



CANACCORD CAPITAL INC.
ANNUAL INFORMATION FORM

For the fiscal year ended March 31, 2005

June 10, 2005

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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 regarding 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" 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 financial statements and this 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.

Notes:

Unless otherwise indicated or the context otherwise requires, the "Company" refers to Canaccord Capital Inc., "Canaccord" and the "Canaccord group" refer to the Company and its direct and indirect subsidiaries.

The Company's fiscal year end is March 31. Unless otherwise indicated, "fiscal" in connection with a year relates to the 12 month period ended March 31 in that year.

Unless otherwise indicated, the information provided herein is as of March 31, 2005 and expressed in Canadian dollars.

Corporate structure:

Name, address and incorporation

Canaccord Capital Inc. was incorporated as Canaccord Holdings Ltd. on February 14, 1997 by the filing of a memorandum and articles with the Registrar of Companies for British Columbia under the *Company Act* (British Columbia) and continues in existence under the *Business Corporations Act* (British Columbia). Pursuant to resolutions of the shareholders passed at the annual general meeting of the Company on June 21, 2004 and the subsequent filing of a notice of alteration to its articles and pursuant to an arrangement approved by an order of the Supreme Court of British Columbia made June 22, 2004, the Company changed its name to Canaccord Capital Inc. and altered its capital by converting all previously outstanding classes of common shares, preferred shares and debentures into common shares. The arrangement was made effective on June 30, 2004.

The Company's head office is located at 609 Granville Street, Vancouver, British Columbia, V7Y 1H2. The Company's registered office is located at 1000 – 840 Howe Street, Vancouver, British Columbia, V6Z 2M1.

Intercorporate relationships

The Company owns, either directly or indirectly, all of the outstanding shares of the following principal subsidiaries:

<u>Name of subsidiary⁽¹⁾</u>	<u>Jurisdiction of incorporation</u>	<u>Principal business</u>
Canaccord Capital Corporation	British Columbia	Investment dealer in Canada
Canaccord Capital (Europe) Limited	England and Wales	Investment dealer in the United Kingdom
Canaccord Capital Corporation (USA), Inc.	Minnesota	Broker dealer in the United States engaged in retail and institutional trading
Canaccord International Ltd.	Barbados	Bank and investment dealer outside Canada, the United States and the United Kingdom

General development of the business:

Introduction

Canaccord is a leading independent full service investment dealer with substantial operations in each of the two principal segments of the securities industry: Private Client Services and Global Capital Markets. Together these operations offer a wide range of complementary investment products, brokerage services and investment banking services to Canaccord's retail, corporate and institutional clients. Canaccord has approximately 1,260 employees worldwide, including 434 Investment Advisors (IAs) with 28 offices across Canada and internationally. Canaccord's corporate headquarters is located in Vancouver, British Columbia with other principal offices in Canada located in Toronto, Montreal and Calgary. Canaccord's European and international operations are conducted through its offices in London, England and Barbados.

Canaccord, through the succession of various predecessor corporations, has been in business since 1950. As fundamental changes occurred in the Canadian financial services industry, Canaccord adopted a focused growth strategy to become one of the leading independent investment dealers in Canada. To reach this achievement, Canaccord made significant investments in its business infrastructure with a focus on building strong client relationships.

Canaccord's substantial investment in its infrastructure over the last decade has enabled it to create and support:

- An extensive network of offices and IAs providing quality products and services to private clients;
- An integrated and international Global Capital Markets group to meet the financing needs of a broad range of corporate clients and to provide sales and trading services to institutional clients, as well as comprehensive and timely research on a universe of 300 companies across five sectors

⁽¹⁾ In addition to the principal subsidiaries listed above, there are five smaller operating subsidiaries.

One of Canaccord's core strengths is its independence. With approximately 60% of its outstanding shares being employee owned, Canaccord is independent, entrepreneurial and free from the institutional constraints and conflicts that can exist at larger financial institutions. This independence also allows Canaccord to provide some of the best in local and international products for its clients and to act quickly when opportunities arise or when prompt solutions need to be found.

Canaccord has reached a size and industry presence which management believes gives the Company a competitive advantage over other Canadian independent investment dealers. Canaccord has achieved operating diversification across multiple business lines, products, services, industry sectors and deal sizes. Geographical diversity is further enhanced through operations in North America and Europe. With its product and regional diversification, Canaccord is not dependent on any one segment for a significant percentage of its revenue.

Canaccord has one of the largest non-bank retail brokerage sales forces in Canada and therefore has significant opportunities to drive growth in its Private Client Services segment. The addition of two new branches in key target markets during fiscal 2005, White Rock, British Columbia and Halifax, Nova Scotia, contribute to the growth and further diversification of the Company on a geographic basis. The proposed elimination of the RRSP foreign content restrictions will, over time, lead to a shift into international investments that Canaccord is strategically positioned to facilitate, due to its international reach.

The Company has devoted substantial resources to the establishment of its international presence through its office in London, England. The London office is focused on providing service to Canaccord's corporate and institutional clients within the European capital markets community. Given its European capital markets expertise combined with its capital markets strength in Canada, Canaccord is well positioned to provide its clients with a wide array of international financing services and alternatives.

In spite of its growth and expansion, Canaccord continues to maintain an integrated global team and a corporate culture that is instrumental in attracting and retaining highly qualified professionals. Canaccord has successfully developed and nurtured an entrepreneurial culture among its IAs, Global Capital Markets employees and professional staff. These professionals are experienced individuals who wish to serve their clients in an environment free from the highly structured corporate culture often found at the larger dealers where an emphasis is placed on in-house products.

Three year history

In the last three years, Canaccord has focused primarily on the development of its two principal business units and its operating infrastructure to support the operations of these business units, including the development of leading proprietary information systems and technology.

Canaccord's strategy has been to build on the foundation which it has created and to focus on its complementary capabilities that include:

- a substantial and prominent network of Private Client Services IAs
- strong private client, corporate and institutional relationships
- capital markets strength and expertise in North America and Europe
- established international trading operations
- extensive venture capital capability
- comprehensive, timely and focused research coverage

To optimize its growth potential and to respond more effectively in today's competitive environment, Canaccord completed an Initial Public Offering (IPO) in June 2004. On June 23, 2004 the Company filed a final prospectus in respect of the IPO, which consisted of an offering by the Company of 6,829,268 common shares for gross proceeds of \$70.0 million and a secondary offering by certain selling shareholders of 2,926,830 common shares for gross proceeds of \$30.0 million. The IPO was completed on June 30, 2004. The selling shareholders also granted to the underwriters, at any time until July 30, 2004, the option to purchase up to an additional 1,463,415 common shares on the same terms as the IPO to cover over-allotments, if any, and for market stabilization purposes. The option to purchase the additional shares was not exercised by the underwriters.

Going public was a significant milestone toward the Company's goal of remaining a pre-eminent independent Canadian investment dealer and becoming the first dealer of choice for many highly qualified professionals. In addition, the funds received from the IPO enhanced Canaccord's profile for further business development and recruitment, provided the Company with additional capital to expand its network of IAs and further develop its Private Client Services and support increased Global Capital Markets activity. Canaccord also now has improved flexibility in designing equity based incentive programs, the ability to use publicly traded securities to finance strategic acquisitions in the future and greater flexibility in responding to opportunities that may arise in the event of any structural or competitive changes within the financial services sector in Canada.

The following table provides a breakdown of Canaccord's revenue for the three year period ending March 31, 2005:

<i>(\$ thousands of dollars)</i>	<u>Revenue for the year ended March 31</u>		
	2005	2004	2003
Private Client Services	178,176	175,983	97,784
Global Capital Markets	239,654	211,758	91,629
Other	14,948	14,416	9,793
Total	<u>432,778</u>	<u>402,157</u>	<u>199,206</u>

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 general economic conditions. Key in the development of Canaccord has been its ability to reduce volatility in its revenue stream without losing the ability to capitalize on strong markets.

Our business is correlated to the overall condition of the North American equity markets, including the seasonal variance in those markets. In general, North American capital markets are slower in the first half of our fiscal year, with the spring and summer quarters generally contributing approximately 35% to 40% to total annual revenue.

The quality of Canaccord's revenue from fiscal 2003 to fiscal 2005 validates the Company's strategy of focusing on generating more recurring revenue, maximizing its operational leverage by expanding the number and quality of its Private Client Services representatives and creating the breadth and depth in capital markets coverage to be well positioned for variable market cycles. Revenue earned by Canaccord in 2003 was higher than the revenue of \$170.4 million in fiscal 2002 as the economy showed signs of recovery, investor confidence strengthened and corporate activity increased. Revenue increased from \$199.2 million in fiscal 2003 to \$432.8 million in fiscal 2005.

The increase in Private Client Services revenue during this period reflected increased trading activities from improved market and economic conditions. The rise in Global Capital Markets revenue during this period is from increased financings by corporate issuers and the expanding capability of Canaccord's Global Capital Markets group, in North America and Europe. Revenue derived from Canaccord's Global Capital Markets operations in North America increased from \$63.2 million in fiscal 2003 to \$123.6 million in fiscal 2005, primarily from higher commission revenue and increased corporate finance activities. Another area for future growth for Global Capital Markets is the North American income trust market. This sector has become a major part of Canada's investment market which has grown from a market capitalization of \$9 billion in 1996 to over \$114 billion by December 2004.

Over the past three years, Canaccord has continued to develop its European presence from its operations based in London, England. Canaccord is one of the leading Nominated Advisers (Nomads) for new admissions to the Alternative Investment Market (AIM), the junior arm of the London Stock Exchange (LSE), and the only Canadian dealer licensed as a Nomad and approved to act as a sponsor for new listings on the LSE. Capital markets revenue derived from European based activity increased from \$28.5 million in fiscal 2003 to \$116.1 million in fiscal 2005 and as at March 31, 2005, Canaccord was Nomad to 47 companies on the AIM and was either the broker or Nomad to five of the top 10 AIM companies by market capitalization.

At the beginning of fiscal 2005, Canaccord's Global Capital Markets division integrated its North American and European operations. Effective April 1, 2005, the Company also implemented a new compensation payouts structure in Global Capital Markets to provide an improved balance between producers and shareholders. Going forward, shareholders will benefit by the reconstituted and reshaped profitability profile that was created for this business, as the compensation structure within Global Capital Markets is more closely aligned with the revenue from the business.

Canaccord's revenue by geographic segment for the three year period is as follows:

(\$ thousands of dollars)	<u>Revenue for the year ended March 31</u>		2003
	2005	2004	
North America	316,688	317,668	170,742
UK and Europe	116,090	84,489	28,464
Total	<u>432,778</u>	<u>402,157</u>	<u>199,206</u>

Revenue in North America is derived from the activities of Private Client Services, Global Capital Markets and Other segments, while revenue from the UK and Europe is derived entirely from Global Capital Markets activities.

Canaccord has implemented the following initiatives in its continued commitment to future growth and strategic competitiveness:

- Development of its correspondent brokerage services operation known as Pinnacle
- Establishment of a new Energy team in Calgary
- Implementation of an electronic new issues system
- Expansion and deepening of its presence in the core sectors of Mining and Metals, Energy, Technology and Media, Health Sciences and Diversified Industries

Effective April 1, 2005, Canaccord successfully implemented two employee stock purchase plans. The first plan, called the Employee Stock Purchase Plan (ESPP), is aimed at all of Canaccord's existing full-time permanent employees while the second plan, called the Employee Stock Incentive Plan (ESIP), is aimed at Canaccord's key executive-level employees. The ESPP facilitates the purchase by employees of Canaccord's shares on the open market. Employee contributions are matched by the Company to a maximum of \$1,500 per year per employee. As of April 1, 2005, over 46% of all eligible employees had enrolled. The ESIP targets key executive-level employees of Canaccord and is a component of an overall incentive compensation package. It has been designed to align the interests of our key employees with those of our shareholders, while at the same time rebalance employee share ownership, particularly within the Global Capital Markets group.

On the basis of an estimated share price of \$10 per share, it is estimated that the ESIP will cost Canaccord \$10 million; this cost will be amortized over a four year period. It is estimated that the total annual cost of these plans will be approximately 1% of annual consolidated revenue.

In June 2005, Canaccord was admitted to AIM in London, UK. Canaccord is now publicly traded on the Toronto Stock Exchange in Canada and on AIM in the UK. Management believes that this will provide Canaccord and its shareholders with greater visibility, liquidity and a broader group of market comparables.

Description of the business:

Overview

Canaccord has substantial operations in each of the two principal segments of the financial services industry: Private Client Services and Global Capital Markets. These activities are supported by an infrastructure comprised of correspondent brokerage services, operations, information technology, compliance, legal and finance teams.

Canaccord 1,260 employees	
<p style="text-align: center;">Private Client Services 657 employees</p> <p style="text-align: center;"><i>Investment advice</i> <i>Brokerage services</i> <i>Portfolio managed accounts</i> <i>Fee- based accounts</i> <i>Financial planning services</i> <i>Manulife products</i></p> <ul style="list-style-type: none"> ● 25 retail offices throughout Canada ● Revenue for fiscal 2005 of \$178.2 million ● Assets under administration of \$10 billion 	<p style="text-align: center;">Global Capital Markets 279 employees</p> <p style="text-align: center;"><i>Institutional equity sales and trading</i> <i>International and principal trading</i> <i>Research</i> <i>Fixed income trading</i> <i>Investment banking</i> <i>Venture capital</i></p> <ul style="list-style-type: none"> ● Offices in Vancouver, Toronto, Calgary, Montreal, London, England and Barbados ● Revenue for fiscal 2005 of \$239.7 million ● Global Capital Markets participated in 408 financing transactions with an aggregate deal value of \$25.4 billion. This includes: <ul style="list-style-type: none"> ➢ Global Capital Canada –360 financing transactions with an aggregate deal value of \$24.2 billion, ➢ Global Capital Markets UK and Europe – 48 financing transactions with an aggregate deal value of \$1.2 billion.
<p>Other 324 employees</p> <p style="text-align: center;"><i>Correspondent brokerage services</i> <i>Operations</i> <i>Information technology and systems</i> <i>Compliance, legal and risk management</i> <i>Finance</i></p>	

Private Client Services

Canaccord's private clients are primarily individuals and high net worth accounts located in Canada, the United States, Europe and internationally. Canaccord provides a broad range of financial services and investment products to its private clients, including both third party and proprietary products.

Private Client Services revenue is generated through traditional commission based brokerage services, the sale of fee-based products and services and through fees earned by Private Client Services IAs with respect to corporate finance and venture capital transactions. Commission revenue from the sale of investment products and the provision of brokerage and other financial services is based on an established commission schedule. Discounts and adjustments from this schedule may be given, based on a client's level of business, transaction size, complexity and other relevant factors.

The Private Client Services group also offers various wealth management services with a fee-based structure, in addition to the traditional commission fee structure. As the number of individuals near retirement increases, the demand and requirement for various wealth management products and financial planning services increases. With these changing demographics, more clients are choosing fee-based alternatives over traditional, commission based products and services.

At the end of fiscal 2005, Canaccord had 434 IAs, having successfully recruited 53 new IAs in 2005, mainly from bank owned dealers. In the 2005 Brokerage Report Card from *Investment Executive*, Canaccord was ranked second overall in the latest annual survey of investment advisors on how they rate their firms.

Canaccord's Private Client Services group has 25 retail offices throughout Canada in the following locations:

<u>British Columbia</u>		<u>Yukon</u>	<u>Alberta</u>	<u>Ontario</u>	<u>Québec</u>	<u>Nova Scotia</u>
<i>Abbotsford</i>	<i>Prince George</i>	<i>Whitehorse</i>	<i>Calgary</i>	<i>Kingston</i>	<i>Beloil</i>	<i>Halifax</i>
<i>Campbell River</i>	<i>Vancouver</i>		<i>Edmonton</i>	<i>Oshawa</i>	<i>Laurentides</i>	
<i>Christina Lake</i>	<i>Vernon</i>			<i>Ottawa</i>	<i>Montreal</i>	
<i>Kelowna</i>	<i>Victoria</i>			<i>Simcoe</i>	<i>Québec City</i>	
<i>Nanaimo</i>	<i>White Rock</i>			<i>Toronto</i>		
<i>Penticton</i>				<i>Waterloo</i>		

Services

The Private Client Services group at Canaccord is dedicated to providing a variety of comprehensive brokerage services and wealth management products and services to its longstanding clients. Our IAs assist their clients to build their financial assets and maximize their returns within the context of their investment objectives and risk tolerance. Canaccord offers its clients various account structures such as commission based accounts, fee-based accounts, managed accounts and margin accounts.

Canaccord's Private Client Services provide the following services:

- Investment advice
- Brokerage services
- Research
- Portfolio managed accounts
- Fee-based accounts
- Retirement savings plans
- Financial planning services
- Insurance products
- Online account access
- Manulife products

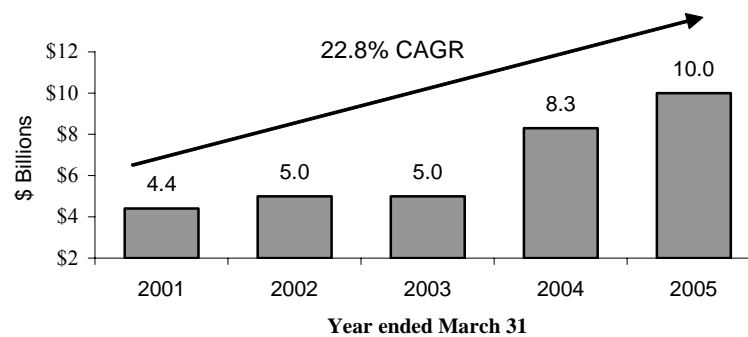
The products and services listed above complement each other and support Canaccord's overall services for its private clients. Traditionally, revenue in this segment has been generated through transaction based commissions. However, changing demographics over the last decade have brought about a change in client's financial needs and, as a result, demand for managed account products such as separately managed accounts, retirement planning and wealth management services has increased. By responding to these expectations, Canaccord expects the composition of its Private Client Services revenue will increasingly reflect a greater proportion of recurring, managed product fee revenue.

In February 2005, Canaccord, together with Manulife Bank, launched a unique high interest savings account that is treated like a mutual fund. This account offers some of the most competitive short term rates available to the public. Three months after the launch, this program has already accumulated approximately \$76 million in assets.

Assets under administration

As of March 31, 2005, assets under administration (AUA) was \$10 billion, which has increased at a 22.8% compound annual growth rate (CAGR) since 2001. A large portion of the growth in AUA reflects assets of clients of newly recruited IAs and investors attracted to the Company by its existing advisory force, as well as growth in the market value of existing assets.

Assets under administration ⁽¹⁾



⁽¹⁾ Assets under administration is the market value of client assets administered by Canaccord in respect of which Canaccord earns commissions or fees. This measure includes funds in client accounts as well as the aggregate market value of long and short security positions on an absolute basis. Assets under administration is not a recognized measure under Canadian generally accepted accounting principles. Canaccord's method of calculating assets under administration may differ from the methods used by other companies and accordingly the assets under administration used herein may not be comparable to measures used by other companies.

Separately managed accounts

Separately managed accounts (SMAs) are designed so that each account has individual ownership of securities rather than ownership of a pooled fund. Accounts are charged an all inclusive fee based on account size.

Canaccord has developed a new SMA Program known as the *Alliance Program*. This program includes *Canaccord's* internally managed *Independence Account* which offers professional portfolio management with a choice of strategies based on a client's investment objectives and a minimum account size of \$100,000. Account holders receive weekly strategy notes from the portfolio managers describing current market conditions and portfolio transactions, as well as quarterly presentations.

Building on the success and momentum of *Canaccord's Independence Account*, the Company expanded its SMAs product line during fiscal 2005 to include a selection of four external portfolio managers with additional investment mandates: Jarislowsky Fraser, KBSH, Legg Mason Brandywine and Seamark Asset Management Limited. Together, these accounts offer professional portfolio management with a choice of strategies based on a client's investment objectives.

Global Capital Markets

Canaccord's Global Capital Markets group operates as an integrated team in North America and in the UK and with a dedicated team of sector-focused resources specialists, the Company is well positioned to assist commodities related companies. Canaccord has developed comprehensive corporate finance knowledge and expertise and strong research capabilities in the following industries: Mining and Metals, Energy, Technology and Media, Health Sciences and Diversified Industries.

The Global Capital Markets team provides comprehensive and high quality services to its corporate and institutional clients in:

- Institutional equity sales and trading
- International and principal trading
- Research
- Fixed income trading
- Investment banking
- Venture capital

Canaccord's ability to target and service key clients in global equity offerings is a strong differentiator and competitive advantage for the Company. According to the *Financial Post Data Group*, Canaccord's team of investment banking professionals in Canada participated in raising over \$25.3 billion for clients in equity financing transactions over \$1.5 million. According to the *Financial Post Data Group*, Canaccord participated in the highest number of transactions

amongst its peers with a total of 369 transactions, including equity financings, IPOs and mergers and acquisitions during fiscal 2005.

Top 10 investment dealers in Canada ranked by participation and number of led transactions – equity offerings over \$1.5 million

(Fiscal year 2005)

Dealer	Rank	Participation in # of transactions	Rank	Number of led transactions
Canaccord Capital	1	369	1	98
CIBC World Markets	2	265	2	90
BMO Nesbitt Burns	3	250	6	44
National Bank	4	239	8	32
RBC Dominion	5	226	4	65
TD Securities	6	221	14	22
Scotia Capital Markets	7	211	7	33
First Associates	8	209	9	32
GMP	9	204	3	85
Dundee Securities	10	201	5	45

Source: Financial Post Data Group as of March 31, 2005, underwriting table of equity transactions for Canadian issuers, placed both in Canada and the UK.

Global Capital Markets

<i>(in thousands of dollars)</i> Sectors	For the year ended March 31	
	Total transactions	2005 revenue
Mining & Metals	22%	30%
Energy	30%	41%
Technology & Media	7%	16%
Health Sciences	2%	2%
Diversified Industries	39%	11%
Total	100%	100%

During the year, Canaccord participated in raising over \$25.3 billion for 408 equity offerings over \$1.5 million, excluding venture capital. Of these transactions, 52% came from the Mining and Metals and Energy industries due to strong global market demand for natural resources. Canaccord also participated in 184 venture capital deals transactions over \$369.0 million.

Global Capital Markets - North America

<i>(in thousands of dollars)</i> Sectors	For the year ended March 31	
	Total transactions	2005 revenue
Mining & Metals	19%	34%
Energy	30%	35%
Technology & Media	3%	3%
Health Sciences	1%	4%
Diversified Industries	47%	24%
Total	100%	100%

Global Capital Markets - UK

(in thousands of dollars)

Sectors	For the year ended March 31	
	Total transactions	2005 revenue
Mining & Metals	35%	27%
Energy	29%	46%
Technology & Media	22%	24%
Health Sciences	7%	0%
Diversified Industries	7%	3%
Total	100%	100%

Equity offerings over \$1.5 million

(*\$ thousands of dollars*)

	For the year ended March 31			
	2005		2004	
	# of transactions	Aggregate deal value	# of transactions	Aggregate deal value
North America	360	24,165,421	311	20,068,254
UK	48	1,200,401	47	1,046,000
Total ⁽¹⁾	408	25,365,822	358	21,114,254

⁽¹⁾ Sources: Financial Post Data Group and Company sources – included in the 48 transactions in the UK are nine Canadian issuer transactions placed in the UK market.

Total revenue relating to mergers and acquisitions increased by \$1.7 million from \$1.3 million in fiscal 2004 to \$3.0 million in fiscal 2005. Canaccord has managed to penetrate further into this area by hiring corporate finance professionals in the past year with a mandate to help grow its mergers and acquisitions business. We will continue to invest in this service offering as Canaccord recognizes that revenue generated from mergers and acquisitions advisory services tends to be counter-cyclical to some of its other revenue streams and generates high margins with low capital requirements. In addition, Canaccord realizes that this area is a natural extension of services offered to its existing clients.

The Global Capital Markets group is made up of 279 employees and professionals primarily located in Vancouver, Toronto, Calgary, Montreal and London, England. Global Capital Markets is comprised of the following operating divisions:

- Capital markets
- International trading
- Registered traders
- Fixed income
- International (UK)

Revenue by business division

(*\$ thousands of dollars*)

	Revenue for the year ended March 31		
	2005	2004	2003
Capital markets ⁽¹⁾	95,559	88,821	35,601
International trading	15,452	16,800	7,491
Registered traders	4,275	11,493	10,564
Fixed income	8,278	10,155	9,509
International (UK) ⁽¹⁾	116,090	84,489	28,464
Total Global Capital Markets	239,654	211,758	91,629

⁽¹⁾ The revenue shown under capital markets relates to revenue generated in North America. Capital markets revenue generated through Canaccord's European operations is presented separately under International (UK).

Revenue

Global Capital Markets revenue 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. This revenue is directly affected by the level of corporate and institutional activity and general economic, market and business conditions in Canada and internationally.

Capital markets revenue

Capital markets revenue is derived from equity financing transactions, commissions, underwriting fees and management fees related to capital markets activity in North America.

International trading revenue

Canaccord has an extensive international trading operation with 20 employees who deal principally with US brokerage firms, executing orders on their behalf in Canadian listed equities and who trade in US equities on behalf of Canadian clients. Commission revenue is generated through this trading activity. Canaccord has developed a secure online trading capability which has been made available to selected US dealers for processing trades in Canadian securities through Canaccord's international trading operation. This system accesses Canaccord's order management system and delivers orders directly to the applicable exchange for execution and reporting.

Registered traders revenue

Canaccord has a total of 16 registered traders and four equity attorneys that trade on behalf of Canaccord in its principal and inventory accounts. This registered traders group operates by taking positions and by 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.

Fixed income

Canaccord's fixed income department includes 19 employees based in Montreal, Toronto and Vancouver. Canaccord trades on a principal basis in various fixed income instruments comprised mainly of Canadian and US government bonds and treasury bills, provincial bonds, securities of federal and provincial government agencies and crown corporations and corporate debt. Inventories of fixed income securities are generally carried to facilitate sales to clients. Canaccord also participates in the auction of and participates as an underwriter or as a selling group member in the distribution of, various government and corporate fixed income securities.

International (UK)

Canaccord's operation in Europe includes an institutional sales and trading team, a corporate finance team and a research department. 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 Europe, places Canaccord in a strong position to serve its corporate and institutional clients and capitalize on the opportunities in this market area.

Other segment

The Other segment includes correspondent brokerage services, interest, foreign exchange revenue and expenses not specifically allocable to Private Client Services and Global Capital Markets. Canaccord operates a correspondent brokerage services business under the name of Pinnacle Correspondent Services. Pinnacle provides secure and confidential fully integrated clearing and settlement, administrative, trading and research services to other 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. With the segregation of the Canadian securities industry into groups comprised of large dealers that are either bank or foreign owned, a limited number of larger full service independent dealers and a growing number of smaller boutique or specialized dealers, Canaccord's management believes that there is a significant growth opportunity available for providing correspondent brokerage services through the Pinnacle business unit to dealers in the boutique or specialized category.

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, legal, finance and all administrative functions. Canaccord has 324 employees engaged in these activities with 55 in the information technology group, 56 in compliance, 58 in finance, 114 in operations and the balance responsible for various administrative functions. The majority of these employees are based at Canaccord's headquarters in Vancouver, British Columbia. 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 and compliance. The compliance department is responsible for ensuring the firm complies with all legal and regulatory requirements as well as monitoring client credit.

Canaccord's front office information technology systems include applications for providing and enhancing client service and increasing the effectiveness and information access capabilities of Canaccord's IAs and Global Capital Market professionals. Canaccord's back office information technology systems include applications for information and transaction processing, control systems and management information reporting. All information technology systems are supported by an overall network architecture comprised of hardware, software and key relationships with strategic service providers. For more information, please refer to the Information technology section.

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.

Competition

There are a number of firms in Canada competing for private clients. These competitors are providers of financial services such as investment dealers, online brokerage firms, banks, insurance companies and other financial institutions and organizations. Many of these firms are larger, better capitalized and offer a greater range of products and services than Canaccord. Canaccord competes on the basis of quality of service, price, product selection, expertise, innovation and reputation.

In the capital markets area, Canaccord competes with other securities firms, both domestic and foreign, many of which have substantially more capital and resources than Canaccord and offer a wider range of financial services and capabilities. Canaccord competes on the basis of the caliber and abilities of its professional personnel, relative prices of the services and products it offers, capital available, institutional relationships, ability to assist with financing arrangements and quality of service.

There is also competition for investment advisors and other securities industry professionals. Canaccord competes with other financial institutions for advisors, investment bankers, trading professionals and other specialized personnel on the basis of the services and products it provides, its management, its motivational style, its entrepreneurial culture and its ownership and compensation structure.

Information technology

Canaccord is committed to providing its IAs, professionals and management with the information processing capability and real-time solutions required for maintaining a superior level of client service. Canaccord is also committed to ensuring that its technology platform continues to provide the resources necessary to meet the increased level of service, access to information and processing requirements critical for its future growth and business development. To accomplish these objectives, Canaccord's strategy is to invest in the best, most cost effective technology available and utilize strategic relationships to bring the latest in hardware, software and business process solutions to Canaccord.

An important factor in Canaccord's success to date, has been a strategy of developing strategic relationships with key industry suppliers enabling it to be free of the burden of legacy systems and providing it with the flexibility to adopt new technologies on a cost effective basis. With this strategy, Canaccord has developed key relationships with the following organizations:

- Dataphile (ADP) — a real-time integrated transaction system for client recordkeeping and reporting, multi-functional order management, transaction processing, account maintenance and account history
- Hewlett Packard — computer hardware and software related to servers, network storage, desktop hardware and critical systems support
- Telus — fully managed wide area network and telecommunications services
- Microsoft — software support for servers, workstations business systems
- Cisco — network and telecommunications equipment and network monitoring software
- Thomson — real-time stock quotes and market information
- Radiant Communications — internet content management and development software
- Clearlink — primary lease vendor for technology purchases

Canaccord also draws on the relationships described above for project development and non-strategic services allowing Canaccord's technology department to focus on strategic initiatives, business applications and systems and network management

Canaccord has invested over \$17.0 million in its technology platform and the development of its proprietary information systems over the last five years. The primary development projects since 2000 include improvements to Canaccord's network system and architecture, enhancement of client service through the addition of value-added information processing applications and improvements to control systems, information processing and management information reporting.

The successful completion of these projects, their effective deployment and Canaccord's continued investment in its information technology platform are significant factors in the overall efficiency and effectiveness of Canaccord's business.

Risk management

Uncertainty and risk are inherent with any financial markets activity. As an active participant in the Canadian and international capital markets, Canaccord is exposed to risks which 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, industry sectors and geographical diversification help to reduce risk and the overall impact of any volatility in revenues or profitability and to minimize the impact of any losses which 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 Canaccord's business, products and markets. Canaccord's senior management is actively involved with the risk management process and has developed policies and reports that require specific administrative procedures and actions to assess and control various risks. These policies and procedures are subject to ongoing review and modification as activities, markets and circumstances change.

Even with the policies and procedures which Canaccord has established for controlling or limiting risk, there is no certainty that such policies and procedures 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 market conditions, which may have a significant adverse effect on Canaccord's business and 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 as a result of its principal trading in fixed income securities. In addition to active supervision and review of trading activities by senior management, Canaccord mitigates its risk exposure through a variety of limits to control concentration, capital allocation and capital usage and 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 such transactions on a syndicated basis, requiring that all such transactions are 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". Losses arising as a result of any declines in market prices are therefore recognized at the time of such decline 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. 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 which 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 by individual 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 which guarantee performance. Historically, Canaccord has not incurred any material loss arising from a default by a counterparty.

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. 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 in respect of 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. Canaccord also 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. Currently, Canaccord is in the process of rolling out its upgraded business continuity plan.

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 with litigation and is a defendant in various legal actions. See Note 16 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.

Intellectual property

Canaccord protects its technology through a combination of copyrights, trade secrets and contractual arrangements. Canaccord relies on trademark and copyright law, trade secret protection and confidentiality arrangements. Canaccord pursues the registration of its trademarks and service marks in Canada, US and other countries as required.

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, as such, it is dependent on the level of market activity and investor confidence. Revenue from Global Capital Markets 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, accordingly, revenue and net income will fluctuate, as it has historically.

An investment in the common shares involves a number of risks, some of which, including market, liquidity, credit, operational, legal and regulatory risks, could be substantial and are inherent in the Company’s business and which include, but are not necessarily limited to, those set out below. Prospective investors should carefully consider the following information about these risks, together with other information in this document, before buying common shares. It should be noted that this list is not exhaustive, but contains those risks that the the Company consider 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 reduced revenue in periods of reduced demand for public offerings or reduced activity in the secondary markets and the risk of reduced 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 in any such scandals.

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 Global Capital Markets 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; level and volatility of interest rates; legislative and regulatory changes; exposure to fluctuations in currency values; inflation; inflows and outflows of funds into and out 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, have 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 have 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, have diverted many companies' attention away from capital market transactions, including corporate finance activities. It is unclear how long this uncertainty and diversion will last, but so long as it does, it may 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 expressed in Canadian dollars. Although Canaccord manages its foreign exchange risk by periodically hedging pending settlements in foreign currencies such procedures may not be adequate and any changes in currency values may have a material affect on the Company's business, results of operations and financial condition.

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

Canaccord's revenues 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 reduced 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 incur reduced revenue or losses in its principal trading and market-making activities.

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

Canaccord's revenues are likely to be lower during periods of declining prices or inactivity in the market for securities of companies in the sectors on which Canaccord is focused. Canaccord's business is particularly dependent on the market for equity offerings by companies in the Mining and Metals, Energy, Technology and Media, Health Sciences and

Diversified Industries sectors. These markets have historically experienced significant volatility not only in the number and size of equity offerings, but also in the aftermarket trading volume and prices of newly issued securities.

The growth in Canaccord's revenues is largely attributed to a significant increase in the number and size of underwritten transactions by companies in Canaccord's targeted 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 periods of market uncertainty occasioned by concerns over 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 revenue increased by more than 100% from fiscal 2003 to fiscal 2005, including more than a three-fold increase in investment banking revenue from Canaccord's UK and European operations. There can be no assurance that this revenue level can be sustained.

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 a co-manager) may retain significant position concentrations in individual securities. Increased competition has eroded and is expected to continue to erode underwriting spreads. Canaccord may also be subject to substantial liability for material misstatements or omissions in prospectuses and other communications 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 the highly skilled, and often highly specialized, individuals that Canaccord employs. The establishment and maintenance of relationships with clients and potential clients depends in part upon individual employees. Retention of IAs, investment banking, research, sales and trading professionals and management and administrative personnel is particularly important to Canaccord.

From time to time, other companies in the securities industry have experienced losses of investment advisors, investment banking, research and sales and trading professionals. 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 some of the same businesses that Canaccord operates. While Canaccord has historically experienced little turnover in professional employees, there can be no assurance that losses of key personnel due to such competition or otherwise will not occur in the future. The loss of an IA, 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 the number of its 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 continuing competition will cause compensation costs to continue to increase. There can be no assurance that Canaccord will be able to recruit a sufficient number of new employees with the desired qualifications, in a timely manner and on financial terms that are acceptable to Canaccord. The failure to recruit new employees could materially and adversely affect future operating results.

Canaccord generally, except with its IAs, does not have employment agreements with employees. 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 or for statements made by its securities analysts or other personnel. In recent years, there has been an increasing incidence of litigation involving the securities industry, including class actions that seek substantial damages. Canaccord is also subject to the risk of litigation, including litigation that may be without merit. As Canaccord intends to actively defend such litigation, significant legal expenses could be incurred. An adverse resolution of any future lawsuits against Canaccord could materially affect its operating results and financial condition.

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

The legal risks facing Canaccord also include potential liability under securities laws or through civil litigation in the event that Canaccord's IAs or employees violate investor suitability requirements, make materially false or misleading statements in relation to securities transactions, commit fraud, misuse client funds or breach any other statute 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 in respect of any such complaints or claims will not have a material adverse effect on Canaccord's operating results or financial condition.

Dependence upon availability of capital

Canaccord's business is dependent upon 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 Global Capital Markets activity and Private Client Services activity also require charges against capital for regulatory purposes. While Canaccord's existing capital is expected to be sufficient 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 terms that are acceptable to Canaccord.

Credit risk and exposure to losses

Canaccord is exposed to the risk that third parties that owe Canaccord money, securities or other assets will not perform 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 which 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 commences trading. Accordingly, the timing of recognition of revenue from a significant transaction can materially affect quarterly operating results. Canaccord's cost structure currently is oriented to meet the current level of demand for investment banking transactions. As a result, despite the variability of incentive compensation, Canaccord could experience losses if the demand for these transactions declines more quickly than its ability to change the cost structure. 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 competitors 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 of these 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 Investment Dealers Association (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 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 increased regulatory scrutiny that has led, for example, to increased sensitivity to the interaction between research analysts and investment banking departments of investment dealers. As a consequence, regulators have changed or proposed to change 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 what effect any such changes might have. Furthermore, businesses 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 and 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 its 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 continued 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 such systems. Any difficulty or significant delay in the implementation or operation of existing or new systems or the training of personnel could adversely affect its ability to manage growth.

As part of Canaccord's business strategy, it may acquire additional assets or businesses primarily relating to, or complementary to, its current operations. Any such 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 its ongoing business, diversion of management's time and attention and possible dilution to shareholders. Canaccord may not be able to successfully overcome these risks and other problems associated with acquisitions and this may adversely affect its business.

Dependence on systems

Canaccord's business is highly dependent on communications and information systems. Any failure or interruption of its systems, or of the systems of third parties including 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 its operating results. There can be no assurance that Canaccord will be able to prevent any such systems failure or interruption, 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 its back-up procedures and capabilities in the event of any such 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 such 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.

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. However, there may be situations where these procedures and methods do not adequately predict future risk exposure or where the 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 a 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, in either case, 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 June 1, 2005 existing employee and director shareholders collectively owned approximately 60% 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 have the effect of preventing Canaccord from entering into transactions that could be beneficial to it 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 The Manufacturers Life Insurance Company with 13.1% 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 that may result in changes in business focus or practices that may 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, which 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 for such directors to 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 the 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 particularly affected the market prices of equity securities of companies and that 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 with 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 subjective to future resolutions, management's evaluations 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.

Dividends:

The Company declared the following dividends on its common shares for fiscal 2005:

Quarter	Dividend	Special distribution	Record date	Payment date
Q4/05	\$0.11	-	May 23, 2005	June 10, 2005
Q3/05	\$0.05	\$0.15	February 23, 2005	March 10, 2005
Q2/05	\$0.05	-	November 23, 2004	December 10, 2004
Q1/05	\$0.05	-	August 25, 2004	September 10, 2004

For fiscal 2005, Canaccord paid dividends on the outstanding common shares equal to approximately 25% of the Company's net income. Effective with the commencement of fiscal 2006, the Board of Directors has changed the dividend policy from a percentage of net income to a fixed amount. In respect to fiscal 2006, Canaccord intends to pay a dividend of \$0.06 per share per quarter.

Although dividends are expected to be declared and paid quarterly, the board of directors, in its sole discretion, will determine the amount and timing of any dividends. Such determination will depend on general business conditions and the Company's financial condition, results of operations and capital requirements and such other factors as the board determines to be relevant.

Description of capital structure:

The authorized capital of the Company consists of an unlimited number of common shares, without nominal or par value and an unlimited number of preferred shares, issuable in series, of which 46,129,268 common shares and no preferred shares are issued and outstanding as at the date hereof.

Holders of common shares are entitled to receive dividends as and when declared by the Board of Directors of the Company and are entitled to one vote per share on all matters to be voted on at all meetings of shareholders. Upon voluntary or involuntary liquidation, dissolution or winding-up of the Company, the holders of common shares are entitled to share ratably in the remaining assets available for distribution, after payment of liabilities.

The preferred shares may be issued from time to time in one or more series. The Board of Directors of the Company may:

- (a) determine the maximum number of shares of each series or determine that there is no such maximum number or alter any such determination
- (b) create an identifying name for the shares of each series or alter such identifying name
- (c) attach special rights and restrictions to the shares of each series or alter any such special rights and restrictions

Restrictions on ownership and transfer of shares of the Company

Pursuant to rules established by certain securities regulatory authorities in Canada and the United States, the ownership of shares of an investment dealer is subject to certain restrictions. To enable Canaccord to comply with these requirements, the articles of the Company contain the following provisions:

- The Company may require a proposed subscriber or transferee of shares to submit a declaration with respect to the holding of shares of the Company as beneficial owner and any other matter that the directors consider relevant to determine if the registration of the subscription or transfer would result in a violation of the articles or applicable legislative or regulatory requirements. The Company also may require a declaration at any time if proxies are solicited from shareholders at any meeting of shareholders or before such a meeting or when, in the opinion of the directors, the holding of shares by any person could violate the articles or applicable legislative or regulatory requirements.
- The Company has the power to refuse to issue or record a transfer and to withdraw the voting rights, of any share of any class if:
 - (a) following the issue or recording of the transfer, the shareholder (along with his or her associates and affiliates) would beneficially own or control, directly or indirectly, a "significant equity interest" in the Company, unless the required approvals from all relevant securities regulatory authorities have been obtained; or
 - (b) the person requesting the issue or recording of the transfer refuses to sign and deliver a declaration with respect to his or her beneficial ownership of shares of the Company.

For these purposes, a "significant equity interest" in the context of the Company means:

- (a) in respect of the applicable rules of the Investment Dealers Association (IDA) and the Toronto Stock Exchange (TSX) Venture Exchange Inc., the holding of: (i) voting securities carrying 10%

- or more of the votes carried by all voting securities of the Company, (ii) 10% or more of the outstanding participating securities of the Company or (iii) an interest of 10% or more of the total equity in Canaccord Capital Corporation;
- (b) in respect of the applicable rules of the TSX, the holding, directly or indirectly and alone or in combination with any other person, of securities: (i) carrying 20% or more of the votes carried by all voting securities, (ii) carrying the right to receive 20% or more of any distribution of earnings and (iii) accounting for 20% or more of the total capital or equity of the Company;
 - (c) in respect of the applicable rules of the Bourse de Montréal Inc. (the Bourse) (where a significant equity interest is referred to as a “major position”), having the power to direct or cause the direction of the management or policies of Canaccord Capital Corporation whether through ownership of securities, by contract or otherwise and a person is considered to hold a major position in the capital of the Company pursuant to the rules of the Bourse if such person, directly or indirectly: (i) has the right to vote 10% or more of the voting securities or (ii) is entitled to receive 10% or more of the net profits of the Company;
 - (d) in respect of the applicable rules of the Autorité des marchés financiers in Québec, the direct or indirect ownership or holding of more than 10% of the voting rights attached to securities issued by the Company; and
 - (e) in respect of the applicable rules of the National Association of Securities Dealers in the United States, a change in the equity ownership of the Company that results in one person or entity directly or indirectly owning or controlling 25% or more of the equity.

The Company is entitled to sell, as agent, through a stock exchange designated by the directors of the Company or, in the absence of such a designation, by private contract or in any other manner, any number of shares of any class held by any person in violation of the articles, if the directors of the Company determine that the sale is necessary or advisable to ensure compliance with the articles and applicable legislative and regulatory requirements. The Company is also entitled to affect such a sale if a person fails to reply to a request for a declaration contemplated by the articles. Any such sale will be subject to certain procedural requirements (which are set out in the articles) including notice of the proposed sale.

These restrictions relating to the transfer and the issue of shares of the Company do not generally apply in the case of an issue or a transfer in favour of an investment dealer or a holding company of an investment dealer so long as the transfer is effected in the ordinary course of the activities of its securities business. The board of directors of the Company has the power to establish the rules and procedures that it considers necessary and appropriate to implement these provisions.

The *Financial Services and Markets Act 2000* (UK) places an obligation on controllers and proposed controllers of Canaccord Capital (Europe) Limited to obtain the approval of the Financial Services Authority before becoming a controller or increasing the level of control held (in certain circumstances). Failure to obtain approval is an offence under section 191(3) of the *Financial Services and Markets Act 2000* (UK). The Financial Services Authority has up to three months to consider whether to approve such a change in control. A controller or proposed controller should take this period into account when deciding when to give their notification. A “controller” in the context of Canaccord Capital (Europe) Limited is a person who (along with his or her associates) holds 10% or more of the shares in the Company or is able to exercise significant influence over the management of the Company through his or her shareholding in the Company.

These restrictions on the ownership and transfer of the common shares may have an effect on the marketability and liquidity of the common shares. For more information, please refer to the Risk factors section.

Market for securities:

The common shares of the Company are listed on the Toronto Stock Exchange (TSX) under the symbol “CCI”. The listing and trading activity commenced on June 30, 2004.

Trading price and volume

The following table presents the high and low closing prices and the monthly trading volume for the Company's common shares on the TSX.

Month	High	Low	Monthly Trading Volume
March 2005	\$10.72	\$9.75	1,188,253
February 2005	\$10.98	\$9.50	2,006,659
January 2005	\$10.85	\$8.75	1,234,851
December 2004	\$9.75	\$8.70	1,201,586
November 2004	\$9.65	\$8.60	615,071
October 2004	\$9.69	\$8.43	379,898
September 2004	\$8.74	\$7.96	445,310
August 2004	\$9.75	\$8.00	1,035,654
July 2004	\$10.80	\$9.41	5,958,730
June 2004	\$11.10	\$10.66	3,671,772

Escrowed securities:

The terms of the Escrow Arrangement, as referred to in the Company's Prospectus, impose an escrow on all common shares issued before the closing of the Initial Public Offering as follows:

- in respect of the common shares held by any shareholder (other than Manulife) who held immediately before the closing of the IPO 50,000 or more common shares, the shares not sold in the secondary offering component of the IPO are held in escrow and released as to 25% of the shares on the first, second, third and fourth anniversaries of June 30, 2004 (subject to earlier release in limited circumstances with the consent of the directors of the Company);
- in respect of the common shares held by any shareholder who held immediately before the closing of the IPO less than 50,000 common shares, these shares were held in escrow and released on December 27, 2004; and
- in respect of the common shares held by Manulife after June 30, 2004, the shares not sold in the secondary offering component of the IPO were held in escrow and released on December 27, 2004.

The common shares held in escrow as of June 1, 2005 are:

Escrowed Securities		
Designation of class	Number of common shares	Percentage of class
Common – Holders of more than 50,000 shares	25,653,788	56.2%

Directors and officers:

Name, occupation and security holding

Set forth below, for each director and executive officer of the Company is his name, municipality of residence, office, period of service and principal occupation during the immediately preceding five years. Each director of the Company holds office until the next annual general meeting of the shareholders of the Company (which has been called for August 5, 2005) or until his successor is duly elected or appointed, unless his office is earlier vacated in accordance with the articles of the Company or he becomes disqualified to act as a director. Each executive officer holds office at the pleasure of the Board of Directors.

Name, municipality of residence and position held	Principal occupation for the past five years	Director since
PETER M. BROWN Vancouver, B.C. Chairman of the Board and Director	Chairman of the Board and Chief Executive Officer of the Company and Canaccord Capital Corporation	1997 ⁽¹⁾
MICHAEL G. GREENWOOD Edmonton, Alberta President, Chief Operating Officer and Director	President and Chief Operating Officer of the Company and Canaccord Capital Corporation	1997 ⁽¹⁾
WILLIAM J. EEUWES ⁽²⁾⁽³⁾ Burlington, Ontario Director	Vice-President of Manulife Capital	2002
MICHAEL D. HARRIS ⁽³⁾ Toronto, Ontario Director	Senior business adviser of Goodmans LLP since 2002; Premier of the Province of Ontario from 1995 to 2002	2004
BRIAN D. HARWOOD ⁽²⁾ West Vancouver, B.C. Director	Retired business executive	2004
TERRENCE A. LYONS ⁽²⁾⁽³⁾⁽⁴⁾ Vancouver, B.C. Director	Chairman of the Board of Northgate Minerals Corporation	2004
JAMES A. PATTISON Vancouver, B.C. Director	Chairman of the Board, President and Chief Executive Officer of The Jim Pattison Group	2004
JOHN B. ZAOZIRNY Calgary, Alberta Director	Vice-Chairman of the Board of Canaccord Capital Corporation and counsel to McCarthy Tétrault LLP	2004

- (1) In 1968 Mr. Brown joined the company that formerly carried on the business of Canaccord Capital Corporation. He became a director of the Company in 1997 when the Canaccord group was reorganized and the Company was incorporated. Mr. Greenwood became a director of the Company at the same time. Mr. Greenwood has also been a director of Canaccord Capital Corporation since 1994.
- (2) Member of the Audit Committee
- (3) Member of the Corporate Governance and Compensation Committee
- (4) Mr. Lyons is the president and a director of FT Capital Ltd. which is presently subject to a cease trade order for failure to file financial statements. At the request of Brascan Financial Corporation, Mr. Lyons joined the board of FT Capital Ltd. and was appointed its President in 1990 in order to assist in its reorganization which is ongoing. Mr. Lyons has also been a director since 1991 of International Utilities Structures Inc. (IUSI). On October 17, 2003 IUSI was granted protection from its creditors under the *Companies' Creditors Arrangement Act* (CCAA) by the Court of Queen's Bench in Alberta. On March 31, 2005, an Order was granted approving final Plan and distribution to creditors for IUSI under the *Companies' Creditors Arrangement Act*. The Plan was accepted by all parties. Mr. Lyons resigned as Director concurrent with the final Order and was thanked for his efforts by the creditors.

In addition to Peter Brown and Michael Greenwood, the only other executive officers of the Company are Dennis Burdett of West Vancouver, B.C., who is the Executive Vice-President, Chief Financial Officer and Corporate Secretary of the Company and Canaccord Capital Corporation and Peter Virvilis of Vancouver, B.C., who is the Executive Vice-

President of Operations and Treasurer of the Company and Canaccord Capital Corporation. Mr. Burdett joined Canaccord in 1987 as Chief Financial Officer. Mr. Virvilis joined Canaccord in 1987 as Treasurer.

As of March 31, 2005, the directors and executive officers of the Company, as a group, beneficially own, directly or indirectly, or exercise control or discretion over, an aggregate of 6,332,709 common shares, representing approximately 13.7% of the common shares issued and outstanding.

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 which 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 for such directors to be in a conflict of interest.

Legal proceedings:

Canaccord, in the normal course of business as an investment dealer, is involved with 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 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 Canaccord and, although Canaccord 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 below.

Jitec class actions

In 2002, two actions were commenced in the Superior Court of Québec relating to Jitec Inc. (now Avantage Link Inc.) (Jitec). Both are class action proceedings in which the plaintiffs, who were shareholders of Jitec, claim that the principal defendant, Benoit Laliberté, the president and chief executive officer of Jitec, maintained the volume and share price of Jitec at an artificially high level by issuing false press releases, not filing trading reports and using a nominee who traded Jitec shares through Canaccord, CIBC World Markets Inc. and Leduc and Associates Securities (Canada) Ltd. Each of these investment dealers has been named as a defendant in the actions. In addition, the actions allege that Canaccord was negligent in the performance of certain due diligence conducted in connection with the reverse takeover by Jitec of Altavista Mines Inc. and the related \$9 million private placement for which Canaccord acted as underwriter. This private placement was completed on July 13, 2000.

Both of the Jitec actions have been certified as class action. The extent of the classes and the quantification of damages are yet to be determined. Canaccord has denied the allegations and intends to continue to vigorously defend itself against these claims.

Coastline corporation action

In 2002, an action was commenced in the Ontario Superior Court of Justice by Coastline Corporation, Forum Management Inc., George Georgiou, 742315 Ontario Limited c.o.b. as System 42, Andrew Zabransky, Walsten Aircraft Parts & Leasing Inc., 531197 Ontario Ltd., and Neil Walsten against Canaccord, Sprott Securities Limited and numerous individual defendants. The action stems from the allegedly inappropriate trading activities in the period of April 2000 to November 2001 by two former IAs of Sprott and subsequently Canaccord. The claim is for breach of fiduciary duty, breach of contract, negligence, deceit and misrepresentation on the part of the two IAs as part of a larger scheme to support certain issuers. The claims against Canaccord and Sprott include a claim of failure to supervise. The damages claimed in the Coastline action are approximately \$27 million. Management's analysis of the claim is that it is unsubstantiated and without merit. Canaccord intends to continue to vigorously defend itself against this claim.

Pryde actions

John Pryde is a former IA who was employed by Canaccord from 1998 until 2001. Mr. Pryde allegedly made unauthorized and unsuitable trades for the accounts of many of his clients during that period. A substantial number of Mr. Pryde's clients have made claims against Mr. Pryde and Canaccord for losses resulting from these alleged actions. Canaccord has conducted a full investigation of Mr. Pryde's activities and has settled, without litigation, the majority of the claims by clients who were not associates of Mr. Pryde.

Since 2002, six actions have been commenced in the Supreme Court of British Columbia against Canaccord by certain former clients of Mr. Pryde. These plaintiffs are claiming damages for loss of capital in the approximate amount of \$2.2 million and unquantified amounts for aggravated damages, punitive damages, restitution for commissions paid to Mr. Pryde, interest and costs. Canaccord has denied the allegations against it and intends to continue to vigorously defend itself against these claims. In addition, Canaccord has made a counterclaim against some of the plaintiffs alleging that these plaintiffs knew of Mr. Pryde's activities and participated with him for their mutual financial benefit to the detriment of Canaccord.

Former employee claim

A former officer, director and shareholder who was also an employee (the Former Employee) of Canaccord has claimed against Canaccord. At the time his employment with Canaccord ceased, in July 2001, the Former Employee owned, directly and indirectly, certain shares of the Company (the Shares). The Shares were repurchased in October 2001 for approximately \$2.7 million. In December 2001, the Former Employee commenced litigation in the Ontario Superior Court of Justice against Canaccord seeking damages for wrongful dismissal of \$4.5 million, an order requiring Canaccord to repurchase his shares for approximately \$4.3 million and other damages and amounts in the aggregate amount of an additional \$2.75 million. Canaccord has denied these allegations and will continue to vigorously defend itself against these claims. Canaccord counterclaimed against the Former Employee in February 2002 for losses now quantified at \$3.6 million plus interest in connection with a debenture in a private company which Canaccord alleges it purchased on the basis of false representations made by the Former Employee.

In September 2004, the Former Employee sought to amend his claim to seek a declaration from the court that he continues to own the Shares or, in the alternative, an order requiring Canaccord to repurchase the Shares at a fair market value in an unspecified amount in excess of the amount already claimed. The Former Employee had previously made no claim to continued ownership of the Shares or an interest in the Company or its subsidiaries. Canaccord considers the Former Employee's new claims to be vexatious and opposed the motion to amend his pleadings. The motion was dismissed by a Master of the Ontario Superior Court and that decision is now on appeal.

Interest of management and others in material transactions:

To the best of the Company's knowledge, after due inquiry, none of the directors, officers or principal shareholders of the Company, nor any associate or affiliate of those directors, officers or principal shareholders, has had any direct or indirect material interest in any transaction or proposed transaction which has materially affected or would materially affect Canaccord during the three most recently completed financial years or during the current financial year.

Transfer agent and registrar:

The Company's transfer agent and registrar is Computershare Investor Services Inc., at its principal offices in Vancouver and Toronto.

Material contracts:

Except for contracts entered into in the ordinary course of business, the only contract which Canaccord has entered into or assumed within the most recently completed financial year, or before the most recently completed financial year but that are still in effect, which can reasonably be regarded as material is the underwriting agreement in respect to the Initial Public Offering.

Experts:

The Company's auditors are Ernst & Young, LLP who have prepared the Auditors' Report on page 45 of the fiscal 2005 Annual Report.

Audit committee:

The Audit Committee assists the board of directors in fulfilling its oversight responsibilities by monitoring Canaccord's financial reporting practices and financial disclosures. The members of the Audit Committee are Terrence Lyons (Chairman), William Eeuwes and Brian Harwood. Messrs. Lyons and Eeuwes are independent of management and Mr. Harwood has been appointed at the discretion of the board of directors in accordance with applicable securities legislation and is related only as a director of a subsidiary.

Specific responsibilities and duties of the Audit Committee include:

- reviewing Canaccord's annual and interim consolidated financial statements, annual and interim management's discussion and analyses and press releases prior to dissemination to the public;
- assessing Canaccord's accounting policies and discussing the appropriateness of such policies with management and Canaccord's external auditors
- assisting management to identify Canaccord's principal business risks
- reviewing the external auditor's plans for evaluating and testing Canaccord's internal financial controls
- overseeing Canaccord's external auditors, including the approval of the external auditor's terms of engagement

The education and related experience (as applicable) of each Audit Committee member is described below.

Terrence A. Lyons (Chairman) – Mr. Lyons is a director of the Company. He is the Chairman of Northgate Minerals Corporation and is 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 Brascan Financial Corporation. He obtained a Bachelor of Science degree in civil engineering from the University of British Columbia in 1972 and an M.B.A. from the University of Western Ontario in 1974.

William J. Eeuwes – Mr. Eeuwes is a director of the Company. Mr. Eeuwes is Vice-President of Manulife Capital, the merchant banking arm of The Manufacturers Life Insurance Company. He has more than 25 years of experience in underwriting and the management of a broad range of asset classes, including private equity, mezzanine loans, structured and project finance and corporate loans. He is a director of several Canadian companies. He is a Fellow of the Institute of Canadian Bankers (FICB) and holds an honours degree in business from the University of Western Ontario.

Brian D. Harwood – Mr. Harwood is a director of the Company. He joined Hemsworth, Turton & Co. Ltd., a predecessor firm to Canaccord, in 1970 and remained with Canaccord until his retirement in 1994. Prior to joining Hemsworth, Turton & Co. Ltd., he held various positions with Bank of Montreal from 1953 to 1970. During his career at Canaccord, he was principally involved with operations, finance and administration; and from 1987 to 1994, he was President and Chief Operating Officer of Canaccord. He is a director and former Vice-Chairman of Canaccord Capital Corporation. During his career, he has been actively involved with a number of industry committees and boards. He was a governor of the Vancouver Stock Exchange from 1985 to 1994, including acting as its Chairman from 1991 to 1993 and served on many of its committees including the audit, membership, capital and executive committees. He was a director of the Canadian Investor Protection Fund from 1990 to 1994 and its chairman from 1990 to 1992. He was a director of the Investment Dealers Association from 1989 to 1994 and a member of its Executive Committee from 1989 to 1991; and a member of the Pacific District Council from 1984 to 1987, and served as its Chairman from 1986 to 1987. From 1989 to 1992, Mr. Harwood was also a director of Loewen, Ondaatje, McCutcheon Inc.

A copy of the Audit Committee charter is attached hereto as Schedule "A".

Corporate governance and compensation committee:

The Corporate Governance and Compensation Committee strives to maintain the highest standards of corporate governance with a focus on a strong and diligent board of directors and prudent management of executive compensation. The committee is comprised of at least three members, each of whom is appointed annually by the board of directors. The members of the Corporate Governance and Compensation Committee are Michael Harris (Chairman), William Eeuwes and Terrence Lyons, each of whom is independent of management as determined under applicable securities legislation.

The Corporate Governance and Compensation Committee's mandate includes:

- the development and recommendation to the board of directors of appropriate corporate governance guidelines
- the identification of future board and committee members and the annual review of the board's performance
- evaluating the Chief Executive Officer's performance and determining his compensation
- reviewing and making recommendations to the board of directors with respect to the compensation of all executive officers
- fixing and determining (or delegating the authority to fix and determine) awards to employees of stock or stock options under Canaccord's incentive plans
- reviewing key human resources policies and programs

The education and related experience (as applicable) of each committee member is described below.

Michael D. Harris (Chairman) – Mr. Harris is a director of the Company. He is a senior business adviser with Goodmans LLP in Toronto. He was Premier of the Province of Ontario from 1995 to 2002. In addition to sitting on several boards of Canadian corporations, he also serves as a director of the Tim Horton Children's Foundation and sits on the board of St. John's Rehabilitation Hospital. Mr. Harris is also a Senior Fellow of the Fraser Institute.

William J. Eeuwes – refer to profile presented under "Audit Committee".

Terrence A. Lyons – refer to profile presented under "Audit Committee".

External auditor service fees:

The aggregate fees billed for professional services rendered for the year ended March 31, 2004 and March 31, 2005 are as follows:

	2005	2004
Audit fees	\$543,487	\$396,647
Audit related fees ⁽¹⁾	\$150,758	\$70,613
Tax fees	\$119,942	\$126,657
All other fees ⁽²⁾	\$734,698	\$240,617

Additional information:

Additional information relating to the Company may be found on SEDAR's Web site at www.sedar.com. Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and options to purchase securities is contained in the Company's information circular for its most recent annual meeting of shareholders that involves the election of Directors.

Additional financial information is also provided in the Company's consolidated financial statements and management's discussion and analysis for its most recently completed financial year.

⁽¹⁾ Includes special audits and quarterly reporting reviews

⁽²⁾ Includes other services due to IPO

Schedule “A” Audit Committee Charter:

1. Mandate

The primary mandate of the audit committee (the “Audit Committee”) of the Board of Directors the Company (the “Board”) is to assist the Board in overseeing the Company’s financial reporting and disclosure. This oversight includes:

- (a) reviewing the financial statements and financial disclosure that is provided to shareholders and disseminated to the public;
- (b) reviewing the systems of internal controls to ensure integrity in the financial reporting of the Company; and
- (c) monitoring the independence and performance of the Company’s external auditors and reporting directly to the Board on the work of the external auditors.

2. Composition and organization of the committee

2.1 The Audit Committee must have at least three directors.

2.2 Subject to the applicable securities legislation (including exemptions), Every Audit Committee member must be independent. A member of the Audit Committee is independent if the member has no direct or indirect material relationship with an issuer. A material relationship means a relationship which could, in the view of the issuer’s board of directors, reasonably interfere with the exercise of a member’s independent judgment.¹

2.3 Every Audit Committee member must be financially literate. Financial literacy is the ability 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 issuer’s financial statements.²

2.4 The Board will appoint from themselves the members of the Audit Committee on an annual basis for one year terms. Members may serve for consecutive terms.

2.5 The Board will also appoint a chair of the Audit Committee (the “Chair of the Audit Committee”) for a one year term. The Chair of the Audit Committee may serve as the chair of the committee for any number of consecutive terms.

2.6 A member of the Audit Committee may be removed or replaced at any time by the Board. The Board will fill any vacancies in the Audit Committee by appointment from among members of the Board.

3. Meetings

3.1 The Audit Committee will meet at least five times a year. Special meetings may be called by the Chair of the Audit Committee as required.

3.2 Quorum for a meeting of the Audit Committee will be a majority of the members in attendance.

3.3 Members may attend meetings of the Audit Committee by teleconference, videoconference, or by similar communication equipment by means of which all persons participating in the meeting can communicate with each other.

¹ Multilateral Instrument 52-110 (*Audit Committees*) section 1.4.

² Multilateral Instrument 52-110 (*Audit Committees*) section 1.5.

3.4 The Audit Committee Chair will set the agenda for each meeting, after consulting with management and the external auditor. Agenda materials such as draft financial statements must be circulated to Audit Committee members for members to have a reasonable time to review the materials prior to the meeting.

3.5 The Company's auditors will be advised of the names of the members of the Audit Committee and will receive notice of and be invited to attend meetings of the Audit Committee and to be heard at those meetings on matters related to the Auditor's duties.

3.6 Minutes of the Audit Committee meetings will be accurately recorded, with such minutes recording the decisions reached by the committee. Minutes of each meeting must be distributed to members of the Board, the Chief Executive Officer, the Chief Financial Officer and the external auditor.

4. Responsibilities of the committee

4.1 To assist the Board, the Audit Committee will:

External Auditor

- (a) select, evaluate and recommend to the Board, for shareholder approval, the external auditor to examine the Company's accounts, controls and financial statements;
- (b) evaluate, prior to the annual audit by external auditors, the scope and general extent of their review, including their engagement letter,
- (c) set the compensation to be paid to the external auditors and recommend such payment to the Board.
- (d) obtain written confirmation from the external auditor that it is objective and independent within the meaning of the Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of Chartered Accountants to which it belongs;
- (e) recommend to the Board, if necessary, the replacement of the external auditor;
- (f) meet at least annually with the external auditors, independent of management, and report to the Board on such meetings;
- (g) pre-approve any non-audit services to be provided to the Company by the external auditor and the fees for those services;

Financial Statements and Financial Information

- (h) review and discuss with management and the external auditor the annual audited financial statements of the Company and recommend their approval by the Board;
- (i) review and discuss with management, the quarterly financial statements and, if appropriate, recommend their approval by the Board;
- (j) review and if appropriate, recommend to the Board for approval the financial content of the annual report;
- (k) review the process for the certification of financial statements by the Chief Executive Officer and Chief Financial Officer;
- (l) review the Company's management discussion and analysis, earnings guidance press releases, annual and interim earnings press releases, and audit committee reports before the Company publicly discloses this information;

- (m) review annually with external auditors, the Company's accounting principles and the reasonableness of managements judgments and estimates as applied in its financial reporting;
- (n) review and consider any significant reports and recommendations issued by the external auditor, together with management's response, and the extent to which recommendations made by the external auditors have been implemented;

Risk Management, Internal Controls and Information Systems

- (o) review with the external auditors and with management, the general policies and procedures used by the Company with respect to internal accounting and financial controls;
- (p) review adequacy of security of information, information systems and recovery plans;
- (q) review management plans regarding any changes in accounting practices or policies and the financial impact thereof;
- (r) review with the external auditors and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Company and the manner in which these matters are being disclosed in the financial statements;
- (s) discuss with management and the external auditor correspondence with regulators, employee complaints, or published reports that raise material issues regarding the Company's financial statements or disclosure;
- (t) assisting management to identify the Company's principal business risks;
- (u) review the Company's insurance, including directors' and officers' coverage, and provide recommendations to the Board;

Other

- (v) review Company significant loans to employees/consultants; and
- (w) conduct special reviews and/or other assignments from time to time as requested by the Board.

5. Process for handling complaints regarding financial matters

5.1 The Audit Committee will establish a procedure for the receipt, retention and follow-up of complaints received by the Company regarding accounting, internal controls, financial reporting, or auditing matters.

5.2 The Audit Committee will ensure that any procedure for receiving complaints regarding accounting, internal controls, financial reporting, or auditing matters will allow the confidential and anonymous submission of concerns by employees.

6. Reporting

6.1 The Audit Committee will report to the Board on:

- (a) the external auditor's independence;
- (b) the performance of the external auditor and the Audit Committee's recommendations;
- (c) regarding the reappointment or termination of the external auditor;

- (d) the adequacy of the Company's internal controls and disclosure controls;
- (e) the Audit Committee's review of the annual and interim financial statements;
- (f) the Audit Committee's review of the annual and interim management discussion and analysis;
- (g) the Company's compliance with legal and regulatory matters to the extent they affect the financial statements of the Company; and
- (h) all other material matters dealt with by the Audit Committee.

7. Authority of the committee

7.1 The Audit Committee will have the resources and authority appropriate to discharge its duties and responsibilities. The Audit Committee may at any time retain outside financial, legal or other advisors at the expense of the Company without approval of management.

7.2 The external auditor will report directly to the Audit Committee.