average exercise price</i>
Balance, March 31, 2008	125,000	\$ 23.13
Granted	150,000	9.21
Expired	(50,000)	16.31
Balance, March 31, 2009	225,000	15.37
Granted	2,224,993	9.34
Balance, March 31, 2010	2,449,993	\$ 9.91

The following table summarizes the share options outstanding as at March 31, 2010:

<i>Options outstanding</i>				<i>Options exercisable</i>	
<i>Range of exercise price</i>	<i>Number of common shares</i>	<i>Weighted average remaining contractual life</i>	<i>Weighted average exercise price</i>	<i>Number of options exercisable</i>	<i>Weighted average exercise price</i>
\$ 23.13	100,000	1 year	\$ 23.13	75,000	\$ 23.13
7.21 – 9.48	2,349,993	3.84 years	9.33	93,750	8.51
\$ 7.21 – 23.13	2,449,993	3.72 years	\$ 9.91	168,750	\$ 15.01

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The fair value of each stock option granted in the current year was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

	<i>August 2009 grant</i>	<i>May 2009 grant</i>
Dividend yield	2.00%	2.30%
Expected volatility	44.00%	44.00%
Risk-free interest rate	2.45%	2.45%
Expected life	5 years	5 years

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

Compensation expense of \$1.1 million was recognized for the year ended March 31, 2010 (\$0.2 million for the year ended March 31, 2009) in respect of the above stock options.

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.

There were 2,649,832 RSUs [March 31, 2009 – 3,078,551 RSUs] granted in lieu of cash compensation to employees during the year ended March 31, 2010. The Trust purchased \$11.7 million [March 31, 2009 – \$15.0 million] of common shares for the year ended March 31, 2010.

The cost of the RSUs is amortized on a graded basis over the vesting period of three years. Compensation expense of \$22.7 million has been recognized for the year ended March 31, 2010 [March 31, 2009 – \$14.8 million].

	<i>2010</i>	<i>2009</i>
Awards outstanding, beginning of year	4,602,385	2,221,578
Grants	2,649,832	3,078,551
Vested	(1,711,779)	(697,744)
Forfeited	(222,493)	—
Awards outstanding, end of year	5,317,945	4,602,385
	<i>2010</i>	<i>2009</i>
Common shares held by the Trust, beginning of year	3,075,300	1,621,895
Acquired	1,328,700	1,984,711
Released on vesting	(1,202,726)	(531,306)
Common shares held by the Trust, end of year	3,201,274	3,075,300

13. RELATED PARTY TRANSACTIONS

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

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

	2010	2009
Accounts receivable	\$ 39,534	\$ 38,733
Accounts payable and accrued liabilities	82,299	77,334

14. SEGMENTED INFORMATION

The Company operates in two industry segments as follows:

Canaccord Adams – includes investment banking, research and trading activities on behalf of corporate, institutional and government clients as well as principal trading activities in Canada, the UK and Other Foreign Location, and the US. Subsequent to the acquisition of Genuity [Note 19[i)], this segment will be rebranded as Canaccord Genuity.

Canaccord Wealth Management – provides brokerage services and investment advice to retail or private clients in Canada and the US. Canaccord rebranded its Private Client Services as Canaccord Wealth Management as announced in September 2009.

Corporate and Other includes correspondent brokerage services, interest and foreign exchange revenue and expenses not specifically allocable to Canaccord Adams and Canaccord Wealth Management.

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 operating results.

The Company does not allocate total assets or equipment and leasehold improvements to the segments. Amortization is allocated to the segments based on square footage occupied. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. There are no significant intersegment revenues.

	<i>Canaccord Adams</i>	<i>Canaccord Wealth Management</i>	<i>Corporate and Other</i>	<i>Total</i>
<i>2010</i>				
Revenues	\$ 363,558	\$ 187,046	\$ 26,933	\$ 577,537
Expenses, excluding undernoted	278,663	146,449	68,275	493,387
Amortization	3,633	2,506	1,470	7,609
Development costs	10,300	10,308	4,292	24,900
Income (loss) before income taxes	\$ 70,962	\$ 27,783	\$ (47,104)	\$ 51,641
<i>2009</i>				
Revenues	\$ 277,351	\$ 172,484	\$ 27,886	\$ 477,721
Expenses, excluding undernoted	247,255	139,986	68,388	455,629
Amortization	4,433	1,938	2,623	8,994
Development costs	15,268	7,853	5,652	28,773
Impairment of goodwill and intangibles	31,524	—	—	31,524
Income (loss) before income taxes	\$ (21,129)	\$ 22,707	\$ (48,777)	\$ (47,199)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2010	2009
Canada		
Revenue	\$ 388,772	\$ 320,364
Equipment and leasehold improvements	27,712	31,694
United Kingdom		
Revenue	\$ 82,454	\$ 72,927
Equipment and leasehold improvements	4,936	6,840
United States		
Revenue	\$ 100,417	\$ 77,650
Equipment and leasehold improvements	5,479	7,777
Other Foreign Location		
Revenue	\$ 5,894	\$ 6,780

15. CAPITAL MANAGEMENT

The Company's business requires capital for operating and regulatory purposes, including funding current and future operations. The Company's capital structure is underpinned by shareholders' equity, which is comprised of common shares, contributed surplus, retained earnings and accumulated other comprehensive income (loss), and is further complemented by subordinated debt. The following tables summarize our capital as at March 31, 2010 and 2009:

<i>Type of capital</i>	<i>Carrying amount</i>	<i>As a percentage of capital</i>
2010		
Common shares	\$ 185,691	44.6%
Contributed surplus	57,351	13.8%
Retained earnings	194,007	46.6%
Accumulated other comprehensive loss	(35,304)	(8.5)%
Shareholders' equity	401,745	96.5%
Subordinated debt	15,000	3.5%
	\$ 416,745	100.0%
2009		
Common shares	\$ 183,619	46.2%
Contributed surplus	44,383	11.1%
Retained earnings	160,868	40.5%
Accumulated other comprehensive loss	(16,166)	(4.1)%
Shareholders' equity	372,704	93.7%
Subordinated debt	25,000	6.3%
	\$ 397,704	100.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's capital management framework is designed to maintain the level of capital that will:

- Meet the Company's regulated subsidiaries' target ratios as set out by the respective regulators
- Fund current and future operations
- Ensure that the Company is able to meet its financial obligations as they become due
- Support the creation of shareholder value

The following subsidiaries are subject to regulatory capital requirements in the respective jurisdictions by the listed regulators:

- Canaccord Financial Ltd. is subject to regulation in Canada primarily by the IIROC
- Canaccord Adams Limited is regulated in the UK by the Financial Services Authority and is a member of the London Stock Exchange
- Canaccord Adams Inc. is registered as a broker dealer in the US and is subject to regulation primarily by the Financial Industry Regulatory Authority
- Canaccord Financial (USA) Inc. is registered as a broker dealer in the US and is subject to regulation primarily by the Financial Industry Regulatory Authority
- Canaccord International Ltd. is regulated in Barbados by the Central Bank of Barbados

Margin requirements in respect of outstanding trades, underwriting deal requirements and/or working capital requirements cause regulatory capital requirements to fluctuate on a daily basis. Compliance with these requirements may require the Company to keep sufficient cash and other liquid assets on hand to maintain regulatory capital requirements rather than using these liquid assets in connection with its business or paying them out in the form of cash disbursements. There were no significant changes in the Company's capital management policy during the current year. The Company's subsidiaries were in compliance with all of the minimum regulatory capital requirements during the year ended March 31, 2010.

16. COMMITMENTS AND CONTINGENCIES

Commitments

Subsidiaries of the Company are committed to approximate minimum lease payments for premises and equipment over the next five years and thereafter as follows:

2011	\$ 23,849
2012	21,311
2013	18,942
2014	16,689
2015	15,652
Thereafter	43,040
	<hr/> \$ 139,483

Contingencies

The Company, in the normal course of business as an investment dealer, is involved in litigation and as of March 31, 2010, 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 position of the Company. The actions described below have been commenced against the Company 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 these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[i] In 2002, two actions were commenced in the Superior Court of Quebec against the Company 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. The extent of the classes and the quantification of damages have not been determined.

[ii] Canaccord Financial Ltd. was one of the underwriters of a public offering of 13% senior secured notes of Redcorp Ventures Ltd. under a prospectus dated July 5, 2007. The offering was for a total of \$142.0 million and Canaccord participated for 12.5% of that amount (\$17.8 million). A number of entities have given notice to the underwriters (including Canaccord) alleging that the statements in the prospectus describing the security for Redcorp's obligations under the notes were incorrect and constitute, among other things, negligent misstatements, which were reasonably relied upon by these entities to their detriment in deciding to purchase the notes and, as a result, the underwriters (including Canaccord) are liable to compensate these entities for all of their losses flowing from the misrepresentations. The defences to these claims, third party claims and the quantification of damages are yet to be determined. Canaccord intends to vigorously defend itself against these claims.

[iii] Canaccord Financial Ltd., among others, is a defendant named in a class action proceeding initiated in the Ontario Superior Court of Justice. The plaintiff in the action claims, among other things, damages under the *Securities Act* (Ontario) of \$50 million and punitive damages of \$5 million alleging certain misrepresentations in a prospectus filed by Allen-Vanguard Inc. for which Canaccord among others, acted as underwriter. The defences to these claims, third party claims and the quantification of damages are yet to be determined. Canaccord intends to vigorously defend itself against these claims.

17. BUSINESS COMBINATION

On October 1, 2009 Canaccord Adams Limited, a wholly owned subsidiary of the Company, acquired Intelli Partners Limited and its wholly owned subsidiary, Intelli Corporate Finance Limited, a corporate advisory and brokerage boutique located in Edinburgh, Scotland, with net tangible assets at fair value of \$5.8 million, for cash consideration of \$7.0 million resulting in goodwill of \$1.2 million. Intelli is focused on investment companies and companies within the asset management sector.

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the fiscal 2010 consolidated financial statement presentation.

19. SUBSEQUENT EVENTS

[i] Business combination

On March 4, 2010 the Company announced that it had signed a definitive agreement to acquire Genuity. Shareholders' approval was obtained at the special shareholders' meeting held on April 22, 2010 and the acquisition closed on April 23, 2010. Canaccord acquired 100% of Genuity for consideration consisting of 26.5 million Canaccord common shares with an ascribed value of \$291.5 million and cash of \$30 million. In addition, the vendors will receive up to \$28 million as a working capital adjustment subsequent to closing. 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.

The Company expensed \$5.0 million of acquisition-related costs as at March 31, 2010. These acquisition-related costs include professional and consulting fees incurred for this acquisition. These costs also include payments for staff restructuring that resulted due to this acquisition.

The Company is in the process of completing its purchase price allocation for this acquisition and will disclose this information in its unaudited interim consolidated financial statements for the three-month period ending June 30, 2010.

[ii] Dividends

On May 18, 2010 the Board of Directors considered the dividend policy and approved a quarterly dividend of \$0.05 per share payable on June 15, 2010 with a record date of June 4, 2010.