A CULTURE OF IDEAS

CANACCORD
CAPITAL

ANNUAL REPORT 2006

A CULTURE OF IDEAS

At Canaccord, ideas are the engine of our business. Since 1950, we have been building a culture of financial services professionals dedicated to generating ideas that create value for our clients. Now, as a leading global, independent investment dealer, Canaccord pursues opportunity and growth both domestically and internationally. Our clients, employees and partners share our commitment to quality and our entrepreneurial approach. We are proud of our ideas, our team and our outstanding success this fiscal year.

ABOUT CANACCORD

Through its principal subsidiaries, Canaccord Capital Inc. (TSX & AIM: CCI) is a leading independent full service investment dealer in Canada with capital markets operations in the United Kingdom and the United States of America. Canaccord is publicly traded on both the Toronto Stock Exchange and AIM, a market operated by the London Stock Exchange. Canaccord has operations in two of the principal segments of the securities industry: private client services and capital markets. Together, these operations offer a wide range of complementary investment products, brokerage services and investment banking services to Canaccord's private, institutional and corporate clients. Canaccord has approximately 1,480 employees worldwide in 32 offices, including 26 Private Client Services offices located across Canada. Canaccord Adams, the international capital markets division, has operations in Toronto, London, Boston, Vancouver, New York, Calgary, Montreal, San Francisco and Houston.

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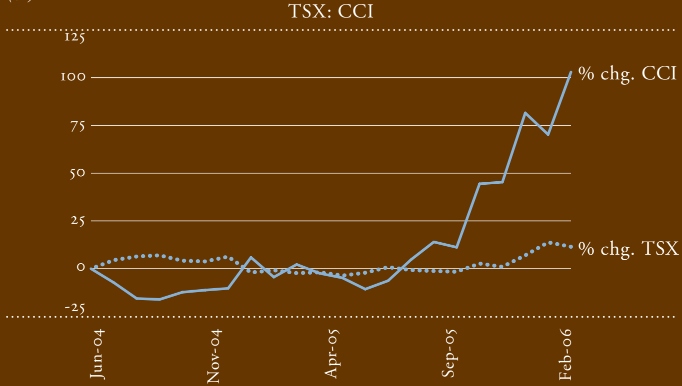
Please note: Unless otherwise indicated, all references to currencies are in Canadian dollars.

CCI SHARES VS TSX SINCE IPO

(%)



103% increase in stock value over the last 21 months

(as of March 31, 2006)

IPO trading price on June 30, 2004: $10.25
Closing price on March 31, 2006: $20.80

FINANCIAL HIGHLIGHTS

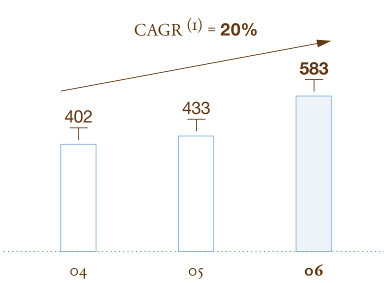
SELECTED FINANCIAL INFORMATION

For the year ended March 31 *(C$ thousands, except per share, employee and % amounts)*	2006	2005	2004	2006/2005 Increase (decrease)	
Revenue					
Commission	$ 239,461	$ 168,978	$ 162,242	$ 70,483	41.7%
Investment banking	266,206	214,450	188,001	51,756	24.1%
Principal trading	27,388	13,584	27,513	13,804	101.6%
Interest	36,914	26,488	15,853	10,426	39.4%
Other	13,446	9,278	8,548	4,168	44.9%
Total Revenue	$ 583,415	$ 432,778	$ 402,157	$ 150,637	34.8%
Expenses					
Incentive compensation	299,188	220,454	218,802	78,734	35.7%
Salaries and benefits	42,019	45,715	37,193	(3,696)	(8.1)%
Other overhead expenses	123,178	93,853	83,605	29,325	31.2%
Total Expenses	$ 464,385	$ 360,022	$ 339,600	$ 104,363	29.0%
Income before income taxes	119,030	72,756	62,557	46,274	63.6%
Net income	81,150	48,579	40,429	32,571	67.0%
Earnings per share (EPS) – basic	$ 1.82	$ 1.17	$ 1.43	$ 0.65	55.6%
Earnings per share (EPS) – diluted	$ 1.74	$ 1.11	$ 1.12	$ 0.63	56.8%
Return on average common equity (ROE) / return on average capital employed (ROCE)	33.6%	23.9%	43.5%	9.7p.p.	
Dividends					
Cash dividend	$ 0.28	$ 0.26	$ –	$ 0.02	7.7%
Special cash distribution	–	0.15	–	(0.15)	(100)%
Stock dividend	–	–	0.01	n.a.	n.a.
Book value per diluted common share – period end	6.02	4.82	2.59	1.20	24.9%
Balance sheet data (as at March 31, 2006):					
Total assets	2,177,973	1,638,165	1,508,366	539,808	33.0%
Long term liabilities	–	41,618	59,142	(41,618)	(100)%
Total liabilities	1,890,143	1,415,954	1,409,679	474,189	33.5%
Total common equity	287,830	222,211	98,687	65,619	29.5%
Number of employees	1,488	1,260	1,156	228	18.1%

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

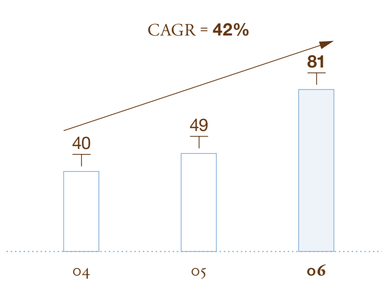
RECORD REVENUE FOR FISCAL 2006

(C$ millions)



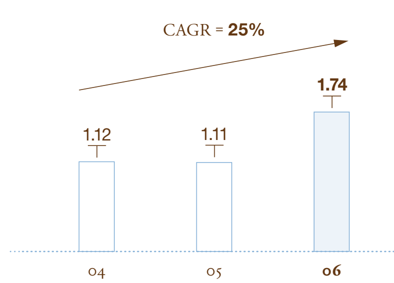
RECORD NET INCOME FOR FISCAL 2006

(C$ millions)



STRONG GROWTH IN DILUTED EPS FOR FISCAL 2006

(C$)



(1) CAGR: Compound Annual Growth Rate.

CANACCORD CAPITAL INC.
AT A GLANCE

CANACCORD CAPITAL INC.

CANACCORD CAPITAL

PRIVATE CLIENT SERVICES (CANADA & US)

- Investment Advice
- Brokerage Services
- Managed Accounts
- Fee-based Accounts
- Financial Planning Services
- Insurance and Estate Planning

CANACCORD ADAMS (CANADA, UK, US)

- Research
- Institutional Equity Sales and Trading
- Investment Banking
- Venture Capital
- International and Principal Trading
- Fixed Income Trading
- Canaccord Enermarket

OTHER (CANADA & US)

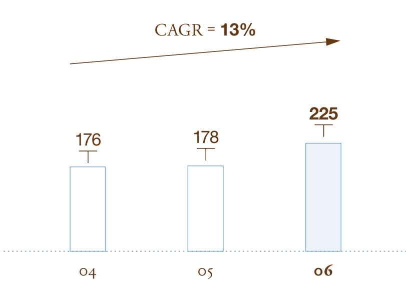
- Pinnacle Correspondent Brokerage Services
- Compliance and Risk Management
- Operations
- Finance
- Legal
- Information Technology

Canaccord's Global Capital Markets group (Canada, UK and US) has a new name: Canaccord Adams. As a result, Canaccord Capital (Europe) Limited (engaged primarily in capital markets activities in the United Kingdom) has been renamed Canaccord Adams Limited and it constitutes Canaccord's UK geographic segment. The operating subsidiary of the newly acquired Adams Harkness Financial Group, Inc. (engaged primarily in capital markets activities in the United States) has been renamed Canaccord Adams Inc., and together with Canaccord Capital Corporation (USA), Inc., US Private Client Services, and US Other operations; they constitute Canaccord's new US geographic segment. Canaccord Capital Corporation's Canadian division engaged in capital markets activities has been branded as Canaccord Adams.

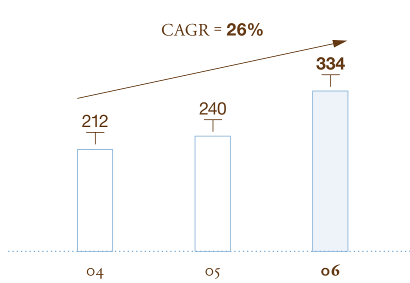
REVENUE DISTRIBUTION BY BUSINESS SEGMENT

(C$ millions)

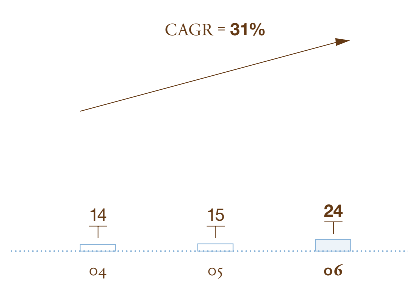
Private Client Services



Canaccord Adams

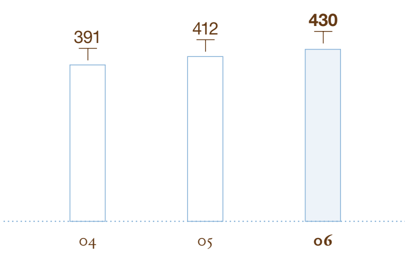


Other



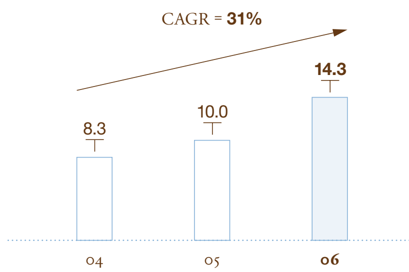
PRIVATE CLIENT SERVICES HIGHLIGHTS

Number of Investment Advisors



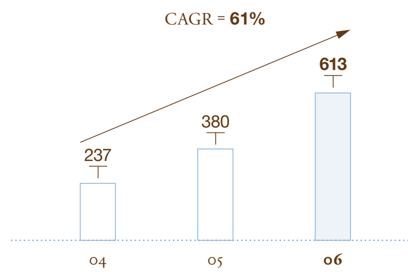
Assets under Administration (AUA)

(C$ billions)



Assets under Management (AUM)

(C$ millions)

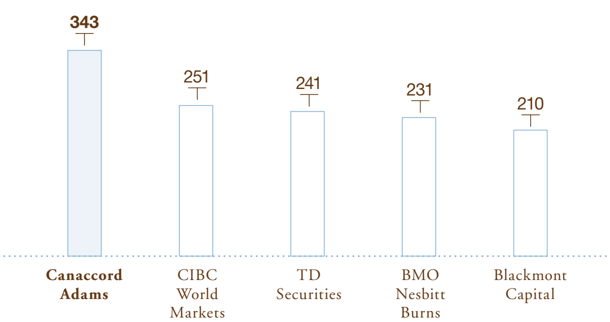


CANACCORD ADAMS HIGHLIGHTS

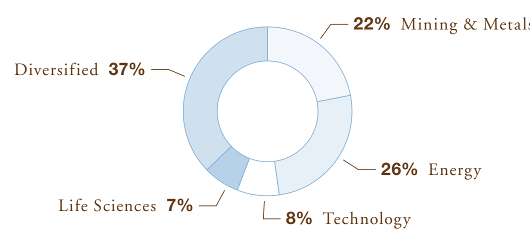
(Note: Diversified includes Consumer, Real Estate and Industrial Growth sectors)

Equity offerings $1.5 million and greater during fiscal 2006 [1]

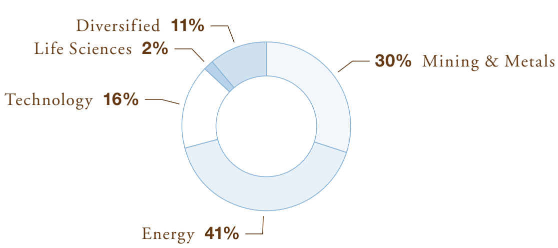
Canaccord Adams ranked number one in participation in transactions



Transactions by sector during fiscal 2006

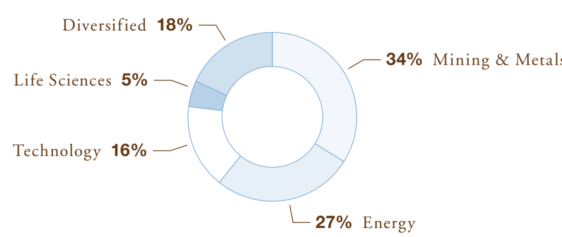


Revenue by sector during fiscal 2005



Revenue by sector during fiscal 2006

More balanced sector participation as the result of Canaccord's expansion into the US



(1) Source: Financial Post Data Group as of March 31, 2006, underwriting table of equity transactions for Canadian and American issuers placed in Canada and the UK.

TO OUR SHAREHOLDERS

CENTRE:
PETER M. BROWN
CHAIRMAN & CEO

LEFT:
MICHAEL G. GREENWOOD
PRESIDENT & COO

RIGHT:
BRADLEY W. KOTUSH
EXECUTIVE VICE PRESIDENT & CFO

DEAR FELLOW SHAREHOLDERS:

Fiscal 2006 was our third consecutive year of record financial performance. Revenue rose 35% year over year while expenses rose only 29%, which resulted in a net income increase of 67%. We continued to execute our global strategy to be the pre-eminent global investment dealer focused on the small to mid-cap market. Our team of private client and capital markets professionals has worked tirelessly to grow our business in fiscal 2006, creating value for our clients and a return for our shareholders in excess of 100%.

We have experienced exciting and unprecedented change over the past year: we completed a US acquisition, led the largest financing in our history, increased our assets under management and enhanced our talented global team, while offering innovative products and quality client services. Our idea focus continues to differentiate us from our peers, translating our entrepreneurial approach into positive results for our clients. Additionally, Canaccord's market capitalization exceeded the $1 billion mark this fiscal year – a significant milestone in our growth.

RE-BRANDED CAPITAL MARKETS OPERATIONS

In January 2006, Canaccord closed the acquisition of Adams Harkness Financial Group, Inc., a privately held Boston, Massachusetts based institutional investment bank with 150 employees in Boston, New York and San Francisco. The US$20 million purchase price included US$8 million in cash and US$12 million in approximately 1.34 million of our common shares. We also established a US$10 million employee retention pool to be paid in Canaccord shares. The transaction should be accretive within 12 months and our newly created US geographic segment was neutral to earnings in the fourth quarter of fiscal 2006.

With its commitment to growth companies in the technology, life sciences and consumer industries and strong client relationships, Adams Harkness' culture was an exceptional match for Canaccord's: an idea based franchise featuring highly regarded, independent research, sales and trading, and investment banking activity.

Following this acquisition, Canaccord's Global Capital Markets group (Canada, UK and US) was re-branded Canaccord Adams. Canaccord Capital (Europe) Limited has been renamed Canaccord Adams Limited and the operating subsidiary of Adams Harkness Financial Group, Inc. became Canaccord Adams Inc. Both of these companies are wholly owned subsidiaries of Canaccord Capital Inc. In addition, the division of Canaccord Capital Corporation that is engaged in capital markets activities in Canada has been branded as Canaccord Adams.

With 10 offices in three countries, Canaccord Adams brings together local market expertise with global perspective to generate ideas for our clients. Our enhanced scope allows for larger transactions, a broader distribution network, deeper sector focus and diversified revenue opportunities. Canaccord Adams' global strategy is already

During fiscal 2006 we made a strategic US acquisition, led the largest financing in our history, and achieved records in both assets under management and assets under administration – while enhancing our talented global team.

producing significant success: the group's revenue rose 39% to $334 million in fiscal 2006. In November 2005, we led the largest transaction in our history, a $504 million financing for UrAsia Energy (B.V.I.) Ltd. that was distributed in Canada, the UK and the US.

Our November 2005 purchase of Calgary, Alberta based Enermarket Solutions Ltd. involved the payment of 77,646 shares and the issuance of shares at $11.90 per share. The business operates as Canaccord Enermarket Ltd., part of Canaccord Adams, and should be accretive to net income in fiscal 2007. Canaccord Enermarket Ltd. provides technical evaluation and marketing services for buyers and sellers of oil and gas properties. This acquisition demonstrates our commitment to building depth of expertise in each of our focus sectors.

In May 2006, we announced the addition of Canaccord Adams' Houston, Texas operations – our first step into the US domestic energy market. In establishing a full service team, we plan to concentrate on US-domiciled, small to mid-cap energy companies with international exposure. This new group, and the growth opportunities in this significant industry, will enhance our global energy practice, deepening the relevance and broadening the reach of our client services.

Integration will remain a priority for Canaccord Adams in fiscal 2007, as we aim to maximize our market potential, grow our operations and bring value-creating ideas to our clients from around the world.

PRIVATE CLIENT SERVICES POSTS STRONG GROWTH

Private Client Services' revenue climbed 26% to $225 million in fiscal 2006, an increase of $47 million year over year. Assets under management (AUM) were up 61% year over year at a record $613 million – while assets under administration (AUA) rose 44% to a record $14.3 billion. The achievements of our Private Client Services division reflect both internal growth and assets brought in by newly recruited Investment Advisors (IAs).

Our plans for Private Client Services involve recruiting exceptional IAs and intensifying training for both existing and newly hired IAs. Our fee-based business is currently in the 18-20% range; over time, we intend to raise this to the 20-25% range. We are pursuing a number of paths to growth and, in early fiscal 2007, we opened a new Private Client Services branch in London, Ontario.

FOSTERING LEADERSHIP AMONG TALENTED PROFESSIONALS

This year, there were several important enhancements to our global team. We announced seven key hires in our European capital markets group, including Nick Clayton as Global Co-Head of Energy (Corporate Finance). Early in fiscal 2007, Jamie Brown, an eight-year veteran of our investment banking team, became Head of Corporate Finance for Canaccord Adams in the US. Michael Reynolds, who spearheaded the rapid growth of our Victoria office, became Branch Manager of our Toronto Private Client Services operations in April 2006. We look forward to the contributions of these highly regarded partners.

Brad Kotush was named Executive Vice President & Chief Financial Officer in January 2006, upon the retirement of Dennis Burdett, a valued partner for almost 20 years. Mr. Kotush has been with Canaccord for eight years, and brings extensive financial services experience to this role. He is an excellent addition to the global management team, as we continue to integrate and expand our operations.

Three new members were elected to our Board of Directors at the August 2005 annual general meeting: Arpad Busson is a founding member of both the EIM Group (a fund of funds company with over $10 billion in assets under management), and the Alternative Investment Management Association (AIMA), the largest hedge fund association in the world; he is also an international expert on hedge funds and the financial markets. Timothy Hoare, Chairman of Canaccord Adams Limited in Europe, and Paul Reynolds, Vice Chair and Global Head of Canaccord Adams, also joined our Board of Directors. Their contributions will be instrumental to our progress. We would like to thank our outgoing board member, Jim Pattison, for his involvement in our growth. Mr. Pattison is an outstanding partner and businessman, and we have benefited from his leadership over the past two years.

SETTING THE STAGE FOR ENHANCED PERFORMANCE

During the year, we made strategic organizational and infrastructure investments that set the stage for enhanced performance and future growth. We outgrew our Toronto and Calgary offices and moved to new premises. We substantially expanded our information technology capabilities, making key physical infrastructure and software enhancements. Canaccord remains committed to increasing operational efficiency and offering world-class technology solutions to our employees, partners and clients.

A milestone in our development was our June 2004 Initial Public Offering on the Toronto Stock Exchange. On June 22, 2005, our shares began trading on AIM in London. These listings further our growth objectives by giving us access to public markets, heightening our visibility and providing capital to support the growth in our existing operations and for potential acquisitions.

Canaccord changed its dividend policy at the outset of fiscal 2006, moving from a formula based on a percentage of annual net income to a fixed amount of $0.06 per share, to be paid quarterly. Given our financial results, the Board of Directors approved an increase to $0.08 per share, beginning with the third quarter of fiscal 2006.

The strength of our performance is due in part to higher volumes and the benefits of scalability. Revenue is increasing faster than expenses. In fiscal 2006, total compensation fell to 58.5% of revenue from 61.5% in the prior year.

In fiscal 2006, Canaccord's market capitalization exceeded $1 billion and we experienced our third consecutive year of record financial performance. Our idea focus continued to differentiate us from our peers – delivering results to our clients and building value for our shareholders.

Our Employee Stock Purchase Plan (ESPP) closely aligns the interests of employees and shareholders, with 45% of eligible personnel participating in the ESPP. In total we believe employees own about 53% of Canaccord's shares.

BUSINESS OUTLOOK REMAINS PROMISING

The outlook for our business remains favourable. The forecast for Canadian GDP growth is 3.0% on average for 2006 and 2.8% for 2007. Canadian economic growth could be slowed by weakness in the US economy, competitive pressure from low-cost international producers, reduced Chinese demand for commodities or sluggish productivity. On the financial front, the US Federal Reserve and the Bank of Canada gradually raised interest rates in the first five months of 2006 in order to stem inflationary concerns; this could negatively affect North American capital markets, which experienced better than average performance in early calendar 2006. Nevertheless, we anticipate that prices for energy and mined resources will remain high – resulting in market returns and activity that could continue to exceed historical trends.

We believe that Canaccord has the right strategy to achieve long term growth in our industry and exceptional performance for our stakeholders. We are confident that our focus on ideas, our global reach and our drive to succeed position us to effectively maximize the opportunities that lie ahead.

PETER M. BROWN
CHAIRMAN & CHIEF EXECUTIVE OFFICER

MICHAEL G. GREENWOOD
PRESIDENT & CHIEF OPERATING OFFICER

BRADLEY W. KOTUSH
EXECUTIVE VICE PRESIDENT &
CHIEF FINANCIAL OFFICER

IDEAS FOR A CLIENT CENTRED CULTURE

RESEARCH_
Identifying global opportunity

Canaccord's commitment to our clients lies at the heart of our business. Whether private client, institutional or corporate, we strive to add value for our clients by leveraging our independent, actionable research to identify opportunities and facilitate growth.

Our 50 talented research professionals craft timely investment ideas through analysis of broad economic trends, key market sectors and emerging and established corporations worldwide. Collectively, our research team examines over 500 companies and seven important areas of the global economy: Mining and Metals, Energy, Technology, Life Sciences, Consumer, Real Estate and Industrial Growth. Our analysts in the US, the UK and Canada bring industry experience, technical expertise and unique international perspective to their highly regarded coverage.

page _ 6 left to right:

JEFF RATH
global sector head of technology research

BOB HASTINGS
global sector head of energy/industrial growth research

KARL KEEGAN
managing director, head of research (uk), global sector head of life sciences research

page _ 7 left to right:

ERIC PROUTY
managing director, head of research (us)

DAMIEN HACKETT
global sector head of metals & mining research

BRUCE MCDONALD
global sector head of energy research

In the Brendan Wood Institutional Equity Research, Sales and Trading Performance in Canada 2005 Report, Canaccord's research department was ranked the top independent group. Ten of our 20 eligible analysts ranked among the top 10 in their sectors, and the team tied for first overall for quality of investment ideas.

In the 5th Annual StarMine Analyst Awards, an evaluation of analyst accuracy in stock picking and earnings estimation, our research team further demonstrated the positive impact of our ideas. In Canada, Canaccord was the fourth most award winning firm, with seven analysts ranked among the top five in their sectors. In the UK and the US, Canaccord had one and three analysts, respectively, recognized for the accuracy of their coverage.

This success is the result of our long term investment in quality research, and reflects the value it adds to every area of our business.

IDEAS FOR GLOBAL MARKETS

CANACCORD ADAMS__
Connecting investors to growth worldwide

Canaccord's operations are client-focused and, like our clients, global in scope and potential. Our growth strategy is designed to maximize opportunity and create value for our clients. In January 2006, Canaccord acquired Adams Harkness Financial Group, Inc., a Boston, Massachusetts based institutional investment bank. The combination of these US operations with our existing Canadian and European team formed our re-branded global capital markets division, Canaccord Adams.

The US geographic expansion enhances our capital markets capabilities, while maintaining our focus on the small to mid-cap market. Canaccord Adams now has greater depth in the seven business sectors that we research most intensively, and the global resources to manage larger transactions. We are active on seven exchanges, and able to source favourable costs of capital for our clients. Our global perspective ensures our responsive professionals generate the best idea for each client from the best markets worldwide.

page _8 left to right:

TIMOTHY HOARE
CHAIRMAN & CEO, CANACCORD ADAMS LIMITED (UK)

PAUL REYNOLDS
VICE CHAIR, GLOBAL HEAD OF CANACCORD ADAMS, PRESIDENT & COO, CANACCORD ADAMS LIMITED

page _9 left to right:

JOHN ADAMS
CHAIRMAN, CANACCORD ADAMS INC. (US)

MARK MAYBANK
EXECUTIVE VICE PRESIDENT, DEPUTY HEAD OF CANACCORD ADAMS, GLOBAL HEAD OF RESEARCH

KEVIN DUNN
PRESIDENT & CEO, CANACCORD ADAMS INC. (US)

Canaccord Adams' focus and capabilities are already demonstrating success. In fiscal 2006, we raised $25.9 billion by completing 375 transactions that involved Canadian, US and European employees and clients. In November 2005, we led the largest transaction in our history, raising $504 million in total for UrAsia Energy (B.V.I.) Ltd. from all three regions. We listed five North American companies on London exchanges in the fourth quarter of fiscal 2006, including Sandvine Corporation, a Canadian based technology firm. Canaccord Adams led Sandvine's initial public offering on AIM in March 2006.

In addition to growing our global reach, we identify strategic opportunities to serve our clients. In November 2005, we added oil and gas property acquisition and divestiture services to our Calgary based energy operations by acquiring Enermarket Solutions Ltd. Canaccord Enermarket Ltd. provides customized insight to clients active in this important resource market.

In May 2006, we announced Canaccord Adams' first step in establishing a presence in the US domestic energy market. Our new Houston, Texas based team will focus on US domiciled, small to mid-cap energy companies with international exposure, expanding the scope and scale of our global energy practice.

Canaccord Adams is continuing a 25-year Adams Harkness tradition, the Summer Seminar. Held each August in Boston, this unique conference showcases our best ideas by bringing together institutional investors and leading growth companies, as well as venture capitalists and private firms. This popular event provides unparalleled access to investment opportunities from around the world.

IDEAS FOR THE ENTREPRENEURIAL ECONOMY

CORPORATE FINANCE__
Building a global community of entrepreneurs

Canaccord shares with our corporate clients the entrepreneurial qualities common to leaders. Our clients are companies run by motivated, intelligent and determined individuals whose approach matches our own. Our common goal is to identify and leverage quality opportunities for sustainable growth. The companies that Canaccord serves are fundamental sources of global wealth creation, employment, ideas and economic advancement. We enhance their momentum and, in turn, they push the markets forward.

The capital markets represent unique and complex challenges and opportunities for the global small to mid-cap market (US$1-2 billion). Our relationships provide direct access to Canadian private client and institutional investors internationally.

page _ 10:

JAMIE BROWN
managing director,
head of investment
banking (us)

page _ 11 left to right:

JENS MAYER
executive vice president
& managing director,
head of investment banking
(canada)

NEIL JOHNSON
managing director,
head of corporate
finance (uk)

Our industry expertise helps our clients navigate the global marketplace. We have 75 professionals in three countries dedicated to generating ideas to serve emerging and established entrepreneurs – and we are experiencing significant success.

Canaccord Adams led or participated in financings worldwide valued at more than $25 billion in fiscal 2006. In Canada, our investment banking team led more equity offerings than any other investment dealer, with an average transaction size of $70.5 million. In one week in November 2005, we raised over $1 billion for three corporate clients – UrAsia Energy (B.V.I.) Ltd., Intermap Technologies Corp. and Neteller plc. In calendar 2005, our combined entities, including Adams Harkness, provided M&A advisory services on 38 transactions valued at $8.3 billion.

We are experienced in listing clients internationally, and have made significant investments in understanding local market opportunities. Canaccord Adams is strategically positioned as a leading Nominated Adviser (Nomad)/Broker on AIM, a market operated by the London Stock Exchange. In fiscal 2006, we raised $1.3 billion for our clients on AIM. We are proud to be Nomad to 49 companies, including four of the 10 largest companies on the exchange, and a leading representative of international issuers on the world stage.

IDEAS FOR EXECUTION

SALES AND TRADING__
Executing ideas in the global marketplace

Our global team of sales and trading professionals adds value by independently assessing which investment ideas are right for each client. Our strengths include facilitating timely and efficient execution in high volume, large capitalization and emerging or illiquid companies – managing the impact of each transaction. As traders, we strive to be fast and effective in delivering results for our clients.

Canaccord Adams boasts sales and trading operations in London, Boston, New York, San Francisco, Toronto, Calgary, Montreal and Vancouver. We have developed a committed team of 90 sales and trading professionals, who are active on seven

PAGE _ 12 LEFT TO RIGHT:

MATTHEW GAASENBEEK
EXECUTIVE VICE PRESIDENT & MANAGING DIRECTOR, INSTITUTIONAL SALES AND TRADING (CANADA)

MIKE VIRACOLA
MANAGING DIRECTOR, CO-HEAD OF EQUITIES (US)

PAGE _ 13 LEFT TO RIGHT:

TOM GABEL
MANAGING DIRECTOR, CO-HEAD OF EQUITIES (US)

NIGEL LITTLE
MANAGING DIRECTOR, HEAD OF EQUITIES (UK)

exchanges globally: the London Stock Exchange (LSE); AIM, a market operated by the LSE; the Toronto Stock Exchange (TSX); the TSX Venture Exchange (TSX-V); the New York Stock Exchange (NYSE); the American Stock Exchange (AMEX); and the NASDAQ Stock Market (NASDAQ).

We succeed by providing quality ideas and demonstrating passion for our work. During fiscal 2006 our Canadian sales and trading operations experienced a near doubling of their market share from 1.2% to 2.0%, as well as significant revenue generation. We are the third largest trader of small-cap companies on the TSX by volume, and market makers in over 800 issuers globally. We demonstrate significant expertise in the small to mid-cap market and provide insight into real time developments in our seven focus sectors.

Canaccord Adams understands the importance of earning clients' respect with consistent delivery of high quality, actionable investment advice. Our sales and trading team provides customized service to over 1,000 institutional clients globally, driving our ideas to the heart of the capital markets.

IDEAS FOR WEALTH MANAGEMENT

PRIVATE CLIENT SERVICES__
Customizing solutions for individual financial priorities

We are committed to providing private clients across Canada with superior wealth management strategies in an independent, idea-driven environment. Canaccord provides its 430 Investment Advisors (IAs) with a comprehensive suite of best-in-class investment products and services, enabling IAs to tailor investment strategies to suit each individual's financial goals.

Increasingly, private clients are trusting Canaccord to deliver results. Assets under administration (AUA) reached a record $14.3 billion in fiscal 2006, up 44% from the fiscal 2005 year-end. In the past six years the average book size of a Canaccord IA has tripled.

page _ 14 left to right:

PATRICK LECKY
senior vice president,
branch manager, vancouver

ROBERT LAROSE
executive vice president,
head of private client
services

MICHAEL REYNOLDS
senior vice president,
branch manager, toronto

JOHN KENNY
vice president,
branch manager, calgary

page _ 15 left to right:

GUY BRUNET
senior vice president,
branch manager, montreal

MATTHEW CICCI
senior vice president,
branch manager, vancouver

PAUL DiPASQUALE
executive vice president,
branch manager,
17th floor branch (bentall)

We continue to invest in flexible products and services that create value for our clients. Discretionary portfolio management is available through our Alliance Program, which covers a broad spectrum of mandates, allowing our advisors to tailor each portfolio to address the client's unique requirements. We have four outside managers – Jarislowsky, Fraser Limited; Brandywine Global Investment Management, LLC; KBSH Capital Management Inc.; and Seamark Asset Management Ltd. – to complement our *Independence Accounts*, which are managed in-house. Client confidence in the performance of Canaccord's *Independence Accounts*, managed by Chief Portfolio Manager Nick Majendie, is reflected in our assets under management (AUM), which have grown to $613 million – a 61% increase since fiscal 2005.

Our emphasis remains on improving our client services. We have introduced software that assists IAs in preparing comprehensive plans to help clients achieve their financial goals. We continue to enhance our advisor training program and support ongoing education for IAs.

IDEAS FOR CONTRIBUTING TO COMMUNITIES

SOCIAL VALUES_
Investing in helping others

Successful initiatives to enhance the quality of life in our communities – in health, education, economic and social development and the arts – illustrate the power of ideas that are central to Canaccord's values. That is why we proudly support such efforts year after year, through sponsorships, donations, awards and employee volunteers. We invested many hours and contributed more than $860,000 in fiscal 2006 to hundreds of important programs and organizations at the local, national and international levels. Some of these are described below.

National Ballet School of Canada
Canaccord made a significant investment in the National Ballet School of Canada for construction of a new teaching facility. The contribution reflects our commitment to excellence in Canadian culture and leadership in the arts on the world stage. The facility was completed in November 2005 and advances the development of dedicated arts and educational institutions in Canada.

University of British Columbia
Canaccord supports post-secondary education through our contribution to establish the Canaccord Learning Commons at the University of British Columbia. This adaptive learning space will support student access to new information technology tools and will help to highlight the Sauder School of Business as a global leader in management thinking. When completed, the Canaccord Learning Commons will be an instrumental space for students pursuing undergraduate and graduate degrees in business and management.

Mining for Miracles
Canaccord is proud to play a leadership role in the Mining for Miracles fundraising campaign in support of the BC Children's Hospital. Through financial and volunteer support, Canaccord will help the foundation raise over $1.4 million this year for the development of two "SMART" operating rooms for the benefit of children facing surgery.

Big Brothers of Greater Vancouver
Canaccord is the title sponsor for the Big Brothers Whistler Golf Classic, a charitable golf tournament that helps raise over $400,000 each year in support of the Big Brothers of Greater Vancouver. Additionally, employees participate every year in Bowl for Big Brothers in support of Big Brothers' mentoring programs to promote the healthy development of children and youth through guidance, support and friendship.

Bay Street Children's Foundation Charity Softball Tournament
The Bay Street Pro Celebrity Softball Challenge, sponsored by the Bay Street Children's Foundation, raises funds for the Bloorview MacMillan Children's Foundation – serving young people with disabilities – as well as other children's organizations in Toronto.

UK Community Participation
From our UK base, we support a range of organizations – a number of them geared to children's needs. Absolute Return for Kids (ARK) aims to transform the lives of children victimized by abuse, disability, illness and poverty, particularly those in Romania and South Africa. Tommy's, the baby charity, promotes research into pregnancy related complications and premature birth. Through the Children's Safety Fund, we sponsor a grade in a London public school, which is located in an underprivileged area, supplying materials for a 'street smart' program that encourages safety and helps distressed children.

Canaccord is also a sponsor of the Stroke Association, which assists victims and their families. Additionally, we contributed to Action for ME, which funds research into chronic fatigue syndrome.

FINANCIAL REVIEW

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, which may cause actual results to differ materially from any forward-looking statement. These factors include, but are not limited to, market and general economic conditions, the nature of the financial services industry and the risks and uncertainties detailed from time to time in Canaccord's interim and annual consolidated financial statements and its Annual Information Form filed on www.sedar.com. These forward-looking statements are made as of the date of this document, and Canaccord assumes no obligation to update or revise them to reflect new events or circumstances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year 2006 ended March 31, 2006 – this document is dated June 26, 2006.

The following discussion of Canaccord Capital Inc.'s financial condition and results of operations is provided to enable a reader to assess material changes in financial condition and results of operations for the year ended March 31, 2006, compared to the preceding fiscal year, with an emphasis on the most recent year. Unless otherwise indicated or the context otherwise requires, the "Company" refers to Canaccord Capital Inc. and "Canaccord" refers to the Company and its direct and indirect subsidiaries. The Management's Discussion and Analysis (MD&A) should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2006, beginning on page 58 of this report. Canaccord's financial information is expressed in Canadian dollars unless otherwise specified. This document is prepared in accordance with Canadian generally accepted accounting principles (GAAP). Note 20 to the audited consolidated financial statements describes the areas of material differences between Canadian GAAP and international financial reporting standards (IFRS).

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 used 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. When comparing ROE to results up to June 30, 2004, management uses return on average capital employed (ROCE). Capital employed is a non-GAAP measure of capital used prior to June 30, 2004. Capital employed was capital in the business, which included shareholders' equity and convertible debentures. On June 30, 2004, the debentures were converted to share capital. ROCE is net income divided by average capital employed during the period, expressed as a percentage. ROE is net income divided by average shareholders' equity during the period. Management uses these measures to assess financial performance relative to average capital employed.

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, for which Canaccord earns commissions or fees. This measure includes funds held in client accounts, as well as the aggregate market value of long and short security positions. Canaccord's method of calculating AUA may differ from approaches used by other companies and therefore may not be comparable. Management uses this measure to assess operational performance of the Private Client Services business segment. AUM is the market value of assets that are beneficially owned by clients and discretionarily managed by Canaccord as part of our *Independence Accounts* program. Services provided include the selection of investments and the provision of investment advice. AUM are also administered by Canaccord and are therefore included in AUA.

BUSINESS OVERVIEW

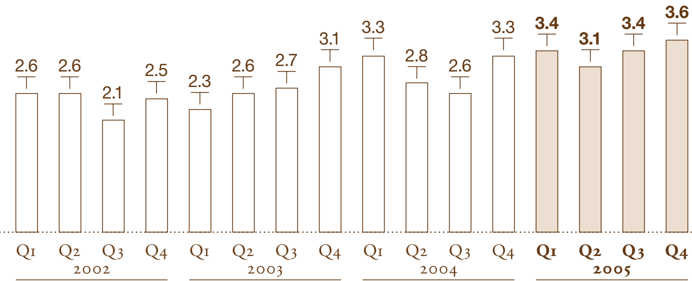
Canaccord is a leading Canadian independent full service investment dealer, publicly traded on the Toronto Stock Exchange and AIM, operated by the London Stock Exchange. Canaccord has substantial operations in each of the two principal segments of the securities industry: private client services and capital markets. Together these operations offer a wide range of complementary investment products, brokerage services and investment banking services to Canaccord's private, institutional and corporate clients in Canada and internationally, including the UK and the US. Canaccord has 1,488 employees worldwide located in 32 offices, including 430 Investment Advisors (IAs) in 26 Private Client Services offices located across Canada. Canaccord Adams, our international capital markets division, has operations in Toronto, London, Boston, Vancouver, New York, Calgary, Montreal, San Francisco and Houston.

Our business is subject to the overall condition of the North American and European equity markets, including seasonal fluctuations. In general, North American capital markets are slower during the first half of our fiscal year, when we typically generate approximately 35% to 40% of our annual revenue. During the second half of our fiscal year we typically generate 60% to 65% of our annual revenue. In early fiscal 2007, North American capital markers have performed better than historical seasonal norms and may therefore affect future revenue seasonality. Furthermore, Canaccord's revenue from an underwriting transaction is recorded only when the transaction has closed. Consequently, the timing of revenue recognition can materially affect Canaccord's quarterly results. The expense structure of Canaccord's operations is designed to provide service and coverage in the current market environment.

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

CANADIAN BROKER DEALER TOTAL INDUSTRY REVENUE

(C$ billions, calendar quarters)

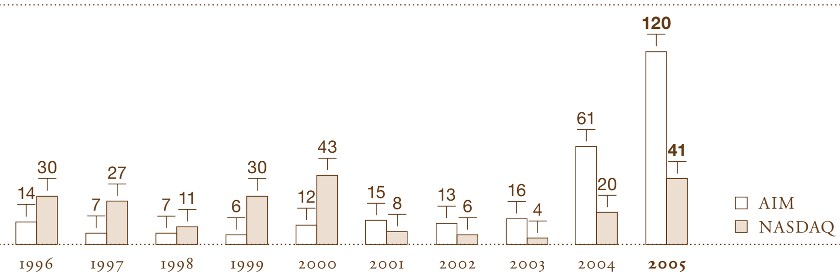


Source: Investment Dealers Association as of December 31, 2005, Securities Industry Performance

Canaccord endeavours to reduce its exposure to variances in the equity markets and local economies by diversifying not only its industry sector coverage, but also its international scope. Since 2003, Canaccord has benefited from its penetration into the European equity markets through AIM, not only as a broker but also as a Nominated Adviser. This strategic move has allowed Canaccord to gain from AIM's strong growth relative to NASDAQ, which is illustrated below. The changing regulatory environment in the North American securities industry has encouraged issuers to consider international options. Last year, of the 120 new international companies listed on AIM, 19 were domiciled in the US. These 19 issues raised a combined $2.13 billion, or nearly 19% of total funds raised on AIM.

NUMBER OF FOREIGN COMPANIES ADMITTED ON AIM VERSUS NUMBER OF FOREIGN COMPANIES LISTED ON NASDAQ

(Calendar years)



Source: AIM Market Statistics – London Stock Exchange – February 2006 NASDAQ: Finfacts Business News Centre – January 7, 2006

Impact of changes in capital markets activity

As a brokerage firm deriving its revenue primarily from sales commissions, underwriting and advisory fees, and inventory trading activity, Canaccord's business is materially affected by conditions in the financial marketplace and the economic environment, primarily in North America and Europe. Canaccord's long term, international business development initiatives and infrastructure development laid the solid foundation for Canaccord's revenue diversification and growth in revenue from fiscal 2003 to fiscal 2006.

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

Canaccord's capital markets activities are focused primarily in the Mining and Metals, Energy, Technology, Life Sciences, Consumer, Real Estate, and Industrial Growth sectors, and include investment banking and institutional equities activities, such as sales, trading and research. Canaccord consistently ranks as one of the leading underwriters in terms of transaction participation in Canada and is among the leading Nominated Advisers (popularly known as "Nomads") on AIM in the United Kingdom.

Key transactions and events

Admission to AIM of the London Stock Exchange

On June 22, 2005, Canaccord was admitted to AIM of the London Stock Exchange in the United Kingdom.

Capital management plan

At the beginning of fiscal 2006, the Board of Directors approved a capital management plan for Canaccord to purchase for cancellation up to 500,000 of the 2,067,415 common shares then available under its normal course issuer bid (NCIB). Canaccord repurchased and cancelled 414,200 common shares at a weighted average price of $11.18 per share pursuant to this plan, through the facilities of the Toronto Stock Exchange under the NCIB. Subsequently, the Board approved the purchase for cancellation of up to an additional 500,000 common shares, resulting in Canaccord's capital management plan allowing for the purchase of up to 585,800 common shares for cancellation. During Q3/06, Canaccord renewed its normal course issuer bid allowing it to make purchases through the facilities of the Toronto Stock Exchange. As of March 31, 2006, the maximum number of common shares still available for purchase under the NCIB was 2,324,233 of which 585,800 are authorized under the capital management plan. For more details on the capital management plan, please see page 43.

Creation of Canaccord Enermarket

On November 11, 2005, Canaccord completed the acquisition of Enermarket Solutions Ltd., an energy property acquisition and divestiture advisory services firm based in Calgary, Alberta. The business now operates as Canaccord Enermarket Ltd. and is a component of our capital markets operations. This transaction demonstrates Canaccord's commitment to enhancing client services by expanding our capabilities within our focus areas. Canaccord Enermarket offers a wide range of technical evaluation and marketing services for buyers and sellers of oil and gas properties. This division's expertise includes many types of asset transactions, including corporate sales, sales of producing properties and joint ventures. Financial details of this transaction are provided on page 69.

Canaccord moves offices in Toronto and Calgary

In the third quarter of fiscal 2006, Canaccord relocated its growing Toronto office to BCE Place, 161 Bay Street and in the first quarter of fiscal 2006, Canaccord relocated its Calgary office to 2200 – 450 1st Street SW. Canaccord's strong growth in the past few years required these changes to accommodate larger service teams and to provide enhanced facilities in both locations for our clients.

Divestiture of the Immigrant Investor Program

By the end of fiscal Q3/06, Canaccord had completely disposed of its Immigrant Investor Program, a non-core business. There was no material impact on Canaccord's operations or net income as a result of this disposal.

Creation of Canaccord Adams

On January 3, 2006, Canaccord completed the acquisition of Adams Harkness Financial Group, Inc., a privately held Boston, Massachusetts 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. These shares will be held in escrow, with annual releases of one-third per year, beginning on June 30, 2006 and ending on June 30, 2008. In addition, up to 1,118,952 common shares were reserved for issuance from treasury as a retention incentive at an estimated cost of up to US$10.0 million for certain key employees of Adams Harkness Financial Group, Inc. to be paid 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 which will vest and therefore be issued at the end of the vesting period 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 1,118,952 subject to the maximum of 1,118,952 common shares adjusted for forfeitures and cancellations.

In connection with this acquisition, we launched Canaccord Adams, a new brand for Canaccord's Global Capital Markets operations worldwide. This new relationship between the Canadian, UK and US operations has enhanced Canaccord's global research, investment banking and sales and trading expertise. Early indications of the success of this strategy include two of the most significant transactions in Canaccord's history; acting as financial advisors and brokers, Canaccord Adams raised $504 million for UrAsia Energy (B.V.I.) Ltd. (TSX: UUU.V), and $453 million for Neteller plc (AIM: NLR). Further discussion on the acquisition of Adams Harkness Financial Group, Inc. can be found on pages 42, 69 and 70.

Awards and accomplishments

In the 5th Annual StarMine Analyst Awards, an evaluation of analyst accuracy in stock picking and earnings estimation:

- Canaccord Adams was the fourth most award-winning team in Canada, with seven analysts ranked among the top five 'stock pickers' in the following sectors: Energy Trust; Healthcare; Small Cap; Independent Power Producers and Energy; and Real Estate & REITs
- Canaccord Adams had the three 'top stock pickers' in the US in the Communications Equipment Industry, Semiconductors & Semiconductors Equipment Industry, and Software Industry

In the Brendan Wood Institutional Equity Research, Sales and Trading Performance in Canada 2005 Report, Canaccord received the following accolades:

- Top independent group and eighth overall
- Ten of our 20 eligible analysts ranked among the top 10 in their sectors
- Ranked second for our Base Metals and Minerals team and tied for third for our Small Cap/Special Situations team
- Tied for first overall for quality of investment ideas and tied for fourth overall for quality of research

In Investment Executive's Annual Survey of Investment Advisors 2006 Report, among the investment dealers surveyed, Canaccord was ranked:

- Top investment firm for delivery on promises
- Top company for IPOs and new issues/corporate finance
- In the top three for Canadian research
- Number one investment firm for trade execution/back office

MARKET OUTLOOK

Despite the economic slowdown experienced in the North American equity markets during the first half of calendar 2005, Canadian equity markets issued a record $48.9 billion in 2005, 2.4% above the previous record, which was set in 2004. Also, consumer demand continued to be supported by low interest rates and record employment levels. High oil prices, a firm economy and a strong Canadian dollar helped buoy the energy-laden S&P/TSX Composite Index to close calendar 2005 at 11,272 which represented an increase of 22% from the calendar 2004 closing level. Energy was the most active sector last year (up 59.7%), followed by diversified mining (up 45.2%) and utilities (up 31.9%). In calendar 2005, the S&P/TSX Composite Index outperformed many major North American equity markets such as the S&P 500, up only 3.0% and the NASDAQ, up just 1.4%. During fiscal 2006, the Morgan Stanley Capital International Inc. (MSCI) Canada Index returned 7.96% (in CDN$), and 8.1% (in US$) compared to 5.62% (in CDN$), and 6.15% (in US$) for the World Index. Canadian equities accounted for 3.42% of the World Index in calendar 2005, up from 2.94% the previous year, indicating a strong attraction by foreign investors to Canadian equities, a trend that is expected to continue as long as energy and commodity prices remain at or increase from their current levels.

In Europe, the AIM had its most successful year since its launch in 1995, both in terms of total money raised and number of new issues. In calendar 2005, 438 new companies joined AIM raising a collective £5.67 billion. In addition, 81 ventures were re-admitted to AIM following reverse takeovers and raised a cumulative £791 million. Overall, growth in this market is largely due to London's position as a liquid international trading market and its international reputation for favourable standards of regulation and corporate governance.

Fiscal 2007 outlook

Equity markets globally have experienced significant changes. The publicly traded equity pool is nearing US$35 trillion. The Canadian economy benefited from strong commodity prices and continued strength in domestic demand in calendar 2005. Canadian GDP growth should be steady in 2006 and 2007. The long term environment is supportive of most of the commodities Canada produces although continued strength in commodity exports is likely to be offset by some retrenching by the consumer and Eastern manufacturing sectors.

OVERVIEW OF FISCAL 2005 VS. 2004

Total revenue for the year ended March 31, 2005, was $432.8 million, up $30.6 million, or 7.6%, compared to fiscal 2004 and was primarily due to an increase in capital markets activity in Europe during fiscal year 2005. In particular, AIM enjoyed a successful year. In calendar year 2004, AIM attracted 355 new issues and, for the first quarter ended March 31, 2005, 130 new issues were listed on AIM. Total financing raised was $10.4 billion for the year and represented almost two and a half times the amount raised in 2003. North American equity markets returns were also positive in calendar year 2004. The S&P/TSX Composite Index was up 12.5% from the previous year, outperforming major North American equity markets (S&P 500 up 9%, Dow Jones up 3% and NASDAQ up 8.6%). This strong performance was largely driven by surging resource-related equities, low interest rates, a strong Canadian dollar, a solid income trust market and robust M&A activity, which totalled $115 billion according to the Investment Dealers Association of Canada (IDA).

Expenses for fiscal 2005 were $360.0 million, up $20.4 million, or 6.0%, from fiscal 2004, reflecting increases in salary and benefits expense of $8.5 million, or 22.9%, general and administrative expenses of $7.3 million, or 29.3%, and an increase in interest expense of $3.8 million, or 95.9% from fiscal 2004. The increase in salary and benefits expense was largely due to the addition of 120 net new employees as of March 31, 2005 compared to March 31, 2004.

Net income for fiscal 2005 was a record $48.6 million, up $8.2 million, or 20.2%, from a record level in fiscal 2004. Diluted EPS was $1.11, down $0.01, or 0.9%. For fiscal 2005, ROE was 23.9% compared to a ROCE of 43.5% in fiscal 2004. The decrease in diluted EPS and ROE partially reflects the additional equity resulting from the issuance from treasury of $70 million in common shares from the Initial Public Offering (IPO) on June 30, 2004.

FINANCIAL OVERVIEW

Selected financial information [1]

For the year ended March 31 *(C$ thousands, except per share, employee and % amounts)*	2006	2005	2004	2006/2005 Increase (decrease)	
Canaccord Capital Inc.					
Revenue [2]					
Commission	$ **239,461**	$ 168,978	$ 162,242	$ 70,483	41.7%
Investment banking	**266,206**	214,450	188,001	51,756	24.1%
Principal trading	**27,388**	13,584	27,513	13,804	101.6%
Interest	**36,914**	26,488	15,853	10,426	39.4%
Other	**13,446**	9,278	8,548	4,168	44.9%
Total Revenue	$ **583,415**	$ 432,778	$ 402,157	$ 150,637	34.8%
Expenses					
Incentive compensation	**299,188**	220,454	218,802	78,734	35.7%
Salaries and benefits	**42,019**	45,715	37,193	(3,696)	(8.1)%
Other overhead expenses [3]	**123,178**	93,853	83,605	29,325	31.2%
Total Expenses	$ **464,385**	$ 360,022	$ 339,600	$ 104,363	29.0%
Income before income taxes	**119,030**	72,756	62,557	46,274	63.6%
Net income	**81,150**	48,579	40,429	32,571	67.0%
Earnings per share (EPS) – basic	$ **1.82**	$ 1.17	$ 1.43	$ 0.65	55.6%
Earnings per share (EPS) – diluted [4]	$ **1.74**	$ 1.11	$ 1.12	$ 0.63	56.8%
Return on average common equity (ROE) [4] / return on average capital employed (ROCE) [5]	**33.6%**	23.9%	43.5%	9.7p.p.	
Dividends [6]					
Cash dividend	$ **0.28**	$ 0.26	$ –	$ 0.02	7.7%
Special cash distribution	**–**	0.15	–	(0.15)	(100)%
Stock dividend	**–**	–	0.01	n.a.	n.a.
Book value per diluted common share – period end	**6.02**	4.82	2.59	1.20	24.9%
US geographic segment [7]					
Revenue	$ **20,106**	$ –	$ –	$ n.m.	n.m.
Expenses					
Incentive compensation	**9,134**	–	–	n.m.	n.m.
Salaries and benefits	**1,613**	–	–	n.m.	n.m.
Other overhead expenses [3]	**6,797**	–	–	n.m.	n.m.
Total Expenses	$ **17,544**	$ –	$ –	$ n.m.	n.m.
Income before income taxes	**2,562**	–	–	n.m.	n.m.
Net income	**1,716**	–	–	n.m.	n.m.
Canaccord Capital Inc. excluding US geographic segment					
Revenue	$ **563,309**	$ 432,778	$ 402,157	$ 130,531	30.2%
Expenses					
Incentive compensation	**290,054**	220,454	218,802	69,600	31.6%
Salaries and benefits	**40,406**	45,715	37,193	(5,309)	(11.6)%
Other overhead expenses [3]	**116,381**	93,853	83,605	22,528	24.0%
Total Expenses	**446,841**	360,022	339,600	86,819	24.1%
Income before income taxes	**116,468**	72,756	62,557	43,712	60.1%
Net income	**79,434**	48,579	40,429	30,855	63.5%
Balance sheet data:					
Total assets	**2,177,973**	1,638,165	1,508,366	539,808	33.0%
Long term liabilities	**–**	41,618	59,142	(41,618)	(100)%
Total liabilities	**1,890,143**	1,415,954	1,409,679	474,189	33.5%
Total common equity	**287,830**	222,211	98,687	65,619	29.5%
Number of employees	**1,488**	1,260	1,156	228	18.1%

(1) Some of this data is considered to be non-GAAP. See "Non-GAAP measures" on page 18.

(2) To enhance our disclosure and facilitate comparisons with other companies in the industry, consolidated revenue has been changed from 'revenue by business segment' to 'revenue by activity'. For revenue by business segment information please refer to the Results of Operations section on page 29.

(3) Consists of trading costs, premises and equipment, communication and technology, interest, general and administrative, amortization, development costs, restructuring and other costs, and gain on disposal of investment.

(4) The slower growth in diluted EPS and ROE relative to net income for fiscal 2006 partially reflects the issuance of $70 million in equity on June 30, 2004, and the issuance of shares in association with stock-based compensation activities.

(5) Effective June 30, 2004, Canaccord's capital in the business is solely composed of common shareholders' equity. Management uses ROE for analysis purposes, but as Canaccord's historical capital in the business involved elements other than common equity, such as convertible debentures, comparisons to historical periods are to ROCE.

(6) A stock dividend of one (1) Class 4 preferred share Series A was issued for every 20 Class B common shares outstanding. The Class 4 preferred shares Series A and Class B common shares outstanding on June 30, 2004, were converted to common shares (see Note 13 in the consolidated financial statements).

(7) Starting January 3, 2006, revenues and expenses for Canaccord Capital Corporation (USA), Inc. and Canaccord Adams Inc. are disclosed together under the US geographic segment. Therefore, US geographic segment results are not to be interpreted as generated exclusively from Canaccord Adams Inc. or as a result of the acquisition of Adams Harkness Financial Group, Inc. US geographic segment revenue includes revenue from Canaccord Adams Inc., and revenue from Canaccord Capital Corporation (USA), Inc.

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

Total revenue for the year ended March 31, 2006, was a record $583.4 million, up $150.6 million, or 34.8%. On a consolidated basis, revenue is generated through five activities: commission, investment banking, principal trading, interest and other. Fiscal 2006 revenue would have been $563.3 million, up $130.5 million or 30.2% compared to fiscal 2005 excluding the contribution of the US geographic segment.

Commission revenue is principally generated from private client trading activity and institutional sales and trading. The $70.5 million increase from fiscal 2005 to fiscal 2006 indicates strong market and economic conditions during fiscal 2006, which were reflected in higher trading activities. Trading value on the TSX rose from $853.3 billion for the year ended March 31, 2005, to $1,170.6 billion for the year ended March 31, 2006, representing an increase of 37.2%. On March 31, 2006, Canaccord had 430 Investment Advisors in 25 offices in Canada[1], with $14.3 billion in assets under administration.

Investment banking revenue was $266.2 million, up $51.8 million, or 24.1%, due to increased market activity and larger transactions. Furthermore, gains on proceeds from the sale of securities received as compensation and secondary offerings also contributed to rising investment banking revenue.

Principal trading revenue was $27.4 million, up 101.6% or $13.8 million, due to favourable market conditions and increased trading activity. Canaccord's registered traders trade on behalf of Canaccord in its principal and inventory accounts. The registered traders group operates by taking positions and by trading and making markets in equity securities, including those of companies with small to medium sized market capitalization.

Interest revenue of $36.9 million rose by $10.4 million, or 39.4% from the last fiscal year, mainly due to an increase in the number and size of margin accounts and higher interest rates in Canada since fiscal 2005. Interest revenue is derived from interest realized from financial instruments and fixed income securities held by Canaccord and interest paid by clients on margin accounts.

Other revenue was $13.4 million, up 44.9% or $4.2 million, partially due to more activity in our correspondent brokerage services business, known as Pinnacle Correspondent Services. The increase in Other revenue also resulted from foreign exchange gains.

Expenses as a percentage of revenue

Year ended March 31 *Increase (decrease) in percentage points*	**2006**	2005	2004	2006/2005 Increase (decrease)
Incentive compensation	**51.3%**	50.9%	54.4%	0.4p.p.
Salaries and benefits	**7.2%**	10.6%	9.2%	(3.4)p.p.
Other overhead expenses	**21.1%**	21.7%	20.8%	(0.6)p.p.
Total	**79.6%**	83.2%	84.4%	(3.6)p.p.

p.p.: percentage points

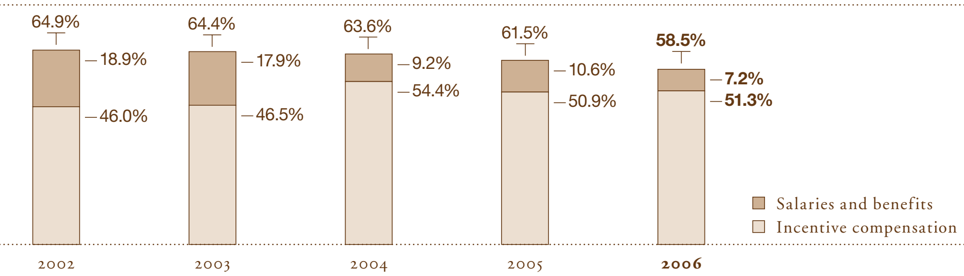
Expenses for fiscal 2006 were $464.4 million, up 29.0% or $104.4 million from a year ago, reflecting a 35.7% or $78.7 million increase in incentive compensation expense and a 43.7% or $14.1 million rise in general and administrative expense. The increase in incentive compensation expense compared to the previous year reflects the fact that it is a variable payment linked to increased revenue earned by Private Client Services and Canaccord Adams in fiscal 2006. Also contributing to the increase was the introduction of Canaccord's Employee Stock Incentive Plan (ESIP) in Q2/06, which was primarily offered to key Canaccord Adams employees. Overall, fiscal 2006 expenses would have been $446.8 million, up $86.8 million or 24.1%, excluding the contribution of expenses from the US geographic segment.

(1) An additional retail office opened on May 1, 2006. As of June 26, 2006, there were 26 offices total in Canada.

Incentive compensation and salaries and benefits

Incentive compensation for fiscal 2006 increased by $78.7 million over fiscal 2005. This increase was largely linked to the $150.6 million increase in revenue and to the introduction of the ESIP at the beginning of Q2/06. Salary and benefits expense for fiscal 2006 decreased by $3.7 million, or 8.1% from fiscal 2005. This resulted in a net increase of $75.0 million in total compensation, for an increase of 28.2%, which was lower than the 34.8% growth in revenue. Prior to April 1, 2005, Canaccord's incentive compensation was subject to a step-up based on return on allocated capital. Starting in fiscal 2006, Canaccord's incentive compensation was restructured to a flat percentage payout. As part of this restructuring, certain salary and benefits expenses are now charged against the Canaccord Adams incentive compensation pool and are no longer paid separately by Canaccord. Total compensation also continues to include a 3% allocation to cover applicable National Health Insurance (NHI) taxes for UK based employees. These changes, including the growth in revenue, have effectively reduced the overall total compensation expense ratio for the full fiscal year to 58.5%, down 3.0 percentage points from a ratio of 61.5% for fiscal 2005.

TOTAL COMPENSATION AS A % OF REVENUE



Other overhead expenses

(C$ thousands except % amounts)		2006		2005		2004	2006/2005 Increase
Trading costs	$	**20,615**	$	16,863	$	17,310	22.2%
Premises and equipment		**15,843**		11,849		13,017	33.7%
Communication and technology		**16,598**		14,037		12,290	18.2%
Interest		**10,914**		7,824		3,994	39.5%
General and administrative		**46,227**		32,171		24,874	43.7%
Amortization		**4,817**		3,185		3,565	51.2%
Development costs		**9,797**		7,924		8,240	23.6%
Restructuring and other costs		**–**		–		315	–
Gain on disposal of investment		**(1,633)**		–		–	n.m.
Total other overhead expenses	**$**	**123,178**	$	93,853	$	83,605	31.2%

n.m.: not meaningful

Other overhead expenses increased by $29.3 million for fiscal year 2006 but decreased as a percentage of revenue by 0.6 percentage points compared to fiscal 2005. The increase in other overhead expenses is largely attributed to: increased trading costs, up $3.8 million, which reflects high market activity and parallels the contribution of commission revenue generated by Canaccord Adams' operations in the US; premises and equipment expenses, up $4.0 million, largely due to the relocation of the Toronto office to larger premises; interest, up $3.1 million, due to the increase in interest rates in Canada since fiscal 2005; and communications and technology expenses, up $2.6 million, mainly due to upgrades to corporate-wide office information technology systems.

General and administrative expense increased by $14.1 million from a year ago. The greatest increase in general and administrative expense was in promotion and travel, up $5.6 million, or 50.0%, to support the overall growth in business activity due to greater market activity and corporate expansion. Other increases were: client expenses, up $3.0 million; public company costs, up $1.5 million, due to Canaccord's admission on AIM and other fees; and client reserves, up $1.4 million, related to unsecured client balances and reflecting changes in client activity and market conditions.

Development costs

Year ended March 31 *(C$ thousands, except % amounts)*	2006	2005	2004	2006/2005 Increase (decrease)
Hiring incentives	$ 5,404	$ 3,344	$ 3,442	61.6%
Systems development	4,393	4,580	4,798	(4.1)%
Total	$ 9,797	$ 7,924	$ 8,240	23.6%

Development costs are a component of other overhead expenses and include hiring incentives and systems development costs. Hiring incentives are traditionally part of Canaccord's recruitment strategy in attracting new Investment Advisors (IAs) or capital markets professionals. Systems development costs are expenditures that Canaccord has made related to enhancing its information technology platform.

Overall hiring incentives increased by $2.1 million from a year ago. Private Client Services' fiscal 2006 hiring incentives were $4.3 million, up $1.5 million, or 54.3% compared to fiscal 2005. Similarly, hiring incentives for Canaccord Adams were $1.0 million, up $0.5 million, or 98.4%. The increase in hiring incentives is due to the recruitment of professionals for both Private Client Services and Canaccord Adams in Canada, and the retention costs associated with Adams Harkness Financial Group, Inc.'s employees, as a result of the acquisition on January 3, 2006.

Net income for fiscal 2006 was a record $81.2 million, up 67.0% or $32.6 million, from the record level a year ago. Diluted EPS was $1.74, up $0.63 or 56.8%. For fiscal 2006, ROE was 33.6% compared to 23.9% in fiscal 2005. The slower increase in diluted EPS and ROE relative to net income is partially associated with the issuance of equity from treasury of $70 million in common shares from the Initial Public Offering (IPO) on June 30, 2004; the additional issuance of 77,646 common shares for the purchase of Enermarket Solutions Ltd. on November 11, 2005; the issuance of 691,940 common shares for stock-based compensation purposes; and the issuance of 1,342,696 common shares from treasury, associated with the acquisition of Adams Harkness Financial Group, Inc. on January 3, 2006.

Income taxes were $37.9 million for fiscal 2006, reflecting an effective tax rate of 31.8% compared to 33.2% a year ago. Our effective tax rate is dependent on the geographic composition of our operating activities. In addition, the decrease in our effective tax rate is partially the result of a one-time gain of $1.6 million resulting from the sale of our investment in the Bourse de Montréal during Q1/06. Capital gains are taxed at a lower rate, thereby reducing our effective income tax rate for the year by 0.24%. Also contributing to the decrease in our consolidated tax rate was a revised estimate of the UK income tax liability, which reduced our effective tax rate for the year by an additional 0.25%. Offsetting these reductions was an alignment of estimated taxes for fiscal 2005 to actual tax returns filed contributing to an increase in the effective tax rate of 0.39%. Reflecting the geographic composition of our operations and without these changes, our effective tax rate would have been 31.9% for fiscal 2006. A further discussion of our taxes is provided in the critical accounting estimates section of the MD&A on page 46.

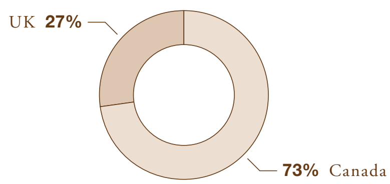
RESULTS BY GEOGRAPHIC SEGMENT

This section is an analysis of Canaccord's results by geographic segment. Until December 31, 2005, Canaccord's business operations were grouped into two geographic segments: Canada (North America) and the United Kingdom (UK). As a result of the acquisition of Adams Harkness Financial Group, Inc., on January 3, 2006, a US geographic segment is now reported separately. Revenue from the UK is derived entirely from Canaccord Adams' activity, while revenue in Canada and the US is derived from the Private Client Services, Canaccord Adams and Other segments.

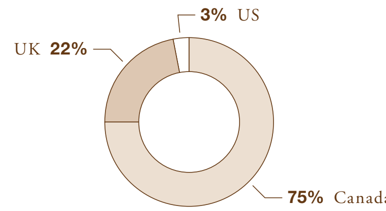
GEOGRAPHIC DISTRIBUTION OF REVENUE

(For the year ended March 31)

2005



2006



	For the year ended March 31									
				2006				2005	2004	2006/2005 Increase
(C$ thousands, except number of employees and % amounts)	Canada	UK	US	Total	Canada	UK	US(1)	Total	Total	%
Revenue	**$ 437,409**	**$ 125,900**	**$ 20,106**	**$ 583,415**	$ 316,688	$ 116,090	$ –	$ 432,778	$ 402,157	34.8%
Expenses	**362,878**	**83,963**	**17,544**	**464,385**	274,358	85,664	–	360,022	339,600	29.0%
Income before income taxes	**74,531**	**41,937**	**2,562**	**119,030**	42,330	30,426	–	72,756	62,557	63.6%
Net income	**49,442**	**29,992**	**1,716**	**81,150**	28,211	20,368	–	48,579	40,429	67.0%
Number of employees	**1,257**	**81**	**150**	**1,488**	1,190	70	–	1,260	1,156	18.1%

(1) Commencing January 3, 2006, as a result of the acquisition of Adams Harkness Financial Group, Inc., the US geographic segment includes operations for Canaccord Adams Inc., and Canaccord Capital Corporation (USA), Inc., which includes operations from Private Client Services and Other business segments in the US.

Revenue in Canada was $437.4 million, up $120.7 million or 38.1%, reflecting rising demand for commodities and related equities during fiscal year 2006 compared to the same period a year ago. In the UK, revenue was $125.9 million, up by $9.8 million or 8.5%, largely due to favourable market conditions in the UK during the last six months of calendar 2005, particularly in the Energy and Mining sectors. Revenue in the US was $20.1 million, representing revenue generated during the fourth fiscal quarter by Canaccord Adams Inc. (formerly the operating subsidiary of Adams Harkness Financial Group, Inc., acquired on January 3, 2006); Canaccord Capital Corporation (USA), Inc.; as well as US Private Client Services and US Other operations.

Expenses for the fiscal year in Canada were up $88.5 million or 32.3% from the same period a year ago, while expenses in the UK fell $1.7 million, or 2.0%. US expenses for the period were $17.5 million.

QUARTERLY FINANCIAL INFORMATION

The following table provides selected quarterly financial information for the eight most recently completed financial quarters ended March 31, 2006. This information is unaudited, but reflects all adjustments of a recurring nature that are, in the opinion of management, necessary to present a fair statement of the results of operations for the periods. Quarter-to-quarter comparisons of financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

	Fiscal 2006				Fiscal 2005			
(C$ thousands, except per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue								
Commission	**$ 88,846**	**$ 56,701**	**$ 53,103**	**$ 40,811**	$ 54,598	$ 43,165	$ 33,089	$ 38,126
Investment banking	**87,977**	**84,425**	**44,299**	**49,505**	69,558	66,238	43,505	35,149
Principal trading	**13,677**	**6,176**	**9,276**	**(1,741)**	7,795	4,947	1,457	(615)
Interest	**11,424**	**8,886**	**8,361**	**8,243**	7,723	7,311	5,685	5,769
Other	**5,150**	**2,482**	**3,615**	**2,199**	3,255	2,022	1,865	2,136
Total revenue	**$ 207,074**	**$ 158,670**	**$ 118,654**	**$ 99,017**	$ 142,929	$ 123,683	$ 85,601	$ 80,565
Net income	**30,070**	**24,248**	**15,754**	**11,078**	17,307	16,743	6,123	8,406
EPS – basic	**0.66**	**0.55**	**0.35**	**0.24**	0.38	0.37	0.14	0.28
EPS – diluted	**0.63**	**0.52**	**0.34**	**0.24**	0.38	0.36	0.13	0.23

Fourth quarter 2006 performance

Revenue was a fourth quarter record of $207.1 million, up $64.1 million, or 44.9%, compared to the same period a year ago. Revenue increased across all lines of business due to favourable activity in capital markets in Canada and in the UK during the quarter, and our growth initiatives included the acquisitions of Enermarket Solutions Ltd. and Adams Harkness Financial Group, Inc. On a consolidated basis, revenue is generated through five activities: commission, investment banking, principal trading, interest and other. Overall, fourth quarter 2006 revenue would have been $187.0 million, up $44.0 million, or 30.8% compared to fourth quarter 2005, excluding the contribution of the US geographic segment (see footnote (7) on page 23).

Expenses were $163.6 million, up $46.1 million or 39.2%, from a year ago. In addition to the $17.5 million of expenses incurred by the US geographic segment, this increase is largely attributable to higher incentive compensation, trading costs, and general and administrative expense, which collectively grew at a slower pace than revenue. Overall, fourth quarter 2006 expenses would have been $146.1 million, up 24.3% or $28.6 million excluding expenses incurred by the US geographic segment.

For the quarter, incentive compensation expense was $108.3 million, up 40.3% or $31.1 million, largely due to the increase in fiscal fourth quarter revenue posted by the Private Client Services and Canaccord Adams divisions. However, incentive compensation as a percentage of revenue decreased to 52.3% from 54.0% from the same quarter a year ago, largely because of the reorganization of the compensation structure of Canaccord Adams in Q1/06.

Net income was a fourth quarter record of $30.1 million, up 73.7% or $12.8 million from a year ago. Diluted EPS was $0.63, up $0.25 or 65.8%, and ROE was 45.7% compared to 32.2% a year ago. The slower increase in EPS and ROE compared to net income is partially associated with the issuance of 77,646 shares for the purchase of Enermarket Solutions Ltd., on November 11, 2005, the issuance of 691,940 shares for stock-based compensation purposes, and the issuance of 1,342,696 common shares for the acquisition of Adams Harkness Financial Group, Inc., on January 3, 2006. Book value per common share rose by 24.9% to $6.02, up $1.20 from $4.82 a year ago reflecting increased earnings and the issuance of shares.

The US geographic segment generated quarterly net income of $1.7 million, equivalent to 5.7% of Canaccord's overall net income of $30.1 million.

BUSINESS SEGMENT RESULTS

(C$ thousands, except employees)	For the year ended March 31								
				2006				2005	2004
	Private Client Services	**Canaccord Adams**	**Other**	**Total**	Private Client Services	Canaccord Adams	Other	Total	Total
Revenue									
Canada	**$ 223,925**	**$ 189,074**	**$ 24,410**	**$ 437,409**	$ 178,176	$ 123,564	$ 14,948	$ 316,688	$ 317,668
UK	**–**	**125,900**	**–**	**125,900**	–	116,090	–	116,090	84,489
US	**1,269**	**18,692**	**145**	**20,106**	–	–	–	–	–
Total revenue	**225,194**	**333,666**	**24,555**	**583,415**	178,176	239,654	14,948	432,778	402,157
Expenses	**163,976**	**231,683**	**68,726**	**464,385**	127,504	173,735	58,783	360,022	339,600
Income (loss) before income taxes	**61,218**	**101,983**	**(44,171)**	**119,030**	50,672	65,919	(43,835)	72,756	62,557
Number of employees	**689**	**464**	**335**	**1,488**	657	279	324	1,260	1,156

Detailed financial results for the business segments are shown in Note 16 of the consolidated financial statements on page 75.

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

Private Client Services provides brokerage services and investment advice to private clients primarily in Canada and to a lesser degree, in the US. Canaccord Adams (formerly known as Canaccord's Global Capital Markets) provides investment banking, research and trading services to corporate, institutional and government clients as well as conducting principal trading activities in Canada, the United Kingdom and the United States.

Private Client Services' revenue is generated through traditional commission based brokerage services; the sale of fee-based products and services; client-related interest; and fees and commissions earned by IAs for corporate finance and venture capital transactions by private clients. In fiscal 2006, total revenue was a record $225.2 million, up $47.0 million or 26.4%, from the record level a year ago. For the year, expenses for Private Client Services were up $36.5 million or 28.6% from fiscal 2005.

Canaccord acquired 100% of Adams Harkness Financial Group, Inc. (engaged primarily in capital markets activities in the US), on January 3, 2006. As a result of this acquisition, the operating subsidiary of Adams Harkness Financial Group, Inc. was renamed Canaccord Adams Inc. and Canaccord's Global Capital Markets group (Canada, UK and US) was re-branded globally as Canaccord Adams. Canaccord Adams Inc., together with Canaccord Capital Corporation (USA), Inc., which includes US Private Client Services and Other operations, constitutes Canaccord's US geographic segment.

In addition, Canaccord Capital (Europe) Limited (engaged primarily in capital markets activities in the United Kingdom), was renamed Canaccord Adams Limited and it constitutes Canaccord's UK geographic segment.

The division of Canaccord Capital Corporation engaged in capital markets activities in Canada was branded as Canaccord Adams and, together with Canadian Private Client Services and Other operations, constitutes Canaccord's Canada geographic segment.

Canaccord Adams' revenue is generated from commissions and fees earned in connection with investment banking transactions and institutional sales and trading activity, as well as trading gains and losses from Canaccord's principal and international trading operations. For fiscal 2006, total revenue was a record $333.7 million, up $94.0 million or 39.2% from the record level a year ago. Fiscal 2006 expenses for Canaccord Adams were $231.7 million, up $57.9 million or 54.7% from fiscal 2005.

The Other segment includes correspondent brokerage services, interest, foreign exchange revenue and expenses not specifically allocable to the Private Client Services and 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 other administrative functions. For fiscal 2006, revenue for the Other segment was $24.6 million, up 64.3% from the last fiscal year. Expenses increased by 16.9% for the year from the same period a year ago.

Private Client Services

Overview

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

Industry profile

The Investment Dealers Association of Canada (IDA) reported that, by the end of the fourth quarter of calendar 2005, full service firms increased their revenues to a record $13.2 billion, up 12% from calendar 2004. The IDA also reported that the average size of full-service broker accounts increased compared to those of discount brokers. We expect this trend to continue, as more and more corporations decrease or eliminate their pension fund programs and people become more aware of the need to seek expert advice to secure their own retirement future.

Outlook

Demand has been rising for structured financial products other than mutual funds, such as income trusts, exchange traded funds and wrap programs. We believe that Canaccord's structure, independence, and entrepreneurial environment provide the flexibility for adapting to changes in product demand. We expect continuing growth in our Private Client Services business, due to the healthy Canadian dollar, buoyant resource prices and the favourable domestic outlook for the remainder of calendar 2006.

Financial performance (1)

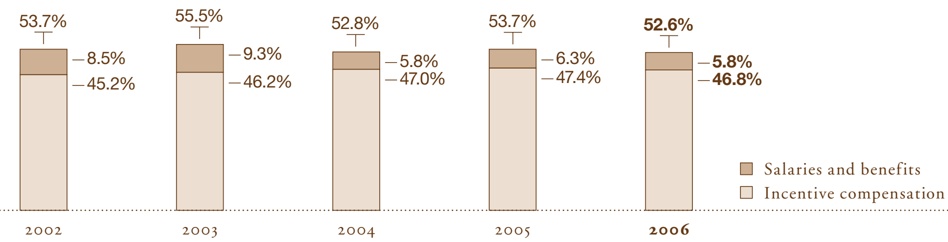
(C$ thousands, except assets under management and assets under administration, which are in C$ millions, employees, Investment Advisors and % amounts)	For the year ended March 31				
	2006	2005	2004	2006/2005 Increase	
Revenue	**$ 225,194**	$ 178,176	$ 175,983	$ 47,018	26.4%
Expenses					
Incentive compensation	**105,283**	84,396	82,758	20,887	24.7%
Salaries and benefits	**13,053**	11,158	10,157	1,895	17.0%
Other overhead expenses	**45,640**	31,950	25,723	13,690	42.8%
Total Expenses	**$ 163,976**	$ 127,504	$ 118,638	$ 36,472	28.6%
Income before income taxes	**61,218**	50,672	57,345	10,546	20.8%
Assets under management (AUM)	**613**	380	237	233	61.3%
Assets under administration (AUA)	**14,310**	9,967	8,292	4,343	43.6%
Number of Investment Advisors (IAs)	**430**	412	391	18	4.4%
Number of employees	**689**	657	623	32	4.9%

(1) Some of this data is considered to be non-GAAP. See "Non-GAAP measures" on page 18.

Fiscal 2006 revenue from Private Client Services was $225.2 million, up 26.4% or $47.0 million from fiscal 2005, largely reflecting sustained market activity in North American equity markets relative to the previous year.

Expenses for the year were $164.0 million, up 28.6% or $36.5 million from fiscal 2005. The increase in Private Client Services' expenses is mainly attributable to incentive compensation, salaries and benefits, and trading costs. Incentive compensation was $105.3 million, a 24.7% increase from the same period last fiscal year, mainly due to higher revenue. Total compensation payout as a percentage of revenue for fiscal 2006 was 52.5%, down from 53.6% for fiscal 2005, benefiting from the faster growth in revenue relative to the increase in salaries and benefits.

TOTAL COMPENSATION AS A % OF REVENUE



On October 1, 2005, Canaccord implemented a Stock Compensation Plan aimed at rewarding and retaining Investment Advisors (IAs). The cost of the plan is included in the incentive compensation expense for the business segment and is almost entirely offset by a reorganization in the compensation structure for IAs. Stock is purchased on behalf of IAs on the open market using a forgivable loan from Canaccord. IAs are eligible for the Stock Compensation Plan by meeting minimum requirements related to their gross production. For additional information see page 45.

General and administrative expense was up $7.1 million, or 139.4%, and interest was up $3.5 million, or 93.9%. The greatest increases in general and administrative expenses in fiscal 2006 were recorded in: client expenses, up $2.6 million or 176.4%; professional fees, up $0.9 million or 139.3%; and reserves, up $1.6 million, which is based on unsecured client balances, changes in client activity and market conditions.

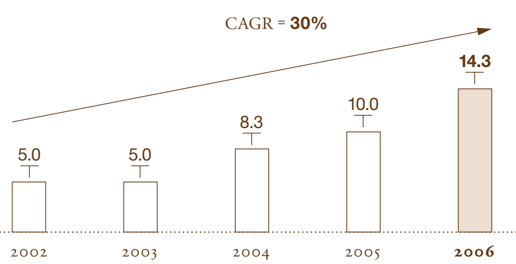
Income before income taxes for Private Client Services was $61.2 million, up 20.8% from the same period a year ago, reflecting stronger market activity in fiscal 2006 and contributions from IAs recruited in the past year.

Operational Highlights

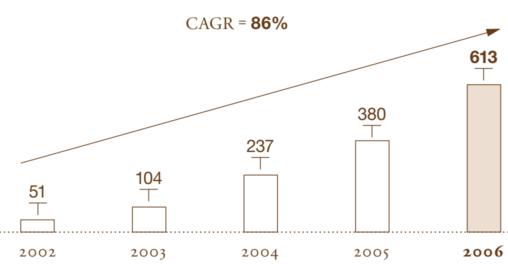
Canaccord's development of a comprehensive suite of wealth management tools continued in fiscal 2006. We believe that it is important to add to our product base to maintain our growth in this area and to create an environment attractive to IAs. Supported by the demographic and socio-economic trends in Canada, we aim to provide a comprehensive wealth management offering that not only reflects diverse product selection, but puts the 'advisor' role firmly in the hands of the IA.

Despite an extremely competitive recruiting environment for highly qualified personnel, we added 18 IAs, net from a year ago, for a total of 430. On March 31, 2006, assets under administration (AUA) were $14.3 billion, representing a 30.0% compounded annual growth rate (CAGR) since 2002. This growth is the result of recruiting established IAs with larger books of business, and organic asset growth, based on the strength in the equity markets since 2002. For the 12 months ended March 31, 2006, assets under management (AUM) in our managed account product line were $613 million, up 61.3% from fiscal 2005.

ASSETS UNDER ADMINISTRATION (AUA)
(C$ billions)



ASSETS UNDER MANAGEMENT (AUM)
(C$ millions)



Canaccord has developed a series of separately managed accounts (SMAs) known as the *Alliance Program*. These accounts offer professional portfolio management, with a choice of strategies based on a client's investment objectives. Building on the success and momentum of Canaccord's internally managed accounts, called the *Independence Accounts*, we added four external money managers (Jarislowsky, Fraser Limited; Brandywine Global Investment Management, LLC; KBSH Capital Management Inc. and Seamark Asset Management Ltd.) to our SMAs product offering.

We continue to develop products and services so that we can offer our IAs the freedom to present the best product mix to their clients, while reinforcing our entrepreneurial culture. During fiscal 2006, in addition to expanding the *Alliance Program*, Private Client Services rolled out an investment policy statement and financial planning software program, along with a national IA training program.

Canaccord Adams

Overview

Revenue in this business segment is generated from commissions and fees earned in connection with investment banking transactions and institutional sales and trading activity, as well as net trading gains and losses from Canaccord's principal and international trading operations. Contribution to Canaccord Adams' revenue comes from three regions: Canada, the UK, and most recently, the US through the acquisition of Adams Harkness Financial Group, Inc.

Canaccord Adams has experienced tremendous growth – more than doubling its revenue over the last four years and nearly doubling the market share of its Canadian Sales and Trading operations. The integration of the Canadian, UK and US teams has enhanced Canaccord Adams' global research, investment banking and sales and trading services. In calendar 2005, the team led 131 transactions of $1.5 million and greater for clients, with total proceeds of $3.7 billion.

Shortly after the September 13, 2005 announcement of the acquisition of Adams Harkness Financial Group, Inc., the new team led the largest transaction in the history of Canaccord, a $504 million financing for UrAsia Energy (B.V.I.) Ltd., followed closely by a $453 million secondary offering for Neteller plc. Canaccord Adams' enhanced distribution capabilities enabled the team to lead eight additional significant transactions during Q4/06:

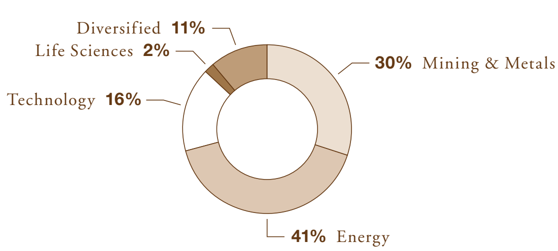
- $144 million in a bought deal for UrAsia Energy Ltd. (TSX: UUU.V)
- $113 million in an AIM IPO for Excapsa Software Inc. (AIM: XCP), a Canadian based online gaming firm
- $81 million in a TSX new issue for European Minerals Corp. (TSX: EPM)
- $60 million in a bought deal for Viceroy Resources (TSX: VYE)
- $54 million in a TSX Venture Exchange new issue for Westfield Real Estate Investment Trust (TSX: WFD.UN.V)
- $51 million in an AIM IPO for Sandvine Corporation (AIM: SAND), a Canadian technology firm

In addition, our team co-led the following transactions:

- $207 million in a best efforts offering for Coalcorp Mining Inc. (TSX: CCJ.V)
- $150 million in a private placement for Eastern Platinum Limited (TSX & AIM: ELR)

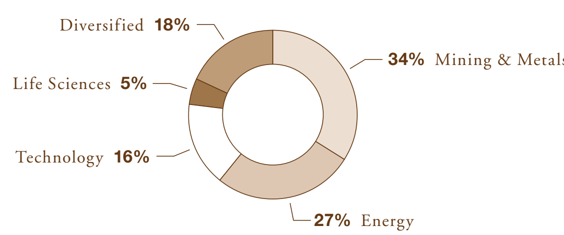
REVENUE BY SECTOR DURING FISCAL 2005

(Note: Diversified includes Consumer, Real Estate and Industrial Growth sectors)



REVENUE BY SECTOR DURING FISCAL 2006

More balanced sector participation as a result of Canaccord's expansion into the US (1)



(1) Represents only Canaccord Adams' expansion into the US in fiscal Q4/06.

The addition of Canaccord Adams Inc. in the US, as the result of the acquisition of Adams Harkness Financial Group, Inc., has enabled Canaccord to diversify its sector coverage. Canaccord Adams reduced resources related revenue to 61% of total revenue in fiscal 2006 from 71% in fiscal 2005. This more balanced profile provides Canaccord Adams with the ability to participate in the anticipated continuing commodity bull market, while providing diversification into the Technology, Life Sciences and Diversified sectors.

Operating in 10 offices internationally, Canaccord Adams provides a global perspective and distribution in the following sectors:

- Mining and Metals
- Energy
- Technology
- Life Sciences
- Consumer
- Real Estate
- Industrial Growth

Industry Profile

Canaccord Adams is active on seven exchanges internationally – the TSX, TSX Venture, LSE, AIM, NASDAQ, NYSE and AMEX. Our expertise in these markets allows us to source low costs of capital, broaden shareholder bases and provide best execution liquidity to our clients.

Recently, the TSX and AIM announced that their trading volumes (in C$) were up 37% (TSX) and 123% (AIM), respectively, from 2005 to 2006. January and February of 2006 were the two strongest trading months in the history of the TSX, with 12-month moving average trading value up 37% year over year. The AIM exchange has also seen strong growth over the past year. For AIM, January 2006 was the most active month in its history, with 23 new admissions and 11,093 million shares traded. Similarly, in January 2006, the S&P/TSX Composite Index closed at a record 11,945.6 and a record 12-month moving average in dollar terms, up 65% year over year. Non-residents increased their ownership of Canadian equities in January 2006, as they purchased $4.7 billion worth of securities. Foreign purchases and ownership percentages of outstanding Canadian shares were at their highest level in almost six years.

We believe that Canaccord Adams is uniquely positioned in these markets and has the expertise required to leverage on these growth opportunities.

Outlook

Canaccord has traditionally been strong in the resource related sectors and is well positioned to take advantage of what we believe will continue to be a long term commodity cycle. A weaker US dollar environment and a historic shift in the price of oil and gas have been positive for Canaccord. Furthermore, increased consolidation among the metal producers is leading to better supply discipline. Our acquisition of Adams Harkness Financial Group, Inc. has helped our revenue, as it has enhanced our strength in the Technology, Life Sciences and Diversified sectors.

In the UK, Canaccord has been successful in providing sales and trading, research and investment banking services to our European institutional and corporate clients. We continue to value this unique business and believe it is a key aspect of our future growth. Our UK presence is one of the principal factors that differentiates Canaccord from its peers in Canada and gives us a competitive advantage when developing client relationships.

Canaccord's strategy is to continue building our US and UK presence by expanding American and European based relationships and providing institutional clients with a superior and diverse product mix consisting of growing companies with small and mid-market capitalizations in our focus sectors – Mining and Metals, Energy, Technology, Life Sciences, Consumer, Real Estate and Industrial Growth.

Financial performance (1)

(C$ thousands, except number of employees and % amounts)	2006 Canada	2006 UK	2006 US(2)	2006 Total	2005 Canada	2005 UK	2005 US(2)	2005 Total	2004 Total	2006/2005 increase (decrease)
Revenue										
Canada										
Capital markets	$ 150,470	$ –	$ –	$ 150,470	$ 95,559	$ –	$ –	$ 95,559	$ 88,821	57.5%
International trading	20,940	–	–	20,940	15,452	–	–	15,452	16,800	35.5%
Registered traders	9,124	–	–	9,124	4,275	–	–	4,275	11,493	113.4%
Fixed income	8,540	–	–	8,540	8,278	–	–	8,278	10,155	3.2%
Total Canada revenue	189,074			189,074	123,564			123,564	127,269	53.0%
UK	–	125,900	–	125,900	–	116,090	–	116,090	84,489	8.5%
US (2)	–	–	18,692	18,692	–	–	–	–	–	n.m.
Total revenue	$ 189,074	$ 125,900	$ 18,692	$ 333,666	$ 123,564	$ 116,090	$ –	$ 239,654	$ 211,758	39.2%
Expenses										
Incentive compensation	98,168	68,889	8,547	175,604	59,003	66,027	–	125,030	120,298	40.4%
Salaries and benefits	3,612	3,210	1,613	8,435	7,782	8,795	–	16,577	12,517	(49.1)%
Other overhead expenses	29,855	11,864	5,925	47,644	21,286	10,842	–	32,128	21,675	48.3%
Total expenses	131,635	83,963	16,085	231,683	88,071	85,664	–	173,735	154,490	33.4%
Income before income taxes	57,439	41,937	2,607	101,983	35,493	30,426	–	65,919	57,268	54.7%
Number of employees	233	81	150	464	209	70	–	279	237	66.3%

For the year ended March 31

(1) Includes the global capital markets division of Canaccord Capital Corporation in Canada; Canaccord Adams Limited in the UK; and Canaccord Adams Inc. and Canaccord Capital Corporation (USA), Inc. in the US.

(2) US geographic segment includes the operations of Canaccord Adams Inc. and Canaccord Capital Corporation (USA), Inc.'s capital markets activities only.

n.m.: not meaningful

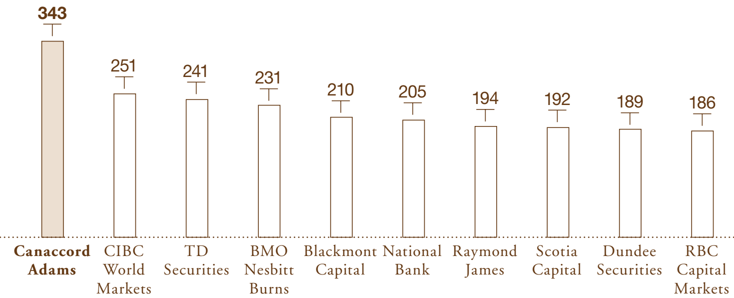
Revenue

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

For fiscal year 2006, revenue was a record $333.7 million, up 39.2% or $94.0 million from a record level a year ago; this was due to an increased level of lead managed and syndicate activity, with flow-through contribution to growth in our Private Client Services unit. Our dedicated team of investment banking professionals participated in raising over $25.9 billion for clients in North America and Europe. According to the Financial Post Data Group, Canaccord participated in the highest number of transactions among its peers in fiscal 2006, with a total of 343 transactions of $1.5 million or more, including equity financings, IPOs and private placements. Excluding the contribution of the US geographic segment, revenue would have been $315.0 million, up $75.3 million or 31.4%.

PARTICIPATION IN NUMBER OF TRANSACTIONS – EQUITY OFFERINGS OF $1.5 MILLION AND GREATER

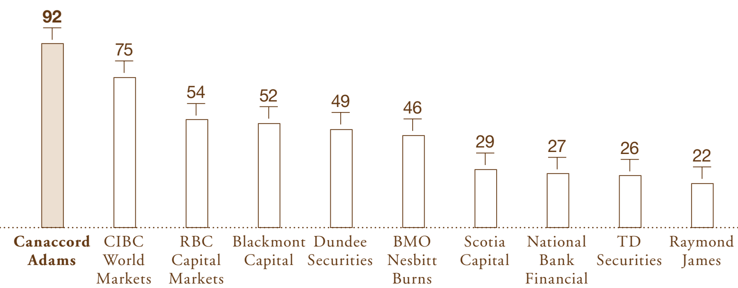
(Fiscal year 2006)



Source: Financial Post Data Group as of March 31, 2006, underwriting table of equity transactions for Canadian and American issuers placed in Canada and the UK

NUMBER OF LED TRANSACTIONS – EQUITY OFFERINGS OF $1.5 MILLION AND GREATER

(Fiscal year 2006)



Source: Financial Post Data Group as of March 31, 2006, underwriting table of equity transactions for Canadian and American issuers placed in Canada and the UK

Revenue from Canadian operations

Capital Markets revenue

Total revenue from Canaccord Adams' Capital Markets activities in Canada during fiscal 2006 was a record $150.5 million, up 57.5% from $95.6 million in fiscal 2005. The increase is largely due to strong capital markets activity in North America and Canaccord's growing ability to facilitate larger transactions.

International Trading revenue

Canaccord's International Trading group earns revenue by providing services principally to US brokerage firms, executing orders on their behalf in Canadian listed equities and trading in US equities on behalf of Canadian clients. Revenue in this business was $20.9 million, up $5.5 million or 35.5% from fiscal 2005.

Registered Traders revenue

Canaccord's Registered Traders group operates by taking positions, trading and making markets in equity securities, including securities of companies with small to medium sized market capitalizations. Revenue is generated through inventory trading gains and losses. Revenue in this business was $9.1 million, up 113.4% from fiscal 2005.

Fixed Income revenue

Canaccord also trades in fixed income securities, generating revenue through interest income and trading gains and losses. Canaccord's activity in this area is generally limited to higher grade corporate and government debt instruments. Revenue in this business was $8.5 million, up $0.3 million or 3.2% from fiscal 2005.

Revenue from UK operations

Canaccord Adams' operations in the UK and Europe include providing institutional sales and trading, corporate finance and research services. Canaccord's position as an approved broker, sponsor and Nomad for AIM and LSE companies, combined with its capital markets strength in both Canada and the US, places Canaccord in a strong position to serve its corporate and institutional clients and capitalize on the opportunities in this market area. Revenue in this business was $125.9 million, up $9.8 million or 8.5% from fiscal 2005.

Revenue from US operations

Canaccord Adams' operations in the US were created as a result of the acquisition of Adams Harkness Financial Group, Inc. in Q4/06 and include institutional sales and trading, corporate finance and research teams. Canaccord Adams is now in a strong position to serve its corporate and institutional clients and to benefit from the opportunities in this market area. Operational results for this new geographic segment are reported separately as of January 3, 2006, and therefore no historical data is available for comparative purposes. Revenue generated by Canaccord Adams' operations in the US for fiscal 2006 was $18.7 million.

Corporate Finance activity

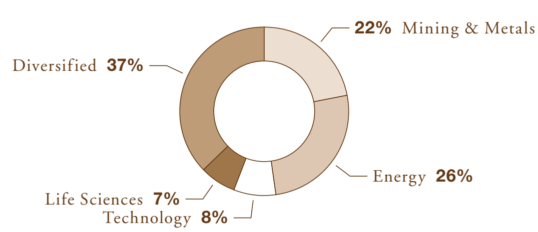
Canaccord Adams' sector mix in fiscal 2006 partially reflected the contribution of sector diversification from the US. Fully 52% of transactions for the segment as a whole came from the Technology, Life Sciences and Diversified sectors. With the opening of a new office in Houston in May 2006, we anticipate that the number of resource related transactions in the US will increase. Similarly, we expect to facilitate increased activity in the Technology, Life Sciences and Diversified sectors in Canada and the UK.

During the year, Canaccord participated in raising over $25.9 billion for 375 equity offerings of $1.5 million and greater, excluding venture capital. These transactions included 47.9% from the Mining and Metals and Energy sectors, due to strong global market demand for natural resources. Canaccord also participated in 136 venture capital transactions with an aggregate transaction value of over $819.4 million.

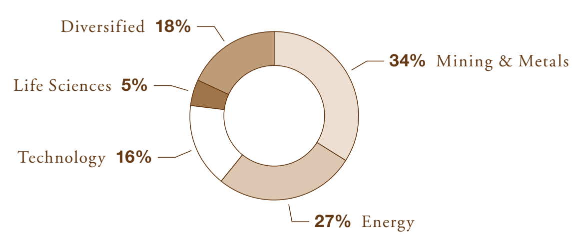
CANACCORD ADAMS – OVERALL

(Note: Diversified includes Consumer, Real Estate and Industrial Growth sectors)

Transactions by Sector

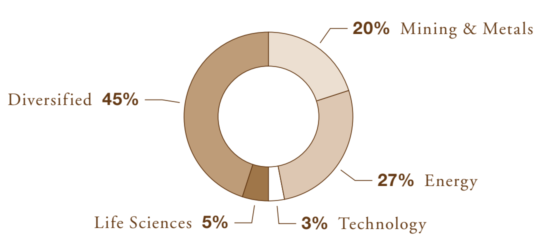


Revenue by Sector

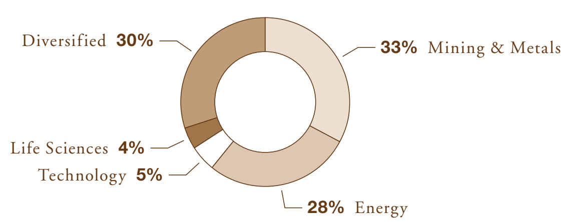


CANACCORD ADAMS – CANADA

Transactions by Sector

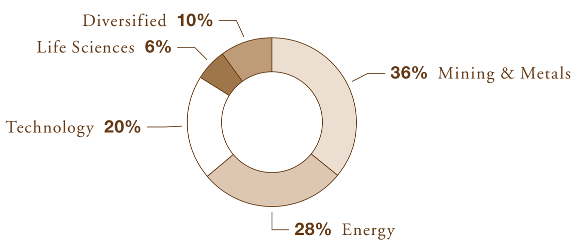


Revenue by Sector

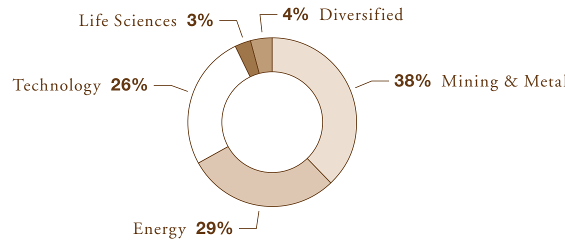


CANACCORD ADAMS LIMITED – UK

Transactions by Sector

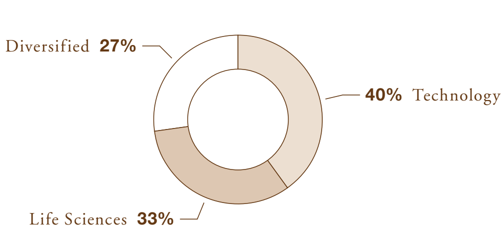


Revenue by Sector

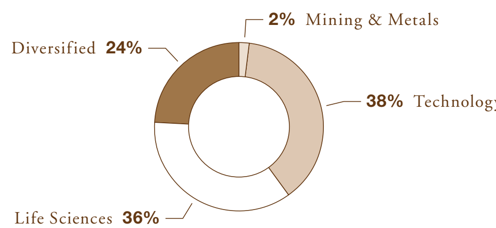


CANACCORD ADAMS INC. – US (1)

Transactions by Sector



Revenue by Sector



(1) The 2% revenue generated in 2006 is due to Canaccord Adams Inc.'s joint participation in transaction with Canaccord Adams (Canada) and Canaccord Adams Limited.

Equity offering of $1.5 million and greater

	For the year ended March 31					
	2006		2005		2004	
(C$ millions, except number of transactions) Market	**# of transactions**	**Aggregate deal value**	# of transactions	Aggregate deal value	# of transactions	Aggregate deal value
Canada	**315**	**$ 22,216**	360	$ 24,165	311	$ 20,068
UK (1)	**55**	**3,186**	48	1,200	47	1,046
US (2)	**5**	**505**	–	–	–	–
Total	**375**	**$ 25,907**	408	$ 25,365	358	$ 21,114

Sources: Financial Post Data Group and Company sources

(1) Included in the 55 transactions in the UK are 28 Canadian issuer transactions placed in the UK market.

(2) As a result of the acquisition of Adams Harkness Financial Group, Inc. in Q4/06, Canadian and US operations are reported separately as of January 3, 2006.

Total revenue related to mergers and acquisitions increased in fiscal 2006 to $7.5 million, up $5.8 million from $1.7 million in 2005. We will continue to invest in this service offering, as we recognize that revenue generated from mergers and acquisitions advisory services tends to be counter-cyclical to some of our other revenue streams and can generate high margins with low capital requirements.

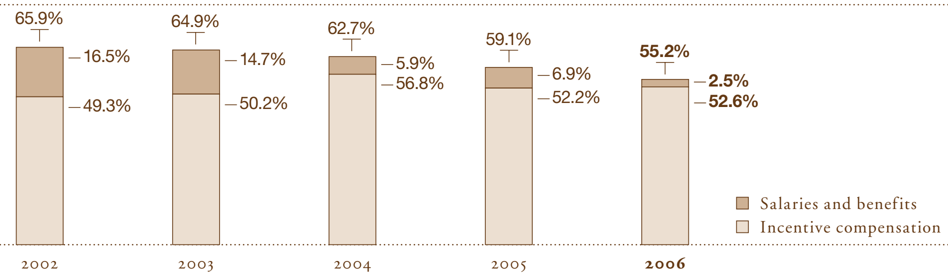
Expenses

Expenses for fiscal 2006 were $231.7 million, up $57.9 million, or 33.4%. Excluding expenses incurred by the US geographic segment, expenses would have been $214.1 million, up $40.4 million or 23.3%. The largest increases in non-compensation expenses were in interest, up $1.2 million or 192.8%; and general and administrative expense, up $6.6 million or 48.7%.

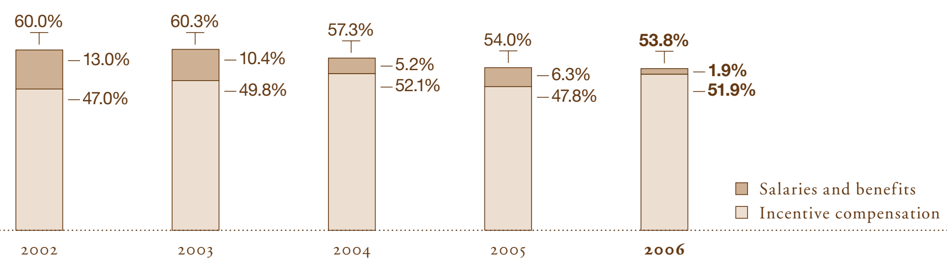
Incentive compensation and salaries and benefits

Incentive compensation for fiscal 2006 increased by $50.6 million over 2005, which was largely linked to the $94.0 million increase in revenue and to the introduction of the ESIP at the beginning of Q2/06. Salary and benefits expense for fiscal 2006 decreased by $8.1 million, or 49.1% from fiscal 2005. This resulted in a net increase of $42.4 million in total compensation, for an increase of 30.0%, which was 9.2 percentage points lower than the 39.2% growth in revenue. As described on page 25, a number of changes were implemented in fiscal 2006, which, combined with strong revenue growth, contributed to the reduction in the overall total compensation expense ratio for the full fiscal year to 55.2%, down 3.9 percentage points from 59.1% in fiscal 2005.

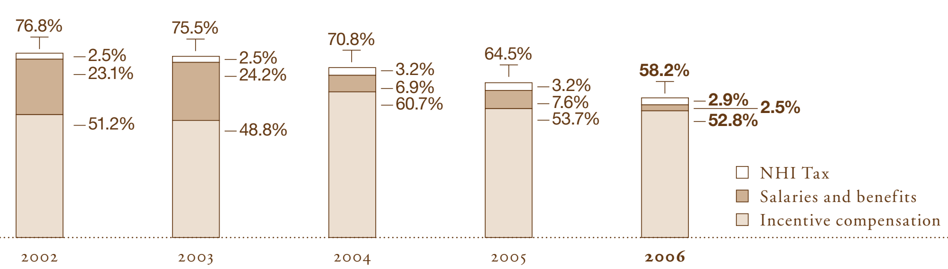
TOTAL COMPENSATION AS A % OF CANACCORD ADAMS REVENUE OVERALL



TOTAL COMPENSATION AS A % OF CANACCORD ADAMS REVENUE – CANADA



TOTAL COMPENSATION AS A % OF CANACCORD ADAMS REVENUE – UK



TOTAL COMPENSATION AS A % OF CANACCORD ADAMS REVENUE – US

Other overhead expenses

The greatest increases in general and administrative expense were in promotion and travel, up $4.5 million or 62.1%, to support the overall rise in business activity due to corporate expansion; and professional fees, up $0.8 million or 49.9%.

Income before income taxes for fiscal 2006 was a record $102.0 million, up $36.1 million, or 54.7% from the same period a year ago. The increase in income before taxes is largely attributed to positive equity markets, the enhanced capacity of the Canaccord Adams' team to attract and handle larger transactions, and the change in the total compensation payout ratio.

Other segment

Overview

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

Also included in this segment are Canaccord's operations and support services departments, which are responsible for front and back office information technology systems, compliance and risk management, operations, finance and other administrative functions. Canaccord has approximately 335 employees engaged in these activities, with 70 in the information technology group, 54 in compliance, 50 in finance, 114 in operations and the balance responsible for various administrative functions.

The operations group is responsible for all activity in connection with processing securities transactions, including trade execution, settlement of securities transactions and custody of client securities. The finance department is responsible for internal financial accounting and controls and external financial and regulatory reporting, while the compliance department is responsible for client credit and account monitoring in relation to certain legal and financial regulatory requirements. Canaccord's risk management and compliance activities include procedures to identify, control, measure and monitor Canaccord's risk exposure at all times. These principal risk areas relate to market risk, credit risk, operational risk and regulatory and legal risk. For more information, please refer to the Risk Management section beginning on page 47.

Financial performance

(C$ thousands, except employee and % amounts)	For the year ended March 31 2006	2005	2004	2006/2005 Increase	
Revenue	**$ 24,555**	$ 14,948	$ 14,416	$ 9,607	64.3%
Expenses					
Incentive compensation	**18,301**	11,028	15,746	7,273	66.0%
Salaries and benefits	**20,531**	17,980	14,519	2,551	14.2%
Other overhead expenses	**29,894**	29,775	36,207	119	0.4%
Total Expenses	**$ 68,726**	$ 58,783	$ 66,472	$ 9,943	16.9%
(Loss) before income taxes	**(44,171)**	(43,835)	(52,056)	(336)	(0.8)%
Number of employees	**335**	324	296	11	3.4%

Revenue for fiscal 2006 was a record $24.6 million, up $9.6 million or 64.3%, from fiscal year 2005.

Fiscal 2006 expenses were $68.7 million, up $9.9 million or 16.9%. The increase in expenses is largely attributable to an increase in incentive compensation of $7.3 million, including costs related to the ESIP for key employees of this business segment. Also contributing to higher expenses are salaries and benefits, up by $2.6 million or 14.2% from a year ago. However, fiscal 2006 interest expense decreased by $1.6 million or 44.9%, and expenses fell by a one-time gain of $1.6 million in Q1/06 due to the sale of our investment in the Bourse de Montréal. This gain was equivalent to $1.3 million after tax and approximately $0.03 per share on a diluted basis.

Loss before income taxes was $44.2 million for fiscal 2006, an increase of $0.3 million, or 0.8%, compared to a loss of $43.8 million for the same period a year ago.

Operational highlights

Since our Initial Public Offering in June 2004, we have focused on generating long term growth. We have identified Pinnacle as one of the growth areas in our strategic plan. Pinnacle enables us to leverage our infrastructure investments and technological capability. Through its proprietary web portal, Pinnacle provides access to state of the art front and back office technology platforms, as well as providing the full range of Canaccord's products and services to its correspondent clients. Canaccord has made a substantial long term commitment to this line of business. We believe this business segment can grow by providing correspondent brokerage services to independent dealers in the boutique or specialized categories. Pinnacle's revenue was up 44.6% in 2006 from a year ago.

FINANCIAL CONDITION

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

	Balance sheet summary for the years ended March 31				
(C$ thousands)	**2006**	2005	2004	2003	2002
Assets					
Cash and cash equivalents	**$ 370,507**	$ 349,700	$ 91,966	$ 100,024	$ 23,697
Securities owned, at market	**203,020**	160,348	376,447	136,073	89,608
Accounts receivable	**1,539,998**	1,068,757	998,815	560,927	639,243
Other assets	**36,519**	59,360	41,138	33,713	30,673
Goodwill and other intangibles	**27,929**	–	–	–	–
Total assets	**$ 2,177,973**	$ 1,638,165	$ 1,508,366	$ 830,737	$ 783,221
Liabilities and shareholders' equity					
Call loans	**$ 4,684**	$ –	$ 2,541	$ –	$ 1,924
Securities sold short, at market	**37,169**	105,527	281,723	85,373	31,645
Accounts payable	**1,832,956**	1,262,072	1,048,395	644,043	662,724
Other liabilities	**15,334**	6,737	17,878	–	–
Convertible debentures	**–**	–	20,377	21,225	11,225
Notes payable	**–**	41,618	28,765	17,393	8,446
Subordinated debt	**–**	–	10,000	10,000	17,000
Shareholders' equity	**287,830**	222,211	98,687	52,703	50,257
Total liabilities and shareholders' equity	**$ 2,177,973**	$ 1,638,165	$ 1,508,366	$ 830,737	$ 783,221

Cash and cash equivalents

Cash and cash equivalents were $370.5 million on March 31, 2006, compared to $349.7 million on March 31, 2005. During the fiscal year ended March 31, 2006, operating activities provided cash in the amount of $83.4 million, due to net changes in non-cash working capital items, net income and items not affecting cash.

Accounts receivable

Client security purchases are entered into either on a cash or 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 $607.1 million on March 31, 2006, compared to $406.8 million on March 31, 2005. They vary significantly on a day-to-day basis, as they are based on trading volumes and market prices. On March 31, 2006, total accounts receivable were $1.5 billion compared with $1.1 billion on March 31, 2005, mainly due to increases in brokers and dealers' and clients' unsettled trades at fiscal year end.

Call loans

Loan facilities utilized by Canaccord may vary significantly on a day-to-day basis and depend on securities trading activity. On March 31, 2006, the amount borrowed pursuant to these call loan facilities was $4.7 million compared with $nil on March 31, 2005.

OFF-BALANCE SHEET ARRANGEMENTS

On March 31, 2006, Canaccord had obtained an irrevocable standby letter of credit from one of its banks in the amount of $1.3 million as a rent guarantee for our leased premises in the UK. Canaccord Adams has also entered into irrevocable standby letters of credit from a financial institution totalling US$1.47 million as rent guarantees for its leased premises in Boston, New York and San Francisco. As of March 31, 2006 the total outstanding balances were zero.

LIQUIDITY AND CAPITAL RESOURCES

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

On March 31, 2006, total cash and cash equivalents were $370.5 million, up $20.8 million from $349.7 million on March 31, 2005. During the fiscal year ended March 31, 2006, financing activities used $68.6 million in cash, primarily due to a decrease in notes payable of $41.6 million, payment of dividends of $14.5 million and $14.5 million for the increase in unvested common share purchase loans(1) related to Canaccord's ESIP and other stock plans. Investing activities provided cash of $11.0 million, due to a decrease of notes receivable of $41.6 million, and proceeds of $1.6 million received from the sale of our investment in the Bourse de Montréal. Investing activities also used cash for the acquisition of Adams Harkness Financial Group, Inc. and Enermarket Solutions Ltd. in the amount of $15.7 million, as well as $16.6 million for the purchase of equipment and leaseholds improvements. A further reduction in cash of $9.6 million was attributed to the effect of foreign exchange on cash balances. Operating activities provided cash of $83.4 million, due to net changes in non-cash working capital items, net income and items not affecting cash.

Canaccord's business requires capital for operating and regulatory purposes. The current assets reflected on Canaccord's balance sheet are highly liquid. The majority of the positions held as securities owned are readily marketable and 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 due to our introducing brokers, representing net balances in connection with client accounts.

The following table summarizes Canaccord's long term contractual obligations on March 31, 2006.

		Contractual obligations payments due by period			
(C$ thousands)	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Premises and equipment operating leases	174,935	16,258	34,174	34,765	85,738
Total	**174,935**	16,258	34,174	34,765	85,738

Notes payable and notes receivable

Effective December 23, 2005, Canaccord sold all outstanding notes receivable and repaid all corresponding outstanding notes payable. These notes related to Canaccord's Quebec Immigrant Investor Program. Under this program, immigrant investors borrowed, through a credit facility arranged by Canaccord, the requisite funds for making a qualifying investment for immigration purposes. Canaccord borrowed the investment funds through a non-recourse bank facility, loaned the borrowed funds to the immigrant investor by way of a promissory note, and then pledged the note to the lending bank as collateral for the original loan. The lending bank had no recourse to Canaccord beyond the notes receivable that were pledged as security.

(1) These are forgivable loans granted to key employees in connection with the purchase of common stock in the open market under the ESIP and other incentive plans.

Capital resources

Canaccord has credit facilities with Canadian, American, and UK banks in an aggregate amount of $339.0 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 Canaccord. On March 31, 2006, these credit facilities were available.

OUTSTANDING SHARE DATA

	Outstanding shares as of March 31	
	2006	2005
Issued shares outstanding – basic (1)	**45,746,033**	45,413,311
Issued shares outstanding – diluted (2) (3)	**47,827,350**	46,129,268
Average shares outstanding – basic	**44,606,134**	41,634,920
Average shares outstanding – diluted (4)	**46,699,304**	44,188,297

(1) Excludes 1,804,541 unvested shares that are outstanding relating to share purchase loans for recruitment and retention programs and 276,776 shares related to stock-based compensation plans.

(2) Includes 1,804,541 unvested shares relating to share purchase loans for recruitment and retention programs and 276,776 shares related to stock-based compensation plans, referred to in footnote (1) above.

(3) Excludes 49,163 common shares accrued during Q4/06 associated with the retention of key employees after the acquisition of Adams Harkness Financial Group, Inc. These shares have not yet been issued and remain in treasury.

(4) Includes the fiscal 2006 weighted average of 11,853 common shares associated with footnote (3) above.

On March 31, 2006, Canaccord had 47,827,350 common shares issued and outstanding on a diluted basis, up 1,698,082 common shares from March 31, 2005. We issued 1,420,342 common shares in connection with acquisitions and 691,940 common shares as part of the employee treasury stock purchase plan, offset by a reduction of 414,200 common shares that were purchased and cancelled during fiscal year 2006 through the normal course issuer bid (NCIB).

Issuance of share capital

Increase (decrease) number of shares	**Fiscal 2006**
Total common shares issued and outstanding as of March 31, 2005 – diluted	46,129,268
Shares issued for acquisitions	
Enermarket Solutions Ltd.	77,646
Adams Harkness Financial Group, Inc.	1,342,696
Shares issued for employee treasury stock purchase plan	691,940
Shares purchased and cancelled under NCIB	(414,200)
Total common shares issued and outstanding as of March 31, 2006 – diluted	**47,827,350**

Canaccord's Board originally approved the implementation of the NCIB to facilitate the purchase of common shares released from escrow, for purposes of either subsequent resale or cancellation. Through this capital management plan, the Board also approved using the NCIB to acquire shares for cancellation, in order to utilize capital that was generated in fiscal 2005. Although the amount and timing of any such purchases will be determined by Canaccord, the Board of Directors approved at the beginning of Q2/06 the purchase of up to 500,000 common shares through the NCIB for cancellation by the end of the fiscal year, subject to trading blackouts and availability of shares. At the beginning of Q3/06, the Board of Directors approved an increase of 500,000 common shares in the number of shares that could be purchased for cancellation. Therefore, under this expanded plan, Canaccord may purchase up to 1,000,000 common shares in total, subject to a maximum of 130,000 shares daily. During fiscal 2006, 414,200 common shares were cancelled at a weighted average price of $11.18 per share; consequently up to 585,800 common shares could yet be purchased for cancellation.

On December 22, 2005, Canaccord renewed its NCIB for one year from December 29, 2005 to December 28, 2006. The NCIB allows for purchases of up to 5% of Canaccord's issued and outstanding shares at the time of renewal. As of June 26, 2006, there are 2,324,233 common shares available for purchase under the NCIB. Canaccord has agreed with the relevant regulators to update its shareholders at least every two weeks if purchases are made and will inform shareholders immediately if more than 1% of its outstanding shares are purchased in one day. From time to time, Canaccord may purchase its common shares for the purpose of resale or cancellation.

On January 3, 2006, Canaccord closed the acquisition of Adams Harkness Financial Group, Inc., which was a privately held Boston, Massachusetts based institutional investment bank. The consideration consisted of US$8 million in cash and the issuance of 1,342,696 common shares from treasury, valued at US$12 million. These shares will be held in escrow, with annual releases of one-third per year, beginning on June 30, 2006 and ending on June 30, 2008.

Shares reserved for issuance as retention payment for Adams Harkness employees

Increase (decrease) number of shares	Q4/06
Original allotment of shares reserved for issuance from treasury for Adams Harkness employees	1,118,952
Shares forfeited by departed employees	(72,733)
Shares earned from achievement of target performance (unissued)	(49,163)
Total remaining unearned shares available to be issued at the end of the vesting period in January 2009	997,056

In addition, 1,118,952 common shares were reserved for issuance from treasury as a retention incentive at an estimated cost of up to US$10.0 million for certain key employees of Adams Harkness Financial Group, Inc. to be paid 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 equal to the revenue earned by Canaccord Adams Inc. during the vesting period divided by US$250.0 million multiplied by 1,118,952, subject to the maximum of 1,118,952 common shares adjusted for forfeitures and cancellations. 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. Of the 1,118,952 common shares, 49,163 common shares have been earned to the end of Q4/06. The associated proportion of the retention payment for 49,163 shares, amounting to $513,755, has been recorded as a development cost. On May 16, 2006, Canaccord had 47,827,350 common shares outstanding on a diluted basis.

On May 16, 2006, the Board approved two separate share issuances related to stock-based compensation: (1) the issuance (subject to regulatory and shareholder approval) of 25,000 shares at $14.00 per share to Arpad A. Busson as stock-based compensation for his becoming a director of Canaccord Capital Inc. during fiscal 2006. These shares are subject to a two-year escrow: 50% will be released at the end of the first year and the balance at the end of the second year; and (2) pursuant to a one-time obligation that arose when the approximate market price of the Company's shares was $20.13, the Board of Directors of Canaccord approved the issuance of 17,431 common shares at $20.13 per share. These shares are associated with the recruitment of Canaccord Adams professionals. This issue is subject to regulatory approval, and 14,526 of these shares will be restricted from sale until March 20, 2009.

STOCK-BASED COMPENSATION

Employee Stock Purchase Plan (ESPP)

On April 1, 2005, Canaccord implemented the Employee Stock Purchase Plan (ESPP). This Plan is available to all non-UK based Canaccord full-time permanent employees. Their contributions are matched by 50% by Canaccord to a maximum of $1,500 per year per employee. The ESPP is managed by an independent company, and all stock purchases through this Plan take place in the open market. The ESPP cost for fiscal 2006 of $1.0 million, or 0.2% of Canaccord's annual consolidated revenue, was included in salaries and benefits expense.

Employee Stock Incentive Plan (ESIP)

The Employee Stock Incentive Plan (ESIP) is aimed at Canaccord's key executive-level employees as a reward and retention program and to balance employee share ownership. Canaccord loaned 40% of the purchase price of Canaccord shares, which were purchased on the open market. These loans are forgivable over a four-year period as long as the employee works for Canaccord. The ESIP cost, for fiscal 2006, including share-related and forgivable loans-related compensation of $1.3 million, or 0.2% of Canaccord's annual consolidated revenue was included in incentive compensation expense and development costs.

Employee Treasury Stock Purchase Plan

In August 2005 the Company established an employee treasury stock purchase plan under which the Company made a forgivable loan to an employee for the purpose of paying 40% of the aggregate purchase price of common shares of the Company issued from treasury. A repayable loan in the amount of 35% of the aggregate purchase price of the common shares was also made to the employee. Subject to continuing employment, one-third of the number of common shares purchased utilizing the forgivable loan portion of the aggregate purchase, will vest on each anniversary of the date of the purchase and the forgivable loan portion related to amounts vested will be forgiven. The applicable number of shares under this employee treasury stock purchase plan will be included in diluted common shares outstanding [See Note 14 in the audited consolidated financial statements].

Stock Compensation Plan (SCP)

On October 1, 2005, Canaccord rolled out a Stock Compensation Plan aimed at rewarding and retaining IAs in the Private Client Services business segment. The cost of the Plan, which was $1.0 million or 0.2% of Canaccord's annual consolidated revenue, is included in the incentive compensation expense for the business segment and is almost entirely offset by the change in the payout compensation structure for IAs. Canaccord rewards IAs through this program based on their gross production and certain minimum requirements. Stock purchased on behalf of IAs on the open market using a forgivable loan through this program, vests at the end of three years.

DIVIDEND POLICY

Although dividends are expected to be declared and paid quarterly, the Board of Directors, at 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 and capital requirements and such other factors as the Board determines to be relevant. In Q3/06, Canaccord increased its quarterly dividend by $0.02 per share or 33.3% from $0.06 per share to $0.08 per share. The Board approved a common share dividend of $0.08 per share for Q4/06 and Canaccord intends to continue to pay an $0.08 regular common share dividend for each quarter in fiscal 2007.

DIVIDEND DECLARATION

For the fourth quarter of fiscal 2006, the Board of Directors declared a common share dividend of $0.08 per share, which is payable on June 9, 2006, to shareholders of record on May 26, 2006. Therefore, total declared dividends for fiscal 2006 were $0.28 per share or $14.5 million, approximately 16.1% of fiscal 2006 net income. Total declared dividends for fiscal 2005 of $0.26 per share, or $13.8 million, were approximately 24.7% of 12-month net fiscal 2005 income. In Q3/05 Canaccord declared a one-time special cash distribution of $0.15 per share.

INTERNATIONAL FINANCIAL CENTRE

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

FOREIGN EXCHANGE

Canaccord manages its foreign exchange risk by periodically hedging pending settlements in foreign currencies. Realized and unrealized gains and losses related to these transactions are recognized in income during the year. On March 31, 2006, forward contracts outstanding to sell US dollars had a notional amount of US$90.85 million, up from $22.75 million from a year ago. Forward contracts outstanding to buy US dollars had a notional amount of US$7.0 million, down from US$10.25 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 British 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 British pounds sterling. Hedge accounting has been applied for these contracts and accordingly, there is no recognition of unrealized gains and losses in income during the period related to these contracts.

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, 2006. The accounting policies described below require estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses recorded in the financial statements. Because of their nature, estimates require judgment based on available information. Actual results or amounts could differ from estimates and the difference could have a material impact on the financial statements.

Revenue recognition and valuation of securities

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

There is inherent uncertainty and imprecision in estimating the factors 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.

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 will be 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 will require management to apply judgment in selecting the valuation models and assumptions and estimates to be used in such models and value determinations. These judgments will 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.

Stock-based compensation

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. Canaccord uses the fair-value method of accounting for these payments, which includes making estimates in respect of forfeiture rates. Under this method the compensation expense is recognized over the relevant vesting period on a pro-rata basis as revenue targets are achieved. The fair value of the stock-based compensation was determined as of the grant date.

RELATED PARTY TRANSACTIONS

Security trades executed for employees, officers and shareholders 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.

RISK MANAGEMENT

Uncertainty and risk are inherent in any financial markets activity. As an active participant in the Canadian and international capital markets, Canaccord is exposed to risks that could result in financial losses. Canaccord's principal risks relate to market risk, credit risk, operational risk and regulatory and legal risk. Accordingly, risk management and control of the balance between risk and return are critical elements in maintaining Canaccord's financial stability and profitability.

Canaccord allocates considerable internal resources to risk management and has developed a number of policies and procedures to identify, control, measure and monitor its risk exposure at all times. Diversification across multiple business lines, product areas, deal size and industry sectors and geographical diversification, help to reduce risk and the overall impact of any volatility in revenues or profitability, as well as to minimize the impact of losses that may arise from any particular area of Canaccord's business.

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

Even with the policies and procedures that Canaccord has established for controlling or limiting risk, there is no certainty that they will be completely effective. Unforeseen events and changes in the economy may lead to market disruptions and unexpected large or rapid changes in market prices and conditions, which may have a significant adverse effect on Canaccord's business, financial prospects and stability.

Market risk

Market risk is the risk that a change in market prices, foreign exchange rates, interest rate levels, indices, liquidity and other market factors will result in losses. Each business area is responsible for ensuring that market risk exposures are prudent. In addition, Canaccord has established procedures to ensure that risks are measured, closely monitored, controlled and visible to senior levels of management.

Canaccord is exposed to equity price risk, liquidity risk and volatility risk as a result of its principal trading activities in equity securities. Canaccord is also exposed to specific interest rate risk due to its principal trading in fixed income securities. In addition to active supervision and review of trading activities by senior management, Canaccord mitigates its risk exposure through a variety of limits to control concentration, capital allocation and capital usage, as well as through trading policies and guidelines. Canaccord manages and monitors its risks in this area using both qualitative and quantitative risk measures, not only on a company wide basis, but also by trading desk and by individual trader. Management also reviews and monitors inventory levels and positions, trading results, aging and concentration levels. In this way, Canaccord can ensure that it is adequately diversified with respect to market risk factors and that trading activity is within the risk tolerance levels established by senior management.

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

Securities held by Canaccord are recorded at market value and, accordingly, the consolidated financial statements of the Company reflect any unrealized gains and losses arising from changes in the market values of such securities. See "Critical accounting estimates – Revenue recognition and valuation of securities" on page 46. Losses arising as a result of any declines in market prices are therefore recognized at that time and recorded as a reduction of revenue.

Credit risk

The primary source for credit risk to Canaccord is in connection with trading activity by clients in the Private Client Services area and private client margin accounts. In order to minimize financial exposure in this area, Canaccord applies certain credit standards and conducts financial reviews with respect to clients and new accounts.

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

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

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

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments and fixed income securities held by the Company. The Company minimizes and monitors its exposure to interest rate risk through quantitative analysis of its net holdings positions of fixed income securities. The Company does not hedge its exposure to interest rate risk as it is minimal.

Operational risk

Canaccord operates in different markets and relies on its employees and systems to process a high number of transactions. Operational risk refers to the risk of financial loss resulting from Canaccord's own operations including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in Canaccord's operating systems, and inadequacies or breaches in Canaccord's control procedures. In order to mitigate this risk, Canaccord has developed a system of internal controls and checks and balances at appropriate levels which include overnight trade reconciliation, control procedures related to clearing and settlement, cash controls, physical security, independent review procedures, documentation standards, billing and collection procedures and authorization and processing controls for transactions and accounts. Canaccord also has disaster recovery procedures in place, business continuity plans and built-in redundancies in the event of a systems or technological failure. In addition, Canaccord utilizes third party service agreements and security audits where appropriate. Historically, Canaccord has not incurred any material losses arising from operational matters or technological failures.

Regulatory and legal risk

Regulatory risk includes the risk of non-compliance with applicable legal and regulatory requirements. Canaccord is subject to extensive regulation and oversight in the jurisdictions in which it operates. These regulations are established through government regulation by a variety of government agencies and through industry regulation by a variety of self-regulatory bodies. Canaccord has established procedures to ensure compliance with all applicable statutory and regulatory requirements in each jurisdiction. These procedures address issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of client funds, credit granting, collection activity, money laundering and recordkeeping.

Legal risk includes litigation risk. As with other securities dealers, Canaccord is involved in litigation and is a defendant in various legal actions. See Note 17 on "Commitments and Contingencies" in the audited consolidated financial statements.

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

Losses, if any, arising from significant legal matters, are recorded as other costs in the Company's consolidated financial statements.

RISK FACTORS

Overview

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

An investment in the common shares of Canaccord involves a number of risks. Some of these, including market, liquidity, credit, operational, legal and regulatory risks, could be substantial and are inherent in the Company's business. Risks include, but are not necessarily limited to, those set out below. Investors should carefully consider the following information about risks, together with the other information in this document, before making investment decisions. It should be noted that this list is not exhaustive, but contains risks that the Company considers to be of particular relevance. Other risk factors may apply.

Risks associated with the financial services business generally

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

Financial scandals in recent years, including insider trading, accounting practices and misrepresentations to shareholders and the public by corporate issuers, and improper practices by financial institutions, have affected the ability and willingness of participants to engage in capital markets transactions and to trade in securities. These scandals and any scandals in the future may have an adverse effect on Canaccord's business and operating results, despite its non-involvement.

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

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

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

The financial scandals referred to above, particularly in the United States, led to insecurity and uncertainty in the financial markets and contributed to declines in capital markets during 2002. In response to these scandals, securities regulators made rules or rule proposals contemplating significant changes to corporate governance and public disclosure. To the extent that private companies, in order to avoid becoming subject to these new requirements, decide to forego initial public offerings, Canaccord's equity underwriting business may be adversely affected. In addition, new corporate governance rules and proposals, coupled with economic uncertainty, may divert many companies' attention away from capital market transactions, including corporate finance activities, which would have a negative impact on Canaccord's business.

Risk of changes in foreign currency exchange rates

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

Risks of reduced revenue due to declining market volume, prices or liquidity

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

Risks of reduced revenue during periods of declining prices or reduced activity in targeted industries or geographic markets

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

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

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

Canaccord's revenue rose by almost 200% from fiscal 2003 to fiscal 2006, including more than a four-time increase in investment banking revenue from UK operations. There can be no assurance that this revenue level is sustainable.

Risks of underwriting activities

Participation in underwritings involves both financial and regulatory risks. Canaccord may incur losses if it is unable to resell the securities it is committed to purchase or if it is forced to liquidate its commitment at less than the agreed purchase price. In addition, Canaccord (including when acting as a co-manager) may retain a significant concentration in individual securities. Increasing competition is expected to continue to erode underwriting spreads, thereby reducing profitability. Canaccord may also be subject to substantial liability for material misstatements or omissions in prospectuses and other communications or offering documents with respect to underwritten offerings, and may be exposed to claims and litigation arising from such offerings.

Dependence on ability to retain and recruit personnel

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

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

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

Canaccord generally, except with its investment advisors, does not have employment agreements. Canaccord attempts to retain employees with performance based incentives and a positive business environment. These incentives, however, may be insufficient in light of the increasing competition for experienced professionals in the securities industry, particularly if the value of the Company's common shares declines or fails to appreciate sufficiently to be a competitive source of a portion of professional compensation.

Litigation and potential securities laws liability

Many aspects of Canaccord's business involve substantial risks of liability. An underwriter is exposed to substantial liability under securities laws, other laws and court decisions, including decisions with respect to underwriters' liability and limitations on indemnification of underwriters by issuers. For example, a firm that acts as an underwriter may be held liable for misstatements or omissions of fact in a prospectus used in connection with the securities being offered and firms may be held liable for statements made by its securities analysts or other personnel. In recent years, there has been increasing litigation involving the securities industry, including class actions that seek substantial damages. Canaccord is subject to the risk of litigation, including litigation that may be without merit. As Canaccord intends to actively defend any such litigation, significant legal expenses could be incurred. An adverse resolution of any actions or claims against Canaccord may materially affect its operating results and financial condition.

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

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

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

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

Dependence on availability of capital

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

Credit risk and exposure to losses

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

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

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

Significant fluctuations in quarterly results

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

Significant competition

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

Regulation

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

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

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

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

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

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

Management of growth

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

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

Dependence on systems

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

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

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

Risk management policies and procedures

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

Employee misconduct

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

Restrictions on ownership and transfer of common shares

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

Control risks

As of March 31, 2006, existing employee and director shareholders collectively owned approximately 53.0% of the common shares. If sufficient of these shareholders act or vote together, they will have the power to exercise significant influence over all matters requiring shareholder approval, including the election of the Company's directors, amendments to its articles, amalgamations and plans of arrangement under Canadian law and mergers or sales of substantially all of its assets. This could prevent Canaccord from entering into transactions that could be beneficial to the Company or its other shareholders. Also, third parties could be discouraged from making a tender offer or takeover bid to acquire any or all of the outstanding common shares of the Company. In addition, the single largest shareholder is MFC Global Investment Management – a wholly owned subsidiary of Manulife Financial Corporation with 10.3% of the common shares. Any significant change in these shareholdings through sale or other disposition, or significant acquisitions by others of the common shares in the public market or by way of private transactions could result in a change of control and changes in business focus or practices that could affect the profitability of Canaccord's business.

Potential conflicts of interest

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

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

Fluctuations in market price

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

Legal proceedings

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

FINANCIAL INSTRUMENTS

In the normal course of business Canaccord utilizes certain financial instruments to manage its exposure to credit risk, market risk and foreign exchange risk as mentioned above.

Interest rate risk

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

ADDITIONAL INFORMATION

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

AUDITORS' REPORT

To the Shareholders of
Canaccord Capital Inc.

We have audited the consolidated balance sheets of Canaccord Capital Inc. as at March 31, 2006, 2005 and 2004 and the consolidated statements of operations and retained earnings and cash flows for each of the three years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2006, 2005 and 2004 and the results of its operations and its cash flows for each of the three years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada

April 25, 2006,
except for Note 19 which is as of May 16, 2006.

Ernst & Young LLP

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at March 31 (C$ thousands)	**2006**	2005	2004
ASSETS			
Current			
Cash and cash equivalents	**$ 370,507**	$ 349,700	$ 91,966
Securities owned, at market [note 2]	**203,020**	160,348	376,447
Accounts receivable [notes 3, 4 and 15]	**1,539,998**	1,068,757	998,815
Total current assets	**2,113,525**	1,578,805	1,467,228
Equipment and leasehold improvements [note 6]	**25,750**	13,750	12,373
Notes receivable [note 7]	**–**	41,618	28,765
Future income taxes [note 5]	**10,769**	3,992	–
Goodwill and other intangible assets [notes 8 and 9]	**27,929**	–	–
	$ 2,177,973	$ 1,638,165	$ 1,508,366
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Call loans [note 10]	**$ 4,684**	$ –	$ 2,541
Securities sold short, at market [note 2]	**37,169**	105,527	281,723
Accounts payable and accrued liabilities [notes 3, 4, and 15]	**1,832,956**	1,262,072	1,048,395
Income taxes payable	**15,334**	6,737	16,905
Future income taxes [note 5]	**–**	–	973
Total current liabilities	**1,890,143**	1,374,336	1,350,537
Notes payable [note 7]	**–**	41,618	28,765
Convertible debentures [note 11]	**–**	–	20,377
Subordinated debt [note 12]	**–**	–	10,000
Total liabilities	**1,890,143**	1,415,954	1,409,679
Commitments and contingencies [notes 3 and 17]			
Shareholders' equity			
Share capital [note 13]	**157,644**	151,030	60,409
Cumulative foreign currency translation adjustment	**(6,277)**	(1,383)	265
Retained earnings	**136,463**	72,564	38,013
Total shareholders' equity	**287,830**	222,211	98,687
	$ 2,177,973	$ 1,638,165	$ 1,508,366

See accompanying notes

On behalf of the Board:

PETER M. BROWN
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

TERRENCE A. LYONS
DIRECTOR

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended March 31 (C$ thousands, except per share amounts)	**2006**	2005	2004
REVENUE			
Commission	**$ 239,461**	$ 168,978	$ 162,242
Investment banking	**266,206**	214,450	188,001
Principal trading	**27,388**	13,584	27,513
Interest	**36,914**	26,488	15,853
Other	**13,446**	9,278	8,548
	583,415	432,778	402,157
EXPENSES			
Incentive compensation	**299,188**	220,454	218,802
Salaries and benefits	**42,019**	45,715	37,193
Trading costs	**20,615**	16,863	17,310
Premises and equipment	**15,843**	11,849	13,017
Communication and technology	**16,598**	14,037	12,290
Interest	**10,914**	7,824	3,994
General and administrative	**46,227**	32,171	24,874
Amortization	**4,817**	3,185	3,565
Development costs	**9,797**	7,924	8,240
Restructuring and other costs	**–**	–	315
Gain on disposal of investment [note 18]	**(1,633)**	–	–
	464,385	360,022	339,600
Income before income taxes	**119,030**	72,756	62,557
Income taxes (recovery) [note 5]			
Current	**44,657**	29,142	17,420
Future	**(6,777)**	(4,965)	4,708
Net income for the year	**81,150**	48,579	40,429
Retained earnings, beginning of year	**72,564**	38,013	2,352
Dividends			
Stock dividends	**–**	–	(1,357)
Cash dividends	**(14,455)**	(13,835)	–
Excess on redemption of common shares [note 13[iii]]	**(2,796)**	(193)	(3,411)
Retained earnings, end of year	**$ 136,463**	$ 72,564	$ 38,013
Basic earnings per share [note 13 [vi]]	**$ 1.82**	$ 1.17	$ 1.43
Diluted earnings per share [note 13 [vi]]	**$ 1.74**	$ 1.11	$ 1.12

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31 (C$ thousands)	**2006**	2005	2004
OPERATING ACTIVITIES			
Net income for the year	**$ 81,150**	$ 48,579	$ 40,429
Items not affecting cash			
Amortization	**5,174**	3,863	3,565
Future income taxes (recovery)	**(6,777)**	(4,965)	4,708
Gain on disposal of investment	**(1,633)**	–	–
Changes in non-cash working capital			
Decrease (increase) in securities owned	**(43,851)**	216,099	(240,374)
Increase in accounts receivable	**(491,473)**	(70,620)	(438,335)
Increase (decrease) in securities sold short	**(68,359)**	(176,196)	196,350
Increase in accounts payable and accrued liabilities	**599,930**	213,677	404,352
Increase (decrease) in income taxes payable	**9,223**	(10,168)	17,463
Cash provided by (used in) operating activities	**83,384**	220,269	(11,842)
FINANCING ACTIVITIES			
Increase (decrease) in notes payable	**(41,618)**	12,853	11,372
Redemption of convertible debentures	**–**	(20)	(302)
Decrease in subordinated debt	**–**	(10,000)	–
Issuance of share capital (net of issuance costs)	**6,574**	71,865	15,624
Increase in unvested common share purchase loans	**(14,463)**	(1,415)	–
Redemption of share capital	**(4,631)**	(379)	(10,762)
Dividends paid	**(14,455)**	(13,835)	–
Cash provided by (used in) financing activities	**(68,593)**	59,069	15,932
INVESTING ACTIVITIES			
Purchase of equipment and leasehold improvements	**(16,630)**	(4,562)	(3,911)
Decrease (increase) in notes receivable	**41,618**	(12,853)	(11,372)
Proceeds on disposal of investment	**1,639**	–	–
Acquisition of subsidiaries [note 8]	**(15,669)**	–	–
Cash provided by (used in) investing activities	**10,958**	(17,415)	(15,283)
Effect of foreign exchange on cash balances	**(9,626)**	(1,648)	594
Increase (decrease) in cash position	**16,123**	260,275	(10,599)
Cash position, beginning of year	**349,700**	89,425	100,024
Cash position, end of year	**$ 365,823**	$ 349,700	$ 89,425
Cash position is comprised of:			
Cash and cash equivalents	**$ 370,507**	$ 349,700	$ 91,966
Call loans	**(4,684)**	–	(2,541)
	$ 365,823	$ 349,700	$ 89,425
Supplemental cash flow information			
Interest paid	**$ 9,495**	$ 1,495	$ 2,576
Income taxes paid	**$ 30,192**	$ 37,756	$ 816

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As as March 31, 2006, 2005 and 2004 and for each of the three years ended March 31, 2006
(C$ thousands, except per share amounts)

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

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

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of the Company and its subsidiaries.

At March 31, 2006, the Company's operating subsidiaries, all of which are 100% owned, include:

Canaccord Capital Corporation
Canaccord Adams Limited (formerly Canaccord Capital (Europe) Limited)
Canaccord International Ltd.
Canaccord Adams Inc. (formerly Adams Harkness, Inc.)
Canaccord Capital Corporation (USA), Inc.
Canaccord Enermarket Ltd. (formerly Enermarket Solutions Ltd.)
Canaccord Financial Services Ltd.
Stockwave Equities Ltd.
CLD Financial Opportunities Limited

All intercompany transactions have been eliminated.

Canadian generally accepted accounting principles

On April 1, 2004, the Company adopted the requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1100, "*Generally Accepted Accounting Principles*". This section establishes standards for financial reporting in accordance with GAAP, and provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures when a matter is not dealt with explicitly in the primary sources of GAAP. The implementation of CICA Section 1100 impacted the classification of Convertible Debentures [Note 11] and Subordinated Debt [Note 12]. These consolidated financial statements have been adjusted to reflect the reclassification of these items as liabilities from the capital section of the balance sheet. In addition, this implementation has affected the presentation of client interest revenue and expense which are presented on a gross basis for the years ended March 31, 2006 and 2005, but were netted for fiscal 2004.

Hedging relationships

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

Securities transactions

Securities transactions and related revenue and expenses and balance sheet accounts are recorded on a trade date basis.

Cash and cash equivalents

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

Securities owned and securities sold short

Securities owned and sold short are recorded at market value. Unrealized gains and losses are reflected in income. Certain securities owned have been pledged as collateral for securities borrowing transactions.

Collateralized securities transactions

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

Private Client Services revenue

Private Client Services revenue consists of revenue generated through traditional commission based brokerage services, recognized on a trade date basis, the sale of fee-based products and services, recognized on an accrual basis, and through fees and commissions earned on venture capital and other corporate finance transactions, recognized through an allocation of Canaccord Adams' revenue.

Interest earned by clients and paid to clients is recognized on an accrual basis. The gross amount of client interest earned is included in private client revenue.

Canaccord Adams revenue

Canaccord Adams revenue consists of trading and underwriting fees, management and advisory fees, and fees and commissions earned on corporate finance activities. Canaccord Adams revenue is also generated through commissions from acting as agent for trading securities on behalf of institutional clients and from income earned in connection with principal trading operations.

Revenue and fees from underwritings, mergers and acquisitions, and other corporate finance activities are recorded when the underlying transaction is substantially completed under the engagement terms and the related revenue is reasonably determinable. Trading revenue is recognized on a trade date basis. Management and advisory fees are recognized on an accrual basis.

Equipment and leasehold improvements

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

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

Goodwill and other intangible assets

All business combinations are accounted for using the purchase method. Goodwill represents the excess of the purchase price paid for the acquisition of subsidiaries over the fair value of the net assets acquired. Goodwill is subject to an impairment test on an annual basis. Goodwill impairment is identified by comparing the carrying value of the reporting unit to its fair value. If the carrying value of the reporting unit exceeds its fair value, goodwill impairment is calculated based on the fair value of the assets and liabilities. Any impairment of goodwill will be recognized as an expense in the period of impairment, and subsequent reversals of impairment are prohibited.

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

Development costs

Development costs consist of internal information systems development, expensed as incurred, and hiring incentives for new employees. Hiring incentives relate to forgivable loans to acquire shares of the Company, which are amortized on a straight-line basis over three years.

Translation of foreign currency transactions and foreign subsidiaries

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at historical rates. Revenue and expenses are translated at the average exchange rate for the year. Foreign currency translation gains and losses are recorded in income in the year in which they occur.

The functional currency of the Company is the Canadian dollar. Financial statements of foreign subsidiaries, all of which are self-sustaining, whose functional currency is other than the Canadian dollar are translated into Canadian dollars using the current rate method. Under the current rate method, assets and liabilities are translated at the year end exchange rate. Revenue and expenses are translated at the average exchange rate for the year. Unrealized foreign currency translation gains or losses are accumulated as a separate component of shareholders' equity.

Income taxes

Income taxes are accounted for using the asset and liability method. Under this method future tax assets and liabilities are recognized for the tax consequences of temporary differences by applying substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

The effect on future taxes for a change in tax rates is recognized in income in the period that includes the date of substantive enactment. In addition, future tax assets are recognized to the extent their realization is more likely than not.

Earnings per share

Basic earnings per share is computed by dividing the net income for the year by the weighted average number of common shares outstanding. Diluted earnings per share is calculated to reflect the dilutive effect of convertible debentures by application of the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings per share assumes that the proceeds from the conversion of convertible debentures are applied to repurchase common shares at the average market price for the period. Diluted earnings per share also reflects the dilutive effect of unvested share purchase loans, earned but unvested retention shares and preferred shares.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

Pension plan

The Company provides a defined contribution pension plan on behalf of its current employees. The defined contribution pension plan is available to certain administrative employees with more than two years of consecutive service. The Company is required to match the employees' contributions to a maximum of 2% of the employees' base salary. Costs of the defined contribution plan, representing the Company's required contribution, are charged to income in the year. The amount of the charge for the year, including a voluntary contribution by the Company, was $0.3 million [2005 – $0.3 million; 2004 – $0.3 million].

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

Stock-based compensation plans

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

2. SECURITIES OWNED AND SECURITIES SOLD SHORT

	March 31, 2006		March 31, 2005		March 31, 2004	
	Securities owned	Securities sold short	Securities owned	Securities sold short	Securities owned	Securities sold short
Corporate and government debt	$ 40,784	$ 14,319	$ 124,395	$ 82,001	$ 327,224	$ 275,285
Equities and convertible debentures	162,236	22,850	35,953	23,526	49,223	6,438
	$ 203,020	$ 37,169	$ 160,348	$ 105,527	$ 376,447	$ 281,723

As at March 31, 2006, corporate and government debt maturities range from 2006 to 2053 [March 31, 2005 – 2005 to 2051; March 31, 2004 – 2005 to 2054] and bear interest ranging from 2.05% to 14.00% [March 31, 2005 – 2.05% to 14.00%; March 31, 2004 – 2.35% to 14.00%].

3. FINANCIAL INSTRUMENTS

In the normal course of business the Company utilizes certain financial instruments to manage its exposure to credit risk, market risk, interest rate risk and foreign exchange risk.

Credit risk

The primary source of credit risk to the Company is in connection with trading activity by private clients and private client margin accounts. To minimize its exposure, the Company applies certain credit standards, applies limits to transactions and requires settlement of securities transactions on a cash basis or delivery against payment. Margin transactions are collateralized by securities in the client's accounts in accordance with limits established by the Company and applicable regulatory requirements.

The Company is also exposed to the risk that counterparties to transactions do not fulfill their obligations. Counterparties primarily include investment dealers, clearing agencies, banks and other financial institutions. The Company manages this risk by imposing and monitoring individual and aggregate position limits for each counterparty, conducting regular credit reviews to assess creditworthiness, reviewing security and loan concentrations, holding and marking to market collateral on certain transactions and conducting business through clearing organizations with performance guarantees.

As at March 31, 2006, 2005 and 2004, the Company's most significant counterparty concentrations are with financial institutions and institutional clients. Management believes that they are in the normal course of business and does not anticipate loss for non-performance.

Market risk

Market risk is the risk that a change in market prices, interest rate levels, indices, liquidity and other market factors will result in losses.

The Company is exposed to market risk as a result of its principal trading in equity securities and fixed income securities. Securities held for trading are valued at market and as such changes in market value affect earnings as they occur. The Company mitigates its market risk exposure through controls to limit concentration levels and capital usage within its inventory trading accounts.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments and fixed income securities held by the Company. The Company minimizes and monitors its exposure to interest rate risk through quantitative analysis of its net holdings positions of fixed income securities. The Company does not hedge its exposure to interest rate risk as it is minimal.

Foreign exchange risk

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

Forward contracts outstanding at March 31, 2006:

	Notional amounts (US$ millions)	Average price (C$/US$)	Maturity	Fair value (US$ millions)
To sell US dollars	**$ 90.85**	**$ 1.16**	**April 5, 2006**	**$ 0.1**
To buy US dollars	**$ 7.00**	**$ 1.16**	**April 3, 2006**	**$ (0.1)**

Forward contracts outstanding at March 31, 2005:

	Notional amounts (US$ millions)	Average price (C$/US$)	Maturity	Fair value (US$ millions)
To sell US dollars	$ 22.75	$ 1.21	April 5, 2005	$ 0.1
To buy US dollars	$ 10.25	$ 1.21	April 5, 2005	$ (0.1)

Forward contracts outstanding at March 31, 2004:

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

Fair value of financial assets and liabilities

The Company's financial instruments include cash and cash equivalents, securities owned, accounts receivable, notes receivable, call loans, securities sold short, accounts payable and accrued liabilities, income taxes payable, notes payable, convertible debentures and subordinated debt. The fair value of these financial instruments approximate their carrying values. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Securities lending and borrowing

The Company employs securities lending and borrowing primarily to facilitate the securities settlement process. These arrangements are typically short term in nature, with interest being received on the cash delivered. These transactions are fully collateralized and are subject to daily margin calls for any deficiency between the market value of the security given and the amount of collateral received. These transactions are collateralized by either cash or securities, including government treasury bills and government bonds and are reflected within accounts receivable and accounts payable. The Company manages its credit exposure by establishing and monitoring aggregate limits by customer for these transactions. Interest earned on cash collateral is based on a floating rate. At March 31, 2006, the floating rates for equities and bonds were 3.29% and 3.32%, respectively, [March 31, 2005 – 2.0% and 2.3%, respectively, and March 31, 2004 – 1.5% and 1.8%, respectively].

	Cash		Securities	
	Loaned or delivered as collateral	Borrowed or received as collateral	Loaned or delivered as collateral	Borrowed or received as collateral
2006	**$ 201,855**	**$ 58,422**	**$ 59,929**	**$ 202,257**
2005	$ 130,359	$ 68,329	$ 70,708	$ 131,905
2004	$ 337,016	$ 43,231	$ 53,169	$ 342,197

Lines of credit

At March 31, 2006, the Company has credit facilities with Canadian, American and United Kingdom banks in an aggregate amount of $339 million [March 31, 2005 – $311 million and March 31, 2004 – $308 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 [March 31, 2005 – $1.4 million and March 31, 2004 – $1.5 million]. Canaccord Adams Inc. has also entered into irrevocable standby letters of credit from a financial institution totaling $1.7 million (US$1.47 million) as rent guarantees for its leased premises in Boston, New York and San Francisco. As of March 31, the total outstanding balances are zero.

4. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts receivable

	2006	2005	2004
Brokers and investment dealers	**$ 567,308**	$ 353,734	$ 471,073
Clients	**607,118**	406,769	268,062
RRSP cash balances held in trust	**320,766**	293,595	237,806
Other	**44,806**	14,659	21,874
	$ 1,539,998	$ 1,068,757	$ 998,815

Accounts payable and accrued liabilities

	2006	2005	2004
Brokers and investment dealers	**$ 397,733**	$ 358,711	$ 247,944
Clients	**1,172,511**	719,195	698,999
Other	**262,712**	184,166	101,452
	$ 1,832,956	$ 1,262,072	$ 1,048,395

Accounts payable to clients include $320.8 million [2005 – $293.6 million; 2004 – $237.8 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 are based on a floating rate [March 31, 2006 – 7.50% and 2.50% respectively; March 31, 2005 – 6.25% and 1.25%, respectively; and March 31, 2004 – 6.00% and 1.00%, respectively].

5. INCOME TAXES

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

	2006	2005	2004
Assets:			
Legal settlements	**$ 1,814**	$ 1,656	$ 929
Unpaid remuneration	**1,368**	849	669
Unamortized forgivable loans	**640**	614	236
Unamortized capital cost of equipment and leasehold improvements over their net book value	**1,201**	65	139
Loss carryforwards	**6,916**	–	38
Share issuance (IPO) costs	**1,519**	2,092	–
Lease impairment	**4,708**	–	–
Other	**8**	–	–
	18,174	5,276	2,011
Liabilities:			
Unrealized gain on marketable securities	**1,915**	1,213	2,343
Deferred charges	**252**	71	157
Unrealized foreign exchange gains on equity investments	**–**	–	131
Other intangible assets	**2,085**	–	–
Other	**–**	–	353
	4,252	1,284	2,984
Valuation allowance	**(3,153)**	–	–
Future income tax assets (liabilities)	**$ 10,769**	$ 3,992	$ (973)

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

Subsidiaries of the Company have accumulated federal and state non-capital losses for income tax purposes totaling $16.3 and $21.9 million, respectively, which are available to reduce taxable income in future years. The losses begin expiring in 2004 and 2007 respectively.

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

	2006	2005	2004
Income taxes at the statutory rate	**$ 41,059**	$ 25,024	$ 23,213
Less: International Finance Business recovery of provincial taxes	**(1,264)**	(1,312)	(1,323)
Less: Difference in tax rates in foreign jurisdictions	**(2,662)**	–	–
Non-deductible items affecting the determination of taxable income	**747**	465	238
Income tax expense – current and future	**$ 37,880**	$ 24,177	$ 22,128

6. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Cost	Accumulated amortization	Net book value
2006			
Computer equipment	**$ 4,894**	**$ 3,910**	**$ 984**
Furniture and equipment	**20,654**	**11,264**	**9,390**
Leasehold improvements	**32,114**	**16,738**	**15,376**
	$ 57,662	**$ 31,912**	**$ 25,750**

		Cost		Accumulated amortization		Net book value
2005						
Computer equipment	$	3,084	$	2,228	$	856
Furniture and equipment		9,573		4,488		5,085
Leasehold improvements		20,100		12,291		7,809
	$	32,757	$	19,007	$	13,750
2004						
Computer equipment	$	3,280	$	2,518	$	762
Furniture and equipment		7,836		3,682		4,154
Leasehold improvements		18,187		10,730		7,457
	$	29,303	$	16,930	$	12,373

7. IMMIGRANT INVESTOR PROGRAM OF QUEBEC

The Company sponsored an immigrant investor program that provided assistance to Canadian immigrant applicants under the investor category and to their professional consultants and advisors. Included in these services was a program that enabled immigrant investors to borrow, through a credit facility arranged by the Company, the requisite funds for making a qualifying investment for immigration purposes. The Company borrowed as notes payable the investment funds through a non-recourse bank facility, loaned the borrowed funds to the immigrant investor by way of notes receivable and then pledged the notes receivable to the lending bank as collateral for the notes payable.

Effective September 15, 2005, the Company sold a significant portion of all outstanding notes receivable under this program for total proceeds of $34.4 million and repaid all corresponding outstanding notes payable in the amount of $34.8 million for a net loss on disposition of $0.4 million.

Effective December 23, 2005, the Company irrevocably assigned the remaining outstanding notes receivable and notes payable under this program at book value of $10.0 million.

[i] Notes receivable

Interest revenue of $1.4 million [2005 – $2.1 million; 2004 – $1.2 million] on these loans is included in Other revenue.

[ii] Notes payable

Interest expense of $1.8 million [2005 – $2.1 million; 2004 – $1.2 million] on these loans is included in Interest expense.

8. ACQUISITIONS

[i] Enermarket Solutions Ltd.

On November 11, 2005, the Company acquired a 100% interest in Enermarket Solutions Ltd. (“Enermarket”), a property acquisition and divestiture advisory services firm focused on the Energy sector and based in Calgary, Alberta. The aggregate purchase price was $5.1 million including cash of $4.0 million (comprised of $3.1 million and a working capital adjustment of $0.9 million), $0.9 million comprised of 77,646 common shares of the Company at $11.90 per share and costs related to the acquisition of $0.2 million. The entity will operate as part of the Company’s Canaccord Adams group as Canaccord Enermarket Ltd. The assets and liabilities of Enermarket have been included in the consolidated balance sheet of the Company as of November 11, 2005, and its operating results have been included in the consolidated statement of operations of the Company since that date.

In connection with the acquisition, retention payments up to a total of $0.3 million will be paid to key employees of Enermarket and its senior management. The retention payments will involve the issuance of up to 25,210 common shares of the Company which will be paid after a two-year vesting period. These retention payments will be recorded as development costs over the vesting period on a straight-line basis.

[ii] Adams Harkness Financial Group, Inc.

On January 3, 2006, the Company acquired a 100% interest in Adams Harkness Financial Group, Inc. (“Adams Harkness”), the parent company of Adams Harkness, Inc., an institutional investment bank based in Boston, Massachusetts. The aggregate purchase price was US$21.8 million (C$25.6 million) including cash of US$8.0 million (C$9.5 million), common shares of the Company valued at US$12.0 million (C$14.1 million) comprised of 1,342,696 common shares of the Company at C$10.50 per share and costs related to the acquisition of US$1.8 million (C$2.0 million). The common shares are held in escrow to be released as to one-third per year beginning on June 30, 2006.

On completion of the acquisition, Adams Harkness, Inc. changed its name to Canaccord Adams Inc. Canaccord Adams Inc. will operate as part of the Company's capital markets operations, which commenced operations under the global brand name of Canaccord Adams coincidental with the acquisition. The assets and liabilities of Adams Harkness have been included in the consolidated balance sheet of the Company as of January 3, 2006, and its operating results have been included in the consolidated statement of operations of the Company since that date.

In connection with the acquisition, retention payments up to an estimated total of US$10.0 million will be paid to key employees of Adams Harkness. The retention payments will involve the issuance of up to 1,118,952 common shares of the Company after a three-year vesting period. The total number of common shares to be vested is also based on revenue earned by Canaccord Adams Inc. subsequent to the date of the acquisition [Note 14].

The aggregate consideration paid and the fair value of the net assets acquired in respect of these acquisitions are:

Acquisition date	Adams Harkness January 3, 2006	Enermarket November 11, 2005
Aggregate consideration		
Cash, including acquisition costs	$ 11,533	$ 4,136
Issuance of common shares	14,098	924
	$ 25,631	$ 5,060
Fair value of net assets acquired		
Cash and cash equivalents	4,542	232
Securities owned	1,063	–
Accounts receivable	23,320	677
Future income taxes	7,440	(321)
Equipment and leasehold improvements	2,704	124
Intangible assets apart from goodwill	4,650	1,000
Call loans	(2,559)	–
Accounts payable	(21,250)	(247)
Taxes payable	(433)	(72)
Subordinated debt	(4,113)	–
Accrued lease impairment	(8,719)	–
	6,645	1,393
Goodwill	$ 18,986	$ 3,667

9. GOODWILL AND OTHER INTANGIBLE ASSETS

	2006	2005	2004
Goodwill	**$ 22,653**	$ –	$ –
Other intangible assets			
Balance at beginning of year	**–**	–	–
Acquisitions	**5,650**	–	–
Amortization	**374**	–	–
Balance at end of year	**5,276**	–	–
	$ 27,929	$ –	$ –

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.

10. CALL LOANS

The Company borrows money primarily to facilitate the securities settlement process for both client and Company securities transactions. The call loans are collateralized by either unpaid client securities and/or securities owned by the Company. Interest on the call loans is at a floating rate of 4.00% as at March 31, 2006 [March 31, 2005 – 2.75% and March 31, 2004 – 2.50%].

11. CONVERTIBLE DEBENTURES

	2006	2005	2004
2006 debenture [i]	$ –	$ –	$ 10,377
2007 debenture [ii]	–	–	10,000
	$ –	$ –	$ 20,377

On June 22, 2004, the 2006 and 2007 debentures were either redeemed or converted into share capital as part of a reorganization of capital [see Note 13[ii]].

[i] 2006 debentures

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

[ii] 2007 debenture

The 2007 debenture issued by the Company was exchanged for Class C common shares of the Company at a rate of one such share for each $2.98230 of principal amount.

In fiscal 2006, Interest expense of nil [2005 – $0.4 million and 2004 – $1.4 million] on these debentures was included in Interest expense.

The convertible debentures were collateralized by a floating charge over all of the assets of the Company.

Convertible debentures have been reclassified as a liability due to the requirements of CICA Handbook Section 1100.

12. SUBORDINATED DEBT

	2006	2005	2004
Loan payable, interest payable monthly at prime + 1% per annum (March 31, 2004 – 5.00%), due on demand	$ –	$ –	$ 10,000

The loan payable was subject to a subordination agreement and was repaid on July 30, 2004 with the prior approval of the Investment Dealers Association of Canada. Subordinated debt has been reclassified as a liability due to the requirements of CICA Handbook Section 1100.

13. SHARE CAPITAL

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

	2006	2005	2004
Issued and fully paid			
Share capital			
Common shares	**$ 173,282**	$ 153,061	$ 61,292
Unvested share purchase loans	**(20,577)**	(2,929)	(1,514)
Preferred shares	**–**	–	190
Contributed surplus	**4,939**	898	441
	$ 157,644	$ 151,030	$ 60,409

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

[i] Authorized

Unlimited common shares without par value

Unlimited preferred shares without par value

[ii] Issued and fully paid

Common shares

	Common Shares		Class B		Class C		Total	
	# of shares	Amount $	# of shares	Amount $	# of shares	Amount $	# of shares	Amount $
Balance, March 31, 2003	–	$ –	24,779,672	$ 41,306	3,809,524	$ 10,000	28,589,196	$ 51,306
Shares issued for cash	–	–	5,435,838	15,624	–	–	5,435,838	15,624
Shares cancelled	–	–	(4,031,206)	(7,006)	–	–	(4,031,206)	(7,006)
Shares issued on conversion of Class 4 preferred shares Series A	–	–	357,838	822	–	–	357,838	822
Shares issued on conversion of serial debentures	–	–	209,340	546	–	–	209,340	546
Balance, March 31, 2004	–	–	26,751,482	51,292	3,809,524	10,000	30,561,006	61,292
Shares issued for cash	–	–	897,454	3,568	442,100	1,536	1,339,554	5,104
Shares cancelled	–	–	(95,826)	(186)	–	–	(95,826)	(186)
Shares issued on conversion of Class 4 preferred shares Series A	–	–	82,816	190	–	–	82,816	190
Shares issued on conversion of convertible debentures	–	–	7,378,660	20,357	–	–	7,378,660	20,357
Exchange into common shares (1)	39,266,210	86,757	(35,014,586)	(75,221)	(4,251,624)	(11,536)	–	–
Shares issued in connection with initial public offering (2)	6,829,268	66,170	–	–	–	–	6,829,268	66,170
Shares issued for cash (3)	33,790	134	–	–	–	–	33,790	134
Balance, March 31, 2005	46,129,268	153,061	–	–	–	–	46,129,268	153,061
Shares issued for cash	691,940	6,574	–	–	–	–	691,940	6,574
Shares issued in connection with acquisitions	1,420,342	15,022	–	–	–	–	1,420,342	15,022
Shares cancelled	(414,200)	(1,375)	–	–	–	–	(414,200)	(1,375)
Balance, March 31, 2006	**47,827,350**	**$ 173,282**	**–**	**$ –**	**–**	**$ –**	**47,827,350**	**$ 173,282**

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

(2) Net of share issue costs. Final costs were $3.8 million.

(3) Sale of shares held by a subsidiary in the group.

Pursuant to the Company's normal course issuer bid, as approved by the Toronto Stock Exchange, the Company was entitled to acquire up to 2,306,463, or 5.0%, of its shares from December 29, 2004 to December 28, 2005. Under the normal course issuer bid, the Company has purchased for resale a total of 222,548 common shares between December 29, 2004 and March 31, 2005 and purchased for cancellation 414,200 common shares during the year ended March 31, 2006 with a book value of $1.3 million for aggregate cash consideration of $4.6 million. The excess has been recorded to contributed surplus and retained earnings.

The Company has renewed its normal course issuer bid and is entitled to acquire from December 29, 2005 to December 28, 2006, up to 2,324,233 of its shares, which represents 5% of its shares outstanding as of December 20, 2005. There were no share transactions under the NCIB between December 20, 2005 and March 31, 2006.

Preferred shares

	Class 4 Series A	
	# of shares	Amount $
Balance, March 31, 2003	–	$ –
Shares issued as a stock dividend	1,356,781	1,357
Shares redeemed for cash	(344,017)	(345)
Shares converted into Class B common shares	(822,287)	(822)
Balance, March 31, 2004	190,477	190
Exchange into common shares [1]	(190,477)	(190)
Balance, March 31, 2005 and 2006	**–**	**$ –**

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

[iii] Excess on redemption of common shares

The excess on redemption of common shares represents amounts paid to shareholders, by the Company and its subsidiaries, on redemption of their shares in excess of the book value of those shares at the time of redemption. The current year excess on redemption of common shares has been charged against contributed surplus ($0.5 million) and retained earnings ($2.8 million) whereas prior year excesses on redemption of common shares were charged entirely against retained earnings.

	2006	2005	2004
Redemption price	**$ 4,631**	$ 379	$ 10,417
Book value	**1,375**	186	7,006
Excess on redemption of common shares	**$ 3,256**	$ 193	$ 3,411

[iv] Common share purchase loans

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

[v] Distribution of acquired common shares

On November 24, 2005, the Company repurchased 132,000 common shares from departed employees at cost for total cash consideration of $0.5 million. These shares were subsequently distributed to existing employees at an average market price of $14.00 per share for total cash proceeds of $1.8 million. This excess on distribution of $1.3 million has been credited to contributed surplus.

Contributed Surplus

	$
Balance, March 31, 2003	$ 994
Excess on distribution of acquired common shares	(553)
Balance, March 31, 2004	441
Excess on distribution of acquired common shares	457
Balance, March 31, 2005	898
Unvested share purchase loans	3,186
Excess on redemption of common shares	(460)
Excess on distribution of acquired common shares	1,315
Balance, March 31, 2006	**$ 4,939**

[vi] Earnings per share

	2006	2005	2004
Basic earnings per share			
Net income for the year	**$ 81,150**	$ 48,579	$ 40,429
Weighted average number of common shares (number)	**44,606,134**	41,634,920	28,298,424
Basic earnings per share	**$ 1.82**	$ 1.17	$ 1.43
Diluted earnings per share			
Net income for the year	**81,150**	48,579	40,429
Income effect of convertible debentures	**$ –**	$ 282	$ 1,129
Adjusted net income for the year	**$ 81,150**	$ 48,861	$ 41,558
Weighted average number of common shares (number)	**44,606,134**	41,634,920	28,298,424
Dilutive effect of convertible debentures (number)	**–**	1,817,000	7,885,926
Dilutive effect of preferred shares (number)	**–**	20,420	307,400
Dilutive effect of unvested shares (number)	**1,903,119**	715,957	604,124
Dilutive effect of stock-based compensation plans (number) [note 14]	**190,051**	–	–
Adjusted weighted average number of common shares (number)	**46,699,304**	44,188,297	37,095,874
Diluted earnings per share	**$ 1.74**	$ 1.11	$ 1.12

14. STOCK-BASED COMPENSATION PLANS

Retention Plans

As described under Notes 8[i] and 8[ii], in connection with the acquisitions of Enermarket and Adams Harkness, the Company established two retention plans.

The plan for Enermarket consists of the issuance of up to 25,210 common shares of the Company which will be paid after a two-year vesting period.

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 1,118,952 subject to the maximum of 1,118,952 common shares adjusted for forfeitures and cancellations. 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 13[vi]].

Employee Treasury Stock Purchase Plan

In August 2005, the Company established an employee treasury stock purchase plan under which the Company made a forgivable loan to an employee for the purpose of paying 40% of the aggregate purchase price of common shares of the Company issued from treasury. A repayable loan in the amount of 35% of the aggregate purchase price of the common shares was also made to the employee. Subject to continued employment one-third of the number of common shares purchased utilizing the forgivable loan portion of the aggregate purchase will vest on each anniversary of the date of the purchase and the forgivable loan portion related to amounts vested will be forgiven. The applicable number of shares under this employee treasury stock purchase plan will be included in diluted common shares outstanding [Note 13[vi]].

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

	2006	2005	2004
Number of common shares subject to the Enermarket retention plan:			
Beginning of period	–	–	–
Grants	25,210	–	–
End of period (unissued)	25,210	–	–
Number of common shares subject to the Adams Harkness retention plan:			
Beginning of period	–	–	–
Grants	1,118,952	–	–
Forfeitures	(72,733)	–	–
End of period (unissued)	1,046,219	–	–
Number of common shares subject to the employee treasury stock purchase plan:			
Beginning of period	–	–	–
Issued	276,776	–	–
End of period	276,776	–	–

Under the fair value method the aggregate cost 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 cost of the retention plans will be recognized in the financial statements of the Company in accordance with the vesting terms of the respective plans.

The forgivable loan amount in respect of the common shares issued under the employee treasury stock purchase plan is $2.6 million. This amount will be recognized in the financial statements of the Company over the vesting period on a straight-line basis.

15. RELATED PARTY TRANSACTIONS

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

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

	2006	2005	2004
Accounts receivable	$ 34,582	$ 31,698	$ 26,394
Accounts payable and accrued liabilities	$ 88,506	$ 54,691	$ 47,311

16. SEGMENTED INFORMATION

The Company operates in two industry segments as follows:

Private Client Services – provides brokerage services and investment advice to retail or private clients in Canada and the United States of America.

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.

Corporate and Other 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. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. There are no significant inter-segment revenues.

	Private Client Services	Canaccord Adams	Corporate and Other	Total
2006				
Revenues	**$ 225,194**	**$ 333,666**	**$ 24,555**	**$ 583,415**
Expenses	**158,235**	**228,534**	**63,002**	**449,771**
Amortization	**1,439**	**1,910**	**1,468**	**4,817**
Development, restructuring and other costs	**4,302**	**1,239**	**4,256**	**9,797**
Income (loss) before income taxes	**$ 61,218**	**$ 101,983**	**$ (44,171)**	**$ 119,030**
2005				
Revenues	$ 178,176	$ 239,654	$ 14,948	$ 432,778
Expenses	123,619	171,849	53,445	348,913
Amortization	1,087	1,204	894	3,185
Development, restructuring and other costs	2,798	682	4,444	7,924
Income (loss) before income taxes	$ 50,672	$ 65,919	$ (43,835)	$ 72,756
2004				
Revenues	$ 175,983	$ 211,758	$ 14,416	$ 402,157
Expenses	113,767	152,363	61,350	327,480
Amortization	1,295	1,291	979	3,565
Development, restructuring and other costs	3,576	836	4,143	8,555
Income (loss) before income taxes	$ 57,345	$ 57,268	$ (52,056)	$ 62,557

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

	2006	2005	2004
Canada			
Revenue	**$ 437,409**	$ 316,688	$ 317,668
Net income	**49,442**	28,211	29,373
Equipment and leasehold improvements	**21,635**	11,888	10,700
Goodwill and other intangible assets	**4,584**	–	–
United States			
Revenue	**$ 20,106**	$ –	$ –
Net income	**1,716**	–	–
Equipment and leasehold improvements	**2,576**	–	–
Goodwill and other intangible assets	**23,345**	–	–
United Kingdom			
Revenue	**$ 125,900**	$ 116,090	$ 84,489
Net income	**29,992**	20,368	11,056
Equipment and leasehold improvements	**1,539**	1,862	1,673

17. COMMITMENTS AND CONTINGENCIES

Commitments

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

	$
2007	17,757
2008	17,686
2009	18,990
2010	17,628
2011	17,136
Thereafter	85,738
	174,935

Contingencies

The Company, in the normal course of business as an investment dealer, is involved with litigation and as of March 31, 2006, it was a defendant in various legal actions. The Company has established accruals for matters that are probable and can be reasonably estimated. While the outcome of these actions is subject to future resolution, management's evaluation and analysis of these actions indicates that, individually and in the aggregate, the probable ultimate resolution of these actions will not have a material effect on the financial condition of the Company. The actions described below have been commenced against the Company and, although the Company has denied the allegations and intends to vigorously defend itself in each case, the outcome of each action cannot be predicted with certainty. The amounts claimed in respect of these actions, or which could potentially be claimed, are material and, accordingly, these actions are described in these consolidated financial statements.

[i] In 2002, two actions were commenced in the Superior Court of Quebec against the Company and other defendants including another investment dealer. Both are class action proceedings in which the plaintiffs make allegations of certain wrongful trading and disclosure practices by another defendant and that the Company was negligent in respect of a private placement in 2000. The extent of the classes and the quantification of damages have not been determined.

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

[iii] Since 2002, five actions have been commenced in the Supreme Court of British Columbia against the Company by clients of a former investment advisor and are still outstanding. The claims allege that unsuitable and unauthorized trades were made in the accounts of the plaintiffs by the former investment advisor and are for quantified damages in the aggregate amount of approximately $1.6 million and for other damages and amounts which have not been quantified. The Company has made a counterclaim against certain of the plaintiffs alleging that these plaintiffs were participants in certain illegal activity by the former investment advisor.

[iv] In 2001, a wrongful dismissal action was commenced in the Ontario Superior Court of Justice against the Company. The plaintiff is seeking damages for wrongful dismissal of $4.5 million, an order requiring the Company to repurchase the shares he owned in the Company for approximately $4.3 million and other damages and amounts in the aggregate amount of an additional $2.75 million and a declaration from the court that he continues to own the shares or, in the alternative, an order requiring the Company to repurchase the shares at fair market value in an unspecified amount in excess of the amount already claimed. Prior to the commencement of the action, the applicable shares were repurchased for approximately $2.7 million. The Company has counterclaimed for losses in connection with a debenture in a private company which the Company alleges it purchased on the basis of false representations made by the plaintiff.

[v] In late 2005 and 2006, proceedings were commenced in state court in Michigan, in the Ontario Superior Court of Justice and in the Quebec Superior Court against the Company and other defendents. All are class action proceedings in which the plaintiffs make claims against an issuer of securities under a prospectus in an initial public offering in March 2005, its directors and senior officers, its auditor, the underwriters and others. The claims include fraudulent and negligent misrepresentation and claims under securities and competition legislation in respect of the IPO and secondary

market trading. The Company participated in the IPO underwriting syndicate for $8 million. The extent of the classes and the quantification of damages have not been determined.

18. GAIN ON DISPOSAL OF INVESTMENT

During fiscal 2006, the Company recognized a gain of $1.6 million from the sale of its investment in shares of the Bourse de Montréal.

19. SUBSEQUENT EVENTS

[i] Dividend

On May 16, 2006, the Board of Directors declared a common share dividend of $0.08 per share payable on June 9, 2006, with a record date of May 26, 2006.

[ii] Stock-based Compensation

On May 16, 2006, the Board of Directors approved two separate share issuances related to stock-based compensation:

- The issuance (subject to regulatory and shareholder approval) of 25,000 common shares of the Company at $14.00 per common share to a director of the Company. These shares are subject to a two-year escrow whereby 50% will be released at the end of the first year and the balance at the end of the second year.
- The issuance (subject to regulatory approval) of 17,431 common shares of the Company at $20.13 per common share pursuant to a one-time obligation that arose when the approximate market price of the Company's shares was $20.13 per share. These shares are associated with the recruitment of Canaccord Adams professionals and 14,526 of these shares are restricted from sale until March 20, 2009.

20. CANADIAN AND INTERNATIONAL FINANCIAL REPORTING STANDARDS DIFFERENCES

These consolidated financial statements have been prepared in accordance with Canadian GAAP. In certain respects, International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board differ from those applied in Canada.

If IFRS were employed, there would be no material adjustment to net income or earnings per share and consolidated shareholders' equity of the Company as at March 31, 2006, 2005 and 2004.

The area of material difference between GAAP and IFRS and its impact on the consolidated financial statements of the Company is in the consolidated statement of changes in shareholders' equity. IFRS requires the inclusion of a consolidated statement of changes in shareholders' equity for each statement of income year, as follows:

[i] Consolidated Statement of Changes in Shareholders' Equity

IFRS requires the inclusion of a consolidated statement of changes in shareholders' equity for each statement of income year, as follows:

	2006	2005	2004
ISSUED AND PAID SHARE CAPITAL			
Common shares			
Balance at the beginning of the year	**$ 153,061**	$ 61,292	$ 51,306
Shares issued for cash	**6,574**	5,104	15,624
Shares cancelled	**(1,375)**	(186)	(7,006)
Shares issued on conversion of Class 4 preferred shares Series A	**–**	190	822
Shares issued on conversion of serial debentures	**–**	20,357	546
Shares issued in connection with initial public offering	**–**	66,170	–
Shares issued for cash	**–**	134	–
Shares issued in connection with acquisitions	**15,022**	–	–
Balance at the end of the year	**$ 173,282**	$ 153,061	$ 61,292
Unvested share purchase loans			
Balance at the beginning of the year	**$ (2,929)**	$ (1,514)	$ (1,620)
Movements during the year	**(17,648)**	(1,415)	106
Balance at the end of the year	**$ (20,577)**	$ (2,929)	$ (1,514)

	2006	2005	2004
Preferred shares			
Balance at the beginning of the year	$ –	$ 190	$ –
Shares issued as a stock dividend	–	–	1,357
Shares redeemed for cash	–	–	(345)
Shares converted into Class B common shares	–	–	(822)
Exchange into common shares	–	(190)	–
Balance at the end of the year	$ –	$ –	$ 190
Contributed surplus			
Balance at the beginning of the year	$ 898	$ 441	$ 994
Movements during the year	4,041	457	(553)
Balance at the end of the year	4,939	898	441
	$ 157,644	$ 151,030	$ 60,409
CUMULATIVE FOREIGN CURRENCY TRANSLATION ADJUSTMENT			
Balance at the beginning of the year	$ (1,383)	$ 265	$ (329)
Movements during the year	(4,894)	(1,648)	594
Balance at the end of the year	$ (6,277)	$ (1,383)	$ 265
RETAINED EARNINGS			
Balance at the beginning of the year	$ 72,564	$ 38,013	$ 2,352
Net income for the year	81,150	48,579	40,429
Excess on redemption of common shares	(2,796)	(193)	(3,411)
Stock dividend	–	–	(1,357)
Cash dividends	(14,455)	(13,835)	–
Balance at the end of the year	$ 136,463	$ 72,564	$ 38,013

[ii] Presentation Differences Between IFRS and Canadian GAAP

The following is a summary of presentation differences between IFRS and Canadian GAAP. These differences do not impact the reported shareholders' equity and net income.

(a) Under IFRS, deferred tax assets and liabilities are not classified as current assets and current liabilities.
(b) Accounts payable and accrued liabilities by reportable segment for the years ended March 31, 2006, 2005 and 2004 are as follows:

	2006	2005	2004
Private Client Services	$ 926,052	$ 607,809	$ 605,660
Canaccord Adams	$ 572,320	$ 406,448	$ 226,125
Corporate and Other	$ 334,584	$ 247,815	$ 216,610
	$ 1,832,956	$ 1,262,072	$ 1,048,395

[iii] Other Disclosures

IFRS requires certain additional disclosures in the consolidated financial statements, as follows:

(a) On June 8, 2006, the Board of Directors reviewed the consolidated financial statements and authorized them for issue. These consolidated financial statements will be submitted to the Annual General Meeting of Shareholders to be held on August 4, 2006, for approval.
(b) Total remuneration to the executive members of the Board of Directors recognized in the income statement amounted to $24.7 million in 2006 [2005 – $6.6 million; 2004 – $7.0 million]. Total fees paid to the external members of the Board of Directors for their services amounted to $0.2 million in 2006 [2005 – $0.1 million; 2004 – $nil].
(c) Canaccord Capital Corporation owns 376,200 common shares of Canaccord Adams Limited.
(d) Equipment and leasehold improvements.

		Computer equipment		Furniture & equipment		Leasehold improvements		2006
Cost								
Balance at the beginning of the year	**$**	**3,084**	**$**	**9,573**	**$**	**20,100**	**$**	**32,757**
Additions		**2,104**		**11,173**		**12,508**		**25,785**
Disposals / write-offs		**(173)**		**(6)**		**(192)**		**(371)**
Foreign currency translation		**(121)**		**(86)**		**(302)**		**(509)**
Balance at the end of the year	**$**	**4,894**	**$**	**20,654**	**$**	**32,114**	**$**	**57,662**
Accumulated Amortization								
Balance at the beginning of the year	**$**	**2,228**	**$**	**4,488**	**$**	**12,291**	**$**	**19,007**
Depreciation		**480**		**1,731**		**2,197**		**4,408**
Disposals / write-offs		**1,271**		**5,094**		**2,430**		**8,795**
Foreign currency translation		**(69)**		**(49)**		**(180)**		**(298)**
Balance at the end of the year	**$**	**3,910**	**$**	**11,264**	**$**	**16,738**	**$**	**31,912**
Net book value at the end of the year	**$**	**984**	**$**	**9,390**	**$**	**15,376**	**$**	**25,750**

		Computer equipment		Furniture & equipment		Leasehold improvements		2005
Cost								
Balance at the beginning of the year	$	3,280	$	7,836	$	18,187	$	29,303
Additions		692		1,954		2,036		4,682
Disposals / write-offs		(819)		(189)		–		(1,008)
Foreign currency translation		(69)		(28)		(123)		(220)
Balance at the end of the year	$	3,084	$	9,573	$	20,100	$	32,757
Accumulated Amortization								
Balance at the beginning of the year	$	2,518	$	3,682	$	10,730	$	16,930
Depreciation		586		1,009		1,625		3,220
Disposals / write-offs		(819)		(182)		–		(1,001)
Foreign currency translation		(57)		(21)		(64)		(142)
Balance at the end of the year	$	2,228	$	4,488	$	12,291	$	19,007
Net book value at the end of the year	$	856	$	5,085	$	7,809	$	13,750

		Computer equipment		Furniture & equipment		Leasehold improvements		2004
Cost								
Balance at the beginning of the year	$	3,462	$	6,652	$	15,829	$	25,943
Additions		321		1,309		2,266		3,896
Disposals / write-offs		(573)		(141)		–		(714)
Foreign currency translation		70		16		92		178
Balance at the end of the year	$	3,280	$	7,836	$	18,187	$	29,303
Accumulated Amortization								
Balance at the beginning of the year	$	2,325	$	2,916	$	8,675	$	13,916
Depreciation		704		877		2,016		3,597
Disposals / write-offs		(560)		(141)		–		(701)
Foreign currency translation		49		30		39		118
Balance at the end of the year	$	2,518	$	3,682	$	10,730	$	16,930
Net book value at the end of the year	$	762	$	4,154	$	7,457	$	12,373

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the fiscal 2006 annual financial statement presentation.

SUPPLEMENTAL INFORMATION

FINANCIAL HIGHLIGHTS

For the years ended and as of March 31 (C$ thousands, except for assets under management, assets under administration, common share information and financial ratios)	**2006**	2005	2004	2003	2002	2001
Financial results						
Revenue	**$ 583,415**	$ 432,778	$ 402,157	$ 199,206	$ 170,433	$ 218,769
Expenses	**464,385**	360,022	339,600	204,744	199,528	216,352
Income taxes	**37,880**	24,177	22,128	(485)	(11,015)	(901)
Net income (loss)	**81,150**	48,579	40,429	(5,053)	(18,080)	3,318
Business segment						
Income (loss) before income taxes						
Private Client Services	**61,218**	50,672	57,345	14,634	8,982	44,206
Canaccord Adams (1)	**101,983**	65,919	57,268	7,008	(3,940)	2,187
Other	**(44,171)**	(43,835)	(52,056)	(27,180)	(34,137)	(43,976)
Geographic segment						
Income (loss) before income taxes						
Canada (2)	**74,531**	42,330	46,643	(3,262)	(26,415)	1,036
UK (3)	**41,937**	30,426	15,914	(2,276)	(2,680)	1,381
US (4)	**2,562**	–	–	–	–	–
Client assets information ($ millions)						
Assets under management	**613**	380	237	104	51	18
Assets under administration	**14,310**	9,967	8,292	5,037	4,978	4,428
Common share information						
Per share ($)						
Basic earnings (loss)	**1.82**	1.17	1.43	(0.18)	(0.71)	0.14
Diluted earnings (loss)	**1.74**	1.11	1.12	(0.18)	(0.71)	0.14
Book value per diluted share (5)	**6.02**	4.82	2.59	1.84	n.m.	n.m.
Share price ($)						
High	**21.25**	11.10	–	–	–	–
Low	**9.00**	7.96	–	–	–	–
Close	**20.80**	10.48	–	–	–	–
Shares outstanding (thousands)						
Basic	**45,746**	45,413	29,983	27,956	n.m.	n.m.
Diluted	**47,827**	46,129	38,089	28,589	n.m.	n.m.
Average basic	**44,606**	41,635	28,298	27,805	25,389	24,040
Average diluted	**46,699**	44,188	37,096	27,805	25,389	24,040
Market capitalization (thousands)	**994,809**	483,435	n.m.	n.m.	n.m.	n.m.
Financial measures						
Dividends per share	**$ 0.28**	$ 0.26	$ –	$ –	$ –	$ –
Special distributions per share (6)	**–**	0.15	–	–	–	–
Dividend yield (closing share price) (6)	**1.3%**	2.5%	–	–	–	–
Dividend payout ratio (6)	**16.1%**	24.7%	–	–	–	–
Total shareholder return (7)	**103.4%**	5.5%	–	–	–	–
Annualized ROE / ROCE	**33.6%**	23.9%	43.5%	(7.5%)	(28.3%)	5.1%
Price to earnings multiple (8)	**12.0**	9.5	–	–	–	–
Price to book ratio (9)	**3.5**	2.2	–	–	–	–

(1) Includes the global capital markets division of Canaccord Capital Corporation in Canada; Canaccord Adams Limited in the UK; and Canaccord Adams Inc. and Canaccord Capital Corporation (USA), Inc. in the US.

(2) Canada geographic segment includes operations for Private Client Services, Canaccord Adams (a division of Canaccord Capital Corporation) and Other business segments.

(3) UK geographic segment includes operations for Canaccord Adams Limited.

(4) Starting on January 3, 2006, as a result of the acquisition of Adams Harkness Financial Group, Inc., the US geographic segment includes operations for Canaccord Adams Inc. and Canaccord Capital Corporation (USA), Inc., which also includes operations from Private Client Services and Other business segments.

(5) Book value per diluted share is calculated as total shareholders' equity less redeemable preferred shares divided by the number of diluted shares outstanding at the end of the period.

(6) Special distributions per share are not included in the dividend yield and dividend payout ratio calculations.

(7) Total shareholder return is calculated as the change in share price including the effects of reinvestment of dividends and special distributions on their payment dates.

(8) The price to earnings multiple is calculated based on the end of period share price and 12-month trailing diluted EPS.

(9) The price to book ratio is calculated based on the end of period share price and book value per diluted share.

n.m.: not meaningful

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

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the year ended March 31 (C$ thousands, except per share amounts and financial measures)	2006	2005	2004	2003	2002	2001
Revenue						
Commission	**$ 239,461**	$ 168,978	$ 162,242	$ 95,287	$ 91,505	$ 123,336
Investment banking	**266,206**	214,450	188,001	65,774	47,510	59,200
Principal trading	**27,388**	13,584	27,513	15,030	13,369	7,606
Interest	**36,914**	26,488	15,853	16,408	13,012	23,577
Other	**13,446**	9,278	8,548	6,707	5,037	5,050
	$ 583,415	$ 432,778	$ 402,157	$ 199,206	$ 170,433	$ 218,769
Expenses						
Incentive compensation [1]	**$ 299,188**	$ 220,454	$ 218,802	$ 92,594	$ 78,428	$ 100,727
Salaries and benefits	**42,019**	45,715	37,193	35,661	32,147	34,418
Trading costs	**20,615**	16,863	17,310	15,343	9,621	13,745
Premises and equipment	**15,843**	11,849	13,017	12,089	12,616	13,274
Communication and technology	**16,598**	14,037	12,290	12,984	11,650	12,178
Interest	**10,914**	7,824	3,994	3,239	4,116	6,551
General and administrative	**46,227**	32,171	24,874	20,555	18,175	24,534
Amortization	**4,817**	3,185	3,565	3,898	3,982	2,794
Development costs	**9,797**	7,924	8,240	4,137	4,443	4,770
Restructuring and other costs	**–**	–	315	8,505	22,753	1,906
Discretionary payouts	**–**	–	–	–	1,597	5,920
Gain on disposal of investments and claims	**(1,633)**	–	–	(4,261)	–	(4,465)
	464,385	360,022	339,600	204,744	199,528	216,352
Income (loss) before income taxes	**119,030**	72,756	62,557	(5,538)	(29,095)	2,417
Income taxes	**37,880**	24,177	22,128	(485)	(11,015)	(901)
Net income (loss) for the year	**81,150**	48,579	40,429	(5,053)	(18,080)	3,318
Retained earnings, beginning of year	**72,564**	38,013	2,352	9,066	28,240	43,153
Dividends						
Stock dividend	**–**	–	(1,357)	–	–	–
Cash dividend	**(14,455)**	(13,835)	–	–	–	(8,279)
Excess on redemption of common shares	**(2,796)**	(193)	(3,411)	(1,661)	(1,094)	(9,952)
Retained earnings, end of year	**$ 136,463**	$ 72,564	$ 38,013	$ 2,352	$ 9,066	$ 28,240
Incentive compensation expense as % of revenue	**51.3%**	50.9%	54.4%	46.5%	46.0%	46.0%
Total compensation expenses as % of revenue [2]	**58.5%**	61.5%	63.6%	64.4%	64.9%	61.8%
Non-compensation expenses as % of revenue	**21.1%**	21.7%	20.8%	38.4%	52.2%	37.1%
Total expenses as % of revenue	**79.6%**	83.2%	84.4%	102.8%	117.1%	98.9%
Pre-tax profit margin	**20.4%**	16.8%	15.6%	(2.8)%	(17.1)%	1.1%
Effective tax rate	**31.8%**	33.2%	35.4%	8.8%	37.9%	37.3%
Net profit margin	**13.9%**	11.2%	10.1%	(2.5)%	(10.6)%	1.5%
Basic earnings (loss) per share	**$ 1.82**	$ 1.17	$ 1.43	$ (0.18)	$ (0.71)	$ 0.14
Diluted earnings (loss) per share	**1.74**	1.11	1.12	(0.18)	(0.71)	0.14
Book value per diluted share [3]	**6.02**	4.82	2.59	1.84	n.m.	n.m.

(1) Incentive compensation includes National Insurance Tax applicable to the UK and is based on a percentage of incentive compensation payout.

(2) Total compensation expense includes incentive compensation and salaries and benefits, but excludes hiring incentives and development group salary and benefits, which are included in development costs.

(3) Book value per diluted share is calculated as total shareholders' equity plus unvested share purchase loans less contributed surplus relating to unvested share purchase loans, divided by the number of diluted shares outstanding at the end of the period.

n.m.: not meaningful

CONDENSED CONSOLIDATED BALANCE SHEETS

As at March 31 (C$ thousands)	2006	2005	2004	2003	2002	2001
Assets						
Cash and cash equivalents	**$ 370,507**	$ 349,700	$ 91,966	$ 100,024	$ 23,697	$ 24,291
Securities owned, at market	**203,020**	160,348	376,447	136,073	89,608	94,057
Accounts receivable (1)	**1,539,998**	1,068,757	998,815	560,927	639,243	367,009
Income taxes recoverable	**–**	–	–	558	8,581	10,861
Future income taxes	**10,769**	3,992	–	3,735	2,327	–
Equipment and leasehold improvements	**25,750**	13,750	12,373	12,027	14,151	16,085
Notes receivable	**–**	41,618	28,765	17,393	5,614	–
Goodwill and other intangibles	**27,929**	–	–	–	–	–
	$ 2,177,973	$ 1,638,165	$ 1,508,366	$ 830,737	$ 783,221	$ 512,303
Liabilities and shareholders' equity						
Call loans	**$ 4,684**	$ –	$ 2,541	$ –	$ 1,924	$ 45,072
Securities sold short, at market	**37,169**	105,527	281,723	85,373	31,645	21,312
Accounts payable and accrued liabilities	**1,832,956**	1,262,072	1,048,395	644,043	662,724	358,736
Income taxes payable	**15,334**	6,737	16,905	–	–	–
Future income taxes	**–**	–	973	–	–	–
Notes payable	**–**	41,618	28,765	17,393	8,446	683
Convertible debentures (2)	**–**	–	20,377	21,225	11,225	–
Subordinated debt (2)	**–**	–	10,000	10,000	17,000	20,000
Shareholders' equity (2)	**287,830**	222,211	98,687	52,703	50,257	66,500
	$ 2,177,973	$ 1,638,165	$ 1,508,366	$ 830,737	$ 783,221	$ 512,303

(1) In fiscal 2006, deferred charges have been combined with accounts receivable. Figures for previous periods have been reclassified.
(2) As discussed in Note 1 of the audited financial statements, the Company adopted the requirements of CICA Handbook Section 1100 in which convertible debentures and subordinated debt are classified as liabilities. These consolidated financial statements have been adjusted to reflect the reclassification of these items as liabilities from the capital section of the balance sheet.

MISCELLANEOUS OPERATIONAL STATISTICS

As at March 31	2006	2005	2004	2003	2002	2001
Number of employees in Canada						
Number in Private Client Services	**689**	657	623	628	623	630
Number in Canaccord Adams	**233**	209	185	197	187	185
Number in Other	**335**	324	296	277	259	282
Total Canada	**1,257**	1,190	1,104	1,102	1,069	1,097
Number of employees in UK						
Number in Canaccord Adams	**81**	70	52	50	48	45
Number of employees in US						
Number in Canaccord Adams	**150**	–	–	–	–	–
Number of employees firm wide	**1,488**	1,260	1,156	1,152	1,117	1,142
Number of Investment Advisors (1)	**430**	412	391	399	398	395
Number of licensed professionals	**763**	710	675	668	n.m.	n.m.
Number of PCS clients	**155,404**	144,451	138,142	131,584	149,360	147,908
Assets under management ($ millions)	**$ 613**	$ 380	$ 237	$ 104	$ 51	$ 18
Assets under administration ($ millions)	**14,310**	9,967	8,292	5,037	4,978	4,428
AUA per Investment Advisor ($ millions) (1)	**33**	24	21	13	13	11
Number of companies with Canaccord Adams Limited as Broker						
London Stock Exchange (LSE)	**1**	6	5	5	3	2
Alternative Investment Market (AIM)	**53**	51	31	16	6	–
Total Broker	**54**	57	36	21	9	2
Number of companies with Canaccord Adams Limited as Financial Adviser / Nomad (2)						
LSE	**1**	4	3	3	1	1
AIM	**49**	47	24	10	3	–
Total Financial Advisers / Nomad	**50**	51	27	13	4	1

(1) Investment Advisors (IAs) on long term disability and non-registrants are excluded from the total count. Historical statistics have been reclassified accordingly.

(2) A company listed on AIM is required to retain a Nominated Adviser (commonly referred to as a Nomad) during the company's life on the market. Nominated Advisers are responsible, amongst other duties, for warranting that a company is appropriate for joining AIM. The Nomad is similar to a Financial Adviser on the LSE, but is specific to AIM.

n.m.: not meaningful

QUARTERLY FINANCIAL HIGHLIGHTS

(C$ thousands, except for assets under management, assets under administration, common share information and financial ratios)	Fiscal 2006				Fiscal 2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial results								
Revenue	**$ 207,074**	**$ 158,670**	**$ 118,654**	**$ 99,017**	$ 142,929	$ 123,683	$ 85,601	$ 80,565
Expenses	**163,619**	**122,772**	**94,407**	**83,587**	117,502	99,094	75,332	68,094
Income taxes	**13,385**	**11,650**	**8,493**	**4,352**	8,120	7,846	4,146	4,065
Net income	**30,070**	**24,248**	**15,754**	**11,078**	17,307	16,743	6,123	8,406
Business segment								
Income before income taxes								
Private Client Services	**22,437**	**14,842**	**15,329**	**8,610**	16,644	14,176	9,814	10,038
Canaccord Adams (1)	**34,801**	**33,533**	**18,656**	**14,993**	20,362	21,310	11,201	13,046
Other	**(13,783)**	**(12,477)**	**(9,738)**	**(8,173)**	(11,579)	(10,897)	(10,746)	(10,613)
Geographic segment								
Income before income taxes								
Canada (2)	**26,550**	**20,004**	**19,474**	**8,503**	17,739	13,545	4,385	6,661
UK (3)	**14,343**	**15,894**	**4,773**	**6,927**	7,688	11,044	5,884	5,810
US (4)	**2,562**	**–**	**–**	**–**	–	–	–	–
Client assets ($ millions)								
Assets under management	**613**	**528**	**475**	**410**	380	344	301	274
Assets under administration	**14,310**	**12,183**	**11,495**	**9,954**	9,967	8,998	8,678	8,244
Common share information								
Per share ($)								
Basic earnings	**0.66**	**0.55**	**0.35**	**0.24**	0.38	0.37	0.14	0.28
Diluted earnings	**0.63**	**0.52**	**0.34**	**0.24**	0.38	0.36	0.13	0.23
Book value per diluted shares (5)	**6.02**	**5.29**	**4.82**	**4.91**	4.82	4.65	4.32	4.29
Share price ($)								
High	**21.25**	**15.80**	**12.90**	**10.65**	10.98	9.75	10.80	11.10
Low	**14.35**	**10.96**	**9.10**	**9.00**	8.75	8.43	7.96	10.66
Close	**20.80**	**14.89**	**11.68**	**9.15**	10.48	9.19	8.60	10.74
Shares Outstanding (thousands)								
Basic	**45,746**	**44,432**	**44,190**	**45,413**	45,413	45,416	45,305	45,165
Diluted	**47,827**	**46,485**	**46,407**	**46,116**	46,129	46,129	46,129	46,129
Average basic	**45,716**	**44,385**	**44,479**	**45,426**	45,353	45,388	45,305	30,292
Average diluted	**47,846**	**46,438**	**46,403**	**46,129**	46,069	46,101	46,095	38,467
Market capitalization (thousands)	**994,809**	**692,156**	**542,034**	**421,964**	483,435	423,928	396,712	495,425
Financial measures								
Dividends per share	**$ 0.08**	**$ 0.08**	**$ 0.06**	**$ 0.06**	$ 0.11	$ 0.05	$ 0.05	$ 0.05
Special distributions per share (6)	**–**	**–**	**–**	**–**	–	0.15	–	–
Dividend yield (closing share price) (6)	**1.5%**	**2.1%**	**2.1%**	**2.6%**	4.2%	2.2%	2.3%	1.9%
Dividend payout ratio (6)	**12.7%**	**15.3%**	**17.7%**	**25.0%**	29.3%	13.8%	37.7%	27.4%
Total shareholder return (7)	**40.3%**	**28.0%**	**28.3%**	**(11.7)%**	16.3%	7.5%	(19.4)%	4.8%
Annualized ROE / ROCE	**45.7%**	**41.0%**	**27.8%**	**19.8%**	32.2%	32.1%	12.2%	19.3%
Price to earnings multiple (8)	**12.0**	**10.1**	**8.8**	**8.2**	9.5	7.1	6.8	7.8
Price to book ratio (9)	**3.5**	**2.8**	**2.4**	**1.9**	2.2	2.0	2.0	2.5

(1) Includes the global capital markets division of Canaccord Capital Corporation in Canada; Canaccord Adams Limited in the UK; Canaccord Adams Inc., Canaccord Capital Corporation (USA), Inc. in the US.; as well as Private Client Services and Other segment operations in the U.S.

(2) Canada geographic segment includes operations for Private Client Services, Canaccord Adams (a division of Canaccord Capital Corporation) and Other business segments.

(3) UK geographic segment includes operations for Canaccord Adams Limited.

(4) Starting on January 3, 2006, as a result of the acquisition of Adams Harkness Financial Group, Inc., the US geographic segment includes operations for Canaccord Adams Inc. and Canaccord Capital Corporation (USA), Inc., which also includes operations from Private Client Services and Other business segments.

(5) Book value per diluted share is calculated as total shareholders' equity less redeemable preferred shares divided by the number of diluted shares outstanding at the end of the period.

(6) Special distributions per share are not included in the dividend yield and dividend payout ratio calculations.

(7) Total shareholder return is calculated as the change in share price including the effects of reinvestment of dividends and special distributions on their payment dates.

(8) The price to earnings multiple is calculated based on the end of period share price and 12-month trailing diluted EPS.

(9) The price to book ratio is calculated based on the end of period share price and book value per diluted share.

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(C$ thousands, except per share amounts and financial measures)	Fiscal 2006 Q4	Fiscal 2006 Q3	Fiscal 2006 Q2	Fiscal 2006 Q1	Fiscal 2005 Q4	Fiscal 2005 Q3	Fiscal 2005 Q2	Fiscal 2005 Q1
Revenue								
Commission	**$ 88,846**	**$ 56,701**	**$ 53,103**	**$ 40,811**	$ 54,598	$ 43,165	$ 33,089	$ 38,126
Investment banking	**87,977**	**84,425**	**44,299**	**49,505**	69,558	66,238	43,505	35,149
Principal trading	**13,677**	**6,176**	**9,276**	**(1,741)**	7,795	4,947	1,457	(615)
Interest	**11,424**	**8,886**	**8,361**	**8,243**	7,723	7,311	5,685	5,769
Other	**5,150**	**2,482**	**3,615**	**2,199**	3,255	2,022	1,865	2,136
	$ 207,074	**$ 158,670**	**$ 118,654**	**$ 99,017**	$ 142,929	$ 123,683	$ 85,601	$ 80,565
Expenses								
Incentive compensation (1)	**$ 108,296**	**$ 82,662**	**$ 59,580**	**$ 48,650**	$ 77,191	$ 65,449	$ 42,721	$ 35,093
Salaries and benefits	**13,716**	**9,668**	**9,409**	**9,226**	13,130	10,957	10,414	11,214
Trading costs	**7,615**	**4,441**	**4,247**	**4,312**	4,493	4,377	3,540	4,453
Premises and equipment	**5,068**	**4,082**	**3,067**	**3,626**	3,025	2,875	2,920	3,029
Communication and technology	**5,087**	**4,023**	**3,798**	**3,690**	3,719	3,524	3,573	3,221
Interest	**3,577**	**2,441**	**2,405**	**2,491**	2,125	1,990	1,436	2,273
General and administrative	**14,726**	**12,422**	**9,063**	**10,016**	10,866	7,248	8,013	6,044
Amortization	**1,969**	**930**	**800**	**1,118**	952	802	739	692
Development costs	**3,565**	**2,103**	**2,038**	**2,091**	2,001	1,872	1,976	2,075
Gain on disposal of investments and claims	**–**	**–**	**–**	**(1,633)**	–	–	–	–
	163,619	**122,772**	**94,407**	**83,587**	117,502	99,094	75,332	68,094
Income before income taxes	**43,455**	**35,898**	**24,247**	**15,430**	25,427	24,589	10,269	12,471
Income taxes	**13,385**	**11,650**	**8,493**	**4,352**	8,120	7,846	4,146	4,065
Net income for the period	**30,070**	**24,248**	**15,754**	**11,078**	17,307	16,743	6,123	8,406
Incentive compensation expense as % of revenue	**52.3%**	**52.1%**	**50.2%**	**49.1%**	54.0%	52.9%	49.9%	43.6%
Total compensation expenses as % of revenue (2)	**58.9%**	**58.2%**	**58.1%**	**58.5%**	63.2%	61.8%	62.1%	57.5%
Non-compensation expenses as % of revenue	**20.1%**	**19.2%**	**21.5%**	**25.9%**	19.0%	18.3%	25.9%	27.0%
Total expenses as % of revenue	**79.0%**	**77.4%**	**79.6%**	**84.4%**	82.2%	80.1%	88.0%	84.5%
Pre-tax profit margin	**21.0%**	**22.6%**	**20.4%**	**15.6%**	17.8%	19.9%	12.0%	15.5%
Effective tax rate	**30.8%**	**32.5%**	**35.0%**	**28.2%**	31.9%	31.9%	40.4%	32.6%
Net profit margin	**14.5%**	**15.3%**	**13.3%**	**11.2%**	12.1%	13.5%	7.2%	10.4%
Basic earnings per share	**$ 0.66**	**$ 0.55**	**$ 0.35**	**$ 0.24**	$ 0.38	$ 0.37	$ 0.14	$ 0.28
Diluted earnings per share	**0.63**	**0.52**	**0.34**	**0.24**	0.38	0.36	0.13	0.23
Book value per diluted share (3)	**6.02**	**5.29**	**4.82**	**4.91**	4.82	4.65	4.32	4.29

(1) Incentive compensation includes National Insurance Tax applicable to the UK and is based on a percentage of incentive compensation payout.

(2) Total compensation expense includes incentive compensation and salaries and benefits, but excludes hiring incentives and development group salary and benefits, which are included in development costs.

(3) Book value per diluted share is calculated as total shareholders' equity less redeemable preferred shares divided by the number of diluted shares outstanding at the end of the period.

CONDENSED CONSOLIDATED BALANCE SHEETS

(C$ thousands)	Fiscal 2006 Q4	Fiscal 2006 Q3	Fiscal 2006 Q2	Fiscal 2006 Q1	Fiscal 2005 Q4	Fiscal 2005 Q3	Fiscal 2005 Q2	Fiscal 2005 Q1
Assets								
Cash and cash equivalents	**$ 370,507**	**$ 241,380**	**$ 223,914**	**$ 282,485**	$ 349,700	$ 256,158	$ 158,560	$ 34,008
Securities owned, at market	**203,020**	**218,459**	**157,334**	**122,745**	160,348	184,895	305,611	377,789
Accounts receivable (1)	**1,539,998**	**1,091,147**	**1,139,248**	**855,730**	1,068,757	719,774	1,011,842	1,053,161
Income taxes recoverable	**–**	**–**	**–**	**1,222**	–	–	701	–
Future income taxes	**10,769**	**2,750**	**3,557**	**4,109**	3,992	1,834	1,609	1,645
Equipment and leasehold improvements	**25,750**	**22,483**	**15,937**	**14,131**	13,750	13,904	12,373	12,182
Notes receivable	**–**	**–**	**10,023**	**42,731**	41,618	41,055	39,251	35,355
Goodwill and other intangibles	**27,929**	**4,203**	**–**	**–**	–	–	–	–
	$2,177,973	**$ 1,580,422**	**$ 1,550,013**	**$1,323,153**	$1,638,165	$1,217,620	$1,529,947	$ 1,514,140
Liabilities and shareholders' equity								
Call loans	**$ 4,684**	**$ 345**	**$ –**	**$ 819**	$ –	$ 6,311	$ 677	$ 40,745
Securities sold short, at market	**37,169**	**132,481**	**59,602**	**49,180**	105,527	90,033	190,796	270,228
Accounts payable and accrued liabilities	**1,832,956**	**1,193,863**	**1,254,396**	**1,003,765**	1,262,072	862,582	1,099,731	957,362
Income taxes payable	**15,334**	**7,638**	**2,374**	**–**	6,737	3,259	–	2,742
Notes payable	**–**	**–**	**10,023**	**42,731**	41,618	41,055	39,251	35,355
Subordinated debt (2)	**–**	**–**	**–**	**–**	–	–	–	10,000
Shareholders' equity (2)	**287,830**	**246,095**	**223,618**	**226,658**	222,211	214,380	199,492	197,708
	$2,177,973	**$ 1,580,422**	**$ 1,550,013**	**$1,323,153**	$1,638,165	$1,217,620	$1,529,947	$ 1,514,140

(1) In fiscal 2006, deferred charges have been combined with accounts receivable. Figures for previous periods have been reclassified.
(2) As discussed in Note 1 of the audited consolidated financial statements, the Company adopted the requirements of CICA Handbook Section 1100 in which convertible debentures and subordinated debt are classified as liabilities. These consolidated financial statements have been adjusted to reflect the reclassification of these items as liabilities from the capital section of the balance sheet.

MISCELLANEOUS OPERATIONAL STATISTICS

	Fiscal 2006 Q4	Fiscal 2006 Q3	Fiscal 2006 Q2	Fiscal 2006 Q1	Fiscal 2005 Q4	Fiscal 2005 Q3	Fiscal 2005 Q2	Fiscal 2005 Q1
Number of employees in Canada								
Number in Private Client Services	**689**	**687**	**663**	**667**	657	647	638	642
Number in Canaccord Adams	**233**	**220**	**213**	**220**	209	194	185	198
Number in Other	**335**	**337**	**336**	**328**	324	316	314	308
Total Canada	**1,257**	**1,244**	**1,212**	**1,215**	1,190	1,157	1,137	1,148
Number of employees in UK								
Number in Canaccord Adams	**81**	**76**	**70**	**73**	70	67	66	54
Number of employees in US								
Number in Canaccord Adams	**150**	**–**	**–**	**–**	–	–	–	–
Number of employees firm wide	**1,488**	**1,320**	**1,282**	**1,288**	1,260	1,224	1,203	1,202
Number of Investment Advisors (1)	**430**	**433**	**425**	**418**	412	412	403	404
Number of licensed professionals	**763**	**759**	**727**	**720**	710	709	692	689
Number of PCS clients	**155,404**	**152,105**	**147,930**	**145,336**	144,451	140,915	138,684	140,553
Assets under management ($ millions)	**$ 613**	**$ 528**	**$ 475**	**$ 410**	$ 380	$ 344	$ 301	$ 274
Assets under administration ($ millions)	**14,310**	**12,183**	**11,495**	**9,954**	9,967	8,998	8,678	8,244
AUA per investment advisor ($ millions) (1)	**33**	**28**	**27**	**24**	24	22	22	20
Number of companies with Canaccord Adams Limited as Broker								
London Stock Exchange (LSE)	**1**	**2**	**2**	**5**	6	6	7	6
Alternative Investment Market (AIM)	**53**	**49**	**51**	**50**	51	44	37	35
Total Broker	**54**	**51**	**53**	**55**	57	50	44	41
Number of companies with Canaccord Adams Limited as Financial Adviser / Nomad (2)								
LSE	**1**	**2**	**2**	**4**	4	4	4	3
AIM	**49**	**46**	**46**	**45**	47	40	32	28
Total Financial Advisers / Nomad	**50**	**47**	**48**	**50**	51	44	36	31

(1) Investment Advisors (IAs) on long term disability and non-registrants are excluded from the total count. Historical statistics have been reclassified accordingly.

(2) A company listed on AIM is required to retain a Nominated Adviser (commonly referred to as a Nomad) during the company's life on the market. Nominated Advisers are responsible, amongst other duties, for warranting that a company is appropriate for joining AIM. The Nomad is similar to a Financial Adviser on the LSE, but is specific to AIM.

GLOSSARY

Accretive
Increased earnings per share from an acquisition after costs of the transaction and impact of the dilutive effect of the issuance of shares required for the purchase are considered.

Alternative Investment Market (AIM)
Junior arm of the London Stock Exchange (LSE) providing a global market for smaller, growing companies.

Assets under administration (AUA)
AUA is the market value of client assets administered by Canaccord, for which Canaccord earns commissions or fees. This measure includes funds held in client accounts, as well as the aggregate market value of long and short security positions. Management uses this measure to assess operational performance of the Private Client Services business segment.

Assets under management (AUM)
AUM are assets that are beneficially owned by clients and discretionarily managed by Canaccord as part of our *Independence Accounts* program. Services provided include the selection of investments and the provision of investment advice. AUM is also administered by Canaccord and is therefore included in AUA.

Book value per common share
Per share common equity calculated by subtracting liabilities from assets and dividing by outstanding number of shares.

Capital employed
A non-GAAP measure of capital: the aggregate of share capital, convertible debentures, cumulative foreign currency translation adjustments and retained earnings.

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

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

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

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

Employee Stock Incentive Plan (ESIP)
This stock purchase plan is aimed primarily at key capital markets employees who did not have a significant ownership position in the Company prior to its implementation.

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

Employee Treasury Stock Purchase Plan
Hiring plan under which the Company made a forgivable loan to an employee for the purpose of paying 40% of the aggregate purchase price of common shares of the Company issued from treasury. A repayable loan in the amount of 35% of the aggregate purchase price of the common shares was also made to the employee.

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

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

Forgivable stock purchase loan program
Forgivable loans, generally amortized over three years, granted by the Company to new employees for the purchase of CCI stock.

Immigrant Investor Program
A program in Quebec to provide assistance and credit to investor category immigrants to Canada.

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

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

International trading
Executing trades in Canadian securities on behalf of US brokerage firms and trading in US equities on behalf of Canadian clients.

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

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

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

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

Normal course issuer bid (NCIB)
A repurchase of the Company's own shares through a stock exchange, subject to various rules of the relevant exchange and securities commission.

Principal trading
Registered traders who trade equity securities on behalf of the Company in its principal and inventory accounts.

Return on average capital employed (ROCE)
A historical measure of capital in the business involving elements other than common equity. Replaced by ROE.

Return on average common equity (ROE)
Net income expressed as a percentage of average common equity.

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

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

Stock Compensation Plan (SCP)
This plan is aimed at rewarding and retaining IAs in the Private Client Services business segment, and was implemented as part of a reorganization in the compensation structure for IAs. Canaccord rewards IAs through this program on a sliding scale and certain minimum requirements based on their gross production.

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

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

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

CORPORATE GOVERNANCE

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

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

COMMUNICATION WITH INDEPENDENT MEMBERS OF THE BOARD

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

STRATEGIC PLANNING PROCESS

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

IDENTIFICATION AND MANAGEMENT OF RISKS

The Board's Mandate includes:

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

SUCCESSION PLANNING AND EVALUATION

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

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

COMMUNICATIONS AND PUBLIC DISCLOSURE

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

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

INTERNAL CONTROLS

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

- The Audit Committee meets no less than five times a year with the Company's Chief Financial Officer and senior finance staff to review internal controls over financial reporting and related information systems

- External auditors provide recommendations to the Audit Committee on an annual basis on the Company's internal controls and information systems

The Company's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2006, and concluded that these disclosure controls and procedures met the standards of effectiveness mandated by the Board and recommended as industry practice by external consultants.

GOVERNANCE

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

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

SUMMARY OF CHARTERS AND COMMITTEES

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

Audit Committee

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

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

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

Corporate Governance and Compensation Committee

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

BOARD OF DIRECTORS

Peter Brown, O.B.C., LL.D.: (1997) Chairman of the Board, Chief Executive Officer and a director of Canaccord Capital Inc. and Canaccord Capital Corporation. In 1968 he joined Hemsworth, Turton & Co., Ltd., which subsequently became known as Canaccord Capital Corporation. Since 1968, Mr. Brown has been involved in the Canadian capital markets. Mr. Brown is currently a member of the board of directors of the IDA – Industry Association and is a past member of the board and of the executive committee of the Investment Dealers Association. He is a past Chairman of the Board of the University of British Columbia, the Vancouver Stock Exchange, BC Place Corporation and BC Enterprise Corporation. He was also the Vice Chairman of Expo '86 Corporation. He is currently on the board of trustees for the Fraser Institute, a Canadian research organization. He is a past member of the Chief Executives Organization and the Young Presidents Organization. He is a former member of the board of governors of the Atlantic Institute for International Affairs, the CICA Accounting Research Advisory Board and the Council for Business and the Arts in Canada. Mr. Brown is a past recipient of the BC Chamber of Commerce Businessman of the Year award. He was awarded the BC & Yukon Chamber of Mines Financier Award for 2000, the Ernst & Young Pacific Entrepreneur of the Year Award for 2001 and in 2002 the Distinguished Service Award by the Prospectors and Developers Association of Canada. In January 2003, Mr. Brown received a Commemorative Medal for the Golden Jubilee of Her Majesty Queen Elizabeth recognizing his community service. In June 2003, he was awarded the Order of British Columbia recognizing his fundraising efforts for various charities and organizations in British Columbia as well as the vital role he has played in financing hundreds of British Columbia businesses. In February 2004, Mr. Brown was named "Person of the Year" by the Brotherhood Inter-Faith Society of British Columbia. In 2005 Mr. Brown received an honorary Doctor of Laws from the University of British Columbia.

Michael Greenwood: (1997) President & Chief Operating Officer. Joined Canaccord in 1994 and has more than 22 years of experience in corporate and government finance. Mr. Greenwood is Vice Chairman and a member of the board of the Canadian Investor Protection Fund and was a member of the Board of the Investment Dealers Association. Mr. Greenwood is not currently a director of any other public company.

Arpad A. Busson: (2005) A founding member of the Alternative Investment Management Association (AIMA). He helped pioneer the Moore Group and the Tudor Group (two of the largest and best known hedge fund management groups in the world). Mr. Busson founded the EIM Group, one of the largest funds of funds in the world. He has served on different panels internationally as a hedge fund industry expert.

William Eeuwes: (2002) Vice President of Manulife Capital, with more than 25 years of experience in underwriting and the management of a broad range of asset classes. Mr. Eeuwes is a Fellow of the Institute of Canadian Bankers and is a director of a number of other public companies.

Michael Harris: (2004) senior business advisor with Goodmans LLP in Toronto and Premier of the Province of Ontario from 1995 to 2002. Mr. Harris is also a director of a number of other public companies, serves as a director of the Tim Horton Children's Foundation and sits on the board of St. John's Rehabilitation Hospital.

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

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

Terrence Lyons: (2004) Chairman of Northgate Minerals Corporation and a director of B.C. Pacific Capital Corporation, Diamonds North Resources Ltd. and several private companies. In 1986, he became Senior Vice President of Versatile Corporation and presided over the restructuring of the corporation, which is now known as B.C. Pacific Capital Corporation, a senior merchant and investment banking company, which is part of Brookfield Asset Management.

James Pattison, O.C., O.B.C.: (2004) Chairman, Chief Executive Officer and sole owner of The Jim Pattison Group. Mr. Pattison held the position of Chairman and President of Expo '86 Corporation, served as a director on a number of boards and continues to serve as a trustee on the board of the Ronald Reagan Presidential Foundation. He is currently a director of a number of other public companies. Mr. Pattison is not standing for re-election for fiscal 2007.

Paul D. Reynolds: (2005) President & Chief Operating Officer of Canaccord Adams Limited. As of April 1, 2005, Mr. Reynolds was appointed Vice Chair, Global Head of Canaccord Adams, for Canaccord Capital Corporation. He joined Canaccord in 1985. He has been integral to the development of Canaccord's business in Europe and a primary contributor in positioning Canaccord as a leader in small to medium sized European equity markets.

John Zaozirny, Q.C.: (2004) Joined Canaccord Capital Corporation in January 1996 as a director and Vice-Chairman of its Board and is a member of its capital markets group. He also serves as counsel to McCarthy Tétrault LLP and is a member of the Law Societies of Alberta and British Columbia. Mr. Zaozirny served in the Alberta legislature as minister of energy from 1982 to 1986. He is also a director of a number of other public companies.

The date appearing after the name of each director indicates the year in which he became a director. The term of office will expire at the next Annual General Meeting in 2006.

OTHER EXECUTIVES

John Adams (Boston, MA)
Chairman, Canaccord Adams Inc. (US)

Jamie Brown (Boston, MA)
Managing Director, Head of Investment Banking (US)

Paul Chalmers (Vancouver, BC)
Executive Vice President

Paul DiPasquale (Vancouver, BC)
Executive Vice President & Branch Manager,
17th Floor Branch (Bentall)

Kevin Dunn (Boston, MA)
President & CEO, Canaccord Adams Inc. (US)

Matthew Gaasenbeek (Toronto, ON)
Executive Vice President & Managing Director,
Institutional Sales and Trading (Canada)

Tom Gabel (Boston, MA)
Managing Director, Co-Head of Equities (US)

Richard Grafton (Calgary, AB)
Executive Vice President & Managing Director,
Global Co-Head Energy

Andrew Jappy (Vancouver, BC)
Executive Vice President & Chief Information Officer

Neil Johnson (London, UK)
Managing Director, Head of Corporate Finance (UK)

Karl Keegan (London, UK)
Managing Director, Head of Research (UK),
Global Sector Head of Life Sciences Research

Michael Kendall (London, UK)
Chief Financial Officer of Canaccord Adams Limited

Bradley Kotush (Vancouver, BC)
Executive Vice President & Chief Financial Officer

Robert Larose (Vancouver, BC)
Executive Vice President, Head of Private Client Services

Nigel Little (London, UK)
Managing Director, Head of Equities (UK)

Mark Maybank (Toronto, ON)
Executive Vice President, Deputy Head of Canaccord
Adams, Global Head of Research

Jens Mayer (Toronto, ON)
Executive Vice President & Managing Director,
Head of Investment Banking (Canada)

Eric Prouty (Boston, MA)
Managing Director, Head of Research (US)

Mike Viracola (Boston, MA)
Managing Director, Co-Head of Equities (US)

Peter Virvilis (Vancouver, BC)
Executive Vice President & Treasurer

William Whalen (Montreal, PQ)
Executive Vice President, Fixed Income

LOCATIONS

PRIVATE CLIENT SERVICES

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P.O. Box 10337
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32071 South Fraser Way
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Telephone: (604) 504-1504
Toll Free: 1-877-977-5677

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Campbell River, BC
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Nanaimo, BC
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San Francisco, CA
USA 94104
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Toll Free: 1-800-225-6104

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USA 77002
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OTHER LOCATIONS

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

Registered Trading (1)

Burlington
Burlington Mall
Suite 206
777 Guelph Line
Burlington, ON
Canada L7R 3N2
Telephone: (905) 681-3675

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

SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS:

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

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

STOCK EXCHANGE LISTING:

TSX: CCI
AIM: CCI

GENERAL SHAREHOLDER INQUIRIES AND INFORMATION:

Investor Relations
2200 – 609 Granville Street
Vancouver, BC, Canada
Phone: 604-643-0128
Fax: 604-643-1878
Email:
investor_relations@canaccord.com

MEDIA RELATIONS:

Scott Davidson
Managing Director(1), Global Head of Marketing & Communications
Phone: 416-869-3875
Email: scott_davidson@canaccord.com

INSTITUTIONAL INVESTORS, BROKERS AND SECURITY ANALYSTS:

For financial information inquiries contact:
Anthony Ostler
Senior Vice President, Group Risk & Capital Management
2200 – 609 Granville Street
Vancouver, BC, Canada
Phone: 604-643-7647
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Email: anthony_ostler@canaccord.com

This CCI 2006 Annual Report is available on our Web site at www.canaccord.com. For a printed copy please contact the Investor Relations department.

COMMON SHARE TRADING INFORMATION (FISCAL 2006)

Stock exchange	Ticker	Shares (diluted) outstanding at March 31, 2006	Year end price March 31, 2006	High	Low	Total volume of shares traded
Toronto TSX	CCI	47,827,350	$20.80	$21.25	$9.00	22,736,244
London AIM	CCI	47,827,350	1,005.00p	1,005.25p	417.25p	408,500

FISCAL 2006 DIVIDEND DATES AND AMOUNTS

Quarter end date	Record date	Payment date	Dividend
June 30, 2005	August 24, 2005	September 9, 2005	$0.06
September 30, 2005	November 25, 2005	December 9, 2005	$0.06
December 31, 2005	February 24, 2006	March 9, 2006	$0.08
March 31, 2006	May 26, 2006	June 9, 2006	$0.08
		Total dividends	$0.28

QUALIFIED FOREIGN CORPORATION

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

(1) Subject to regulatory approval.

FISCAL 2007 EXPECTED DIVIDEND AND EARNINGS DATES

	Earnings release date	Dividend record date	Dividend payment date
Q1/07	August 4, 2006	August 25, 2006	September 8, 2006
Q2/07	November 9, 2006	November 24, 2006	December 8, 2006
Q3/07	February 8, 2007	February 23, 2007	March 8, 2007
Q4/07	May 17, 2007	June 1, 2007	June 8, 2007

SHAREHOLDER ADMINISTRATION:

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

COMPUTERSHARE INVESTOR SERVICES INC.:

100 University Avenue, 9th Floor
Toronto, ON, M5J 2Y1
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: www.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 www.canaccord.com/financialreports

AUDITOR:

Ernst & Young LLP
Chartered Accountants
Vancouver, BC

FEES PAID TO SHAREHOLDERS' AUDITORS:

For fees paid to shareholders' auditors, see page 35 of the fiscal 2006 Annual Information Form.

PRINCIPAL SUBSIDIARIES:

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

CORPORATE WEB SITE:

www.canaccord.com

EDITORIAL SERVICES:

Clodman Hecht Communications Inc.

ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders will be held on Friday, August 4, 2006 at 2:00 pm (Pacific time) at The Four Seasons Hotel, Crystal Ballroom, 791 West Georgia Street, Vancouver, BC, Canada.

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

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

INTERBRAND

CANACCORD

CAPITAL