# Q2 CANACCORD CAPITAL INC. REPORTS SECOND QUARTER RESULTS

**Second Quarter Fiscal 2008 Report to Shareholders**

## CANACCORD CAPITAL INC.
## REPORTS SECOND QUARTER AND FIRST HALF OF FISCAL 2008 RESULTS

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

**VANCOUVER, November 1, 2007** – Canaccord Capital Inc.'s (TSX & AIM: CCI) revenue for the three months ended September 30, 2007 was $154.5 million, down 1.0% from the same quarter a year ago. Net income for the same period was $12.4 million, down 30.3% and diluted earnings per share (EPS) were $0.26, down 29.7% from the same period a year ago. Commenting on the quarter, Paul Reynolds, President and CEO said "While this was certainly not our best quarter, we were able to generate a reasonable rate of return in a very challenging market environment."

An adjustment of $4.4 million related to third party asset-backed commercial paper has been recorded at September 30, 2007 to reflect management's view of current market conditions and the limited liquidity for these notes. The fair value was estimated by management and the adjustment was recorded as a loss within principal trading revenue for Q2/08.

Revenue for the six months ended September 30, 2007 was $400.3 million, up 10.5% from the same period a year ago. Net income was $51.4 million for the six-month period representing an increase of 17.6% from the prior year. Diluted earnings per share were $1.07, up 17.1% from $0.91 for the same period a year ago.

### Highlights for the three months ended September 30, 2007 compared to the three months ended September 30, 2006:

- Revenue of $154.5 million, down 1.0% or $1.5 million from $156.0 million
- Expenses of $135.3 million, up 3.5% or $4.5 million from $130.8 million
- Net income of $12.4 million, down 30.3% or $5.4 million from $17.8 million
- Diluted EPS of $0.26, down 29.7% or $0.11 from $0.37
- Return on equity (ROE) of 12.8%, down from 22.1%
- Working capital increased by 12.8% to $294.0 million from $260.6 million
- Book value per diluted common share for the period end was $7.83, up 14.5% or $0.99 from $6.84
- The Board of Directors approved a quarterly dividend of $0.125 per share on November 1, 2007, payable on December 10, 2007 with a record date of November 30, 2007

### Highlights for the six months ended September 30, 2007 compared to the six months ended September 30, 2006:

- Revenue of $400.3 million, up 10.5% or $38.1 million from $362.2 million
- Expenses of $322.6 million, up 8.3% or $24.9 million from $297.7 million
- Net income of $51.4 million, up 17.6% or $7.7 million from $43.7 million

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CANACCORD CAPITAL

- Diluted EPS of $1.07, up 17.1% or $0.16 from $0.91
- ROE of 26.9%, down from 28.4%

**Highlights of Operations:**

- Canaccord Adams ranked seventh in Canada for block trading market share (1) with 5.3% in Q2/08, up from 3.0% in Q2/07
- Canaccord Adams has led over $5.5 billion (2) in transactions globally from January 1 to September 30, 2007, surpassing our $4.5 billion total for the entire calendar year 2006
- Canaccord Adams ranked number three as bookrunner in Canada by Thomson Financial for raising $3.3 billion in total proceeds from 80 transactions between January 1 and September 30, 2007
- Canaccord Adams ranked number one in the Brendan Wood Survey (3) for providing clients with top investment ideas
- Canaccord Adams ranked number one (4) for 46 completed Private Investment in Public Equity (PIPE) transactions in North America that raised over $1 billion in proceeds
- Canaccord Adams led 34 transactions (2) globally to raise total proceeds of more than $1.1 billion during Q2/08
- Canaccord Adams acted as advisor for Thunder Energy Trust on its $425 million acquisition by Overlord Financial Inc. and Public Sector Pension Investment Board
- During Q2/08, Canaccord Adams led and co-led the following equity transactions:
  - $500.0 million on TSX for Niko Resources
  - $80.0 million on TSX for Centenario Copper Corp.
  - $60.3 million on AIM for Lewis Charles Romania Property Fund Ltd.
  - $50.3 million on TSX and AIM for Dragonwave Inc.
  - $37.9 million on TSX and AIM for Intermap Technologies Corp.
  - $31.0 million on NASDAQ for Alphatec
- Including the led and co-led transactions referred to above, Canaccord Adams participated in a total of 80 transactions (2) globally to raise gross proceeds of more than $4.8 billion during Q2/08. Included in these totals:
  - Canada participated in 68 transactions, which raised $4.0 billion
  - UK participated in four transactions, which raised $592.6 million
  - US participated in eight transactions, which raised $194.9 million
- Assets under administration (AUA) of $15.3 billion, up 10.6% from the same period a year ago and down 2.6% from Q1/08
- Assets under management (AUM) (5) of $777 million, up 4.3% from the same period a year ago and down 4.7% from Q1/08
- Canaccord had 453 Investment Advisors as of September 30, 2007, up 19 from the same period a year ago and up 13 from Q1/08

(1) Source: Canada Equity
(2) Source: FP Infomart and company information. Transactions over $1.5 million
(3) Source: Brendan Wood International Equity Research, Sales and Trading Performance in Canada 2007 Report
(4) Source: PlacementTracker as of September 30, 2007
(5) AUM has been reclassified commencing in Q1/07 to include all assets managed on a discretionary basis under our programs generally described as or known as the *Independence Accounts*, *Separately Managed Accounts* and *Advisor Managed Accounts*.

# LETTER TO SHAREHOLDERS

Like many of our peers in the financial services industry, we found the July to September 2007 period to be among the most challenging periods in recent memory. The business environment across all of our geographies during Canaccord's Q2/08 was marked by dramatic swings in market valuations, investor sentiment and credit market liquidity. Although the sharp downturn in August presented us with a number of challenges in terms of risk management and liquidity constraints, it also demonstrated the underlying strength of Canaccord's global platform. While we are certainly not pleased with our financial performance for the quarter, we did continue to generate revenues and profits for shareholders. Moreover, we led one of our largest equity transactions ever, and continued to invest in our capabilities across our geographies.

## ASSET-BACKED COMMERCIAL PAPER MARKET

During Q2/08, a sharp contraction in credit market liquidity arose as a result of worsening conditions in the US sub-prime mortgage market. In reaction to those events, credit providers retreated and most third party asset-backed commercial paper (ABCP) trusts in Canada were unable to refinance maturing obligations thereby inhibiting liquidity for many note holders. In mid-August 2007, Canaccord's clients held approximately $275 million of ABCP notes in their accounts at Canaccord. Canaccord held $32 million in cash and cash equivalents and $11 million in its principal trading accounts classified under securities owned.

In September 2007 we announced our support of and participation in the Pan-Canadian Investors Committee for ABCP, which was formed to seek options for an equitable restructuring of ABCP trusts or conduits. Canaccord has taken a very active role in the Investors Committee as part of our ongoing efforts to protect our clients' interests and those of all private note holders. The standstill agreement put in place in August has been extended until December 14, 2007 and we were encouraged to see the successful restructuring of the Skeena conduit in October. We will continue our efforts as an active member of this committee and an advocate for our clients until all of our clients regain access to liquidity for their investments.

An adjustment of $4.4 million has been recorded in principal trading as of September 30, 2007. Canaccord estimates the fair value of the ABCP by discounting expected future cash flows considering the best available data. Canaccord expects resolution, a liquidity event and clarity with respect to the ABCP within the next six months. We continue to believe that the valuation issues relate to liquidity and not underlying asset quality.

## CHALLENGING CAPITAL MARKETS ENVIRONMENT

The credit tightening that took place during the second quarter of fiscal 2008 in Canadian, US and UK financial markets led to sharp, though short-lived, corrections in equity markets. These downturns were very pronounced in Canaccord's core areas of expertise, notably mid-market growth equities, and impacted both our principal trading and investment banking operations. Revenues, after the mark-to-market of the ABCP position, decreased 1.0% to $154.5 million. Expenses advanced 3.5% as we continued to make ongoing investments in our business, particularly in US banking capabilities. As a result, net income for Q2/08 was $12.4 million, a 30.3% decrease. Diluted earnings per share declined 29.7% to $0.26 from $0.37 in Q2/07.

## STABLE CAPITAL MARKETS ACTIVITY

Canaccord Adams' aggregate year-over-year performance was good during the second quarter, especially in light of the challenges of prevailing equity market conditions. Our teams led 34 transactions globally that raised total proceeds of $1.1 billion. Two transactions were particularly notable: a $500 million TSX transaction for Niko Resources, which we led, and the $425 million acquisition of Thunder Energy Trust by Overlord Financial and Public Sector Pension Investment Board, on which we acted as advisor.

In Canada, Canaccord Adams' investment banking revenues advanced 1.8% to $39.2 million compared to Q2/07. This was significantly lower than the record first quarter of the current fiscal year due to uncertainties surrounding the direction of equity markets as well as seasonality factors typical in the summer months. Principal trading was also negatively affected during the second quarter by weaker Canadian markets for mid-market growth equities and by trading losses.

In the United Kingdom, year-over-year revenues decreased approximately 4% to $20.8 million in the second quarter. While the UK markets remained sluggish during the quarter and confidence was taxed by a temporary liquidity crisis in the UK, we remain well positioned, as a leading broker and Nominated Adviser (Nomad), to benefit from increased underwriting interest in growth equities.

We continue to see good traction in the United States as we build out our banking capabilities to serve key sectors of the entrepreneurial economy. Even though business volumes were affected by uncertainties in the US credit and equity markets, second quarter revenues advanced by 12.1% to $19.8 million compared to the second quarter of fiscal 2007. We have been an active participant in Private Investment in Public Equity (PIPE) transactions, completing 46 North American transactions so far in calendar 2007 with an aggregate value of over $1 billion. We expect that our dedicated PIPE team in the US will continue to build on the business momentum they have created for the balance of this fiscal year.

During the quarter we announced the formation of a dedicated M&A group to provide strategic advice to growth companies in the Technology, Life Sciences and Consumer sectors. The newly hired team, based in Boston, extends Canaccord's proven M&A capability beyond its strength in the resource sectors. In August, Canaccord Adams held its 27th Annual Global Growth Conference, one of the longest-running conferences focused exclusively on emerging growth companies. The event brought together more than 1,000 participants that led to over 1,600 scheduled meetings between corporate and institutional clients, and Canaccord bankers and traders.

## STEADY PERFORMANCE IN PRIVATE CLIENT SERVICES

Overall revenue growth in Private Client Services (PCS) was significantly impacted by the weak North American equity markets that prevailed throughout much of the second quarter of fiscal 2008. Nevertheless, our PCS team took advantage of stronger markets earlier in the period, which helped increase revenues by 3% to $57.4 million – an increase of $1.8 million over Q2/07. Expenses advanced 6.5%, driven primarily by two factors. Salaries and benefits increased due to the hiring and training of 10 additional "rookie" Investment Advisors (IAs) year over year, part of a longer term strategy to build our retail business. Interest expense also rose as clients held higher average cash balances in their accounts during the quarter. As a result, income before income taxes and corporate allocations declined 6.3% to $13.4 million compared to Q2/07.

Assets under administration grew $1.5 billion to $15.3 billion compared to Q2/07. Assets under management rose 4.3% to $777 million. Despite the continuing challenge of cost-effective recruiting of new IAs in Canada, on a net basis we added 13 new professionals since Q1/08, bringing Canaccord's total number of IAs to 453. During Q2/08 we hired 13 new IAs and had 10 "rookies" complete their training and become licensed, and hence they are now included in the total number of IAs.

## BUSINESS OUTLOOK

We experienced one of the sharpest corrections in recent history during Q2/08. We owe much to our dedicated employees and their commitment to provide clients with ideas that count in any market environment. While the downturn exposed areas of our operations that require more attention, our financial performance for the quarter shows that the Company has developed fundamentally strong businesses that are remarkably resilient in their ability to produce revenues and profits for Canaccord shareholders. This is an excellent endorsement of our longer term strategy to diversify our business by geography and business line and to be a leading global dealer, focused on the mid-market.

Looking forward, we are already seeing a growing pipeline of new business, improved market liquidity, and commodities such as gold and oil at or near historic highs. Sentiment is improving and with it, we believe, will come an increased appetite for the specialized expertise that Canaccord can bring to private and institutional investors and to small- and mid-cap companies looking for opportunities to enhance their prospects for growth.

**PAUL D. REYNOLDS**
PRESIDENT & CHIEF EXECUTIVE OFFICER

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*Fiscal second quarter 2008 for the three months and six months ended September 30, 2007 – this document is dated November 1, 2007*

The following discussion of the financial condition and results of operations for Canaccord Capital Inc. (Canaccord) is provided to enable the reader to assess material changes in such financial condition and to assess results for the three- and six-month periods ended September 30, 2007 compared to the corresponding periods in the preceding fiscal year. The three- and six-month periods ended September 30, 2007 are also referred to as the second quarter 2008, Q2/08, fiscal Q2/08 and first-half fiscal year 2008 in the following discussion. This discussion should be read in conjunction with the unaudited interim consolidated financial statements for the three- and six-month periods ended September 30, 2007 beginning on page 19 of this report; our Annual Information Form dated June 26, 2007; and the 2007 annual Management's Discussion and Analysis (annual MD&A) including the audited consolidated financial statements for the fiscal year ended March 31, 2007 in Canaccord's Annual Report dated June 26, 2007 (the Annual Report). There has been no material change to the information contained in the annual MD&A for fiscal 2007 except as disclosed in this MD&A. Canaccord's financial information is expressed in Canadian dollars unless otherwise specified. The financial information presented in this document is prepared in accordance with Canadian generally accepted accounting principles (GAAP) unless specifically noted. All the financial data below is unaudited except for certain fiscal year data from our 2007 audited financial statements.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document may contain certain forward-looking statements. These statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events 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" 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 detailed from time to time in Canaccord's interim and annual consolidated financial statements and its Annual Report and Annual Information Form filed on sedar.com. These forward-looking statements are made as of the date of this document, and Canaccord assumes no obligation to update or revise them to reflect new events or circumstances.

## NON-GAAP MEASURES

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

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

Assets under administration (AUA) and assets under management (AUM) are non-GAAP measures of client assets that are common to the wealth management aspects of the private client services industry. AUA is the market value of client assets administered by Canaccord from which Canaccord earns commissions or fees. This measure includes funds held in client accounts as well as the aggregate market value of long and short security positions. Canaccord's method of calculating AUA may differ from the methods used by other companies and therefore may not be comparable to other companies. Management uses this measure to assess operational performance of the Private Client Services business segment. In Q1/08, our AUM definition was reclassified to include all assets managed on a discretionary basis under our programs generally described as or known as the *Independence Accounts*, *Separately Managed Accounts* and *Advisor Managed Accounts*. AUM including all these programs have been reclassified commencing in Q1/07 on this basis. Services under these programs include the selection of investments and the provision of investment advice. AUM are also administered by Canaccord and are included in AUA.

## OVERVIEW

Canaccord's business is cyclical and experiences considerable variations in revenue and income from quarter to quarter and year to year due to factors beyond Canaccord's control. In addition to general economic conditions and international market factors, our business is affected by the overall condition of the North American and European equity markets, including the seasonal variance in these markets.

### Business environment

During fiscal Q2/08, the reduction in credit market liquidity pushed credit spreads to extremely high levels and increased volatility in equity markets. Financial firms, particularly in Canada, came under pressure for holding investments in third party asset-backed commercial paper (ABCP). This ABCP became illiquid during the quarter as a result of the credit market conditions, and is part of a larger global credit problem. Canaccord has taken a seat on the Pan-Canadian Investors Committee for ABCP to represent and defend our clients' interest and the interest of all private unitholders in the marketplace. There has recently been an extension of the standstill agreement until December 14, 2007. It is our view that this situation remains a liquidity issue and not a deterioration of underlying asset quality.

Also during the quarter the Canadian economy saw the dollar increase to parity with the US dollar for the first time in over 30 years. Despite the pressures of this appreciation, the Canadian economy is expected to handle this headwind in the long term given its strong commodity prices plus a low interest rate environment relative to Canadian historical levels.

The US economy is struggling with both the global credit crunch and the continued downturn in the US housing market. To reduce the risk of an economic slowdown, the US Federal Reserve lowered interest rates in September for the first time in four years. The UK economy has also been troubled by the global credit conditions, including a run on deposits of a large financial institution that was only stabilized after significant central bank and regulatory intervention. Furthermore, the UK Treasury cited weakness in the UK housing market, which will likely prompt a slowdown in consumer spending to a three-year low.

The impact of these conditions was generally unfavourable for our businesses across our geographies during Q2/08. However, we are cautiously optimistic over the near to mid-term that markets will return to more normal conditions.

#### Market data

Both trading volumes and financing values on the TSX, TSX – Venture, and AIM were higher during Q2/08 relative to Q2/07. Trading volume on the NASDAQ declined slightly year over year while the total value of financings increased. Financing values for Canaccord's focus sectors on the AIM increased year over year; however, Q2/07 represents an unusually low base. Further issuance in all focus sectors except for biotech drove the year-over-year increase.

**Trading volume by exchange (billions of shares)**

| | July 2007 | August 2007 | September 2007 | Fiscal Q2/08 | Increase (decrease) from fiscal Q2/07 | Increase (decrease) from fiscal Q1/08 |
|---|---|---|---|---|---|---|
| TSX | 7.8 | 8.0 | 7.1 | 22.9 | 33.3% | (7.7)% |
| TSX – Venture | 3.6 | 3.3 | 4.1 | 11.0 | 69.3% | (17.9)% |
| AIM | 12.0 | 10.7 | 9.3 | 32.0 | 8.2% | (12.1)% |
| NASDAQ | 21.7 | 26.2 | 17.2 | 65.1 | (5.0)% | 8.0% |

**Total financing value by exchange**

| | July 2007 | August 2007 | September 2007 | Fiscal Q2/08 | Increase from fiscal Q2/07 | (Decrease) from fiscal Q1/08 |
|---|---|---|---|---|---|---|
| TSX and TSX – Venture (C$ billions) | 3.8 | 4.2 | 2.1 | 10.1 | 22.2% | (44.2)% |
| AIM (£ billions) | 1.9 | 1.2 | 0.2 | 3.3 | 84.5% | (52.9)% |
| NASDAQ (US$ billions) | 3.0 | 3.1 | 4.4 | 10.5 | 23.8% | (42.6)% |

**Financing value for relevant AIM industry sectors**

| *(£ millions, except for percentage amounts)* | July 2007 | August 2007 | September 2007 | Fiscal Q2/08 | Increase (decrease) from fiscal Q2/07 | (Decrease) from fiscal Q1/08 |
|---|---|---|---|---|---|---|
| Oil and gas | 76.9 | 94.4 | 22.0 | 193.2 | 83.6% | (48.5)% |
| Mining | 172.2 | 166.1 | 11.1 | 349.4 | 108.3% | (60.8)% |
| Biotech | 24.4 | 15.7 | 2.9 | 43.0 | (47.3)% | (36.1)% |
| Media | 95.5 | 12.0 | 88.0 | 195.5 | 126.5% | (71.3)% |
| Technology | 49.2 | 50.9 | 34.2 | 134.3 | 200.6% | (54.5)% |
| **Total** | **418.2** | **339.1** | **158.3** | **915.4** | **88.5%** | **(60.4)%** |

Source: TSX Statistics, LSE AIM Statistics, Thomson One, and Equidesk

## About Canaccord's operations

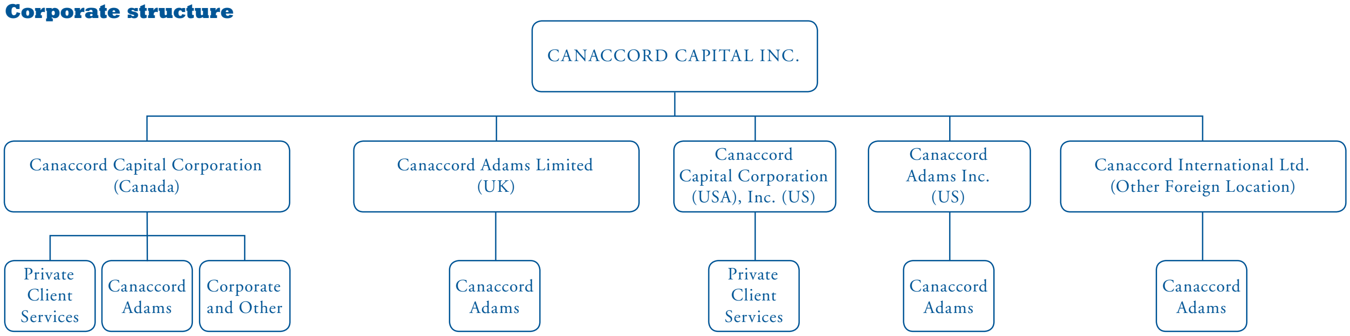
Canaccord Capital Inc.'s operations are divided into two business segments: Canaccord Adams (our capital markets operations) and Private Client Services.

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

Revenue from Private Client Services is generated through traditional commission-based brokerage services; the sale of fee-based products and services; client-related interest; and fees and commissions earned by Investment Advisors (IAs) in respect of investment banking and venture capital transactions by private clients.

Canaccord's administrative segment, described as Corporate and Other, includes correspondent brokerage services, bank and other interest, and foreign exchange revenue and expenses not specifically allocable to either the Private Client Services or Canaccord Adams 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




## Consolidated operating results

### Second quarter and first-half fiscal 2008 summary data (1)

| *(C$ thousands, except per share, employee and % amounts)* | Three months ended September 30 **2007** | 2006 | Year-over-year increase (decrease) | Six months ended September 30 **2007** | 2006 | Year-over-year increase (decrease) |
|---|---|---|---|---|---|---|
| **Canaccord Capital Inc.** | | | | | | |
| Revenue | | | | | | |
| Commission | **$ 65,728** | $ 63,556 | 3.4% | **$ 151,503** | $ 141,610 | 7.0% |
| Investment banking | **73,731** | 70,118 | 5.2% | **202,356** | 172,958 | 17.0% |
| Principal trading | **(8,324)** | 5,390 | n.m. | **(1,511)** | 13,174 | n.m. |
| Interest | **16,273** | 14,259 | 14.1% | **32,583** | 27,897 | 16.8% |
| Other | **7,062** | 2,708 | 160.8% | **15,409** | 6,519 | 136.4% |
| Total revenue | **$ 154,470** | $ 156,031 | (1.0)% | **$ 400,340** | $ 362,158 | 10.5% |
| Expenses | | | | | | |
| Incentive compensation | **$ 71,416** | $ 74,974 | (4.7)% | **$ 192,822** | $ 179,929 | 7.2% |
| Salaries and benefits | **12,649** | 10,643 | 18.8% | **26,918** | 23,136 | 16.3% |
| Other overhead expenses (2) | **51,277** | 45,164 | 13.5% | **102,822** | 94,668 | 8.6% |
| Total expenses | **$ 135,342** | $ 130,781 | 3.5% | **$ 322,562** | $ 297,733 | 8.3% |
| Income before income taxes | **19,128** | 25,250 | (24.2)% | **77,778** | 64,425 | 20.7% |
| Net income | **12,411** | 17,806 | (30.3)% | **51,440** | 43,748 | 17.6% |
| Earnings per share (EPS) – diluted | **0.26** | 0.37 | (29.7)% | **1.07** | 0.91 | 17.1% |
| Return on average common equity (ROE) | **12.8%** | 22.1% | (9.3)p.p. | **26.9%** | 28.4% | (1.5)p.p. |
| Book value per share – period end | **$ 7.83** | $ 6.84 | 14.5% | | | |
| Number of employees | **1,689** | 1,562 | 8.1% | | | |

(1) Data is considered to be GAAP except for ROE, book value per share and number of employees.
(2) Consists of trading costs, premises and equipment, communication and technology, interest, general and administrative, amortization and development costs.
p.p.: percentage points
n.m.: not meaningful

## Geographic distribution of revenue [1]

| (C$ thousands, except % amounts) | Three months ended September 30 2007 | 2006 | Year-over-year increase (decrease) | Six months ended September 30 2007 | 2006 | Year-over-year increase (decrease) |
|---|---|---|---|---|---|---|
| Canada | **$ 112,876** | $ 108,408 | 4.1% | **$ 274,969** | $ 241,658 | 13.8% |
| UK | **20,807** | 21,643 | (3.9)% | **68,308** | 70,535 | (3.2)% |
| US | **20,737** | 18,745 | 10.6% | **47,159** | 42,730 | 10.4% |
| Other Foreign Location | **50** | 7,235 | n.m. | **9,904** | 7,235 | 36.9% |
| **Total** | **$ 154,470** | $ 156,031 | (1.0)% | **$ 400,340** | $ 362,158 | 10.5% |

(1) For a business description of Canaccord's geographic distribution please refer to the "About Canaccord's Operations" section on page 7.
n.m.: not meaningful

### Second quarter 2008 vs. second quarter 2007

Revenue is generated through five activities: commissions and fees associated with agency trading and private client wealth management activity, investment banking, principal trading, interest and other. Revenue for the three months ended September 30, 2007 was $154.5 million, down $1.5 million compared to the same period a year ago.

For the second quarter of fiscal 2008, revenue generated from commissions was $65.7 million, up 3.4% compared to the same period a year ago and is largely due to strength in market activity early in the quarter. Investment banking revenue was $73.7 million, up $3.6 million primarily due to increased activity from Canadian equity markets and merger and acquisition fees. Principal trading experienced a loss of $8.3 million compared to a gain of $5.4 million during the same period a year ago. The primary focus of Canaccord's principal trading activity is in small- to mid-cap equities, which experienced significant valuation challenges during the quarter due to the credit contraction and its related impact on the equity markets. The lower valuations and wider bid-ask spreads resulted in mark-to-market losses, much of which was unrealized at the end of the quarter. Canaccord has re-focused its principal trading operations to reduce certain market exposures through rebalancing internal capital allocations. Capital is being prudently managed and allocations to various businesses will expand and contract based on market conditions and expectations. Also contributing to the loss in principal trading was an adjustment of $4.4 million. This adjustment reflects the current illiquidity of Canaccord's ABCP and the uncertainty in market conditions, and is referred to in the "Critical Accounting Estimates" section on page 15. Interest revenue was $16.3 million, up 14.1% mainly due to higher client interest revenue.

Second quarter revenue in Canada was $112.9 million, up 4.1% or $4.5 million from the same period a year ago. Our operations in Canada benefited from greater activity in the Canadian equity markets early in the quarter. Revenue in the UK was $20.8 million, down 3.9% from the same period a year ago. In the US, revenue was $20.7 million, up 10.6% from Q2/07.

### First-half fiscal year 2008 vs. first-half fiscal year 2007

Revenue for the six months ended September 30, 2007 was $400.3 million, up 10.5% or $38.2 million compared to the same period a year ago. Revenue generated from commissions increased by 7.0% to $151.5 million compared to the same period a year ago largely due to healthier market conditions in Q1/08 and in early Q2/08. Investment banking revenue was $202.3 million, up 17.0% primarily due to increased financing activity in Canadian equity markets and from higher merger and acquisition fees. Principal trading experienced a loss of $1.5 million compared to a gain of $13.2 million last year with Q2/08 contributing to these results as explained above. Interest revenue was $32.6 million, up 16.8% for the same reasons mentioned above. Year-to-date revenue in Canada was $275.0 million, up 13.8% or $33.3 million from the same period a year ago. Our operations in Canada benefited from greater activity in the first four months of this period in the Canadian equity markets, largely due to the continued global demand for commodities and related equities. First half of fiscal 2008 revenue in the UK was $68.3 million, down $2.2 million from the same period a year ago. Revenue from Other Foreign Location was $9.9 million, up $2.7 million year over year, and in the US revenue was $47.2 million, up $4.4 million from the same period a year ago.

### Expenses as a percentage of revenue

| in percentage points | Three months ended September 30 2007 | 2006 | Year-over-year increase (decrease) | Six months ended September 30 2007 | 2006 | Year-over-year increase (decrease) |
|---|---|---|---|---|---|---|
| Incentive compensation | **46.2%** | 48.1% | (1.9)p.p. | **48.2%** | 49.7% | (1.5)p.p. |
| Salaries and benefits | **8.2%** | 6.8% | 1.4p.p. | **6.7%** | 6.4% | 0.3p.p. |
| Other overhead expenses [1] | **33.2%** | 28.9% | 4.3p.p. | **25.7%** | 26.1% | (0.4)p.p. |
| Total | **87.6%** | 83.8% | 3.8p.p. | **80.6%** | 82.2% | (1.6)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

### Second quarter 2008 vs. second quarter 2007

Expenses for the three months ended September 30, 2007 were $135.3 million, up 3.5% or $4.6 million from a year ago. The overall increase in expenses is largely due to higher salaries and benefits, up $2.0 million; development costs, up $2.4 million; and general and administrative expenses, up $1.5 million. Incentive compensation expense was $71.4 million for the quarter, down 4.7% due to a restructuring of certain elements of our incentive compensation program which provides for an equity-based compensation component which vests over a three-year period. This change to our incentive compensation program resulted in a 1.9 percentage point decline to 46.2% in consolidated incentive compensation as a percentage of total revenue.

Salaries and benefits expense was $12.6 million in the second quarter of fiscal 2008, up 18.8% from the same period a year ago largely due to the increased contribution by the firm towards the Employee Stock Purchase Plan (ESPP), which is discussed in our fiscal year 2007 Annual Report. In May 2007 the matching contribution by the firm increased from a maximum of $1,500 per eligible employee to a contribution of $3,000. Also contributing to the increase in salaries and benefits expense is the overall hiring increase of 115 net new employees across all areas of the firm. The total compensation (incentive compensation plus salaries) payout as a percentage of consolidated revenue for Q2/08 was 54.4%, down from 54.9% in Q2/07.

### First-half fiscal year 2008 vs. first-half fiscal year 2007

Expenses for the six months ended September 30, 2007 were $322.6 million, up $24.8 million or 8.3% from a year ago. Incentive compensation expense was $192.8 million, up 7.2% due to the increase in incentive-based revenue. Consolidated incentive compensation as a percentage of total revenue was 48.2%, down 1.5 percentage points for reasons discussed previously.

Salaries and benefits expense was $26.9 million, up 16.3% in the first half of fiscal 2008 compared to the same period a year ago for the same reasons mentioned above. The total compensation (incentive compensation plus salaries) payout as a percentage of consolidated revenue was 54.9%, down from 56.1% in the first six months of fiscal 2007.

### Other overhead expenses

| *(C$ thousands, except % amounts)* | Three months ended September 30 2007 | Three months ended September 30 2006 | Year-over-year increase (decrease) | Six months ended September 30 2007 | Six months ended September 30 2006 | Year-over-year increase (decrease) |
|---|---|---|---|---|---|---|
| Trading costs | **$ 7,249** | $ 6,119 | 18.5% | **$ 14,207** | $ 14,678 | (3.2)% |
| Premises and equipment | **5,735** | 5,814 | (1.4)% | **10,994** | 11,751 | (6.4)% |
| Communication and technology | **5,813** | 5,387 | 7.9% | **11,552** | 10,450 | 10.5% |
| Interest | **6,413** | 5,402 | 18.7% | **12,581** | 10,384 | 21.2% |
| General and administrative | **15,755** | 14,287 | 10.3% | **34,026** | 33,394 | 1.9% |
| Amortization | **2,146** | 2,366 | (9.3)% | **4,123** | 4,355 | (5.3)% |
| Development costs | **8,166** | 5,789 | 41.1% | **15,339** | 9,656 | 58.9% |
| Total other overhead expenses | **$ 51,277** | $ 45,164 | 13.5% | **$ 102,822** | $ 94,668 | 8.6% |

### Second quarter 2008 vs. second quarter 2007

Other overhead expenses increased 13.5% to $51.3 million for the second quarter of fiscal 2008 compared to the same period a year ago. Contributing to the overall increase in other overhead expenses were development costs, which increased by 41.1% largely due to Canaccord's growth across all geographies. Trading costs rose 18.5% due to higher trading volumes in Canada and the US. Interest expense was also up by 18.7% due to higher interest rates, larger cash balances in client accounts and subordinated debt entered into on March 30, 2007.

General and administrative expense was up $1.5 million in Q2/08. This was largely due to an increase in promotion and travel expense resulting from increased business travel as a result of our geographically diverse business and from business development costs such as conferences and seminars.

Development costs for Q2/08 were $8.2 million, up 41.1% or $2.4 million from the previous year, and include hiring incentives and systems development costs. Hiring incentives are one of our tools to recruit new IAs and capital markets professionals. Hiring incentives also includes retention costs related to the acquisition of Adams Harkness Financial Group, Inc. Systems development costs are expenditures to enhance our information technology platform. Hiring incentives increased by 43.3% this quarter largely due to increased recruitment of Canaccord Adams' professionals in the US. Systems development costs increased by 32.2% due to enhancements to our technological platform associated with our growth.

Net income for Q2/08 was $12.4 million, down $5.4 million from a year ago. Diluted EPS were $0.26, down $0.11 or 29.7%. ROE for Q2/08 was 12.8% compared to an ROE of 22.1% a year ago. The decrease in EPS is largely due to the decline in net income resulting from investments made across our global operations and from unfavourable market conditions in August and September. Book value per common share for Q2/08 was up 14.5% year over year to $7.83.

Income taxes were $6.7 million for the quarter reflecting an effective tax rate of 35.1%, up from 29.5% a year ago. The increase in the effective tax rate in Q2/08 relative to Q2/07 is related to the geographical composition of Canaccord's net income.

**First-half fiscal year 2008 vs. first-half fiscal year 2007**

Other overhead expenses for the six months ended September 30, 2007 were up 8.6% or $8.2 million to $102.8 million from the same period a year ago. Contributing to the overall increase in other overhead expenses were development costs, which increased by 58.9% or $5.7 million to $15.3 million, and communications and technology costs up $1.1 million. These increases are largely related to Canaccord's growth across all geographies. Additionally, interest expense was up $2.2 million compared to the same period a year ago due to higher interest rates, larger cash balances in client accounts and subordinated debt entered into on March 30, 2007. Offsetting the increase in overhead expenses were lower premises and equipment costs, down 6.4%.

General and administrative expense was up $0.6 million. The increase in general and administrative expense for the first half of fiscal 2008 was largely due to an increase in promotion and travel expense, up 22.0%, which is largely due to an increase in business travel as a result of our geographically diverse business. This increase was offset by decreases in reserves and client expenses.

Development costs were $15.3 million, up 58.9% or $5.7 million from the previous year, and include hiring incentives and systems development costs. A large portion of the 68.5% increase in hiring incentives is for the recruitment of Canaccord Adams' professionals and for the retention plan associated with the acquisition of Adams Harkness Financial Group Inc. Overall systems development costs for the first six months of fiscal 2008 increased 37.1% due to enhancements to our technological platform associated with our growth.

Net income for the first half of fiscal 2008 was $51.4 million, up 17.6% or $7.7 million from the same period a year ago. Diluted EPS were $1.07, up $0.16 and ROE was 26.9% compared to an ROE of 28.4% a year ago. The increase in EPS is largely due to growth in net income and the investments made across our global operations. Book value per common share was up 14.5% to $7.83. Income taxes were $26.3 million for the first half of fiscal 2008 reflecting an effective tax rate of 33.9%, up from 32.1% a year ago.

## RESULTS OF OPERATIONS

### Canaccord Adams

| (C$ thousands, except employees and % amounts) | Three months ended September 30 2007 | 2006 | Year-over-year increase (decrease) | Six months ended September 30 2007 | 2006 | Year-over-year increase |
|---|---|---|---|---|---|---|
| **Canaccord Adams** | | | | | | |
| Revenue | | | | | | |
| Canada – Investment Banking and equities | **$ 39,210** | $ 38,533 | 1.8% | **$ 101,759** | $ 81,283 | 25.2% |
| Canada – International Trading, Registered Traders and Fixed Income | **8,031** | 7,940 | 1.1% | **17,869** | 18,779 | (4.8)% |
| Total Canada | **$ 47,241** | $ 46,473 | 1.7% | **$ 119,628** | $ 100,062 | 19.6% |
| UK | **20,807** | 21,643 | (3.9)% | **68,308** | 70,535 | (3.2)% |
| Other Foreign Location | **50** | 7,235 | n.m. | **9,904** | 7,235 | 36.9% |
| US | **19,827** | 17,682 | 12.1% | **45,108** | 40,307 | 11.9% |
| Total revenue | **$ 87,925** | $ 93,033 | (5.5)% | **$ 242,948** | $ 218,139 | 11.4% |
| Expenses | | | | | | |
| Incentive compensation | **42,205** | 45,305 | (6.8)% | **118,408** | 111,253 | 6.4% |
| Salaries and benefits | **3,194** | 2,228 | 43.4% | **7,213** | 5,416 | 33.2% |
| Other overhead expenses | **27,583** | 23,170 | 19.0% | **53,710** | 45,556 | 17.9% |
| Total expenses | **$ 72,982** | $ 70,703 | 3.2% | **$ 179,331** | $ 162,225 | 10.5% |
| Income before income taxes (1) | **14,943** | 22,330 | (33.1)% | **63,617** | 55,914 | 13.8% |
| Number of employees | **535** | 494 | 8.3% | | | |

(1) Income before income taxes excludes allocated overhead expenses that are included in Corporate and Other segment expenses.
n.m.: not meaningful

Revenue from Canaccord Adams (our capital markets segment) is generated from commissions and fees earned in connection with investment banking transactions and institutional sales and trading activity as well as trading gains and losses from Canaccord's principal and international trading operations.

**Second quarter 2008 vs. second quarter 2007**

**Revenue**

Total revenue for Canaccord Adams in Q2/08 was $87.9 million, down $5.1 million from the same quarter a year ago due to challenging market conditions as described in the "Business environment" section on page 6. Despite these market challenges our Canadian operations generated fiscal second quarter revenue of $47.2 million, up 1.7% compared to a year ago. Within this revenue, $39.2 million is derived from Investment Banking and equities activity while $8.0 million is derived from our International Trading, Registered Traders and Fixed Income operations. This revenue is offset by a $1.1 million adjustment of the total $4.4 million adjustment for the corporately held ABCP in securities owned. Canadian growth is largely due to the continued global demand for Canadian equities, particularly in the earlier part of the quarter.

Our Canadian revenue represents 53.7% of Canaccord Adams' total revenue. Revenue from our UK operations was $20.8 million, down 3.9% from the same period a year ago due to a general slowdown in the market. UK revenue of $20.8 million represents 23.7% of Canaccord Adams' total revenue. In the US, revenue was $19.8 million, up 12.1% from a year ago, and represents 22.6% of Canaccord Adams' total revenue. Revenue in Other Foreign Location declined to $50 thousand in Q2/08, down from $7.2 million a year ago. In any quarter, revenue in this region represents a small number of transactions and is therefore very irregular.

**Expenses**

Expenses for Q2/08 were $73.0 million, up $2.3 million. The largest increases in non-compensation expenses were in development costs, up $2.3 million, general and administrative expense, up $1.4 million. Within general and administrative expense, promotion and travel rose by 38.0% largely due to business development costs, including conferences and seminars. The increase in general and administrative expense was offset by a decrease in reserves expense.

The decrease in incentive compensation for the quarter of $3.1 million is largely attributable to the decline in revenue during the quarter. Salary and benefits expense for the quarter was up 43.4% to $3.2 million compared to a year ago. This increase is largely due to the higher contributions made by the firm towards the ESPP and the hiring of 41 net new Canaccord Adams employees across all geographies compared to last year. The total compensation expense payout as a percentage of revenue for the quarter was 51.6%, which is down 0.5 percentage points from Q2/07.

Income before income taxes and corporate overhead allocations for the quarter was $14.9 million, down $7.4 million or 33.1%, from the same quarter a year ago.

**First-half fiscal year 2008 vs. first-half fiscal year 2007**

Revenue for Canaccord Adams for the first half of fiscal 2008 was $242.9 million, up $24.8 million from the same period last year due to relatively strong capital markets in all geographies, particularly during the first four months of fiscal 2008. In Canada, revenue was $119.6 million, up 19.6% from the same period a year ago. Within Canada, $101.7 million is derived from Investment Banking and equities activity while $17.9 million is from our International Trading, Registered Traders and Fixed Income operations. This revenue is offset by a $1.1 million adjustment in Q2/08 for the ABCP. The overall growth in Canada is largely due to our growing market share and from the continued global demand for commodities and for Canadian equities relative to the same period a year ago. Overall, our Canadian revenue represents 49.2% of Canaccord Adams' total revenue. Our UK revenue was $68.3 million, down $2.2 million from the same period a year ago due to slower market conditions compared to the same period a year ago. UK revenue of $68.3 million represents 28.1% of Canaccord Adams' total revenue. In the US, revenue was $45.1 million, representing 18.6% of Canaccord Adams' total revenue. Revenue from Other Foreign Location was $9.9 million, representing 4.1% of Canaccord Adams' total revenue.

**Expenses**

Expenses for the first half of fiscal 2008 were $179.3 million, up $17.1 million. The largest increases in non-compensation expenses were in development costs, up $5.3 million, and general and administrative expense, up $3.1 million. Within general and administrative expense, promotion and travel was up 33.9% or $3.0 million.

The increase in incentive compensation for the period of $7.2 million is mainly attributable to the increase in incentive-based revenue growth during the first half of fiscal 2008. Salary and benefits expense for the first half of fiscal 2008 was up by $1.8 million from a year ago for the same reasons mentioned above. The total compensation expense payout as a percentage of revenue for the first-half of fiscal 2008 was 51.7%, down 1.8 percentage points from 53.5% for the same period a year ago.

Income before income taxes and corporate overhead allocations for the period was $63.6 million, up $7.7 million from the same period a year ago.

## Private Client Services

| *(C$ thousands, except assets under administration and assets under management, which are in C$ millions; employees; Investment Advisors; and % amounts)* | Three months ended September 30 | | Year-over-year | Six months ended September 30 | | Year-over-year |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | increase (decrease) | **2007** | 2006 | increase (decrease) |
| Revenue | **$ 57,415** | $ 55,626 | 3.2% | **$ 133,498** | $ 127,912 | 4.4% |
| Expenses | | | | | | |
| Incentive compensation | **25,351** | 24,885 | 1.9% | **63,031** | 58,253 | 8.2% |
| Salaries and benefits | **3,510** | 2,854 | 23.0% | **7,559** | 6,284 | 20.3% |
| Other overhead expenses | **15,178** | 13,607 | 11.6% | **30,597** | 32,026 | (4.5)% |
| Total expenses | **$ 44,039** | $ 41,346 | 6.5% | **$ 101,187** | $ 96,563 | 4.8% |
| Income before income taxes (1) | **13,376** | 14,280 | (6.3)% | **32,311** | 31,349 | 3.1% |
| Assets under management (AUM) | **777** | 745 | 4.3% | | | |
| Assets under administration (AUA) | **15,288** | 13,826 | 10.6% | | | |
| Number of Investment Advisors (IAs) | **453** | 434 | 4.4% | | | |
| Number of employees | **784** | 719 | 9.0% | | | |

(1) Income before income taxes excludes allocated overhead expenses that are included in Corporate and Other segment expenses.

Revenue from Private Client Services is generated through traditional commission-based brokerage services; the sale of fee-based products and services; client-related interest; and fees and commissions earned by IAs in respect of investment banking and venture capital transactions by private clients.

**Second quarter 2008 vs. second quarter 2007**

Revenue from Private Client Services was $57.4 million, up $1.8 million mainly due to favourable market conditions in North America at the beginning of the quarter. AUA increased by $1.5 billion to $15.3 billion compared to Q2/07. AUM grew by 4.3% year over year. There were 453 IAs at the end of the second quarter of fiscal 2008, up from 434 a year ago. Despite an extremely competitive recruiting environment we successfully recruited net 19 IAs, including 10 additional "rookie" IAs. Fee-related revenue as a percentage of total Private Client Services revenue was up 1.7 percentage points to 28.5% from the same period last year.

Expenses for Q2/08 were $44.0 million, up $2.7 million. For the quarter the largest increases in expenses were in interest expense, up 22.6% due to higher interest rates and larger cash balances in our client accounts this year versus last year, general and administrative expense, up 39.8% resulting from increases in reserves expense, up $0.4 million, and an increase in client expenses of $0.4 million. Salaries and benefits expense was 23.0% higher this quarter largely due to the increase in the number of net new employees compared to the same period a year ago. A large part of the increase in new employees was due to the hiring of "rookie" IAs, who receive a salary in their first year. Another large part of the increase in salaries and benefits expense is due to the increased contribution by the firm towards the ESPP. The total compensation expense payout as a percentage of revenue for the quarter was 50.3%, up 0.4 percentage points from 49.9% for the same period a year ago.

Income before income taxes and corporate allocations for the quarter was $13.4 million, down 6.3% from the same period a year ago.

**First-half fiscal year 2008 vs. first-half fiscal year 2007**

Revenue from Private Client Services was $133.5 million, up $5.6 million mainly due to favourable market conditions in North America during the first four months of fiscal 2008. Fee-related revenue as a percentage of total Private Client Services revenue was up 2.6 percentage points to 25.5% from the same period last year.

Expenses for the six months ended September 30, 2007 were $101.2 million, up $4.6 million. The largest increases in expenses were in incentive compensation expenses, up $4.8 million, and interest expense, up $1.8 million due to higher interest rates and larger cash balances in our client accounts this year versus last year. This increase was offset by a decrease in general and administrative expense, down $2.3 million largely related to provisions made in Q2/07. The total compensation expense payout as a percentage of revenue for the first six months of fiscal 2008 was 52.9%, up 2.4 percentage points from 50.5% for the same period a year ago.

Income before income taxes and corporate allocations for the first half of fiscal 2008 was $32.3 million, up 3.1% from the same period a year ago.

## Corporate and Other

| *(C$ thousands, except employees and % amounts)* | Three months ended September 30 **2007** | Three months ended September 30 2006 | Year-over-year increase (decrease) | Six months ended September 30 **2007** | Six months ended September 30 2006 | Year-over-year increase (decrease) |
|---|---|---|---|---|---|---|
| Revenue | **$ 9,130** | $ 7,372 | 23.8% | **$ 23,894** | $ 16,107 | 48.3% |
| Expenses | | | | | | |
| Incentive compensation | **3,860** | 4,784 | (19.3)% | **11,383** | 10,423 | 9.2% |
| Salaries and benefits | **5,945** | 5,561 | 6.9% | **12,146** | 11,436 | 6.2% |
| Other overhead expenses | **8,516** | 8,387 | 1.5% | **18,515** | 17,086 | 8.4% |
| Total expenses | **$ 18,321** | $ 18,732 | (2.2)% | **$ 42,044** | $ 38,945 | 8.0% |
| (Loss) before income taxes | **(9,191)** | (11,360) | (19.1)% | **(18,150)** | (22,838) | (20.5)% |
| Number of employees | **370** | 349 | 6.0% | | | |

Canaccord's administrative segment, described as Corporate and Other, includes correspondent brokerage services, bank and other interest, and foreign exchange revenue and expenses not specifically allocable to either the Private Client Services or Canaccord Adams 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.

**Second quarter 2008 vs. second quarter 2007**

Revenue for the three months ended September 30, 2007 was $9.1 million, up $1.7 million from the same quarter a year ago largely due to increases in interest rates and correspondent business revenue. This revenue is offset by a $3.3 million adjustment of the $4.4 million total adjustment related to the corporately held ABCP originally in treasury.

Fiscal 2008 second quarter expenses were $18.3 million, down 2.2%. Loss before income taxes was $9.2 million, representing a $2.2 million improvement from the same quarter a year ago.

#### First-half fiscal year 2008 vs. first-half fiscal year 2007

Revenue was $23.9 million, up $7.8 million from the same period a year ago for the same reasons mentioned above.

Expenses for the first half of fiscal 2008 were $42.0 million, up $3.1 million. The largest increases in expenses were recorded in interest expense, up $1.0 million, largely attributable to our subordinated debt facility, incentive compensation expense, up $1.0 million, and development cost of $0.7 million.

Loss before income taxes was $18.1 million representing a $4.7 million improvement from the same period a year ago.

## FINANCIAL CONDITION

Below are specific changes in selected balance sheet items.

### Cash and cash equivalents

Cash and cash equivalents were $379.7 million on September 30, 2007 compared to $506.6 million on March 31, 2007. Operating activities provided cash of $32.6 million for the quarter due to net changes in non-cash working capital items comprising mostly a decrease in accounts receivable of $257.6 million offset by a decrease in accounts payable and accrued liabilities of $195.0 million.

### Accounts receivable

Client security purchases are entered into on either a cash or a margin basis. When securities are purchased on margin, Canaccord extends a loan to the client, using securities purchased and/or securities in the client's account as collateral. Client accounts receivable were $766.0 million on September 30, 2007 compared to $694.1 million on March 31, 2007. These receivables vary significantly on a day-to-day basis, as they are based on trading volumes. On September 30, 2007 total accounts receivable were $1.8 billion compared with $1.7 billion on March 31, 2007 mainly due to increases in brokers', dealers' and clients' accounts at fiscal quarter end.

### Call loans

Loan facilities utilized by Canaccord may vary significantly on a day-to-day basis and depend on securities trading activity. On September 30, 2007 the amount borrowed pursuant to call loan facilities was $48.1 million compared with nil on March 31, 2007.

## OFF-BALANCE SHEET ARRANGEMENTS

At September 30, 2007 Canaccord has credit facilities with Canadian, American and United Kingdom banks in an aggregate amount of $512.1 million. These credit facilities, consisting of call loans, letters of credit and daylight overdraft facilities are collateralized by either unpaid securities and/or securities owned by the Company. Canaccord Capital Corporation has provided a bank letter of credit in the amount of $1.3 million as a guarantee for lease obligations of Canaccord Adams Limited. Canaccord Adams Inc. has also entered into irrevocable standby letters of credit from a financial institution totalling $2.3 million (US$2.3 million) as rent guarantees for its leased premises in Boston, New York and San Francisco. As of September 30, 2007 there were no outstanding balances under these standby letters of credit.

## LIQUIDITY AND CAPITAL RESOURCES

Canaccord has a capital structure comprising share capital, retained earnings and accumulated other comprehensive income (losses). On September 30, 2007 cash and cash equivalents net of call loans were $379.6 million, down $127.0 million from $506.6 million as of March 31, 2007. During the quarter ended September 30, 2007 financing activities used cash in the amount of $18.0 million, which was primarily due to the purchase of common shares related to Canaccord's long term incentive plan (LTIP) of $9.7 million, and dividend payments of $5.9 million. Investing activities used cash in the amount of $3.2 million for the purchase of equipment and leasehold improvements. Operating activities provided cash in the amount of $32.6 million for the quarter, which was due to net change in non-cash working capital items, net income and items not affecting cash.

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

The addition of subordinated debt at the end of fiscal 2007 provides additional regulatory capital to support business activities across our global platform. Subordinated debt supports regulatory capital in our operating subsidiaries. Therefore, this addition of leverage to our balance sheet supports our ongoing growth initiatives.

## OUTSTANDING SHARE DATA

| | Outstanding shares as of September 30 | |
|---|---|---|
| | **2007** | 2006 |
| Issued shares excluding unvested shares (1) | **44,548,023** | 46,199,726 |
| Issued shares outstanding (2) | **47,866,229** | 47,827,350 |
| Diluted shares (3) | **48,829,916** | 47,961,594 |
| Average shares outstanding – basic | **45,195,734** | 46,152,802 |
| Average shares outstanding – diluted (4) | **48,284,775** | 47,961,594 |

(1) Excludes 2,381,104 unvested shares that are outstanding relating to share purchase loans for recruitment and retention programs and 937,102 unvested shares purchased by employee benefit trust for the LTIP.
(2) Includes 2,381,104 unvested shares that are outstanding relating to share purchase loans for recruitment and retention programs and 937,102 unvested shares purchased by employee benefit trust for the LTIP.
(3) Includes dilutive earned shares under our stock-based compensation plans.
(4) This is the diluted share number used to calculate diluted EPS.

At September 30, 2007 Canaccord had 47,866,229 common shares issued and outstanding, up 38,879 common shares from September 30, 2006 due to the net effect of shares issued and shares cancelled.

The Company renewed its normal course issuer bid (NCIB) and was entitled to acquire, from December 29, 2006 to December 28, 2007, up to 2,391,880 of its shares, which represented 5% of its shares outstanding as of December 20, 2006. There were no share transactions under the NCIB between March 31, 2007 and September 30, 2007. However, the employee benefit trust has purchased 937,102 shares for the long-term incentive plan [Note 10] and the Company acquired 6,121 shares as an adjustment of the consideration for the acquisition of the Adams Harkness Financial Group Inc., which reduced the number of shares allowable under the NCIB to 1,448,657.

On January 3, 2006 Canaccord completed the acquisition of Adams Harkness Financial Group, Inc., which was a privately held Boston-based institutional investment bank. The consideration consisted of US$8.0 million in cash and the issuance of 1,342,696 common shares from treasury valued at US$12.0 million. On closing, these shares were delivered into escrow, subject to annual releases of one-third per year beginning on June 30, 2006 and ending on June 30, 2008.

In connection with the acquisition of Adams Harkness Financial Group, Inc. a retention plan was established, which provides for the issuance of up to 1,118,952 common shares after a three-year vesting period. The total number of shares to be vested is also based on revenue earned by Canaccord Adams Inc. subsequent to the date of acquisition. The aggregate number of common shares that will vest and will therefore be issued at the end of the vesting period will be the number, which is equal to the revenue earned by Canaccord Adams Inc. during the vesting period, divided by US$250.0 million multiplied by the number of common shares subject to the retention plan (818,889 common shares after forfeitures as of September 30, 2007). As such revenue levels are achieved during the vesting period, the associated proportion of the retention payment will be recorded as a development cost and the applicable number of retention shares will be included in weighted average diluted common shares outstanding.

## INTERNATIONAL FINANCIAL CENTRE

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

## FOREIGN EXCHANGE

Canaccord manages its foreign exchange risk by periodically hedging pending settlements in foreign currencies. Realized and unrealized gains and losses related to these transactions are recognized in income during the year. On September 30, 2007 forward contracts outstanding to sell US dollars had a notional amount of US$26.5 million, up from US$22.0 million a year ago. Forward contracts outstanding to buy US dollars had a notional amount of US$9.5 million, up from US$8.5 million compared to a year ago. The fair value of these contracts was nominal. Some of Canaccord's operations in London, England are conducted in UK pounds sterling, however, any foreign exchange risk in respect of these transactions is generally limited as pending settlements on both sides of the transaction are typically in UK pounds sterling.

## CRITICAL ACCOUNTING ESTIMATES

The following is a summary of Canaccord's critical accounting estimates. Canaccord's accounting policies are in accordance with Canadian GAAP and are described in Note 1 to the audited consolidated financial statements for the year ended March 31, 2007. The accounting policies described below require estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses recorded in the financial statements. Because of their nature estimates require judgment based on available information. Actual results or amounts could differ from estimates and the difference could have a material impact on the financial statements.

### Revenue recognition and valuation of securities

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

#### ABCP adjustment

The ABCP last traded in the active market on August 13, 2007 and there are currently no market quotations available for this ABCP. The Montreal Proposal was unveiled in August by a group of major financial institutions, spearheaded by the Caisse de depot et placement du Québec. Under their plan, the ABCP would be converted into longer term debt with maturities linked to the underlying assets. On August 16, 2007 Canaccord confirmed its support for the Montreal Proposal, and indicated that we held $32 million of ABCP in our total treasury cash position of $345 million.

Subsequently, on September 6, 2007 we announced our support for the Pan-Canadian Investors Committee for ABCP, with Canaccord participating on the committee. This committee has convened to seek options for the equitable restructuring of ABCP conduits. The committee includes investors who were signatories to the Montreal Proposal plus other significant holders.

At September 30, 2007 there is ABCP with a par value of $43.2 million included in the securities owned balance. At the dates the Company acquired the ABCP it was rated R1 (High) by Dominion Bond Rating Services (DBRS), the highest credit rating issued for commercial paper. The ABCP did not settle as it matured as a result of liquidity issues in the ABCP market. There has been no active trading of the ABCP since mid-August 2007 and no market quotations are currently available. The ABCP in which the Company has invested continues to be rated R1 (High, Under Review with Developing Implications) by DBRS.

There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. The Company estimates the fair value of the ABCP by discounting expected future cash flows considering the best available data. Since the fair value of the ABCP is based on the Company's assessment of current conditions amounts reported may change materially in subsequent periods. The Company expects resolution, a liquidity event and clarity with respect to the ABCP within the next six months.

The ABCP was classified as held for trading on initial adoption of Section 3855. An adjustment of $4.4 million has been recorded at September 30, 2007 to reflect the lack of liquidity in the ABCP market.

### Provisions

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

Provisions in connection with other doubtful accounts are generally based on management's assessment of the likelihood of collection and the recoverable amount. Provisions are also recorded utilizing discount factors in connection with syndicate participation.

### Tax

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

### Goodwill and other intangible assets

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

### Consolidation of variable interest entities

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

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

### Recent accounting pronouncements

The CICA has issued a new accounting standard, Section 1535, "*Capital Disclosures*", which establishes standards for disclosing qualitative and quantitative information about an entity's capital and how it is managed. This new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company will adopt Section 1535 effective April 1, 2008.

In addition, the CICA issued two accounting standards related to the disclosure and presentation of financial instruments. CICA Handbook Section 3862, "*Financial Instruments – Disclosure*" and CICA Handbook Section 3863, "*Financial Instruments – Presentation*" apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company will adopt these new standards effective April 1, 2008.

## RETENTION PLANS

### Stock-based compensation

In connection with the acquisition of Enermarket Solutions Ltd. Canaccord agreed to issue common shares to key employees of Enermarket and its senior management over two years. Similarly, in connection with the acquisition of Adams Harkness Financial Group, Inc., Canaccord agreed to issue common shares to certain key employees of Adams Harkness upon the expiry of a three-year vesting period with the numbers of common shares to be adjusted in the event that certain revenue targets are not achieved.

### Long term incentive plan

The long term incentive plan (LTIP) is a new plan implemented in the first quarter of fiscal 2008. Under the LTIP eligible participants are awarded restricted share units which vest over three years.

## RELATED PARTY TRANSACTIONS

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

## CHANGES IN ACCOUNTING POLICIES

On April 1, 2007 the Company adopted the provisions of CICA Handbook Section 3855, *"Financial Instruments – Recognition and Measurement"*, CICA Handbook Section 3865, *"Hedges"* and CICA Handbook Section 1530, *"Comprehensive Income"*.

### Financial Instruments – Recognition and Measurement

This standard prescribes the recognition and measurement of financial instruments. Section 3855 requires all financial assets and liabilities (including derivatives) be measured at fair value on initial recognition except for certain related-party transactions. Measurement in subsequent periods depends on the classification of the instruments. All financial instruments must be classified as one of the following: held for trading, held to maturity, loans and receivables, and available for sale assets.

The financial assets categorized as held for trading are measured at fair value with unrealized gains and losses recognized in net income. Section 3855 permits an entity to designate any financial instruments as held for trading on initial recognition or adoption of this standard even if that instrument would not otherwise meet the definition of held for trading as specified in Section 3855. The Company's financial instruments classified as held for trading include commercial paper and bankers' acceptances, marketable securities owned and sold short, forward contracts and broker warrants. The Company has historically measured these instruments at fair value and any unrealized gains and losses have been included in income. The Company's accounting treatment of these instruments remains unchanged as a result of adoption of the new accounting standards.

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

The financial assets classified as loans and receivables and held to maturity are measured at amortized cost. There is no change in accounting treatment for these financial instruments as a result of adoption of Section 3855.

### Hedges

This standard sets out the criteria of when hedge accounting is applied and how it is applied. It provides the option of designating qualifying transactions as hedges for accounting purposes. The qualifying hedging relationships include fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. The changes in the fair value of the hedging derivatives will be recognized in net earnings or other comprehensive income depending on the nature of the hedging relationships. Any gains and losses resulting from any ineffectiveness in hedging relationships are recognized in net income immediately. The Company does not currently apply hedge accounting and as a result Section 3865 does not apply to the Company at this time.

### Comprehensive Income

This section establishes standards for the reporting and disclosure of other comprehensive income (OCI) in a new category, Accumulated Other Comprehensive Income (Losses), which will be added to shareholders' equity on the consolidated balance sheet. Comprehensive income includes all changes in equity of the Company during a period except those resulting from investments by shareholders and distributions to shareholders. The major components included in Accumulated Other Comprehensive Income (Losses) are unrealized gains and losses on financial assets classified as available for sale, and unrealized foreign exchange gains and losses arising on translation of the financial statements of self-sustaining foreign operations.

As a result of adopting Section 1530, the Company has disclosed the OCI in a new category, Accumulated Other Comprehensive Income (Losses), which has been added to shareholders' equity on the consolidated balance sheet. The OCI comprises the cumulative translation adjustment arising on the translation of the financial statements of self-sustaining foreign operations. The Company has reclassified $6.3 million of cumulative translation adjustments to the opening balance of Accumulated Other Comprehensive Income (Losses).

## CONTROLS AND PROCEDURES

### Disclosure controls and procedures

Canaccord's management, including the CEO and the Executive Vice President & CFO, has designed disclosure controls and procedures to provide reasonable assurance that all relevant information is identified to the Disclosure Committee to ensure appropriate and timely decisions are made regarding public disclosure.

### Changes in internal control over financial reporting

There were no changes in internal control over financial reporting that occurred during the quarter ended September 30, 2007 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

For the second quarter of fiscal 2008, the Board of Directors approved a quarterly dividend of $0.125 per share. Dividends are payable on December 10, 2007 to shareholders of record on November 30, 2007. The common share dividend payment to common shareholders will total approximately $6.0 million or about 48.2% of second quarter net income. Canaccord intends to pay a $0.125 regular quarterly common share dividend for each quarter in fiscal 2008.

## 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 geared towards providing service and coverage in the current market environment. If general capital markets activity were to drop significantly Canaccord could experience losses.

The following table provides selected quarterly financial information for the nine most recently completed financial quarters ended September 30, 2007. 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 an indication of future performance.

| | **Fiscal 2008** | | Fiscal 2007 | | | | Fiscal 2006 | | |
|---|---|---|---|---|---|---|---|---|---|
| *(C$ thousands, except per share amounts)* | **Q2** | **Q1** | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Revenue | | | | | | | | | |
| Canaccord Adams | **$ 87,925** | **$155,023** | $ 130,151 | $ 101,427 | $ 93,033 | $ 125,106 | $ 120,243 | $ 98,918 | $ 60,048 |
| Private Client Services | **57,415** | **76,083** | 75,876 | 68,831 | 55,626 | 72,286 | 78,422 | 54,731 | 52,411 |
| Corporate and Other | **9,130** | **14,764** | 10,416 | 8,055 | 7,372 | 8,735 | 8,409 | 5,021 | 6,195 |
| Total revenue | **$154,470** | **$245,870** | $ 216,443 | $ 178,313 | $ 156,031 | $ 206,127 | $ 207,074 | $ 158,670 | $ 118,654 |
| Net income | **12,411** | **39,029** | 26,016 | 23,692 | 17,806 | 25,942 | 30,070 | 24,248 | 15,754 |
| EPS – basic | **$ 0.28** | **$ 0.86** | $ 0.57 | $ 0.51 | $ 0.39 | $ 0.57 | $ 0.66 | $ 0.55 | $ 0.35 |
| EPS – diluted | **$ 0.26** | **$ 0.80** | $ 0.54 | $ 0.49 | $ 0.37 | $ 0.54 | $ 0.63 | $ 0.52 | $ 0.34 |

## RISKS

The securities industry and Canaccord's activities are by their very nature subject to a number of inherent risks. Economic conditions, competition and market factors such as volatility in the Canadian and international markets, interest rates, commodity prices, market prices, trading volumes and liquidity will have a significant impact on Canaccord's profitability. An investment in the common 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 risks, liquidity risk and volatility risk as a result of its principal trading activities in equity securities and to specific interest rate risk as a result of its principal trading in fixed income securities. Private Client Services' revenue is dependent on trading volumes and, as such, is dependent on the level of market activity and investor confidence. Canaccord Adams' revenue is dependent on financing activity by corporate issuers and the willingness of institutional clients to actively trade and participate in capital markets transactions. There may also be a lag between market fluctuations and 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. Furthermore, Canaccord may not achieve its growth plans associated with the acquisition and integration of Adams Harkness Financial Group, Inc.

## ADDITIONAL INFORMATION

A comprehensive discussion of our business, strategies, objectives and risks is available in our Annual Information Form and Management's Discussion and Analysis, including our audited annual financial statements in Canaccord's 2007 Annual Report, which are available on our Web site at canaccord.com/investor and on SEDAR at sedar.com.

# INTERIM CONSOLIDATED BALANCE SHEETS *(Unaudited)*

| *As at (in thousands of dollars)* | **September 30, 2007** | March 31, 2007 | September 30, 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash and cash equivalents | **$ 379,680** | $ 506,640 | $ 315,883 |
| Securities owned, at market [note 3] | **227,368** | 348,764 | 119,809 |
| Accounts receivable [notes 6 and 11] | **1,829,712** | 1,672,035 | 1,163,218 |
| Income taxes recoverable | **661** | – | – |
| **Total current assets** | **2,437,421** | 2,527,439 | 1,598,910 |
| Investment [note 5] | **5,000** | – | – |
| Equipment and leasehold improvements | **40,137** | 37,549 | 26,527 |
| Future income taxes | **9,940** | 11,021 | 12,754 |
| Goodwill and other intangible assets [note 7] | **33,227** | 33,933 | 27,222 |
| | **$ 2,525,725** | $ 2,609,942 | $ 1,665,413 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current** | | | |
| Call loans | **$ 48,130** | $ – | $ – |
| Securities sold short, at market [note 3] | **48,784** | 41,176 | 25,926 |
| Accounts payable and accrued liabilities [notes 6 and 11] | **2,021,498** | 2,156,540 | 1,311,248 |
| Income taxes payable | **–** | 15,035 | 1,150 |
| Subordinated debt [note 8] | **25,000** | 25,000 | – |
| **Total current liabilities** | **2,143,412** | 2,237,751 | 1,338,324 |
| Commitments and contingencies [note 13] | | | |
| **Shareholders' equity** | | | |
| Share capital [note 9] | **139,498** | 156,296 | 159,489 |
| Retained earnings | **254,379** | 213,659 | 172,559 |
| Accumulated other comprehensive income (losses) [note 2] | **(11,564)** | 2,236 | (4,959) |
| **Total shareholders' equity** | **382,313** | 372,191 | 327,089 |
| | **$ 2,525,725** | $ 2,609,942 | $ 1,665,413 |

See accompanying notes

# INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS *(Unaudited)*

| *(in thousands of dollars, except per share amounts)* | For the three months ended September 30, 2007 | For the three months ended September 30, 2006 | For the six months ended September 30, 2007 | For the six months ended September 30, 2006 |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Commission | **$ 65,728** | $ 63,556 | **$ 151,503** | $ 141,610 |
| Investment banking | **73,731** | 70,118 | **202,356** | 172,958 |
| Principal trading | **(8,324)** | 5,390 | **(1,511)** | 13,174 |
| Interest | **16,273** | 14,259 | **32,583** | 27,897 |
| Other | **7,062** | 2,708 | **15,409** | 6,519 |
| | **154,470** | 156,031 | **400,340** | 362,158 |
| **EXPENSES** | | | | |
| Incentive compensation | **71,416** | 74,974 | **192,822** | 179,929 |
| Salaries and benefits | **12,649** | 10,643 | **26,918** | 23,136 |
| Trading costs | **7,249** | 6,119 | **14,207** | 14,678 |
| Premises and equipment | **5,735** | 5,814 | **10,994** | 11,751 |
| Communication and technology | **5,813** | 5,387 | **11,552** | 10,450 |
| Interest | **6,413** | 5,402 | **12,581** | 10,384 |
| General and administrative | **15,755** | 14,287 | **34,026** | 33,394 |
| Amortization | **2,146** | 2,366 | **4,123** | 4,355 |
| Development costs | **8,166** | 5,789 | **15,339** | 9,656 |
| | **135,342** | 130,781 | **322,562** | 297,733 |
| Income before income taxes | **19,128** | 25,250 | **77,778** | 64,425 |
| Income tax expense (recovery) | | | | |
| Current | **10,305** | 8,325 | **27,380** | 22,661 |
| Future | **(3,588)** | (881) | **(1,042)** | (1,984) |
| | **6,717** | 7,444 | **26,338** | 20,677 |
| **Net income for the period** | **$ 12,411** | $ 17,806 | **$ 51,440** | $ 43,748 |
| Basic earnings per share [note 9[v]] | **$ 0.28** | $ 0.39 | **$ 1.14** | $ 0.95 |
| Diluted earnings per share [note 9[v]] | **$ 0.26** | $ 0.37 | **$ 1.07** | $ 0.91 |

See accompanying notes

# INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY *(Unaudited)*

| *As at and for the six months ended September 30, 2007 and 2006 and for the year ended March 31, 2007 (in thousands of dollars)* | **September 30, 2007** | March 31, 2007 | September 30, 2006 |
|---|---|---|---|
| Current shares, opening | **$ 147,900** | $ 152,705 | $ 152,705 |
| Shares issued | **447** | 194 | – |
| Shares cancelled | **–** | (45) | – |
| Acquisition of common shares for long term incentive plan [note 10] | **(18,295)** | – | – |
| Unvested share purchase loans | **(9,106)** | (4,954) | 2,754 |
| Common shares, closing | **120,946** | 147,900 | 155,459 |
| Contributed surplus, opening | **8,396** | 4,939 | 4,939 |
| Excess on redemption of common shares | **–** | (38) | – |
| Excess on distribution of acquired common shares [note 9[iv]] | **–** | 1,623 | – |
| Stock-based compensation [note 10] | **8,666** | – | – |
| Unvested share purchase loans | **1,490** | 1,872 | (909) |
| Contributed surplus, closing | **18,552** | 8,396 | 4,030 |
| **Share capital** | **139,498** | 156,296 | 159,489 |
| Retained earnings, opening | **213,659** | 136,463 | 136,463 |
| Net income for the period | **51,440** | 93,456 | 43,748 |
| Cash dividends | **(10,720)** | (16,260) | (7,652) |
| **Retained earnings, closing** | **254,379** | 213,659 | 172,559 |
| Accumulated other comprehensive income (losses), opening | **2,236** | (6,277) | (6,277) |
| Other comprehensive income (loss) | **(13,800)** | 8,513 | 1,318 |
| **Accumulated other comprehensive income (losses), closing** | **(11,564)** | 2,236 | (4,959) |
| **Shareholders' equity** | **$ 382,313** | $ 372,191 | $ 327,089 |

# INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME *(Unaudited)*

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| *(in thousands of dollars)* | **September 30, 2007** | September 30, 2006 | **September 30, 2007** | September 30, 2006 |
| Net income for the period | **$ 12,411** | $ 17,806 | **$ 51,440** | $ 43,748 |
| Other comprehensive income (loss), net of taxes | | | | |
| Net change in unrealized gains (losses) on translation of self-sustaining foreign operations | **(6,834)** | 1,140 | **(13,800)** | 1,318 |
| **Comprehensive income for the period** | **$ 5,577** | $ 18,946 | **$ 37,640** | $ 45,066 |

See accompanying notes

# INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS *(Unaudited)*

| *(in thousands of dollars)* | For the three months ended September 30, 2007 | For the three months ended September 30, 2006 | For the six months ended September 30, 2007 | For the six months ended September 30, 2006 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Net income for the period | **$ 12,411** | $ 17,806 | **$ 51,440** | $ 43,748 |
| Items not affecting cash | | | | |
| Amortization | **2,146** | 2,978 | **4,123** | 4,355 |
| Future income tax recovery | **(3,588)** | (881) | **(1,042)** | (1,984) |
| Stock option expense | **41** | – | **82** | – |
| Changes in non-cash working capital | | | | |
| Decrease (increase) in securities owned | **(2,200)** | 74,392 | **120,074** | 83,427 |
| Decrease (increase) in accounts receivable | **257,601** | (5,194) | **(154,949)** | 382,944 |
| Increase (decrease) in securities sold short | **(36,435)** | (83,997) | **7,614** | (11,231) |
| Decrease in accounts payable and accrued liabilities | **(195,629)** | (53,613) | **(127,060)** | (528,011) |
| Decrease in income taxes payable | **(1,754)** | (7,500) | **(12,388)** | (14,368) |
| **Cash provided by (used in) operating activities** | **32,593** | (56,009) | **(112,106)** | (41,120) |
| **FINANCING ACTIVITIES** | | | | |
| Issuance of shares | **21** | – | **447** | – |
| Decrease (increase) in unvested common share purchase loans | **(2,367)** | 316 | **(7,616)** | 1,390 |
| Acquisition of common shares for long term incentive plan | **(9,751)** | – | **(18,295)** | – |
| Dividends paid | **(5,934)** | (3,826) | **(10,720)** | (7,652) |
| **Cash used in financing activities** | **(18,031)** | (3,510) | **(36,184)** | (6,262) |
| **INVESTING ACTIVITIES** | | | | |
| Purchase of equipment and leasehold improvements | **(3,203)** | (3,992) | **(7,390)** | (4,438) |
| Acquisition of investment | **–** | – | **(5,000)** | – |
| **Cash used in investing activities** | **(3,203)** | (3,992) | **(12,390)** | (4,438) |
| **Effect of foreign exchange on cash balances** | **(7,128)** | 2,964 | **(14,410)** | 1,880 |
| **Increase (decrease) in cash position** | **4,231** | (60,547) | **(175,090)** | (49,940) |
| Cash position, beginning of period | **327,319** | 376,430 | **506,640** | 365,823 |
| **Cash position, end of period** | **$ 331,550** | $ 315,883 | **$ 331,550** | $ 315,883 |
| **Cash position is comprised of:** | | | | |
| Cash and cash equivalents | **379,680** | 315,883 | **379,680** | 315,883 |
| Call loans | **(48,130)** | – | **(48,130)** | – |
| | **$ 331,550** | $ 315,883 | **$ 331,550** | $ 315,883 |
| **Supplemental cash flow information** | | | | |
| Interest paid | **$ 6,391** | $ 5,345 | **$ 12,551** | $ 10,284 |
| Income taxes paid | **12,602** | 13,067 | **40,876** | 34,681 |

See accompanying notes

# NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS *(Unaudited)*

*For the three and six months ended September 30, 2007*
*(in thousands of dollars, except per share amounts)*

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

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

## 1. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation and principles of consolidation

These interim unaudited consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") with respect to interim financial statements, applied on a consistent basis. These interim unaudited consolidated financial statements follow the same accounting principles and methods of application as those disclosed in Note 1 to the Company's audited consolidated financial statements as at and for the year ended March 31, 2007 ("Audited Annual Consolidated Financial Statements"). Accordingly, they do not include all the information and footnotes required for compliance with Canadian GAAP for annual financial statements. These interim unaudited consolidated financial statements and notes thereon should be read in conjunction with the Audited Annual Consolidated Financial Statements.

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

### Consolidation of variable interest entities

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

The Company has established an employee benefit trust [Note 10] to fulfill obligations to employees arising from the Company's stock-based compensation plan. The employee benefit trust has been consolidated in accordance with AcG-15 as it meets the definition of a VIE and the Company is the primary beneficiary of the employee benefit trust.

### Recent accounting pronouncements

The CICA has issued a new accounting standard, Section 1535 "*Capital Disclosures*", which establishes standards for disclosing qualitative and quantitative information about an entity's capital and how it is managed. This new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company will adopt Section 1535 effective April 1, 2008.

In addition, the CICA issued two accounting standards related to the disclosure and presentation of financial instruments. CICA Handbook Section 3862 "*Financial Instruments – Disclosure*" and CICA Handbook Section 3863 "*Financial Instruments – Presentation*" apply to interim and annual financial statements relating to fiscal year beginning on or after October 1, 2007. The Company will adopt these new standards effective April 1, 2008.

## 2. CHANGE IN ACCOUNTING POLICIES

On April 1, 2007 the Company adopted the provisions of CICA Handbook Section 3855 *"Financial Instruments – Recognition and Measurement"*, CICA Handbook Section 3865 *"Hedges"* and CICA Handbook Section 1530 *"Comprehensive Income"*.

**Financial Instruments – Recognition and Measurement**

This standard prescribes the recognition and measurement of financial instruments. Section 3855 requires all financial assets and liabilities (including derivatives) be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on the classification of the instruments. All financial instruments must be classified as one of the following categories: held for trading, held to maturity, loans and receivables, available for sale assets and other liabilities.

The financial assets categorized as held for trading are measured at fair value with unrealized gains and losses recognized in net income. Section 3855 permits an entity to designate any financial instruments as held for trading on initial recognition or adoption of this standard even if that instrument would not otherwise meet the definition of held for trading as specified in Section 3855. The Company's financial instruments classified as held for trading include commercial paper and bankers' acceptances, marketable securities owned and sold short, forward contracts and broker warrants. The Company has historically measured these instruments at fair value and any unrealized gains and losses had been included in income. Consequently, the Company's accounting treatment of these instruments remains unchanged as a result of adoption of the new accounting standards.

Available for sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The Company's investment [Note 5] has been classified as available for sale. The investment has been carried at cost as there is no available quoted market price in an active market.

The financial assets and liabilities classified as loans and receivables, held to maturity and other liabilities are measured at amortized cost. There is no change in accounting treatment for these financial instruments as a result of adoption of Section 3855.

**Hedges**

This standard sets out the criteria of when hedge accounting is applied and how it is applied. It provides the option of designating qualifying transactions as hedges for accounting purposes. The qualifying hedging relationships include fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. The changes in the fair value of the hedging derivatives will be recognized in net earnings or other comprehensive income depending on the nature of the hedging relationships. Any gains and losses resulting from any ineffectiveness in hedging relationships are recognized in net income immediately. The Company does not currently apply hedge accounting and as a result Section 3865 does not apply to the Company at this time.

**Comprehensive Income**

This section establishes standards for the reporting and disclosure of other comprehensive income ("OCI") in a new category, Accumulated Other Comprehensive Income (Losses), which will be included in shareholders' equity on the consolidated balance sheet. Comprehensive income includes all changes in equity of the Company during a period except those resulting from investments by shareholders and distributions to shareholders. The major components included in Accumulated Other Comprehensive Income (Losses) are unrealized gains and losses on financial assets classified as available for sale, and unrealized foreign exchange gains and losses arising on translation of the financial statements of self-sustaining foreign operations.

As a result of adopting Section 1530, the Company has disclosed the OCI in a new category, Accumulated Other Comprehensive Income (Losses), which has been included in shareholders' equity on the consolidated balance sheet. The OCI is comprised of the cumulative translation adjustment arising on the translation of the financial statements of self-sustaining foreign operations. The Company has reclassified $6.3 million of cumulative translation adjustments to the opening balance of Accumulated Other Comprehensive Income (Losses).

## 3. SECURITIES OWNED AND SECURITIES SOLD SHORT

| | **September 30, 2007** | | March 31, 2007 | | September 30, 2006 | |
|---|---|---|---|---|---|---|
| | **Securities owned** | **Securities sold short** | Securities owned | Securities sold short | Securities owned | Securities sold short |
| Corporate and government debt | **$ 84,679** | **$ 20,909** | $ 23,786 | $ 5,313 | $ 11,420 | $ 5,539 |
| Equities and convertible debentures | **142,689** | **27,875** | 324,978 | 35,863 | 108,389 | 20,387 |
| | **$ 227,368** | **$ 48,784** | $ 348,764 | $ 41,176 | $ 119,809 | $ 25,926 |

As at September 30, 2007, corporate and government debt maturities range from 2007 to 2054 [March 31, 2007 – 2007 to 2054 and September 30, 2006 – 2006 to 2053] and bear interest ranging from 3.13% to 11.50% [March 31, 2007 – 2.75% to 11.50% and September 30, 2006 – 2.65% to 11.50%].

The security positions are classified as held for trading under CICA Handbook Section 3855 *"Financial Instruments – Recognition and Measurement"*. Unrealized gains and losses are included in net income in the period incurred.

At September 30, 2007 there is third party asset-backed commercial paper ("ABCP") with a par value of $43.2 million included in the securities owned balance. At the dates the Company acquired the ABCP it was rated R1 (High) by Dominion Bond Rating Services ("DBRS"), the highest credit rating issued for commercial paper. The ABCP did not settle as it matured as a result of liquidity issues in the ABCP market. There has been no active trading of the ABCP since mid-August 2007 and no market quotations are currently available. The ABCP in which the Company has invested continues to be rated R1 (High, Under Review with Developing Implications) by DBRS.

There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. The Company estimates the fair value of the ABCP by discounting expected future cash flows considering the best available data. Since the fair value of the ABCP is based on the Company's assessment of current conditions, amounts reported may change materially in subsequent periods. The Company expects resolution, a liquidity event and clarity with respect to the ABCP within the next six months.

The ABCP was classified as held for trading on initial adoption of Section 3855. An adjustment of $4.4 million has been recorded at September 30, 2007 to reflect the lack of liquidity in the ABCP market.

## 4. FOREIGN EXCHANGE RISK

Foreign exchange risk arises from the possibility that changes in the price of foreign currencies will result in losses. The Company periodically trades certain foreign exchange contracts to manage and hedge foreign exchange risk on pending settlements in foreign currencies. As the Company does not currently apply hedge accounting, these contracts are classified as held for trading. Consequently, realized and unrealized gains and losses related to these contracts are recognized in income during the year.

Forward contracts outstanding at September 30, 2007:

| | **Notional amounts (millions of USD)** | **Average price (CAD/USD)** | **Maturity** | **Fair value (millions of USD)** |
|---|---|---|---|---|
| To sell US dollars | **$ 26.50** | **$ 0.995** | **October 1, 2007** | **$ 0.1** |
| To buy US dollars | **$ 9.50** | **$ 0.995** | **October 1, 2007** | **$ (0.1)** |

Forward contracts outstanding at March 31, 2007:

| | Notional amounts (millions of USD) | Average price (CAD/USD) | Maturity | Fair value (millions of USD) |
|---|---|---|---|---|
| To sell US dollars | $ 12.90 | $ 1.16 | April 30, 2007 | $ 0.1 |
| To buy US dollars | $ 2.50 | $ 1.16 | April 3, 2007 | $ (0.1) |

Forward contracts outstanding at September 30, 2006:

| | Notional amounts (millions of USD) | Average price (CAD/USD) | Maturity | Fair value (millions of USD) |
|---|---|---|---|---|
| To sell US dollars | $ 22.00 | $ 1.11 | October 4, 2006 | $ 0.1 |
| To buy US dollars | $ 8.50 | $ 1.11 | October 4, 2006 | $ (0.1) |

## 5. INVESTMENT

| | **September 30, 2007** | March 31, 2007 | September 30, 2006 |
|---|---|---|---|
| Available for sale | **$ 5,000** | $ – | $ – |

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

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

### Accounts receivable

| | **September 30, 2007** | March 31, 2007 | September 30, 2006 |
|---|---|---|---|
| Brokers and investment dealers | **$ 631,275** | $ 571,461 | $ 333,576 |
| Clients | **765,999** | 694,123 | 484,833 |
| RRSP cash balances held in trust | **393,742** | 349,932 | 294,129 |
| Other | **38,696** | 56,519 | 50,680 |
| | **$ 1,829,712** | $ 1,672,035 | $ 1,163,218 |

### Accounts payable and accrued liabilities

| | **September 30, 2007** | March 31, 2007 | September 30, 2006 |
|---|---|---|---|
| Brokers and investment dealers | **$ 520,476** | $ 442,828 | $ 263,784 |
| Clients | **1,308,435** | 1,212,464 | 892,708 |
| Other | **192,587** | 501,248 | 154,756 |
| | **$ 2,021,498** | $ 2,156,540 | $ 1,311,248 |

Accounts payable to clients include $393.7 million [March 31, 2007 – $349.9 million and September 30, 2006 – $294.1 million] payable to clients for RRSP cash balances held in trust.

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

Amounts due from and to clients are due by the settlement date of the trade transaction. Margin loans are due on demand and are collateralized by the assets in the client accounts. Interest on margin loans and amounts due to clients is based on a floating rate [September 30, 2007 – 8.25%–9.75% and 1.83%–3.25%, respectively; March 31, 2007 – 8.00%–10.25% and 2.27%–3.00%, respectively; and September 30, 2006 – 8.00%–10.25% and 2.24%–3.00%, respectively].

## 7. GOODWILL AND OTHER INTANGIBLE ASSETS

| | **September 30, 2007** | March 31, 2007 | September 30, 2006 |
|---|---|---|---|
| **Goodwill** | **$ 30,070** | $ 30,070 | $ 22,653 |
| **Other intangible assets** | | | |
| Balance at beginning of period | **3,863** | 5,276 | 5,276 |
| Amortization | **706** | 1,413 | 707 |
| Balance at end of period | **3,157** | 3,863 | 4,569 |
| | **$ 33,227** | $ 33,933 | $ 27,222 |

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

In March 2007, the Company completed its assessment of the net assets acquired in connection with the purchase price allocation for the acquisition of Adams Harkness Financial Group, Inc. in January 2006, and goodwill was increased to $30,070 to reflect finalization of the fair value assessment of future income tax benefits.

## 8. SUBORDINATED DEBT

| | **September 30, 2007** | March 31, 2007 | September 30, 2006 |
|---|---|---|---|
| Loan payable, interest payable monthly at prime + 2% per annum, due on demand | **$ 25,000** | $ 25,000 | $ – |

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

## 9. SHARE CAPITAL

| | **September 30, 2007** | March 31, 2007 | September 30, 2006 |
|---|---|---|---|
| Share capital | | | |
| Common shares | **$ 173,878** | $ 173,431 | $ 173,282 |
| Unvested share purchase loans | **(34,637)** | (25,531) | (17,823) |
| Acquisition of common shares for long term incentive plan [note 10] | **(18,295)** | – | – |
| Contributed surplus | **18,552** | 8,396 | 4,030 |
| | **$ 139,498** | $ 156,296 | $ 159,489 |

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

### [i] Authorized

Unlimited common shares without par value

Unlimited preferred shares without par value

### [ii] Issued and fully paid

**Common shares**

| | Number of shares | Amount |
|---|---|---|
| Balance, September 30, 2006 | 47,827,350 | $ 173,282 |
| Shares issued in connection with stock compensation plans [note 10] | 17,133 | 194 |
| Shares cancelled | (12,522) | (45) |
| Balance, March 31, 2007 | 47,831,961 | 173,431 |
| Shares issued for cash | 25,000 | 350 |
| Shares issued in connection with stock compensation plan [note 10] | 9,268 | 97 |
| **Balance, September 30, 2007** | **47,866,229** | **$ 173,878** |

The Company renewed its normal course issuer bid ["NCIB"] and was entitled to acquire from December 29, 2006 to December 28, 2007, up to 2,391,880 of its shares, which represented 5% of its shares outstanding as of December 20, 2006. There were no share transactions under the NCIB between March 31, 2007 and September 30, 2007. However, the employee benefit trust has purchased 937,102 shares for the long-term incentive plan [Note 10] and the Company acquired 6,121 shares as an adjustment of the consideration for the acquisition of the Adams Harkness Financial Group, Inc., which reduced the number of shares allowable under the NCIB to 1,448,657.

### [iii] Common share purchase loans

The Company provides forgivable common share purchase loans to employees in order to purchase common shares. The unvested balance of forgivable common share purchase loans is presented as a deduction from share capital. The forgivable common share purchase loans are amortized over the vesting period. Contributed surplus includes the amortization of unvested forgivable common share purchase loans.

### [iv] Distribution of acquired common shares

In December 2006, the Company repurchased 195,968 common shares for $1.9 million from departed employees as settlement of the unvested portion of forgivable loans. A total of 189,567 common shares were subsequently distributed to existing employees at market price of $18.20 per share for cash proceeds of $3.5 million. The excess on distribution of $1.6 million has been credited to contributed surplus. The Company has cancelled the remaining 6,401 common shares.

### [v] Earnings per share

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **September 30, 2007** | September 30, 2006 | **September 30, 2007** | September 30, 2006 |
| **Basic earnings per share** | | | | |
| Net income for the period | **$ 12,411** | $ 17,806 | **$ 51,440** | $ 43,748 |
| Weighted average number of common shares (number) | **44,971,889** | 46,152,802 | **45,195,734** | 46,152,802 |
| Basic earnings per share | **$ 0.28** | $ 0.39 | **$ 1.14** | $ 0.95 |
| **Diluted earnings per share** | | | | |
| Net income for the period | **$ 12,411** | $ 17,806 | **$ 51,440** | $ 43,748 |
| Weighted average number of common shares (number) | **44,971,889** | 46,152,802 | **45,195,734** | 46,152,802 |
| Dilutive effect of unvested shares (number) | **2,381,104** | 1,443,107 | **2,381,104** | 1,443,107 |
| Dilutive effect of share issuance commitment in connection with retention plan (number) [note 10] | **363,378** | 365,685 | **363,378** | 365,685 |
| Dilutive effect of unvested shares purchased by employee benefit trust (number) [note 10] | **511,906** | – | **281,470** | – |
| Dilutive effect of share issuance commitment in connection with long term incentive plan (number) [note 10] | **41,309** | – | **63,089** | – |
| Adjusted weighted average number of common shares (number) | **48,269,586** | 47,961,594 | **48,284,775** | 47,961,594 |
| Diluted earnings per share | **$ 0.26** | $ 0.37 | **$ 1.07** | $ 0.91 |

## 10. STOCK-BASED COMPENSATION PLANS

### Retention plans

As described in the Audited Annual Consolidated Financial Statements, the Company established two retention plans in connection with the acquisitions of Enermarket and Adams Harkness.

The plan for Enermarket consists of the issuance of up to 25,210 common shares of the Company over two years. In December 2006 the Company issued 10,254 common shares under this plan [Note 9 [ii]].

The plan for Adams Harkness provides for the issuance of up to 1,118,952 common shares of the Company after a three-year vesting period. The total number of shares which will vest is also based on revenue earned by Canaccord Adams Inc. during the vesting period. The aggregate number of common shares which vest will be that number which is equal to the revenue earned by Canaccord Adams Inc. during the vesting period divided by US$250.0 million multiplied by the number of common shares subject to the retention plan (818,889 common shares as of September 30, 2007 and 1,004,750 as of September 30, 2006). As such revenue levels are achieved during the vesting period, the associated proportion of the retention payment will be recorded as a development cost and the applicable number of retention shares will be included in diluted common shares outstanding [Note 9 [v]]. The Company has expensed $810 and $1,939 for the three and six months ended September 30, 2007 ($474 and $1,153 for the three and six months ended September 30, 2006). The Company issued 9,268 common shares for the six months ended September 30, 2007 and 6,879 common shares in February 2007 to employees who have ceased their employment in circumstances where the retention plan provides for a partial vesting of the shares awarded under the plan [Note 9 [ii]].

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

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **September 30, 2007** | September 30, 2006 | **September 30, 2007** | September 30, 2006 |
| Number of common shares subject to the Enermarket retention plan: | | | | |
| Beginning of period | **10,254** | 25,210 | **10,254** | 25,210 |
| Grants | **–** | – | **–** | – |
| Issued | **–** | – | **–** | – |
| End of period | **10,254** | 25,210 | **10,254** | 25,210 |
| Shares vested during the period | **–** | – | **–** | – |
| Number of common shares subject to the Adams Harkness retention plan: | | | | |
| Beginning of period | **892,354** | 1,116,644 | **953,107** | 1,046,219 |
| Grants | **–** | – | **–** | – |
| Issued | **(1,995)** | – | **(9,268)** | 72,733 |
| Forfeitures | **(71,470)** | (111,894) | **(124,950)** | (114,202) |
| End of period | **818,889** | 1,004,750 | **818,889** | 1,004,750 |
| Shares vested during the period | **–** | – | **–** | – |
| Number of common shares subject to the employee treasury stock purchase plan: | | | | |
| Beginning of period | **–** | 276,776 | **–** | 276,776 |
| Issued | **–** | – | **–** | – |
| End of period | **–** | 276,776 | **–** | 276,776 |

Under the fair value method the aggregate costs of the grants made under the retention plans are estimated to be $12.0 million – $0.3 million relating to Enermarket and $11.7 million (US$10.0 million) for Adams Harkness. The costs of the retention plans have been recognized in the financial statements of the Company in accordance with the vesting terms of the respective plans.

## Stock options

On May 16, 2007 the Company granted stock options to five independent directors. Each of the directors has been granted the option to purchase up to 25,000 common shares of the Company with an exercise price of $23.13 and a vesting period of four years. The term of the options is seven years. The fair value of the stock options has been estimated on grant date using the Black-Scholes option pricing model with the following assumptions:

| | May 2007 Grant |
|---|---|
| Dividend yield | 1.80% |
| Expected volatility | 30.00% |
| Risk-free interest rate | 4.25% |
| Expected life | 5 years |

Compensation expense of $41 and $82 has been recognized for the three and six months ended September 30, 2007.

A summary of stock options outstanding is as follows:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **September 30, 2007** | September 30, 2006 | **September 30, 2007** | September 30, 2006 |
| Beginning of period | **125,000** | – | **–** | – |
| Grants | **–** | – | **125,000** | – |
| End of period | **125,000** | – | **125,000** | – |

### Long term incentive plan

The long term incentive plan ("LTIP") is a new plan implemented in the first quarter of fiscal 2008. Under the LTIP, eligible participants are awarded restricted share units which vest over three years. For employees in Canada, an employee benefit trust (the "Trust") has been established, and either (a) the Company will fund the Trust with cash which will be used by a trustee to purchase on the open market common shares of the Company that will be held in trust by the trustee until restricted share units vest or (b) the Company will issue common shares from treasury to participants following vesting of restricted share units. For employees in the United States and the United Kingdom, at the time of each restricted share unit award the Company will allot common shares and these shares will be issued from treasury at the time they vest for each participant. The shares issued as part of the LTIP will generally be offset by purchases under the Company's normal course issuer bid.

On June 5, 2007 the Board approved the award of 475,168 restricted common share units in lieu of cash compensation to employees. On August 31, 2007 an additional 732,160 restricted common share units were granted in lieu of cash compensation to employees.

The cost of the restricted share units is amortized over the vesting period of three years. Compensation expense of $4,090 and $6,022 has been recognized for the three and six months ended September 30, 2007.

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **September 30, 2007** | September 30, 2006 | **September 30, 2007** | September 30, 2006 |
| Awards outstanding, beginning of period | **475,168** | – | **–** | – |
| Granted | **732,160** | – | **1,207,328** | – |
| Vested | **–** | – | **–** | – |
| Awards outstanding, end of period | **1,207,328** | – | **1,207,328** | – |

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **September 30, 2007** | September 30, 2006 | **September 30, 2007** | September 30, 2006 |
| Common shares held by Trust, beginning of period | **401,239** | – | **–** | – |
| Acquired | **535,863** | – | **937,102** | – |
| Released on vesting | **–** | – | **–** | – |
| Common shares held by Trust, end of period | **937,102** | – | **937,102** | – |

## 11. RELATED PARTY TRANSACTIONS

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

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

| | **September 30, 2007** | March 31, 2007 | September 30, 2006 |
|---|---|---|---|
| Accounts receivable | **$ 51,570** | $ 49,694 | $ 42,334 |
| Accounts payable and accrued liabilities | **$ 76,812** | $ 85,795 | $ 81,577 |

## 12. SEGMENTED INFORMATION

The Company has two operating segments:

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

Canaccord Adams – includes investment banking, research and trading activities on behalf of corporate, institutional and government clients as well as principal trading activities in Canada, the United Kingdom and the United States of America.

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

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

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

| For the three months ended September 30, | **2007** | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Canaccord Adams** | **Private Client Services** | **Corporate and Other** | **Total** | Canaccord Adams | Private Client Services | Corporate and Other | Total |
| Revenues | **$ 87,925** | **$ 57,415** | **$ 9,130** | **$154,470** | $ 93,033 | $ 55,626 | $ 7,372 | $ 156,031 |
| Expenses | **66,415** | **42,226** | **16,389** | **125,030** | 66,102 | 39,409 | 17,115 | 122,626 |
| Amortization | **985** | **472** | **689** | **2,146** | 1,291 | 420 | 655 | 2,366 |
| Development costs | **5,582** | **1,341** | **1,243** | **8,166** | 3,310 | 1,517 | 962 | 5,789 |
| Income (loss) before income taxes | **$ 14,943** | **$ 13,376** | **$ (9,191)** | **$ 19,128** | $ 22,330 | $ 14,280 | $ (11,360) | $ 25,250 |

| For the six months ended September 30, | **2007** | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Canaccord Adams** | **Private Client Services** | **Corporate and Other** | **Total** | Canaccord Adams | Private Client Services | Corporate and Other | Total |
| Revenues | **$242,948** | **$133,498** | **$ 23,894** | **$400,340** | $ 218,139 | $ 127,912 | $ 16,107 | $ 362,158 |
| Expenses | **167,561** | **97,572** | **37,967** | **303,100** | 155,387 | 92,695 | 35,640 | 283,722 |
| Amortization | **1,896** | **902** | **1,325** | **4,123** | 2,241 | 830 | 1,284 | 4,355 |
| Development costs | **9,874** | **2,713** | **2,752** | **15,339** | 4,597 | 3,038 | 2,021 | 9,656 |
| Income (loss) before income taxes | **$ 63,617** | **$ 32,311** | **$ (18,150)** | **$ 77,778** | $ 55,914 | $ 31,349 | $ (22,838) | $ 64,425 |

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

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **September 30, 2007** | September 30, 2006 | **September 30, 2007** | September 30, 2006 |
| Canada | | | | |
| Revenue | **$ 112,876** | $ 108,408 | **$ 274,969** | $ 241,658 |
| Equipment and leasehold improvements | **24,012** | 20,646 | **24,012** | 20,646 |
| Goodwill and other intangible assets | **4,208** | 4,459 | **4,208** | 4,459 |
| United Kingdom | | | | |
| Revenue | **$ 20,807** | $ 21,643 | **$ 68,308** | $ 70,535 |
| Equipment and leasehold improvements | **8,604** | 3,608 | **8,604** | 3,608 |
| United States | | | | |
| Revenue | **$ 20,737** | $ 18,745 | **$ 47,159** | $ 42,730 |
| Equipment and leasehold improvements | **7,521** | 2,273 | **7,521** | 2,273 |
| Goodwill and other intangible assets | **29,019** | 22,763 | **29,019** | 22,763 |
| Other Foreign Location | | | | |
| Revenue | **$ 50** | $ 7,235 | **$ 9,904** | $ 7,235 |

## 13. COMMITMENTS AND CONTINGENCIES

During the period, there have been no material changes to the Company's commitments or contingencies from those described in Note 16 of the March 31, 2007 Audited Annual Consolidated Financial Statements.

## 14. SUBSEQUENT EVENT

### Dividend

On November 1, 2007, the Board of Directors declared a common share dividend of $0.125 per share payable on December 10, 2007, with a record date of November 30, 2007.

# SHAREHOLDER INFORMATION

**CORPORATE HEADQUARTERS:**

**Street address:**
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Vancouver, BC, Canada

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**STOCK EXCHANGE LISTING:**
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AIM: CCI

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The CCI fiscal 2007 Annual Report is available on our Web site at canaccord.com. For a printed copy please contact the Investor Relations department.

**FISCAL 2008 EXPECTED DIVIDEND (1) AND EARNINGS DATES**

| | Earnings release date | Dividend record date | Dividend payment date |
|---|---|---|---|
| Q1/08 | August 2, 2007 | August 24, 2007 | September 10, 2007 |
| Q2/08 | November 2, 2007 | November 30, 2007 | December 10, 2007 |
| Q3/08 | February 7, 2008 | February 22, 2008 | March 10, 2008 |
| Q4/08 | May 21, 2008 | May 30, 2008 | June 10, 2008 |

(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:

**COMPUTERSHARE INVESTOR SERVICES INC.:**
100 University Avenue, 9th Floor
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Phone: 1-800-564-6253
(toll-free within North America)
514-982-7555 (international)
Fax: 1-866-249-7775
(toll-free within North America) or
416-263-9524 (international)
Email: service@computershare.com
Internet: computershare.com
Offers enrolment for self-service account management for registered shareholders through Investor Centre.

**FINANCIAL INFORMATION:**
For present and archived financial information, please visit canaccord.com/financialreports.

**AUDITOR:**
Ernst & Young LLP
Chartered Accountants
Vancouver, BC

**CORPORATE WEB SITE:**
canaccord.com