# values endure

CANACCORD CAPITAL INC.

2009 Annual Report

CANACCORD CAPITAL

# VALUES ENDURE

Canaccord met the challenges of fiscal 2009 with strategies and actions that reflected our values. The results demonstrated our commitment to clients, employees and shareholders. And we believe that our firm, today, stands stronger than before.

Markets change. Business evolves. Values endure.

## ABOUT CANACCORD

Through its principal subsidiaries, Canaccord Capital Inc. (TSX & AIM: CCI) is a leading independent, full-service investment dealer in Canada with capital markets operations in the United Kingdom and the United States. Canaccord is publicly traded on both the Toronto Stock Exchange and AIM, a market operated by the London Stock Exchange. Canaccord has operations in two of the principal segments of the securities industry: capital markets and private client services. Together, these operations offer a wide range of complementary investment products, brokerage services and investment banking services to Canaccord's private, institutional and corporate clients. Canaccord has 31 offices worldwide, including 24 Private Client Services offices located across Canada. Canaccord Adams, the international capital markets division, has operations in Toronto, London, Boston, Vancouver, New York, Calgary, Montreal, San Francisco, Houston and Barbados.

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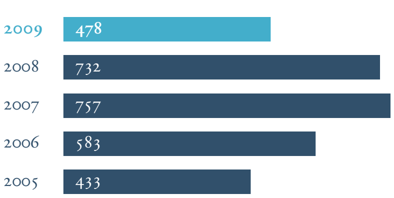
# FINANCIAL HIGHLIGHTS

## SELECTED FINANCIAL INFORMATION (1)

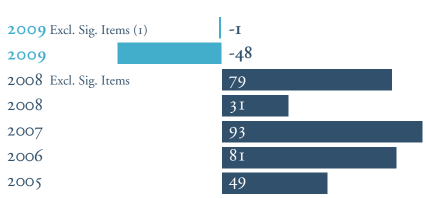
| (C$ thousands, except per share, employee and % amounts) | 2009 | 2008 | 2009/2008 Change | |
|---|---|---|---|---|
| | | For the years ended March 31 | | |
| **Revenue** | | | | |
| Commission | $ 233,104 | $ 296,047 | $ (62,943) | (21.3)% |
| Investment banking | 169,369 | 336,874 | (167,505) | (49.7)% |
| Principal trading | 18,319 | 7,443 | 10,876 | 146.1% |
| Interest | 38,287 | 63,168 | (24,881) | (39.4)% |
| Other | 18,642 | 28,007 | (9,365) | (33.4)% |
| Total revenue | $ 477,721 | $ 731,539 | $ (253,818) | (34.7)% |
| **Expenses** | | | | |
| Incentive compensation | 222,006 | 347,079 | (125,073) | (36.0)% |
| Salaries and benefits | 56,771 | 54,294 | 2,477 | 4.6% |
| Other overhead expenses | 194,910 | 207,638 | (12,728) | (6.1)% |
| Asset-backed commercial paper fair value adjustment | 6,700 | 12,797 | (6,097) | (47.6)% |
| Relief provision | 2,700 | 54,200 | (51,500) | (95.0)% |
| Canaccord relief program fair value adjustment | 2,647 | – | 2,647 | n.m. |
| Impairment of goodwill and intangibles | 31,524 | – | 31,524 | n.m. |
| Restructuring costs | 7,662 | 4,000 | 3,662 | 91.6% |
| Total expenses | $ 524,920 | $ 680,008 | $ (155,088) | (22.8)% |
| Income (loss) before income taxes | (47,199) | 51,531 | (98,730) | (191.6)% |
| Net income (loss) | (47,651) | 31,334 | (78,985) | (252.1)% |
| Basic earnings (loss) per share (EPS) | $ (0.97) | $ 0.70 | $ (1.67) | (238.6)% |
| Diluted earnings (loss) per share (EPS) | $ (0.97) | $ 0.64 | $ (1.61) | (251.6)% |
| Return on average common equity (ROE) | (12.4)% | 7.9% | (20.3)p.p. | |
| Dividends per share | $ 0.125 | $ 0.50 | $ (0.375) | (75.0)% |
| Book value per diluted share – period end | 6.51 | 7.21 | (0.70) | (9.7)% |
| **Excluding significant items (2)** | | | | |
| Total expenses | $ 473,687 | $ 609,011 | $ (135,324) | (22.2)% |
| Income before income taxes | 4,034 | 122,528 | (118,494) | (96.7)% |
| Net income (loss) | (1,417) | 79,346 | (80,763) | (101.8)% |
| Basic earnings (loss) per share (EPS) | $ (0.03) | $ 1.77 | $ (1.80) | (101.7)% |
| Diluted earnings (loss) per share (EPS) | $ (0.03) | $ 1.63 | $ (1.66) | (101.8)% |
| **Balance sheet data:** | | | | |
| Total assets | $ 2,022,099 | $ 2,098,718 | $ (76,619) | (3.7)% |
| Total liabilities | 1,649,395 | 1,741,274 | (91,879) | (5.3)% |
| Total shareholders' equity | 372,704 | 357,444 | 15,260 | 4.3% |
| Number of employees | 1,530 | 1,683 | (153) | (9.1)% |

(1) Data is considered to be GAAP except for ROE, book value per diluted share, figures excluding significant items and number of employees.
(2) Fiscal 2009 data excludes ABCP fair value adjustment of $6.7 million, $2.7 million relief provision, $2.6 million client relief program fair value adjustment, $31.5 million impairment of goodwill and intangibles, and $7.7 million of restructuring costs. Fiscal 2008 data excludes $12.8 million of ABCP fair value adjustment, $54.2 million relief provision and $4.0 million restructuring costs.
n.m.: not meaningful
p.p.: percentage points

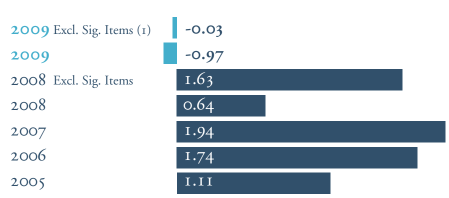
### REVENUE FOR FISCAL 2009
(C$ millions)




### NET INCOME FOR FISCAL 2009
(C$ millions)



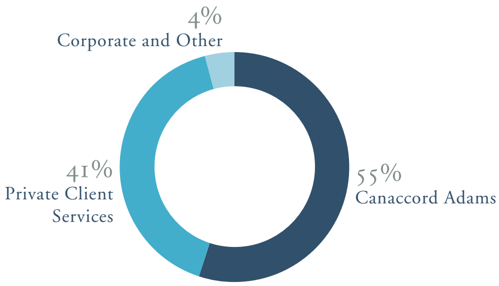

### DILUTED EPS FOR FISCAL 2009
(C$)



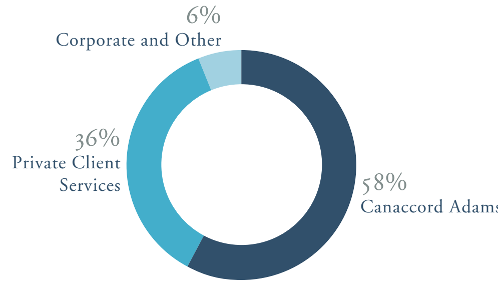

(1) Fiscal 2009 data excludes ABCP fair value adjustment of $6.7 million, $2.7 million relief provision, $2.6 million client relief program fair value adjustment, $31.5 million impairment of goodwill and intangibles, and $7.7 million of restructuring costs. Fiscal 2008 data excludes $12.8 million of ABCP fair value adjustment, $54.2 million relief provision and $4.0 million restructuring costs.

# CANACCORD CAPITAL INC. AT A GLANCE

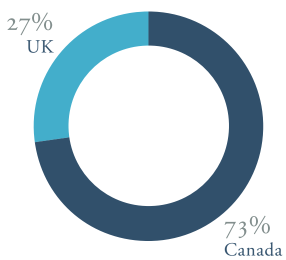
### FY 2005 — TOTAL REVENUE BY BUSINESS SEGMENT [1]



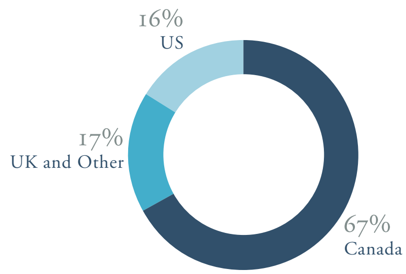

### FY 2009 — TOTAL REVENUE BY BUSINESS SEGMENT [1]




### FY 2005 — TOTAL REVENUE BY GEOGRAPHIC SEGMENT [1]

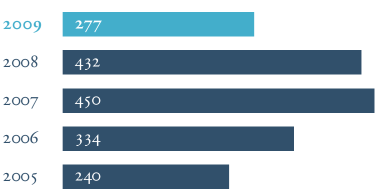



### FY 2009 — TOTAL REVENUE BY GEOGRAPHIC SEGMENT [1]

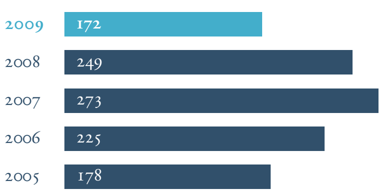



### REVENUE DISTRIBUTION BY BUSINESS SEGMENT

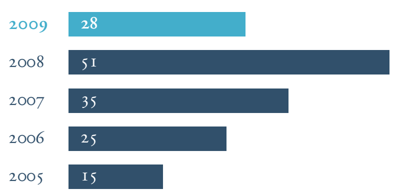
Canaccord Adams
(C$ millions)




Private Client Services
(C$ millions)




Corporate and Other
(C$ millions)




(1) Canaccord Adams Limited constitutes Canaccord's UK geographic segment. Canaccord Adams Inc. and Canaccord Capital Corporation (USA), Inc., constitute Canaccord's US geographic segment. Canaccord Capital Corporation is our primary Canadian operating entity. Canaccord Adams is the brand used for the division of Canaccord Capital Corporation engaged in capital markets activities in Canada, for Canaccord Adams Limited in the UK, and for Canaccord Adams Inc. in the US.

## 7 VALUES

Seven key values drive Canaccord employees and management in delivering results to our shareholders, clients and community.

1

**WE PUT OUR CLIENTS FIRST**
We develop deep trust with our clients through detailed consultation, appropriate investment ideas and value-added services.

2

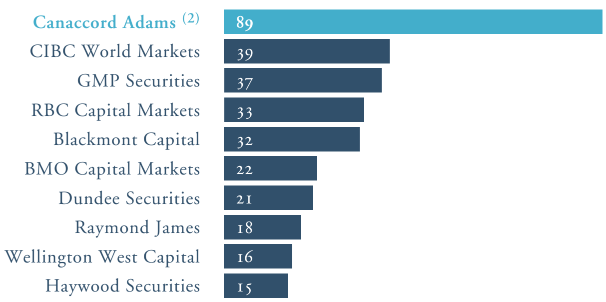
**A GOOD REPUTATION IS OUR MOST-VALUED CURRENCY**
Integrity and respect for client confidentiality are the basis of all our relationships.

3

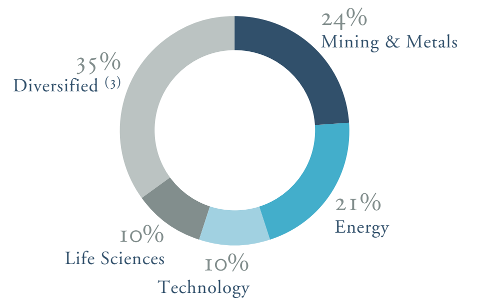
**IDEAS ARE THE ENGINE OF OUR BUSINESS**
Our originality in the generation of quality ideas – for clients and for ourselves – positions us ahead of the competition globally.

## CANACCORD ADAMS HIGHLIGHTS

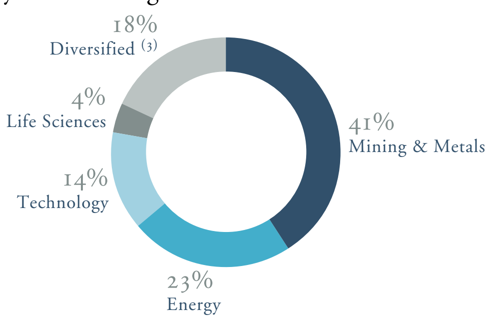
### Number of led transactions – equity offerings of $1.5 million and greater during fiscal 2009 (1)



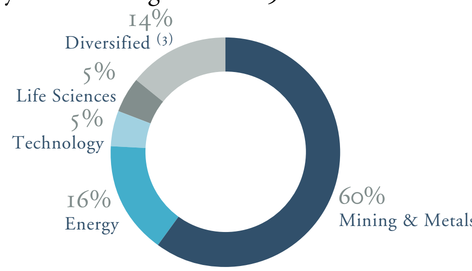

### Transactions by sector during fiscal 2009




### Revenue by sector during fiscal 2008

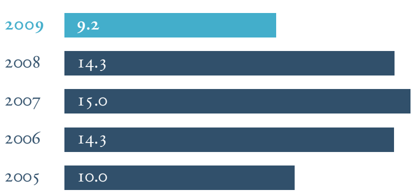



### Revenue by sector during fiscal 2009

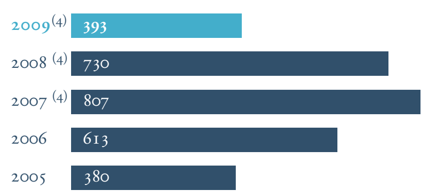



## PRIVATE CLIENT SERVICES HIGHLIGHTS

### Assets under administration (AUA)
(C$ billions)




### Assets under management (AUM)
(C$ millions)




(1) Source: FP Infomart (information accurate as of April 7, 2009); Company information.
(2) In addition to the transactions participated in by its Canadian operation, Canaccord's figures also include transactions by its UK and US operations.
(3) Diversified includes Consumer, Real Estate, Infrastructure and Sustainability.
(4) AUM are assets managed on a discretionary basis under our programs generally described as or known as the *Alliance Accounts* and *Private Investment Management* offered by Canaccord.

4

**WE ARE AN ENTREPRENEURIAL, HARD-WORKING CULTURE**

We believe that highly qualified, motivated professionals working together in an entrepreneurial environment results in superior client service and shareholder value.

5

**WE STRIVE FOR CLIENT INTIMACY**

The more detailed our understanding of our clients' needs and objectives, the better positioned we are to meet them.

6

**WE ARE DEDICATED TO CREATING EXEMPLARY SHAREHOLDER VALUE**

We are committed to aligning the interests of our people with fellow Canaccord shareholders through share ownership. We believe that ownership motivates the ideas and efforts that lead to above-average value creation.

7

**WE ARE COMMITTED TO EXCELLENCE IN OUR FOCUS AREAS**

We are a focused investment firm, offering global expertise in the Mining and Metals, Energy, Technology, Life Sciences, Consumer, Real Estate, Infrastructure and Sustainability sectors.

# TO OUR SHAREHOLDERS

As we are all keenly aware, our fiscal year 2009 was an exceptionally challenging one for clients, shareholders and employees. Yet the difficulties that swept through our industry proved once again that Canaccord is a resilient and resourceful organization, driven and directed by values that endure through good times and bad. I am proud of the fact that Canaccord is capable of meeting any challenge with strategy and action – balanced always by a collective focus on the needs and goals of our clients.

The successful resolution of the asset-backed commercial paper (ABCP) restructuring is a powerful example of how Canaccord lives by our core value of putting clients' interests first. This was a very disruptive process for the 1% of our clients who were affected. And while the Canaccord Relief Program and associated transactions required $59.5 million in pre-tax costs and thousands of hours of employee time over the 17 months it took to complete, it was absolutely the right thing to do. The markets changed. Our values did not.

### FINANCIAL OVERVIEW

We saw some business reasons to hope that the worst effects of the recession were behind us by the end of the year, but they did little to offset the year-long deterioration in business volumes brought on by the global credit crisis and economic contraction.

In fiscal 2009, Canaccord recorded a net loss of $47.7 million compared to net income of $31.3 million in fiscal 2008. Our revenues declined 35% to $478 million while expenses fell 23% to $524.9 million. These expenses included $51.2 million in significant items such as restructuring costs, fair value adjustments and impairments to goodwill and intangibles.

Throughout fiscal 2009, the senior management team focused much of its attention on ensuring that Canaccord emerges from the current downturn as a stronger, better-capitalized and more efficient enterprise. We took a variety of actions during the year to strengthen the Company's balance sheet, including a successful public offering of shares and a temporary suspension of the dividend. These actions enabled us to end the year in an unleveraged and highly liquid position, with $701 million in cash and cash equivalents, and $286 million in net working capital on the balance sheet – more than sufficient for virtually any business environment we can currently foresee. Moreover, a strong balance sheet allows Canaccord to be aggressive in pursuing appropriate opportunities for growth.

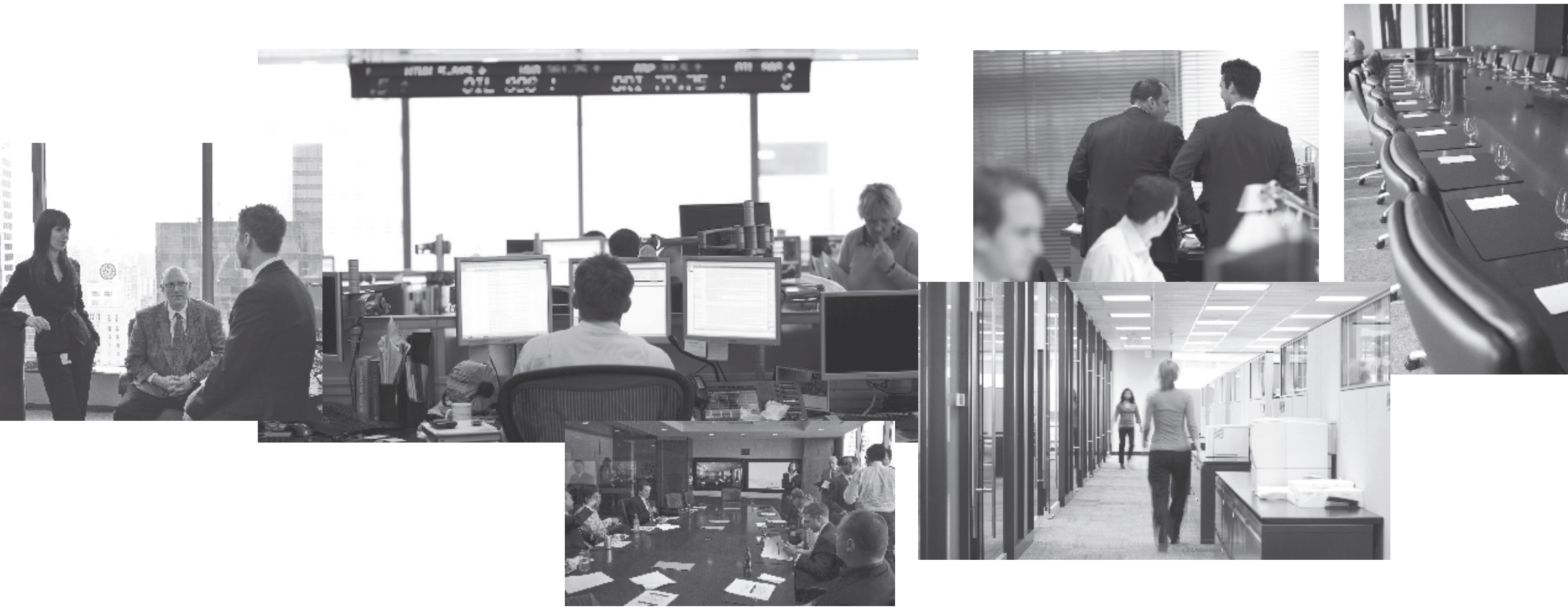
Managing capital in the worst market in generations, however, is only one part of the equation. Operational efficiency is essential, and we believed that Canaccord needed to lower its breakeven in order to improve returns to shareholders. Our initial strategies for cost reduction were successful but not sufficient to offset the decline in business volumes as the fiscal year progressed. We subsequently implemented a staff restructuring affecting almost 10% of our global workforce, reduced base compensation for senior management, further reduced discretionary expenses and deferred projects. We expect annual savings of approximately $20 million to accrue from these initiatives.

At our fiscal year end, we announced a broad new program of activities, initiatives and investments that we expect to reduce Canaccord's annual costs by an additional $15 million, while improving service to clients. In the near term, we will continue to reduce expenses by further consolidating back-office support, deferring certain recognition programs and events in Private Client Services and implementing more cost reductions in our capital markets group.

The long-term goal of these initiatives is to move Canaccord towards fully costed operations, capable of generating sustainable returns for shareholders in any market environment. None of these is an easy decision, but all are essential to ensuring that Canaccord's full value is compelling for clients, recognized in the marketplace and shared by all of our partners.

### CANACCORD ADAMS REINFORCES GLOBAL PLATFORM

Financial services was not the only industry, of course, faced with painful realities during our fiscal 2009. A global credit crisis, declining equity markets and a worldwide recession led to an extremely difficult operating environment for most of our investment banking clients as well. Financially, it was a challenging year for Canaccord Adams, as it was for the entire industry: revenues fell 36% to $277 million. Canaccord Adams, which participated in a total of 183 transactions globally to raise total proceeds of $15.8 billion during fiscal 2009, focused on providing clients with top-quality ideas to get those transactions done that could be done. In our fiscal fourth quarter, Canaccord's proven skills in executing transactions seamlessly and globally won us a number of high profile led or co-led assignments. We are confident that providing clients with global ideas and distribution will continue to help us win larger, more profitable mandates that create value for all stakeholders.



The demise of several prominent investment banks during the past year has given us a unique opportunity to grow Canaccord Adams' business platform at a reasonable cost, particularly in the United States. In New York, for example, we hired exceptionally strong partners for our sales and trading and research operations. These industry veterans, aided by a significant reshaping of the competitive landscape, are helping us gain share in selected markets and business sectors. We have also completed key strategic hires in the United Kingdom to build out our capabilities for clients and investors in the Financials and Media industries. The team has acquired a number of high profile Nomad relationships and expanded our institutional coverage significantly in Europe.

### RENEWING PRIVATE CLIENT SERVICES

In our Private Clients Services' (PCS) division, revenues declined 31% while assets under administration, in line with equity markets generally, decreased about 36% to $9.2 billion.

Despite its recent challenges, PCS remains a core strength of Canaccord's global platform and, we maintain, an undervalued one. Last year we began the process of implementing a three-year strategic program to unlock that value for shareholders, beginning with new leadership. We recruited a highly regarded Canadian industry executive, John Rothwell, to lead the PCS team. John is implementing a more effective operating structure for the division and has hired senior level professionals to oversee specific strategic initiatives for product development, training, marketing and recruitment. He is also addressing cost and capacity issues in the division to ensure that PCS makes a stronger contribution to overall profitability when business volumes improve.

Unlocking value for shareholders must also come from improving value for clients. At year end, we announced the implementation of our Canaccord Advisor Transition (CAT) Program for 75 Investment Advisors (IAs). The program recognizes their part in establishing client relationships while helping clients move to IA Teams that can provide them with broader coverage and deeper expertise. As of March 31, 2009, Canaccord had 338 IA Teams delivering value-added services to clients. We are aggressively recruiting experienced IAs with substantial assets under management who want the financial strength, global perspective and client-centric culture that Canaccord can provide. We will also continue to expand the suite of high quality

wealth management products and services we offer to clients. There is significant long-term opportunity to build Canaccord's share of the market for wealth management services while retaining our traditional brokerage expertise. We believe doing so will yield a more profitable mix of recurring and transactional revenues. We're confident that this evolving model for sustainable revenue growth and a clear focus on controlling costs will ultimately lead to a fuller recognition of the value that is currently untapped in our PCS division.

### THE VIEW AHEAD

I am enormously proud of the commitment, professionalism and passion of the team that I work with at Canaccord. Every partner is investing tremendous energy to help us meet our collective goals of lowering our breakeven and ensuring the efficiency of our global operations. At the same time, we are relentlessly focused on doing what Canaccord does best for both issuers and investors: providing great ideas that we believe will advance their objectives in whatever market conditions we confront. We are seeing the success of this effort.

At this writing, it appears that we may continue to experience a volatile operating environment for the balance of calendar 2009. Personally, I believe this outlook presents an excellent opportunity for Canaccord to demonstrate that our values endure, and can create enduring value. To that end, and to our competitive advantage, we have outstanding assets: a client focused, hard-working culture, a distinctive global platform focused on key sectors of the middle market, a proven ability to generate high quality investment ideas and a strong capital base that will enable us to pursue growth opportunities even as we control costs. These are the assets that will not only enable Canaccord to remain a significant force in capital markets in Canada and abroad but also deliver improved value to our clients and shareholders in the years ahead.

*Sincerely,*

PAUL D. REYNOLDS
*President & Chief Executive Officer*

# FINANCIAL REVIEW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### CAUTION REGARDING FORWARD-LOOKING STATEMENTS:

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*Fiscal year 2009 ended March 31, 2009 – this document is dated May 20, 2009.*

The following discussion of Canaccord Capital Inc.'s 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 year ended March 31, 2009 compared to the preceding fiscal year, with an emphasis on the most recent year. Unless otherwise indicated or the context otherwise requires, the "Company" refers to Canaccord Capital Inc. and "Canaccord" refers to the Company and its direct and indirect subsidiaries. "Canaccord Adams" refers to the international capital markets division of the Company. The Management Discussion and Analysis (MD&A) should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2009, beginning on page 48 of this report. Canaccord's financial information is expressed in Canadian dollars unless otherwise specified. The Company's audited financial statements for the year-ended March 31, 2009 are prepared in accordance with Canadian generally accepted accounting principles (GAAP).

### 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.

Management believes that the non-GAAP measures presented provide useful information by excluding certain items that may not be indicative of Canaccord's core operating results. Management believes that these non-GAAP measures will allow for a better evaluation of the operating performance of Canaccord's business and facilitate meaningful comparison of results in the current period to those in prior periods and future periods. A limitation of utilizing these non-GAAP measures is that the GAAP accounting effects of the significant items do in fact reflect the underlying financial results of Canaccord's business and these effects should not be ignored in evaluating and analyzing Canaccord's financial results. Therefore, management believes that Canaccord's GAAP measures of financial performance and the same respective non-GAAP measures should be considered together.

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

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

Financial statement items which exclude significant items are non-GAAP measures. Significant items include the asset-backed commercial paper (ABCP) fair value adjustment, accrual for client relief program, fair value adjustment of ABCP purchased by the Company under a client relief program, impairment of Canaccord Adams Inc. (CAI) and Enermarket goodwill and intangibles and restructuring costs.

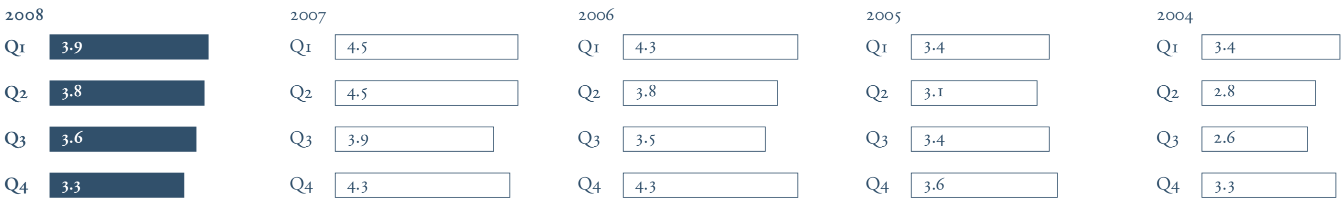
### BUSINESS OVERVIEW

Through its principal subsidiaries, Canaccord Capital Inc. (TSX & AIM: CCI) is a leading independent, full-service investment dealer in Canada with capital markets operations in the United Kingdom and the United States. Canaccord is publicly traded on both the Toronto Stock Exchange (TSX) and AIM, a market operated by the London Stock Exchange (LSE). Canaccord has operations in two of the principal segments of the securities industry: capital markets and private client services. Together, these operations offer a wide range of complementary investment banking services, investment products and brokerage services to Canaccord's institutional, corporate and private clients. Canaccord has 31 offices worldwide, including 24 Private Client Services offices located across Canada. Canaccord Adams, the international capital markets division, has operations in Toronto, London, Boston, Vancouver, New York, Calgary, Montreal, San Francisco, Houston and Barbados.

Our business is subject to the overall condition of the North American and European Equity markets, including seasonal fluctuations. Historically, North American capital markets are slower during the first half of the fiscal year, when Canaccord typically generates less than 50% of its annual revenue. Fiscal 2009 was not typical however, due to the financial crisis that impacted world markets and economies during the second half of the year. Canaccord's revenue in the first half of fiscal 2009 represented 59.4% of annual revenue for fiscal 2009. The timing of revenue recognition can also materially affect Canaccord's quarterly results. Revenue from underwriting transactions is recorded only when the transaction has closed and, as a result, quarterly results can also be affected by the timing of our capital markets business.

The chart below illustrates the seasonal variance in revenue in the Canadian broker dealer industry over the past five years.

**CANADIAN BROKER DEALER TOTAL INDUSTRY REVENUE**
(C$ billions, calendar quarters)




Source: Investment Industry Regulatory Organization of Canada as of December 31, 2008, Securities Industry Performance Reports

Canaccord aims to reduce its exposure to variances in the equity markets and local economies by diversifying not only its industry sector coverage but also its international scope. Historically, the Company's diversification across major financial centres has allowed it to benefit from strong equity markets.

## Market data

### *Trading volume by exchange*

| *(billions of shares)* | *Q1/09* | *Q2/09* | *Q3/09* | *Q4/09* | *Fiscal 2009* | *Fiscal 2008* | *Fiscal 2009/2008 change* |
|---|---|---|---|---|---|---|---|
| TSX | 25.0 | 25.7 | 33.1 | 30.0 | 113.8 | 97.9 | 16.2% |
| TSX Venture | 13.8 | 8.0 | 10.7 | 8.1 | 40.6 | 51.0 | (20.4)% |
| AIM | 39.3 | 95.3 | 169.4 | 30.5 | 334.5 | 148.6 | 125.1% |
| NASDAQ | 56.8 | 59.5 | 63.6 | 52.3 | 232.2 | 261.0 | (11.0)% |

Source: TSX Statistics, LSE AIM Statistics, Thomson One

### *Total financing value by exchange*

| | *Q1/09* | *Q2/09* | *Q3/09* | *Q4/09* | *Fiscal 2009* | *Fiscal 2008* | *Fiscal 2009/2008 change* |
|---|---|---|---|---|---|---|---|
| TSX and TSX Venture (C$ billions) | 11.4 | 5.3 | 13.8 | 12.4 | 42.9 | 53.3 | (19.6)% |
| AIM (£ billions) | 2.0 | 0.8 | 0.3 | 0.6 | 3.7 | 14.5 | (74.5)% |
| NASDAQ (US$ billions) | 5.1 | 4.6 | 3.4 | 3.1 | 16.2 | 53.5 | (69.7)% |

Source: TSX Statistics, LSE AIM Statistics, Equidesk

### *Financing value for relevant AIM industry sectors*

| *(£ millions, except for percentage amounts)* | *Q1/09* | *Q2/09* | *Q3/09* | *Q4/09* | *Fiscal 2009* | *Fiscal 2008* | *Fiscal 2009/2008 change* |
|---|---|---|---|---|---|---|---|
| Oil and gas | 308.4 | 268.5 | 23.6 | 18.1 | 618.6 | 1,168.2 | (47.0)% |
| Mining | 457.9 | 119.8 | 136.7 | 227.4 | 941.8 | 1,827.4 | (48.5)% |
| Pharmaceutical and Biotech | 38.6 | 15.0 | 2.6 | 5.9 | 62.1 | 167.1 | (62.8)% |
| Media | 18.5 | 2.0 | 3.8 | 5.7 | 30.0 | 1,006.4 | (97.0)% |
| Technology | 134.2 | 36.7 | 13.1 | 3.2 | 187.2 | 530.8 | (64.7)% |

Source: LSE AIM Statistics

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

| *($ millions, except for percentage amounts)* | *Q1/09* | *Q2/09* | *Q3/09* | *Q4/09* | *Fiscal 2009* | *Fiscal 2008* | *Fiscal 2009/2008 change* |
|---|---|---|---|---|---|---|---|
| Oil and gas | 2,851.6 | 778.7 | 1,489.2 | 2,216.5 | 7,336.0 | 8,944.3 | (18.0)% |
| Mining | 1,224.6 | 265.6 | 609.9 | 1,935.9 | 4,036.0 | 9,541.7 | (57.7)% |
| Biotech | 13.4 | 34.4 | 2.5 | – | 50.3 | 134.5 | (62.6)% |
| Media | 357.0 | – | – | – | 357.0 | 716.1 | (50.1)% |
| Technology | 55.9 | – | – | 42.0 | 97.9 | 1,009.7 | (90.3)% |

Source: FP Infomart

**Impact of changes in capital markets activity**

As a brokerage firm, Canaccord derives its revenue primarily from sales commissions, underwriting and advisory fees, and trading activity. As a result, the Company's business is materially affected by conditions in the financial marketplace and the economic environment, primarily in North America and Europe. Canaccord's long-term international business development initiatives over the past several years have laid a solid foundation for revenue diversification. Revenue declined 34.7% from fiscal 2008 to fiscal 2009, due mostly to extreme market volatility and weaker economic conditions that existed in the second half of the fiscal year.

Canaccord's strong capital base enables it to remain competitive in today's changing financial landscape and continue its growth by maintaining high standards of client service, enhancing relationships, continually recruiting highly qualified professionals and conducting strategic acquisitions as opportunities arise.

Canaccord's capital markets activities are focused primarily in the Mining and Metals, Energy, Technology, Life Sciences, Consumer, Real Estate, Infrastructure and Sustainability sectors, and include investment banking and institutional equities activities, such as sales, trading and research. Canaccord consistently ranks as one of the leading underwriters in Canada based on proceeds raised.

**Key developments during fiscal 2009**

- Canaccord Adams led 89 transactions globally, each over $1.5 million, to raise total proceeds of $2.4 billion (1) during fiscal 2009. Of this:
  - Canada led 64 transactions, which raised $1.9 billion
  - The UK led 15 transactions, which raised $204 million
  - The US led 10 transactions, which raised $281 million
- During fiscal 2009, Canaccord Adams participated in a total of 183 transactions globally, each over $1.5 million, to raise gross proceeds of $15.8 billion (2). Of this:
  - Canada participated in 143 transactions, which raised $13.6 billion
  - The UK participated in 22 transactions, which raised $1.5 billion
  - The US participated in 18 transactions, which raised $700 million
- Canaccord Adams continued to rank first in Canada for block trading market share on the TSX Venture, with 20.5% of market share in Q4/09, up from 11.9% in Q4/08 (3)
- Canaccord Adams ranked first (4) for 56 completed Private Investment in Public Equity (PIPE) transactions in North America that raised US$1.6 billion in proceeds during fiscal 2009
- In fiscal 2009, Canaccord Adams led the following equity transactions:
  - $345.1 million on TSX for IAMGOLD Corporation
  - $375.0 million for two separate transactions on the TSX for Gold Wheaton Gold Corporation
  - $135.0 million on TSX/NYSE/LSE for Yamana Gold Inc.
  - $125.9 million for MBAC Opportunities Inc. (non-exchange listed)
  - $115.0 million on TSX for Endeavour Financial Corporation
  - US$75.4 million on NYSE for Hecla Mining Company
- Canaccord Adams advised on the following transactions during fiscal 2009:
  - Advised Metallica Resources Inc. in its $1.6 billion business combination with New Gold Inc. and Peak Gold Ltd.
  - Advised Oriel Resources Plc in its $1.5 billion acquisition by Mechel OAO
  - Co-advised First Calgary Petroleums Ltd. in its $923 million acquisition by Eni SpA
  - Advised IAMGOLD Corporation in its $140 million acquisition of Orezone Resources Inc.
  - Advised Copley Controls Corp. in its $68.9 million acquisition by Analogic Corporation
  - Advised Lero Gold Corp. in its $65.1 million acquisition by European Minerals Corp.
  - Advised Hargraves Technology in its acquisition by Parker Hannifin Corporation
  - Advised Centenario Copper Corporation in its recent acquisition by Quadra Mining
- Canaccord had 338 Advisory (IA) Teams as of Q4/09, down 16 from Q4/08, largely due to a strategic review of our Private Client Services team
- During fiscal 2009, Canaccord implemented a broad program of activities, initiatives and investments designed to lower breakeven and ensure the efficiency of corporate operations by approximately $20.0 million annually. Further initiatives announced at the end of Q4/09 are expected to result in an additional $15.0 million of annualized cost savings over fiscal 2010.

(1) Source: FP Infomart and Company information. Transactions over $1.5 million
(2) Source: FP Infomart and Company information. Transactions over $1.5 million
(3) Source: Canada Equity. Market share by trade volume
(4) Source: Placement Tracker; includes placements for companies incorporated in Canada and the US.

**Key highlights subsequent to March 31, 2009**

- Canaccord Adams analysts won three awards at the 2009 StarMine Analyst Awards, including first place for Overall Earnings Estimator

### MARKET ENVIRONMENT FISCAL 2009

Fiscal 2009 saw several significant events. Monumental moves for many investment products, government involvement in the economy, and the destruction of wealth for both individuals and corporations characterized a very challenging year.

The market environment enjoyed in fiscal Q1 witnessed a dramatic reversal in Q2. Concern about systemic risk prompted unprecedented global government intervention. The global credit crisis led to a severe contraction in economic activity and pushed many countries into recession. Commodity prices retreated sharply from the highs of 2008 and corporations in primary material industries slashed expenses, halting many projects. Risk was priced at historic highs in the market, as evidenced by the yield spreads between government paper and corporate issues.

Deleveraging weighed on all markets as wealth destruction rose to historic levels. Countries with a high dependence on the service sector, and especially the financial services sector, suffered severe setbacks. Coordination among Central Bankers and major country governments became a regular event.

Equity markets saw a market capitalization contraction from a peak of $62.6 trillion on October 31, 2007 to a low of $25.6 trillion reached in March 2009. Foreclosures, defaults and bankruptcies became regular announcements. The new US administration found itself having to address many urgent issues. The stimulus packages, aggressive easing action and direct intervention by the Federal Reserve, and coordination with many foreign governments, marked a different approach from other periods of extreme credit crisis in history.

### FISCAL 2010 OUTLOOK

Expectations for global economic output in calendar 2009 point to a contraction for the first time in 60 years. Currently, consensus view is recovery is distant and economies are weakening. Several hurdles still need to be overcome before many countries will experience a sustained advance in economic activity: distressed sellers in the housing markets need to find ample buyers, banks need to demonstrate their soundness and governments must find solutions to achieve a calm exit from direct involvement in the capital markets.

Lower interest costs and ongoing refinancing efforts should prove positive for many corporations and individuals. Resumption of merger and acquisition (M&A) activity reflects a more optimistic outlook for many corporations. Corporate restructuring, while painful, should lead to sounder companies with better operating margins and borrowing power.

2010 is expected to be a transition year economically and for the global capital markets. Inflationary fears likely will not be realized as surplus capacity mounts.

Recent reports point to a more positive outlook for China and therefore resource producing exporting countries.

Geopolitical events may gather headlines but any subsequent supply disruptions should be short-lived. Global stimulus plans will invigorate various economies and signs of recovery should be evident later in Canaccord's 2010 fiscal year.

### OVERVIEW OF PRECEDING YEARS – FISCAL 2008 VS. 2007

Total revenue for the year ended March 31, 2008 was $731.5 million, down $25.4 million or 3.4% compared to fiscal 2007 and was primarily due to weaker commission, investment banking and principal trading revenue.

Major indices remained neutral or declined during fiscal 2008. The S&P/TSX Composite was up 0.6% during fiscal 2008. Major US indices declined slightly during fiscal 2008, with the Dow Jones Industrial Average (DJIA) down 0.96% and the NASDAQ down 5.9%. The AIM and TSX Venture indices decreased most over the course of fiscal 2008, with a decline of 16.1% and 21.1%, respectively.

Expenses for fiscal 2008 were $680.0 million, up $61.3 million or 9.9% from fiscal 2007, reflecting a $54.2 million charge for the client relief program, $4.0 million of restructuring costs and a $12.8 million fair value adjustment of ABCP.

Net income for fiscal 2008 was $31.3 million, down $62.1 million or 66.5% from fiscal 2007. Diluted EPS was $0.64, down $1.30 or 67.0%. For fiscal 2008, ROE was 7.9% compared to an ROE of 28.4% in fiscal 2007.

## FINANCIAL OVERVIEW

### Selected financial information (1)

| (C$ thousands, except per share and % amounts, and number of employees) | | For the years ended March 31 2009 | | 2008 | | 2009/2008 Change | |
|---|---|---|---|---|---|---|---|
| **Canaccord Capital Inc.** | | | | | | | |
| Revenue | | | | | | | |
| Commission | $ | **233,104** | $ | 296,047 | $ | (62,943) | (21.3)% |
| Investment banking | | **169,369** | | 336,874 | | (167,505) | (49.7)% |
| Principal trading | | **18,319** | | 7,443 | | 10,876 | 146.1% |
| Interest | | **38,287** | | 63,168 | | (24,881) | (39.4)% |
| Other | | **18,642** | | 28,007 | | (9,365) | (33.4)% |
| **Total revenue** | $ | **477,721** | $ | 731,539 | $ | (253,818) | (34.7)% |
| Expenses | | | | | | | |
| Incentive compensation | $ | **222,006** | $ | 347,079 | $ | (125,073) | (36.0)% |
| Salaries and benefits | | **56,771** | | 54,294 | | 2,477 | 4.6% |
| Other overhead expenses (2) | | **194,910** | | 207,638 | | (12,728) | (6.1)% |
| Asset-backed commercial paper (ABCP) fair value adjustment (3) | | **6,700** | | 12,797 | | (6,097) | (47.6)% |
| Relief provision (4) | | **2,700** | | 54,200 | | (51,500) | (95.0)% |
| Canaccord relief program (CRP) fair value adjustment (5) | | **2,647** | | – | | 2,647 | n.m. |
| Impairment of goodwill and intangibles (6) | | **31,524** | | – | | 31,524 | n.m. |
| Restructuring costs (7) | | **7,662** | | 4,000 | | 3,662 | 91.6% |
| **Total expenses** | $ | **524,920** | $ | 680,008 | $ | (155,088) | (22.8)% |
| Income (loss) before income taxes | | **(47,199)** | | 51,531 | | (98,730) | (191.6)% |
| Net income (loss) | | **(47,651)** | | 31,334 | | (78,985) | (252.1)% |
| Earnings (loss) per share – basic | $ | **(0.97)** | $ | 0.70 | $ | (1.67) | (238.6)% |
| Earnings (loss) per share – diluted | $ | **(0.97)** | $ | 0.64 | $ | (1.61) | (251.6)% |
| Return on average common equity (ROE) | | **(12.4)%** | | 7.9% | | (20.3)p.p. | |
| Dividends per share | $ | **0.125** | $ | 0.50 | $ | (0.375) | (75.0)% |
| Book value per diluted common share – period end | | **6.51** | | 7.21 | | (0.70) | (9.7)% |
| **Excluding significant items (8)** | | | | | | | |
| Total expenses | $ | **473,687** | $ | 609,011 | $ | (135,324) | (22.2)% |
| Net income (loss) | | **(1,417)** | | 79,346 | | (80,763) | (101.8)% |
| Earnings (loss) per share (EPS) – basic | $ | **(0.03)** | $ | 1.77 | $ | (1.80) | (101.7)% |
| Earnings (loss) per share (EPS) – diluted | $ | **(0.03)** | $ | 1.63 | $ | (1.66) | (101.8)% |
| **Balance sheet data** | | | | | | | |
| Total assets | $ | **2,022,099** | $ | 2,098,718 | $ | (76,619) | (3.7)% |
| Total liabilities | | **1,649,395** | | 1,741,274 | | (91,879) | (5.3)% |
| Total shareholders' equity | | **372,704** | | 357,444 | | 15,260 | 4.3% |
| Number of employees | | **1,530** | | 1,683 | | (153) | (9.1)% |

(1) Data is considered to be GAAP except for ROE, book value per diluted common share, figures excluding significant items, and number of employees.
(2) Consists of trading costs, premises and equipment, communication and technology, interest, general and administrative, amortization, and development costs. Also includes the pre-tax credit provision of $7.9 million.
(3) Represents the ABCP fair value adjustment for ABCP held by the Company.
(4) Represents accruals for client relief related to the ABCP held in treasury.
(5) Relates to the fair value adjustment of the ABCP purchased by the Company under a client relief program.
(6) Relates to impairment of Canaccord Adams Inc. and Enermarket goodwill and intangibles.
(7) Consists of staff restructuring costs.
(8) Fiscal 2009 data excludes ABCP fair value adjustment of $6.7 million, $2.7 million relief provision, $2.6 million client relief program fair value adjustment, $31.5 million impairment of goodwill and intangibles, and $7.7 million of restructuring costs. Fiscal 2008 data excludes $12.8 million of ABCP fair value adjustment, $54.2 million of relief provision and $4.0 million of restructuring costs.
p.p.: percentage points
n.m.: not meaningful

### Revenue

On a consolidated basis, revenue is generated through five activities: commissions and fees associated with agency trading and private client wealth management activity, investment banking, principal trading, interest and other.

Revenue for fiscal 2009 was $477.7 million, a decrease of 34.7% or $253.8 million from fiscal 2008. The decrease in revenue for the year ended March 31, 2009 is due to the overall revenue declines in both Canaccord Adams and Private Client Services as a result of the global credit crisis that began in Q2/09 and persisted through the remainder of the year.

Commission revenue is principally generated from private client trading activity and institutional sales and trading. The $62.9 million or 21.3% decrease from fiscal 2008 to fiscal 2009 is the result of weak market and economic conditions during the second half of fiscal 2009. The S&P/TSX Composite Index declined 34.7% for fiscal 2009 compared to a slight increase of 1.4% in fiscal 2008 and the TSX Venture exchange fell 62.0% for fiscal 2009 compared to a decline of 21.1% in fiscal 2008. The DJIA and the NASDAQ were down 38.0% and 32.9%, respectively, for fiscal 2009 and the AIM index decreased by 57.0%.

Investment banking revenue was $169.4 million, down $167.5 million or 49.7%, due to the decline in financing activity in equity markets across the geographies where we operate. Principal trading revenue was $18.3 million, an increase of 146.1% or $10.9 million, due to our continuing efforts to lower the risk profile of our inventory portfolio.

Interest revenue is derived from interest realized from financial instruments and fixed income securities held by Canaccord, interest earned on cash balances held at the bank, and interest paid by clients on margin accounts. As a result of a decrease in the number and size of margin accounts and lower interest rates, interest revenue declined by $24.9 million or 39.4% to $38.3 million.

Other revenue was $18.6 million, down 33.4% or $9.4 million, mainly due to a significant decline in foreign exchange gain.

**Expenses as a percentage of revenue**

| | *Years ended March 31* | | |
|---|---|---|---|
| | *2009* | *2008* | *2009/2008 Change* |
| Incentive compensation | **46.5%** | 47.4% | (0.9)p.p. |
| Salaries and benefits | **11.9%** | 7.4% | 4.5p.p. |
| Other overhead expenses (1) | **40.8%** | 28.4% | 12.4p.p. |
| ABCP fair value adjustment (2) | **1.4%** | 1.8% | (0.4)p.p. |
| Relief provision (3) | **0.6%** | 7.4% | (6.8)p.p. |
| Canaccord relief program fair value adjustment (4) | **0.5%** | – | 0.5p.p. |
| Impairment of goodwill and intangibles (5) | **6.6%** | – | 6.6p.p. |
| Restructuring costs (6) | **1.6%** | 0.5% | 1.1p.p. |
| Total | **109.9%** | 92.9% | 17.0p.p. |

(1) Consists of trading costs, premises and equipment, communication and technology, interest, general and administrative, amortization and development costs. Also includes the pre-tax credit provision of $7.9 million in fiscal 2009.
(2) Represents ABCP fair value adjustment for ABCP held by the Company.
(3) Represents accruals for client relief related to the ABCP held by eligible clients.
(4) Relates to the fair value adjustment of the ABCP purchased by the Company under a client relief program.
(5) Relates to the impairment of Canaccord Adams Inc. and Enermarket goodwill and intangibles.
(6) Consists of staff restructuring costs.
p.p.: percentage points

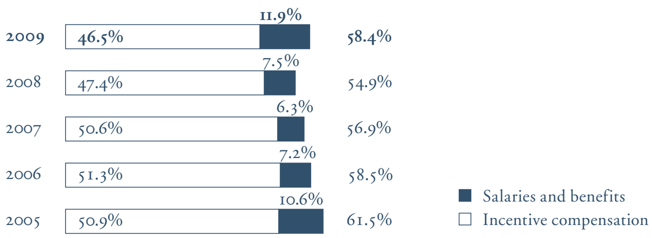
Expenses for fiscal 2009 were $524.9 million, a decrease of 22.8% or $155.1 million from a year ago. The main contributor to the drop in expenses was a $125.1 million decrease in incentive compensation expense and a decrease in interest expense of $13.3 million or 54.3%. Development costs also decreased by $3.3 million or 10.2% due to a decline in hiring incentives offered in the volatile market environment. In fiscal 2008 and 2009, the Company recorded significant items of $71.0 million and $51.2 million, respectively. This difference in significant items charged partially contributed to the decrease in expenses in the current fiscal year.

**Incentive compensation and salaries and benefits**

Incentive compensation expense was $222.0 million, a decrease of $125.1 million or 36.0%, which was consistent with the 34.7% drop in revenue. Incentive compensation expense as a percentage of revenue was 46.5%, a decrease of 0.9 percentage points compared to fiscal 2008.

Salaries and benefits expense was $56.8 million, representing an increase of $2.5 million or 4.6% compared to fiscal 2008. The increase was due to higher staffing levels during the first six months of fiscal 2009 to enhance our operations and support services. However, the number of employees decreased during the second half of fiscal 2009 due to the staff restructuring announced in October 2008. This resulted in a $2.5 million decrease in salaries and benefits expense between the first and second half of fiscal 2009.

### TOTAL COMPENSATION AS A % OF REVENUE




## Other overhead expenses

| (C$ thousands, except % amounts) | Years ended March 31 2009 | 2008 | 2009/2008 Change |
|---|---|---|---|
| Trading costs | $ **26,311** | $ 27,090 | (2.9)% |
| Premises and equipment | **24,695** | 22,745 | 8.6% |
| Communication and technology | **25,228** | 23,228 | 8.6% |
| Interest | **11,220** | 24,527 | (54.3)% |
| General and administrative (1) | **69,689** | 69,463 | 0.3% |
| Amortization | **8,994** | 8,536 | 5.4% |
| Development costs | **28,773** | 32,049 | (10.2)% |
| Total other overhead expenses | $ **194,910** | $ 207,638 | (6.1)% |

(1) Includes the pre-tax credit provision of $7.9 million in fiscal 2009.

Other overhead expenses decreased by $12.7 million for fiscal 2009, which increased as a percentage of revenue by 12.4 percentage points compared to fiscal 2008. The decrease in other overhead expenses is largely attributable to a decrease in interest expense and development costs. Interest expense declined 54.3% or $13.3 million due to lower interest rates and number and size of margin accounts. Development costs decreased by $3.3 million or 10.2% as a result of reduced hiring incentives primarily in the US.

The decrease of these expenses was offset by an increase in premises and equipment and communications and technology. Premises and equipment was $24.7 million representing an increase of $2.0 million or 8.6% during the year. This increase was due to an expansion of premises in Canada and lower than normal rental expense in the UK in fiscal 2008, which resulted from the reversal of a rental accrual during the prior fiscal year. Technological enhancements incurred during the current year increased communication and technology expense by $2.0 million or 8.6%.

General and administrative expense was $69.7 million, an increase of $0.2 million or 0.3% during fiscal 2009. Included in general and administrative expense was the $7.9 million credit provision recognized against the unsecured balances resulting from the deteriorating financial markets in the second half of the fiscal year. Offsetting against this increase in general and administrative expense was a $9.3 million decrease in promotion and travel expense, which was a result of the Company's cost reduction initiatives.

Not included in other overhead expenses, but contributing to our total expenses in fiscal 2009, were a $51.2 million charge for significant items. The following significant items were recognized in fiscal 2009: $6.7 million ABCP fair value adjustment, $2.7 million additional accrual for relief provision, $2.6 million fair value adjustment regarding ABCP purchased by the Company under a client relief program, $31.5 million impairment of goodwill and intangibles, and $7.7 million of staff restructuring costs. Significant items were also recognized in fiscal 2008 as follows: $12.8 million ABCP fair value adjustment, $54.2 million relief provision and $4.0 million restructuring costs. Excluding significant items, expenses were down $135.3 million or 22.2%.

Including significant items, non-compensation expenses as a percent of revenue were 51.5% in fiscal 2009, an increase of 13.4 percentage points year over year. Excluding significant items, non-compensation expenses were $194.9 million or 40.8% of revenue.

Net loss for fiscal 2009 was $47.7 million compared to a net income of $31.3 million for fiscal 2008. Diluted loss per share was $0.97 in fiscal 2009 versus a diluted EPS of $0.64 in the prior year. For fiscal 2009, ROE was (12.4)% compared to 7.9% in fiscal 2008. Excluding significant items, net loss for fiscal 2009 was $1.4 million versus net income of $79.3 million in fiscal 2008, and diluted loss per share was $0.03 compared to a diluted EPS of $1.63 in fiscal 2008. Income taxes were $0.5 million for fiscal 2009, a decrease of $19.7 million during the year. The effective tax rate was (1.0)% compared to 39.2% a year ago. The decrease in the effective tax rate was due in part to certain expenses not being deductible for tax purposes, changes in estimates, as well as a valuation allowance provision against certain future income tax assets. A further discussion of our taxes is provided in the Critical accounting estimates section of the MD&A on page 31.

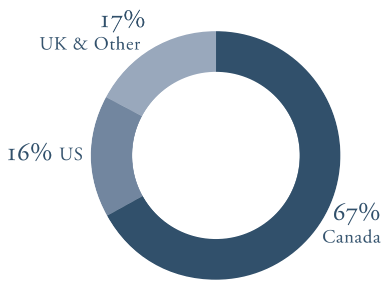
### RESULTS BY GEOGRAPHIC SEGMENT

This section is an analysis of Canaccord's results by geographic segment. Canaccord's business operations are grouped into three geographic segments: Canada, the United Kingdom (UK) and Other Foreign Location, and the United States (US). Revenue from the UK and Other Foreign Location is derived entirely from Canaccord Adams' activity, while revenue in Canada and the US is derived from the Canaccord Adams, Private Client Services, and Corporate and Other segments.

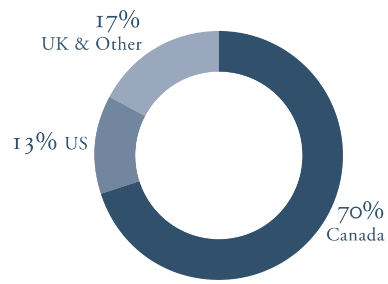
### GEOGRAPHIC DISTRIBUTION OF REVENUE (1)

(For the years ended March 31)

**2009**




2008




| *(C$ thousands, except number of employees and % amounts)* | *2009* Canada | *2009* UK and Other Foreign Location (2) | *2009* US | *2009* Total | *2008* Canada | *2008* UK and Other Foreign Location (2) | *2008* US | *2008* Total | *2009/2008 Change* |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | **$320,364** | **$ 79,707** | **$ 77,650** | **$477,721** | $509,066 | $128,269 | $ 94,204 | $731,539 | (34.7)% |
| Expenses | **330,163** | **75,107** | **119,650** | **524,920** | 484,220 | 94,225 | 101,563 | 680,008 | (22.8)% |
| Income (loss) before income taxes | **(9,799)** | **4,600** | **(42,000)** | **(47,199)** | 24,846 | 34,044 | (7,359) | 51,531 | (191.6)% |
| Number of employees | **1,265** | **114** | **151** | **1,530** | 1,395 | 125 | 163 | 1,683 | (9.1)% |
| **Excluding significant items** (3) | | | | | | | | | |
| Total expenses | **311,393** | **73,833** | **88,461** | **473,687** | 413,223 | 94,225 | 101,563 | 609,011 | (22.2)% |
| Income (loss) before income taxes | **8,971** | **5,874** | **(10,811)** | **4,034** | 95,843 | 34,044 | (7,359) | 122,528 | (96.7)% |

*Years ended March 31*

(1) Data is considered to be GAAP except for figures excluding significant items, and number of employees.
(2) Canaccord's UK operations include activities related to Canaccord Adams Limited, engaging in capital markets activities in the UK. Revenue derived from capital markets activities outside of Canada, the US and the UK is reported as Other Foreign Location, which includes operations for Canaccord International Ltd.
(3) Fiscal 2009 data excludes ABCP fair value adjustment of $6.7 million, $2.7 million relief provision, $2.6 million client relief program fair value adjustment, $31.5 million impairment of goodwill and intangibles, and $7.7 million of restructuring costs. Fiscal 2008 data excludes $12.8 million of ABCP fair value adjustment, $54.2 million of relief provision and $4.0 million of restructuring costs.

Revenue in Canada was $320.4 million, a decrease of $188.7 million or 37.1% reflecting the negative impact of the credit crunch on our revenue. In the UK and Other Foreign Location, revenue was $79.7 million, which declined by $48.6 million or 37.9%, and revenue in the US was $77.7 million, down $16.6 million or 17.6% from the prior year. The overall decline in revenue across geographic segments was related to the global credit crisis in fiscal 2009.

Expenses for fiscal 2009 in Canada were down $154.1 million or 31.8%, mainly due to the 37.0% drop in incentive compensation, which is consistent with the percentage decrease in revenue. Interest expense also decreased 65.4% or $14.9 million due to lower interest rates and a decline in the size of margin accounts. Promotion and travel expense also decreased due to the cost reduction strategy introduced in the third quarter of fiscal 2009, and this contributed to the decrease in general and administrative expense. Included in expenses were the following significant items: $6.7 million ABCP fair value adjustment, $2.7 million additional accrual for out-of-pocket charge for the relief provision, $2.6 million fair value adjustment regarding ABCP purchased by the Company under a client relief program, $4.0 million impairment of goodwill and intangibles, and $2.8 million for restructuring costs.

Expenses in the UK and Other Foreign Location were down $19.1 million compared to the same period a year ago mainly due to a decline in incentive compensation of $26.7 million or 40.1% that was consistent with the 37.9% decrease in revenue. This included $1.3 million of restructuring costs related to staff restructuring as announced in October 2008.

Expenses in the US for the period were up $18.1 million, mainly due to a $27.6 million impairment of goodwill and intangibles and $3.6 million restructuring costs. Excluding these significant items, expenses in the US would have decreased by 12.9% or $13.1 million, which was mainly due to the $12.7 million drop in incentive compensation expense.

### QUARTERLY FINANCIAL INFORMATION (1)

The following table provides selected quarterly financial information for the eight most recently completed financial quarters ended March 31, 2009. This information is unaudited, but reflects all adjustments of a recurring nature that are, in the opinion of management, necessary to present a fair statement of the results of operations for the periods. Quarter-to-quarter comparisons of financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

| | Fiscal 2009 | | | | Fiscal 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| *(C$ thousands, except per share amounts)* | *Q4* | *Q3* | *Q2* | *Q1* | *Q4* | *Q3* | *Q2* | *Q1* |
| Revenue | | | | | | | | |
| Commission | **$ 49,005** | **$ 51,473** | **$ 60,630** | **$ 71,996** | $ 69,585 | $ 74,959 | $ 65,728 | $ 85,775 |
| Investment banking | **39,000** | **20,198** | **34,024** | **76,147** | 49,608 | 84,910 | 73,731 | 128,625 |
| Principal trading | **8,540** | **3,781** | **87** | **5,911** | 4,168 | 387 | (3,925) | 6,813 |
| Interest | **5,116** | **9,108** | **11,734** | **12,329** | 14,574 | 16,011 | 16,273 | 16,310 |
| Other | **5,335** | **2,628** | **4,354** | **6,325** | 5,511 | 7,087 | 7,062 | 8,347 |
| Total revenue | **$106,996** | **$ 87,188** | **$ 110,829** | **$172,708** | $143,446 | $183,354 | $158,869 | $245,870 |
| Net income (loss) | **3,666** | **(62,378)** | **(5,398)** | **16,459** | (35,154) | 15,048 | 12,411 | 39,029 |
| EPS – basic | **0.07** | **(1.27)** | **(0.11)** | **0.35** | (0.80) | 0.34 | 0.28 | 0.86 |
| EPS – diluted | **0.07** | **(1.27)** | **(0.11)** | **0.31** | (0.80) | 0.31 | 0.26 | 0.80 |
| **Excluding significant items** (2) | | | | | | | | |
| Net income (loss) | **$ 3,764** | **$ (16,242)** | **$ (5,398)** | **$ 16,459** | $ 7,175 | $ 17,833 | $ 15,310 | $ 39,029 |
| EPS – basic | **0.08** | **(0.33)** | **(0.11)** | **0.35** | 0.16 | 0.40 | 0.34 | 0.86 |
| EPS – diluted | **0.07** | **(0.33)** | **(0.11)** | **0.31** | 0.15 | 0.36 | 0.31 | 0.80 |

(1) Data is considered to be GAAP except for figures excluding significant items.

(2) Figures excluding significant items are not GAAP measures. Q4/09 data excludes $0.1 million of restructuring costs. Q3/09 data excludes ABCP adjustment of $6.7 million, $2.7 million relief provision, $2.6 million client relief program fair value adjustment, $31.5 million impairment of goodwill and intangibles, and $7.5 million of restructuring costs. Q4/08 data excludes ABCP adjustment of $4.2 million, $54.2 million relief provision, and $4 million restructuring costs. Q3/08 data excludes ABCP adjustment of $4.2 million and Q2/08 excludes ABCP adjustment of $4.4 million.

## Quarterly trends and risks

Canaccord's business is cyclical and experiences considerable variations in revenue and income from quarter to quarter and year to year due to factors beyond Canaccord's control and, accordingly, revenue and net income are expected to fluctuate as they have historically. Our business is subject to the overall condition of the North American and the European equity markets. Fiscal 2009 was an exceptionally turbulent year for equity markets. This had a direct impact on Canaccord's business levels and was the primary reason why Canaccord's revenue was significantly less in fiscal 2009 compared to years before. The second and third fiscal quarters of 2009 were impacted most, with some revenue recovery experienced in the fourth quarter.

Markets fluctuated in fiscal Q1/09, however the quarter provided the most stable business environment for Canaccord relative to the rest of the fiscal year. The Company recorded $172.7 million in revenue during Q1/09 or 36.1% of the total revenue recorded in fiscal 2009.

The restructuring plan for ABCP was established by the Pan-Canadian Investors Committee and implemented on January 21, 2009. The Company also subsequently completed the CRP. The quarter provided some reprieve from market volatility compared to Q3/09, however market indices still closed down: the S&P/TSX fell 5.6% and the NASDAQ fell 6.3%. Despite the depressed worldwide economic climate that continued through Q4/09, Canaccord recorded an increase in revenue compared to Q3/09, due mostly to strengthened mergers and acquisition and financing activities.

## Fourth quarter 2009 performance

Revenue for the quarter was $107.0 million, a decline of $36.5 million or 25.4% compared to the same period a year ago due to the global economic recession that has persisted into Q4/09.

Expenses were $100.3 million, down $93.7 million or 48.3% from a year ago. This decrease was largely attributable to a decline in incentive compensation expense which was in line with the decrease in revenue during the quarter. Included in Q4/09 was a charge for additional restructuring costs of $0.1 million and, in Q4/08, the Company recorded a $4.2 million ABCP fair value adjustment, $54.2 million relief provision and $4.0 million of restructuring costs. Excluding significant items for both years, expenses were $100.2 million in fiscal 2009, a decrease of $31.5 million or 23.9%.

Net income for the fourth quarter was $3.7 million, an increase of $38.8 million from a year ago. Diluted EPS in the current quarter was $0.07 compared to a diluted loss per share of $0.80 in the same quarter of fiscal 2008. ROE was 4.0% compared to (37.8)% a year ago. Prior year figures were significantly lower as the Company had booked a $54.2 million accrual for the CRP, $4.0 million of restructuring costs and $4.2 million ABCP fair value adjustment in Q4/08. Book value per diluted share decreased by 9.7% to $6.51 from $7.21 a year ago, due to the decrease in retained earnings offset by a higher share capital balance.

Excluding significant items, net income for Q4/09 was $3.8 million compared to $7.2 million in Q4/08 and diluted EPS was $0.07 compared to $0.15 in Q4/08. Significant items included the ABCP fair value adjustment, accrual for CRP, impairment of goodwill and intangibles, and restructuring costs.

### BUSINESS SEGMENT RESULTS (1)

| (C$ thousands, except number of employees) | 2009 Canaccord Adams | 2009 Private Client Services | 2009 Corporate & Other | 2009 Total | 2008 Canaccord Adams | 2008 Private Client Services | 2008 Corporate & Other | 2008 Total |
|---|---|---|---|---|---|---|---|---|
| *For the years ended March 31* | | | | | | | | |
| Revenue | | | | | | | | |
| Canada | $ 122,850 | $ 169,628 | $ 27,886 | $ 320,364 | $ 212,585 | $ 245,711 | $ 50,770 | $ 509,066 |
| UK | 79,707 | – | – | 79,707 | 128,269 | – | – | 128,269 |
| US | 74,794 | 2,856 | – | 77,650 | 90,788 | 3,416 | – | 94,204 |
| Total revenue | 277,351 | 172,484 | 27,886 | 477,721 | 431,642 | 249,127 | 50,770 | 731,539 |
| Expenses | 298,480 | 149,777 | 76,663 | 524,920 | 343,067 | 247,922 | 89,019 | 680,008 |
| Income (loss) before income taxes | (21,129) | 22,707 | (48,777) | (47,199) | 88,575 | 1,205 | (38,249) | 51,531 |
| Number of employees | 474 | 700 | 356 | 1,530 | 541 | 762 | 380 | 1,683 |
| **Excluding significant items** (2) | | | | | | | | |
| Expenses | $ 260,985 | $ 144,250 | $ 68,452 | $ 473,687 | $ 338,837 | $ 193,022 | $ 77,152 | $ 609,011 |
| Income (loss) before income taxes | 16,366 | 28,234 | (40,566) | 4,034 | 92,805 | 56,105 | (26,382) | 122,528 |

(1) Data is considered to be GAAP except for figures excluding significant items and number of employees. Detailed financial results for the business segments are shown in Note 15 of the audited consolidated financial statements on page 68.

(2) Fiscal 2009 data excludes ABCP adjustment of $6.7 million, $2.7 million relief provision, $2.6 million client relief program fair value adjustment, $31.5 million impairment of goodwill and intangibles, and $7.7 million of restructuring costs. Fiscal 2008 data excludes $54.2 million of relief provision and $4.0 million of restructuring costs, and $12.8 million ABCP fair value adjustment.

Canaccord's operations are divided into three segments: Canaccord Adams and Private Client Services are the main operating segments while Corporate and Other is mainly an administrative segment.

Canaccord Adams provides investment banking, research, and sales and trading services to corporate, institutional and government clients as well as conducting principal trading activities in Canada, the UK and the US. Private Client Services provides brokerage services and investment advice to private clients primarily in Canada and, to a lesser degree, in the US.

Canaccord Adams' revenue is generated from commissions and fees earned in connection with investment banking transactions and institutional sales and trading activity, as well as trading gains and losses from Canaccord's principal and international trading operations. For fiscal 2009, total revenue was $277.4 million, a decrease of $154.3 million or 35.7% from a year ago. Fiscal 2009 expenses for Canaccord Adams were $298.5 million, a decrease of $44.6 million or 13.0% from fiscal 2008. Excluding significant items, expenses were $261.0 million, a decrease of 23.0% from fiscal 2008.

Private Client Services' revenue is generated through traditional commission-based brokerage services; the sale of fee-based products and services; client-related interest; and fees and commissions earned by IAs for investment banking and venture capital transactions by private clients. In fiscal 2009, total revenue was $172.5 million, a decrease of $76.6 million or 30.8% from a year ago. For the year, expenses for Private Client Services were $149.8 million, a decrease of $98.1 million or 39.6% from fiscal 2008. Excluding significant items, expenses were $144.3 million, a decrease of 25.3% year over year. Significant items included the accrual for the CRP and restructuring costs.

The Corporate and Other segment includes correspondent brokerage services, interest, foreign exchange revenue and expenses not specifically allocable to the Canaccord Adams and Private Client Services divisions. Also included in this segment are Canaccord's operations and support services departments, which are responsible for front and back-office information technology systems, compliance and risk management, operations, finance, and other administrative functions. For fiscal 2009, revenue for the Corporate and Other segment was $27.9 million, a decrease of 45.1%, while expenses decreased by 13.9% to $76.7 million for the year compared to a year ago. Excluding significant items, expenses were $68.5 million, a decrease of 11.3% year over year.

**Canaccord Adams**

*Overview*

Canaccord Adams' revenue is generated from commissions and fees earned in connection with investment banking transactions and institutional sales and trading activity, as well as trading gains and losses from Canaccord's principal and international trading operations. Accordingly, this revenue is directly affected by the level of corporate and institutional activity and general economic, market and business conditions in Canada and internationally. Revenue for this segment is generated from three regions: Canada, the UK and Other Foreign Location, and the US. Furthermore, Canadian operations include revenues generated from the following business centres: Capital Markets, International Trading, Registered Traders and Fixed Income.

Capital markets activity slowed dramatically in all of Canaccord's geographies during the second half of fiscal 2009. As a result, some difficult but necessary decisions were made in order to lower our breakeven and ensure the efficiency of our operations. This included some staff reductions. During this period, several key strategic hires were also made to better position business units when markets recover.

Despite the turbulent market conditions that existed during much of fiscal 2009, Canaccord Adams accomplished many sizable transactions. The team participated in 183 transactions globally for clients, each one over $1.5 million, to raise gross proceeds of $15.8 billion. Of these, Canaccord Adams led 89 transactions globally, raising total proceeds of $2.4 billion. Our Canadian operations participated in the most deals in fiscal 2009, with 143 transactions, which raised $13.6 billion.

Canaccord Adams' sector diversification remains an integral component of the Company's strategy. Resource-related revenue was 76% of Canaccord Adams' total revenue in fiscal 2009, versus 64% in fiscal 2008. For comparison purposes, resource-related transactions were 45% of Canaccord Adams' total transactions in fiscal 2009, versus 44% in fiscal 2008. During fiscal 2009 we also added a new Financials team to our UK team, further increasing our diversification.

Canaccord Adams operates from six international offices, and provides global perspective and distribution in the following focus areas:

- Mining and Metals
- Energy
- Technology
- Life Sciences
- Consumer
- Real Estate
- Infrastructure
- Sustainability

*Industry profile*

Canaccord Adams is active on seven exchanges internationally – the TSX, TSX Venture, LSE, AIM, NASDAQ, NYSE and AMEX. Our expertise in these markets allows us to source low costs of capital, broaden shareholder bases and provide best execution liquidity to our clients. For fiscal 2009, total industry trading volumes were up 125% on the AIM and 16% on the TSX, but down 20.3% on the TSX Venture over fiscal 2008. Financing values were down on all exchanges, due mostly to inclement market conditions.

Consolidation of some major industry participants, particularly in the US, as well as the failure of some financial firms over the course of fiscal 2009 has created opportunity for remaining industry participants to increase market share in this geography.

The global contraction of credit has also impacted the industry, providing bank-owned firms with opportunities to secure deals by cross-selling debt and equity services.

Public perception of investment dealers has grown progressively negative in recent months. This growing sentiment has led to increased scrutiny of business practices in the financial services sector – something we do not foresee dissipating in the near future.

*Outlook*

In fiscal 2009, the Canadian and Global financial markets experienced incredible challenges. Market volatility impacted equity financings and mergers and acquisition activity, with both experiencing significantly less business than in fiscal 2008. Global financial markets are not anticipated to recover for the duration of calendar 2009, however some improvement is already occurring. As a result of this outlook, operations at Canaccord Adams were adjusted to better meet the demands of current market conditions, and those forecast for the next several quarters. These changes to Canaccord Adams' operating structure have helped to reduce overhead expenses by 3.7% across all geographies in this division.

Our platforms in Canada, the UK and the US have provided Canaccord a unique and integrated opportunity to conduct transactions through our expanded distribution capability. Canaccord remains committed to continuing operations in all our geographies, as we expect our international platform will continue to be vitally important to the future growth and success of Canaccord Adams when market conditions improve. We expect the nature of our business to continue to increase in global reach going forward.

Though several market participants are no longer in operation, competition for capital markets business has increased across all geographies as reduced equity financings and mergers and acquisition activity persists. However, the dislocation of the financial services sector in the US has presented a unique opportunity for Canaccord Adams to increase market share in the US market. Our US teams are aggressively pursuing this opportunity.

*Financial performance* (1)

| (C$ thousands, except number of employees and % amounts) | 2009 Canada | 2009 UK and Other Foreign Location | 2009 US | 2009 Total | 2008 Canada | 2008 UK and Other Foreign Location | 2008 US | 2008 Total | 2009/2008 Change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | $ 122,850 | $ 79,707 | $ 74,794 | $ 277,351 | $212,585 | $128,269 | $ 90,788 | $431,642 | (35.7)% |
| Expenses | | | | | | | | | |
| Incentive compensation | 67,023 | 39,915 | 34,656 | 141,594 | 102,972 | 66,618 | 47,146 | 216,736 | (34.7)% |
| Salaries and benefits | 4,289 | 5,617 | 5,162 | 15,068 | 4,717 | 4,594 | 4,483 | 13,794 | 9.2% |
| Other overhead expenses | 31,287 | 28,301 | 44,735 | 104,323 | 38,769 | 23,013 | 46,525 | 108,307 | (3.7)% |
| ABCP fair value adjustment | – | – | – | – | 3,230 | – | – | 3,230 | (100)% |
| Impairment of goodwill & intangibles | 3,958 | – | 27,566 | 31,524 | – | – | – | – | n.m. |
| Restructuring costs | 1,074 | 1,274 | 3,623 | 5,971 | 1,000 | – | – | 1,000 | 497.1% |
| Total expenses | $ 107,631 | $ 75,107 | $ 115,742 | $298,480 | $150,688 | $ 94,225 | $ 98,154 | $343,067 | (13.0)% |
| Income (loss) before income taxes | 15,219 | 4,600 | (40,948) | (21,129) | 61,897 | 34,044 | (7,366) | 88,575 | (123.9)% |
| **Excluding significant items** (2) | | | | | | | | | |
| Total expenses | $ 102,599 | $ 73,833 | $ 84,553 | $260,985 | $146,458 | $ 94,225 | $ 98,154 | $338,837 | (23.0)% |
| Income (loss) before income taxes | 20,251 | 5,874 | (9,759) | 16,366 | 66,127 | 34,044 | (7,366) | 92,805 | (82.4)% |
| Number of employees | 209 | 114 | 151 | 474 | 253 | 125 | 163 | 541 | (12.4)% |

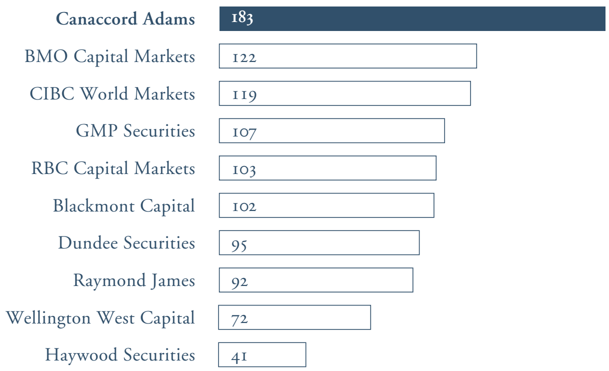
For the years ended March 31

(1) Data is considered to be GAAP except for figures excluding significant items and number of employees.
(2) Fiscal 2009 data excludes $31.5 million impairment of goodwill and intangibles, and $6.0 million of restructuring costs. Fiscal 2008 data excludes $3.2 million of ABCP fair value adjustment and $1.0 million of restructuring costs.
n.m.: not meaningful

**Revenue**

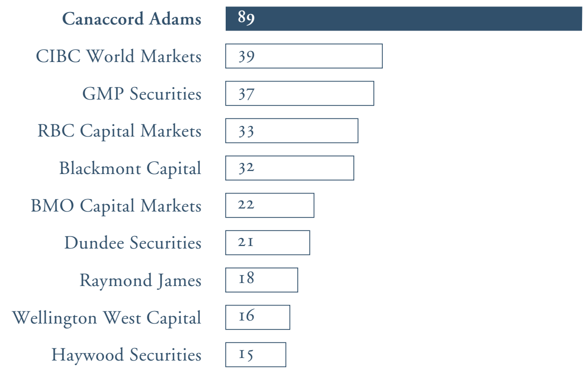
For fiscal year 2009, revenue was $277.4 million, a decrease of 35.7% or $154.3 million from a year ago. This was due to the global credit crisis that began during the second quarter of fiscal 2009.

**PARTICIPATION IN NUMBER OF TRANSACTIONS – EQUITY OFFERINGS OF $1.5 MILLION AND GREATER DURING FISCAL 2009** (1)




(1) FP Infomart (information accurate as of April 7, 2009); Company information. Canaccord transactions include transactions executed by its UK and US operations.

**NUMBER OF LED TRANSACTIONS – EQUITY OFFERINGS OF $1.5 MILLION AND GREATER DURING FISCAL 2009** (2)




(2) FP Infomart (information accurate as of April 7, 2009); Company information. In addition to the transactions participated in by its Canadian operation, Canaccord's figures also include transactions by its UK and US operations.

*Revenue from Canadian operations*

Total revenue from Canaccord Adams' capital markets activities in Canada during fiscal 2009 was $122.9 million, a decrease of 42.2% from $212.6 million in fiscal 2008. The decrease is largely due to lower capital markets activity in North America as a result of the global economic decline. On the TSX and TSX Venture, industry proceeds raised from equity offerings for fiscal Q4/09 increased to $12.4 billion, an increase of $2.0 billion compared to the prior year.

Canaccord's International Trading group earns revenue by providing services principally to US brokerage firms, executing orders on their behalf in Canadian listed equities and trading in US equities on behalf of Canadian clients. Revenue in this business was $14.6 million, down $5.1 million or 26.0% from fiscal 2008. The contraction of the US economy and the severe credit conditions in its financial system led to the decline in international trading revenue.

Canaccord's Registered Traders operate by taking positions, trading, and making markets in equity securities, including securities of companies with small to medium sized market capitalizations. Revenue is generated through inventory trading gains and losses. Revenue in this business was $6.3 million, a decrease of $1.0 million or 14.2% from fiscal 2008.

Canaccord also trades in fixed income securities, generating revenue through interest income and trading gains and losses. Canaccord's activity in this area is generally limited to higher grade corporate and government debt instruments. Revenue in this business was $6.4 million, a decrease of $2.4 million or 27.2% from fiscal 2008.

*Revenue from UK and Other Foreign Location operations*

Canaccord Adams' operations in the UK and Europe include providing institutional sales and trading, corporate finance, and research services. Canaccord is an approved broker, sponsor and Nomad for AIM and LSE companies. Revenue derived from capital markets activity outside of Canada, the UK and the US is reported as Other Foreign Location, which includes operations for Canaccord International Limited. Revenue in these segments was $79.7 million, a decrease of $48.6 million or 37.9% from fiscal 2008. This decline was attributed to the global downturn of financial markets.

*Revenue from US operations*

Canaccord Adams' operations in the US include institutional sales and trading, corporate finance and research teams. Revenue generated by Canaccord Adams' operations in the US declined for fiscal 2009 as a result of the distressed US financial markets. Revenue was $74.8 million, a decrease of $16.0 million or 17.6% from fiscal 2008.

*Investment banking activity*

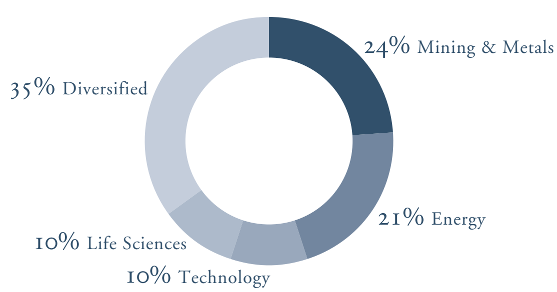
Canaccord Adams' sector mix in fiscal 2009 partially reflected the contribution of sector diversification from the US. Transactions for the Technology, Life Sciences and Diversified sectors represented 55% of total transactions for the fiscal year. With the addition of a PIPE team in the US, this type of transaction has become an important part of our business mix. We completed 56 PIPE transactions in North America during fiscal 2009 to raise US$1.6 billion in proceeds, and ranked number one. We have also continued to hire key producers in our focus sectors across our geographies, which should further strengthen our competitive position going forward.

During the year, Canaccord participated in raising $15.8 billion for 183 equity offerings of $1.5 million and greater, excluding venture capital. These transactions included 45% from the Mining and Metals, and Energy sectors, due to strong global market demand for natural resources.

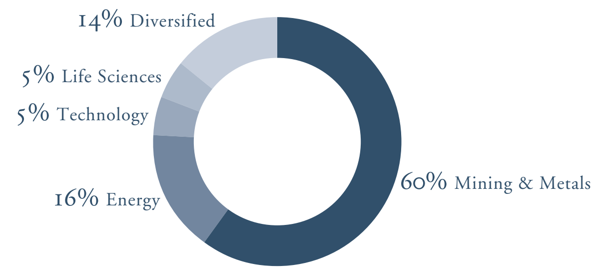
## CANACCORD ADAMS — OVERALL

(Note: Diversified includes Consumer, Real Estate, Infrastructure and Sustainability sectors)

**Transactions by sector**

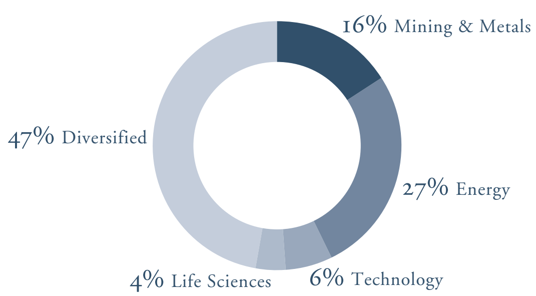



**Revenue by sector**

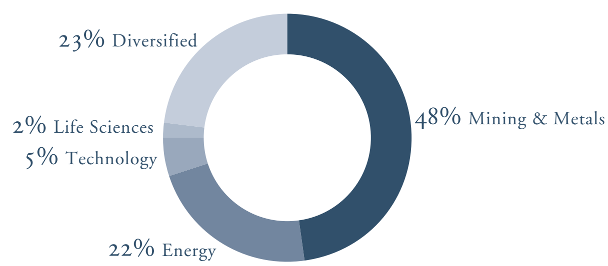



## CANACCORD ADAMS — CANADA

**Transactions by sector**

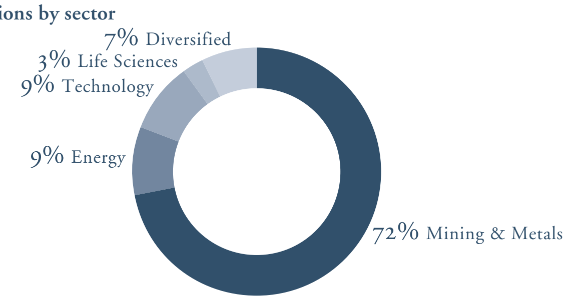



**Revenue by sector**

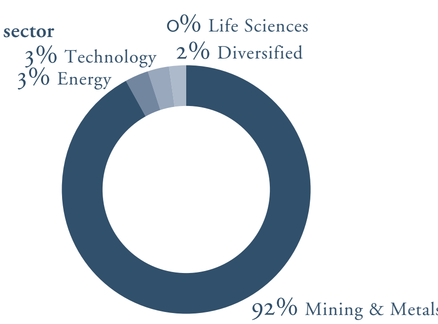



## CANACCORD ADAMS — UK

**Transactions by sector**

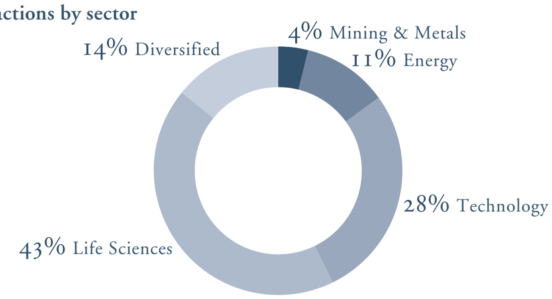



**Revenue by sector**

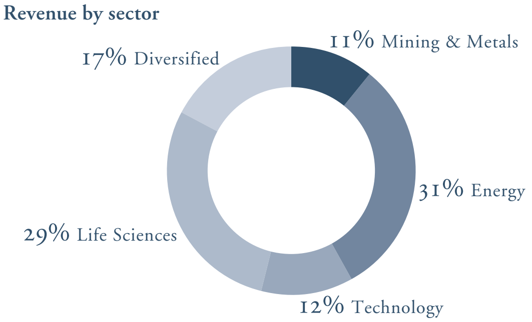



## CANACCORD ADAMS — US

**Transactions by sector**




**Revenue by sector**



*Equity offerings of $1.5 million and greater*

| (C$ billions, except number of transactions) Market | 2009 # of transactions | 2009 Aggregate transaction value | 2008 # of transactions | 2008 Aggregate transaction value |
|---|---|---|---|---|
| | *For the years ended March 31* | | | |
| Canada | 143 | $ 13.6 | 328 | $ 19.4 |
| UK | 22 | 1.5 | 29 | 3.1 |
| US | 18 | 0.7 | 38 | 2.3 |
| Total | 183 | $ 15.8 | 395 | $ 24.8 |

Sources: Financial Post Data Group and Company sources

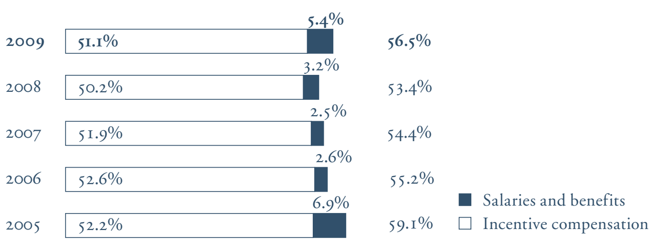
## Expenses

Expenses for fiscal 2009 were $298.5 million, down $44.6 million or 13.0%, mainly attributed to the $75.1 million decline in incentive compensation. The largest decrease in non-compensation expenses were in interest expense, general and administrative expense, and development costs.

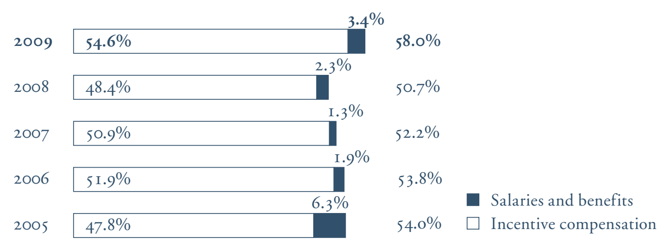
*Incentive compensation and salaries and benefits*

Incentive compensation expense for fiscal 2009 decreased by $75.1 million or 34.7% over fiscal 2008, which was largely linked to the $154.3 million or 35.7% decline in revenue. Salary and benefits expense for fiscal 2009 increased by $1.3 million or 9.2% compared to fiscal 2008. This increase was mainly related to higher staffing levels during the first half of the year, which was subsequently reduced as a result of the staff restructuring announced in October 2008. The salaries and benefits expense for the second half of fiscal 2009 was $6.9 million compared to $8.1 million incurred during the first half of fiscal 2009, a decline of $1.2 million. Total compensation expense as a percentage of revenue increased to 56.5% from 53.4% in fiscal 2008.

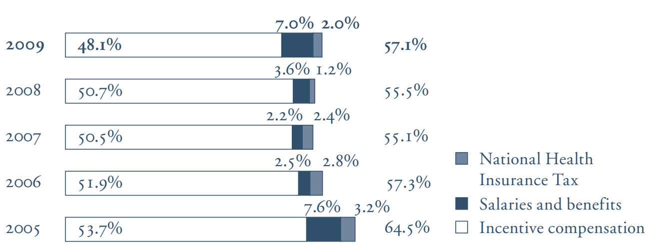
**TOTAL COMPENSATION AS A % OF CANACCORD ADAMS REVENUE – OVERALL**



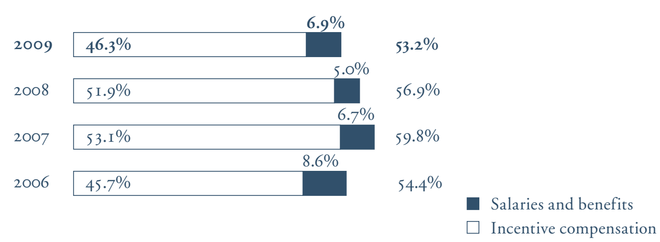

**TOTAL COMPENSATION AS A % OF CANACCORD ADAMS REVENUE – CANADA**




**TOTAL COMPENSATION AS A % OF CANACCORD ADAMS REVENUE – UK**




**TOTAL COMPENSATION AS A % OF CANACCORD ADAMS REVENUE – US**



*Other overhead expenses*

Other overhead expense was $104.3 million, a decrease of $4.0 million or 3.7% during fiscal 2009. The largest fluctuation in other overhead expense was a $4.9 million decrease in development costs due to a decline of hiring incentives offered in the US. General and administrative expense also decreased by $1.5 million mainly attributed to a $7.5 million decrease in promotion and travel expense partially offset by an increase in professional fees and reserve expense. Interest expense had also decreased by $1.0 million because of the decline in interest rates. This decline in overhead expense was offset by an increase in communications and technology expense related to technological enhancements incurred during the year.

Total expenses included the following significant items: $31.5 million charge for the impairment of goodwill and intangibles and $6.0 million of restructuring costs. The impairment of goodwill and intangibles consisted of $27.5 million related to Canaccord Adams Inc. (CAI) and $4.0 million related to Enermarket Solutions Ltd. (Enermarket). Both subsidiaries' earnings prospects were severely impacted by the credit crisis during the third quarter of fiscal 2009. The Company also recognized a pre-tax $6.0 million charge in Canaccord Adams for staff restructuring costs. Excluding significant items, total expenses were down 23.0% to $261.0 million in Canaccord Adams.

Net loss before income taxes in fiscal 2009 was $21.1 million compared to net income before income taxes of $88.6 million in fiscal 2008. Excluding significant items, net income before income taxes was $16.4 million versus $92.8 million in fiscal 2008. The decline in income before taxes is largely attributed to the global economic crisis that impacted capital markets.

## Private Client Services

*Overview*

Canaccord provides a broad range of financial services and investment products to its private clients, including both proprietary and third party products. Revenue from Private Client Services (PCS) is generated through traditional commission-based brokerage services; the sale of fee-based products and services; client-related interest; and fees and commissions earned by private client Advisory Teams for investment banking and venture capital transactions.

*Industry profile*

Investment dealers across Canada, and around the world, were impacted by the market downturns and instability during fiscal 2009. The Investment Industry Association of Canada reported that revenues in the Canadian securities industry for calendar 2008 totalled $14.6 billion – $2.5 billion less than in calendar 2007. When broken out specifically, full-service retail investment dealers experienced more dramatic year-over-year declines, with average declines of 18.8% in operating revenue and average declines of 136.4% in net income in calendar 2009 versus calendar 2008.

The shift to fee-based revenue remains an industry trend. Though 2008 was a challenging year for most wealth management programs, revenue from fee-based retail programs remained relatively steady, despite poor market conditions affecting the value of client assets. Fee-based revenue accounted for 18% of total industry revenues in calendar 2008, up from 15% in calendar 2007.

*Outlook*

Fiscal 2009 continued to be a year of transition for Canaccord's PCS division. The PCS leadership team was largely transformed with the addition of several key professionals, beginning with the appointment of John Rothwell as Head of Private Client Services. Mr. Rothwell has been actively building his team and has appointed senior leadership in the focus areas of product development, training and business development.

Canaccord intends to take opportunities over the course of fiscal 2010 to grow and update the Firm's PCS operations. Product development efforts will be focused on strengthening the Firm's full suite of financial planning solutions, with an emphasis on wealth management programs, insurance-based investment products, and estate-planning services to name a few. Canaccord will continue to ensure that clients have access to the best third party investment managers through our *Alliance Program*. The Firm's investments in enhancing products and partners, as well as in improving the technology, people and processes that support those products, will be singularly focused on increasing their relevance, cost-effectiveness and impact for clients and Investment Advisors alike.

The continuing development of our product suite will also support the Firm's efforts in retention and recruitment. Canaccord is already in the process of actively enhancing the quality of our Advisory Teams, and has implemented the Canaccord Advisor Transition (CAT) Program to facilitate the successful transition of client relationships and assets from retiring brokers. In addition to this quality improvement strategy, Canaccord is carefully targeting recruiting efforts and revising training standards to ensure our PCS team is able to meet and exceed the changing needs of our clients.

With these investments in a stronger foundation, we are confident that we can build our PCS division over the course of fiscal 2010 and beyond with an increasing focus on wealth management and providing clients with comprehensive financial planning and investment strategies.

*Financial performance* (1)

| (C$ thousands, except assets under management and assets under administration, which are in C$ millions, number of employees and Advisory Teams, and % amounts) | 2009 | 2008 | 2009/2008 Change | |
|---|---|---|---|---|
| Revenue | **$ 172,484** | $ 249,127 | $ (76,643) | (30.8)% |
| Expenses | | | | |
| Incentive compensation | **74,383** | 115,640 | (41,257) | (35.7)% |
| Salaries and benefits | **14,820** | 15,514 | (694) | (4.5)% |
| Other overhead expenses | **55,047** | 61,868 | (6,821) | (11.0)% |
| Relief provision | **2,700** | 54,200 | (51,500) | (95.0)% |
| Canaccord relief program fair value adjustment | **2,647** | – | 2,647 | n.m. |
| Restructuring costs | **180** | 700 | (520) | (74.3)% |
| Total expenses | **$ 149,777** | $ 247,922 | $ (98,145) | (39.6)% |
| Income before income taxes | **22,707** | 1,205 | 21,502 | n.m. |
| Assets under management (AUM) | **393** | 730 | (337) | (46.2)% |
| Assets under administration (AUA) | **9,184** | 14,295 | (5,111) | (35.8)% |
| Number of Advisory Teams | **338** | 354 | (16) | (4.5)% |
| Number of employees | **700** | 762 | (62) | (8.1)% |
| **Excluding significant items** (2) | | | | |
| Total expenses | **$ 144,250** | $ 193,022 | $ (48,772) | (25.3)% |
| Income before income taxes | **28,234** | 56,105 | (27,871) | (49.7)% |

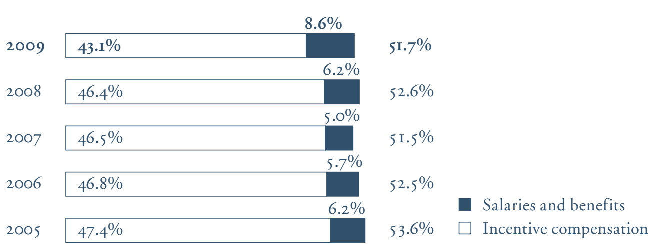
For the years ended March 31

(1) Data is considered to be GAAP except for figures excluding significant items, number of Advisory Teams and employees, and AUA and AUM.
(2) Fiscal 2009 data excludes $2.7 million relief provision, $2.6 million client relief program fair value adjustment, and $0.2 million restructuring costs. Fiscal 2008 data excludes $54.2 million relief provision and $0.7 million of restructuring costs.
n.m.: not meaningful

Fiscal 2009 revenue from PCS was $172.5 million, a decrease of 30.8% or $76.6 million from fiscal 2008, largely reflecting the global economic contraction during fiscal 2009.

Expenses for the year were $149.8 million, a decrease of 39.6% or $98.1 million from fiscal 2008. The decrease in PCS expenses was mainly attributable to a drop in incentive compensation expense, trading cost expense and interest expense. Incentive compensation decreased by $41.3 million, a 35.7% drop from the prior fiscal year, mainly due to lower revenue resulting from the deteriorating North American financial markets in fiscal 2009.

### TOTAL COMPENSATION AS A % OF REVENUE




The decrease in total expenses was partially offset by a $4.6 million increase in general and administrative expense. General and administrative expense was $17.2 million for fiscal 2009, and the increase was mainly due to the recognition of a credit provision during the third quarter of fiscal 2009. This expense was recognized to reserve against unsecured balances in client accounts resulting from current market conditions.

The Company also recognized an additional $5.3 million charge for the client relief program, which was implemented in January 2009. This included a $2.6 million pre-tax fair value adjustment related to Master Asset Vehicle (MAV) II Class 15 positions, purchased by the Company as a result of the completion of the client relief program. The remaining $2.7 million was an additional accrual for the relief provision as a result of an increase in out-of-pocket charges. The CRP was announced in April 2008 and included the repurchase of up to $138 million of restructured ABCP at par value from eligible clients. Additional information is provided in Note 18 of the audited consolidated financial statements.

Net income for PCS during fiscal 2009 was $22.7 million. Excluding significant items, net income before income taxes was $28.2 million compared to net income of $56.1 million in the prior fiscal year, reflecting weaker market activity in fiscal 2009.

*Operational highlights*

Several key initiatives were completed over the course of fiscal 2009 to enhance our clients' experience. Most noticeable of these was the addition of electronic statements, often referred to as "e-documents". Through a secure login, Canaccord clients are now provided the opportunity to view, print and organize their investment statements online through Canaccord's website.

Canaccord's Research Portal was also launched in Q1 of fiscal 2009. This dynamic online environment provides PCS clients with full access to the Company's proprietary, idea-generating research, as well as in-depth details on our focus sectors, covered companies and authoring analysts. In addition to comprehensive research content on demand, the website also provides a searchable global coverage universe of Canaccord's latest ratings, targets and estimates on over 550 companies.

During the fourth quarter of fiscal 2009, Canaccord also began offering Tax-Free Savings Accounts (TFSAs) to clients, as a result of the Government of Canada's new tax-savings program. TFSAs provide clients with the opportunity to invest up to $5,000 of savings annually without accruing taxes on capital gains. TFSAs are expected to become an integral part of every Canadian's financial planning strategy, and are widely endorsed and facilitated by Canaccord Investment Advisors.

Canaccord expanded its retail network with the addition of a Thunder Bay, Ontario branch during fiscal 2009. The addition of this new branch now brings the total PCS office count to 24 across Canada, solidifying the Company's commitment to being a leading national independent investment dealer in the Canadian retail market.

**Corporate and Other segment**

The Corporate and Other segment includes Pinnacle Correspondent Brokerage Services (Canaccord's correspondent brokerage services division), interest, foreign exchange revenue, and expenses not specifically allocable to Canaccord Adams and Private Client Services. Pinnacle provides execution, clearing, settlement, custody, and front and back-office services to other introducing brokerage firms. The Pinnacle business unit was developed as an extension and application of Canaccord's substantial investment in its information technology and operating infrastructure.

Also included in this segment are Canaccord's operations and support services departments, which are responsible for front and back-office information technology systems, compliance and risk management, operations, finance, and other administrative functions. Canaccord has approximately 356 employees in the Corporate and Other segment.

The operations group is responsible for all activity in connection with processing securities transactions, including trade execution, settlement of securities transactions and custody of client securities. The finance department is responsible for internal financial accounting and controls, and external financial and regulatory reporting, while the compliance department is responsible for client credit and account monitoring in relation to certain legal and financial regulatory requirements. Canaccord's risk management and compliance activities include procedures to identify, control, measure and monitor Canaccord's risk exposure at all times. These principal risk areas relate to market risk, credit risk, operational risk, and regulatory and legal risk. For more information, please refer to the Risk management section beginning on page 34.

*Financial performance* (1)

| (C$ thousands, except number of employees and % amounts) | | 2009 | | 2008 | | 2009/2008 Change | |
|---|---|---|---|---|---|---|---|
| Revenue | $ | **27,886** | $ | 50,770 | $ | (22,884) | (45.1)% |
| Expenses | | | | | | | |
| Incentive compensation | | **6,029** | | 14,703 | | (8,674) | (59.0)% |
| Salaries and benefits | | **26,883** | | 24,986 | | 1,897 | 7.6% |
| Other overhead expenses | | **35,540** | | 37,463 | | (1,923) | (5.1)% |
| ABCP fair value adjustment | | **6,700** | | 9,567 | | (2,867) | (30.0)% |
| Restructuring costs | | **1,511** | | 2,300 | | (789) | (34.3)% |
| Total expenses | $ | **76,663** | $ | 89,019 | $ | (12,356) | (13.9)% |
| Loss before income taxes | | **(48,777)** | | (38,249) | | (10,528) | 27.5% |
| Number of employees | | **356** | | 380 | | (24) | (6.3)% |
| **Excluding significant items** (2) | | | | | | | |
| Total expenses | $ | **68,452** | $ | 77,152 | $ | (8,700) | (11.3)% |
| Loss before income taxes | | **(40,566)** | | (26,382) | | (14,184) | 53.8% |

For the years ended March 31

(1) Data is considered to be GAAP except for figures excluding significant items and number of employees.

(2) Fiscal 2009 data excludes $6.7 million ABCP fair value adjustment and $1.5 million restructuring costs. Fiscal 2008 data excludes $9.6 million ABCP fair value adjustment and $2.3 million restructuring costs.

Revenue for fiscal 2009 was $27.9 million, down $22.9 million or 45.1% from fiscal year 2008. The decrease was mainly due to the $15.2 million decrease in interest revenue as a result of lower interest rates during the year. Foreign exchange gain also decreased by $10.1 million compared to fiscal 2008.

Fiscal 2009 expenses were $76.7 million, a decrease of $12.4 million or 13.9%. The $8.7 million drop in incentive compensation expense resulted from the lower profitability of the consolidated group of companies.

This decrease in Corporate and Other segment expense was partially offset by certain significant items charged during fiscal 2009. This included $6.7 million of ABCP fair value adjustment related to the corporately held ABCP and $1.5 million of staff restructuring costs. In fiscal 2008, the Company also recorded the following significant items: $9.6 million ABCP fair value adjustment and $2.3 million restructuring costs. Excluding significant items for both years, expenses were $8.7 million or 11.3% lower than the prior year.

Loss before income taxes was $48.8 million for fiscal 2009 compared to a loss of $38.2 million for the same period a year ago. Excluding significant items, loss before income taxes was $40.6 million compared to $26.4 million in the prior year.

*Operational highlights*

Canaccord's back-office and support departments were focused largely on operating efficiently during fiscal 2009. By centralizing most of our corporate support functions and eliminating redundancies, the Company was able to reduce the Corporate Operations department overhead by 5.1% compared to fiscal 2008.

Canaccord's Pinnacle Correspondent Services is also reported within the Corporate and Other segment. This division enables us to leverage our infrastructure investments and technology capabilities. Through its proprietary web portal, Pinnacle provides access to state-of-the-art front and back-office services to its correspondent clients. Canaccord has made a substantial long-term commitment to this line of business, and continues to view it as an important component of our business-to-business service offerings.

## FINANCIAL CONDITION

Below are selected balance sheet items for the past five years.

| | Balance sheet summary as at March 31 | | | | |
|---|---|---|---|---|---|
| *(C$ thousands)* | **2009** | 2008 | 2007 | 2006 | 2005 |
| Assets | | | | | |
| Cash and cash equivalents | **$ 701,173** | $ 435,649 | $ 506,640 | $ 370,507 | $ 349,700 |
| Securities owned | **133,691** | 92,796 | 348,764 | 203,020 | 160,348 |
| Accounts receivable | **1,061,161** | 1,422,917 | 1,672,035 | 1,539,998 | 1,068,757 |
| Other assets | **126,074** | 114,836 | 48,570 | 36,519 | 59,360 |
| Goodwill and other intangibles | **–** | 32,520 | 33,933 | 27,929 | – |
| Total assets | **$ 2,022,099** | $ 2,098,718 | $ 2,609,942 | $ 2,177,973 | $ 1,638,165 |
| Liabilities and shareholders' equity | | | | | |
| Bank indebtedness | **$ 75,600** | $ 15,038 | $ – | $ 4,684 | $ – |
| Securities sold short | **79,426** | 13,757 | 41,176 | 37,169 | 105,527 |
| Accounts payable and accrued liabilities | **1,469,369** | 1,687,479 | 2,171,575 | 1,848,290 | 1,268,809 |
| Notes payable | **–** | – | – | – | 41,618 |
| Subordinated debt | **25,000** | 25,000 | 25,000 | – | – |
| Shareholders' equity | **372,704** | 357,444 | 372,191 | 287,830 | 222,211 |
| Total liabilities and shareholders' equity | **$ 2,022,099** | $ 2,098,718 | $ 2,609,942 | $ 2,177,973 | $ 1,638,165 |

**Assets**

Cash and cash equivalents were $701.2 million on March 31, 2009 compared to $435.6 million on March 31, 2008. Refer to the Liquidity and capital resources section for more details.

Securities owned were $133.7 million compared with $92.8 million on March 31, 2008. This increase is mainly due to an increase in corporate and government debt.

Accounts receivable were $1.1 billion on March 31, 2009 compared with $1.4 billion on March 31, 2008. The decrease related to a decrease in receivable balances from clients and broker and investment dealers.

Other assets in aggregate were $126.1 million at March 31, 2009 compared with $147.4 million at March 31, 2008. The decrease was due to the impairment of goodwill and intangibles and the impairment of investment in ABCP, offset by an increase in investment in ABCP. The Company acquired additional restructured ABCP notes as part of the client relief program.

**Liabilities and shareholders' equity**

Bank indebtedness may vary significantly on a day-to-day basis and depend on securities trading activity. On March 31, 2009 there was bank indebtedness of $75.6 million compared to $15.0 million on March 31, 2008.

Accounts payable were $1.5 billion compared to $1.7 billion on March 31, 2008, a decline of $0.2 billion mainly related to a decrease in payable balances to clients and other.

Other liabilities in aggregate were $104.4 million at March 31, 2009 compared with $38.8 million at March 31, 2008. The change was mainly due to an increase in securities sold short.

## OFF-BALANCE SHEET ARRANGEMENTS

At March 31, 2009 Canaccord has available credit facilities with banks in Canada, the UK and the US in the aggregate amount of $568.7 million [March 31, 2008 – $493 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, 2009, the Company has a balance of $75.6 million outstanding [March 31, 2008 – $15.0 million].

A subsidiary of the Company has entered into irrevocable standby letters of credit from a financial institution totalling $2.9 million (US$2.3 million) [March 31, 2008 – $2.4 million (US$2.3 million)] as rent guarantees for its leased premises in Boston, New York and San Francisco. As of March 31, 2009 there were no outstanding balances under these standby letters of credit.

In connection with the CRP, the Company entered into two letters of credit in April 2008 to facilitate the funding of the client relief program. The CRP was successfully completed on January 30, 2009 without drawing the two letters of credit and, as a result, they have been subsequently cancelled.

## LIQUIDITY AND CAPITAL RESOURCES

Canaccord has a capital structure comprising share capital, retained earnings and accumulated other comprehensive losses.

On March 31, 2009 cash and cash equivalents net of bank indebtedness were $625.6 million, an increase of $205.0 million from $420.6 million as of March 31, 2008. During the fiscal year ended March 31, 2009 financing activities provided cash in the amount of $52.8 million, which was primarily due to the share issuance in May 2008 of $66.5 million. The issuance of shares in connection with stock-based compensation plans provided cash of $12.9 million and the decrease in unvested common share purchase loans also provided cash of $5.8 million. This was partially offset by $13.5 million for dividend payments, $15.0 million for the acquisition of common shares for the long term incentive plan, and $3.9 million for the repurchase of common shares. Investing activities used cash in the amount of $25.2 million, mainly due to the purchase of equipment and leasehold improvements, and purchase of restructured ABCP notes as a result of the client relief program. Operating activities provided cash in the amount of $172.8 million, which was due to net changes in non-cash working capital items and changes in net income excluding items not affecting cash. A further increase in cash of $4.6 million was attributed to the effect of foreign exchange on cash balances.

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

The following table summarizes Canaccord's long-term contractual obligations on March 31, 2009.

| | *Contractual obligations payments due by period* | | | | |
|---|---|---|---|---|---|
| *(C$ thousands)* | *Total* | *Fiscal 2010* | *Fiscal 2011–Fiscal 2012* | *Fiscal 2013–Fiscal 2014* | *Thereafter* |
| Premises and equipment operating leases | 166,942 | 26,106 | 44,134 | 36,821 | 59,881 |

## OUTSTANDING SHARE DATA

| | *Outstanding shares as of March 31* | |
|---|---|---|
| | **2009** | *2008* |
| Issued shares outstanding excluding unvested shares (1) | **49,343,015** | 43,873,294 |
| Issued shares outstanding (2) | **55,092,844** | 47,835,051 |
| Issued shares outstanding – diluted (3) | **57,250,972** | 49,555,792 |
| Average shares outstanding – basic | **48,929,259** | 44,778,325 |
| Average shares outstanding – diluted (4) | **54,189,484** | 48,726,559 |

(1) Excludes 2,674,529 unvested shares that are outstanding relating to share purchase loans for recruitment and 3,075,300 unvested shares purchased by employee benefit trust for the long term incentive plan.
(2) Includes 2,674,529 unvested shares relating to share purchase loans for recruitment and 3,075,300 unvested shares purchased by employee benefit trust for the LTIP.
(3) Includes dilutive earned shares under stock-based compensation plans.
(4) This is the diluted share number used to calculate diluted EPS.

At March 31, 2009 Canaccord had 55,092,844 common shares issued and outstanding, an increase of 7,257,793 common shares from March 31, 2008 due to the net effect of shares issued relating to the equity financing in May 2008, shares issued in connection with stock-based compensation plans and shares cancelled.

### *Issuance of share capital*

| | *Fiscal 2009* |
|---|---|
| **Total common shares issued and outstanding as of March 31, 2008** | **47,835,051** |
| Shares issued in cash | 6,733,250 |
| Shares issued in connection with stock-based compensation plans | 849,615 |
| Shares cancelled | (325,072) |
| **Total common shares issued and outstanding as of March 31, 2009** | **55,092,844** |

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. The net proceeds of the offering are being used for business development and general corporate purposes.

## STOCK-BASED COMPENSATION PLANS

### Adams Harkness

On January 3, 2006 Canaccord completed the acquisition of Adams Harkness (renamed Canaccord Adams Inc.) which was a privately held Boston, Massachusetts-based institutional investment bank, and a retention plan was established. This retention plan provided for the issuance of up to 1,118,952 common shares after a three-year vesting period, which ended on December 31, 2008. As revenue levels were achieved during the vesting period, the associated proportion of the retention payment was recorded as a development cost and the applicable number of retention shares was included in weighted average diluted common shares outstanding.

The Company issued 669,589 common shares during the year ended March 31, 2009 and 9,268 common shares during the year ended March 31, 2008 as required by the retention plan upon vesting. The plan terminated on December 31, 2008 and in connection therewith, employees who met the vesting conditions received common shares in accordance with the terms of the plan. For the year ended March 31, 2009, 669,589 common shares were issued at $10.25 per share for an aggregate value of $6.9 million (2008 – $0.1 million).

### Stock options

The Company granted stock options to purchase common shares of the Company to independent directors. The independent directors have been granted the option to purchase up to an aggregate of 225,000 common shares of the Company as at March 31, 2009. The stock options vest over a four-year period and expire seven years after the grant date. The weighted average exercise price of the stock options is $15.37.

### 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 that will be used by a trustee to purchase common shares of the Company on the open market which will be held in trust by the trustee until RSUs vest or (b) the Company will issue common shares from treasury to participants following vesting of RSUs. For employees in the United States and the United Kingdom, at the time of each RSU award, the Company will allot common shares, and these shares will be issued from treasury at the time they vest for each participant.

## INTERNATIONAL FINANCIAL CENTRE

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

## FOREIGN EXCHANGE

Canaccord manages its foreign exchange risk by periodically hedging pending settlements in foreign currencies. Realized and unrealized gains and losses related to these transactions are recognized in income during the year. On March 31, 2009 forward contracts outstanding to sell US dollars had a notional amount of US$6.0 million, consistent with the prior year. Forward contracts outstanding to buy US dollars had a notional amount of US$4.3 million, up from US$3.5 million a year ago. The fair value of these contracts was nominal. Some of Canaccord's operations in London, England are conducted in UK pounds sterling; however, any foreign exchange risk in respect of these transactions is generally limited, as pending settlements on both sides of the transaction are typically in UK pounds sterling.

## RELATED PARTY TRANSACTIONS

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

## CRITICAL ACCOUNTING ESTIMATES

The following is a summary of Canaccord's critical accounting estimates. Canaccord's accounting policies are in accordance with Canadian GAAP and are described in Note 1 to the audited consolidated financial statements for the year ended March 31, 2009. The accounting policies described below require estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses recorded in the financial statements. Because of their nature, estimates require judgment based on available information. Actual results or amounts could differ from estimates and the difference could have a material impact on the financial statements.

### Revenue recognition and valuation of securities

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

### Asset-backed commercial paper

There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the Company's holdings in ABCP. As there is no available market price, 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. Since the fair value of the ABCP is based on the Company's assessment of current conditions, amounts reported may change materially in subsequent periods. Refer to Note 7 in the audited statements for further details.

### Provisions

Canaccord records provisions related to pending or outstanding legal matters and doubtful accounts associated with clients' receivables, loans, advances and other receivables. Provisions in connection with legal matters are determined on the basis of management's judgment in consultation with legal counsel, considering such factors as the amount of the claim, the possibility of wrongdoing by an employee of Canaccord and precedents. Clients' receivable balances 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 of the likelihood of collection and the recoverable amount. Provisions are also recorded utilizing discount factors in connection with syndicate participation.

### Tax

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

### Goodwill and other intangible assets

As a result of the acquisitions of Adams Harkness Financial Group, Inc. (renamed Canaccord Adams Inc.) and Enermarket, Canaccord acquired goodwill and other intangible assets. Goodwill is the cost of the acquired companies in excess of the fair value of their net assets, including other intangible assets, at the acquisition date. The identification and valuation of other intangible assets required management to use estimates and make assumptions. Goodwill is assessed for impairment at least annually or whenever a potential impairment may arise as a result of an event or change in circumstances to ensure that the fair value of the reporting unit to which goodwill has been allocated is greater than or at least equal to its carrying value. Fair value will be determined using valuation models that take into account such factors as projected earnings, earnings multiples, discount rates, other available external information and market comparables. The determination of fair value requires management to apply judgment in selecting the valuation models and assumptions and estimates to be used in such models and value determinations. These judgments affect the determination of fair value and any resulting impairment charges. Other intangible assets are amortized over their estimated useful lives and tested for impairment periodically or whenever a potential impairment may arise as a result of an event or change in circumstances. Management must exercise judgment and make use of estimates and assumptions in determining the estimated useful lives of other intangible assets and in periodic determinations of value.

The purchase of Canaccord Adams Inc. resulted in the recognition of $31.1 million of goodwill and intangibles which represented the cost of the acquisition in excess of the fair value of the net tangible assets at the time of purchase. Canaccord Adams Inc. primarily provides capital markets services to institutional and corporate clients in the US. This reporting unit has experienced a decline in business activity and revenue with the continued deterioration in the financial markets during fiscal 2009. Due to the adverse changes in the business environment, the Company performed a valuation to assess the fair value of this reporting unit compared to the carrying value. The results of this valuation led to the recognition of a charge for the impairment of goodwill and other intangible assets related to our US capital markets business of $27.5 million. The impairment charge was determined based on a valuation of Canaccord Adams Inc. using an expected discounted cash flow analysis and certain market value indicators. The determination of fair value requires management to apply judgment in selecting the valuation models and assumptions and estimates to be used in such models and value determinations. These judgments affect the determination of fair value and any resulting impairment charges.

The Company also recorded a charge of $4.0 million to recognize an impairment of the goodwill and intangible related to Enermarket. An impairment test was performed and the results concluded that the fair value was significantly lower than the carrying amount due to the weak market conditions. Enermarket's primary business is to provide advisory services to companies in the oil and gas industry, and its earnings prospects were negatively impacted by the steep decline in oil prices and volatile financial markets.

**Stock-based compensation**

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. Otherwise, the cost is recognized on a graded basis. When stock-based compensation awards vest, contributed surplus is reduced by the applicable amount and share capital is increased by the same amount.

## RECENT ACCOUNTING PRONOUNCEMENTS

**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 will adopt Section 3064 effective April 1, 2009. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

**Business Combinations and Consolidated Financial Statements**

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

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

Early adoption prior to April 1, 2011 is permitted, and all three standards must be adopted concurrently. The adoption of these standards is not expected to have a material impact on current financial statements.

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

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

## CHANGE IN ACCOUNTING POLICIES
On April 1, 2008 the Company adopted the provisions of CICA Handbook Section 3862 *"Financial Instruments – Disclosures"*, CICA Handbook Section 3863 *"Financial Instruments – Presentation"*, CICA Handbook Section 1535 *"Capital Disclosures"* and CICA Handbook Section 1400 *"General Standards on Financial Statement Presentation"*.

**Capital Disclosures**
This new standard requires the Company to disclose qualitative and quantitative information about the Company's capital and how it is managed. Additional note disclosure has been included in Note 16 of the March 31, 2009 audited annual consolidated financial statements.

**Financial Instruments – Disclosures and Presentation**
These two new standards require the Company to provide additional disclosure regarding the nature and extent of risk associated with financial instruments and how these risks are managed. Additional information has been provided in Note 4 of the March 31, 2009 audited annual consolidated financial statements, which includes a quantitative analysis on the risk of holding financial instruments including credit risk, liquidity risk and market risk.

**General Standards on Financial Statement Presentation**
CICA Handbook Section 1400 *"General Standards on Financial Statement Presentation"* prescribes additional requirements to assess and disclose a company's ability to continue as a going concern. This new standard was adopted by the Company beginning April 1, 2008 and there was no impact on the March 31, 2009 audited annual consolidated financial statements.

**Credit Risk and the Fair Value of Financial Assets and Financial Liabilities**
On January 20, 2009 the Emerging Issues Committee (EIC) issued EIC-173 *"Credit Risk and the Fair Value of Financial Assets and Financial Liabilities"*, which requires the Company to take into consideration the Company's own credit risk and the credit risk of the counterparty when determining the fair value of financial assets and financial liabilities. The Company adopted EIC-173 during fiscal 2009 and there was no impact on the consolidated financial statements.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING
**Disclosure controls and procedures**
As of March 31, 2009 an evaluation was carried out, under the supervision of and with the participation of management, including the President & CEO and the Executive Vice President & CFO, of the effectiveness of our disclosure controls and procedures as defined under *National Instrument 52-109*. Based on that evaluation, the President & CEO and the Executive Vice President & CFO concluded that the design and operation of these disclosure controls and procedures were effective as of March 31, 2009.

**Internal control over financial reporting**
Management, including the President & CEO and the Executive Vice President & CFO, has designed internal control over financial reporting as defined under *National Instrument 52-109* to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Based on that evaluation, the President & CEO and the Executive Vice President & CFO concluded that the Company's internal control over financial reporting was designed and operating effectively as of March 31, 2009, and that there were no material weaknesses in our internal control over financial reporting.

### Changes in internal control over financial reporting

There were no changes in internal control over financial reporting that occurred during the year ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, Canaccord's internal control over financial reporting.

## RISK MANAGEMENT

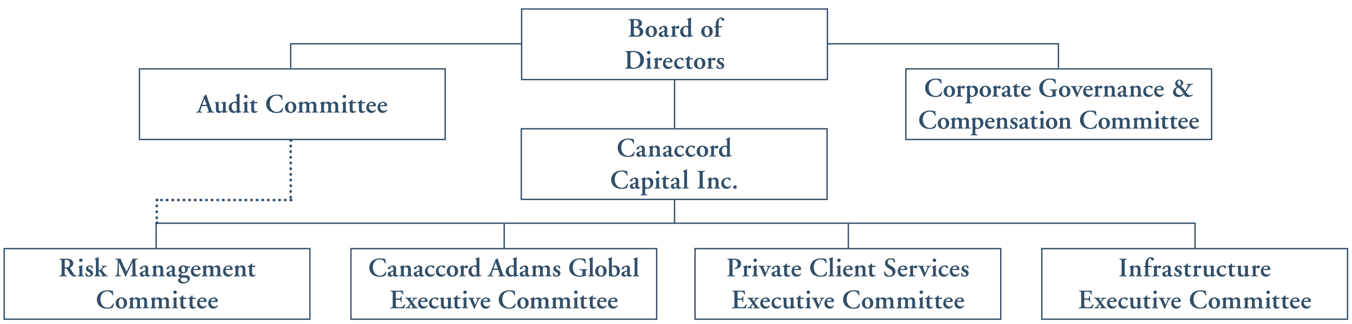
### Overview

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

A cornerstone of Canaccord's risk philosophy is the continuation of the first line of responsibility for managing risk within prescribed limits by branch managers, department heads and trading desk managers. The monitoring and control of Canaccord's risk exposure is conducted through a variety of separate, but complementary, financial, credit, operational, compliance and legal reporting systems. In addition, the Risk Management Committee, which is shown in its organizational context below, is responsible for monitoring risk exposures and for general oversight of the risk management process. The Risk Management Committee is led by the CFO and committee members include the CEO, COO and senior management representation from the key revenue producing businesses and functional areas of Canaccord.

### Governance

Canaccord's governance structure includes the following elements:




The segregation of duties and management oversight are important aspects of Canaccord's risk management process. Canaccord has a number of functions that are independent of the revenue producing businesses that perform risk management activities, including the monitoring, evaluating and analyzing of risk. These functions include Enterprise Risk Management, Compliance, Operations, Internal Audit & Financial Analysis, Treasury, Finance and Legal. Canaccord's Audit Committee receives various quarterly and annual updates and reports on key risk metrics and the overall risk management program.

The Company has undertaken a rigorous review of its Risk Management framework and has implemented an Enterprise Risk Management system (ERM) in some of its subsidiaries that are subject to Basel II requirements, in particular Canaccord Adams UK. This ERM approach is also being adopted by Canaccord as a whole.

The ERM approach requires a disciplined approach to the risk management process which encompasses all functional areas and requires constant communication, judgment and knowledge of the business, products and markets.

As illustrated below, a Basel II-linked ERM process can be identified and grouped into four key categories: 1. Risk Appetite & Strategy; 2. Assessment of Risks; 3. Risk Embedding; and 4. Risk Reporting, Reviewing & Communicating. These processes are supported by three enablers: 1. Risk Organization & Governance; 2. Sound Methodologies; and 3. Data & IT Infrastructure.

**CANACCORD CAPITAL INC.'S ENTERPRISE RISK MANAGEMENT FRAMEWORK**


*ERM Process:*
Risk Appetite is defined as the level and nature of risks exposure to which the Firm considers acceptable. The defined Risk Appetite must include consideration of the likelihood and monetary loss impact of risks and tolerance levels that are used as a trigger for escalation or notification of issues to senior management.

The Risk Assessment Approach is broken down into six key steps. These are: Risk Identification, Risk Categorization, Risk Assessment, Risk Mitigation & Prioritization, Risk Measurement, and Risk Reporting & Monitoring.

Risk Embedding requires financial institutions to produce their own calculation of capital required to cover their risks that are deemed to require a capital holding as part of its risk assessment process. This is known as internal capital. A best practice is to link capital to the level of risk desired.

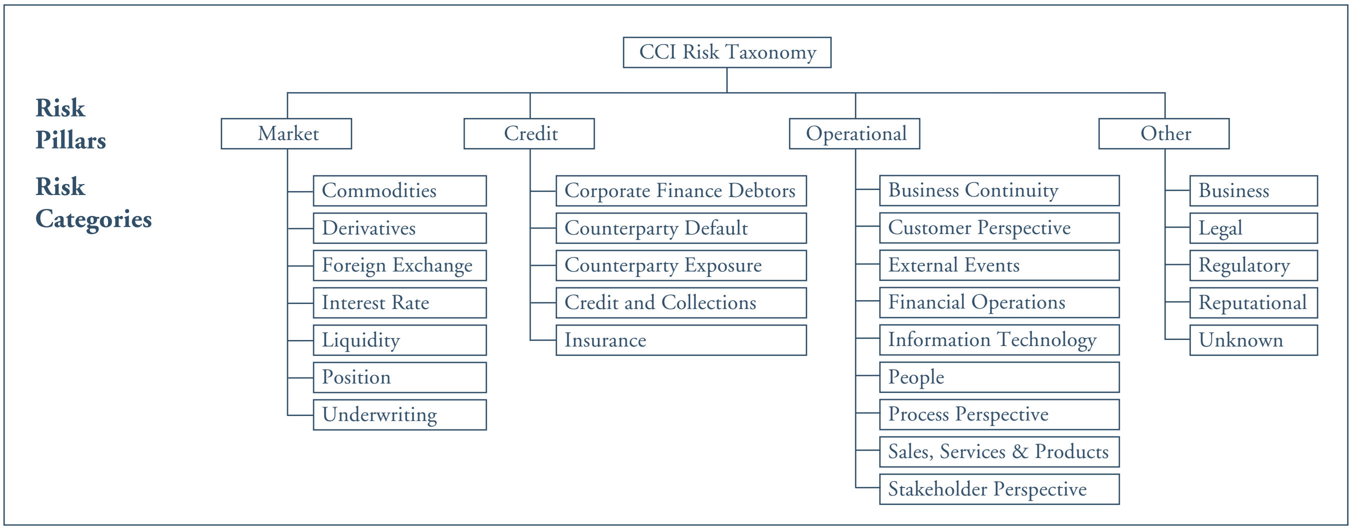
Canaccord's approach to Risk Reporting, Reviewing & Communicating involves a number of steps, including: Reviewing the ERM process; Examining changes to Risk Profiles; Producing Internal & External Reports; and Communicating, Ratifying and Engaging across the Firm.

*ERM Enablers:*
Risk Organization & Governance: Senior management need to review the adequacy of its Risk Assessment process on a regular basis, examine changes to key risk profiles, identify risk issues and make recommendations to the relevant Governance Committees as appropriate. As illustrated above on page 34 Canaccord's Risk Management Committee is responsible for ensuring that appropriate risk mitigation is in place based on strategy adopted by the Company's Board and Executive.

Sound Methodologies: Firms need to detail the methodology and risk models to calculate, stress test and allocate capital in each of the risk categories identified. They must also provide a reason for choosing the method used in each case including assumptions, parameters used, confidence levels, and calculation horizons. At Canaccord, market risk modeling is based on a Value-at-Risk (VaR) methodology supplemented with market-risk specific stress and scenario testing. Operational Risk modeling in Canaccord Adams Limited UK is based on the simulation of the Risk Control & Self Assessment (RCSA) results.

Data & IT Infrastructure: Firms need to maintain and enforce data accuracy for risk management. This includes introducing and maintaining a dictionary for common understanding of risk data, introducing a Risk database to facilitate the retention of risk data for all risk types, and considering the use of an automated Management Information (MI) Reporting application at executive and operational levels.

## Canaccord Capital Inc.'s Risk Taxonomy




Uncertainty and risk are inherent in any financial markets activity. As an active participant in the Canadian and international capital markets, Canaccord is exposed to risks that could result in financial losses. As indicated above in Canaccord Capital's Risk Taxonomy, Canaccord has identified its principal risks as: Market Risk, Credit Risk, Operational Risk and Other Risks. Accordingly, risk management and control of the balance between risk and return are critical elements in maintaining Canaccord's financial stability and profitability.

*Market Risk*

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

As per the Risk Taxonomy illustrated above, within the Market Risk pillar, Canaccord also reviews the following risk categories that fall under Market Risk: Commodities, Derivatives, Foreign Exchange, Interest Rate, Liquidity, Position and Underwriting.

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

With the competitive nature of financial markets in Canada, some of Canaccord's investment banking activity is done on a "bought deal" basis whereby an underwriting commitment is made subject to only very limited termination provisions. These termination conditions usually exclude reductions in market price and, accordingly, Canaccord faces a risk of loss in the event that underwritten securities cannot be resold to investors at the issue price because of changes in market price or other factors. Canaccord distributes and limits its risk exposure in this area by participating in most cases on a syndicated basis, requiring that all such transactions be approved by senior management in both finance (for purposes of capital allocation) and capital markets (for purposes of deal quality and marketability) and limiting the time period between the date a commitment is made and the date Canaccord is able to distribute or resell the underwritten securities to investors.

Securities held by Canaccord are recorded at fair value and the consolidated financial statements of Canaccord reflect any unrealized gains and losses arising from changes in the fair values of such securities. See Critical accounting estimates – Revenue recognition and valuation of securities on page 31. Losses arising as a result of any declines in fair value are recognized at that time and recorded as a reduction of revenue.

**Value-at-Risk (VaR)**
In order to better understand the Market Risk of Canaccord's equity inventories VaR is calculated daily for each of Canaccord's trading desks as well as for the Firm as a whole. These calculations include all of Canaccord's equity portfolios and exclude client-related holdings as well as Fixed Income and Fee share positions.

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

**Canaccord performance**
After 10 months of testing the rolled-out VaR system, Canaccord began to record its equity inventory VaR on August 11, 2008. The following table shows the minimum, maximum, average and median VaR and Profit & Loss (P&L) over the period from August 11, 2008 to March 31, 2009. As can be seen in the table below, Canaccord's global daily equity VaR had a range from as low as $0.2 million to a high of $1.3 million, with an average daily value of $0.4 million. The profitability and loss profile ranged from $(1.5 million) to $1.3 million with an average profit of $0.08 million. The median values for the VaR and P&L were close to the average and reflect a fairly normal distribution of positively skewed trading results.

| *C$* | *Minimum* | *Maximum* | *Average* | *Median* |
|---|---|---|---|---|
| VaR @ 95% | (208,990) | (1,304,286) | (418,883) | (409,966) |
| P&L | (1,478,523) | 1,308,612 | 77,472 | 89,621 |

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

VaR is limited in its effectiveness as its predictions are based on the historic price movements of assets within the trading portfolio as well as the historic correlations between assets over a trailing 12-month period. As the past is no indication of the future, VaR's reliance on historical data is one of its main drawbacks. To help ensure that the calculated VaR is adequately capturing the Firm's true Market Risk, periodic backtesting is performed. The process involves examining the Firm's past trading P&L and comparing it to the trading losses predicted by VaR. In the event that actual P&L is inconsistent with VaR's predicted losses at the specified confidence interval, the inputs and assumptions used in the VaR calculation are examined and modified as necessary. Another drawback to the one-day VaR calculation is that it assumes that positions can be liquidated in a single day which, depending on the size and liquidity of the position, may not always be the case.

The calculation of VaR involves a number of assumptions and approximations. While management believes that these assumptions and approximations are reasonable, it should be noted that different assumptions and/or approximations could produce materially different VaR calculations.

Canaccord's VaR is calculated daily by a third party service provider, which inputs Canaccord's trading positions into the calculation engine each night and provides daily VaR figures the following morning, based on the previous day's end of day holdings and market prices.

*Credit Risk*
Credit Risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The primary source for credit risk to Canaccord is in connection with trading activity by clients in the Private Client Services business segment and private client margin accounts. In order to minimize financial exposure in this area, Canaccord applies certain credit standards and conducts financial reviews with respect to clients and new accounts.

As illustrated in the Risk Taxonomy above the risk categories that fall under Credit Risk are: Corporate Finance Debtors, Counterparty Default, Counterparty Exposure, Credit and Collections, and Insurance.

Canaccord provides financing to clients by way of margin lending. In a margin based transaction, Canaccord extends credit for a portion of the market value of a securities transaction in a client's account, up to certain limits. Margin loans are collateralized by securities in the client's account. In connection with this lending activity, Canaccord faces a risk of financial loss in the event a client fails to meet a margin call if market prices for securities held as collateral decline and if Canaccord is unable to recover sufficient value from the collateral held. For margin lending purposes, Canaccord has established limits that are generally more restrictive than those required by applicable regulatory policies. The determination on whether to add to the minimum regulatory capital requirements of securities eligible for margin is discretionary and is based on price, market, liquidity and quality of the security. Canaccord adjusts its margin requirements if it believes that its risk exposure is not appropriate.

Canaccord also faces a risk of financial loss with respect to trading activity by clients if such trading results in overdue or unpaid amounts in under-secured cash accounts or failure by clients to meet cash calls, in the event market prices for securities sold short in short accounts increase, and Canaccord is unable to purchase the securities to cover the short position at prices covered by the available credit in the client's account. Canaccord has developed a number of controls within its automated trade order management system to ensure that trading by individual account and advisor is done in accordance with customized limits and risk parameters. Canaccord also utilizes a system of risk-adjusted reserve accounts to provide limited additional financial coverage.

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

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

*Operational Risk*

Operational Risk is the risk of loss resulting from inadequate or failed internal processes from any of the underlying operational risk factors. More specific examples of operational risk as it relates to Canaccord include the risk of financial loss resulting from Canaccord's own operations including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in Canaccord's operating systems, and inadequacies or breaches in Canaccord's control procedures.

The following risk categories fall under the Operational Risk pillar as illustrated above in the Risk Taxonomy: Business Continuity; Customer Perspective; External Events; Financial Operations; Information Technology; People; Process Perspective; Sales, Services & Products; and Stakeholder Perspective.

Canaccord operates in different markets and relies on its employees and systems to process a high number of transactions. In order to mitigate this risk, Canaccord has developed a system of internal controls and checks and balances at appropriate levels, which include overnight trade reconciliation, control procedures related to clearing and settlement, cash controls, physical security, independent review procedures, documentation standards, billing and collection procedures, and authorization and processing controls for transactions and accounts. In addition, Canaccord is in the initial stages of implementing an Operational Risk program that will help Canaccord measure, manage, report and monitor Operational Risk issues. Canaccord also has disaster recovery procedures in place, business continuity plans and built-in redundancies in the event of a systems or technological failure. In addition, Canaccord utilizes third party service agreements and security audits where appropriate. Historically, Canaccord has not incurred any material losses arising from operational matters or technological failures.

*Other Risks:*

As per the Risk Taxonomy above some of the risk categories that Canaccord reviews that fall under the Other Risk pillar are: Business, Legal, Regulatory, Reputational and Unknown.

Canaccord has established procedures to ensure compliance with all applicable statutory and regulatory requirements in each jurisdiction. These procedures address issues such as regulatory capital requirements, disclosure requirements, internal controls over financial reporting, sales and trading practices, use of and safekeeping of client funds, credit granting, collection activity, money laundering and recordkeeping.

Legal risk includes litigation risk. As with other securities dealers, Canaccord is involved in litigation and is a defendant in various legal actions.

Losses, if any, arising from significant legal matters, are recorded in general and administrative expenses in Canaccord's consolidated financial statements.

With respect to Canaccord's capital markets activity, Canaccord has procedures in place to review potential investment banking clients and proposed transactions and to ensure that all of its capital markets activity is compliant with regulatory requirements. These procedures include the active involvement of senior management through a regimen of committee approvals and authorizations, the use of external legal counsel as appropriate, and the use of in-house professionals with industry experience. Losses or costs associated with routine regulatory and legal matters are included in general and administrative expenses in Canaccord's consolidated financial statements.

## RISK FACTORS

### Overview

The securities industry and Canaccord's activities are by their very nature subject to a number of inherent risks. Economic conditions, competition and market factors such as volatility in the Canadian and international markets, interest rates, commodity prices, market prices, trading volumes and liquidity will have a significant impact on Canaccord's profitability. Revenue from Private Client Services' activity is dependent on trading volumes and, therefore, is linked to the level of market activity and investor confidence. Revenue from Canaccord Adams' activity is dependent on financing activity by corporate issuers and the willingness of institutional clients to actively trade and participate in capital markets transactions. There may also be a lag between market fluctuations and the level of Canaccord's market activity and the impact that these factors have on Canaccord's operating results and financial position. Furthermore, Canaccord's business is cyclical and thus experiences considerable variations in revenue and income from quarter to quarter and year to year due to the factors discussed above. These factors are beyond Canaccord's control and, as a result, revenue and net income will fluctuate, as they have historically.

An investment in the common shares of Canaccord involves a number of risks. Some of these, including market risk, credit risk, operational risk and other risks could be substantial and are inherent in Canaccord's business. Risk management at Canaccord is a significant priority due to the importance of its effectiveness on Canaccord's operations. For the discussion on Risk management, please see page 34 in this MD&A. Risks include, but are not necessarily limited to, those set out below. Investors should carefully consider the following information about risks, together with the other information in this document, before making investment decisions. It should be noted that this list is not exhaustive, but contains risks that Canaccord considers to be of particular relevance. Other risk factors may apply.

### Summary of risk factors:

1. Risks associated with the financial services business in general
2. Fluctuations in market price
3. Risks of reduced revenue due to declining market volume, prices or liquidity
4. Risks relating to asset-backed commercial paper
5. Risks of reduced revenue during periods of declining prices or reduced activity in targeted industries or geographic markets
6. Significant fluctuations in quarterly results can result in interim losses
7. Risk of changes in foreign currency exchange rates
8. Interest rate risk may affect the value of financial instruments held by Canaccord
9. Effects of inflation may affect costs, profitability and the value of financial instruments
10. Limitations on access to funding and perceived liquidity issues
11. Risks of underwriting activities
12. Credit risk and exposure to losses
13. Employee misconduct
14. Risks of reduced revenues due to economic, political and market conditions
15. Risk management policies and procedures
16. Dependence on systems
17. Dependence on ability to retain and recruit personnel
18. Potential conflicts of interest
19. Litigation and potential securities laws liability
20. Legal proceedings could result in substantial financial loss
21. Asset management revenue is subject to variability based on market and economic factors and the amount of assets under management
22. Significant competition may adversely impact revenues and profits
23. Extensive regulation of the financial services industry poses a number of risks
24. Dependence on availability of capital
25. Management of growth

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

Canaccord may enter into large transactions in which it commits its own capital as part of its trading business. The number and size of these large transactions may materially affect Canaccord's results of operations in a given period. Canaccord may also incur significant losses from trading activities, due to market fluctuations and volatility from quarter to quarter. Canaccord maintains trading positions in the fixed income and equity markets to facilitate client trading activities. To the extent that Canaccord has long positions, a downturn in the value of these assets or in related markets could result in losses. Conversely, to the extent that Canaccord has short positions, an increase in price or an upturn in related markets could expose Canaccord to potentially unlimited losses, as it attempts to cover short positions by acquiring assets in a rising market.

**2. Fluctuations in market price**
Certain factors, such as sales of common shares into the market by existing shareholders, fluctuations in Canaccord's operating results or those of its competitors, market conditions for similar securities, and market conditions generally for other companies in the investment banking industry or in industries that Canaccord focuses on, could cause the market price of the common shares to fluctuate substantially. In addition, the stock market has experienced significant price and volume fluctuations that have affected the market prices of equity securities, and have often been unrelated to the operating performance of such companies. Accordingly, the market price of common shares may decline even if Canaccord's operating results or prospects have not changed.

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

**4. Risks relating to asset-backed commercial paper**
There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the Company's holdings in ABCP. As there is no available market price, 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. Since the fair value of the ABCP is based on the Company's assessment of current conditions, amounts reported may change materially in subsequent periods. Refer to Note 7 of the audited annual consolidated financial statements for further details.

At March 31, 2009 the Company held ABCP with a par value of $70.8 million and an estimated fair value of $35.3 million. As discussed on page 31 of the MD&A the restructuring of ABCP occurred during fiscal 2009.

**5. Risks of reduced revenue during periods of declining prices or reduced activity in targeted industries or geographic markets**
Canaccord's revenue is likely to be lower during periods of declining prices or inactivity in the market for securities of companies in Canaccord's focus sectors. Canaccord's business is particularly dependent on the market for equity offerings by companies in the Mining and Metals, Energy, Technology, Life Sciences, Consumer, Real Estate, Industrial Growth and Sustainability sectors. These markets have historically experienced significant volatility, not only in the number and size of equity offerings, but also in the aftermarket trading volume and prices of newly issued securities.

The growth in Canaccord's revenue in prior years is attributable in large part to the significantly increased number and size of underwritten transactions by companies in Canaccord's target industries and by the related increase in aftermarket trading for such companies. Underwriting activities in Canaccord's targeted industries can decline for a number of reasons, including market uncertainty, inflation, rising interest rates and related issues. Underwriting and brokerage activity can also be materially adversely affected for a company or industry segment by disappointments in quarterly performance relative to an analyst's expectations or by changes in long-term prospects.

Canaccord's investment banking clients generally retain Canaccord on a short-term basis in connection with specific capital markets or advisory transactions, rather than on a recurring basis under long-term contracts. As these transactions are typically singular in nature and Canaccord's engagements with clients may not recur, Canaccord must seek out new engagements when current engagements are successfully completed or terminated. As a result, high activity levels in any period are not necessarily indicative of continuing high levels of activity in any subsequent period. If Canaccord is unable to generate a substantial number of new engagements that generate fees from the successful completion of transactions, its business and results of operations would likely be adversely affected.

Canaccord's revenue rose by almost 82% from fiscal 2004 to fiscal 2008, including more than a 51% increase in revenue from the UK and Other Foreign Location operations. However, Canaccord's total revenue did decline from fiscal 2007 to fiscal 2008 by 3.4% and a further 34.7% from 2008 to 2009. There can be no assurance that a certain revenue level is sustainable.

**6. Significant fluctuations in quarterly results can result in interim losses**

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

The third and fourth quarters of fiscal 2009 proved to be one of the most challenging periods in market history. The rapid deterioration of business volumes driven by the worst economic environment in generations had a material and negative impact on Canaccord's financial results. This, combined with charges announced on a number of significant items, resulted in some very difficult quarters. Despite these difficulties, Canaccord ended the year with a strong capital position that will serve the Company well in dealing not only with the challenging conditions that lie immediately ahead but also the opportunities that are likely to become available to build our businesses.

As announced on October 30, 2008 Canaccord implemented a firm-wide restructuring that resulted in the reduction of staff across all geographies where the Company operates. The efficiency efforts this past year have reduced the probability of capital being at risk in down markets, but there is still a considerable probability of losses in low revenue environments due to Canaccord's fixed cost base.

**7. Risk of changes in foreign currency exchange rates**

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

**8. Interest rate risk may affect the value of financial instruments held by Canaccord**

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments and fixed income securities held by Canaccord. Canaccord strives to reduce and monitor its exposure to interest rate risk through quantitative analysis of its net positions in fixed income securities. Canaccord hedges its positions but does not hedge its net exposure to interest rate risk as ongoing exposure is usually minimal.

**9. Effects of inflation may affect costs, profitability and the value of financial instruments**

As Canaccord's assets are generally liquid in nature, they are not significantly affected by inflation. However, the rate of inflation affects Canaccord's expenses, such as employee compensation, office space leasing costs and communications charges, which may not be readily recoverable in the price of services offered by Canaccord. To the extent that inflation results in rising interest rates and has other adverse effects upon the securities markets, it may adversely affect our financial position and operational results.

**10. Limitations on access to funding and perceived liquidity issues**

Liquidity, or ready access to funds, is essential to the Company and all financial services firms generally. Insufficient liquidity can be a cause of failure for financial services firms. In addition, perceived liquidity issues rather than actual liquidity problems may also be a cause of failure for such firms. Perceptions of insufficient liquidity may affect Canaccord's customers and counterparties' willingness to engage in brokerage transactions with the Company. Canaccord's liquidity could be impaired because of circumstances that the Company may be unable to control, such as operating losses, a general market disruption or operational problems.

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

**11. Risks of underwriting activities**

Participation in underwritings involves both financial and regulatory risks. Canaccord 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 purchase price.

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

**12. Credit risk and exposure to losses**

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

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

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

**13. Employee misconduct**

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

**14. Risks of reduced revenues due to economic, political and market conditions**

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

**15. Risk management policies and procedures**

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

**16. Dependence on systems**

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

In addition, Canaccord's ability to conduct business may be adversely affected by a disruption in the infrastructure that supports its businesses and the communities in which it is located. This may include a disruption involving electrical, communications, transportation or other services used by Canaccord or third parties with which Canaccord conducts business, whether due to fire, other natural disaster, power or communications failure, war or otherwise. In all of Canaccord's locations, employees work in close proximity to each other. If a disruption occurs in one location and employees in that location are unable to communicate with or travel to other locations, Canaccord's ability to service and interact with clients may suffer and Canaccord may not be able to successfully implement contingency plans that depend on communication or travel.

Canaccord's operations also rely on the secure processing, storage and transmission of confidential and other information in computer systems and networks. Although Canaccord takes protective measures and tries to modify them as circumstances warrant, computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and events that could have a security impact. If one or more of these events occur, this potentially could jeopardize Canaccord's, or its clients' or counterparties' confidential and other information processed and stored in, and transmitted through, computer systems and networks, or otherwise cause interruptions or malfunctions in clients', counterparties' or third parties' operations. Canaccord may be required to expend significant additional resources to modify protective measures or to investigate and remediate vulnerabilities or other exposures, and Canaccord may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by Canaccord.

**17. Dependence on ability to retain and recruit personnel**

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

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

Canaccord expects further growth in personnel. Competition for employees with the desired qualifications is intense, especially with respect to investment banking and research professionals with expertise in industries in which corporate finance or advisory activity is robust. Competition for the recruiting and retention of employees has increased compensation costs, and Canaccord expects that competition will cause compensation costs to continue to rise. There can be no assurance that Canaccord will be able to recruit a sufficient number of new employees with the desired qualifications, in a timely manner and on financial terms that are acceptable to Canaccord. The failure to recruit new employees could materially and adversely affect future operating results.

Canaccord generally, except with its IAs, does not have employment agreements, although new hires sign offer letters often with minimum compensation obligations and a variety of conduct policies. Canaccord attempts to retain employees with performance based and equity based incentives and a positive business environment. These incentives, however, may be insufficient in light of the increasing competition for experienced professionals in the securities industry, particularly if the value of Canaccord's common shares declines or fails to appreciate sufficiently to be a competitive source of a portion of professional compensation.

**18. Potential conflicts of interest**

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

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

**19. Litigation and potential securities laws liability**

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

Courts and regulatory authorities are imposing higher standards of care on the provision of services to clients by investment dealers, their employees and their agents. As Canaccord's business involves offering more products in the areas of wealth management and portfolio management, more clients are delegating discretion and authority over their financial assets and affairs to Canaccord and its employees and agents. Not only are more clients utilizing such discretionary accounts but the dollar level of funds invested in such accounts is also increasing. Canaccord's business may be materially adversely affected if Canaccord and/or its employees or agents are found to have not met the appropriate standard of care or exercised their discretion or authority in a prudent or appropriate manner in accordance with accepted standards.

The legal risks facing Canaccord also include potential liability under securities laws or through civil litigation in the event that Canaccord's IAs or employees violate investor suitability requirements, make materially false or misleading statements in relation to securities transactions, commit fraud, misuse client funds, or breach any other statute, regulatory rule or requirement.

By the very nature of Canaccord's business, it is expected that from time to time Canaccord will be subject to complaints or claims by clients in the normal course of business. There is no certainty that such claims or complaints will not be material and that any settlements, awards or legal expenses associated with defending or appealing against any decisions related to such complaints or claims will not have a material adverse effect on Canaccord's operating results or financial condition.

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

**20. Legal proceedings could result in substantial financial loss**

Canaccord, in the normal course of business as an investment dealer, is involved in litigation and is a defendant in various legal actions. Canaccord has established accruals for matters that are probable and can be reasonably estimated. While the outcome of these actions is uncertain, management's evaluation and analysis indicates that, individually and in the aggregate, the probable ultimate resolution of these actions will not have a material effect on the financial condition of Canaccord. There is no certainty, however, that there will not be an adverse resolution that would be material and cause a substantial financial loss. See Note 17 on Commitments and contingencies in the audited consolidated financial statements.

**21. Asset management revenue is subject to variability based on market and economic factors and the amount of assets under management**

Asset management revenue includes revenues we receive from management, administrative and performance fees from funds managed by Canaccord, revenues from asset management and performance fees we receive from third party managed funds, and investment income from Canaccord's investments in these funds. These revenues are dependent upon the amount of AUM and the performance of the funds. If these funds do not perform as well as Canaccord's asset management clients expect, these clients may withdraw their assets from these funds, which would reduce our revenues. Canaccord experiences fluctuations in its quarterly asset management revenue, which may contribute to Canaccord not meeting revenue expectations.

**22. Significant competition may adversely impact revenues and profits**

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

**23. Extensive regulation of the financial services industry poses a number of risks**

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

The regulatory environment in which Canaccord operates is subject to change. Currently, investment dealers are the subject of greater regulatory scrutiny that has led, for example, to increased sensitivity to the interaction between research analysts and investment banking departments. As a consequence, regulators have changed and may propose to make further changes to requirements with respect to research matters. Canaccord may be adversely affected as a result of new or revised legislation, regulations or policies imposed by the securities legislation of Canada, the UK and the US.

The current environment of increased scrutiny may reasonably be expected to lead to increasingly stringent interpretation and enforcement of existing laws and rules. Canaccord may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by securities regulatory authorities in Canada, the UK and the US.

Additional regulation, changes in existing laws and rules, or changes in interpretations or enforcement of existing laws and rules often affect directly the method of operation and profitability of securities firms. Canaccord cannot predict the effect any such changes might have. Furthermore, business may be materially affected not only by regulations applicable to Canaccord as a financial market intermediary, but also by regulations of general application.

For example, the volume of Canaccord's investment banking and principal investment businesses in a given time period could be affected by, among other things, existing and proposed tax legislation, competition policy and other governmental regulations and policies, including the interest rate policies of the Bank of Canada or the board of governors of the Federal Reserve System, as well as changes in interpretation or enforcement of existing laws and rules that affect the business and financial communities. The level of business and financing activity in each of the industries on which Canaccord focuses can be affected not only by such legislation or regulations of general applicability, but also by industry-specific legislation or regulations.

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

**24. Dependence on availability of capital**

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

**25. Management of growth**

Over the past several years, Canaccord has experienced significant growth in its business activities, including the number of employees. This growth has required and will continue to require increased investment in management personnel, financial and management systems, and controls and facilities, which, in the absence of continuing revenue growth, would cause Canaccord's operating margins to decline from current levels. In addition, as is common in the securities industry, Canaccord is and will continue to be highly dependent on the effective and reliable operation of its communications and information systems. Canaccord believes that its current and anticipated future growth will require implementation of new and enhanced communications and information systems and training of its personnel to operate these systems. Any difficulty or significant delay in the implementation or operation of existing or new systems or the training of personnel could adversely affect Canaccord's ability to manage growth.

As part of Canaccord's business strategy, Canaccord has acquired and may make further acquisitions of assets or businesses related to, or complementary to, its current operations. Any acquisitions will be accompanied by certain risks including exposure to unknown liabilities of acquired companies, higher than anticipated acquisition costs and expenses, increased investments in management and operational personnel, financial and management systems and facilities, the difficulty and expense of integrating operations and personnel of acquired companies, disruption of ongoing business, diversion of management's time and attention, and possible dilution to shareholders. Canaccord may not be able to successfully address these risks and other problems associated with acquisitions, which could adversely affect business.

### Control risks

As of March 31, 2009 existing senior officers and director shareholders collectively owned approximately 24.3% of Canaccord's common shares. If a sufficient number of these shareholders act or vote together, they will have the power to exercise significant influence over all matters requiring shareholder approval, including the election of the Company's directors, amendments to its articles, amalgamations and plans of arrangement under Canadian law and mergers or sales of substantially all of its assets. This could prevent Canaccord from entering into transactions that could be beneficial to the Company or its other shareholders. Also, third parties could be discouraged from making a tender offer or takeover bid to acquire any or all of the outstanding common shares of the Company. In addition, the single largest shareholder that management is aware of is Franklin Templeton with 11.3% of common shares, Fidelity Canadian Opportunities Fund (Fidelity Investments) with 6.19% of common shares and Invesco Trimark with 3.0% of common shares. Any significant change in these shareholdings through sale or other disposition, or significant acquisitions by others of the common shares in the public market or by way of private transactions could result in a change of control and changes in business focus or practices that could affect the profitability of Canaccord's business.

### Restrictions on ownership and transfer of common shares

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

## DIVIDEND POLICY

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

## DIVIDEND DECLARATION

On May 19, 2009 the Board of Directors considered the dividend policy in the context of the market environment and its business activity and approved the continued suspension of Canaccord's quarterly dividend for Q4/09. This measure was taken to enable Canaccord to preserve its working capital and book value, as well as to position the Company to take advantage of growth opportunities that may become available.

## ADDITIONAL INFORMATION

Additional information relating to Canaccord, including Canaccord's Annual Information Form, can be found on SEDAR's website at www.sedar.com.

# AUDITORS' REPORT

To the Shareholders of
**Canaccord Capital Inc.**

We have audited the consolidated balance sheets of **Canaccord Capital Inc.** as at March 31, 2009 and 2008 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, 2009 and 2008 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 8, 2009.

Ernst & Young LLP

*Chartered Accountants*

# CONSOLIDATED BALANCE SHEETS

| *As at March 31 (in thousands of dollars)* | ***2009*** | *2008* |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | **$ 701,173** | $ 435,649 |
| Securities owned [note 3] | **133,691** | 92,796 |
| Accounts receivable [notes 5 and 14] | **1,061,161** | 1,422,917 |
| Income taxes receivable | **23,771** | 11,083 |
| Future income taxes [note 9] | **15,680** | 28,207 |
| **Total current assets** | **1,935,476** | 1,990,652 |
| Investment [note 6] | **5,000** | 5,000 |
| Investment in asset-backed commercial paper [note 7] | **35,312** | 29,860 |
| Equipment and leasehold improvements [note 8] | **46,311** | 40,686 |
| Goodwill and other intangible assets [note 10] | **–** | 32,520 |
| | **$ 2,022,099** | $ 2,098,718 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Bank indebtedness [note 4] | **$ 75,600** | $ 15,038 |
| Securities sold short [note 3] | **79,426** | 13,757 |
| Accounts payable and accrued liabilities [notes 5 and 14] | **1,469,369** | 1,687,479 |
| Subordinated debt [note 11] | **25,000** | 25,000 |
| **Total current liabilities** | **1,649,395** | 1,741,274 |
| Commitments and contingencies [note 17] | | |
| **Shareholders' equity** | | |
| Share capital [note 12] | **228,002** | 145,166 |
| Retained earnings | **160,868** | 222,597 |
| Accumulated other comprehensive losses | **(16,166)** | (10,319) |
| **Total shareholders' equity** | **372,704** | 357,444 |
| | **$ 2,022,099** | $ 2,098,718 |

See accompanying notes

On behalf of the Board:

PETER M. BROWN
*Director*

TERRENCE A. LYONS
*Director*

# CONSOLIDATED STATEMENTS OF OPERATIONS

| *Years ended March 31 (in thousands of dollars, except per share amounts)* | *2009* | *2008* |
|---|---|---|
| **REVENUE** | | |
| Commission | $ 233,104 | $ 296,047 |
| Investment banking | 169,369 | 336,874 |
| Principal trading | 18,319 | 7,443 |
| Interest | 38,287 | 63,168 |
| Other | 18,642 | 28,007 |
| | 477,721 | 731,539 |
| **EXPENSES** | | |
| Incentive compensation | 222,006 | 347,079 |
| Salaries and benefits | 56,771 | 54,294 |
| Trading costs | 26,311 | 27,090 |
| Premises and equipment | 24,695 | 22,745 |
| Communication and technology | 25,228 | 23,228 |
| Interest | 11,220 | 24,527 |
| General and administrative | 69,689 | 69,463 |
| Amortization | 8,994 | 8,536 |
| Development costs | 28,773 | 32,049 |
| Asset-backed commercial paper fair value adjustment [note 7] | 6,700 | 12,797 |
| Canaccord relief program [note 18] | 5,347 | 54,200 |
| Impairment of goodwill and intangibles [note 10] | 31,524 | – |
| Restructuring costs [note 19] | 7,662 | 4,000 |
| | 524,920 | 680,008 |
| Income (loss) before income taxes | (47,199) | 51,531 |
| Income taxes (recovery) [note 9] | | |
| Current | (12,805) | 39,074 |
| Future | 13,257 | (18,877) |
| | 452 | 20,197 |
| **Net income (loss) for the year** | $ (47,651) | $ 31,334 |
| Basic earnings (loss) per share [note 12[v]] | $ (0.97) | $ 0.70 |
| Diluted earnings (loss) per share [note 12[v]] | $ (0.97) | $ 0.64 |

See accompanying notes

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| *Years ended March 31 (in thousands of dollars)* | *2009* | *2008* |
|---|---|---|
| Net income (loss) for the year | $ (47,651) | $ 31,334 |
| Other comprehensive loss, net of taxes | | |
| Net change in unrealized losses on translation of self-sustaining foreign operations | (5,847) | (12,555) |
| **Comprehensive income (loss) for the year** | **$ (53,498)** | $ 18,779 |

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| *As at and for the years ended March 31 (in thousands of dollars)* | *2009* | *2008* |
|---|---|---|
| Common shares, opening | $ 111,142 | $ 147,900 |
| Shares issued [note 12] | 77,080 | 495 |
| Shares cancelled [note 12] | (1,461) | (127) |
| Acquisition of common shares for long term incentive plan [note 13] | (15,027) | (27,247) |
| Release of vested common shares from employee benefit trust [note 13] | 7,386 | – |
| Unvested share purchase loans | 4,499 | (9,879) |
| Common shares, closing | 183,619 | 111,142 |
| Contributed surplus, opening | 34,024 | 8,396 |
| Excess on repurchase of common shares [note 12] | (2,466) | (398) |
| Stock-based compensation [note 13] | 11,506 | 20,776 |
| Unvested share purchase loans | 1,319 | 5,250 |
| Contributed surplus, closing | 44,383 | 34,024 |
| **Share capital** | **228,002** | 145,166 |
| Retained earnings, opening | 222,597 | 213,659 |
| Net income (loss) for the year | (47,651) | 31,334 |
| Dividends | (14,078) | (22,396) |
| **Retained earnings, closing** | **160,868** | 222,597 |
| Accumulated other comprehensive income (losses), opening | (10,319) | 2,236 |
| Other comprehensive loss | (5,847) | (12,555) |
| **Accumulated other comprehensive losses, closing** | **(16,166)** | (10,319) |
| **Shareholders' equity** | **$ 372,704** | $ 357,444 |

See accompanying notes

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| *Years ended March 31 (in thousands of dollars)* | 2009 | 2008 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income (loss) for the year | $ (47,651) | $ 31,334 |
| Items not affecting cash | | |
| Amortization | 8,994 | 8,536 |
| Future income tax expense (recovery) | 13,257 | (18,877) |
| Stock-based compensation expense | 17,465 | 20,653 |
| Asset-backed commercial paper fair value adjustments | 6,700 | 12,797 |
| Impairment of goodwill and intangibles | 31,524 | – |
| Changes in non-cash working capital | | |
| Decrease (increase) in securities owned | (41,688) | 254,845 |
| Decrease in accounts receivable | 347,389 | 214,848 |
| Increase in income taxes receivable | (9,515) | (23,077) |
| Increase (decrease) in securities sold short | 65,417 | (27,416) |
| Decrease in accounts payable and accrued liabilities | (219,132) | (433,364) |
| **Cash provided by operating activities** | 172,760 | 40,279 |
| **FINANCING ACTIVITIES** | | |
| Issuance of shares for cash | 66,462 | 350 |
| Issuance of shares in connection with stock-based compensation plans | 12,945 | – |
| Decrease (increase) in unvested common share purchase loans | 5,818 | (4,629) |
| Acquisition of common shares for long term incentive plan | (15,027) | (27,247) |
| Repurchase of share capital | (3,927) | (497) |
| Cash dividends paid | (13,457) | (22,396) |
| **Cash provided by (used in) financing activities** | 52,814 | (54,419) |
| **INVESTING ACTIVITIES** | | |
| Purchase of equipment and leasehold improvements | (13,024) | (11,756) |
| Acquisition of investments | – | (5,000) |
| Investment in asset-backed commercial paper [note 7] | (12,152) | (42,657) |
| **Cash used in investing activities** | (25,176) | (59,413) |
| **Effect of foreign exchange on cash balances** | 4,564 | (12,476) |
| **Increase (decrease) in cash position** | 204,962 | (86,029) |
| Cash position, beginning of year | 420,611 | 506,640 |
| **Cash position, end of year** | $ 625,573 | $ 420,611 |
| Cash position is comprised of: | | |
| Cash and cash equivalents | $ 701,173 | $ 435,649 |
| Bank indebtedness | (75,600) | (15,038) |
| | $ 625,573 | $ 420,611 |
| **Supplemental cash flow information** | | |
| Interest paid | $ 11,039 | $ 24,486 |
| Income taxes paid | $ 6,112 | $ 64,602 |

See accompanying notes

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

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

## 1. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation and principles of consolidation

These 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 13] 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 impairment of goodwill and other intangible assets, income taxes, tax losses available for carryforward, contingent liabilities, fair value of investment in asset-backed commercial paper (ABCP) and restructured ABCP notes, 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 instruments 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, commercial paper and bankers' acceptances, securities owned and sold short, investment in asset-backed commercial paper, restructured ABCP notes, forward contracts and broker warrants.

Available for sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The Company's investment [Note 6] has been classified as available for sale. The investment has been carried at cost as there is no available quoted market price in an active market.

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 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 traditional commission-based brokerage services, recognized on a trade date basis, and the sale of fee-based products and services, recognized on an accrual basis.

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.

**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 |

**Goodwill and other intangible assets**

All business combinations are accounted for using the purchase method. Goodwill represents the excess of the purchase price paid for the acquisition of subsidiaries over the fair value of the net tangible and intangible assets acquired. Goodwill is subject to an impairment test on an annual basis. Goodwill should also be tested for impairment whenever a potential impairment may arise as a result of an event or change in circumstances to ensure that the fair value of the reporting unit is greater than or at least equal to its carrying value. Goodwill impairment is identified by comparing the carrying amount of the reporting unit with its fair value. If the carrying amount of the reporting unit exceeds its fair value, goodwill impairment is calculated based on the fair value of the assets and liabilities. Any impairment of goodwill will be recognized as an expense in the period of impairment, and subsequent reversals of impairment are prohibited.

Other intangible assets are amortized on a straight-line basis over their estimated useful life of four years and tested for impairment when events or circumstances indicate the carrying amounts may not be recoverable.

**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. 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.

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).

**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 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 have 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 $0.2 million [2008 – $0.5 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.

**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. Otherwise, the cost is recognized on a graded basis. When stock-based compensation awards vest, contributed surplus is reduced by the applicable amount and share capital is increased by the same amount.

**Recent accounting pronouncements**
*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 will adopt Section 3064 effective April 1, 2009. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

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

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

Early adoption prior to April 1, 2011 is permitted, and all three standards must be adopted concurrently. The adoption of these standards is not expected to have a material impact on current financial statements.

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

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

## 2. CHANGE IN ACCOUNTING POLICIES

On April 1, 2008 the Company adopted the provisions of CICA Handbook Section 1535 *"Capital Disclosures"*, CICA Handbook Section 3862 *"Financial Instruments – Disclosures"*, CICA Handbook Section 3863 *"Financial Instruments – Presentation"* and CICA Handbook Section 1400 *"General Standards on Financial Statement Presentation"*.

**Capital Disclosures**
The Company adopted the provisions of CICA Handbook Section 1535 *"Capital Disclosures"*, which establishes standards for disclosing qualitative and quantitative information about an entity's capital and how it is managed. This information is included in Note 16.

**Financial Instruments – Disclosures and Presentation**
The Company adopted two new accounting standards related to the disclosure and presentation of financial instruments: CICA Handbook Section 3862 *"Financial Instruments – Disclosures"* and CICA Handbook Section 3863 *"Financial Instruments – Presentation"*. These new standards increase the emphasis on disclosures about the nature and extent of risks associated with financial instruments and how these risks are managed. Refer to Note 4 for further information.

**General Standards on Financial Statement Presentation**
The Company adopted CICA Handbook Section 1400 *"General Standards on Financial Statement Presentation"*, which prescribes additional requirements to assess and disclose a company's ability to continue as a going concern. There was no impact on the consolidated financial statements as a result of adoption.

**Credit Risk and the Fair Value of Financial Assets and Financial Liabilities**
On January 20, 2009 the Emerging Issues Committee (EIC) issued EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", which requires the Company to take into consideration the Company's own credit risk and the credit risk of the counterparty when determining the fair value of financial assets and financial liabilities. The Company adopted EIC-173 during fiscal 2009 and there was no impact on the consolidated financial statements.

### 3. SECURITIES OWNED AND SECURITIES SOLD SHORT

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Securities owned | Securities sold short | Securities owned | Securities sold short |
| Corporate and government debt | $ **86,069** | $ **72,315** | $ 34,433 | $ 5,106 |
| Equities and convertible debentures | **47,622** | **7,111** | 58,363 | 8,651 |
| | $ **133,691** | $ **79,426** | $ 92,796 | $ 13,757 |

As at March 31, 2009 corporate and government debt maturities range from 2009 to 2049 [March 31, 2008 – 2008 to 2053] and bear interest ranging from 3.00% to 10.75% [March 31, 2008 – 2.85% to 11.60%].

### 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, other accounts receivable, and restructured ABCP notes. 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, 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. As at March 31, 2009, the allowance for doubtful accounts was $11.0 million [March 31, 2008 – $5.8 million].

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 counterparties' risks. 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, 2009 and 2008, 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 collectibility. Receivables and payables from brokers and dealers represent the following: current open transactions that generally settle within the normal three-day settlement cycle; collateralized securities borrowed and/or loaned in transactions that can be closed within a few days on demand; and balances on behalf of introducing brokers representing net balances in connection with their client accounts. The Company received restructured ABCP notes in January 2009 due to the liquidity issues in the ABCP market since mid-August 2007 [Note 7]. There has been no active trading of the restructured ABCP notes; therefore, it is not considered to be part of the Company's working capital when reviewing for liquidity resources to meet its financial obligations. Additional information regarding the Company's capital structure and capital management objectives is discussed in Note 16.

The following table presents the contractual terms to maturity of the financial liabilities owed by the Company as at March 31, 2009:

| *Financial liability* | *Carrying amount* | *Contractual term to maturity* |
|---|---|---|
| Bank indebtedness | $ 75,600 | Due on demand |
| Accounts payable and accrued liabilities | 1,469,369 | Due within one year |
| Subordinated debt | 25,000 | 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.

The Company received restructured ABCP notes on January 21, 2009 as part of the restructuring plan as established by the Pan-Canadian Investors Committee [Note 7]. In addition, the Company purchased certain restructured ABCP notes as a result of the completion of the client relief program. The restructured ABCP notes are designated as held for trading. These notes do not have an active market where a reliable quoted market value can be obtained and, as a result, the Company estimates the fair value of its restructured ABCP notes by discounting expected future cash flows on a probability weighted basis considering the best available data. This valuation was updated based on the best available data at March 31, 2009 and the carrying amount of the restructured ABCP notes was adjusted to reflect any changes in the estimate. The fair value of the restructured ABCP notes would increase (decrease) by a further $1.5 million if the discount rate used was to increase (decrease) by 100 basis points. Detailed information is disclosed in Note 7.

The following table summarizes the effect on net income (loss) as a result of a fair value change in financial instruments. This analysis assumes all other variables remain constant.

| *Financial instrument* | *Carrying value* | *Effect of a 10% increase in fair value on net income* | *Effect of a 10% decrease in fair value on net income* |
|---|---|---|---|
| Securities owned, net of securities sold short | $ 54,265 | $ 1,545 | $ (1,545) |
| Investment (1) | 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.

### *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 minimizes and monitors 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 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 2%, payable monthly.

The following table provides the effect on net income (loss) for the year ended March 31, 2009 if interest rates were to increase or decrease by 100 basis points applied to balances as of March 31, 2009. Fluctuations in interest rates do not have an effect on OCI. This sensitivity analysis assumes all other variables are constant.

| | 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 | $ 625,573 | $ 891 | $ (891) |
| Clients' payable, net | 635,025 | (904) | 904 |
| RRSP cash balances held in trust | 397,011 | 565 | (565) |
| Brokers' and investment dealers' payable, net | 87,507 | (222) | 222 |
| Subordinated debt | 25,000 | (36) | 36 |

*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).

The Canadian subsidiaries also hold financial instruments in foreign currencies 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.

| Currency | Effect of a 10% increase in foreign exchange rate on net income | Effect of a 10% decrease in foreign exchange rate on net income | Effect of a 10% increase in foreign exchange rate on OCI | Effect of a 10% decrease in foreign exchange rate on OCI |
|---|---|---|---|---|
| US dollar | $ (5,521) | $ 5,521 | $ 2,029 | $ (2,029) |
| Pound sterling | 57 | (57) | 14,644 | (14,644) |

The Company uses derivative financial instruments primarily 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, 2009:

| | Notional amounts (millions of USD) | Average price (CAD/USD) | Maturity | Fair value (millions of USD) |
|---|---|---|---|---|
| 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** |

Forward contracts outstanding at March 31, 2008:

| | Notional amounts (millions of USD) | Average price (CAD/USD) | Maturity | Fair value (millions of USD) |
|---|---|---|---|---|
| To sell US dollars | $ 6.00 | $ 1.03 | April 1, 2008 | $ 0.1 |
| To buy US dollars | 3.50 | 1.03 | April 2, 2008 | (0.1) |

**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 on the cash delivered and interest being paid on the cash 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 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, 2009 the floating rates for equities and bonds were 0.18% and 0.30%, respectively [March 31, 2008 – 1.32% and 2.95%, respectively].

| | *Cash* | | *Securities* | |
|---|---|---|---|---|
| | *Loaned or delivered as collateral* | *Borrowed or received as collateral* | *Loaned or delivered as collateral* | *Borrowed or received as collateral* |
| **2009** | **$ 86,291** | **$ 19,629** | **$ 2,581** | **$ 107,494** |
| 2008 | 188,654 | 84,257 | 13,541 | 279,550 |

**Credit facilities**

Subsidiaries of the Company have credit facilities with banks in Canada, the US and the UK for an aggregate amount of $568.7 million. These credit facilities, consisting of call loans, letters of credit and daylight overdraft facilities, are collateralized by either unpaid client securities and/or securities owned by the Company.

A subsidiary of the Company has also entered into secured irrevocable standby letters of credit from a financial institution totalling $2.9 million (US$2.3 million) as rent guarantees for its leased premises in Boston, New York and San Francisco. As of March 31, 2009 there were no outstanding balances under these standby letters of credit.

In connection with the Canaccord Relief Program (CRP), the Company entered into two letters of credit in April 2008 to facilitate the funding of the relief programs. The CRP was successfully completed on January 30, 2009 [Note 18] without drawing the two letters of credit and, as a result, they have been subsequently cancelled.

**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, 2009 the Company has a balance of $75.6 million outstanding [March 31, 2008 – $15.0 million]. Interest on the bank indebtedness is at a floating rate of 1.70% as at March 31, 2009 [March 31, 2008 – 5.75%].

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

**Accounts receivable**

| | **2009** | 2008 |
|---|---|---|
| Brokers and investment dealers | **$ 331,930** | $ 425,038 |
| Clients | **288,877** | 555,935 |
| RRSP cash balances held in trust | **397,011** | 400,603 |
| Other | **43,343** | 41,341 |
| | **$ 1,061,161** | $ 1,422,917 |

**Accounts payable and accrued liabilities**

| | **2009** | 2008 |
|---|---|---|
| Brokers and investment dealers | **$ 419,437** | $ 407,193 |
| Clients | **923,902** | 1,037,860 |
| Other | **126,030** | 242,426 |
| | **$ 1,469,369** | $ 1,687,479 |

Accounts payable to clients include $397.0 million [2008 – $400.6 million] due to clients for RRSP cash balances held in trust.

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 client accounts. Interest on margin loans and on amounts due to clients are based on a floating rate [March 31, 2009 – 5.50%–6.25% and 0.20%–0.00%, respectively; March 31, 2008 – 7.25%–8.00% and 0.25%–2.25%, respectively].

## 6. INVESTMENT

| | 2009 | 2008 |
|---|---|---|
| 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

| | 2009 | 2008 |
|---|---|---|
| Investment in asset-backed commercial paper | $ **35,312** | $ 29,860 |

As a result of liquidity issues in the ABCP market, there has been no active trading of the ABCP since mid-August 2007.

On March 17, 2008 the Pan-Canadian Investors Committee (the Committee) for ABCP filed proceedings for a plan of compromise and arrangement (the Plan) under the *Companies' Creditors Arrangement Act* (Canada) (CCAA) with the Ontario Superior Court (the Court). At the meeting of ABCP noteholders on April 25, 2008, noteholders approved the Plan by the required majorities. On June 5, 2008 the Court issued a sanction order and reasons for the decision approving the Plan as amended. On August 18, 2008, that decision was upheld by the Ontario Court of Appeal and, on September 19, 2008, the Supreme Court of Canada denied leave to appeal. On December 24, 2008 the Committee announced that an agreement had been reached with all key stakeholders, including the governments of Canada, Quebec, Ontario and Alberta to provide additional margin facilities to support the Plan and finalized certain enhancements to the Plan.

On January 12, 2009 the Ontario Superior Court issued the final implementation order in the ABCP restructuring process. The restructuring closed on January 21, 2009. The exchange of restructured ABCP notes was completed on January 21, 2009. A first installment of interest (to August 31, 2008) was also paid on the same day. The second installment of interest occurred on May 14, 2009, and one further and final payment of interest is expected, concurrent with reimbursement of restructuring costs under the Canaccord Relief Program. Restructuring fees already incurred and a reserve for additional restructuring fees were deducted from this first interest payment.

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

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

The restructured notes represent new financial instruments as they are new notes issued in exchange for existing ABCP positions. In accordance with CICA Handbook Section 3855 *"Financial Instruments – Recognition and Measurement"*, the restructured ABCP notes are designated as held for trading and recognized at fair value.

In addition to the restructured ABCP notes received in exchange for investment in ABCP held in treasury, the Company also acquired in January 2009 additional restructured ABCP notes as part of the client relief program. In aggregate, the restructured ABCP notes are broken down as follows:

| | *Exchanged for treasury holdings (par value)* | *Acquired upon completion of CRP (par value)* | *Total (par value)* |
|---|---|---|---|
| Master Asset Vehicle (MAV) II Class A-1 Notes | $ 18,600 | $ 4,600 | $ 23,200 |
| MAV II Class A-2 Notes | 16,200 | 1,400 | 17,600 |
| MAV II Class B Notes | 2,900 | 700 | 3,600 |
| MAV II Class C Notes | 1,200 | 600 | 1,800 |
| MAV III Traditional Asset (TA) Tracking Notes | 1,300 | 3,500 | 4,800 |
| MAV II Ineligible Asset (IA) Notes | 2,500 | 17,300 | 19,800 |
| Total | $ 42,700 | $ 28,100 | $ 70,800 |

The following provides additional details of the various restructured ABCP notes:

- MAV II Class A-1, Class A-2 and Class B Notes will bear interest at the Bankers' Acceptance (BA) rate less 0.50% and Class C Notes will bear interest at the BA rate plus 20%. These notes have legal maturity dates in 2056 but the expected repayment date of the Class A-1 and A-2 notes is not later than January 22, 2017. The senior notes (Class A-1 and Class A-2) have been rated "A" by DBRS Limited (DBRS) while the subordinated notes (Class B and C) are unrated.
- The MAV III TA Tracking Notes will bear interest at a rate based on the net rate of return generated by the underlying tracking assets. The maturities of the notes are based on the maturities of the underlying assets. Some of the TA Tracking Notes are rated by DBRS as follows:
  - Class 5A: AAA
  - Class 7A: AAA
  - Class 10A: AA (high)
  - Class 12A: AA (high)
  - Class 15A: AAA
  - Class 16A: A (low)
- The MAV II IA Tracking Notes will bear interest at a rate based on the net rate of return generated by the underlying tracking assets. The maturities of the notes are based on the maturities of the underlying assets. These notes will not be rated.

There has been no active trading of the restructured ABCP notes since January 21, 2009 and as such no meaningful market quote is available. There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. The Company estimates the fair value of its ABCP by discounting expected future cash flows on a probability weighted basis considering the best available data at March 31, 2009.

The assumptions used in the valuation model at March 31, 2009 include:

| | |
|---|---|
| Weighted average interest rate | 4.72% |
| Weighted average discount rate | 6.83% |
| Maturity of notes | 8 years to 19 years |
| Credit losses | 25% to 100% |

If these assumptions were to change, the fair value of ABCP could change significantly. The Company recorded a fair value adjustment of $12.8 million for the year ended March 31, 2008 and a further adjustment of $6.7 million during the year ended March 31, 2009 based on best available data at period end. The Company purchased additional restructured ABCP notes as part of the client relief program [Note 18] at a fair value of $12.1 million. The restructured ABCP notes have a par value of $28.1 million and a fair value adjustment of $16.0 million was included in the client relief program provision. In aggregate, the estimated fair value of the restructured ABCP notes at March 31, 2009 was $35.3 million.

## 8. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

| | *Cost* | *Accumulated amortization* | *Net book value* |
|---|---|---|---|
| **2009** | | | |
| 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** |
| **2008** | | | |
| Computer equipment | $ 5,354 | $ 3,768 | $ 1,586 |
| Furniture and equipment | 22,758 | 11,255 | 11,503 |
| Leasehold improvements | 46,124 | 18,527 | 27,597 |
| | $ 74,236 | $ 33,550 | $ 40,686 |

## 9. INCOME TAXES

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

| | 2009 | 2008 |
|---|---|---|
| **Assets:** | | |
| Legal settlements | $ 1,845 | $ 1,768 |
| Unpaid remuneration | 87 | 2,723 |
| Unamortized forgivable loans | 4,040 | 2,862 |
| Unamortized capital cost of equipment and leasehold improvements over their net book value | 1,671 | 712 |
| Loss carryforwards | 14,072 | 5,162 |
| Share issuance costs | 13 | 432 |
| Long term incentive plan | 8,811 | 5,822 |
| Reserve for Canaccord relief program and restructuring costs | – | 18,268 |
| Lease impairment and deferred rent | 3,684 | 3,014 |
| Other | 3,738 | 2,867 |
| | 37,961 | 43,630 |
| **Liabilities:** | | |
| Unrealized gain on marketable securities | 22 | (971) |
| Deferred charges | (315) | (424) |
| Other intangible assets | (321) | (1,060) |
| Other | – | (367) |
| | (614) | (2,822) |
| Valuation allowance | (21,667) | (12,601) |
| Future income tax assets | $ 15,680 | $ 28,207 |

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 $19.1 million [2008 – $9.4 million], which are available to reduce taxable income in future years. These losses begin expiring in 2025 [2008 – 2025].

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:

| | 2009 | 2008 |
|---|---|---|
| Income taxes at the statutory rate | $ (14,729) | $ 17,487 |
| Less: International Finance Business recovery of provincial taxes | 53 | (1,200) |
| Less: Difference in tax rates in foreign jurisdictions | (2,686) | (3,452) |
| Non-deductible items affecting the determination of taxable income | 12,581 | 2,396 |
| True-up of US FIT asset | – | (195) |
| Change in valuation allowance | 5,233 | 5,161 |
| Income tax expense – current and future | $ 452 | $ 20,197 |

## 10. Goodwill and other intangible assets

| | March 31, 2009 | March 31, 2008 |
|---|---|---|
| **Goodwill** | | |
| Balance at beginning of period | $ 30,070 | $ 30,070 |
| Impairment | (30,070) | – |
| Balance at end of period | – | 30,070 |
| **Other intangible assets** | | |
| Balance at beginning of period | 2,450 | 3,863 |
| Amortization | (996) | (1,413) |
| Impairment | (1,454) | – |
| Balance at end of period | – | 2,450 |
| | $ – | $ 32,520 |

Goodwill and other intangible assets related to the Canaccord Adams operating segment. Other intangible assets reflected assigned values related to acquired brand names, customer relationships and technology and were amortized on a straight-line basis over their estimated useful lives of four years.

On January 3, 2006 the Company acquired a 100% interest in Adams Harkness Financial Group, Inc. (Adams Harkness), the parent company of Adams Harkness, Inc., an institutional investment bank based in Boston, Massachusetts. The purchase of Adams Harkness (renamed Canaccord Adams Inc.) resulted in the recognition of $31.1 million of goodwill and intangibles which represented the cost of the acquisition in excess of the fair value of the net tangible assets at the time of purchase. Canaccord Adams Inc. primarily provides capital markets services to institutional and corporate clients in the US. With the rapid deterioration in market conditions and uncertainties in the financial markets during the third quarter of fiscal 2009, this reporting unit experienced a decline in business activity and revenue. Due to these adverse changes in the business environment, the Company identified indicators of impairment and performed a valuation to assess the fair value of this reporting unit compared to the carrying value during the third quarter of fiscal 2009. The results of this valuation led to the recognition of a charge for the impairment of goodwill and other intangible assets related to Canaccord Adams Inc. of $27.5 million. The impairment charge was determined based on a valuation of Canaccord Adams Inc. using an expected discounted cash flow analysis and certain market value indicators. The determination of fair value requires management to apply judgment in selecting the valuation models and assumptions and estimates to be used in such models and value determinations. These judgments affect the determination of fair value and any resulting impairment charges.

The Company also recorded a charge of $4.0 million to recognize the impairment of the goodwill and intangibles related to the acquisition of Enermarket Solutions Ltd. (subsequently renamed Canaccord Enermarket Ltd. (Enermarket)) on November 11, 2005. Enermarket's primary business was to provide advisory services to companies in the oil and gas industry, and its earnings prospects were negatively impacted by the volatile financial markets conditions, including the recent steep decline in oil prices.

## 11. Subordinated debt

| | 2009 | 2008 |
|---|---|---|
| Loan payable, interest payable monthly at prime + 2% per annum, due on demand | $ 25,000 | $ 25,000 |

The loan payable is subject to a subordination agreement and may only be repaid with the prior approval of the IIROC.

## 12. Share capital

| | 2009 | 2008 |
|---|---|---|
| Share capital | | |
| Common shares | $ 249,418 | $ 173,799 |
| Unvested share purchase loans | (30,911) | (35,410) |
| Shares held by employee benefit trust | (34,888) | (27,247) |
| Contributed surplus | 44,383 | 34,024 |
| | $ 228,002 | $ 145,166 |

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

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

**[ii] Issued and fully paid**

**Common shares**

| | *Number of shares* | *Amount* |
|---|---|---|
| Balance, March 31, 2007 | 47,831,961 | $ 173,431 |
| Shares issued for cash | 25,000 | 350 |
| Shares issued in connection with stock compensation plans [note 13] | 13,217 | 145 |
| Shares cancelled | (35,127) | (127) |
| 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 13] | 849,615 | 9,739 |
| Shares cancelled | (325,072) | (1,461) |
| **Balance, March 31, 2009** | **55,092,844** | **$ 249,418** |

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.

**[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.

| | ***2009*** | *2008* |
|---|---|---|
| Repurchase price | **$ 3,927** | $ 497 |
| Book value | **(1,461)** | (128) |
| Excess on repurchase of common shares | **$ 2,466** | $ 369 |

**[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

| | 2009 | 2008 |
|---|---|---|
| **Basic earnings (loss) per share** | | |
| Net income (loss) for the year | $ (47,651) | $ 31,334 |
| Weighted average number of common shares (number) | 48,929,259 | 44,778,325 |
| Basic earnings (loss) per share | $ (0.97) | $ 0.70 |
| **Diluted earnings (loss) per share** | | |
| Net income (loss) for the year | $ (47,651) | $ 31,334 |
| Weighted average number of common shares (number) | 48,929,259 | 44,778,325 |
| Dilutive effect of unvested shares (number) | 2,674,529 | 2,339,862 |
| Dilutive effect of share issuance commitment in connection with retention plan (number) [note 13] | – | 494,825 |
| Dilutive effect of unvested shares purchased by employee benefit trust (number) [note 13] | 2,416,746 | 733,689 |
| Dilutive effect of share issuance commitment in connection with long term incentive plan (number) [note 13] | 168,950 | 379,858 |
| Adjusted weighted average number of common shares (number) | 54,189,484 | 48,726,559 |
| Diluted earnings (loss) per share | $ (0.97) | $ 0.64 |

## 13. STOCK-BASED COMPENSATION PLANS

### Retention plans

The Company established two retention plans in connection with the acquisitions of Enermarket and Adams Harkness [Note 10].

The plan for Enermarket provided for the issuance of up to 25,210 common shares of the Company over two years. The Company issued 14,203 common shares under this plan, and the remaining shares have been forfeited.

The plan for Adams Harkness provided for the issuance of up to 1,118,952 common shares of the Company after a three-year vesting period, which ended on December 31, 2008. The total number of shares vested was also based on revenue earned by Canaccord Adams Inc. during the vesting period. The aggregate number of common shares which vested was the number which was equal to the revenue earned by Canaccord Adams Inc. during the vesting period divided by US$250.0 million multiplied by the number of common shares subject to the retention plan. As such revenue levels were achieved during the vesting period, the associated proportion of the retention payment was recorded as a development cost and the applicable number of retention shares was included in diluted common shares outstanding [Note 12[v]] until the common shares were issued. The Company expensed $2.4 million and $3.5 million for the years ended March 31, 2009 and 2008.

The Company issued 669,589 common shares during the year ended March 31, 2009 and 9,268 common shares during the year ended March 31, 2008 as required by the retention plan upon vesting. The plan terminated on December 31, 2008 and in connection therewith, employees who met the vesting conditions received common shares in accordance with the terms of the plan. For the year ended March 31, 2009, 669,589 common shares were issued at $10.25 per share for an aggregate value of $6.9 million (2008: $0.1 million).

The following table details the activity under the Company's retention plans and employee treasury stock purchase plan:

| | 2009 | 2008 |
|---|---|---|
| Number of common shares subject to the Enermarket retention plan: | | |
| Beginning of year | – | 10,254 |
| Issued | – | (3,949) |
| Adjustments and forfeitures | – | (6,305) |
| End of year | – | – |
| Shares vested at end of year | – | 3,949 |
| Number of common shares subject to the Adams Harkness retention plan: | | |
| Beginning of year | 804,012 | 953,107 |
| Issued | (669,589) | (9,268) |
| Forfeitures | (134,423) | (139,827) |
| End of year | – | 804,012 |
| Shares vested at end of year | 669,589 | – |

**Stock options**

The Company granted stock options to purchase common shares of the Company to independent directors. The stock options vest over a four-year period and expire seven years after the grant date or 30 days after the participant ceases to be a director. The exercise price is based on the fair market value of the common shares at grant date. The weighted average exercise price of the stock options is $15.37.

The following is a summary of the Company's stock options as at March 31, 2009 and 2008, and changes during the periods then ended.

| | *Number of options* | *Weighted average exercise price ($)* |
|---|---|---|
| Balance, March 31, 2007 | – | $ – |
| Granted | 125,000 | 23.13 |
| Exercised | – | – |
| Balance, March 31, 2008 | 125,000 | 23.13 |
| Granted | 150,000 | 9.21 |
| Exercised | – | – |
| Expired | (50,000) | 16.31 |
| **Balance, March 31, 2009** | **225,000** | **$ 15.37** |

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

| | *August 2008 grant* | *June 2008 grant* | *May 2007 grant* |
|---|---|---|---|
| Dividend yield | 5.10% | 5.10% | 1.80% |
| Expected volatility | 30.00% | 30.00% | 30.00% |
| Risk-free interest rate | 2.32% | 2.32% | 4.25% |
| Expected life | 5 years | 5 years | 5 years |

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

Compensation expense of $202 was recognized for the year ended March 31, 2009 ($168 for the year ended March 31, 2008).

**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 3,078,551 RSUs [March 31, 2008 – 2,221,578 RSUs] granted in lieu of cash compensation to employees during the year ended March 31, 2009. The Trust has purchased $15.0 million [March 31, 2008 – $27.2 million] of common shares for the year ended March 31, 2009.

The cost of the RSUs is amortized on a graded basis over the vesting period of three years. Compensation expense of $14.8 million has been recognized for the year ended March 31, 2009 [March 31, 2008 – $16.9 million].

| | ***2009*** | *2008* |
|---|---|---|
| Awards outstanding, beginning of year | **2,221,578** | – |
| Grants | **3,078,551** | 2,221,578 |
| Vested | **(697,744)** | – |
| Awards outstanding, end of year | **4,602,385** | 2,221,578 |

| | ***2009*** | *2008* |
|---|---|---|
| Common shares held by Trust, beginning of year | **1,621,895** | – |
| Acquired | **1,984,711** | 1,621,895 |
| Released on vesting | **(531,306)** | – |
| Common shares held by Trust, end of year | **3,075,300** | 1,621,895 |

## 14. 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:

| | 2009 | 2008 |
|---|---|---|
| Accounts receivable | $ 38,733 | $ 48,521 |
| Accounts payable and accrued liabilities | $ 77,334 | $ 64,945 |

## 15. 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 the US.

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

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

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

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

| | Canaccord Adams | Private Client Services | Corporate and Other | Total |
|---|---|---|---|---|
| **2009** | | | | |
| Revenues | $ 277,351 | $ 172,484 | $ 27,886 | $ 477,721 |
| Expenses | 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) |
| **2008** | | | | |
| Revenues | $ 431,642 | $ 249,127 | $ 50,770 | $ 731,539 |
| Expenses | 318,981 | 239,929 | 80,513 | 639,423 |
| Amortization | 3,878 | 1,833 | 2,825 | 8,536 |
| Development costs | 20,208 | 6,160 | 5,681 | 32,049 |
| Income (loss) before income taxes | $ 88,575 | $ 1,205 | $ (38,249) | $ 51,531 |

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):

| | | 2009 | | 2008 |
|---|---|---|---|---|
| **Canada** | | | | |
| Revenue | $ | **320,364** | $ | 509,066 |
| Equipment and leasehold improvements | | **31,694** | | 25,229 |
| Goodwill and other intangible assets | | **–** | | 4,083 |
| **United Kingdom** | | | | |
| Revenue | $ | **72,927** | $ | 118,332 |
| Equipment and leasehold improvements | | **6,840** | | 8,161 |
| **United States** | | | | |
| Revenue | $ | **77,650** | $ | 94,204 |
| Equipment and leasehold improvements | | **7,777** | | 7,296 |
| Goodwill and other intangible assets | | **–** | | 28,437 |
| **Other foreign location** | | | | |
| Revenue | $ | **6,780** | $ | 9,937 |

## 16. 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 share capital, retained earnings and accumulated other comprehensive income (losses), and is further complemented by subordinated debt. The following table summarizes our capital as at March 31, 2009:

| *Type of capital* | | *Carrying amount* | *As a percentage of capital* |
|---|---|---|---|
| Share capital | $ | 228,002 | 57.3% |
| Retained earnings | | 160,868 | 40.5% |
| Accumulated other comprehensive losses | | (16,166) | (4.1)% |
| Shareholders' equity | | 372,704 | 93.7% |
| Subordinated debt | | 25,000 | 6.3% |
| | $ | 397,704 | 100% |

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 Capital Corporation 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 Capital Corporation (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. The Company's subsidiaries were in compliance with all of the minimum regulatory capital requirements during the year ended March 31, 2009.

## 17. 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:

| | $ |
|---|---|
| 2010 | 26,106 |
| 2011 | 23,170 |
| 2012 | 20,964 |
| 2013 | 19,067 |
| 2014 | 17,754 |
| Thereafter | 59,881 |
| | 166,942 |

### Contingencies

The Company, in the normal course of business as an investment dealer, is involved in litigation and as of March 31, 2009 it was a defendant in various legal actions. The Company has established accruals for matters where payments are probable and can be reasonably estimated. While the outcome of these actions is subject to future resolution, management's evaluation and analysis of these actions indicates that, individually and in the aggregate, the probable ultimate resolution of these actions will not have a material effect on the financial condition of the Company. The actions described below have been commenced against the Company and, 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.

[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] In 2002, an action was commenced in the Ontario Superior Court of Justice against the Company and other defendants including another investment dealer. The claim makes allegations of illegal activities by two of the Company's former investment advisors who were previously employed by the other investment dealer named in the action. The claim against the Company and the other investment dealer is, among other things, that there was a failure to supervise the conduct of the investment advisors. The damages claimed in this action are $27 million. Management's analysis of the claim is that it is substantially without merit.

## 18. CANACCORD RELIEF PROGRAM

The Company has previously announced the details of the CRP, which included the repurchase of up to $152 million of restructured ABCP at par value from clients who held $1 million or less of affected ABCP. The CRP closed on January 30, 2009 and combined transactions with third party sources with a Company-funded top-up to achieve par value. Clients were entitled to receive any unpaid interest to the extent it was available under the restructuring plan and the Company has agreed to reimburse the clients for any restructuring costs.

Due to additional out-of-pocket charges, the Company increased its client relief program provision during the year ended March 31, 2009 by $2.7 million to reflect the revised costs of the program.

Also, as a result of the completion of the CRP, the Company acquired restructured ABCP notes [Note 7] with a carrying value of $12.1 million. A fair value adjustment of $2.6 million was recorded to reflect a decrease in fair value of these notes during the year ended March 31, 2009.

The total costs of the ABCP relief programs to the Company were approximately $59.5 million. The CRP was closed on January 30, 2009 following the successful restructuring of ABCP on January 21, 2009. The payments under the CRP included the par value of the ABCP held, as well as interest paid to date under the restructuring plan and the reimbursement for any restructuring expenses borne by the eligible clients.

### 19. RESTRUCTURING COSTS

The Company implemented a firm-wide restructuring in October 2008 that resulted in the reduction of staff across all geographies where the Company operates. The Company recorded a pre-tax expense of $7.7 million related to the staff restructuring.

### 20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the consolidated fiscal 2009 financial statement presentation.

# SUPPLEMENTAL INFORMATION (10)

***Advisory note:*** This supplementary information is not audited and should be read in conjunction with the financial statements contained herein.

## FINANCIAL HIGHLIGHTS

| *For the year ended and as of March 31 (C$ thousands, except for assets under management, assets under administration, common share information and financial ratios)* | *2009* | *2008* | *2007* | *2006* | *2005* |
|---|---|---|---|---|---|
| **Financial results** | | | | | |
| Revenue | $ 477,721 | $ 731,539 | $ 756,914 | $ 583,415 | $ 432,778 |
| Expenses | 524,920 | 680,008 | 618,717 | 464,385 | 360,022 |
| Income taxes (recovery) | 452 | 20,197 | 44,741 | 37,880 | 24,177 |
| Net income (loss) | (47,651) | 31,334 | 93,456 | 81,150 | 48,579 |
| **Business segment** | | | | | |
| Income (loss) before income taxes (recovery) | | | | | |
| Canaccord Adams (1) | (21,129) | 88,575 | 111,270 | 101,983 | 65,919 |
| Private Client Services | 22,707 | 1,205 | 70,529 | 61,218 | 50,672 |
| Other | (48,777) | (38,249) | (43,602) | (44,171) | (43,835) |
| **Geographic segment** | | | | | |
| Income (loss) before income taxes (recovery) | | | | | |
| Canada (2) | (9,799) | 24,846 | 99,218 | 74,012 | 42,330 |
| UK and Other Foreign Location (3) | 4,600 | 34,044 | 42,609 | 41,937 | 30,426 |
| US (4) | (42,000) | (7,359) | (3,630) | 3,081 | – |
| **Client assets information** ($ millions) | | | | | |
| Assets under management | 393 | 730 | 807 | 613 | 380 |
| Assets under administration | 9,184 | 14,295 | 15,014 | 14,310 | 9,967 |
| **Common share information** | | | | | |
| Per share ($) | | | | | |
| Basic earnings (loss) | (0.97) | 0.70 | 2.03 | 1.82 | 1.17 |
| Diluted earnings (loss) | (0.97) | 0.64 | 1.94 | 1.74 | 1.11 |
| Book value per diluted share (5) | 6.51 | 7.21 | 7.74 | 5.99 | 4.82 |
| Share price ($) | | | | | |
| High | 11.75 | 25.92 | 27.50 | 21.25 | 11.10 |
| Low | 2.87 | 8.60 | 15.80 | 9.00 | 7.96 |
| Close | 5.40 | 9.80 | 22.12 | 20.80 | 10.48 |
| Shares outstanding (thousands) | | | | | |
| Basic | 49,343 | 43,873 | 45,973 | 45,746 | 45,413 |
| Basic plus unvested | 55,093 | 47,835 | 47,832 | 47,827 | 46,129 |
| Diluted | 57,251 | 49,556 | 48,084 | 48,017 | 46,129 |
| Average basic | 48,929 | 44,778 | 45,969 | 44,606 | 41,635 |
| Average diluted | 54,189 | 48,727 | 48,081 | 46,699 | 44,188 |
| Market capitalization (thousands) | 309,155 | 485,649 | 1,063,625 | 998,762 | 483,435 |
| **Financial measures** | | | | | |
| Dividends per share | $ 0.125 | $ 0.50 | $ 0.36 | $ 0.28 | $ 0.26 |
| Special distributions per share (6) | – | – | – | – | 0.15 |
| Dividend yield (closing share price) (6) | | 5.1% | 1.6% | 1.3% | 2.5% |
| Dividend payout ratio (6) | | 78.3% | 18.5% | 16.2% | 24.7% |
| Total shareholder return (7) | (44.2)% | (55.5)% | 8.3% | 103.4% | 5.5% |
| Annualized ROE | (12.4)% | 7.9% | 28.4% | 33.6% | 23.9% |
| Price to earnings multiple (8) | 5.7 | 15.8 | 11.4 | 12.0 | 9.5 |
| Price to book ratio (9) | 0.8 | 1.4 | 2.9 | 3.5 | 2.2 |

(1) Includes the global capital markets division of Canaccord Capital Corporation in Canada; Canaccord Adams Limited in the UK; and Canaccord Adams Inc. in the US.
(2) Canada geographic segment includes operations for Canaccord Adams (a division of Canaccord Capital Corporation), Private Client Services and Other business segments.
(3) Canaccord's UK operations include activities related to Canaccord Adams Limited, engaged in capital markets activities in the United Kingdom. Revenue derived from capital markets activity outside of Canada, the US and the UK is reported as Other Foreign Location, which includes operations for Canaccord International Ltd.
(4) Canaccord's US operations include activities related to US capital markets operations, delivered through Canaccord Adams Inc., US Private Client Services, delivered through Canaccord Capital Corporation (USA), Inc., and US Other operations, also delivered through Canaccord Capital Corporation (USA), Inc., include revenue and expenses not specifically allocable to US Private Client Services and US Canaccord Adams.
(5) Book value per diluted share is calculated as total shareholders' equity divided by the number of diluted shares outstanding at the end of the period.
(6) Special distributions per share are not included in the dividend yield and dividend payout ratio calculations.
(7) Total shareholder return is calculated as the change in share price including the effects of reinvestment of dividends and special distributions on their payment dates.
(8) The price to earnings multiple is calculated based on the end of period share price and 12-month trailing diluted EPS.
(9) The price to book ratio is calculated based on the end of period share price and book value per diluted share.
(10) Certain non-GAAP measures are utilized by the Company as measures of financial performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Non-GAAP measures included are: return on average common equity (ROE), compensation expenses as % of revenue, non-compensation expenses as % of revenue, dividend yield, dividend payout ratio, total shareholder return, price to earnings multiple (P/E) and price to book ratio (P/B).

## CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS (4)

| *For the year ended March 31 (C$ thousands, except per share amounts and financial measures)* | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Commission | $ 233,104 | $ 296,047 | $ 303,672 | $ 239,461 | $ 168,978 |
| Investment banking | 169,369 | 336,874 | 350,273 | 266,206 | 214,450 |
| Principal trading | 18,319 | 7,443 | 31,638 | 27,388 | 13,584 |
| Interest | 38,287 | 63,168 | 57,908 | 36,914 | 26,488 |
| Other | 18,642 | 28,007 | 13,423 | 13,446 | 9,278 |
| | $ 477,721 | $ 731,539 | $ 756,914 | $ 583,415 | $ 432,778 |
| **Expenses** | | | | | |
| Incentive compensation (1) | $ 222,006 | $ 347,079 | $ 382,897 | $ 299,188 | $ 220,454 |
| Salaries and benefits | 56,771 | 54,294 | 47,608 | 42,019 | 45,715 |
| Trading costs | 26,311 | 27,090 | 27,452 | 20,615 | 16,863 |
| Premises and equipment | 24,695 | 22,745 | 25,173 | 15,843 | 11,849 |
| Communication and technology | 25,228 | 23,228 | 21,472 | 16,598 | 14,037 |
| Interest | 11,220 | 24,527 | 20,538 | 10,914 | 7,824 |
| General and administrative | 69,689 | 69,463 | 64,182 | 46,227 | 32,171 |
| Amortization | 8,994 | 8,536 | 8,151 | 4,817 | 3,185 |
| Development costs | 28,773 | 32,049 | 21,244 | 9,797 | 7,924 |
| Gain on disposal of investments and claims | – | – | – | (1,633) | – |
| ABCP fair value adjustment | 6,700 | 12,797 | – | – | – |
| Canaccord relief program | 5,347 | 54,200 | – | – | – |
| Impairment of goodwill and intangibles | 31,524 | – | – | – | – |
| Restructuring costs | 7,662 | 4,000 | – | – | – |
| | 524,920 | 680,008 | 618,717 | 464,385 | 360,022 |
| Income (loss) before income taxes (recovery) | (47,199) | 51,531 | 138,197 | 119,030 | 72,756 |
| Income taxes (recovery) | 452 | 20,197 | 44,741 | 37,880 | 24,177 |
| **Net income (loss) for the year** | $ (47,651) | $ 31,334 | $ 93,456 | $ 81,150 | $ 48,579 |
| Retained earnings, beginning of year | 222,597 | 213,659 | 136,463 | 72,564 | 38,013 |
| Dividends | | | | | |
| Stock dividend | – | – | – | – | – |
| Dividend | (14,078) | (22,396) | (16,260) | (14,455) | (13,835) |
| Excess on redemption of common shares | – | – | – | (2,796) | (193) |
| **Retained earnings, end of year** | $ 160,868 | $ 222,597 | $ 213,659 | $ 136,463 | $ 72,564 |
| Incentive compensation expense as % of revenue | 46.5% | 47.4% | 50.6% | 51.3% | 50.9% |
| Total compensation expenses as % of revenue (2) | 58.4% | 54.9% | 56.9% | 58.5% | 61.5% |
| Non-compensation expenses as % of revenue | 51.5% | 38.1% | 24.8% | 21.1% | 21.7% |
| Total expenses as % of revenue | 109.9% | 93.0% | 81.7% | 79.6% | 83.2% |
| Pre-tax profit margin | (9.9)% | 7.0% | 18.3% | 20.4% | 16.8% |
| Effective tax rate | (1.0)% | 39.2% | 32.4% | 31.8% | 33.2% |
| Net profit margin | (10.0)% | 4.3% | 12.3% | 13.9% | 11.2% |
| Basic earnings (loss) per share | $ (0.97) | $ 0.70 | $ 2.03 | $ 1.82 | $ 1.17 |
| Diluted earnings (loss) per share | (0.97) | 0.64 | 1.94 | 1.74 | 1.11 |
| Book value per diluted share (3) | 6.51 | 7.21 | 7.74 | 5.99 | 4.82 |
| **Supplementary segmented revenue information** | | | | | |
| Canaccord Adams | $ 277,351 | $ 431,642 | $ 449,717 | $ 333,666 | $ 239,654 |
| Private Client Services | 172,484 | 249,127 | 272,619 | 225,194 | 178,176 |
| Corporate and Other | 27,886 | 50,770 | 34,578 | 24,555 | 14,948 |
| | $ 477,721 | $ 731,539 | $ 756,914 | $ 583,415 | $ 432,778 |

(1) Incentive compensation includes National Insurance Tax applicable to the UK and is based on a percentage of incentive compensation payout.
(2) Total compensation expense includes incentive compensation and salaries and benefits, but excludes hiring incentives and development group salary and benefits, which are included in development costs.
(3) Book value per diluted share is calculated as total shareholders' equity divided by the number of diluted shares outstanding at the end of the period.
(4) Certain non-GAAP measures are utilized by the Company as measures of financial performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Non-GAAP measures included are: compensation expenses as % of revenue, non-compensation expenses as % of revenue, total expenses as % of revenue, pre-tax profit margin, net profit margin and book value per diluted share.

## CONDENSED CONSOLIDATED BALANCE SHEETS

| *As at March 31 (C$ thousands)* | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | $ 701,173 | $ 435,649 | $ 506,640 | $ 370,507 | $ 349,700 |
| Securities owned, at market | 133,691 | 92,796 | 348,764 | 203,020 | 160,348 |
| Accounts receivable (1) | 1,061,161 | 1,422,917 | 1,672,035 | 1,539,998 | 1,068,757 |
| Income taxes recoverable | 23,771 | 11,083 | – | – | – |
| Future income taxes | 15,680 | 28,207 | 11,021 | 10,769 | 3,992 |
| Investments | 5,000 | 5,000 | – | – | – |
| Investment in asset-backed commercial paper | 35,312 | 29,860 | – | – | – |
| Equipment and leasehold improvements | 46,311 | 40,686 | 37,549 | 25,750 | 13,750 |
| Notes receivable | – | – | – | – | 41,618 |
| Goodwill and other intangibles | – | 32,520 | 33,933 | 27,929 | – |
| | $ 2,022,099 | $ 2,098,718 | $ 2,609,942 | $ 2,177,973 | $ 1,638,165 |
| **Liabilities and shareholders' equity** | | | | | |
| Bank indebtedness | $ 75,600 | $ 15,038 | $ – | $ 4,684 | $ – |
| Securities sold short, at market | 79,426 | 13,757 | 41,176 | 37,169 | 105,527 |
| Accounts payable and accrued liabilities | 1,469,369 | 1,687,479 | 2,156,540 | 1,832,956 | 1,262,072 |
| Income taxes payable | – | – | 15,035 | 15,334 | 6,737 |
| Future income taxes | – | – | – | – | – |
| Notes payable | – | – | – | – | 41,618 |
| Convertible debentures | – | – | – | – | – |
| Subordinated debt | 25,000 | 25,000 | 25,000 | – | – |
| Shareholders' equity | 372,704 | 357,444 | 372,191 | 287,830 | 222,211 |
| | $ 2,022,099 | $ 2,098,718 | $ 2,609,942 | $ 2,177,973 | $ 1,638,165 |

(1) In fiscal 2006, deferred charges have been combined with accounts receivable. Figures for previous periods have been reclassified.

## MISCELLANEOUS OPERATIONAL STATISTICS

| *As at March 31* | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Number of employees in Canada** | | | | | |
| Number in Canaccord Adams | 209 | 253 | 246 | 233 | 209 |
| Number in Private Client Services | 700 | 762 | 728 | 689 | 657 |
| Number in Other | 356 | 380 | 360 | 335 | 324 |
| Total Canada | 1,265 | 1,395 | 1,334 | 1,257 | 1,190 |
| **Number of employees in UK** | | | | | |
| Number in Canaccord Adams | 114 | 125 | 93 | 81 | 70 |
| **Number of employees in US** | | | | | |
| Number in Canaccord Adams | 151 | 163 | 163 | 150 | – |
| **Number of employees firm wide** | 1,530 | 1,683 | 1,590 | 1,488 | 1,260 |
| Number of Investment Advisor Teams (1) | 338 | 354 | 368 | 365 | 343 |
| Number of licenced professionals | 790 | 852 | 817 | 763 | 710 |
| Number of PCS clients | 167,659 | 175,570 | 156,003 | 155,404 | 144,451 |
| Assets under management ($ millions) | $ 393 | $ 730 | $ 807 | $ 613 | $ 380 |
| Assets under administration ($ millions) | 9,184 | 14,295 | 15,014 | 14,310 | 9,967 |
| AUA per Investment Advisor Team ($ millions) (1) | 27 | 40 | 41 | 39 | 29 |
| **Number of companies with Canaccord Adams Limited as Broker** | | | | | |
| London Stock Exchange (LSE) | 9 | 5 | 1 | 1 | 6 |
| Alternative Investment Market (AIM) | 51 | 60 | 58 | 53 | 51 |
| Total Broker | 60 | 65 | 59 | 54 | 57 |
| **Number of companies with Canaccord Adams Limited as Financial Adviser / Nomad** (2) | | | | | |
| LSE | – | 1 | – | 1 | 4 |
| AIM | 42 | 51 | 50 | 49 | 47 |
| Total Financial Advisers / Nomad | 42 | 52 | 50 | 50 | 51 |

(1) Investment Advisors (IAs) reported as IA teams excluding rookies licenced three years or less. Historical statistics have been reclassified accordingly.
(2) A company listed on AIM is required to retain a Nominated Adviser (commonly referred to as a Nomad) during the company's life on the market. Nominated Advisers are responsible, amongst other duties, for warranting that a company is appropriate for joining AIM. The Nomad is similar to a Financial Adviser on the LSE, but is specific to AIM.

## QUARTERLY FINANCIAL HIGHLIGHTS

| (C$ thousands, except for assets under management, assets under administration, common share information and financial ratios) | Fiscal 2009 | | | | Fiscal 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| **Financial results** | | | | | | | | |
| Revenue | $106,996 | $ 87,188 | $ 110,829 | $ 172,708 | $ 143,446 | $ 183,354 | $ 158,869 | $ 245,870 |
| Expenses | 100,311 | 159,625 | 115,805 | 149,179 | 194,004 | 159,043 | 139,741 | 187,220 |
| Income taxes (recovery) | 3,019 | (10,059) | 422 | 7,070 | (15,404) | 9,263 | 6,717 | 19,621 |
| Net income (loss) | 3,666 | (62,378) | (5,398) | 16,459 | (35,154) | 15,048 | 12,411 | 39,029 |
| **Business segment** | | | | | | | | |
| Income (loss) before income taxes | | | | | | | | |
| Canaccord Adams (1) | 10,432 | (46,520) | (4,814) | 19,773 | 2,824 | 22,134 | 14,943 | 48,674 |
| Private Client Services | 8,288 | (6,684) | 7,933 | 13,170 | (44,140) | 13,034 | 13,376 | 18,935 |
| Other | (12,035) | (19,233) | (8,095) | (9,414) | (9,242) | (10,857) | (9,191) | (8,959) |
| **Geographic segment** | | | | | | | | |
| Income (loss) before income taxes | | | | | | | | |
| Canada (2) | 6,761 | (32,776) | 4,047 | 12,169 | (45,512) | 15,997 | 17,533 | 36,828 |
| UK and Other Foreign Location (3) | 3,094 | (3,694) | (5,142) | 10,342 | (415) | 8,956 | 4,777 | 20,726 |
| US (4) | (3,170) | (35,967) | (3,881) | 1,018 | (4,631) | (642) | (3,182) | 1,096 |
| **Client assets** ($ millions) | | | | | | | | |
| Assets under management | 393 | 454 | 609 | 747 | 730 | 760 | 777 | 815 |
| Assets under administration | 9,184 | 9,030 | 11,584 | 14,695 | 14,295 | 14,860 | 15,288 | 15,701 |
| **Common share information** | | | | | | | | |
| Per share ($) | | | | | | | | |
| Basic earnings (loss) | 0.07 | (1.27) | (0.11) | 0.35 | (0.80) | 0.34 | 0.28 | 0.86 |
| Diluted earnings (loss) | 0.07 | (1.27) | (0.11) | 0.31 | (0.80) | 0.31 | 0.26 | 0.80 |
| Book value per diluted share (5) | 6.51 | 6.37 | 7.15 | 7.66 | 7.21 | 7.95 | 7.83 | 7.96 |
| Share price ($) | | | | | | | | |
| High | 5.53 | 8.19 | 9.33 | 11.75 | 16.33 | 20.58 | 22.49 | 25.92 |
| Low | 3.50 | 2.87 | 6.68 | 7.60 | 8.60 | 13.30 | 16.25 | 20.22 |
| Close | 5.40 | 4.04 | 7.98 | 7.95 | 9.80 | 15.30 | 18.98 | 20.83 |
| Shares outstanding (thousands) | | | | | | | | |
| Issued shares excluding unvested shares | 49,343 | 49,108 | 48,274 | 50,069 | 43,873 | 44,191 | 44,548 | 45,184 |
| Issued and outstanding | 55,093 | 54,636 | 54,553 | 54,591 | 47,835 | 47,835 | 47,866 | 47,864 |
| Diluted | 57,251 | 56,210 | 57,981 | 57,466 | 49,556 | 49,096 | 48,830 | 48,872 |
| Average basic | 49,352 | 49,073 | 49,021 | 47,519 | 44,165 | 44,442 | 44,972 | 45,171 |
| Average diluted | 54,748 | 55,219 | 55,139 | 52,720 | 48,490 | 48,324 | 48,270 | 48,859 |
| Market capitalization (thousands) | 309,155 | 227,088 | 462,688 | 456,855 | 485,649 | 751,169 | 926,793 | 1,018,011 |
| **Financial measures** | | | | | | | | |
| Dividends per share | $ – | $ – | $ – | $ 0.125 | $ 0.125 | $ 0.125 | $ 0.125 | $ 0.125 |
| Dividend yield (closing share price) (6) | – | – | – | 6.3% | 5.1% | 3.3% | 2.6% | 2.4% |
| Dividend payout ratio (6) | – | – | – | 43.6% | (17.6)% | 40.8% | 49.2% | 15.7% |
| Total shareholder return (7) | 33.7% | (49.4)% | 0.4% | (17.8)% | (35.9)% | (19.4)% | (8.9)% | (5.4)% |
| Annualized ROE | 4.0% | (64.3)% | (5.0)% | 15.7% | (37.8)% | 16.2% | 12.8% | 41.2% |
| Price to earnings multiple (8) | 5.7 | (10.9) | 8.1 | 7.3 | 15.8 | 7.8 | 8.9 | 9.5 |
| Price to book ratio (9) | 0.8 | 0.6 | 1.1 | 1.0 | 1.4 | 1.9 | 2.4 | 2.6 |

(1) Includes the global capital markets division of Canaccord Capital Corporation in Canada; Canaccord Adams Limited in the UK; Canaccord Adams Inc. in the US.
(2) Canada geographic segment includes operations for Canaccord Adams (a division of Canaccord Capital Corporation), Private Client Services and Other business segments.
(3) Canaccord's UK operations include activities related to Canaccord Adams Limited, engaged in capital markets activities in the United Kingdom. Revenue derived from capital markets activity outside of Canada, the US and the UK is reported as Other Foreign Location, which includes operations for Canaccord International Ltd.
(4) Canaccord's US operations include activities related to US capital markets operations, delivered through Canaccord Adams Inc., US Private Client Services, delivered through Canaccord Capital Corporation (USA), Inc., and US Other operations, also delivered through Canaccord Capital Corporation (USA), Inc., include revenue and expenses not specifically allocable to US Private Client Services and US Canaccord Adams.
(5) Book value per diluted share is calculated as total shareholders' equity divided by the number of diluted shares outstanding at the end of the period.
(6) Special distributions per share are not included in the dividend yield and dividend payout ratio calculations.
(7) Total shareholder return is calculated as the change in share price including the effects of reinvestment of dividends and special distributions on their payment dates.
(8) The price to earnings multiple is calculated based on the end of period share price and 12-month trailing diluted EPS.
(9) The price to book ratio is calculated based on the end of period share price and book value per diluted share.
(10) Certain non-GAAP measures are utilized by the Company as measures of financial performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Non-GAAP measures included are: return on average common equity (ROE), assets under administration (AUA), assets under management (AUM), compensation expenses as % of revenue, non-compensation expenses as % of revenue, dividend yield, dividend payout ratio, total shareholder return, pre-tax profit margin, price to earnings multiple (P/E) and price to book ratio (P/B).

## CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (4)

| (C$ thousands, except per share amounts and financial measures) | Fiscal 2009 Q4 | Fiscal 2009 Q3 | Fiscal 2009 Q2 | Fiscal 2009 Q1 | Fiscal 2008 Q4 | Fiscal 2008 Q3 | Fiscal 2008 Q2 | Fiscal 2008 Q1 |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| Commission | $ 49,005 | $ 51,473 | $ 60,630 | $ 71,996 | $ 69,585 | $ 74,959 | $ 65,728 | $ 85,775 |
| Investment banking | 39,000 | 20,198 | 34,024 | 76,147 | 49,608 | 84,910 | 73,731 | 128,625 |
| Principal trading | 8,540 | 3,781 | 87 | 5,911 | 4,168 | 387 | (3,925) | 6,813 |
| Interest | 5,116 | 9,108 | 11,734 | 12,329 | 14,574 | 16,011 | 16,273 | 16,310 |
| Other | 5,335 | 2,628 | 4,354 | 6,325 | 5,511 | 7,087 | 7,062 | 8,347 |
| | $106,996 | $ 87,188 | $ 110,829 | $172,708 | $143,446 | $183,354 | $158,869 | $245,870 |
| **Expenses** | | | | | | | | |
| Incentive compensation (1) | $ 45,003 | $ 43,299 | $ 50,977 | $ 82,727 | $ 63,479 | $ 90,778 | $ 71,416 | $121,406 |
| Salaries and benefits | 14,316 | 12,817 | 14,195 | 15,443 | 14,718 | 12,658 | 12,649 | 14,269 |
| Trading costs | 6,565 | 6,708 | 6,717 | 6,321 | 5,829 | 7,054 | 7,249 | 6,958 |
| Premises and equipment | 6,404 | 6,549 | 5,957 | 5,785 | 5,970 | 5,781 | 5,735 | 5,259 |
| Communication and technology | 6,249 | 6,277 | 6,539 | 6,163 | 6,065 | 5,611 | 5,813 | 5,739 |
| Interest | 1,339 | 2,568 | 3,354 | 3,959 | 5,372 | 6,574 | 6,413 | 6,168 |
| General and administrative | 10,974 | 19,827 | 19,611 | 19,277 | 18,047 | 17,390 | 15,755 | 18,271 |
| Amortization | 2,129 | 2,751 | 2,072 | 2,042 | 2,216 | 2,197 | 2,146 | 1,977 |
| Development costs | 7,190 | 7,738 | 6,383 | 7,462 | 9,936 | 6,774 | 8,166 | 7,173 |
| ABCP fair value adjustment | – | 6,700 | – | – | 4,172 | 4,226 | 4,399 | – |
| Canaccord relief program | – | 5,347 | – | – | 54,200 | – | – | – |
| Impairment of goodwill and intangibles | – | 31,524 | – | – | – | – | – | – |
| Restructuring costs | 142 | 7,520 | – | – | 4,000 | – | – | – |
| | 100,311 | 159,625 | 115,805 | 149,179 | 194,004 | 159,043 | 139,741 | 187,220 |
| Income (loss) before income taxes | 6,685 | (72,437) | (4,976) | 23,529 | (50,558) | 24,311 | 19,128 | 58,650 |
| Income taxes (recovery) | 3,019 | (10,059) | 422 | 7,070 | (15,404) | 9,263 | 6,717 | 19,621 |
| **Net income (loss) for the period** | $ 3,666 | $ (62,378) | $ (5,398) | $ 16,459 | $ (35,154) | $ 15,048 | $ 12,411 | $ 39,029 |
| Incentive compensation expense as % of revenue | 42.1% | 49.7% | 46.0% | 47.9% | 44.3% | 49.5% | 45.0% | 49.4% |
| Total compensation expenses as % of revenue (2) | 55.4% | 64.4% | 58.8% | 56.8% | 54.5% | 56.4% | 52.9% | 55.2% |
| Non-compensation expenses as % of revenue | 38.3% | 118.7% | 45.7% | 29.6% | 80.7% | 30.3% | 35.1% | 20.9% |
| Total expenses as % of revenue | 93.8% | 183.1% | 104.5% | 86.4% | 135.2% | 86.7% | 88.0% | 76.1% |
| Pre-tax profit margin | 6.2% | (83.1)% | (4.5)% | 13.6% | (35.2)% | 13.3% | 12.0% | 23.9% |
| Effective tax rate | 45.2% | 13.9% | (8.5)% | 30.0% | 30.5% | 38.1% | 35.1% | 33.5% |
| Net profit margin | 3.4% | (71.5)% | (4.9)% | 9.5% | (24.5)% | 8.2% | 7.8% | 15.9% |
| Basic earnings (loss) per share | $ 0.07 | $ (1.27) | $ (0.11) | $ 0.35 | $ (0.80) | $ 0.34 | $ 0.28 | $ 0.86 |
| Diluted earnings (loss) per share | 0.07 | (1.27) | (0.11) | 0.31 | (0.80) | 0.31 | 0.26 | 0.80 |
| Book value per diluted share (3) | 6.51 | 6.37 | 7.15 | 7.66 | 7.21 | 7.95 | 7.83 | 7.96 |
| **Supplementary segmented revenue information** | | | | | | | | |
| Canaccord Adams | $ 64,972 | $ 49,250 | $ 58,336 | $104,793 | $ 77,965 | $109,583 | $ 89,071 | $155,023 |
| Private Client Services | 37,255 | 33,532 | 43,844 | 57,853 | 54,463 | 61,166 | 57,415 | 76,083 |
| Corporate and Other | 4,769 | 4,406 | 8,649 | 10,062 | 11,018 | 12,605 | 12,383 | 14,764 |
| | $106,996 | $ 87,188 | $ 110,829 | $172,708 | $143,446 | $183,354 | $158,869 | $245,870 |

(1) Incentive compensation includes National Insurance Tax applicable to the UK and is based on a percentage of incentive compensation payout.
(2) Total compensation expense includes incentive compensation and salaries and benefits, but excludes hiring incentives and development group salary and benefits, which are included in development costs.
(3) Book value per diluted share is calculated as total shareholders' equity divided by the number of diluted shares outstanding at the end of the period.
(4) Certain non-GAAP measures are utilized by the Company as measures of financial performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Non-GAAP measures included are: compensation expenses as % of revenue, non-compensation expenses as % of revenue total expenses as % of revenue, pre-tax profit margin, net profit margin and book value per diluted share.

## CONDENSED CONSOLIDATED BALANCE SHEET

| | Fiscal 2009 | | | | Fiscal 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| *(C$ thousands)* | *Q4* | *Q3* | *Q2* | *Q1* | *Q4* | *Q3* | *Q2* | *Q1* |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | $ 701,173 | $ 684,463 | $ 521,322 | $ 555,017 | $ 435,649 | $ 421,783 | $ 379,680 | $ 329,584 |
| Securities owned, at market | 133,691 | 72,938 | 56,055 | 117,013 | 92,796 | 164,388 | 227,368 | 225,734 |
| Accounts receivable | 1,061,161 | 806,402 | 1,227,426 | 1,525,096 | 1,422,917 | 1,260,869 | 1,829,712 | 2,052,737 |
| Income taxes recoverable | 23,771 | 29,887 | 19,772 | 19,040 | 11,083 | 2,758 | 661 | – |
| Future income taxes | 15,680 | 13,657 | 11,566 | 10,725 | 28,207 | 10,630 | 9,940 | 7,761 |
| Investments | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Investment in asset-backed commercial paper | 35,312 | 23,160 | 29,860 | 29,860 | 29,860 | 34,501 | – | – |
| Equipment and leasehold improvements | 46,311 | 44,178 | 39,254 | 39,575 | 40,686 | 39,939 | 40,137 | 39,231 |
| Goodwill and other intangibles | – | – | 31,815 | 32,167 | 32,520 | 32,873 | 33,227 | 33,580 |
| | $2,022,099 | $ 1,679,685 | $ 1,942,070 | $ 2,333,893 | $ 2,098,718 | $ 1,972,741 | $ 2,525,725 | $ 2,693,627 |
| **Liabilities and shareholders' equity** | | | | | | | | |
| Bank indebtedness | $ 75,600 | $ 39,040 | $ 6,854 | $ – | $ 15,038 | $ – | $ 48,130 | $ 2,265 |
| Securities sold short, at market | 79,426 | 62,151 | 15,194 | 32,227 | 13,757 | 96,383 | 48,784 | 85,222 |
| Accounts payable and accrued liabilities | 1,469,369 | 1,195,533 | 1,480,714 | 1,836,764 | 1,687,479 | 1,461,130 | 2,021,498 | 2,189,371 |
| Income taxes payable | – | – | – | – | – | – | – | 2,528 |
| Subordinated debt | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |
| Shareholders' equity | 372,704 | 357,961 | 414,308 | 439,902 | 357,444 | 390,228 | 382,313 | 389,241 |
| | $2,022,009 | $ 1,679,685 | $ 1,942,070 | $ 2,333,893 | $ 2,098,718 | $ 1,972,741 | $ 2,525,725 | $ 2,693,627 |

## MISCELLANEOUS OPERATIONAL STATISTICS (3)

| | Fiscal 2009 | | | | Fiscal 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | *Q4* | *Q3* | *Q2* | *Q1* | *Q4* | *Q3* | *Q2* | *Q1* |
| **Number of employees in Canada** | | | | | | | | |
| Number in Canaccord Adams | 209 | 211 | 248 | 251 | 253 | 254 | 264 | 260 |
| Number in Private Client Services | 700 | 725 | 744 | 760 | 762 | 772 | 784 | 757 |
| Number in Other | 356 | 365 | 393 | 393 | 380 | 373 | 370 | 366 |
| Total Canada | 1,265 | 1,301 | 1,385 | 1,404 | 1,395 | 1,399 | 1,418 | 1,383 |
| **Number of employees in UK** | | | | | | | | |
| Number in Canaccord Adams | 114 | 117 | 127 | 125 | 125 | 116 | 109 | 104 |
| **Number of employees in US** | | | | | | | | |
| Number in Canaccord Adams | 151 | 152 | 176 | 169 | 163 | 161 | 162 | 170 |
| **Number of employees firm wide** | 1,530 | 1,570 | 1,688 | 1,698 | 1,683 | 1,676 | 1,689 | 1,657 |
| Number of Investment Advisor Teams (1) | 338 | 347 | 341 | 354 | 354 | 377 | 378 | 373 |
| Number of licenced professionals | 790 | 809 | 818 | 832 | 852 | 859 | 865 | 840 |
| Number of PCS clients | 167,659 | 171,199 | 173,949 | 175,976 | 175,570 | 173,599 | 170,879 | 170,054 |
| Assets under management ($ millions) | $ 393 | $ 454 | $ 609 | $ 747 | $ 730 | $ 760 | $ 777 | $ 815 |
| Assets under administration ($ millions) | 9,184 | 9,030 | 11,584 | 14,695 | 14,295 | 14,860 | 15,288 | 15,701 |
| AUA per Investment Advisor Team ($ millions) (1) | 27 | 26 | 34 | 42 | 40 | 39 | 40 | 42 |
| **Number of companies with Canaccord Adams Limited as Broker** | | | | | | | | |
| London Stock Exchange (LSE) | 9 | 7 | 5 | 5 | 5 | 4 | 4 | 3 |
| Alternative Investment Market (AIM) | 51 | 55 | 55 | 58 | 60 | 60 | 58 | 57 |
| Total Broker | 60 | 62 | 60 | 63 | 65 | 64 | 62 | 60 |
| **Number of companies with Canaccord Adams Limited as Financial Adviser / Nomad (2)** | | | | | | | | |
| LSE | – | – | – | – | 1 | 1 | – | 1 |
| AIM | 42 | 46 | 45 | 48 | 51 | 50 | 51 | 49 |
| Total Financial Advisers / Nomad | 42 | 46 | 45 | 48 | 52 | 51 | 51 | 50 |

(1) Investment Advisors (IAs) reported as IA teams excluding rookies licenced three years or less. Historical statistics have been reclassified accordingly.
(2) A company listed on AIM is required to retain a Nominated Adviser (commonly referred to as a Nomad) during the company's life on the market. Nominated Advisers are responsible, amongst other duties, for warranting that a company is appropriate for joining AIM. The Nomad is similar to a Financial Adviser on the LSE, but is specific to AIM.
(3) Certain non-GAAP measures are utilized by the Company as measures of financial performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Non-GAAP measures included are: assets under administration (AUA) and assets under management (AUM).

# GLOSSARY

*Advisory Teams (IA Teams)*
Advisory Teams are normally comprised of one or more IAs and their assistants and associates, who together manage a shared set of client accounts. Advisory Teams that are led by, or only include, an IA who has been licenced for less than three years are not included in our Advisory Team count, as it typically takes a new IA approximately three years to build an average sized book.

*Alternative Investment Market (AIM)*
The junior arm of the London Stock Exchange (LSE), AIM provides a global market for smaller, growing companies.

*Asset-backed commercial paper (ABCP)*
A short-term investment vehicle with a maturity date that is typically between 90 and 180 days. The notes are backed by physical assets such as trade receivables, and are generally used for short-term financing needs. Also see "Restructured notes" and "Canaccord Relief Program".

*Assets under administration (AUA)*
AUA is the market value of client assets administered by Canaccord, for 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. Management uses this measure to assess operational performance of the Private Client Services business segment. This measure is non-GAAP.

*Assets under management (AUM)*
AUM consists of assets that are beneficially owned by clients and discretionarily managed by Canaccord as part of our *Alliance Program* and *Private Investment Management* platform. Services provided include the selection of investments and the provision of investment advice. AUM is also administered by Canaccord and is therefore included in AUA. This measure is non-GAAP.

*Basel II*
Basel II is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision. Basel II attempts to create international standards for financial institution capital requirements by setting up rigorous risk and capital management requirements designed to ensure that a financial institution holds capital reserves appropriate to the risks that it exposes itself to through its activities. Basel II includes a comprehensive framework for capital regulation around "three pillars": Pillar I – minimum capital requirements; Pillar II – supervisory review; and Pillar III – market discipline (which primarily involves transparency and disclosure).

*Book value per common share*
A measure of common equity per share calculated by subtracting liabilities from assets and dividing by outstanding number of shares. This measure is non-GAAP.

*Canaccord Relief Program (CRP)*
The Canaccord Relief Program was announced in April 2008 to repurchase up to $152 million of restructured ABCP at par value from clients who held $1 million or less. It combined a third party market bid for eligible clients' ABCP with a Canaccord-funded top-up to achieve par value for the restructured notes. The Canaccord Relief Program also provided clients with their pro-rated portion of any interest accrued on their ABCP investment, as well as compensation for any client-allocated costs associated with the restructuring process. Restructuring of the affected non-bank ABCP was fully implemented on January 21, 2009. The Canaccord Relief Program closed on January 30, 2009.

*Common equity*
Also referred to as common shares; are, as the name implies, the most usual and commonly held form of stock in a corporation. Dividends paid to the stockholders must be paid to preferred shares before being paid to common stock shareholders.

*Correspondent brokerage services*
The provision of secure administrative, trade execution and research services to other brokerage firms through the Company's existing technology and operations infrastructure (Pinnacle).

*Dilution*
The change in earnings and book value per share resulting from the exercise of all warrants and options and conversion of convertible securities.

*Dividend yield*
A financial ratio that shows how much a company pays out in dividends each year relative to its share price. It is calculated as total annual dividends per share divided by the company share price.

*Earnings (loss) per share (EPS), diluted*
Net income (loss) divided by the average number of shares outstanding adjusted for the dilutive effects of stock options and other convertible securities.

*Employee Stock Purchase Plan (ESPP)*
Voluntary plan that provides eligible employees with the ability to purchase shares in the Company through payroll deductions, with an additional contribution by the Company.

*Escrowed securities*
Common shares in the Company which are subject to specific terms of release.

*Fair value adjustment*
An estimate of the fair value of an asset (or liability) for which a market price cannot be determined, usually because there is no established market for the asset. At Canaccord, adjustments were made to reflect our estimate of the value of the restructured ABCP notes based on discounting expected future cash flows on a probability weighted basis considering best available data at the time of valuation.

*Fixed income trading*
Trading in new issues, government and corporate bonds, treasury bills, commercial paper, strip bonds, high yield debt and convertible debentures.

*Institutional sales and trading*
A capital markets business segment providing market information and research, advice and trade execution to institutional clients.

*International Financial Centre Vancouver*
Membership provides certain tax and financial benefits, reducing the overall corporate tax rate, pursuant to British Columbia legislation.

*International Financial Centre Montreal*
Membership provides certain tax and financial benefits, reducing the overall corporate tax rate, pursuant to Quebec legislation.

*International trading*
Executing trades in Canadian securities on behalf of US brokerage firms.

*Investment banking*
Assisting public and private businesses and governments to obtain financing in the capital markets through the issuance of debt, equity and derivative securities on either an underwritten or an agency basis.

*Liquidity*
The total of cash and cash equivalents available to the Company as capital for operating and regulatory purposes.

*London Stock Exchange (LSE)*
One of the world's largest stock exchanges; it has been in existence for more than 300 years and has over 3,200 listed companies. The exchange has four main sectors: The Main Market; The AIM Market; The Professional Securities Market; and The Specialist Fund Market.

*Long term incentive plan (LTIP)*
A reward system designed to align employee and external shareholder interests. Under Canaccord's LTIP, a portion of an eligible employee's annual compensation is held back to purchase Restricted Share Units (RSUs) of the Company. The RSUs are topped up by the Firm and vest over three years.

*National Health Insurance (NHI) tax*
Payroll tax applicable to UK employees based on percentage of incentive compensation payout.

*Nominated Adviser (Nomad)*
A company approved by the LSE to act as an adviser for companies who wish to be admitted to AIM. A Nomad warrants to the LSE that the company is appropriate for admission and assists the listed company on an ongoing basis with disclosure and other market related matters.

*Non-cash charges*
Charges booked by a company that do not impact its cash balance or working capital.

*Principal trading*
Trading in equity securities in principal and inventory accounts. Revenue is generated through inventory trading gains and losses.

*Registered trading*
Trading in equity securities in principal and inventory accounts by registered traders who operate by taking positions, trading and making markets in equity securities including securities of companies with small to medium sized market capitalizations. Revenue is generated through inventory trading gains and losses.

*Restructured notes (also referred to as Restructured ABCP)*
Notes provided to investors and the Company as a result of the restructuring of Canadian non-bank asset-backed commercial paper, in return for their initial ABCP investment.

*Return on average common equity (ROE)*
Net income expressed as a percentage of average common equity. This measure is non-GAAP.

*Risk*
Financial institutions face a number of risks that may expose them to losses, including market, credit, operational, regulatory and legal risk.

*Separately managed accounts (SMAs)*
Client accounts in which securities are individually owned rather than held through a pooled fund. Managed by both internal and external senior portfolio managers.

*Significant items*
Charges not considered to be recurring or indicative of operating earnings. For Canaccord this includes the ABCP fair value adjustment, accrual for client relief program, fair value adjustment of ABCP purchased by the Company under the client relief program, impairment of goodwill and intangibles, and restructuring costs.

*Syndicate participation*
A group of investment banking firms coordinating the marketing, distribution, pricing and stabilization of equity financing transactions.

*Trading services*
Quotation services, trade reconciliation, execution management, order book management and trade reporting.

*Underwriter – investment banking*
Purchases securities or other instruments from a corporate issuer for resale to investors.

*Value-at-Risk (VaR)*
VaR is a generally accepted risk measurement concept that is defined as the predicted worst-case loss in market value of a portfolio at a specific confidence level (e.g., 95%) over a certain period of time (e.g., daily).

*Wrap accounts*
A type of brokerage account where a single or flat fee covers all administrative, research, advisory and management expenses.

# CORPORATE GOVERNANCE

The Board of Directors (the "Board") assumes responsibility for the stewardship of the Company, acting as a whole and through its committees, and has approved a formal Board Governance Manual (the "Mandate") including terms of reference for the Board and setting forth the Board's stewardship responsibilities and other specific duties and responsibilities. The Board's responsibilities are also governed by:

- The *Business Corporations Act* (British Columbia)
- The Company's articles
- The charters of its committees
- Other corporate policies and applicable laws

### COMMUNICATION WITH INDEPENDENT MEMBERS OF THE BOARD

Terrence Lyons has been appointed by the Board of Directors of Canaccord Capital Inc. as its Lead Director. One of his responsibilities is to receive and determine appropriate action on any communications from interested parties that are addressed to the independent directors of the Board. Such communications can be sent to Mr. Lyons in writing by mail to 406 – 815 Hornby Street, Vancouver, BC V6Z 2E6.

### STRATEGIC PLANNING PROCESS

The Board's Mandate provides that the Board is responsible for ensuring that the Company has an effective strategic planning process. As such, the Board reviews, approves, monitors and provides guidance on the Company's strategic plan.

### IDENTIFICATION AND MANAGEMENT OF RISKS

The Board's Mandate includes:

- Assisting management to identify the principal business risks of the Company
- Taking reasonable steps to ensure the implementation of appropriate systems to manage and monitor those risks
- Reviewing plans for evaluating and testing the Company's internal financial controls
- Overseeing the external auditors, including the approval of the external auditors' terms of reference

### SUCCESSION PLANNING AND EVALUATION

The Board's Mandate includes keeping in place adequate and effective succession plans for the Chief Executive Officer (CEO) and senior management.

- The Corporate Governance and Compensation Committee (the CGCC) receives periodic updates on the Company's succession plan at the senior officer level and monitors the succession planning process
- The succession plan is reviewed, at least annually, by the CGCC
- On the recommendation of the President & CEO, the Board appoints the senior officers of the Company

### COMMUNICATIONS AND PUBLIC DISCLOSURE

The Company's Disclosure Controls Policy (the DCP) addresses the accurate and timely communication of all important information relating to the Company and its interaction with shareholders, investment analysts, other stakeholders and the public generally.

- The DCP is reviewed annually by the Board
- The DCP, public securities regulatory filings, press releases and investor presentations are posted on the Company's website
- The Board reviews all quarterly and annual consolidated financial statements and related management discussion and analysis, the Company's earnings releases, management information circulars, annual information forms (AIFs) and financing documents

### INTERNAL CONTROLS

The Board requires management to maintain effective internal controls and information systems. The Board, with the assistance of the Audit Committee, oversees the integrity of the Company's internal control and information systems.

- The Audit Committee meets no less than four times a year with the Company's Chief Financial Officer (CFO) and senior finance staff to review internal controls over financial reporting and related information systems
- External auditors provide recommendations to the Audit Committee on an annual basis on the Company's internal controls and information systems

As of March 31, 2009 an evaluation was carried out, under the supervision of and with the participation of management, including the President & CEO and the Executive Vice President & CFO, of the effectiveness of our disclosure controls and procedures as defined under *National Instrument 52-109*. Based on that evaluation, the President & CEO and the Executive Vice President & CFO concluded that the design and operation of these disclosure controls and procedures were effective as of March 31, 2009.

### GOVERNANCE

The Board recognizes the current trend towards having a majority of independent directors. As the Company continues to be largely employee owned, it is of the view that the number of its members that are independent directors adequately reflects the perspectives and interests of the minority shareholders.

- The Board is currently composed of 11 directors, 5 of whom are independent of management as determined under applicable securities legislation
- The CGCC is responsible for periodically reviewing the composition of the Board and its committees
- A formal annual assessment process has been established to include feedback by all the directors to the full Board, including the completion of a confidential survey with an outside consultant compiling the results
- New directors are provided with substantial reference material on the Company's strategic focus, financial and operating history, corporate governance practices and corporate vision

### SUMMARY OF CHARTERS AND COMMITTEES

The Board has delegated certain of its responsibilities to two committees, each of which has specific roles and responsibilities as defined by the Board. All Board committees are made up solely of non-management directors, a majority of whom are independent directors.

**Audit Committee**

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities by monitoring the Company's financial reporting practices and financial disclosure. It comprises two unrelated directors and a third director who is related only as a director of a subsidiary. All members of the Audit Committee are financially literate; that is, they are able to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements. The current members of the Audit Committee are Messrs. Lyons (Chair), Eeuwes and Harwood.

The Audit Committee has adopted a charter which specifically defines the roles and responsibilities of the Audit Committee. The Audit Committee Charter can be found in the Company's AIF filed on SEDAR. The Audit Committee has direct communication channels with the external auditors and CFO and senior finance staff and discusses and reviews issues with each of them on a regular basis.

The Audit Committee is responsible to ensure management has designed and implemented an effective system of internal control. The external auditors are hired by and report directly to the Audit Committee. After consultation with management, the Audit Committee is responsible for setting the external auditors' compensation. The external auditors attend each meeting of the Audit Committee, and a portion of each meeting is held without the presence of management. The Audit Committee reviews and approves annually the external auditors' audit plan and must approve any non-audit work by the external auditors. The CFO and senior finance staff attend each meeting of the Audit Committee other than the portion of the meeting which is held without management present to allow a more open discussion. The Audit Committee reviews and approves annually the internal audit plan.

**Corporate Governance and Compensation Committee**

The Corporate Governance and Compensation Committee is responsible for developing the Company's approach to governance issues, reviewing the Company's overall governance principles and recommending changes to those principles from time to time. It comprises three unrelated directors: Messrs. Harris (Chair), Eeuwes and Lyons. The committee has full access to staff and resources. At all regular committee meetings during the year, a portion of such meeting is held without management present to allow a more open discussion.

# BOARD OF DIRECTORS

**PETER M. BROWN, O.B.C., LL.D.** (1997)
Peter Brown is the Chairman of the Board and a director of Canaccord Capital Inc. and Canaccord Capital Corporation. In 1968 he joined Hemsworth, Turton & Co., Ltd., which subsequently became known as Canaccord Capital Corporation.

Since 1968, Mr. Brown has been involved in the Canadian capital markets. Mr. Brown is currently a member of the board of directors of the Investment Industry Association of Canada, and is a past member of the board and of the executive committee of the Investment Dealers Association. He is a past Chairman of the Board of the University of British Columbia, the Vancouver Stock Exchange, BC Place Corporation and BC Enterprise Corporation. He was also the Vice Chairman of Expo '86 Corporation.

He is currently on the board of trustees for The Fraser Institute, a Canadian research organization. He is a past member of the Chief Executives Organization and the Young Presidents Organization. He is a former member of the board of governors of the Atlantic Institute for International Affairs, the CICA Accounting Research Advisory Board and the Council for Business and the Arts in Canada.

Mr. Brown is a past recipient of the BC Chamber of Commerce Businessman of the Year award. He was awarded the BC & Yukon Chamber of Mines Financier Award for 2000, the Ernst & Young Pacific Entrepreneur of the Year Award for 2001 and in 2002 the Distinguished Service Award by the Prospectors and Developers Association of Canada.

In January 2003, Mr. Brown received a Commemorative Medal for the Golden Jubilee of Her Majesty Queen Elizabeth recognizing his community service. In June 2003, he was awarded the Order of British Columbia recognizing his fundraising efforts for various charities and organizations in British Columbia as well as the vital role he has played in financing hundreds of British Columbia businesses.

In February 2004, Mr. Brown was named "Person of the Year" by the Brotherhood Inter-Faith Society of British Columbia and in 2007 he was named Distinguished Graduate by St. George's Private School. In 2005 Mr. Brown received an honorary Doctor of Laws from the University of British Columbia. He is currently a member nominated by the Government of Canada of the board of directors of the Vancouver Organizing Committee of the 2010 Olympic and Paralympic Winter Games (VANOC).

**PAUL D. REYNOLDS** (2005)
Paul Reynolds was named as President of Canaccord Capital Inc. in August 2006, and CEO in August 2007. Mr. Reynolds has also been Vice Chair, Global Head of Canaccord Adams since April 2005. He is very active in investment banking operations and leads the Firm from Canaccord's Vancouver, BC office.

Mr. Reynolds has over 24 years of experience in the securities industry beginning as a floor trader. He joined Canaccord Capital in 1985, working as an Investment Advisor in Vancouver. Mr. Reynolds specialized in financing emerging and developing companies in the resource, technology and biotechnology sectors.

Between 1999 and 2008, he managed Canaccord's London, England office as President and COO of European operations. Mr. Reynolds has been integral to the development of our business in Europe and a primary contributor to our successful position as an active participant in the European equity markets, specializing in small to medium sized emerging companies.

**MASSIMO CARELLO** (2008)
Mr. Carello was the Chairman and Chief Executive Officer of Diners Club UK Ltd. from 2001 to 2004 and was the Chairman and Chief Executive Officer of Fiat UK Ltd. from 1990 to 2001. Mr. Carello served as a member of the Confederation of British Industry (CBI) President's Committee from 1998 to 2003 and was a member of the CBI European Committee. He was Vice President of the Italian Chamber of Commerce in the UK from 1998 to 2005. In addition to Canaccord Capital Inc., Mr. Carello is a director of Uranium One Inc. and Orsu Metals Corporation.

**WILLIAM J. EEUWES** (2002)
**Audit Committee**
**Corporate Governance and Compensation Committee**
Mr. Euewes is Vice President of Manulife Capital, and has more than 29 years of experience in underwriting and the management of a broad range of asset classes, including private equity, mezzanine loans, project finance and infrastructure and oil and gas. Mr. Eeuwes is a Fellow of the Institute of Canadian Bankers and has an honours degree in business from the University of Western Ontario. He is also a director of Seamark Asset Management Limited.

**MICHAEL D. HARRIS** (2004)
**Corporate Governance and Compensation Committee**
Mr. Harris is a senior business advisor with the law firm of Goodmans LLP in Toronto and the President of his own consulting firm, Steane Consulting Ltd. Between the years of 1995 and 2002, Mr. Harris was the Premier of the Province of Ontario. Mr. Harris is also a director of a number of other public companies, and serves as a director of the Tim Horton Children's Foundation and the Mount Royal College Foundation. Mr. Harris received his ICD.D certification from the Institute of Corporate Directors.

**BRIAN D. HARWOOD** (2004)
**Audit Committee**
Brian Harwood is a former President & Chief Operating Officer of Canaccord Capital Corporation. He was also previously a governor and Chairman of the Vancouver Stock Exchange, a director and Chairman of the Canadian Investor Protection Fund and a director of the Investment Dealers Association. Mr. Harwood is not currently a director of any other public companies.

**TIMOTHY J.D. HOARE** (2005)
Mr. Hoare is the Chairman & Chief Executive Officer of Canaccord Adams Limited. In 1990 Mr. Hoare became a director of Credit Lyonnais Laing International. In 1993 Mr. Hoare established T. Hoare & Co. Limited, an investment dealer based in London, England. Canaccord acquired a minority interest in T. Hoare & Co. Limited in 1996 and in 1999 it became a wholly owned subsidiary – Canaccord Capital (Europe) Limited.

**TERRENCE A. LYONS** (2004)
**Audit Committee**
**Corporate Governance and Compensation Committee**
Mr. Lyons has over 35 years of experience in the financing, development and management of natural resource, manufacturing, real estate and merchant banking companies. He is currently non-executive Chairman of Northgate Minerals Corporation and a director of several private companies. In 1986, he became Senior Vice President of Versatile Corporation, Chairman of Versatile Pacific Shipyard and presided over the restructuring of the corporation, which is now known as B.C. Pacific Capital Corporation, a senior merchant and investment banking company, which is part of Brookfield Asset Management. In 2004 Mr. Lyons retired from Brookfield Asset Management to pursue other opportunities. Mr. Lyons has been active in Junior Achievement, the United Way, Special Olympics and other charitable and sports organizations.

**MARK G. MAYBANK** (2006)
Mr. Maybank is the Chief Operating Officer of Canaccord Capital Inc. and the President & Chief Operating Officer of Canaccord Capital Corporation. He joined Canaccord in 2001 and was responsible for its research activity. Before joining Canaccord, Mr. Maybank was an executive vice-president at a technology services and software development firm. Before that, he was a technology analyst with Yorkton Securities and chief financial officer of a US based cellular services company. Before that, he held various positions with a large multinational accounting and consulting firm. Mr. Maybank has earned both his Chartered Accountant and Chartered Business Valuator designations.

**MICHAEL A. WALKER** (2006)
Dr. Michael Angus Walker is a Senior Fellow at the Fraser Institute and President of The Fraser Institute Foundation. From its inception in 1974, until September 2005, Dr. Walker directed the activities of The Fraser Institute, an independent public policy organization. Prior to this, he taught at Carleton University and the University of Western Ontario. He has previously worked at the Bank of Canada and then subsequently joined the Federal Department of Finance. He received his Ph.D. at the University of Western Ontario and his B.A. at St. Francis Xavier University, Nova Scotia.

**JOHN B. ZAOZIRNY, Q.C.** (2004)
Mr. Zaozirny joined Canaccord Capital Corporation in January 1996 as a director and Vice-Chairman of its Board and is a member of its capital markets group. Until his retirement in December 2008, he also served as counsel to McCarthy Tétrault LLP and is a member of the Law Societies of Alberta and British Columbia. Mr. Zaozirny served in the Alberta legislature as minister of energy from 1982 to 1986. He is also a director of a number of other public companies.

The date appearing after the name of each director indicates the year in which he became a director. The term of office is subject to voting at the Annual General Meeting in 2009.

# OTHER EXECUTIVES

JAMIE BROWN (Boston, MA)
*President of Canaccord Adams Inc.*
*Head of Investment Banking (US)*

PETER CHANDLER (Toronto, ON)
*Senior Vice President & Director,*
*National Sales Manager (Private Client Services),*
*Branch Manager*

MATTHEW CICCI (Vancouver, BC)
*Senior Vice President & Director,*
*Regional Co-Manager of Private Client Services*
*(Western Canada), Branch Manager*

MIKE CUTHBERT (London, UK)
*Managing Director, Co-Head of Sales (UK)*

SCOTT DAVIDSON (Toronto, ON)
*Managing Director, Global Head of Marketing*
*and Communications*

PAUL DIPASQUALE (Vancouver, BC)
*Executive Vice President, Branch Manager*

DARREN ELLIS (London, UK)
*Managing Director, Chief Operating Officer,*
*Canaccord Adams Limited*

MATTHEW GAASENBEEK (Toronto, ON)
*Executive Vice President & Managing Director,*
*Head of Capital Markets, North America*

TOM GABEL (Boston, MA)
*Managing Director, Co-Head of Equities (US),*
*Head of Sales (US)*

DAMIEN HACKETT (London, UK)
*Managing Director, Head of Research (UK),*
*Senior Mining Analyst*

ZOLTAN HORCSOK (Toronto, ON)
*Head of Sales Trading (Canada)*

ANDREW JAPPY (Vancouver, BC)
*Executive Vice President & Chief Information Officer,*
*Head of International Trading (Canada),*
*Head of Registered Trading Group (Canada)*

NEIL JOHNSON (London, UK)
*Managing Director, Head of Corporate Finance (UK)*

KEN KNOWLES (Toronto, ON)
*Managing Director, Head of Fixed Income*

BRADLEY KOTUSH (Vancouver, BC)
*Executive Vice President & Chief Financial Officer*

PATRICK LECKY (Vancouver, BC)
*Senior Vice President & Director,*
*Regional Co-Manager of Private Client Services*
*(Western Canada), Branch Manager*

DON MACFAYDEN (Boston, MA)
*Chief Financial Officer, Canaccord Adams Inc.*

BRUCE MARANDA (Vancouver, BC)
*Executive Vice President & Director,*
*Global Credit & Compliance & Chief Compliance Officer*

JENS MAYER (Toronto, ON)
*Executive Vice President & Managing Director,*
*Head of Investment Banking (Canada)*

PETER MISEK (Toronto, ON)
*Managing Director, Head of Research (Canada),*
*Global Technology Strategist*

ROGER MURPHY (London, UK)
*Managing Director, Co-Head of Sales (UK)*

MIKE REYNOLDS (Toronto, ON)
*Senior Vice President & Director, Regional Manager of*
*Private Client Services (Eastern Canada), Branch Manager*

ERIC ROSS (New York, NY)
*Managing Director, Head of Research (US)*

JOHN ROTHWELL (Toronto, ON)
*Executive Vice President & Managing Director,*
*Head of Private Client Services*

GRAHAM SAUNDERS (Toronto, ON)
*Managing Director, Head of Sales (Canada)*

ANGELO SOFOCLEOUS (London, UK)
*Managing Director, Head of Trading (UK)*

JON SOLODAR (New York, NY)
*Managing Director, Co-Head of Equities (US),*
*Head of Sales Trading & Trading (US)*

PETER VIRVILIS (Vancouver, BC)
*Executive Vice President, Operations & Treasurer*

# LOCATIONS

## CANACCORD ADAMS

### Canada

*Toronto*
P.O. Box 516
Brookfield Place
Suite 3000
161 Bay Street
Toronto, ON
Canada M5J 2S1
Telephone: (416) 869-7368
Toll Free (Canada): 1-800-382-9280
Toll Free (US): 1-800-896-1058

*Calgary*
TransCanada Tower
Suite 2200
450 – 1st Street SW
Calgary, AB
Canada T2P 5P8
Telephone: (403) 508-3800
Toll Free: 1-800-818-4119

*Montreal*
Suite 2000
1250 René-Lévesque Boulevard West
Montreal, QC
Canada H3B 4W8
Telephone: (514) 844-5443
Toll Free: 1-800-361-4805

*Vancouver*
P.O. Box 10337
Pacific Centre
Suite 2200
609 Granville Street
Vancouver, BC
Canada V7Y 1H2
Telephone: (604) 643-7300
Toll Free (Canada): 1-800-663-1899
Toll Free (US): 1-800-663-8061

### United Kingdom

*London*
7th Floor, Cardinal Place
80 Victoria Street
London, UK
SW1E 5JL
Telephone: 44 20 7050 6500

### Barbados

26 Cassia Heights
Royal Westmoreland
St. James, Barbados BB 24023
Telephone: (246) 419-0466

### United States

*Boston*
Suite 1200
99 High Street
Boston, MA
USA 02110
Telephone: (617) 371-3900
Toll Free: 1-800-225-6201

*New York*
2nd Floor
535 Madison Avenue
New York, NY
USA 10022
Telephone: (212) 849-3900
Toll Free: 1-800-818-2196

*San Francisco*
Suite 2000
101 Montgomery Street
San Francisco, CA
USA 94104
Telephone: (415) 229-7171
Toll Free: 1-800-225-6104

*Houston*
71st floor
1000 Louisiana Street
Houston, TX
USA 77002
Telephone: (713) 331-9901

## PRIVATE CLIENT SERVICES

### British Columbia

*Vancouver Head Office*
P.O. Box 10337
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Toll Free (US):
1-800-663-8061

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Toll Free: 1-800-663-1899

*Abbotsford*
Suite 200
32071 South Fraser Way
Abbotsford, BC
Canada V2T 1W3
Telephone: (604) 504-1504
Toll Free: 1-877-977-5677

*Campbell River*
Suite 1
1170 Shoppers Row
Campbell River, BC
Canada V9W 2C8
Telephone: (250) 287-8807
Toll Free: 1-800-347-0270

*Kelowna*
Suite 602
1708 Dolphin Avenue
Kelowna, BC
Canada V1Y 9S4
Telephone: (250) 712-1100
Toll Free: 1-888-389-3331

*Nanaimo*
75 Commercial Street
Nanaimo, BC
Canada V9R 5G3
Telephone: (250) 754-1111
Toll Free: 1-800-754-1907

*Prince George*
1520 – 3rd Avenue
Prince George, BC
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Telephone: (250) 562-7255
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*Vernon*
3108-30th Avenue
Vernon, BC
Canada V1T 2C2
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*Victoria*
Suite 400
737 Yates Street
Victoria, BC
Canada V8W 1L6
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Toll Free: 1-877-666-2288

*White Rock*
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1688 – 152nd Street
Surrey, BC
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## Ontario

*Toronto*
P.O. Box 516
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Toll Free (US):
1-800-896-1058

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*Ottawa*
World Exchange Plaza
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Toll Free: 1-888-899-9994

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*Thunder Bay*
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Toll Free: 1-877-889-2233

*Waterloo*
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80 King Street South
Waterloo, ON
Canada N2J 1P5
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Toll Free: 1-800-495-8071

## Alberta

*Calgary*
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## Quebec

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*Beloeil*
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Beloeil, QC
Canada J3G 4V6
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Toll Free: 1-866-467-8294

*Quebec City*
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Tour Belle Cour
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2590 Laurier Blvd.
Quebec, QC
Canada G1V 4M6
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Toll Free: 1-866-658-2924

## Nova Scotia

*Halifax*
P.O. Box 338 CRO
Suite 1300
1701 Hollis Street
Halifax, NS
Canada B3J 2N7
Telephone: (902) 482-4489
Toll Free: 1-866-371-2262

## Yukon

*Whitehorse*
206-D Jarvis Street
Whitehorse, YT
Canada Y1A 2H1
Telephone: (867) 668-7111
Toll Free: 1-800-661-0554

## United States

Canaccord Capital Corporation (USA), Inc.
P.O. Box 10337
Pacific Centre
Suite 2200
609 Granville Street
Vancouver, BC
Canada V7Y 1H2
Telephone: (604) 684-5992

## OTHER LOCATIONS

### Pinnacle Correspondent Brokerage Services

*Vancouver*
P.O. Box 10337
Pacific Centre
Suite 2200
609 Granville Street
Vancouver, BC
Canada V7Y 1H2
Telephone: (604) 643-7300

*Toronto*
P.O. Box 516
Brookfield Place
Suite 3000
161 Bay Street
Toronto, ON
Canada M5J 2S1
Telephone: (416) 869-7368

### Registered Trading (1)

*Ancaster*
Suite 3
240 Wilson Street East
Ancaster, ON
Canada L9G 2B7
Telephone: (905) 648-5584

(1) Registered Trading is not exclusive to this location.

# SHAREHOLDER INFORMATION

**CORPORATE HEADQUARTERS:**
**Street address:**
Canaccord Capital Inc.
2200 – 609 Granville Street
Vancouver, BC, Canada

**Mailing address:**
P.O. Box 10337
Pacific Centre
2200 – 609 Granville Street
Vancouver, BC, V7Y 1H2, Canada

**STOCK EXCHANGE LISTING:**
TSX: CCI
AIM: CCI

**GENERAL SHAREHOLDER INQUIRIES AND INFORMATION:**
Investor Relations
Suite 3000 – 161 Bay Street
Toronto, ON, Canada
Telephone: (416) 869-7293
Fax: (416) 947-8343
Email:
investor_relations@canaccord.com

**MEDIA RELATIONS:**
Scott Davidson
Managing Director, Global Head of Marketing & Communications
Telephone: (416) 869-3875
Email: scott_davidson@canaccord.com

**INSTITUTIONAL INVESTORS, BROKERS AND SECURITY ANALYSTS:**
**For financial information inquiries contact:**
Joy Fenney
Vice President, Investor Relations & Communications
Suite 3000 – 161 Bay Street
Toronto, ON, Canada
Telephone: (416) 869-3515
Fax: (416) 869-7327
Email: joy_fenney@canaccord.com

This CCI 2009 Annual Report is available on our website at canaccord.com. For a printed copy please contact the Investor Relations department.

**COMMON SHARE TRADING INFORMATION (FISCAL 2009)**

| *Stock exchange* | *Ticker* | *Diluted shares outstanding at March 31, 2009* | *Year-end price March 31, 2009* | *High* | *Low* | *Total volume of shares traded* |
|---|---|---|---|---|---|---|
| Toronto TSX | CCI | 57,250,972 | $ 5.40 | $ 11.75 | $ 2.87 | 60,946,620 |
| London AIM | CCI | 57,250,972 | £ 2.88 | £ 5.43 | £ 2.25 | 21,065 |

**FISCAL 2009 DIVIDEND DATES AND AMOUNTS**

| *Quarter end date* | *Record date* | *Payment date* | *Dividend* |
|---|---|---|---|
| June 30, 2008 | August 29, 2007 | September 10, 2008 | $0.125 |
| September 30, 2008 | Suspended | Suspended | – |
| December 31, 2008 | Suspended | Suspended | – |
| March 31, 2009 | Suspended | Suspended | – |
| | | **Total dividends** | $0.125 |

**QUALIFIED FOREIGN CORPORATION**
CCI is a "qualified foreign corporation" for US tax purposes under the *Jobs & Growth Tax Reconciliation Act of 2003*.

## Fiscal 2010 Expected Earnings Release Dates

| | *Earnings release date* |
|---|---|
| Q1/10 | August 6, 2009 |
| Q2/10 | November 5, 2009 |
| Q3/10 | February 11, 2010 |
| Q4/10 | May 19, 2010 |

### Shareholder Administration:

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

### Computershare Investor Services Inc.:

100 University Avenue, 9th Floor
Toronto, ON, M5J 2Y1
Telephone Toll Free (North America): 1-800-564-6253
International: (514) 982-7555
Fax: 1-866-249-7775
Toll Free Fax (North America): or
International Fax: (416) 263-9524
Email: service@computershare.com
Internet: computershare.com
Offers enrolment for self-service account management for registered shareholders through the Investor Centre.

### Financial Information:

For present and archived financial information, please visit canaccord.com/financialreports

### Auditor:

Ernst & Young LLP
Chartered Accountants
Vancouver, BC

### Fees Paid to Shareholders' Auditors:

For fees paid to shareholders' auditors, see page 42 of the fiscal 2009 Annual Information Form.

### Principal Subsidiaries:

Canaccord Capital Corporation
Canaccord Adams Limited
Canaccord Adams Inc.
Canaccord International Ltd.
Canaccord Capital Corporation (USA), Inc.

### Corporate Website:

canaccord.com

### Editorial Services:

Tudhope & Company, Inc.

### Annual General Meeting:

The Annual General Meeting of shareholders will be held on Friday, June 26, 2009 at 10:00 am (Pacific time) at The Four Seasons Hotel, Park Ballroom, 791 West Georgia Street, Vancouver, BC, Canada.

A live Internet Webcast will also be available for shareholders to view. Please visit the Webcast events page at canaccord.com for more information and a direct link.

To view Canaccord's regulatory filings on SEDAR, please visit sedar.com.

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CAPITAL