CANACCORD Financial

Q1 FISCAL 2013 REPORT TO SHAREHOLDERS
A WORLD OF OPPORTUNITY

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Canaccord Financial Inc. Reports First Quarter Fiscal 2013 Results

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

TORONTO, August 8, 2012 – During the first quarter of fiscal 2013, the quarter ended June 30, 2012, Canaccord Financial Inc. (Canaccord, TSX: CF, LSE: CF.) generated $162.5 million in revenue and recorded a net loss of $20.6 million, or $(0.24) per common share. Excluding significant items(1), a non-IFRS measure, Canaccord recorded a net loss of $16.3 million, or $(0.20) per common share.

"We are making significant progress in capturing the cost synergies we believe are possible through our acquisition of Collins Stewart Hawkpoint, and we're actively engaged in additional cost reduction initiatives aimed at enhancing the efficiency of our operations during this period of market instability. On a combined basis, we're on track to remove over $47 million of annualized costs from our expanded global platform," stated Paul Reynolds, President and CEO of Canaccord Financial Inc. "We are confident our business is well positioned to gain market share in many of our core markets, even while adverse market conditions continue to challenge some of our revenue streams."

First Quarter of Fiscal 2013 vs. Fourth Quarter of Fiscal 2012

- Revenue of $162.5 million, down 9% or $15.2 million from $177.7 million
- Expenses of $187.0 million, down 10% or $20.7 million from $207.7 million
- Net loss of $20.6 million compared to a net loss of $31.8 million
- Excluding significant items, net loss of $16.3 million compared to net income of $2.1 million(1)
- Diluted loss per common share of $0.24 compared to diluted loss per common share of $0.42 in the fourth quarter of fiscal 2012
- Excluding significant items, diluted loss per common share of $0.20 compared to diluted earnings per common share (EPS) of $0.02 in the fourth quarter of fiscal 2012(1)

First Quarter of Fiscal 2013 vs. First Quarter of Fiscal 2012

- Revenue of $162.5 million, up 2% or $2.7 million from $159.8 million
- Expenses of $187.0 million, up 30% or $43.0 million from $144.0 million
- Net loss of $20.6 million compared to net income of $13.2 million
- Excluding significant items, net loss of $16.3 million compared to net income of $14.1 million(1)
- Diluted loss per common share of $0.24 compared to diluted EPS of $0.16
- Excluding significant items, diluted loss per common share of $0.20 compared to diluted EPS of $0.17(1)

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Financial Condition at End of First Quarter 2013 vs. First Quarter 2012

- Cash and cash equivalents balance of $644.0 million, down $66.7 million from $710.7 million
- Working capital of $398.9 million, down $87.1 million from $486.0 million
- Total shareholders' equity of $1.1 billion, up $251.8 million from $848.2 million
- Book value per diluted common share for the period end was $7.90, down 9% or $0.81 from $8.71
- On August 8, 2012, the Board of Directors approved a quarterly dividend of $0.05 per common share payable on September 10, 2012 with a record date of August 24, 2012
- On August 8, 2012, the Board of Directors also approved a cash dividend of $0.34375 per Series A Preferred Share payable on October 1, 2012 with a record date of September 14, 2012, and a cash dividend of $0.359375 per Series C Preferred Share payable on October 1, 2012 to Series C Preferred Shareholders of record as at September 14, 2012

Summary of Operations

CORPORATE

- On April 10, 2012, $97.5 million of the net proceeds from Canaccord's Series C Preferred Share offering was used to repay a portion of the $150.0 million short term credit facility the Company secured for bridge financing related to the acquisition of Collins Stewart Hawkpoint plc
  - The balance of the short term credit facility was repaid in full on May 22, 2012
- On June 7, 2012, Canaccord announced that Dan Daviau was appointed President of Canaccord Genuity Inc. (Canaccord's US capital markets operation) subject to regulatory approval

CAPITAL MARKETS

- Canaccord Genuity led or co-led 17 transactions globally, raising total proceeds of $448.7 million(2) during fiscal Q1/13
- Canaccord Genuity participated in 74 transactions globally, raising total proceeds of $1.9 billion(2) during fiscal Q1/13
- During fiscal Q1/13, Canaccord Genuity led or co-led the following transactions:
  - C$115.7 million for Artis Real Estate Investment Trust (REIT) on the TSX
  - C$115.0 million for Trez Capital Mortgage Investment Corporation (non-exchange listed)
  - C$110.0 million for HealthLease Properties REIT on the TSX
  - C$103.6 million for Amaya Gaming Group Inc. on the TSX Venture
  - C$100.0 million for Canaccord Financial Inc. on the TSX
  - C$68.2 million for Sentry Select Primary Metals Corp. on the TSX
  - US$40.0 million for PhotoMedex, Inc. on the NYSE
  - C$37.5 million for Badger Daylighting Ltd. on the TSX
  - C$30.0 million for Equus Petroleum Plc (non-exchange listed)
  - US$29.2 million for Kit Digital Inc. on NASDAQ
  - C$28.0 million for Amica Mature Lifestyles Inc. on the TSX
- In Canada, Canaccord Genuity raised $197.5 million for provincial bond issuances and $15.0 million for corporate bond issuances during fiscal Q1/13
- Canaccord Genuity generated advisory revenues of $25.2 million during fiscal Q1/13, an increase of 12% compared to the same quarter last year
- During fiscal Q1/13, Canaccord advised on the following M&A and advisory transactions:
  - Syngenta International Inc. on the sale of its Fafard Growing Media Business to Sun Gro Horticulture
  - Sunopta Inc. on the sale of Purity Life Natural Health Products to Banyan Capital Partners
  - DragonWave Inc. on its acquisition of Nokia Siemens Networks' microwave transport business
  - CanGas Solutions on its sale to CanElson Drilling Inc.
  - Reliable Energy Ltd. on its sale to Crescent Point Energy Corp.
  - ColCan Energy Corp. on its sale to Sintana Energy Inc.
  - Viterra's North American livestock feed operations on its sale to Hi-Pro Feeds LP
  - Global Radio on its acquisition of GMG Radio
  - The Department for International Development (UK government) on the disposal of its 40% stake in Actis LLP to Actis Management

CANACCORD WEALTH MANAGEMENT (GLOBAL)

- Globally, Canaccord Wealth Management generated $57.2 million in revenue. On an operating basis, after expense allocations, the division recorded a net loss of $6.5 million before taxes in Q1/13
- Assets under administration in Canada, and assets under management in the UK and Europe, and Australia, were $26.0 billion at the end of Q1/13[1]
- Canaccord Wealth Management had 47 offices worldwide, as of June 30, 2012

CANACCORD WEALTH MANAGEMENT (NORTH AMERICA AND AUSTRALIA)

- Canaccord Wealth Management generated $37.6 million in revenue and, after expense allocations, recorded a net loss of $7.3 million before taxes in Q1/13
- Assets under administration in Canada were $13.1 billion as at June 30, 2012, down 11% from $14.8 billion at the end of fiscal Q4/12 and down 16% from $15.7 billion at the end of fiscal Q1/12[1]
- Assets under management in Australia were $305 million at the end of fiscal Q1/13[1]
- Assets under management in Canada (discretionary) were $709 million as at June 30, 2012, up 5% from $677 million at the end of fiscal Q4/12 and up 23% from $575 million at the end of fiscal Q1/12[1]
- As at June 30, 2012, Canaccord Wealth Management had 269 Advisory Teams[3], an increase of six Advisory Teams from June 30, 2011 and a decrease of 11 from March 31, 2012
- During the first quarter of Canaccord's fiscal year, Canaccord Wealth Management closed two locations operating on the Independent Wealth Management (IWM) platform
  - The Simcoe, Ontario, IWM branch closed on June 8, 2012
  - One of Canaccord's Toronto, Ontario, branches. This IWM branch closed on June 29, 2012.
- Canaccord Wealth Management had 39 offices across Canada, including 21 operating on the IWM platform, as of June 30, 2012

CANACCORD WEALTH MANAGEMENT (UK AND EUROPE)

- Collins Stewart Wealth Management generated $19.6 million in revenue and, after expense allocations, recorded net income of $0.8 million before taxes in Q1/13
- Assets under management (discretionary and non-discretionary) were $12.6 billion (£7.9 billion)

SUBSEQUENT EVENTS

- On July 12, 2012, Canaccord held its 2012 Annual General Meeting of shareholders, where all nominated directors were re-elected to the Board
- On July 13, 2012, Canaccord Financial Inc.'s UK listing was graduated from AIM to the LSE main market (LSE: CF.)
- On July 16, 2012, Canaccord BGF (the Company's Australia and Hong Kong operations) was rebranded Canaccord Genuity and Canaccord Wealth Management to reflect Canaccord's global business divisions
- On August 3, 2012, Canaccord Financial Inc. made an application to the TSX to renew its normal course issuer bid (NCIB)

(1) See Non-IFRS Measures on page 4.
(2) Source: FP Infomart and Company Information
(3) Advisory Teams are normally comprised of one or more Investment Advisors (IAs) and their assistants and associates, who together manage a shared set of client accounts. Advisory Teams that are led by, or only include, an IA who has been licensed for less than three years are not included in our Advisory Team count, as it typically takes a new IA approximately three years to build an average-sized book of business.

NON-IFRS MEASURES

The non-International Financial Reporting Standards (IFRS) measures presented include assets under administration, assets under management, book value per diluted common share and figures that exclude significant items. Significant items include restructuring costs and acquisition-related expense items, which include costs recognized in relation to both prospective and completed acquisitions. Management believes that these non-IFRS 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. Figures that exclude significant items provide useful information by excluding certain items that may not be indicative of Canaccord's core operating results. A limitation of utilizing these figures that exclude significant items is that the IFRS accounting effects of these items do in fact reflect the underlying financial results of Canaccord's business; thus, these effects should not be ignored in evaluating and analyzing Canaccord's financial results. Therefore, management believes that Canaccord's IFRS measures of financial performance and the respective non-IFRS measures should be considered together.

SELECTED FINANCIAL INFORMATION EXCLUDING SIGNIFICANT ITEMS

	Three months ended June 30		
(C$ thousands, except % amounts)	2012	2011	Quarter-over-quarter change
Total revenue per IFRS	$ 162,549	$ 159,783	1.7%
Total expenses per IFRS	187,048	144,034	29.9%
Significant items recorded in Canaccord Genuity			
Amortization of intangible assets	4,373	930	370.2%
Significant items recorded in Canaccord Wealth Management			
Amortization of intangible assets	998	—	n.m.
Total significant items	5,371	930	477.5%
Total expenses excluding significant items	181,677	143,104	27.0%
Net income (loss) before tax – adjusted	$ (19,128)	$ 16,679	(214.7)%
Income taxes (recovery) – adjusted	(2,833)	2,554	(210.9)%
Net income (loss) – adjusted	$ (16,295)	$ 14,125	(215.4)%
Earnings (loss) per common share – basic, adjusted	$ (0.20)	$ 0.19	(205.3)%
Earnings (loss) per common share – diluted, adjusted	$ (0.20)	$ 0.17	(217.6)%

n.m.: not meaningful

ACQUISITION COST SYNERGIES AND COST REDUCTION STRATEGY

As discussed at the time of the acquisition of Collins Stewart Hawkpoint plc (CSHP) by Canaccord, the Company believed that the cost base of the combined group could be significantly reduced as a result of combining and rationalizing the common operations and common business units of Canaccord and CSHP. The Company has determined that over $42 million of costs could be eliminated from the combined operations. Details of these cost reductions are provided in the table on the next page. This estimate is based on the cost reductions the Company expects to capture on an annual basis, compared to the cost base of each of Canaccord and CSHP as separate companies prior to the business combination.

In addition to the cost synergies identified from the acquisition of CSHP, further cost reduction initiatives have been implemented in Canada by the Company, which are expected to remove approximately $5.5 million in annual costs from Canaccord's operations. These initiatives are described below:

- Canaccord has restructured its Montréal, Canada, office. Staffing changes from this restructuring led to eliminating 16 positions. In addition, the Company is in the process of consolidating its Montréal office space to reduce leasehold expenses and this is expected to remove approximately $6.6 million of leasehold costs from the business, or $1.2 million on an annual basis.
- Subsequent to quarter end, Canaccord implemented a number of staffing reductions in Canada to better align the Company's resources with current market conditions. Approximately 60 full-time and contract positions were removed as a result of this initiative. This restructuring removed approximately $4.3 million of annualized costs from the business.

SUMMARY OF EXPECTED COST REDUCTIONS

Global cost reductions (Annualized gross reductions, C$ thousands)	Restructuring[1]	Other costs[2]	Total
Cost synergies through activities related to the acquisition of CSHP			
Cost reductions implemented prior to June 30, 2012			
UK and Europe	$ 19,888	$ 6,977	$ 26,865
US	1,314	—	1,314
Total	21,202	6,977	28,179
Further cost synergies identified			
(Historic cost levels expected to be removed from the business)			
UK and Europe	4,670	1,916	6,586
US	2,139	5,194	7,333
Total	6,809	7,110	13,919
Total expected cost synergies related to the CSHP acquisition	28,011	14,087	42,098
Other cost reductions (primarily in Canada)	4,300	1,200[3]	5,500
Total global cost reductions	$ 32,311	$ 15,287	$ 47,598

(1) Based on annualized salaries.
(2) Consists of annualized communications and technology, premises and equipment, and other general and administrative costs.
(3) A total of $6.6 million of costs will be avoided over the 5.5 years that were left on the leasehold agreement.

Certain costs associated with some of these initiatives have been incurred and recorded prior to June 30, 2012. Additional severance expenses and other costs associated with implementing the cost reduction strategies and restructuring initiatives subsequent to June 30, 2012 will be recorded as they are incurred. Restructuring and operational costs associated with changes implemented in Canada and the US are expected to total approximately $4.4 million, and will be recorded as an expense in the Company's fiscal Q2/13 quarter.

A substantial portion of the restructuring cost reductions outlined above are in connection with eliminating several positions within revenue producing business units. In connection with the elimination of these positions and restructuring of these business units, the Company is reviewing the compensation structure within these units and will be adjusting incentive compensation pools and performance bonus programs as appropriate.

Fellow Shareholders:

Our focus for much of the fiscal first quarter has been on capturing the cost synergies we believe are possible from our acquisition of Collins Stewart Hawkpoint plc (CSHP) and continuing our cost reduction initiatives in other areas of our business. As a result of these combined efforts, over $47.6 million of annualized costs have been, or are in the process of being, removed from our combined operations. This includes $42.1 million of cost reductions by merging the operating platforms of Canaccord and Collins Stewart Hawkpoint, compared to the cost base of Canaccord and CSHP as separate companies prior to the business combination. We are also actively engaged in reducing costs in Canada to better align our business with today's market environment. Approximately $5.5 million of annualized costs are in the process of being removed from our operations as a result of changes to our Canadian business.

Our operating environment continues to be characterized by adverse market conditions – particularly in the small to mid-market resource space – a traditional strength for our company. The results were apparent in several revenue lines during our fiscal first quarter. While we anticipate the ongoing European debt crisis may take many more months to resolve, we remain highly confident our business is optimally positioned to continue capturing market share in many of our core markets. We still view the ongoing economic downturn as an important opportunity to establish new client relationships and expand our existing ones, as other industry participants retrench.

Despite the unfavourable market environment during our fiscal first quarter, revenue increased compared to the previous quarter and the same period last year, to $162.5 million, due mostly to our expanded platform. Expenses also increased as a result of our larger operating base, to $187.0 million, or $181.7 million excluding significant items, which consisted of amortization related to acquisitions. Excluding significant items, Canaccord recorded a net loss of $16.3 million, or $0.20 per diluted common share.

Solid Capital Position

Canaccord's balance sheet remains strong and liquid, and our capital levels continue to be comfortably above our capital requirements. However, to better align our capital priorities with our economic landscape, Canaccord's Board of Directors approved the reduction of our common share dividend to $0.05. We believe this is a prudent measure as global economic uncertainty continues to prolong as a result of ongoing European debt concerns. In the future it is our intent to maintain a base quarterly dividend of $0.05. We would anticipate distributing additional extra dividends of up to 50% of our net profits, subject to Board approval. We believe this policy will better reward our shareholders as our business prospects improve.

During the quarter Canaccord successfully completed an issuance of 4,000,000 Series C Preferred Shares that raised $100 million of capital for our business. The proceeds were used to retire all debt the Company took on to facilitate the acquisition of CSHP. Today, the only debt Canaccord holds on its balance sheet is a long-standing $15 million credit facility. We have also taken the important step of transitioning our UK common share listing from the AIM to the LSE main market – an initiative that reflects our commitment to that market and our growing UK shareholder base. As of July 13, Canaccord's common shares are now dual-listed on the TSX and LSE.

Canaccord Genuity

Canaccord's global capital markets division generated $100.5 million of revenue during the fiscal first quarter, a decline from last quarter, due primarily to a significant pull back in underwriting activity, especially within the resource and oil & gas sectors. M&A and advisory activity continued to provide a strong contribution to our business, generating $25.2 million of advisory revenue during the quarter.

We expect that Canaccord's fiscal second quarter will benefit from several large advisory fees as a result of transactions that are on track to close during that quarter, namely Viterra's $7.5 billion acquisition by Glencore, Yellow Media's $1.8 billion debt restructuring, and Extorre Gold Mines' $414 million acquisition by Yamana Gold. We also continue to see opportunities for our expanded advisory practice in the UK. This quarter, our larger UK M&A and Advisory team generated more revenue than our UK business did all of last fiscal year. Even more, we're trending to generate another record year of global advisory revenue.

Wealth Management

Canaccord's wealth management operations were significantly expanded through the addition of Collins Stewart Wealth Management in the UK and Europe. In addition to this, we're also making investments to enhance our growing wealth management operations in Australia.

In the UK and Europe, Canaccord's wealth management business continued to demonstrate the stability of earnings, generating another profitable quarter. We remain pleased with the performance of this business, even while client trading activity slowed during the quarter due to the market environment and guarded investor sentiment.

In Canada, our wealth management business continues to be adversely affected by the unfavourable market conditions. Traditional transactional activity declined as a result of reduced equity issuances in many of our focus sectors. However, the strength of our wealth management platform was demonstrated again, with assets in fee-based accounts increasing 5% during the fiscal quarter and 23% compared to the same quarter last year.

In Australia, we're continuing to invest in the build out of our wealth management operations. In July we rebranded the retail operations in that region as Canaccord Wealth Management – increasing the prominence of our brand, and underscoring the opportunity we see for wealth management in Australia.

Looking Forward

Our priorities for the next several quarters remain focused on achieving the cost and revenue synergies we believe are possible through our expanded global platform, and on improving the operating efficiency of our support departments. We'll also continue with efforts that ensure our clients receive the full value of our integrated global platform, applying our global expertise to differentiate ourselves in all our local markets. We're confident in our market position and in the quality of service we provide our growing client base. And we are committed to demonstrating the value of our platform to all of our stakeholders.

Kind regards,

PAUL D. REYNOLDS
President & CEO

Management’s Discussion and Analysis

First quarter fiscal 2013 for the three months ended June 30, 2012 – this document is dated August 8, 2012

The following discussion of the financial condition and results of operations for Canaccord Financial Inc. (Canaccord or the Company) is provided to enable the reader to assess material changes in our financial condition and to assess results for the three-month period ended June 30, 2012 compared to the corresponding periods in the preceding fiscal year. The three-month period ended June 30, 2012 is also referred to as first quarter 2013 and Q1/13. This discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three-month period ended June 30, 2012, beginning on page 26 of this report; our Annual Information Form (AIF) dated May 29, 2012; and the 2012 annual Management’s Discussion and Analysis (MD&A) including the audited consolidated financial statements for the fiscal year ended March 31, 2012 (Audited Annual Consolidated Financial Statements) in Canaccord’s annual report dated May 22, 2012 (the annual report). There has been no material change to the information contained in the annual MD&A for fiscal 2012 except as disclosed in this MD&A. Canaccord’s financial information is expressed in Canadian dollars unless otherwise specified.

Cautionary Statement Regarding Forward-Looking Information

This document may contain “forward-looking statements” (as defined under applicable securities laws). These statements relate to future events or future performance and reflect management’s expectations, beliefs, plans, estimates, intentions and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts, including business and economic conditions and Canaccord’s growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements reflect management’s current beliefs and are based on information currently available to management. In some cases, forward-looking statements can be identified by terminology such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “continue”, “target”, “intend”, “could” or the negative of these terms or other comparable terminology. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and a number of factors could cause actual events or results to differ materially from the results discussed in the forward-looking statements. In evaluating these statements, readers should specifically consider various factors that may cause actual results to differ materially from any forward-looking statement. These factors include, but are not limited to, market and general economic conditions, the nature of the financial services industry and the risks and uncertainties discussed from time to time in the Company’s interim condensed and annual consolidated financial statements and its annual report and the AIF filed on www.sedar.com as well as the factors discussed in the section entitled “Risks” in this MD&A, which include market, liquidity, credit, operational, legal and regulatory risks. Material factors or assumptions that were used by the Company to develop the forward-looking information contained in this document include, but are not limited to, those set out in the Fiscal 2013 Outlook section in the annual MD&A and those discussed from time to time in the Company’s interim condensed and annual consolidated financial statements and its annual report and the AIF filed on www.sedar.com. The preceding list is not exhaustive of all possible risk factors that may influence actual results. Readers are cautioned that the preceding list of material factors or assumptions is not exhaustive.

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

Presentation of Financial Information and Non-IFRS Measures

This MD&A is based on the unaudited interim condensed consolidated financial statements for the three-month period ended June 30, 2012 (First Quarter 2013 Financial Statements) prepared in accordance with International Financial Reporting Standards (IFRS). First Quarter 2013 Financial Statements have been prepared in accordance with International Accounting Standard 34, “*Interim Financial Reporting*” (IAS 34), using accounting policies consistent with those applied in preparing the Company’s Audited Annual Consolidated Financial Statements for the year ended March 31, 2012.

NON-IFRS MEASURES

Certain non-IFRS measures are utilized by Canaccord as measures of financial performance. Non-IFRS measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Non-IFRS measures presented include assets under administration, assets under management, book value per diluted common share, return on common equity and figures that exclude significant items.

Canaccord’s capital is represented by common shareholders’ equity and, therefore, management uses return on common equity (ROE) as a performance measure. Also used by the Company as a performance measure is book value per diluted common share, which is calculated as total common shareholders’ equity divided by the number of diluted common shares outstanding.

Assets under administration (AUA) and assets under management (AUM) are non-IFRS measures of client assets that are common to the wealth management business. AUA – Canada, AUM – Australia or AUM – UK and Europe is the market value of client assets managed and 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. AUM – Canada includes all assets managed on a discretionary basis under programs that are generally described as or known as the *Complete Canaccord Investment Counselling Program* and the *Complete Canaccord Managed Account Program*. Services provided include the selection of investments and the provision of investment advice. Canaccord’s method of calculating AUA – Canada, AUM – Canada, AUM – Australia or AUM – UK and Europe may differ from the methods used by other companies and therefore may not be comparable to other companies. Management uses these measures to assess operational performance of the Canaccord Wealth Management business segment, which now includes Collins Stewart Wealth Management. AUM – Canada is also administered by Canaccord and is included in AUA – Canada.

Financial statement items that exclude significant items are non-IFRS measures. Significant items for these purposes are defined as including restructuring costs and acquisition-related expense items, which include costs recognized in relation to both prospective and completed acquisitions. See the Selected Financial Information Excluding Significant Items table on page 13.

Management believes that these non-IFRS 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. Figures that exclude significant items provide useful information by excluding certain items that may not be indicative of Canaccord’s core operating results. A limitation of utilizing these figures that exclude significant items is that the IFRS accounting for these items does in fact reflect the underlying financial results of Canaccord’s business; thus, these effects should not be ignored in evaluating and analyzing Canaccord’s financial results. Therefore, management believes that Canaccord’s IFRS measures of financial performance and the respective non-IFRS measures should be considered together.

Business Overview

Through its principal subsidiaries, Canaccord Financial Inc. is a leading independent, full-service financial services firm, with operations in two principal segments of the securities industry: global capital markets and wealth management. Since its establishment in 1950, Canaccord has been driven by an unwavering commitment to building lasting client relationships. We achieve this by generating value for our individual, institutional and corporate clients through comprehensive investment solutions, brokerage services and investment banking services. Canaccord has 60 offices in 12 countries worldwide, including over 40 wealth management offices located in Canada, Australia, the UK and Europe. Canaccord Genuity, the Company’s international capital markets division, has operations in Canada, the US, the UK, France, Germany, Ireland, Italy, China, Hong Kong, Singapore, Australia and Barbados.

Canaccord Financial Inc. is publicly traded under the symbol CF on the TSX and the symbol CF. on the main market of the London Stock Exchange. Canaccord Series A Preferred Shares are listed on the TSX under the symbol CF.PR.A. Canaccord Series C Preferred Shares are listed on the TSX under the symbol CF.PR.C.

Our business is affected by the overall condition of the worldwide equity and debt markets, including the seasonal variance in these markets.

BUSINESS ENVIRONMENT

The correction in most risk assets that began in April accelerated during Canaccord’s fiscal first quarter. The European sovereign debt and banking crisis further escalated, with borrowing costs for Spain and Italy increasing to unsustainable levels. Also, weaker-than-expected employment and manufacturing statistics in the US raised the recession spectre once again. Finally, the Chinese economy decelerated markedly with GDP growth in the second calendar quarter falling below 8% for the first time since the first quarter of calendar 2009. Overall, a synchronized global economic slowdown was detrimental to both commodities and global equities.

During fiscal Q1/13, the Canadian resource-heavy S&P/TSX Composite suffered the most from an increase in investors’ risk aversion, falling 6.4%. Comparatively, the S&P 500 decreased 3.3%. Canadian equities underperformed their US counterparts for a third consecutive quarter and through seven out of the last eight quarters. Prospects of a continued economic slowdown in China and falling commodity prices have triggered an exodus of capital, with foreign investors selling $1.5 billion in Canadian equities so far this year. Since foreign holdings constitute mainly resource stocks, the lacklustre performance of the Canadian stock market can be attributed to the sizeable correction in the energy and materials sectors, which represent 45% of the S&P/TSX index market capitalization. Finally, smaller cap equities had their worst quarterly performance since the 2008 financial crisis, with the S&P Venture exchange index dropping a sizeable 24%. This hostile market environment dampened business and investors’ sentiment, resulting in a subdued pace of equity underwriting and secondary market trading activities.

Going forward, the world economy will likely continue to slow down in the near term, but should show early signs of reacceleration later this year or early next year. Uncertainties regarding the European sovereign debt crisis, the Chinese economic slowdown and the US fiscal cliff negotiations should continue to weigh on investor and business confidence, as has been reflected in a reduction of underwriting and trading revenues. However, signs of stabilization in M&A and advisory revenues have emerged lately, with depressed equity multiples incentivizing cash-rich corporations to take action to improve their competitive position. Regardless of near-term market fluctuations, four other factors support industry-consolidation activities over the next year: elevated corporate margins; weak economic and revenue growth; an increase in companies operating in mature industries; and the acquisition of strategic commodities by governments and companies operating in developing economies. Otherwise, one of the most striking developments so far this year is the yield compression in the corporate bond universe, where yields have reached 50-year lows. The net result is corporate debt issuance reaching record levels, providing even more ammunition for companies to grow their business and/or reward shareholders. Finally, with world central banks advertently forcing investors to move up the risk ladder, we are hopeful that capital markets revenues gradually improve from fiscal Q1/13.

MARKET DATA

Financing values on the TSX, TSX Venture, the NASDAQ and on AIM experienced considerable decreases compared to the previous quarter and in the year-over-year period.

Financing values in our key sectors on the TSX and TSX Venture were down 37.3% compared to the same quarter last year, and down 60.2% compared to the previous quarter. While the Oil and Gas, Mining and Biotech sectors experienced notable decreases, the Media and Technology sectors experienced significant increases compared to the previous quarter and the same quarter last year.

Financings in our key sectors on AIM were down 38.1% compared to the same quarter last year, and down 29.7% compared to the previous quarter. The Media and Technology sector experienced significant increases compared to the same period last year, while most of Canaccord's key sectors experienced declines compared to the previous quarter.

TOTAL FINANCING VALUE BY EXCHANGE

	April 2012	May 2012	June 2012	Fiscal Q1/13	Change from fiscal Q1/12	Change from fiscal Q4/12
TSX and TSX Venture (C$ billions)	2.4	2.9	5.5	10.8	(28.5)%	(39.7)%
AIM (£ billions)	0.3	0.3	0.2	0.8	(27.3)%	(20.0)%
NASDAQ (US$ billions)	2.2	6.1[1]	1.2	9.5	(37.5)%	(33.1)%

[1] Excludes $16 billion raised for Facebook's Initial Public Offering.
Source: TSX Statistics, LSE AIM Statistics, Equidesk

FINANCING VALUE FOR RELEVANT TSX AND TSX VENTURE INDUSTRY SECTORS

(C$ millions, except for % amounts)	April 2012	May 2012	June 2012	Fiscal Q1/13	Change from fiscal Q1/12	Change from fiscal Q4/12
Oil and Gas	527.4	347.1	929.4	1,803.9	(57.3)%	(77.7)%
Mining	155.9	413.5	122.9	692.3	(51.5)%	(58.7)%
Biotech	—	20.0	—	20.0	(67.3)%	(81.3)%
Media	—	27.9	25.5	53.4	1,235%	109.4%
Real Estate	505.5	660.3	482.1	1,647.9	18.9%	17.5%
Technology	172.5	3.1	109.7	285.3	264.4%	729.4%
Total (of relevant sectors)	**$ 1,361.3**	**$ 1,471.9**	**$ 1,669.6**	**$ 4,502.8**	**(37.3)%**	**(60.2)%**

Source: FP Infomart

FINANCING VALUE FOR RELEVANT AIM INDUSTRY SECTORS

(£ millions, except for % amounts)	April 2012	May 2012	June 2012	Fiscal Q1/13	Change from fiscal Q1/12	Change from fiscal Q4/12
Oil and Gas	27.1	116.5	28.2	171.8	(48.9)%	(7.1)%
Mining	59.9	9.3	7.2	76.4	(72.8)%	(70.9)%
Health Care	23.2	16.3	47.7	87.2	44.1%	914.0%
Media	25.5	18.7	9.7	53.9	269.2%	(36.9)%
Technology	10.2	15.0	21.8	47.0	243.1%	(41.3)%
Total (of relevant sectors)	**£ 145.9**	**£ 175.8**	**£ 114.6**	**£ 436.3**	**(38.1)%**	**(29.7)%**

Source: LSE AIM Statistics

ABOUT CANACCORD'S OPERATIONS

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

Canaccord Genuity

Canaccord Genuity offers corporations and institutional investors around the world an integrated platform for equity research, sales and trading, and investment banking services that is built on extensive operations in Canada, the UK, Europe, the US, China, Singapore, Australia and Barbados. The Canaccord Genuity business segment includes operations from Canaccord Genuity branded businesses, and also from Canaccord Genuity Hawkpoint and Canaccord Genuity Asia. The capital markets operation in Australia was rebranded as Canaccord Genuity from Canaccord BGF as of July 16, 2012.

Canaccord Wealth Management

Canaccord's wealth management operations provide comprehensive wealth management solutions and brokerage services to individual investors, private clients, charities and intermediaries, through a full suite of services tailored to the needs of clients in each of the markets the division operates in. Canaccord's growing wealth management division now has Investment Advisors (IAs) and professionals in Canada, Australia, the UK, Geneva and offshore locations (the Channel Islands and Isle of Man). The Canaccord Wealth Management business segment includes operations from Canaccord Wealth Management branded businesses and Collins Stewart Wealth Management operations (which are expected to be renamed Canaccord Wealth Management by the end of fiscal 2013).

Corporate and Other

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

Corporate structure

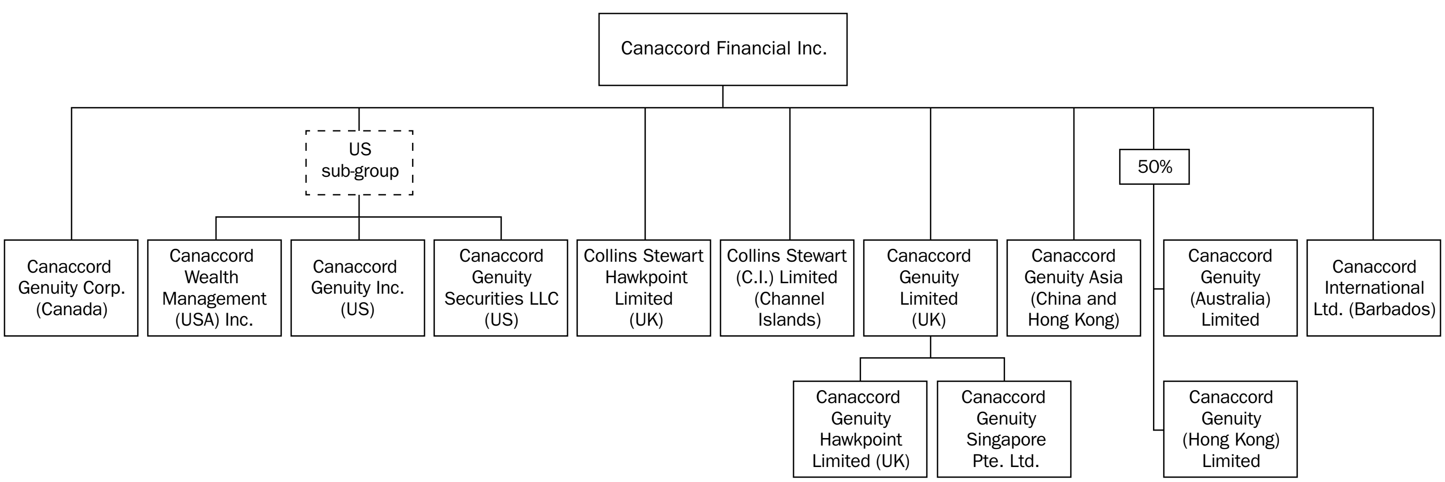

Chart shows principal operating companies of the Canaccord group and certain other companies referred to in this First Quarter Fiscal 2013 Quarterly Report.

Consolidated Operating Results

FIRST QUARTER 2013 SUMMARY DATA[(1)(2)]

(C$ thousands, except per share, number of employees and % amounts)	Three months ended June 30 2012	2011	2010	QTD Q1/13 vs. Q1/12
Canaccord Financial Inc. (CFI)				
Revenue				
Commission	$ 88,450	$ 61,028	$ 62,256	44.9%
Investment banking	28,629	59,858	55,901	(52.2)%
Advisory fees	25,626	22,531	20,721	13.7%
Principal trading	7,847	1,953	5,958	301.8%
Interest	8,392	7,857	3,144	6.8%
Other	3,605	6,556	3,937	(45.0)%
Total revenue	162,549	159,783	151,917	1.7%
Expenses				
Incentive compensation	84,776	77,614	72,485	9.2%
Salaries and benefits	23,198	17,117	15,816	35.5%
Other overhead expenses[(3)]	79,074	49,303	44,995	60.4%
Acquisition-related costs	—	—	10,990	—
Total expenses	187,048	144,034	144,286	29.9%
Income (loss) before income taxes	(24,499)	15,749	7,631	(255.6)%
Net income (loss)	$ (20,622)	$ 13,195	$ 5,172	(256.3)%
Net income (loss) attributable to:				
CFI shareholders	$ (19,967)	$ 13,195	$ 5,172	(251.3)%
Non-controlling interests	$ (655)	$ —	$ —	n.m.
Earnings (loss) per common share – diluted	$ (0.24)	$ 0.16	$ 0.07	(250.0)%
Return on common equity[(4)]	(10.6)%	7.0%	3.9%	(17.6) p.p.
Dividends per common share	$ 0.05	$ 0.10	$ 0.05	(50.0)%
Book value per diluted common share[(5)]	$ 7.90	$ 8.71	$ 7.86	(9.2)%
Total assets	$ 5,105,838	$ 4,429,105	$ 3,961,904	15.3%
Total liabilities	$ 4,030,987	$ 3,580,864	$ 3,290,908	12.6%
Non-controlling interests	$ 16,882	$ —	$ —	n.m.
Total shareholders' equity	$ 1,057,969	$ 848,241	$ 670,996	24.7%
Number of employees	2,368	1,684	1,640	40.6%
Excluding significant items[(6)]				
Total expenses	$ 181,677	$ 143,104	$ 131,857	27.0%
Income (loss) before income taxes	(19,128)	16,679	20,060	(214.7)%
Net income (loss)	(16,295)	14,125	14,191	(215.4)%
Net income (loss) attributable to CFI shareholders	(16,059)	14,125	14,191	(213.7)%
Earnings (loss) per common share – diluted	(0.20)	0.17	0.19	(217.6)%

(1) Data is in accordance with IFRS except for ROE, book value per diluted common share, number of employees, and figures that exclude significant items. See Non-IFRS Measures on page 8.
(2) Data includes the results of Genuity since the closing date of April 23, 2010. Results of Canaccord Genuity Asia since the closing date of January 17, 2011 and the results for Canaccord Genuity and Canaccord Wealth Management operations in Australia since the closing date of November 1, 2011 are also included. The operating results of the Australian operations have been fully consolidated and a 50% non-controlling interest has been recognized. Results of former CSHP entities since March 22, 2012 are also included.
(3) Consists of trading costs, premises and equipment, communication and technology, interest, general and administrative, amortization and development costs.
(4) ROE is presented on an annualized basis. ROE for each period is calculated by dividing the annualized net income (loss) available to common shareholders for the period over the average common shareholders' equity for the period.
(5) Book value per diluted common share is calculated as total common shareholders' equity divided by the number of diluted common shares outstanding.
(6) Net income (loss) and earnings (loss) per diluted common share excluding significant items reflect tax-effected adjustments related to such items. See the Selected Financial Information Excluding Significant Items table on page 13.
p.p.: percentage points
n.m.: not meaningful

SELECTED FINANCIAL INFORMATION EXCLUDING SIGNIFICANT ITEMS[1]

(C$ thousands, except % amounts)	Three months ended June 30 2012	2011	Quarter-over-quarter change
Total revenue per IFRS	$ 162,549	$ 159,783	1.7%
Total expenses per IFRS	187,048	144,034	29.9%
Significant items recorded in Canaccord Genuity			
Amortization of intangible assets	4,373	930	370.2%
Significant items recorded in Canaccord Wealth Management			
Amortization of intangible assets	998	—	n.m.
Total significant items	5,371	930	477.5%
Total expenses excluding significant items	181,677	143,104	27.0%
Net income (loss) before tax – adjusted	$ (19,128)	$ 16,679	(214.7)%
Income taxes (recovery) – adjusted	(2,833)	2,554	(210.9)%
Net income (loss) – adjusted	$ (16,295)	$ 14,125	(215.4)%
Earnings (loss) per common share – basic, adjusted	$ (0.20)	$ 0.19	(205.3)%
Earnings (loss) per common share – diluted, adjusted	$ (0.20)	$ 0.17	(217.6)%

(1) Figures excluding significant items are non-IFRS measures. See Non-IFRS Measures on page 8.
n.m.: not meaningful

Revenue

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

Revenue for the three months ended June 30, 2012 was $162.5 million, a slight increase of 1.7% or $2.8 million compared to the same period a year ago. Revenue generated from commissions increased by $27.4 million, to $88.5 million, compared to the same period a year ago, mainly as a result of additional revenue generated from our new wealth management division in the UK and Europe. This increase in commission revenue was offset by a $31.2 million decrease in investment banking revenue to $28.6 million for the three months ended June 30, 2012, due to lower corporate finance activity resulting from the continuing global economic uncertainty during Q1/13. Advisory revenue grew by $3.1 million or 13.7%, to $25.6 million in Q1/13, from the same period a year ago. Our recent global expansion has resulted in an increase in advisory revenue of $13.1 million in the UK and Europe, $0.6 million in the US, and $0.7 million in Other Foreign Locations during the three months ended June 30, 2012. These increases were offset by an $11.4 million decrease in advisory revenue in Canada.

The acquisition of CSHP also contributed to our principal trading revenue, especially in the US geographic segment. Principal trading revenue was $7.8 million, up $5.9 million or 301.8% compared to Q1/12. The drop in the Canadian dollar resulted in a decrease in foreign exchange gains in Q1/13, as reflected by the decrease in other revenue.

GEOGRAPHIC DISTRIBUTION OF REVENUE FOR THE FIRST QUARTER 2013[1]

(C$ thousands, except % amounts)	Three months ended June 30 2012	2011	Quarter-over-quarter change
Canada	$ 76,641	$ 123,090	(37.7)%
UK and Europe	48,807	9,246	427.9%
US	31,694	27,195	16.5%
Other Foreign Locations[2]	5,407	252	n.m.
Total	$ 162,549	$ 159,783	1.7%

(1) For a business description of Canaccord's geographic distribution, please refer to the About Canaccord's Operations section on page 11.
(2) Other Foreign Locations include operations for Canaccord International Ltd., Canaccord Genuity Asia and Canaccord Financial Group (Australia) Pty Ltd. (formerly Canaccord BGF).
n.m.: not meaningful

First quarter 2013 revenue in Canada decreased in all operating segments, leading to a $76.6 million or 37.7% decrease from the same quarter of the prior year. Both the capital markets and wealth management segments experienced challenges from the continued volatility in the economy, resulting in lower revenue in the current period. Revenue derived from the Corporate and Other segment decreased due to lower foreign exchange gains as a result of the fluctuation of the Canadian dollar.

Our UK and Europe operations generated $48.8 million of revenue in Q1/13, a considerable increase of 427.9% or $39.6 million, as a result of the acquisition of the CSHP operations in Q4/12. The wealth management operation in the UK and Europe contributed $19.6 million while the capital markets operations contributed $29.2 million to the total revenue.

Revenue in the US was $31.7 million in Q1/13, an increase of $4.5 million, or 16.5%, compared to Q1/12. The increase was mostly driven by higher principal trading revenue generated by the addition of certain principal trading units in the US through the CSHP acquisition.

Canaccord's global expansion into Asia and Australia through its acquisition of a 50% interest in Canaccord Financial Group (Australia) Pty Ltd. (formerly Canaccord BGF) and CSHP's Singaporean operations resulted in a $5.2 million increase in revenue in our Other Foreign Locations geographic region.

Expenses

Expenses for the three months ended June 30, 2012 were $187.0 million, an increase of 29.9% or $43.0 million from the same period a year ago.

EXPENSES AS A PERCENTAGE OF REVENUE

	Three months ended June 30		
	2012	2011	Quarter-over-quarter change
Incentive compensation	**52.2%**	48.6%	3.6 p.p.
Salaries and benefits	**14.3%**	10.6%	3.7 p.p.
Other overhead expenses[1]	**48.6%**	30.9%	17.7 p.p.
Total	**115.1%**	90.1%	25.0 p.p.

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

Compensation expenses

Incentive compensation expense was $84.8 million for the quarter, up 9.2% or $7.2 million. The increase in incentive compensation expense was largely due to our expanded operations in the UK and Europe, and the US, as a result of our acquisition of CSHP, as well as higher long-term incentive plan (LTIP) expense in Q1/13. Incentive compensation expense as a percentage of total revenue increased by 3.6 percentage points compared to Q1/12. The increase in salaries and benefits expense of $6.1 million or 35.5% to $23.2 million is consistent with the increase in headcount, primarily in the UK and Europe, and the US, as a result of our global expansion.

Total compensation expense (incentive compensation plus salaries and benefits) as a percentage of revenue for Q1/13 was 66.5%, an increase of 7.3 percentage points from 59.2% in Q1/12, mainly as a result of our expanded operations.

OTHER OVERHEAD EXPENSES

	Three months ended June 30		
(C$ thousands, except % amounts)	**2012**	2011	Quarter-over-quarter change
Trading costs	**$ 12,587**	$ 8,965	40.4%
Premises and equipment	**10,854**	6,832	58.9%
Communication and technology	**14,305**	6,389	123.9%
Interest	**4,551**	2,408	89.0%
General and administrative	**24,016**	16,274	47.6%
Amortization[1]	**8,136**	2,905	180.1%
Development costs	**4,625**	5,530	(16.4)%
Total other overhead expenses	**$ 79,074**	$ 49,303	60.4%

(1) Includes amortization of intangible assets in connection with the acquisitions of Genuity, a 50% interest in Canaccord Financial Group (Australia) Pty Ltd. (formerly Canaccord BGF), and CSHP.

Other overhead expenses

Compared to Q1/12, overhead expenses grew by 60.4% or $29.8 million in the first quarter of fiscal 2013, to $79.1 million. The increase was a result of higher communication and technology expense, general and administrative expense, amortization expense, premises and equipment expense, trading cost expense, and interest expense.

Our expanded operations in the US, and the UK and Europe, from the acquisition of CSHP were the main contributors for the increase in overhead expenses during Q1/13. Trading costs were up $3.6 million in Q1/13 compared to the same quarter of the prior year mainly due to the addition of certain principal trading operations in the US. Communication and technology expense increased by $7.9 million compared to Q1/12 due to additional headcount as well as the global expansion of technology platforms. Premises and equipment expense increased by $4.0 million due to additional office space acquired. Interest expense increased by $2.1 million, due to increased activity from our Fixed Income group as well as our UK operations. The increase in our general and administrative expense of $7.7 million, including promotion and travel expense, office expense and professional fees, was as a result of our expanded operations, as well as certain integration costs incurred to align the various global business units. In addition, in accordance with the Company's policy of reserving against unsecured balances, the Company recognized an additional $2.1 million credit provision in Q1/13 compared to Q1/12.

Amortization of intangible assets acquired through the purchase of a 50% interest in Canaccord Financial Group (Australia) Pty Ltd. (formerly Canaccord BGF) and CSHP was the main reason for the $5.2 million increase in amortization expense.

Net loss

Net loss for Q1/13 was $20.6 million compared to net income of $13.2 million in the same period a year ago. Diluted loss per share was $0.24 in Q1/13 compared to diluted EPS of $0.16 in Q1/12. The net loss recognized in Q1/13 was mainly attributable to the additional overhead expenses incurred by the Company as part of its global expansion. Moreover, revenue performance was affected by the slowdown in market activity experienced during Q1/13 compared to Q1/12. Book value per diluted common share for Q1/13 was $7.90 versus $8.71 in Q1/12.

Excluding significant items, which consist of amortization of intangible assets, net loss for Q1/13 was $16.3 million compared to net income of $14.1 million in Q1/12. Diluted loss per share, excluding significant items, was $0.20 in Q1/13 compared to diluted EPS of $0.17 in Q1/12.

The Company's net earnings were negatively impacted by the uncertainties in the economic environment caused by the continuing European debt crisis and concerns regarding a slowdown in the US economic recovery.

Income tax recovery was $3.9 million for the current quarter, reflecting an effective tax recovery rate of 15.8%, compared to income taxes of $2.6 million and an effective tax rate of 16.2% in Q1/12. The tax recovery rate for Q1/13 was mainly impacted by temporary differences not recognized by subsidiaries outside of Canada.

Results of Operations by Business Segment

CANACCORD GENUITY[(1)(2)]

	Three months ended June 30		
(C$ thousands, except employees and % amounts)	**2012**	2011	Quarter-over-quarter change
Revenue	**$ 100,457**	$ 97,377	3.2%
Expenses			
Incentive compensation	**57,592**	46,155	24.8%
Salaries and benefits	**8,810**	5,211	69.1%
Other overhead expenses	**53,656**	29,605	81.2%
Total expenses	**120,058**	80,971	48.3%
Income (loss) before income taxes[(3)]	**$ (19,601)**	$ 16,406	(219.5)%
Number of employees	**1,052**	636	65.4%

(1) Data is in accordance with IFRS except for number of employees.
(2) Data includes the results of Genuity since the closing date of April 23, 2010. Results of Canaccord Genuity Asia since the closing date of January 17, 2011 and results of Canaccord Genuity's operations in Australia since the closing date of November 1, 2011 are also included. The operating results of the Australian operations have been fully consolidated and a 50% non-controlling interest has been recognized. Results of former CSHP entities since March 22, 2012 are also included.
(3) Income (loss) before income taxes excludes intersegment allocated costs. See the Intersegment Allocated Costs section on page 18.

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

REVENUE BY GEOGRAPHY AS A PERCENTAGE OF CANACCORD GENUITY REVENUE

	Three months ended June 30		
	2012	2011	Quarter-over-quarter change
Revenue generated in:			
Canada	**35.5%**	63.5%	(28.0) p.p.
UK and Europe	**29.1%**	9.5%	19.6 p.p.
US	**30.9%**	26.7%	4.2 p.p.
Other Foreign Locations	**4.5%**	0.3%	4.2 p.p.

p.p.: percentage points

Revenue for Canaccord Genuity in Q1/13 was $100.5 million, an increase of 3.2% or $3.1 million from the same quarter a year ago.

Capital markets activity dropped significantly in our Canadian operations during the first quarter of fiscal 2013 mainly as a result of the subdued pace of equity underwriting due to volatility in the market environment, leading to a decrease of 42.4% in revenue. Revenue in the UK and Europe, and US operations was up considerably, by 216.0% and 19.4%, respectively, due to the growth of the Company in these geographies through the acquisition of CSHP. Revenue from our Other Foreign Locations represented 4.5% of total Canaccord Genuity revenue, up 4.2 percentage points compared to the first quarter of fiscal 2012 as a result of the Company's global expansion into Australia and Singapore.

Expenses

Expenses for Q1/13 were $120.1 million, up 48.3% or $39.1 million.

CANACCORD GENUITY INCENTIVE COMPENSATION EXPENSE AS A PERCENTAGE OF REVENUE BY GEOGRAPHY

	Three months ended June 30		
(in percentage points)	**2012**	2011	Quarter-over-quarter change
Incentive compensation ratio as a percentage of revenue			
Canada	**47.9%**	41.6%	6.3 p.p.
UK and Europe	**63.1%**	67.8%	(4.7) p.p.
US	**61.3%**	54.3%	7.0 p.p.
Other Foreign Locations	**66.9%**	0.0%	n.m.

p.p.: percentage points
n.m.: not meaningful

Incentive compensation expense was $57.6 million for the quarter, 24.8% or $11.4 million higher than Q1/12. The increase in incentive compensation expense was largely due to our expanded operations in the UK and Europe and the US as a result of the acquisition of CSHP. In Canada, incentive compensation expense as a percentage of revenue has increased as a result of higher LTIP expense recognized during Q1/13.

The expansion of the Company through its acquisition of CSHP was also the main driver for the increases in communication and technology expense, general and administrative expense, premises and equipment expense, salaries and benefits expense, and trading costs expense. The higher expenses resulted from operating under a larger global platform, as well as certain integration costs incurred during the first quarter of the combined operations.

Interest expense was higher due to increased activity in our UK and Europe operations and our Fixed Income group in Canada. Amortization expense was $5.7 million in Q1/13, up $3.9 million or 218.1%, due to the amortization of intangible assets acquired in connection with the purchase of a 50% interest in Canaccord Financial Group (Australia) Pty Ltd. (formerly Canaccord BGF) and the acquisition of CSHP.

Loss before income taxes and intersegment allocations

Loss before income taxes, excluding allocated overhead expenses for the quarter, was $19.6 million, a decline of $36.0 million from income earned of $16.4 million in the same quarter a year ago. Excluding significant items, loss before income taxes and allocated overhead expenses was $15.2 million, compared to income of $17.3 million in Q1/12. The decline in income before income taxes was attributable to additional costs from the Company's expanded operations offset by the slight increase in revenue in this segment.

CANACCORD WEALTH MANAGEMENT[1][2]

(C$ thousands, except AUA, AUM – Canada, Australia and UK and Europe, which are in C$ millions; number of employees, Advisory Teams, advisors, investment professionals and fund managers; and % amounts)	Three months ended June 30 2012	2011	Quarter-over-quarter change
Revenue	$ 57,198	$ 54,783	4.4%
Expenses			
Incentive compensation	27,342	28,226	(3.1)%
Salaries and benefits	6,257	3,938	58.9%
Other overhead expenses	19,479	11,353	71.6%
Total expenses	53,078	43,517	22.0%
Income before income taxes[3]	$ 4,120	$ 11,266	(63.4)%
Assets under management (AUM) – Canada (discretionary)[4]	709	575	23.3%
AUA – Canada[5]	13,137	15,676	(16.2)%
AUM – Australia[6]	305	—	n.m.
AUM – UK and Europe[7]	12,583	—	n.m.
Total	26,025	15,676	66.0%
Number of Advisory Teams – Canada	269	263	2.3%
Number of advisors – Australia	10	—	n.m.
Number of investment professionals and fund managers – UK and Europe	98	—	n.m.
Number of employees	940	666	41.1%

(1) Data is in accordance with IFRS except for AUM, AUA, number of Advisory Teams, number of advisors, number of investment professionals and fund managers and number of employees.
(2) Includes Canaccord Wealth Management operations in Canada, the US, the UK and Europe, and Australia. Canaccord Wealth Management operations in Australia were included since Q1/13. Operating results from former Collins Stewart Wealth Management were included since March 22, 2012.
(3) Income before income taxes excludes intersegment allocated costs. See the Intersegment Allocated Costs section on page 18.
(4) AUM in Canada are assets managed on a discretionary basis under our programs generally described as or known as the *Complete Canaccord Investment Counselling Program* and the *Complete Canaccord Managed Account Program*.
(5) AUA in Canada is the market value of client assets administered by Canaccord, from which Canaccord earns commissions or fees.
(6) AUM in Australia is the market value of client assets administered by Canaccord, from which Canaccord earns commissions or fees. This measure includes both discretionary and non-discretionary accounts.
(7) AUM in the UK and Europe is the market value of client assets managed and administered by Canaccord, from which Canaccord earns commissions or fees. This measure includes both discretionary and non-discretionary accounts.
n.m.: not meaningful

Revenue from Canaccord Wealth Management is generated through traditional commission-based brokerage services, the sale of fee-based products and services, margin interest, and fees and commissions earned from investment banking and venture capital transactions by private clients. Canaccord now has wealth management operations in Canada, the US, the UK and Europe, and Australia.

Revenue from Canaccord Wealth Management was $57.2 million, an increase of $2.4 million or 4.4%, mainly due to a $9.1 million increase in commission revenue offset by a $6.1 million decrease in investment banking revenue.

The wealth management operations in Canada, the US and Australia contributed $37.6 million to the segments' revenue, a decline of $17.2 million from the first quarter of fiscal 2012. The decrease in revenue was mainly caused by the weak economic conditions that existed during Q1/13. Through the acquisition of CSHP in Q4/12, Canaccord Wealth Management expanded its operations into the UK and Europe, which generated revenue of $19.6 million during Q1/13. Revenue generated by our UK and Europe operations is largely produced through fee-based accounts and portfolio management activities, and as such, is less sensitive to volatilities in market conditions.

AUA in Canada declined by 16.2% to $13.1 billion at June 30, 2012, primarily due to poor market performance. AUM in Canada increased by 23.3% compared to Q1/12 due to the segment's new strategic focus on increasing the number of managed accounts. There were 269 Advisory Teams in Canada, up by six from a year ago. The fee-based revenue in our North American and Australian operations was 8.7 percentage points higher than the same quarter of the prior year and accounted for 25.7% of this geographic segment's wealth management revenue during the first quarter of 2013.

AUM in the UK and Europe as of June 30, 2012 was $12.6 billion. The fee-based revenue in our UK and Europe operations was 62.3% of total revenue in this geography. As discussed above, this business has a higher proportion of fee-based revenue compared to our Canadian wealth management business.

Expenses for Q1/13 were $53.1 million, an increase of 22.0% or $9.6 million. Salaries and benefits expense was up $2.3 million, mainly due to the additional headcount from the expansion of our wealth management group in the UK and Europe. Other overhead expense increased by $8.1 million, of which $7.3 million was due to additional overhead expense resulting from the expanded operations through the acquisition of CSHP.

Amortization expense increased $1.4 million, mostly due to the amortization of the intangible assets acquired in connection with the purchase of CSHP.

Income before income taxes excluding allocated overhead expenses for the quarter was $4.1 million compared to $11.3 million in the same period a year ago. Reduced revenue in our Canadian wealth management business was the main contributor to the decrease in income before income taxes.

CORPORATE AND OTHER(1)

(C$ thousands, except number of employees and % amounts)	Three months ended June 30 2012	Three months ended June 30 2011	Quarter-over-quarter change
Revenue	$ 4,894	$ 7,623	(35.8)%
Expenses			
Incentive compensation	(158)	3,233	(104.9)%
Salaries and benefits	8,131	7,968	2.0%
Other overhead expenses	5,939	8,345	(28.8)%
Total expenses	13,912	19,546	(28.8)%
Loss before income taxes(2)	$ (9,018)	$ (11,923)	24.4%
Number of employees	376	382	(1.6)%

(1) Data is in accordance with IFRS except for number of employees.
(2) Loss before income taxes excludes intersegment allocated costs. See the Intersegment Allocated Costs section below.

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

Revenue for the three months ended June 30, 2012 was $4.9 million, a decline of 35.8% or $2.7 million from the same quarter a year ago. The change was mainly related to a $2.1 million decrease in foreign exchange gains recognized in Q1/13 due to the fluctuation of the Canadian dollar.

Expenses for Q1/13 declined $5.6 million or 28.8% to $13.9 million, mainly due to reduced incentive compensation, and general and administrative expense. Incentive compensation expense declined $3.4 million as a result of lower group profitability. General and administrative expense decreased due to cost containment efforts in this segment.

Overall, loss before income taxes was $9.0 million in Q1/13 compared to $11.9 million in the same quarter a year ago.

Intersegment Allocated Costs

Included in the Corporate and Other segment are certain trade processing, support services, research and other expenses that have been incurred to support the activities within the Canaccord Genuity and Canaccord Wealth Management segments. Excluding executive incentive compensation and certain administrative support, foreign exchange gains and losses, and net interest, management has determined that allocable costs from Corporate and Other to Canaccord Wealth Management were $10.6 million and to Canaccord Genuity were $1.7 million for the three months ended June 30, 2012.

Financial Condition

Below are specific changes in selected items on the consolidated statement of financial position.

ASSETS

Cash and cash equivalents were $644.0 million on June 30, 2012 compared to $814.2 million on March 31, 2012. Refer to the Liquidity and Capital Resources section on page 20 for more details.

Securities owned remained consistent at $1.2 billion on June 30, 2012 compared to March 31, 2012.

Accounts receivable were $2.5 billion at June 30, 2012 compared to $3.1 billion at March 31, 2012, mainly due to a decrease in receivables from brokers and investment dealers, and clients, as a result of reduced activity levels.

Goodwill was $473.3 million and intangible assets were $144.2 million at June 30, 2012, representing the goodwill and intangible assets acquired from the purchases of Genuity, The Balloch Group, a 50% interest in Canaccord Financial Group (Australia) Pty Ltd. (formerly Canaccord BGF), and CSHP. At March 31, 2012, goodwill was $472.5 million and intangible assets were $149.5 million. The changes in these balances were primarily related to the amortization of intangible assets and changes in foreign exchange rates used to translate goodwill and intangible asset balances denominated in foreign currencies.

Other assets, consisting of income taxes receivable, deferred tax assets, equipment and leasehold improvements, and investments, were $81.8 million compared to $72.8 million at March 31, 2012. The increase in other assets is mainly due to the higher income taxes receivable and deferred tax assets as at June 30, 2012. The higher tax balances were mainly due to tax payments and temporary differences recognized in various jurisdictions.

LIABILITIES

Bank overdrafts and call loan facilities utilized by Canaccord may vary significantly on a day-to-day basis and depend on securities trading activity. At June 30, 2012, Canaccord had available credit facilities with banks in Canada and the UK in the aggregate amount of $575.7 million [March 31, 2012 – $650.4 million]. These credit facilities, consisting of call loans, subordinated debt, letters of credit and daylight overdraft facilities, are collateralized by either unpaid client securities and/or securities owned by the Company. On June 30, 2012, there was $99.5 million outstanding, compared to $90.1 million on March 31, 2012.

The Company entered into a $150.0 million senior secured credit agreement to finance a portion of the cash consideration for its acquisition of CSHP. This credit facility was repaid in full by May 22, 2012.

Securities sold short were $1.0 billion at June 30, 2012 compared to $914.6 million at March 31, 2012 due to an increase in sales of corporate and government debt.

Accounts payable, including provisions, were $2.9 billion, a decrease from $3.6 billion on March 31, 2012, mainly due to a decrease in payables to brokers and investment dealers, and clients.

Other liabilities, including subordinated debt and deferred tax liabilities, were $22.5 million at June 30, 2012 compared to $23.1 million at March 31, 2012. The slight decrease was mainly due to lower deferred tax liabilities.

Non-controlling interests were $16.9 million at June 30, 2012 compared to $17.5 million on March 31, 2012, which represents 50% of the net assets of our operations in Australia.

Off-Balance Sheet Arrangements

A subsidiary of the Company has entered into irrevocable secured standby letters of credit from a financial institution totalling $1.9 million (US$1.9 million) [March 31, 2012 – $1.9 million (US$1.9 million)] as rent guarantees for its leased premises in Boston and New York.

Liquidity and Capital Resources

Canaccord has a capital structure comprised of preferred shares, common shares, contributed surplus, retained earnings and accumulated other comprehensive loss. On June 30, 2012, cash and cash equivalents were $644.0 million, a decrease of $170.2 million from $814.2 million as of March 31, 2012. During the three months ended June 30, 2012, financing activities used cash in the amount of $74.2 million, mainly due to the repayment of the $150.0 million short term credit facility netted against the issuance of Series C Preferred Shares of $94.8 million and a $9.4 million change in bank indebtedness. In addition, financing activities also used cash for the acquisition of common shares for LTIP awards of $13.3 million and cash dividends paid for common and preferred shares of $12.5 million. Investing activities used cash in the amount of $1.1 million, related to the purchase of equipment and leasehold improvements. Operating activities used cash in the amount of $94.2 million, which was largely due to decreases in accounts payable, provisions, and accrued liabilities, offset by a decrease in accounts receivable, as well as other changes in non-cash working capital items. An increase in cash of $0.6 million was attributable to the effect of foreign exchange on cash balances. In total, there was a decrease in net cash of $170.2 million compared to March 31, 2012.

Canaccord's business requires capital for operating and regulatory purposes. The majority of current assets reflected on Canaccord's unaudited interim condensed consolidated statement of financial position are highly liquid. The majority of the positions held as securities owned are readily marketable, and all are recorded at their fair value. Securities sold short are highly liquid securities. 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.

In the normal course of business, the Company enters into contracts that give rise to commitments of future minimum payments that affect our liquidity.

The following table summarizes Canaccord's long term contractual obligations on June 30, 2012:

	Contractual obligations payments due by period				
(C$ thousands)	Total	Fiscal 2014	Fiscal 2015–Fiscal 2016	Fiscal 2017–Fiscal 2018	Thereafter
Premises and equipment operating leases	$ 233,557	$ 34,400	$ 61,757	$ 48,524	$ 88,876

Preferred Shares

SERIES A PREFERRED SHARES

The Company issued 4,540,000 Cumulative 5-Year Rate Reset First Preferred Shares, Series A (Series A Preferred Shares) at a purchase price of $25.00 per share, for gross proceeds of $113.5 million during the year ended March 31, 2012. Quarterly cumulative cash dividends, if declared, will be paid at an annual rate of 5.5% for the initial five-year period ending on September 30, 2016. Thereafter, the dividend rate will be reset every five years at a rate equal to the five-year Government of Canada bond yield plus 3.21%.

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

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

As of August 8, 2012, there were 4,540,000 Series A Preferred Shares issued and outstanding.

SERIES C PREFERRED SHARES

On April 10, 2012, the Company issued 4,000,000 Cumulative 5-Year Rate Reset First Preferred Shares, Series C (Series C Preferred Shares) at a purchase price of $25.00 per share for gross proceeds of $100.0 million. Quarterly cumulative cash dividends, if declared, will be paid at an annual rate of 5.75% for the initial five-year period ending on June 30, 2017. Thereafter, the dividend rate will be reset every five years at a rate equal to the five-year Government of Canada bond yield plus 4.03%.

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

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

The net amount recognized after deducting issue costs, net of deferred taxes of $1.0 million, was $97.4 million. As of June 30, 2012, the Company held 106,794 shares in treasury at par value of $2.6 million.

As of August 8, 2012, there were 4,000,000 Series C Preferred Shares issued and outstanding.

Outstanding Share Data

	Outstanding shares as of June 30	
	2012	2011
Preferred shares		
Series A – issued shares outstanding	**4,540,000**	4,000,000
Series C – issued shares outstanding	**4,000,000**	—
Common shares		
Issued shares excluding unvested shares(1)	**93,566,310**	75,596,666
Issued shares outstanding(2)	**102,030,601**	83,097,441
Issued shares outstanding – diluted(3)	**107,853,796**	86,236,401
Average shares outstanding – basic	**94,145,084**	75,086,958
Average shares outstanding – diluted	**101,989,983**	84,282,656

(1) Excludes 2,967,067 outstanding unvested shares related to share purchase loans for recruitment and retention programs and 5,497,224 unvested shares purchased by an employee benefit trust for the LTIP.
(2) Includes 2,967,067 outstanding unvested shares related to share purchase loans for recruitment and retention programs and 5,497,224 unvested shares purchased by an employee benefit trust for the LTIP.
(3) Includes 5,823,195 of share issuance commitments.

In 2011, the Company filed a normal course issuer bid (NCIB) to allow for the purchase of up to 2,000,000 of its common shares through the facilities of the TSX from June 13, 2011 to June 12, 2012. The purchase of common shares under the NCIB enabled the Company to acquire shares for cancellation. The shares that were available for repurchase represented 2.0% of the Company's outstanding common shares as at March 31, 2012. There were 700,500 shares repurchased through the NCIB between June 13, 2011 and June 12, 2012 that were subsequently cancelled. The NCIB expired on June 12, 2012. On August 3, 2012, Canaccord Financial Inc. made an application to the TSX to renew its NCIB.

As of August 8, 2012, the Company has 102,220,816 common shares issued and outstanding.

International Financial Centre

Canaccord is a member of the AdvantageBC International Business Centre Society (formerly known as the International Financial Centre British Columbia Society) and the Montréal International Financial Centre, both of which provide certain tax and financial benefits pursuant to the *International Business Activity Act* of British Columbia and the *Act Respecting International Financial Centres* of Québec. 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 period. On June 30, 2012, forward contracts outstanding to sell US dollars had a notional amount of US$10.5 million, a decrease of US$6.9 million from a year ago. Forward contracts outstanding to buy US dollars remain unchanged from a year ago with a notional amount of US$5.3 million. The fair value of these contracts was nominal. Some of Canaccord's operations in the US, the UK and Europe, Australia, Hong Kong and China are conducted in the local currency; 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 the local currency.

Related Party Transactions

The Company's related parties include the following persons and/or entities: (a) entities that are controlled or significantly influenced by the Company, and (b) key management personnel, who are comprised of the directors of the Company, as well as executives involved in strategic decision-making for the Company.

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.

The Company offers various share-based payment plans to its key management personnel, including common share purchase loans, a long-term incentive plan and share options. Directors have also been granted share options and have the right to acquire deferred share units (DSUs). Please see Note 19 of the March 31, 2012 Audited Annual Consolidated Financial Statements for further information on the compensation of and transactions with key management personnel. Note 13 of the unaudited interim condensed consolidated financial statements for the quarter ended June 30, 2012 also includes the accounts payable and accrued liabilities balance owed to key management personnel.

Critical Accounting Policies and Estimates

The unaudited interim condensed consolidated financial statements for the quarter ended June 30, 2012 have been prepared in accordance with International Accounting Standard 34, "*Interim Financial Reporting*" (IAS 34), as issued by the International Accounting Standards Board (IASB).

The preparation of the unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Therefore, actual results may differ from those estimates and assumptions. The significant estimates include share-based payments, income taxes, deferred tax assets associated with tax losses available for carryforward, impairment of goodwill, indefinite life intangible assets and other long-lived assets, allowance for credit losses, fair value of financial instruments, and provisions and contingent liabilities.

In particular, the assessment for impairment of goodwill and identifiable indefinite life intangible assets requires management's best estimates in order to determine fair values using discounted cash flow projections that employ the following key assumptions: future cash flows, growth projections and the weighted average cost of capital. Refer to Note 12 of the March 31, 2012 Audited Annual Consolidated Financial Statements for further information regarding the key assumptions used when conducting the March 2012 annual impairment test of goodwill and indefinite life intangible assets. Management has determined that there have not been any significant changes in these estimates and assumptions as at June 30, 2012 that would require an interim goodwill impairment test except for the Other Foreign Locations (Australia) cash-generating unit. Refer to Note 8 of the unaudited interim condensed consolidated financial statements for the quarter ended June 30, 2012.

Significant accounting policies used and policies requiring management's judgment and estimates have not changed during the first quarter of 2013 and are discussed under "Critical Accounting Policies and Estimates" in our 2012 Annual Report.

Future Changes in Accounting Policies and Estimates

There have been no further updates to the "Future Changes in Accounting Policies and Estimates" disclosed in our 2012 Annual Report, during the three months ended June 30, 2012. The Company is currently evaluating the impact these developments will have on its consolidated financial statements and assessing whether to early adopt any of the new requirements.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

DISCLOSURE CONTROLS AND PROCEDURES

Based on an evaluation performed as of March 31, 2012, the President & CEO and the Executive Vice President & CFO concluded that the design and operation of our disclosure controls and procedures were effective as defined under *National Instrument 52-109*, except in the scope limitation noted below, which exists as a result of the purchase of CSHP.

CHANGES IN 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 IFRS. An evaluation of the Company's internal control over financial reporting was performed as of March 31, 2012. 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 and that there were no material weaknesses in our internal control over financial reporting, except in the scope limitation noted below, which existed as a result of the purchase of CSHP.

National Instrument 52-109 allows for a scope limitation on the design of disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures in respect of any business acquired not more than 365 days before the end of the relevant financial period.

At March 31, 2012, the acquisition of CSHP, which closed on March 21, 2012, had been excluded from the assessment of the Company's disclosure controls and procedures, as the operations of the former CSHP entities were not yet integrated into the Company's internal controls, policies and procedures. For the three months ended June 30, 2012, the Company has included operations for the former CSHP entities as part of its fiscal 2013 assessment; however, management has not yet been able to complete its evaluation on the effectiveness of the disclosure controls and procedures, and internal control over financial reporting.

There were no changes in internal control over financial reporting that occurred during the period ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, Canaccord's internal control over financial reporting.

Dividend Policy

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

Dividend Declaration

On August 8, 2012, the Board of Directors approved a quarterly dividend of $0.05 per common share payable on September 10, 2012, with a record date of August 24, 2012. The Board of Directors also approved a cash dividend of $0.34375 per Series A Preferred Share payable on October 1, 2012 with a record date of September 14, 2012; and $0.359375 per Series C Preferred Share payable on October 1, 2012 with a record date of September 14, 2012.

Historical Quarterly Information

Canaccord's revenue from an underwriting transaction is recorded only when the transaction has closed. Consequently, the timing of revenue recognition can materially affect Canaccord's quarterly results. The expense structure of Canaccord's operations is designed to provide service and coverage in the current market environment. Canaccord has experienced losses in the past few quarters as a result of a drop in general capital markets activity resulting from uncertainties in the global financial market.

The following table provides selected quarterly financial information for the eight most recently completed financial quarters ended June 30, 2012. This information is unaudited but reflects all adjustments of a recurring nature, which are, in the opinion of management, necessary to present a fair statement of the results of operations for the periods presented. Quarter-to-quarter comparisons of financial results are not necessarily meaningful and should not be relied upon as indications of future performance.

(C$ thousands, except per share amounts)	Fiscal 2013				Fiscal 2012			Fiscal 2011
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue								
Canaccord Genuity	**$ 100,457**	$ 113,067	$ 93,581	$ 69,452	$ 97,377	$ 163,771	$ 177,758	$ 96,963
Canaccord Wealth Management	**57,198**	54,524	44,571	47,412	54,783	72,704	68,599	44,539
Corporate and Other	**4,894**	10,101	9,737	2,636	7,623	11,120	8,477	7,783
Total revenue	**$ 162,549**	$ 177,692	$ 147,889	$ 119,500	$ 159,783	$ 247,595	$ 254,834	$ 149,285
Net income (loss)	**(20,622)**	(31,794)	2,531	(5,278)	13,195	41,323	42,997	10,251
Earnings (loss) per common share – basic	**$ (0.24)**	$ (0.42)	$ 0.02	$ (0.09)	$ 0.17	$ 0.55	$ 0.57	$ 0.14
Earnings (loss) per common share – diluted	**$ (0.24)**	$ (0.42)	$ 0.01	$ (0.09)	$ 0.16	$ 0.49	$ 0.51	$ 0.12

Risks

The Company's ability to maintain and successfully execute its business strategy depends upon the personal reputation, judgment, business generation capabilities and project execution skills of its senior professionals. Any management disruption could result in a loss of clients and customers, or revenues from clients and customers, and could significantly affect the Company's business and results of operations.

The securities industry and Canaccord's activities are by their very nature subject to a number of inherent risks. Economic conditions, competition and market factors such as volatility in the Canadian and international markets, interest rates, commodity prices, market prices, trading volumes and liquidity will have a significant impact on Canaccord's profitability. An investment in the common or preferred shares of Canaccord involves a number of risks, including market, liquidity, credit, operational, legal and regulatory risks, which could be substantial and are inherent in Canaccord's business. Canaccord is also directly exposed to market price risk, liquidity risk and volatility risk as a result of its principal trading activities in equity securities and to interest rate risk and credit spread risk as a result of its principal trading in fixed income securities. Canaccord Wealth Management revenue is dependent on both trading volumes and asset values and, as such, is dependent on the level of market activity, investor confidence and the level of market prices. Canaccord Genuity's revenue is dependent on financing activity by corporate issuers, the success of its market making and principal trading, as well as the willingness of institutional clients to actively trade and participate in capital markets transactions. There may also be a lag between market fluctuations, changes in business conditions and the level of Canaccord's market activity and the impact that these factors have on Canaccord's operating results and financial position.

The financial services business is subject to extensive regulation in Canada, the US, the UK and Europe, Australia 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 and change. Changing regulations and interpretations could have a significant impact on Canaccord's business and profitability. The Company has a capital management framework to maintain the level of capital that will meet the Company's regulated subsidiaries' target ratios as set out by the respective regulators, to fund current and future operations, to ensure that the firm is able to meet its financial obligations as they come due, and to support the creation of shareholder value. The regulatory bodies that govern the Company's subsidiaries' use of regulatory capital are listed in Note 21 of Canaccord's 2012 Audited Annual Consolidated Financial Statements.

Further discussion regarding risks can be found in our Annual Information Form.

Additional Information

A comprehensive discussion of Canaccord's business, strategies, objectives and risks is available in our Annual Information Form and in the Management's Discussion and Analysis and Audited Annual Consolidated Financial Statements included in our 2012 Annual Report, which are available on our website at www.canaccordfinancial.com/EN/IR/FinReports/Pages/default.aspx and on SEDAR at www.sedar.com.

Unaudited Interim Condensed Consolidated Statements of Financial Position

As at (in thousands of Canadian dollars)	Notes	June 30, 2012	March 31, 2012
ASSETS			
Current			
Cash and cash equivalents		$ 644,027	$ 814,238
Securities owned	4	1,214,424	1,171,988
Accounts receivable	6	2,548,117	3,081,640
Income taxes receivable		15,866	8,301
Total current assets		4,422,434	5,076,167
Deferred tax assets		6,735	3,959
Investments		9,488	9,493
Equipment and leasehold improvements		49,678	51,084
Intangible assets	8	144,245	149,510
Goodwill	8	473,258	472,510
		$ 5,105,838	$ 5,762,723
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness		$ 84,536	$ 75,141
Short term credit facility	5	—	150,000
Securities sold short	4	1,036,535	914,649
Accounts payable and accrued liabilities	6	2,869,085	3,550,600
Provisions	17	18,349	39,666
Subordinated debt		15,000	15,000
Total current liabilities		4,023,505	4,745,056
Deferred tax liabilities		7,482	8,088
		4,030,987	4,753,144
Shareholders' equity			
Preferred shares	10	205,641	110,818
Common shares	11	631,983	623,739
Contributed surplus		61,271	68,336
Retained earnings		147,803	180,748
Accumulated other comprehensive income		11,271	8,484
Total shareholders' equity		1,057,969	992,125
Non-controlling interests		16,882	17,454
Total equity		1,074,851	1,009,579
		$ 5,105,838	$ 5,762,723

See accompanying notes

On behalf of the Board:

PAUL D. REYNOLDS
Director

TERRENCE A. LYONS
Director

Unaudited Interim Condensed Consolidated Statements of Operations

For the three months ended (in thousands of Canadian dollars, except per share amounts)	Notes	June 30, 2012	June 30, 2011
REVENUE			
Commission		$ 88,450	$ 61,028
Investment banking		28,629	59,858
Advisory fees		25,626	22,531
Principal trading		7,847	1,953
Interest		8,392	7,857
Other		3,605	6,556
		162,549	159,783
EXPENSES			
Incentive compensation		84,776	77,614
Salaries and benefits		23,198	17,117
Trading costs		12,587	8,965
Premises and equipment		10,854	6,832
Communication and technology		14,305	6,389
Interest		4,551	2,408
General and administrative		24,016	16,274
Amortization		8,136	2,905
Development costs		4,625	5,530
		187,048	144,034
(Loss) income before income taxes		(24,499)	15,749
Income taxes (recovery)			
Current	9	(2,277)	2,825
Deferred	9	(1,600)	(271)
		(3,877)	2,554
Net (loss) income for the period		$ (20,622)	$ 13,195
Net (loss) income attributable to:			
CFI shareholders		$ (19,967)	$ 13,195
Non-controlling interests		$ (655)	$ —
Weighted average number of common shares outstanding (thousands)			
Basic		94,145	75,087
Diluted		101,990	84,283
Net (loss) income per common share			
Basic	11iii	$ (0.24)	$ 0.17
Diluted	11iii	$ (0.24)	$ 0.16
Dividend per common share	12	$ 0.05	$ 0.10
Dividend per Series A Preferred Share	12	$ 0.34375	n/a
Dividend per Series C Preferred Share	12	$ 0.359375	n/a

See accompanying notes

Unaudited Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

For the three months ended (in thousands of Canadian dollars)	June 30, 2012	June 30, 2011
Net (loss) income for the period	$ (20,622)	$ 13,195
Other comprehensive income (loss)		
Net change in unrealized gains (losses) on translation of foreign operations	2,757	(689)
Comprehensive income (loss) for the period	$ (17,865)	$ 12,506
Comprehensive income (loss) attributable to:		
CFI shareholders	$ (17,180)	$ 12,506
Non-controlling interests	$ (685)	$ —

See accompanying notes

Unaudited Interim Condensed Consolidated Statements of Changes in Equity

As at and for the three months ended (in thousands of Canadian dollars)	Notes	June 30, 2012	June 30, 2011
Preferred shares, opening		$ 110,818	$ —
Shares issued, net of share issuance costs	10	97,450	97,352
Shares held in treasury	10	(2,627)	—
Preferred shares, closing		205,641	97,352
Common shares, opening		623,739	467,050
Shares issued in connection with share-based payments		3,885	3,032
Acquisition of common shares for long-term incentive plan		(13,280)	(23,238)
Release of vested common shares from employee benefit trust		10,008	7,360
Cancellation of shares in connection with the acquisition of Genuity Capital Markets		—	(606)
Net unvested share purchase loans		7,631	8,941
Common shares, closing		631,983	462,539
Contributed surplus, opening		68,336	52,167
Share-based payments		(3,314)	(2,662)
Cancellation of shares in connection with the acquisition of Genuity Capital Markets		—	606
Unvested share purchase loans		(3,751)	(3,526)
Contributed surplus, closing		61,271	46,585
Retained earnings, opening		180,748	238,647
Net (loss) income attributable to CFI shareholders		(19,967)	13,195
Preferred shares dividends	12	(2,837)	—
Common shares dividends	12	(10,141)	(8,416)
Retained earnings, closing		147,803	243,426
Accumulated other comprehensive income (loss), opening		8,484	(972)
Other comprehensive income (loss) attributable to CFI shareholders		2,787	(689)
Accumulated other comprehensive income (loss), closing		11,271	(1,661)
Total shareholders' equity		1,057,969	848,241
Non-controlling interests, opening		17,454	—
Foreign exchange on non-controlling interests		113	—
Comprehensive loss attributable to non-controlling interests		(685)	—
Non-controlling interests, closing		16,882	—
Total equity		$ 1,074,851	$ 848,241

See accompanying notes

Unaudited Interim Condensed Consolidated Statements of Cash Flows

For the three months ended (in thousands of Canadian dollars)	Notes	June 30, 2012	June 30, 2011
OPERATING ACTIVITIES			
Net (loss) income for the period		$ (20,622)	$ 13,195
Items not affecting cash			
Amortization		8,136	2,905
Deferred income tax recovery		(1,600)	(271)
Share-based compensation expense	13	14,733	11,856
Changes in non-cash working capital			
(Increase) decrease in securities owned		(41,964)	97,351
Decrease in accounts receivable		521,816	334,432
Increase in income taxes receivable		(16,842)	(35,446)
Increase in securities sold short		124,343	9,206
Decrease in accounts payable, accrued liabilities and provisions		(682,187)	(753,669)
Cash used by operating activities		(94,187)	(320,441)
FINANCING ACTIVITIES			
Repayment of short term credit facility		(150,000)	—
Issuance of preferred shares, net of share issuance costs		94,823	97,352
Acquisition of common shares for long-term incentive plan		(13,280)	(23,238)
Cash dividends paid on common shares		(9,683)	(8,269)
Cash dividends paid on preferred shares		(2,837)	—
Bank indebtedness		9,395	10,545
Issuance of shares in connection with share-based payments		—	555
(Decrease) increase in net vesting of share purchase loans		(2,654)	5,415
Cash (used) provided by financing activities		(74,236)	82,360
INVESTING ACTIVITIES			
Purchase of equipment and leasehold improvements		(1,142)	(4,500)
Cash used in investing activities		(1,142)	(4,500)
Effect of foreign exchange on cash balances		(646)	(753)
Decrease in cash position		(170,211)	(243,334)
Cash position, beginning of period		814,238	954,068
Cash position, end of period		$ 644,027	$ 710,734
Supplemental cash flow information			
Interest received		$ 4,105	$ 4,300
Interest paid		$ 4,122	$ 2,291
Income taxes paid		$ 5,966	$ 37,644

See accompanying notes

Notes to Unaudited Interim Condensed Consolidated Financial Statements

(in thousands of Canadian dollars, except per share amounts)

NOTE 1 Corporate Information

Through its principal subsidiaries, Canaccord Financial Inc. (the Company) is a leading independent, full-service investment dealer in Canada with capital markets operations in the United Kingdom (UK) and Europe, the United States of America (US), Australia, China, Hong Kong, Singapore and Barbados. Upon acquisition of Collins Stewart Hawkpoint plc (CSHP), the Company has also expanded its wealth management operations into the UK and Europe. The Company has operations in each of the two principal segments of the securities industry: capital markets and wealth management. Together, these operations offer a wide range of complementary investment products, brokerage services and investment banking services to the Company's private, institutional and corporate clients.

Canaccord Financial Inc. was incorporated on February 14, 1997 by the filing of a memorandum and articles with the Registrar of Companies for British Columbia under the *Company Act* (British Columbia) and continues in existence under the *Business Corporations Act* (British Columbia). The Company's head office is located at Suite 2200 – 609 Granville Street, Vancouver, British Columbia, V7Y 1H2. The Company's registered office is located at Suite 1000 – 840 Howe Street, Vancouver, British Columbia, V6Z 2M1.

The Company's common shares are publicly traded under the symbol CF on the TSX and the symbol CF. on the main market of the London Stock Exchange. The Company's Series A Preferred Shares are listed on the TSX under the symbol CF.PR.A. The Company's Series C Preferred Shares are listed on the TSX under the symbol CF.PR.C.

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

NOTE 2 Basis of Preparation

STATEMENT OF COMPLIANCE

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "*Interim Financial Reporting*" (IAS 34), as issued by the International Accounting Standards Board (IASB).

These unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's audited annual consolidated financial statements as at and for the year ended March 31, 2012 (March 31, 2012 consolidated financial statements) filed on SEDAR on May 23, 2012. All defined terms used herein are consistent with those terms defined in the March 31, 2012 consolidated financial statements.

The interim condensed consolidated financial statements have been prepared on an accrual basis and are based on the historical cost basis except for selected non-current assets and financial instruments, which have been measured at fair value as set out in the relevant accounting policies.

The interim condensed consolidated financial statements are presented in thousands of Canadian dollars, except when otherwise indicated.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Company's Board of Directors on August 8, 2012.

PRINCIPLES OF CONSOLIDATION

These unaudited interim condensed consolidated financial statements include the accounts of the Company, its subsidiaries and special purpose entities (SPEs) where the Company controls these entities. The method adopted by the Company to consolidate its subsidiaries and SPEs is described in Note 2 of the March 31, 2012 consolidated financial statements.

USE OF ESTIMATES AND ASSUMPTIONS

The preparation of the unaudited interim condensed consolidated financial statements in conformity with IFRS 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 reporting date. The significant estimates include share-based payments, income taxes, deferred tax assets associated with tax losses available for carryforward, impairment of goodwill, indefinite life intangible assets and other long-lived assets, allowance for credit losses, fair value of financial instruments, and provisions, which are more fully described in Note 2 of the March 31, 2012 consolidated financial statements.

In particular, the assessment for impairment of goodwill and identifiable indefinite life intangible assets requires management's best estimates in order to determine fair values using discounted cash flow projections that employ the following key assumptions: future cash flows, growth projections and the weighted average cost of capital. Refer to Note 12 of the March 31, 2012 consolidated financial statements for further information regarding the key assumptions used when conducting the March 2012 annual impairment test of goodwill and indefinite life intangible assets. Management has determined that there have not been any significant changes in these estimates and assumptions as at June 30, 2012 that would require an interim goodwill impairment test except for the Other Foreign Locations (Australia) cash-generating unit [Note 8].

FUTURE ACCOUNTING DEVELOPMENTS

There have been no further updates to the future accounting developments disclosed in Note 3 of the March 31, 2012 consolidated financial statements, during the three months ended June 30, 2012.

NOTE 3 Summary of Significant Accounting Policies

There were no significant changes in accounting policies, as discussed in Note 5 of the March 31, 2012 consolidated financial statements, during the three months ended June 30, 2012.

NOTE 4 Securities Owned and Securities Sold Short

	June 30, 2012		March 31, 2012	
	Securities owned	Securities sold short	Securities owned	Securities sold short
Corporate and government debt	$ 1,046,851	$ 940,137	$ 949,517	$ 824,466
Equities and convertible debentures	167,573	96,398	222,471	90,183
	$ 1,214,424	$ 1,036,535	$ 1,171,988	$ 914,649

As at June 30, 2012, corporate and government debt maturities ranged from 2012 to 2062 [March 31, 2012 – 2012 to 2096] and bear interest ranging from 0.00% to 15.00% [March 31, 2012 – 0.00% to 13.00%].

NOTE 5 Financial Instruments

A fair value hierarchy is presented below that distinguishes the significance of the inputs used in determining the fair value measurements of various financial instruments. The hierarchy contains the following levels: Level 1 uses quoted (unadjusted) prices in active markets for identical assets and liabilities, Level 2 uses other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly, and Level 3 uses techniques with inputs that have a significant effect on the recorded fair value and that are not based on observable market data.

		Estimated fair value		
			June 30, 2012	
	June 30, 2012	**Level 1**	**Level 2**	**Level 3**
Securities owned				
Corporate and government debt	**$ 1,046,851**	**$ 433,128**	**$ 610,790**	**$ 2,933**
Equities and convertible debentures	**167,573**	**148,119**	**3,654**	**15,800**
Securities sold short				
Corporate and government debt	**(940,137)**	**(556,244)**	**(383,893)**	**—**
Equities and convertible debentures	**(96,398)**	**(95,810)**	**(573)**	**(15)**
Investments	**9,488**	**—**	**—**	**9,488**

		Estimated fair value		
			March 31, 2012	
	March 31, 2012	Level 1	Level 2	Level 3
Securities owned				
Corporate and government debt	$ 949,517	$ 425,655	$ 520,070	$ 3,792
Equities and convertible debentures	222,471	206,584	6,107	9,780
Securities sold short				
Corporate and government debt	(824,466)	(535,117)	(289,349)	—
Equities and convertible debentures	(90,183)	(89,135)	(1,048)	—
Investments	9,493	—	—	9,493

Movement in Level 3 Financial Assets

March 31, 2012	$ 23,065
Transfers into Level 3 assets	5,643
Net unrealized loss during the period	(447)
Sales during the period	(55)
June 30, 2012	**$ 28,206**

SECURITIES LENDING AND BORROWING

	Cash		Securities	
	Loaned or delivered as collateral	**Borrowed or received as collateral**	**Loaned or delivered as collateral**	**Borrowed or received as collateral**
June 30, 2012	**$ 105,955**	**$ 50,398**	**$ 49,243**	**$ 106,414**
March 31, 2012	120,781	63,856	66,102	122,184

Securities lending and borrowing are included in the accounts receivable and accounts payable and accrued liabilities balances on the statement of financial position.

SHORT TERM CREDIT FACILITY

The Company entered into a $150.0 million senior secured credit agreement to finance a portion of the cash consideration for its acquisition of CSHP. This credit facility was collateralized by guarantees, securities pledge agreements or equitable mortgages in the UK over the shares of its material subsidiaries. The balance outstanding as of March 31, 2012 was $150.0 million. This short term credit facility bore an interest rate of 3.75% per annum. The net proceeds from the Series C Preferred Shares offering [Note 10] were used to partially repay $97.0 million of the $150.0 million short term credit facility. The balance of the short term credit facility was repaid in full on May 22, 2012.

NOTE 6 Accounts Receivable and Accounts Payable and Accrued Liabilities

ACCOUNTS RECEIVABLE

	June 30, 2012	March 31, 2012
Brokers and investment dealers	**$ 1,570,967**	$ 1,839,332
Clients	**393,909**	616,300
RRSP cash balances held in trust	**492,062**	535,486
Other	**91,179**	90,522
	$ 2,548,117	$ 3,081,640

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2012	March 31, 2012
Brokers and investment dealers	**$ 1,617,839**	$ 1,963,745
Clients	**1,088,856**	1,305,254
Other	**162,390**	281,601
	$ 2,869,085	$ 3,550,600

Amounts due from and to brokers and dealers include balances from resale and repurchase agreements, securities loaned and borrowed, as well as brokers' and dealers' counterparty balances.

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 the margin regulations of the Investment Industry Regulatory Organization of Canada (IIROC) and other regulatory authorities and are subject to the Company's credit review and daily monitoring procedures.

Amounts due from and to clients are due by the settlement date of the trade transaction. Margin loans are due on demand and are collateralized by the assets in the clients' accounts. Interest on margin loans and on amounts due to clients is based on a floating rate [June 30, 2012 – 6.00% to 6.25% and 0.00% to 0.05%, respectively; March 31, 2012 – 6.00% to 6.25% and 0.00% to 0.05%, respectively].

As at June 30, 2012, the allowance for doubtful accounts was $15.8 million [March 31, 2012 – $13.4 million].

NOTE 7 Business Combination

On March 21, 2012, the Company acquired 100% of CSHP. The purchase price allocation included in Note 11 to the March 31, 2012 consolidated financial statements was disclosed as preliminary. The purchase price allocation was subsequently finalized; there were no subsequent amendments to the fair values of consideration paid or net assets acquired. The purchase price allocation did not include an element of contingent consideration. The preliminary allocation of goodwill to the various cash-generating units has also been finalized, with no subsequent amendments.

NOTE 8 Impairment Testing of Goodwill and Identifiable Intangible Assets with Indefinite Lives

The carrying amounts of goodwill and indefinite life intangible assets acquired through business combinations have been allocated to the cash-generating units as follows:

	Intangible assets with indefinite lives		Goodwill		Total	
	June 30, 2012	March 31, 2012	**June 30, 2012**	March 31, 2012	**June 30, 2012**	March 31, 2012
Canaccord Genuity						
Canada	**$ 44,930**	$ 44,930	**$ 242,074**	$ 242,074	**$ 287,004**	$ 287,004
UK and Europe	**—**	—	**82,972**	82,969	**82,972**	82,969
US	**—**	—	**7,320**	7,169	**7,320**	7,169
Other Foreign Locations (China)	**—**	—	**3,183**	3,183	**3,183**	3,183
Other Foreign Locations (Australia)	**197**	197	**22,984**	22,752	**23,181**	22,949
Other Foreign Locations (Singapore)	**—**	—	**28,621**	28,288	**28,621**	28,288
Canaccord Wealth Management						
UK and Europe	**—**	—	**86,104**	86,075	**86,104**	86,075
	$ 45,127	$ 45,127	**$ 473,258**	$ 472,510	**$ 518,385**	$ 517,637

Goodwill and intangible assets with indefinite lives are tested for impairment annually (as at March 31) and when circumstances indicate the carrying value may potentially be impaired. If any indication exists, the Company estimates the recoverable amount of the goodwill and indefinite life intangible assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount. The Company's impairment test for goodwill and intangible assets with indefinite lives is based on value-in-use calculations that use a discounted cash flow model. The key assumptions used to determine the recoverable amount for the different cash-generating units were disclosed in the March 31, 2012 consolidated financial statements.

There have been no changes to circumstances or events that would indicate the carrying value of goodwill and intangibles has been potentially impaired at June 30, 2012 except for the Other Foreign Locations (Australia) cash-generating unit. Given ongoing economic uncertainty and the sensitivity of the recoverable amount of the Other Foreign Locations (Australia) cash-generating unit to changes in key assumptions, an interim impairment test has been performed at June 30, 2012.

The annual impairment testing for goodwill and intangible assets with indefinite lives for the other cash-generating units will be performed at March 31, 2013 assuming no circumstances or events arise that require earlier impairment testing.

OTHER FOREIGN LOCATIONS (AUSTRALIA) CASH-GENERATING UNIT

The projected cash flows were updated to reflect current market environment and operational changes implemented since March 31, 2012. All other assumptions remained consistent with those disclosed in the March 31, 2012 consolidated financial statements. As a result of the updated analysis, management did not identify an impairment for the Other Foreign Locations (Australia) cash-generating unit.

The Company's interim impairment testing has determined that the recoverable amount of the Other Foreign Locations (Australia) cash-generating unit exceeds its recoverable amount by $1.1 million, and consequently, a reasonably possible decline in the projected growth rate or increase in the discount rate may result in a full or partial impairment charge in respect of the goodwill and indefinite life intangible assets allocated to this cash-generating unit. An increase of 1.0 percentage point in the discount rate or a reduction in the compound annual growth rate of 2.0 percentage points may result in a full or partial impairment.

NOTE 9 Income Taxes

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

	June 30, 2012	June 30, 2011
Income taxes at the statutory rate (F2013: 24.7%; F2012: 25.8%)	$ (6,062)	$ 4,040
Difference in tax rates in foreign jurisdictions	(2,406)	337
Non-deductible items affecting the determination of taxable income	1,809	478
Change in accounting and tax base estimate	(1,487)	(301)
Change in deferred tax asset – reversal period of temporary difference	(92)	(370)
Tax losses and other temporary differences not recognized (utilization of tax losses previously not recognized)	4,361	(1,630)
Income tax expense (recovery) – current and deferred	$ (3,877)	$ 2,554

NOTE 10 Preferred Shares

	June 30, 2012		March 31, 2012	
	Amount	Number of shares	Amount	Number of shares
Series A Preferred Shares issued and outstanding	$ 110,818	4,540,000	$ 110,818	4,540,000
Series C Preferred Shares issued and outstanding	97,450	4,000,000	—	—
Series C Preferred Shares held in treasury	(2,627)	(106,794)	—	—
	94,823	3,893,206	—	—
	$ 205,641	8,433,206	$ 110,818	4,540,000

[i] SERIES A PREFERRED SHARES

The Company issued 4,540,000 Cumulative 5-Year Rate Reset First Preferred Shares, Series A (Series A Preferred Shares) at a purchase price of $25.00 per share, for gross proceeds of $113.5 million during the year ended March 31, 2012. Quarterly cumulative cash dividends, if declared, will be paid at an annual rate of 5.5% for the initial five-year period ending on September 30, 2016. Thereafter, the dividend rate will be reset every five years at a rate equal to the five-year Government of Canada bond yield plus 3.21%.

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

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

[ii] SERIES C PREFERRED SHARES

On April 10, 2012, the Company issued 4,000,000 Cumulative 5-Year Rate Reset First Preferred Shares, Series C (Series C Preferred Shares) at a purchase price of $25.00 per share for gross proceeds of $100.0 million. Quarterly cumulative cash dividends, if declared, will be paid at an annual rate of 5.75% for the initial five-year period ending on June 30, 2017. Thereafter, the dividend rate will be reset every five years at a rate equal to the five-year Government of Canada bond yield plus 4.03%.

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

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

The net amount recognized after deducting issue costs, net of deferred taxes of $1.0 million, was $97.5 million. As of June 30, 2012, the Company held 106,794 shares in treasury at par value of $2.6 million.

NOTE 11 Common Shares

	June 30, 2012		March 31, 2012	
	Amount	Number of shares	Amount	Number of shares
Issued and fully paid	$ 709,178	102,030,601	$ 705,293	101,688,721
Unvested share purchase loans	(25,521)	(2,967,067)	(33,152)	(3,209,336)
Held for long-term incentive plan	(51,674)	(5,497,224)	(48,402)	(4,453,508)
	$ 631,983	93,566,310	$ 623,739	94,025,877

[i] AUTHORIZED

Unlimited common shares without par value

[ii] ISSUED AND FULLY PAID

	Number of shares	Amount
Balance, March 31, 2012	101,688,721	$ 705,293
Shares issued in connection with share-based payment plans [note 13]	341,880	3,885
Balance, June 30, 2012	**102,030,601**	**$ 709,178**

In 2011, the Company filed a normal course issuer bid (NCIB) to allow for the purchase of up to 2,000,000 of its common shares through the facilities of the TSX from June 13, 2011 to June 12, 2012. The purchase of common shares under the NCIB enabled the Company to acquire shares for cancellation. The shares that were available for repurchase represented 2.0% of the Company's outstanding common shares as at March 31, 2012. There were 700,500 shares repurchased through the NCIB between June 13, 2011 and June 12, 2012 that were subsequently cancelled. The NCIB expired on June 12, 2012. On August 3, 2012, the Company made an application to the TSX to renew its NCIB.

[iii] (LOSS) EARNINGS PER COMMON SHARE

For the year ended	June 30, 2012	June 30, 2011
Basic (loss) earnings per common share		
Net (loss) income attributable to CFI shareholders	$ (19,967)	$ 13,195
Preferred share dividends	(2,837)	(90)
Net (loss) income available to common shareholders	(22,804)	13,105
Weighted average number of common shares (number)	94,145,084	75,086,958
Basic (loss) earnings per share	$ (0.24)	$ 0.17
Diluted (loss) earnings per common share		
Net (loss) income available to common shareholders	(22,804)	13,105
Weighted average number of common shares (number)	94,145,084	75,086,958
Dilutive effect of unvested shares (number)	2,946,507	3,630,005
Dilutive effect of share options (number)	—	747,869
Dilutive effect of unvested shares purchased by employee benefit trust (number) [note 13]	4,740,658	4,244,528
Dilutive effect of share issuance commitment in connection with long-term incentive plan (number) [note 13]	157,734	573,296
Adjusted weighted average number of common shares (number)	101,989,983	84,282,656
Diluted (loss) earnings per common share	$ (0.24)	$ 0.16

NOTE 12 Dividends

COMMON SHARES DIVIDENDS

The Company declared the following common shares dividends during the three months ended June 30, 2012:

Record date	Payment date	Cash dividend per common share	Total common dividend amount
June 1, 2012	June 15, 2012	$ 0.10	$ 10,202

On August 8, 2012, the Board of Directors approved a cash dividend of $0.05 per common share payable on September 10, 2012 to common shareholders of record as at August 24, 2012 [Note 18].

PREFERRED SHARES DIVIDENDS

The Company declared the following preferred shares dividends during the three months ended June 30, 2012:

Record date	Payment date	Cash dividend per Series A Preferred Share	Cash dividend per Series C Preferred Share	Total preferred dividend amount
June 15, 2012	July 3, 2012	$ 0.34375	$ 0.31900	$ 2,837

On August 8, 2012, the Board also approved a cash dividend of $0.34375 per Series A Preferred Share payable on October 1, 2012 to Series A preferred shareholders of record as at September 14, 2012 [Note 18].

On August 8, 2012, the Board also approved a cash dividend of $0.359375 per Series C Preferred Share payable on October 1, 2012 to Series C preferred shareholders of record as at September 14, 2012 [Note 18].

NOTE 13 Share-based Payment Plans

[i] LONG-TERM INCENTIVE PLAN

Under the long-term incentive plan (LTIP), eligible participants are awarded restricted share units (RSUs), which generally 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 the trustee to purchase on the open market common shares of the Company that will be held in trust by the trustee until the RSUs vest or (b) the Company will issue common shares from treasury to participants following vesting of the RSUs. For employees in the US and the UK, the Company will allot common shares at the time of each RSU award, and these shares will be issued from treasury at the time they vest for each participant.

There were 3,346,274 RSUs [three months ended June 30, 2011 – 2,010,835 RSUs] granted in lieu of cash compensation to employees during the three months ended June 30, 2012. The Trust purchased 2,089,200 number of common shares [three months ended June 30, 2011 – 1,660,900] for the three months ended June 30, 2012.

The fair value of the RSUs at the measurement date is based on the volume weighted average price at the grant date and is amortized on a graded basis over the vesting period of three years. The weighted average fair value of RSUs granted during the period ended June 30, 2012 was $5.95 [June 30, 2011 – $13.89].

	Number
Awards outstanding, March 31, 2012	7,068,317
Grants	3,346,274
Vested	(1,387,364)
Forfeited	(34,584)
Awards outstanding, June 30, 2012	**8,992,643**

	Number
Common shares held by the Trust, March 31, 2012	4,453,508
Acquired	2,089,200
Released on vesting	(1,045,484)
Common shares held by the Trust, June 30, 2012	**5,497,224**

[ii] SHARE-BASED COMPENSATION EXPENSE

For the three months ended	**June 30, 2012**	June 30, 2011
Share options	**$ 294**	$ 400
Long-term incentive plan	**11,043**	7,560
Forgivable common share purchase loans	**3,119**	3,896
Deferred share units	**(94)**	—
Retention shares	**371**	—
Total share-based compensation expense	**$ 14,733**	$ 11,856

NOTE 14 Related Party Transactions

Security trades executed by the Company for 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 payable and accrued liabilities include the following balances with key management personnel:

	June 30, 2012	March 31, 2012
Accounts payable and accrued liabilities	**$ 7,099**	$ 2,506

NOTE 15 Segmented Information

The Company operates in two industry segments as follows:

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

Canaccord Wealth Management – provides brokerage services and investment advice to retail or private clients in Canada, the US, the UK and Europe, and Australia.

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

The Company's industry segments are managed separately because each business offers different services and requires different personnel and marketing strategies. The Company evaluates the performance of each business based on operating results.

The Company does not allocate total assets, liabilities or equipment and leasehold improvements to the segments. Amortization of tangible assets is allocated to the segments based on the square footage occupied. Amortization of identifiable intangible assets related to the business combinations are allocated to the cash-generating units within the Canaccord Genuity and Canaccord Wealth Management segments. The accounting policies of the segments are the same as those described in Note 5 of the March 31, 2012 consolidated financial statements. There are no significant intersegment revenues. Income taxes are managed on a Company basis and are not allocated to operating segments. All revenue and operating results are derived from external customers.

	Canaccord Genuity	Canaccord Wealth Management	Corporate and Other	Total
Three months ended June 30, 2012				
Revenues, excluding interest revenue	**$ 97,576**	**$ 53,745**	**$ 2,836**	**$ 154,157**
Interest revenue	**2,881**	**3,453**	**2,058**	**8,392**
Expenses, excluding undernoted	**108,254**	**48,980**	**12,502**	**169,736**
Amortization	**5,733**	**2,021**	**382**	**8,136**
Development costs	**2,158**	**1,980**	**487**	**4,625**
Interest expense	**3,913**	**97**	**541**	**4,551**
Income (loss) before income taxes	**$ (19,601)**	**$ 4,120**	**$ (9,018)**	**$ (24,499)**
Three months ended June 30, 2011				
Revenues, excluding interest revenue	$ 95,573	$ 51,391	$ 4,962	$ 151,926
Interest revenue	1,804	3,392	2,661	7,857
Expenses, excluding undernoted	74,111	40,795	18,285	133,191
Amortization	1,802	641	462	2,905
Development costs	3,150	1,979	401	5,530
Interest expense	1,908	102	398	2,408
Income (loss) before income taxes	$ 16,406	$ 11,266	$ (11,923)	$ 15,749

For geographic reporting purposes, the Company's business operations are grouped into Canada, the US, the UK and Europe, and Other Foreign Locations. The following table presents the revenue of the Company by geographic location:

Three months ended	**June 30, 2012**	June 30, 2011
Canada	**$ 76,641**	$ 123,090
United Kingdom and Europe	**48,807**	9,246
United States	**31,694**	27,195
Other Foreign Locations	**5,407**	252
	$ 162,549	$ 159,783

NOTE 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 preferred shares, common shares, contributed surplus, retained earnings and accumulated other comprehensive income, and is further complemented by subordinated debt. The following table summarizes our capital as at June 30, 2012 and March 31, 2012:

Type of capital	June 30, 2012	March 31, 2012
Preferred shares	$ 205,641	$ 110,818
Common shares	631,983	623,739
Contributed surplus	61,271	68,336
Retained earnings	147,803	180,748
Accumulated other comprehensive income	11,271	8,484
Shareholders' equity	1,057,969	992,125
Subordinated debt	15,000	15,000
	$ 1,072,969	$ 1,007,125

NOTE 17 Provisions and Contingencies

PROVISIONS

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. At each reporting date, the Company assesses the adequacy of its pre-existing provisions and adjusts the amounts as necessary. The following is a summary of the changes during the three months ended June 30, 2012:

	Legal provisions	Restructuring provisions	Total provisions
Balance, March 31, 2012	$ 12,943	$ 26,723	$ 39,666
Additions	1,182	—	1,182
Utilized	(3)	(22,496)	(22,499)
Recoveries	—	—	—
Balance, June 30, 2012	**$ 14,122**	**$ 4,227**	**$ 18,349**

Commitments, litigation proceedings and contingent liabilities

During the period ended June 30, 2012, there were no material changes to the Company's commitments or contingencies from those described in Note 23 of the March 31, 2012 consolidated financial statements, except for below:

- The Company and CSHP and its US subsidiary, Collins Stewart LLC, among others, were defendants in an action commenced by Morgan Joseph TriArtisan Group Inc. and Morgan Joseph TriArtisan LLC in state court in New York City alleging that a proposed joint venture in New York between Collins Stewart LLC and Morgan Joseph TriArtisan LLC was fundamentally inconsistent with the acquisition of CSHP by the Company. The claims against the Company were for tortious interference with contract, tortious interference with prospective business advantage, and aiding and abetting breach of fiduciary duty. Remedies requested by the plaintiff against the Company were for compensatory damages in an amount not less than $35 million and punitive damages in an amount of three times the compensatory damages or approximately $100 million. The parties agreed to submit the matter to arbitration and the plaintiffs agreed to dismiss the proceedings in state court. This claim was settled subsequent to June 30, 2012.

NOTE 18 Subsequent Events

[i] LITIGATION PROCEEDING

Subsequent to June 30, 2012, the Company and all other defendants settled the claim by Morgan Joseph TriArtisan Group Inc. and Morgan Joseph TriArtisan LLC, including the claims against the Company for tortious interference with contract, tortious interference with prospective business advantage, and aiding and abetting breach of fiduciary duty [Note 17].

[ii] DIVIDENDS

On August 8, 2012, the Board of Directors approved the following cash dividends: $0.05 per common share payable on September 10, 2012 to common shareholders with a record date of August 24, 2012; $0.34375 per Series A Preferred Share payable on October 1, 2012 with a record date of September 14, 2012; and $0.359375 per Series C Preferred Share payable on October 1, 2012 with a record date of September 14, 2012.

Shareholder Information

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Stock Exchange Listing

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TSX: CF
LSE: CF.

Preferred shares:
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Series C (TSX): CF.PR.C.

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Fiscal 2013 Expected Dividend[1] and Earnings Release Dates

	Expected earnings release date	Preferred dividend record date	Preferred dividend payment date	Common dividend record date	Common dividend payment date
Q1/13	August 8, 2012	September 14, 2012	October 1, 2012	August 24, 2012	September 10, 2012
Q2/13	November 7, 2012	December 14, 2012	December 31, 2012	November 30, 2012	December 10, 2012
Q3/13	February 6, 2013	March 15, 2013	April 1, 2013	March 1, 2013	March 15, 2013
Q4/13	May 21, 2013	June 21, 2013	July 2, 2013	May 31, 2013	June 10, 2013

(1) Dividends are subject to Board of Directors approval. All dividend payments will depend on general business conditions and the Company's financial conditions, results of operations, capital requirements and such other factors as the Board determines to be relevant.

Shareholder Administration

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

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Offers enrolment for self-service account management for registered shareholders through the Investor Centre.

Financial Information

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