

# Q3

## CANACCORD FINANCIAL INC. REPORTS FISCAL THIRD QUARTER 2010 RESULTS

THIRD QUARTER FISCAL 2010 REPORT TO SHAREHOLDERS

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

VANCOUVER, February 4, 2010 – Canaccord Financial Inc.'s revenue for the third quarter of fiscal year 2010, ended December 31, 2009, was \$173.2 million, up 98.6% from the same quarter last year and 40.0% from the previous quarter. Net income for the third quarter of fiscal 2010 was \$15.1 million, up 124.2% compared to the previous quarter and up compared to a net loss of \$62.4 million during the same quarter last year <sup>(1)</sup>. Diluted earnings per share (EPS) for fiscal Q3/10 were \$0.27, compared to diluted loss per share of \$1.27 in Q3/09 <sup>(1)</sup> and diluted EPS of \$0.12 the previous quarter. Commenting on the quarter, Paul Reynolds, President & CEO, said, "There is much to be proud of in our third quarter results, including strong revenue growth, a significant increase in profitability and meaningful gains in our return on equity. However, we remain committed to improving our operating performance, believing there is even more that can be done to grow our strong global platform and generate lasting shareholder value."

### Third quarter 2010 vs. third quarter 2009

- Revenue of \$173.2 million, up 98.6% or \$86.0 million from \$87.2 million
- Expenses of \$150.9 million, down 5.5% or \$8.7 million from \$159.6 million <sup>(1)</sup>
- Net income of \$15.1 million compared to net loss of \$62.4 million <sup>(1)</sup>
- Annualized return on equity (ROE) of 15.2%, up from (64.3)%
- Diluted EPS of \$0.27 compared to diluted loss per share of \$1.27 <sup>(1)</sup>

### Third quarter 2010 vs. second quarter 2010

- Revenue of \$173.2 million, up 40.0% or \$49.5 million from \$123.7 million
- Expenses of \$150.9 million, up 30.2% or \$35.0 million from \$115.9 million
- Net income of \$15.1 million compared to net income of \$6.7 million
- Annualized ROE of 15.2%, up from 6.9%
- Diluted EPS of \$0.27 compared to diluted EPS of \$0.12

### Year-to-date fiscal 2010 (nine months ended December 31, 2009) vs. year-to-date fiscal 2009 (nine months ended December 31, 2008)

- Revenue of \$434.4 million, up 17.2% or \$63.7 million from \$370.7 million
- Expenses of \$388.2 million, down 8.6% or \$36.4 million from \$424.6 million <sup>(1)</sup>
- Net income of \$31.0 million compared to a net loss of \$51.3 million <sup>(1)</sup>
- Annualized ROE of 10.6%, up from (18.0)%
- Diluted EPS of \$0.56 compared to diluted loss per share of \$1.05 <sup>(1)</sup>

<sup>(1)</sup> Expenses in Q3/09 included significant items of \$51.1 million related to asset-backed commercial paper (ABCP) fair value adjustment, client relief provision and fair value adjustment, impairment of goodwill and intangibles, and restructuring costs. Excluding these significant items, Q3/09 net loss was \$16.2 million, diluted loss per share was \$0.33 and expenses were \$108.5 million. For the nine-month period ended December 31, 2008, the net loss was \$5.2 million, diluted loss per share was \$0.11 and expenses were \$373.5 million, excluding these significant items.

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CANACCORD Financial

### Financial condition at end of third quarter 2010 vs. third quarter 2009

- Cash and cash equivalents balance of \$782.6 million, up \$98.1 million from \$684.5 million
- Working capital of \$327.0 million, up \$41.4 million from \$285.6 million
- Total shareholders' equity of \$400.7 million, up \$42.7 million from \$358.0 million
- Book value per diluted common share for the period end was \$7.00, up 9.9% or \$0.63 from \$6.37
- On February 3, 2010 the Board of Directors considered the dividend policy and approved a quarterly dividend of \$0.05 per share payable on March 10, 2010 with a record date of February 26, 2010.

### Highlights of operations:

- Canaccord Adams led or co-led 61 transactions globally to raise total proceeds of \$3.6 billion <sup>(2)</sup> for our clients during fiscal Q3/10.
- Canaccord Adams participated in a total of 140 transactions globally to raise total proceeds of \$12.0 billion <sup>(2)</sup> during fiscal Q3/10.
- During Q3/10, Canaccord Adams led or co-led the following equity fundraising transactions:
  - C\$172.5 million for Compton Petroleum Corporation on the TSX
  - US\$129.7 million Initial Public Offering (IPO) for DragonWave Inc. on the NASDAQ
  - C\$113.5 million for TransAtlantic Petroleum Ltd. on the TSX
  - US\$99.5 million for Telvent GIT S.A. on the NASDAQ
  - C\$75 million for PetroDorado on the TSX Venture
  - £72.7 million for Petra Diamonds Limited on the AIM of the LSE
  - US\$59.2 million for Northern Oil & Gas on the NYSE AMEX
  - C\$57.0 million for Exeter Resources Corporation on the TSX
  - C\$56.7 million for MBAC Opportunities and Financing Inc. on the TSX Venture
  - £50.0 million for Rockhopper Exploration plc on the AIM of the LSE
- Canaccord continued to rank first in Canada for block trading market share on the TSX Venture, with 16.8% of market share in Q3/10, up from 12.0% in Q3/09. <sup>(3)</sup>
- Canaccord Adams completed five Private Investment in Public Equity (PIPE) transactions in the US that raised US\$123.0 million in proceeds during fiscal Q3/10. <sup>(4)</sup>
- Assets under administration of \$12.2 billion, up 35.2% from \$9.0 billion at the end of Q3/09, and up 7.2% from \$11.4 billion at the end of Q2/10.
- Assets under management of \$423 million, down 6.8% from \$454 million at the end of Q3/09, and down 6.6% from \$453 million at the end of Q2/10.
- During the quarter, Canaccord Wealth Management recruited five Independent Wealth Management (IWM) branches to our platform, in Gatineau, Quebec; Toronto (Eglinton), Ontario; Orangeville, Ontario; Saskatoon, Saskatchewan and Prince George, British Columbia. In addition, two existing Corporate Wealth Management offices converted to the IWM model.
- At the end of fiscal Q3/10 (December 31, 2009), Canaccord had 327 Advisory Teams <sup>(5)</sup>, down 20 from 347 Advisory Teams as of December 31, 2008, and down seven Advisory Teams from 334 teams as of September 30, 2009. The decrease is largely due to a strategic review of our Wealth Management division.
- On December 1, 2009, Canaccord Capital Inc. was renamed Canaccord Financial Inc., to better reflect the growing scope of the Company's global businesses. As a result, on December 4, 2009, shares in the Company began trading under the stock symbols CF on the TSX and CF. on AIM.

### Subsequent to December 31, 2009:

- On January 4, 2010, Canaccord Wealth Management announced the addition of Complete Canaccord ETF Portfolios to its robust wealth management product suite, as well as the participation of a due diligence partner, Rogerscasey Canada.
- Two Canaccord Wealth Management branches, Campbell River, British Columbia and Nanaimo, British Columbia, converted to the Independent Wealth Management model.
- On January 7, 2010, Canaccord Adams was ranked by Sagient Research Systems in their PIPE Market League Tables as 5th by number of transactions and 6th by total amount placed in the US PIPE market in calendar 2009.
- On February 4, 2010, Canaccord Financial welcomed Charles N. Bralver to the company's board of directors. Mr. Bralver has nearly 30 years of experience in the global financial services industry, including as a founding partner and Vice Chairman of Oliver Wyman & Company, an international management consulting firm.

(2) Source: FPinformart and Company information

(3) Source: Canada Equity. Market share by trade volume

(4) Source: Placement Tracker

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

# LETTER TO SHAREHOLDERS

There is much to be proud of in our third quarter results. Canaccord posted strong revenue growth, a significant increase in profitability and meaningful gains in our return on equity. However, we remain committed to improving our operating performance, believing there is even more that can be done to grow our strong global platform and generate lasting shareholder value.

## FINANCIAL OVERVIEW

Revenue for the three months ended December 31, 2009 was \$173.2 million, a 98.6% increase from the third quarter of fiscal 2009. At \$150.9 million, our expenses were down 5.5% from the comparable period. Our non-compensation expense ratio reached an encouraging low of 24.3% of revenue. Our incentive compensation as a percentage of revenue, however, was higher than we would normally anticipate due to ongoing investments for the future in top-quality talent in key areas of our business.

Net income for the three months was \$15.1 million compared to a net loss of \$62.4 million for the same period a year ago, which included substantial one-time charges that demonstrated our commitment to putting our clients first and maintaining a clean, strong balance sheet. Diluted earnings per share for the third quarter of fiscal 2010 were \$0.27; the prior year's diluted loss per share was \$1.27. Canaccord's annualized return on equity for the third quarter was 15.2%, a solid improvement over the prior period and previous quarter but still well short of our business-cycle target of 20%.

## CANACCORD ADAMS

We were pleased with the results delivered by our global capital markets division this quarter. Our Canadian, US and UK teams led or co-led 61 transactions globally, raising total proceeds of \$3.6 billion for our clients. At \$116.1 million, Canaccord Adams' revenue for the three months ended December 31, 2009 was 136% higher than the prior-year quarter. After intersegment cost allocations, Canaccord Adams' income before taxes was \$25.6 million, more than double that of the second quarter of the current fiscal year.

In Canada, Canaccord Adams had a very robust quarter in both its block trading and capital markets activities. Notable transactions included a \$172.5 million equity issue for Compton Petroleum on the TSX and \$113.5 million issue for TransAtlantic Petroleum, also on the TSX. Additional transactions can be found in the Highlights of operations on page 2 of this report.

Our US team delivered solid results that beat their prior-year revenue by nearly 37%. The group led two equity issues on the NASDAQ during the third quarter: a US\$129.7 million Initial Public Offering for DragonWave, Inc. and a US\$99.5 million equity transaction for Telvent GIT S.A.

The investments we've made in building our management, sales, trading and research in Canaccord Adams' UK operations are beginning to deliver tangible returns. Third quarter revenue soared 110% over the comparable period in fiscal 2009 and was significantly higher than the second quarter. The group led a number of important equity transactions, including £72.7 million for Petra Diamonds Limited and £50 million for Rockhopper Exploration plc. Both were placed on the AIM of the London Stock Exchange.

In early December, the UK finance minister announced an immediate 50% supertax on discretionary bonus payouts greater than £25,000 made by the nation's banks. We believe this tax is being misapplied to Canaccord and others in our market segment, and are optimistic that it will ultimately not apply. We do not trade in sophisticated debt instruments, we are not a proprietary trading house nor do we lend money or receive deposits. And unlike the large commercial banks we believe the minister is targeting, we did not have access to – or need – bailouts from the Bank of England. We are working with advisors to both communicate with the UK treasury and minimize the potential impacts on our shareholders and employees. We will continue to monitor and manage this situation carefully, remaining focused on maintaining a healthy and profitable business for clients, shareholders and employees.

## CANACCORD WEALTH MANAGEMENT

We're pleased with the progress we are seeing in our Wealth Management operations. Revenue for the three months ended December 31, 2009 totalled \$51.7 million, a 54.3% increase from the comparable quarter of fiscal 2009 and the division's best revenue performance in the past six quarters. After intersegment cost allocations and before taxes, Wealth Management lost \$87,000 for the three months. This is a meaningful improvement from the \$3.3 million loss posted in the second quarter of the current fiscal year and a good indicator of the progress the division is making towards its goal of becoming a consistent contributor to Canaccord's profitability.

We're enthusiastic about the early success of our Independent Wealth Management (IWM) program. Essentially the franchise model of our business, the strategy significantly expands the breadth of our recruiting effort and reduces the overhead costs associated with operating Wealth Management's branch system. We converted two corporate branches to the IWM program during the third quarter, bringing the total IWM branches to date to seven.

We also continue to make investments in the tools and advice Canadians need to better manage their wealth. During the quarter, the team launched a new product under the robust Complete Canaccord Investment Counselling Program called *Complete Canaccord ETF Portfolios*. The five Complete Canaccord ETF Portfolios offer clients a level of risk management and security selection usually reserved for large institutional investors. The portfolios were developed with the participation of Rogerscasey Canada, who joined us this quarter as our due diligence partner to provide independent research and analysis of Canaccord's institutional management platform.

New products and stronger markets are driving gains in assets under administration (AUM), though they are still short of the scale we need to become consistently profitable. At the end of the third quarter, AUM totalled \$12.2 billion, a 35% increase from the comparable quarter a year ago and up 7.2% from last quarter.

#### **LOOKING AHEAD**

As we announced last quarter, we have rebranded our company Canaccord Financial Inc. to better reflect the broad scope of our global operations. On December 4, 2009 we officially began trading under the stock symbols "CF" on the TSX and "CF" on the AIM.

Looking ahead, we are cautiously optimistic about the near-term market outlook and the pipeline of opportunities we're seeing in our capital markets business. But we are more cautious about the longer-term impact of global dynamics, such as excess liquidity, commodity cycles and the evolving regulatory frameworks, on market valuations. We will remain vigilant on these potentially disruptive trends, just as we will remain focused on our strategies to control costs, build our share of our target markets and grow the value of our Company for shareholders. As always, we are very grateful to our dedicated partners at Canaccord who are the real drivers of our continuing evolution.



**PAUL D. REYNOLDS**  
*President & Chief Executive Officer*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*Fiscal third quarter 2010 for the three months and nine months ended December 31, 2009 – this document is dated February 4, 2010*

The following discussion of the financial condition and results of operations for Canaccord Financial Inc., formerly Canaccord Capital Inc. (Canaccord), is provided to enable the reader to assess material changes in our financial condition and to assess results for the three- and nine-month periods ended December 31, 2009 compared to the corresponding periods in the preceding fiscal year. The three- and nine-month periods ended December 31, 2009 are also referred to as third quarter 2010, Q3/10, fiscal Q3/10 and year-to-date fiscal year 2010 in the following discussion. This discussion should be read in conjunction with the unaudited interim consolidated financial statements for the three- and nine-month periods ended December 31, 2009 (Unaudited Interim Consolidated Financial Statements), beginning on page 23 of this report; our Annual Information Form dated May 26, 2009; and the 2009 annual Management's Discussion and Analysis (MD&A) including the audited consolidated financial statements for the fiscal year ended March 31, 2009 (Audited Annual Consolidated Financial Statements) in Canaccord's Annual Report dated May 20, 2009 (the Annual Report) as filed on SEDAR on May 26, 2009. There has been no material change to the information contained in the annual MD&A for fiscal 2009 except as disclosed in this MD&A. Canaccord's financial information is expressed in Canadian dollars unless otherwise specified. The financial information presented in this document is prepared in accordance with Canadian generally accepted accounting principles (GAAP) unless specifically noted. This MD&A is based on Unaudited Interim Consolidated Financial Statements and Audited Annual Consolidated Financial Statements prepared in accordance with Canadian GAAP.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document may contain certain forward-looking statements. These statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events including business and economic conditions and Canaccord's growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue", "target", "intend" or the negative of these terms or other comparable terminology. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and a number of factors could cause actual events or results to differ materially from the results discussed in the forward-looking statements. In evaluating these statements, readers should specifically consider various factors that may cause actual results to differ materially from any forward-looking statement. These factors include, but are not limited to, market and general economic conditions, the nature of the financial services industry and the risks and uncertainties detailed from time to time in Canaccord's interim and annual consolidated financial statements and its Annual Report and Annual Information Form filed on [sedar.com](http://sedar.com). These forward-looking statements are made as of the date of this document, and Canaccord assumes no obligation to update or revise them to reflect new events or circumstances.

## NON-GAAP MEASURES

Certain non-GAAP measures are utilized by Canaccord as measures of financial performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Non-GAAP measures included are return on average common equity (ROE), assets under administration (AUA), assets under management (AUM), expenses as a % of revenue and book value per diluted share.

Canaccord's capital is represented by shareholders' equity and, therefore, management uses ROE as a performance measure.

AUA and AUM are non-GAAP measures of client assets that are common to the wealth management aspects of the private client services industry. AUA is the market value of client assets administered by Canaccord from which Canaccord earns commissions or fees. This measure includes funds held in client accounts as well as the aggregate market value of long and short security positions. Canaccord's method of calculating AUA may differ from the methods used by other companies and therefore may not be comparable to other companies. Management uses this measure to assess operational performance of the Wealth Management business segment. AUM includes all assets managed on a discretionary basis under our programs generally described as or known as the *Complete Canaccord Investment Counselling Program* and *Complete Canaccord Managed Accounts*<sup>(1)</sup>. Services provided include the selection of investments and the provision of investment advice. AUM are also administered by Canaccord and are included in AUA.

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

(1) Previously known as *Canaccord's Alliance Accounts and Private Investment Management*.

**BUSINESS OVERVIEW**

Through its principal subsidiaries, Canaccord (TSX: CF; AIM: CF) is a leading independent, full-service investment dealer in Canada with capital markets operations in the United Kingdom and the United States. Canaccord is publicly traded on both the Toronto Stock Exchange (TSX) and AIM, a market operated by the London Stock Exchange (LSE). The Company has operations in two of the principal segments of the securities industry: global capital markets and wealth management. Together, these operations offer a wide range of complementary investment banking services, investment products and brokerage services to Canaccord's institutional, corporate and individual clients.

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

**Business environment**

The calendar year 2009, though it began with unprecedented challenges, ended on a more confident note. The low level of short-term interest rates prompted market participants to seek returns in all asset classes. The high level of liquidity in the market allowed for a resurgence in financing activity as well as an aggressive pursuit by investors of yield-producing vehicles. From October through December 2009, many equity indices reached post-Lehman-collapse highs and higher stock prices lifted the value of 401K and RRSP plans. A resumption of high economic activity in China prompted investment in hard assets and hard asset equities and rejection of the US dollar. The Bloomberg world equity market capitalization rose from \$25.6 trillion at the March 2009 low, to \$46 trillion on December 31, 2009. Higher wealth lifted consumer confidence and leading economic indicators.

As global economic data was released in December, however, investors became more concerned with Europe, and sovereign default, than with the US budget deficit and a weak recovery. North American economies have benefited from the massive government liquidity injections; although a few smaller countries (such as Australia, Norway and Vietnam) did raise interest rates during the quarter on fear of having over-stimulated the economy. Job creation in advanced economies, a key metric for confirmation of sustained economic growth, was disappointing. While final US GDP growth for the quarter should be good (but not as robust as past timelines recorded), improvements in the manufacturing industry were tempered by continuing challenges in the service industry, which represents almost 90% of the economy.

Debt issuance by governments and corporations during the quarter came at record levels, yet consumers reduced debt and small businesses remained cautious. In the months ahead, significant attention will be focused on the critical issue of how all governments will safely withdraw monetary liquidity from the global economy, yet achieve comfortable levels of growth in 2010.

**Market data**

Financing values were up significantly on the TSX / TSX Venture and the NASDAQ compared to the same quarter last year. Compared to the previous quarter, financing values for the TSX / TSX Venture were down 8.5%, while the NASDAQ was down 21.6%. The AIM experienced a substantial increase in financings compared to the dismal market conditions during the same quarter last year.

**Total financing value by exchange**

|                                    | October 2009 | November 2009 | December 2009 | Fiscal Q3/10 | Change from fiscal Q3/09 | Change from fiscal Q2/10 |
|------------------------------------|--------------|---------------|---------------|--------------|--------------------------|--------------------------|
| TSX and TSX Venture (C\$ billions) | 6.1          | 8.0           | 4.1           | 18.2         | 31.9%                    | (8.5)%                   |
| AIM (£ billions)                   | 1.1          | 0.4           | 0.9           | 2.4          | n.m.                     | 60.0%                    |
| NASDAQ (US\$ billions)             | 7.6          | 4.1           | 4.3           | 16.0         | n.m.                     | (21.6)%                  |

Source: TSX Statistics, LSE AIM Statistics, Equidesk  
n.m.: not meaningful

**Financing value for relevant AIM industry sectors**

| (£ millions, except for percentage amounts) | October 2009   | November 2009  | December 2009  | Fiscal Q3/10     | Change from fiscal Q3/09 | Change from fiscal Q2/10 |
|---|----------------|----------------|----------------|------------------|--------------------------|--------------------------|
| Oil and gas                                 | £ 141.1        | £ 150.7        | £ 297.4        | £ 589.2          | n.m.                     | 80.9%                    |
| Mining                                      | 48.2           | 117.2          | 240.1          | 405.5            | 196.6%                   | 94.9%                    |
| Pharmaceutical and Biotech                  | 8.0            | 7.2            | 15.9           | 31.1             | n.m.                     | 1.0%                     |
| Media                                       | 0.4            | 12.7           | 1.1            | 14.2             | 273.7%                   | (73.1)%                  |
| Technology                                  | 11.5           | 8.4            | 25.9           | 45.8             | 249.6%                   | 20.8%                    |
| <b>Total (of relevant sectors)</b>          | <b>£ 209.2</b> | <b>£ 296.2</b> | <b>£ 580.4</b> | <b>£ 1,085.8</b> | <b>503.9%</b>            | <b>65.7%</b>             |

Source: LSE AIM Statistics  
n.m.: not meaningful

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

| <i>(\$ millions, except for percentage amounts)</i> | <i>October 2009</i> | <i>November 2009</i> | <i>December 2009</i> | <i>Fiscal Q3/10</i> | <i>Change from fiscal Q3/09</i> | <i>Change from fiscal Q2/10</i> |
|---|---------------------|----------------------|----------------------|---------------------|---------------------------------|---------------------------------|
| Oil and gas   | \$ 1,451.8          | \$ 1,307.3           | \$ 863.2             | \$ 3,622.3          | 138.3%                          | 59.6%                           |
| Mining  | 452.6               | 1,300.3              | 1,507.7              | 3,260.6             | n.m.                            | (49.4)%                         |
| Biotech   | 24.7                | 60.7                 | —                    | 85.4                | n.m.                            | n.m.                            |
| Media   | —                   | —                    | —                    | —                   | —                               | (100.0)%                        |
| Technology  | 292.4               | 18.9                 | 45.9                 | 357.2               | n.m.                            | n.m.                            |
| <b>Total (of relevant sectors)</b>                  | <b>\$ 2,221.5</b>   | <b>\$ 2,687.2</b>    | <b>\$ 2,461.8</b>    | <b>\$ 7,325.5</b>   | <b>223.2%</b>                   | <b>(16.8)%</b>                  |

Source: FPinfomart  
n.m.: not meaningful

**ABOUT CANACCORD FINANCIAL INC.****An evolution of our Company**

On December 1, 2009, Canaccord Capital Inc. was renamed Canaccord Financial Inc., to better reflect the growing scope of the Company's global businesses. As a result, on December 4, 2009, shares in the Company began trading under the stock symbols CF on the TSX and CF on AIM.

Through its principal subsidiaries, Canaccord Financial Inc. is a leading independent, full-service financial services firm, with operations in two principal segments of the securities industry: wealth management and global capital markets. Since its establishment in 1950, Canaccord has been driven by an unwavering commitment to build lasting client relationships. We achieve this by generating value for our individual, institutional and corporate clients through comprehensive investment solutions, brokerage services and investment banking services. Canaccord has 37 offices worldwide, including 29 Wealth Management offices located across Canada. Canaccord Adams, the international capital markets division, operates in the US, UK, Canada and Barbados.

*Canaccord Adams*

Canaccord Adams offers corporations and institutional investors around the world an integrated platform for equity research, sales and trading, and investment banking services that is built on extensive operations in Canada, the United States and the United Kingdom.

- Canaccord's research analysts have deep knowledge of more than 650 companies across eight primary focus sectors: Mining and Metals, Energy, Technology, Life Sciences, Consumer, Real Estate, Infrastructure and Sustainability.
- Our Sales and Trading desk executes timely transactions for more than 1,500 institutional relationships around the world, operating as an integrated team.
- With more than 65 skilled investment bankers, Canaccord Adams provides clients with sector expertise and global insight, as well as proven equity transaction and M&A advisory experience.
- Our Fixed Income Operations in Canada and the UK cover a wide range of money market instruments, federal crown corporations, strips, euros, US Pays, gilts and structured products, as well as federal, provincial and municipal bonds.

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

*Canaccord Wealth Management*

Canaccord Wealth Management provides wealth creation, wealth management and wealth transfer services to individual investors from 29 offices across Canada. Our platform is based on the "Complete Canaccord" offering, a commitment to understanding clients and their financial goals, along with a robust set of products and services for tailoring financial solutions.

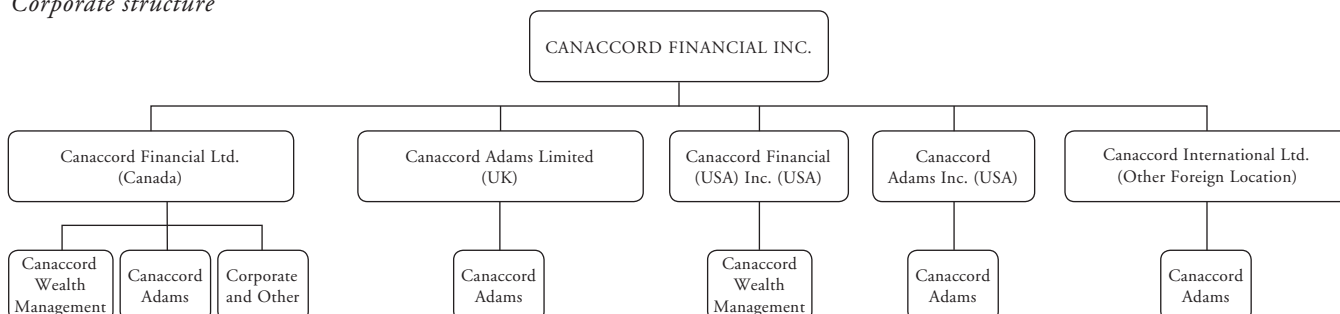
Canaccord Wealth Management delivers superior training and education to Investment Advisors. Our personal and professional development platform, Canaccord University, supports skill-building initiatives in the areas of products, technology and tools, and practice management. Advisors at Canaccord Wealth Management participate in both external and internal training opportunities to continually equip themselves to best serve our clients' financial needs. Many Canaccord Investment Advisors have completed the training required for advanced industry designations such as Chartered Financial Analyst or Certified Investment Manager.

Revenue from Canaccord Wealth Management is generated through traditional commission-based brokerage services; the sale of fee-based products and services; client-related interest; and fees and commissions earned by Advisory Teams in respect of investment banking and venture capital transactions by Wealth Management clients.

### Corporate and Other

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

### Corporate structure



### Consolidated operating results

Third quarter and year-to-date fiscal 2010 summary data <sup>(1)</sup>

|  | Three months ended December 31 |                   | Quarter-over-quarter change | Nine months ended December 31 |                   | YTD-over-YTD change |
|--|--------------------------------|-------------------|-----------------------------|-------------------------------|-------------------|---------------------|
|  | 2009                           | 2008              |                             | 2009                          | 2008              |                     |
| <i>(C\$ thousands, except per share, employee and % amounts)</i> |                                |                   |                             |                               |                   |                     |
| <b>Canaccord Financial Inc.</b>                                  |                                |                   |                             |                               |                   |                     |
| <b>Revenue</b>   |                                |                   |                             |                               |                   |                     |
| Commission   | \$ 60,696                      | \$ 51,473         | 17.9%                       | \$ 172,780                    | \$ 184,099        | (6.1)%              |
| Investment banking   | 88,417                         | 20,198            | n.m.                        | 191,923                       | 130,369           | 47.2%               |
| Principal trading  | 15,645                         | 3,781             | n.m.                        | 38,704                        | 9,779             | n.m.                |
| Interest   | 3,099                          | 9,108             | (66.0)%                     | 9,696                         | 33,171            | (70.8)%             |
| Other  | 5,340                          | 2,628             | 103.2%                      | 21,301                        | 13,307            | 60.1%               |
| <b>Total revenue</b>   | <b>\$ 173,197</b>              | <b>\$ 87,188</b>  | <b>98.6%</b>                | <b>\$ 434,404</b>             | <b>\$ 370,725</b> | <b>17.2%</b>        |
| <b>Expenses</b>  |                                |                   |                             |                               |                   |                     |
| Incentive compensation   | 93,872                         | 43,299            | 116.8%                      | 226,301                       | 177,003           | 27.9%               |
| Salaries and benefits  | 14,945                         | 12,817            | 16.6%                       | 42,730                        | 42,455            | 0.6%                |
| Other overhead expenses <sup>(2)</sup>                           | 42,070                         | 52,418            | (19.7)%                     | 119,207                       | 154,060           | (22.6)%             |
| ABCP fair value adjustment                                       | —                              | 6,700             | (100.0)%                    | —                             | 6,700             | (100.0)%            |
| Client relief provision  | —                              | 2,700             | (100.0)%                    | —                             | 2,700             | (100.0)%            |
| Canaccord relief program fair value adjustment                   | —                              | 2,647             | (100.0)%                    | —                             | 2,647             | (100.0)%            |
| Impairment of goodwill and intangibles                           | —                              | 31,524            | (100.0)%                    | —                             | 31,524            | (100.0)%            |
| Restructuring costs  | —                              | 7,520             | (100.0)%                    | —                             | 7,520             | (100.0)%            |
| <b>Total expenses</b>  | <b>\$ 150,887</b>              | <b>\$ 159,625</b> | <b>(5.5)%</b>               | <b>\$ 388,238</b>             | <b>\$ 424,609</b> | <b>(8.6)%</b>       |
| Income (loss) before income taxes                                | 22,310                         | (72,437)          | (130.8)%                    | 46,166                        | (53,884)          | (185.7)%            |
| Net income (loss)  | 15,113                         | (62,378)          | (124.2)%                    | 30,971                        | (51,317)          | (160.4)%            |
| Earnings (loss) per share – diluted                              | 0.27                           | (1.27)            | (121.3)%                    | 0.56                          | (1.05)            | (153.3)%            |
| Return on average common equity                                  | 15.2%                          | (64.3)%           | 79.5p.p.                    | 10.6%                         | (18.0)%           | 28.6p.p.            |
| Book value per share – period end                                | 7.00                           | 6.37              | 9.9%                        |                               |                   |                     |
| Number of employees  | 1,570                          | 1,570             | 0.0%                        |                               |                   |                     |

(1) Data is considered to be GAAP except for ROE, book value per share and number of employees.

(2) Consists of trading costs, premises and equipment, communication and technology, interest, general and administrative, amortization and development costs.  
p.p.: percentage points  
n.m.: not meaningful



**Geographic distribution of revenue for the third quarter of fiscal 2010<sup>(1)</sup>**

| (C\$ thousands, except % amounts) | Three months ended December 31 |                  |              | Quarter-over-quarter change | Nine months ended December 31 |              | YTD-over-YTD change |
|-----------------------------------|--------------------------------|------------------|--------------|-----------------------------|-------------------------------|--------------|---------------------|
|                                   | 2009                           | 2008             |              |                             | 2009                          | 2008         |                     |
| Canada                            | \$ 123,626                     | \$ 57,907        | 113.5%       | \$ 290,750                  | \$ 247,580                    | 17.4%        |                     |
| UK                                | 26,420                         | 11,752           | 124.8%       | 61,120                      | 58,567                        | 4.4%         |                     |
| US                                | 22,817                         | 16,533           | 38.0%        | 80,133                      | 60,438                        | 32.6%        |                     |
| Other Foreign Location            | 334                            | 996              | (66.5)%      | 2,401                       | 4,140                         | (42.0)%      |                     |
| <b>Total</b>                      | <b>\$ 173,197</b>              | <b>\$ 87,188</b> | <b>98.6%</b> | <b>\$ 434,404</b>           | <b>\$ 370,725</b>             | <b>17.2%</b> |                     |

(1) For a business description of Canaccord's geographic distribution please refer to the "About Canaccord Financial Inc." section on page 7.

*Third quarter 2010 vs. third quarter 2009*

On a consolidated basis, revenue is generated through five activities: commissions and fees associated with agency trading and private client wealth management activity, investment banking, principal trading, interest and other. Revenue for the three months ended December 31, 2009 was \$173.2 million, an increase of 98.6% or \$86.0 million compared to the same period a year ago.

For the third quarter of fiscal 2010, revenue generated from commissions was up 17.9% to \$60.7 million compared to the same period a year ago. This increase was due to a \$6.1 million commission revenue growth in our Canaccord Wealth Management segment and a \$3.1 million improvement in our Canaccord Adams segment.

Investment banking revenue was \$88.4 million, up \$68.2 million primarily due to stronger capital markets activity in Canada.

Revenue derived from principal trading was \$15.6 million, an increase of \$11.9 million mainly due to increased market-making operations in our UK subsidiary and wealth management segment, and \$3.1 million as a result of the increased trading activity in our Fixed Income group.

Interest revenue was \$3.1 million, which decreased by \$6.0 million or 66.0% due to the drop in the number and size of margin accounts and lower interest rates.

Other revenue was \$5.3 million, up \$2.7 million or 103.2%, which was mainly attributed to an increase in foreign exchange gains in the quarter.

Third quarter revenue in Canada was \$123.6 million, an improvement of 113.5% or \$65.7 million from the same period a year ago. The main contributor to the higher revenue in Canada was a \$46.9 million increase in revenue in our Canaccord Adams group. The revenue from our wealth management segment in Canada was also up by \$17.8 million compared to the same quarter of the last year.

Revenue in the UK was \$26.4 million, up 124.8% or \$14.7 million compared to the same period a year ago. Revenue from Other Foreign Location was \$0.3 million which declined by \$0.7 million. Enhanced capital markets activity during the quarter resulted in the increase in revenue in the UK.

Revenue in the US was \$22.8 million, an increase of \$6.3 million or 38.0% from Q3/09. Revenue improved significantly compared to Q3/09 because of favourable trends in the equity markets, changes in the competitive landscape and increased activity in respect of both public and private offerings and advisory work.

*Year-to-date fiscal year 2010 vs. year-to-date fiscal year 2009*

Revenue for the nine months ended December 31, 2009 was \$434.4 million, up 17.2% or \$63.7 million compared to the same period a year ago. Revenue generated from commissions decreased by 6.1% to \$172.8 million compared to the prior year largely due to the significantly weaker market conditions during Q1/10 compared to Q1/09. The Q1/09 results were relatively stronger as this period was prior to the market disruption that occurred near the end of Q2/09.

Investment banking revenue was \$191.9 million for year-to-date fiscal 2010, representing an increase of 47.2% primarily due to the higher financing activity in equity markets in our North American operations. This was partially offset by a decrease in revenue in our UK operations, comparing the year-to-date of fiscal year 2010 to the year-to-date of fiscal year 2009.

Revenue from principal trading was \$38.7 million year-to-date compared to \$9.8 million in the prior year. Principal trading revenue from our UK and Other Foreign Location was increased by \$16.8 million. The disposal of some investment in ABCP resulted in a \$4.2 million gain recognized in principal trading revenue. The Fixed Income segment of our business also contributed to the increase in principal trading revenue by \$3.4 million.

Interest revenue was \$9.7 million, a decline of 70.8% due to a decrease in interest revenue from banks and clients as a result of lower interest rates and smaller margin accounts. Other revenue increased by \$8.0 million to \$21.3 million during the year-to-date of fiscal year 2010 as a result of foreign exchange gains.

Year-to-date revenue in Canada was \$290.8 million, up 17.4% or \$43.2 million from the same period a year ago. Year-to-date fiscal year 2010 revenue in the UK was \$61.1 million, an increase of 4.4% or \$2.6 million from the same period a year ago. Revenue in the US was \$80.1 million, an increase of 32.6% or \$19.7 million compared to the year-to-date of fiscal year 2009. Revenue from Other Foreign Location was \$2.4 million compared to \$4.1 million in the nine months ended December 31, 2008.

Year-to-date revenue increased across geographies except for our Other Foreign Location which decreased slightly by \$1.7 million. This increase was a result of stronger capital markets activity during year-to-date fiscal 2010 compared to fiscal 2009.

### Expenses as a percentage of revenue

| (in percentage points)                         | Three months ended December 31 |               | Quarter-over-quarter change | Nine months ended December 31 |               | YTD-over-YTD change |
|--|--------------------------------|---------------|-----------------------------|-------------------------------|---------------|---------------------|
|  | 2009                           | 2008          |                             | 2009                          | 2008          |                     |
| Incentive compensation                         | 54.2%                          | 49.7%         | 4.5p.p.                     | 52.1%                         | 47.7%         | 4.4p.p.             |
| Salaries and benefits                          | 8.6%                           | 14.7%         | (6.1)p.p.                   | 9.8%                          | 11.5%         | (1.7)p.p.           |
| Other overhead expenses <sup>(1)</sup>         | 24.3%                          | 60.1%         | (35.8)p.p.                  | 27.4%                         | 41.6%         | (14.2)p.p.          |
| ABCP fair value adjustment                     | —                              | 7.7%          | (7.7)p.p.                   | —                             | 1.8%          | (1.8)p.p.           |
| Client relief provision                        | —                              | 3.1%          | (3.1)p.p.                   | —                             | 0.7%          | (0.7)p.p.           |
| Canaccord relief program fair value adjustment | —                              | 3.0%          | (3.0)p.p.                   | —                             | 0.7%          | (0.7)p.p.           |
| Impairment of goodwill and intangibles         | —                              | 36.2%         | (36.2)p.p.                  | —                             | 8.5%          | (8.5)p.p.           |
| Restructuring costs                            | —                              | 8.6%          | (8.6)p.p.                   | —                             | 2.0%          | (2.0)p.p.           |
| <b>Total</b>                                   | <b>87.1%</b>                   | <b>183.1%</b> | <b>(96.0)p.p.</b>           | <b>89.3%</b>                  | <b>114.5%</b> | <b>(25.2)p.p.</b>   |

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

### Third quarter 2010 vs. third quarter 2009

Expenses for the three months ended December 31, 2009 were \$150.9 million, down 5.5% from a year ago.

Incentive compensation expense was \$93.9 million for the quarter, an increase of 116.8% or \$50.6 million, consistent with the net increase in incentive-based revenue. Consolidated incentive compensation as a percentage of total revenue was 54.2%, an increase of 4.5 percentage points, due to a decrease in non-incentive-based revenue, primarily interest revenue, as well as higher long term incentive plan (LTIP) expense. Salaries and benefits expense was \$14.9 million, up 16.6% in the third quarter of fiscal 2010 from the same period a year ago, attributable to new recruiting strategy in our Canaccord Wealth Management group and a change in the pool recovery structure in our Canaccord Adams segment.

The total compensation (incentive compensation plus salaries) payout as a percentage of consolidated revenue for Q3/10 was 62.8%, a decrease of 1.5 percentage points from 64.4% in Q3/09. This was mainly due to a decrease in salaries and benefits expense as a result of the staff restructuring in the third quarter of fiscal 2009.

### Year-to-date fiscal year 2010 vs. year-to-date fiscal year 2009

Expenses for the nine months ended December 31, 2009 were \$388.2 million, an overall decrease of \$36.4 million or 8.6% from a year ago. Incentive compensation expense was \$226.3 million, up 27.9%, which was consistent with the increase in incentive-based revenue. Consolidated incentive compensation as a percentage of total revenue was 52.1%, an increase of 4.4 percentage points mainly as a result of the dramatic decline in interest revenue, a non-incentive-based revenue item.

Salaries and benefits expense for the nine-month period was \$42.7 million, an increase of 0.6% compared to the same period a year ago for the same reasons mentioned above. The total compensation (incentive compensation plus salaries) payout as a percentage of consolidated revenue was 61.9%, an increase of 2.7 percentage points from 59.2% in the first nine months of fiscal 2009, a result of the significant decrease in non-incentive-based revenue as a percentage of consolidated revenue.

### Other overhead expenses

| (\$ thousands, except % amounts)     | Three months ended December 31 |                  | Quarter-over-quarter change | Nine months ended December 31 |                   | YTD-over-YTD change |
|--------------------------------------|--------------------------------|------------------|-----------------------------|-------------------------------|-------------------|---------------------|
|                                      | 2009                           | 2008             |                             | 2009                          | 2008              |                     |
| Trading costs                        | \$ 7,140                       | \$ 6,708         | 6.4%                        | \$ 21,466                     | \$ 19,746         | 8.7%                |
| Premises and equipment               | 6,228                          | 6,549            | (4.9)%                      | 18,214                        | 18,291            | (0.4)%              |
| Communication and technology         | 5,838                          | 6,277            | (7.0)%                      | 16,572                        | 18,979            | (12.7)%             |
| Interest                             | 631                            | 2,568            | (75.4)%                     | 1,968                         | 9,881             | (80.1)%             |
| General and administrative           | 13,609                         | 19,827           | (31.4)%                     | 37,195                        | 58,715            | (36.7)%             |
| Amortization                         | 1,904                          | 2,751            | (30.8)%                     | 5,731                         | 6,865             | (16.5)%             |
| Development costs                    | 6,720                          | 7,738            | (13.2)%                     | 18,061                        | 21,583            | (16.3)%             |
| <b>Total other overhead expenses</b> | <b>\$ 42,070</b>               | <b>\$ 52,418</b> | <b>(19.7)%</b>              | <b>\$ 119,207</b>             | <b>\$ 154,060</b> | <b>(22.6)%</b>      |

*Third quarter 2010 vs. third quarter 2009*

Other overhead expenses decreased by 19.7% or \$10.3 million from the prior year to \$42.1 million for the third quarter of fiscal 2010 mainly due to the decrease in general and administrative, interest, and development costs.

General and administrative expense declined mainly due to a reduced credit provision required in our wealth management segment as a result of stronger market conditions in Q3/10 compared to Q3/09. The lower provision reduced expenses by \$6.6 million or 100.5% compared to Q3/09.

Interest expense was decreased by \$1.9 million or 75.5% which was attributable to the decline in interest rates over the past year. Development costs were \$1.0 million or 13.2% lower than the prior year mainly due to the reduction in hiring incentives in our US operations.

Net income for Q3/10 was \$15.1 million compared to a net loss of \$62.4 million for the same period a year ago. Diluted EPS was \$0.27 in Q3/10 compared to a loss per share of \$1.27 in Q3/09. In the prior year, the Company recognized \$51.1 million of expenses in Q3/09 arising from significant items in that period including an ABCP fair value adjustment, Canaccord relief program provision and fair value adjustment, impairment of goodwill and intangibles, and restructuring costs. Excluding significant items, net income in Q3/10 was \$15.1 million and net loss in Q3/09 was \$16.2 million. The increase in net income and EPS, excluding significant items, were mainly due to the 98.6% growth in revenue matched with similar expense levels compared to the same quarter last period. Annualized ROE for Q3/10 was 15.2% compared to an annualized ROE of (64.3)% in Q3/09. Book value per diluted share for Q3/10 was \$7.00 versus \$6.37 in Q3/09.

The effective tax rate for this quarter was 32.3% compared to 13.9% in the same quarter last year and 14.2% last quarter. The increase from a year ago was due primarily to the reduction of previously recorded valuation allowances in Q3/09. The increase from Q2/10 was due to the decrease in the utilization of tax losses carried forward in Q3/10 as compared to Q2/10.

*Year-to-date fiscal year 2010 vs. year-to-date fiscal year 2009*

Other overhead expenses for the nine months ended December 31, 2009 were \$119.2 million, representing a 22.6% decrease from the same period a year ago. Reduced expenses in general and administrative, interest, and development expenses were the main contributors to the drop in overhead expenses. General and administrative expense was decreased by \$21.5 million primarily due to a combination of reduced credit provision, promotion and travel expense, and professional fees. Promotion and travel expense was down by \$6.0 million due to a firm-wide focus on controlling costs, as well as additional expense recoveries from compensation pools. Due to non-recurring consultancy fees incurred in fiscal 2009 to upgrade internal infrastructure, professional fees were \$6.0 million lower than year-to-date fiscal 2009.

Interest expense dropped by 80.1% or \$7.9 million, and development costs were decreased by 16.3% or \$3.5 million. The decline in interest expense was the result of a decrease in clients' payable balances in addition to lower interest rates. Development costs were reduced because of a \$6.0 million drop in hiring incentives paid in the Canaccord Adams, and Corporate and Other segments; however, this was offset by a \$2.5 million increase in hiring incentives invested by our Canaccord Wealth Management segment as part of its overall restructuring strategy.

Net income for the year to date of fiscal 2010 was \$31.0 million compared to a net loss of \$51.3 million for the same period a year ago. Diluted EPS was \$0.56 compared to a diluted loss per share of \$1.05 a year ago and annualized ROE was 10.6% compared to (18.0)% a year ago. There were \$51.1 million of significant items recognized during Q3/09 that did not recur in fiscal 2010 as discussed above. Excluding significant items, net income was \$31.0 million compared to net loss of \$5.2 million, up \$36.2 million year over year. This increase was the result of more revenue earned in the strengthening market along with a consistent amount of expenses incurred compared to the same period in the prior year. Book value per diluted share at the period end was \$7.00, a 9.9% increase from \$6.37.

Income tax expense was \$15.2 million in the year to date of fiscal 2010, an increase of \$17.8 million. The change was largely due to the increase in income. The year-to-date effective tax rate was 32.9% compared to 4.8% for the same period last year. The higher effective tax rate was a result of the valuation allowances recorded in fiscal 2009, which resulted in a low effective tax recovery rate.

**RESULTS OF OPERATIONS****Canaccord Adams**<sup>(1)</sup>

| <i>(C\$ thousands, except employees and % amounts)</i>     | <i>Three months ended December 31</i> |             |          | <i>Quarter-over-<br/>quarter change</i> | <i>Nine months ended December 31</i> |             | <i>YTD-over-YTD<br/>change</i> |
|--|---------------------------------------|-------------|----------|---|--------------------------------------|-------------|--------------------------------|
|  | <i>2009</i>                           | <i>2008</i> |          |   | <i>2009</i>                          | <i>2008</i> |                                |
| <b>Canaccord Adams</b>                                     |                                       |             |          |   |                                      |             |                                |
| Revenue  | \$ 116,090                            | \$ 49,250   | 135.7%   | \$ 280,062                              | \$ 212,379                           | 31.9%       |                                |
| Expenses   |                                       |             |          |   |                                      |             |                                |
| Incentive compensation                                     | 63,567                                | 28,857      | 120.3%   | 151,559                                 | 111,384                              | 36.1%       |                                |
| Salaries and benefits                                      | 4,441                                 | 3,413       | 30.1%    | 11,221                                  | 11,555                               | (2.9)%      |                                |
| Other overhead expenses                                    | 20,102                                | 26,027      | (22.8)%  | 58,480                                  | 83,528                               | (30.0)%     |                                |
| Impairment of goodwill and intangibles                     | –                                     | 31,524      | (100.0)% | –                                       | 31,524                               | (100.0)%    |                                |
| Restructuring costs  | –                                     | 5,949       | (100.0)% | –                                       | 5,949                                | (100.0)%    |                                |
| Total expenses   | \$ 88,110                             | \$ 95,770   | (8.0)%   | \$ 221,260                              | \$ 243,940                           | (9.3)%      |                                |
| Income (loss) before income taxes <sup>(2)</sup>           | 27,980                                | (46,520)    | (160.1)% | 58,802                                  | (31,561)                             | (286.3)%    |                                |
| Income (loss) before significant items<br>and income taxes | 27,980                                | (9,047)     | n.m.     | 58,802                                  | 5,912                                | n.m.        |                                |
| Number of employees  | 503                                   | 480         | 4.8%     |   |                                      |             |                                |

(1) Data is considered to be GAAP except for income (loss) before significant items and income taxes, and number of employees.

(2) See "Intersegment Allocated Costs".

n.m.: not meaningful

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

*Third quarter 2010 vs. third quarter 2009*

Revenue for Canaccord Adams in Q3/10 was \$116.1 million, an increase of 135.7% or \$66.8 million from the same quarter a year ago, due to the stronger global capital markets in Canada and the US in Q3/10 compared to Q3/09.

## Revenue from Canadian operations

Canaccord Adams in Canada generated revenue of \$67.4 million in Q3/10, up 229.7% or \$46.9 million from Q3/09. The increase in revenue in this geographic sector was largely due to an improvement in capital markets activity in Canada since the first quarter of fiscal 2010. Canadian revenue for Canaccord Adams of \$67.4 million represented 58.0% (Q3/09: 41.5%) of Canaccord Adams' total revenue.

## Revenue from UK and Other Foreign Location

Canaccord Adams' operations in the UK and Europe include providing institutional sales and trading, corporate finance and research services. Revenue derived from capital markets activity outside of Canada, the UK and the US is reported as Other Foreign Location, which includes operations for Canaccord International Ltd. Revenue in the UK and Other Foreign Location was \$26.8 million, which improved by 109.9% or \$14.0 million from the same period a year ago mainly due to an increase in market-making operations during Q3/10. UK and Other Foreign Location revenue of \$26.8 million was 23.0% (Q3/09: 25.8%) of Canaccord Adams' total revenue.

## Revenue from US operations

The US operations reflect the capital markets activities of Canaccord Adams Inc. Third quarter 2010 revenue for Canaccord Adams in the US was \$22.0 million (Q3/09: \$16.1 million), an increase of \$5.9 million or 36.8% compared to the same period last year primarily due to improvements in the equity markets, changes in the competitive landscape and increased activity in respect of both public and private offerings as well as increased advisory fees. Revenue from the US operations represented 19.0% (Q3/09: 32.7%) of Canaccord Adams' total revenue.

## Expenses

Expenses in Canaccord Adams for the third quarter of fiscal 2010 were \$88.1 million, which is \$7.7 million or 8.0% lower than in fiscal 2009. This was mainly attributed to the significant items recorded in Q3/09 that did not recur during fiscal 2010, including the \$31.5 million impairment of goodwill and intangibles and \$5.9 million of restructuring costs. This decrease in expense was offset by a \$34.7 million increase in incentive compensation due to higher incentive-based revenue in the quarter. Salary and benefits expense for the quarter was \$4.4 million, representing an increase of \$1.0 million or 30.1% due to the increase of 23 employees in this segment. Total compensation expense as a percentage of revenue for the quarter was 58.6%, a decrease of 6.9 percentage points from 65.5% in Q3/09.

General and administrative expense was \$5.8 million in Q3/10, down by \$3.1 million or 34.7%. Professional fees were \$1.0 million lower due to non-recurring consultancy fees to upgrade internal infrastructure incurred in Q3/09. Reduced credit provision also reduced expenses by \$1.1 million due to a lower amount of receivables that were deemed uncollectible during the quarter.

Income before income taxes for the quarter was \$28.0 million compared to a net loss before income taxes of \$46.5 million for the same period last year. The increase in net income was mainly a result of the \$66.8 million increase in revenue because of the improved economic conditions and favourable competitive environment in the small to mid-size capital markets, especially in the US operations. In addition, significant items of \$37.5 million were recognized during Q3/09 that did not recur in the current fiscal year related to the impairment of goodwill and intangibles and restructuring costs.

#### *Year-to-date fiscal year 2010 vs. year-to-date fiscal year 2009*

Revenue for Canaccord Adams for the year-to-date of fiscal 2010 was \$280.1 million, up by \$67.7 million from the same period last year due to recovering capital markets activities in all geographies where we operate, particularly in the US segment.

#### Revenue from Canadian operations

In Canada, revenue was \$138.3 million, a 51.0% growth from the same period a year ago. Within Canada, \$115.4 million was derived from investment banking and equities activity, while \$22.9 million was from our international trading, registered traders and fixed income operations. Overall, our Canadian revenue represented 49.3% (Q3/09: 43.1%) of Canaccord Adams' total revenue.

#### Revenue from UK and Other Foreign Location operations

Our UK and Other Foreign Location revenue was \$63.5 million, a slight increase of \$0.8 million from the same period a year ago. Revenue from our UK and Other Foreign Location operations represented 22.7% (Q3/09: 29.5%) of Canaccord Adams' total revenue.

#### Revenue from US operations

The US operations experienced a significant increase in revenue during the year-to-date of fiscal 2010, mainly due to the improvements in the equity markets, changes in the competitive landscape, and increased activity in respect of both public and private offerings as well as higher advisory fees. Revenue was \$78.2 million, an increase of \$20.1 million or 34.7% compared to the same period a year ago. Revenue from US operations represented 28.0% (Q3/09: 27.4%) of Canaccord Adams' total revenue.

#### Expenses

Expenses for the year-to-date of fiscal 2010 were \$221.3 million, down by \$22.7 million. This decrease was mainly due to the \$31.5 million impairment of goodwill and intangibles and \$5.9 million of restructuring costs recognized in fiscal 2009 that did not recur in fiscal 2010. This was offset by an increase in incentive compensation of \$40.2 million or 36.1% compared to the same period a year ago. Incentive compensation expense as a percentage of revenue was increased by 1.7 percentage points as a result of increased profitability and new LTIP grants during Q3/10.

Salary and benefits expense for the year-to-date of fiscal 2010 declined slightly by \$0.3 million from a year ago. The total compensation expense payout as a percentage of revenue for the first nine months of fiscal 2010 was 58.6%, consistent with the same period a year ago.

Overhead expenses were \$58.5 million during the year-to-date of fiscal 2010, a decrease of \$25.0 million or 30.0% compared to the same period in fiscal 2009. This was mainly due to a \$16.2 million drop in general and administrative expense primarily connected to the \$5.3 million decline in non-recurring consultancy fees paid to upgrade our internal infrastructure in Q3/09. Promotion and travel expense also decreased by \$7.0 million due to cost reduction initiatives and changes in expense allocations to compensation pools. There were less hiring incentives incurred in our US operations, leading to a drop in development costs of \$4.9 million during the year-to-date of fiscal 2010.

Income before income taxes for the period was \$58.8 million compared to a net loss of \$31.6 million for the same period a year ago. Improvement in the income before taxes was due to higher revenue and a result of significant items recognized in fiscal 2009 that did not recur in fiscal 2010.

**Canaccord Wealth Management <sup>(1)</sup>**

(C\$ thousands, except AUM and AUA, which are in C\$ millions; employees; Advisory Teams; and % amounts)

|   | Three months ended December 31 |           |  | Quarter-over-quarter change | Nine months ended December 31 |            | YTD-over-YTD change |
|---|--------------------------------|-----------|--|-----------------------------|-------------------------------|------------|---------------------|
|   | 2009                           | 2008      |  |                             | 2009                          | 2008       |                     |
| Revenue   | \$ 51,733                      | \$ 33,532 |  | 54.3%                       | \$ 132,056                    | \$ 135,229 | (2.3)%              |
| Expenses  |                                |           |  |                             |                               |            |                     |
| Incentive compensation                                  | 24,376                         | 14,195    |  | 71.7%                       | 62,387                        | 61,261     | 1.8%                |
| Salaries and benefits                                   | 4,015                          | 3,057     |  | 31.3%                       | 12,621                        | 10,315     | 22.4%               |
| Other overhead expenses                                 | 13,656                         | 17,437    |  | (21.7)%                     | 37,420                        | 43,707     | (14.4)%             |
| Client relief provision                                 | —                              | 2,700     |  | (100.0)%                    | —                             | 2,700      | (100.0)%            |
| Canaccord relief program fair value adjustment          | —                              | 2,647     |  | (100.0)%                    | —                             | 2,647      | (100.0)%            |
| Restructuring costs                                     | —                              | 180       |  | (100.0)%                    | —                             | 180        | (100.0)%            |
| Total expenses  | \$ 42,047                      | \$ 40,216 |  | 4.6%                        | \$ 112,428                    | \$ 120,810 | (6.9)%              |
| Income before income taxes <sup>(2)</sup>               | 9,686                          | (6,684)   |  | (244.9)%                    | 19,628                        | 14,419     | 36.1%               |
| Income (loss) before significant items and income taxes | 9,686                          | (1,157)   |  | n.m.                        | 19,628                        | 19,946     | (1.6)%              |
| Assets under management                                 | 423                            | 454       |  | (6.8)%                      | 423                           | 454        | (6.8)%              |
| Assets under administration                             | 12,210                         | 9,030     |  | 35.2%                       | 12,210                        | 9,030      | 35.2%               |
| Number of Advisory Teams                                | 327                            | 347       |  | (5.8)%                      |                               |            |                     |
| Number of employees                                     | 707                            | 725       |  | (2.5)%                      |                               |            |                     |

(1) Data is considered to be GAAP except for AUM, AUA, number of Advisory Teams, income (loss) before significant items and income taxes and number of employees.

(2) See "Intersegment Allocated Costs".  
n.m.: not meaningful

Revenue from Canaccord Wealth Management is generated through traditional commission-based brokerage services; the sale of fee-based products and services; margin interest; and fees and commissions earned in respect of investment banking and venture capital transactions by private clients.

*Third quarter 2010 vs. third quarter 2009*

Revenue from Canaccord Wealth Management was \$51.7 million, an increase of \$18.2 million or 54.3% mainly due to stronger activity during the quarter. AUA was up 35.2% or \$3.2 billion to \$12.2 billion compared to Q3/09. AUM decreased by 6.8% year over year. There were 327 Advisory Teams at the end of the third quarter of fiscal 2010, a decrease of 20 from a year ago. Canaccord's fee-related revenue accounted for 11.7% of Canaccord Wealth Management's revenue in Q3/10 compared to 18.4% in Q3/09, a decrease of 6.7 percentage points.

Expenses for Q3/10 were \$42.0 million, an increase of 4.6% or \$1.8 million. This change was made up of an increase in incentive compensation by \$10.2 million and salaries expense by \$1.0 million, but offset by a decrease in overhead expenses by \$3.8 million. The movement in incentive compensation expense was due to the higher revenue and implementation of a new retention program in fiscal 2010. Salaries and benefits expense increased despite lower staff levels as a result of the hiring of key personnel to our management group as part of its restructuring strategy. This increase in overall expense in Q3/10 was partially offset by a \$5.5 million Canaccord relief program provision and fair value adjustment, and restructuring costs recognized in Q3/09 that did not recur in Q3/10.

Other overhead expenses decreased mainly due to a decrease in general and administrative expense of \$3.7 million and lower interest expense of \$1.7 million resulting from the drop in interest rates. The Canaccord Wealth Management segment incurred \$1.0 million more in hiring incentives invested as part of its overall restructuring strategy.

Income before income taxes for the quarter was \$9.7 million compared to a net loss of \$6.7 million from the same period a year ago. There were \$5.5 million of significant items recognized in Q3/09 that did not recur. Excluding significant items, net income was \$9.7 million Q3/10 compared to net loss of \$1.2 million in Q3/09, an increase of \$10.8 million. This increase was mainly due to improved revenue in Q3/10 compared to Q3/09.

*Year-to-date fiscal year 2010 vs. year-to-date fiscal year 2009*

Revenue from Canaccord Wealth Management was \$132.1 million, a decrease of \$3.2 million or 2.3%. Overall, revenue in Canaccord Wealth Management remained consistent with year-to-date fiscal 2009. Fee-related revenue as a percentage of total Canaccord Wealth Management revenue decreased by 3.9 percentage points to 13.4% compared to the same period last year.

Expenses for the nine months ended December 31, 2009 were \$112.4 million, a decrease of \$8.4 million or 6.9%. Incentive compensation expense increased slightly by \$1.1 million or 1.8% mainly due to the new retention program implemented in fiscal 2010. Salaries and benefits expense also increased by \$2.3 million due to the hiring of key personnel as discussed above. Interest expense decreased by \$6.7 million or 94.4%, a result of lower interest rates and smaller cash balances

in our client accounts. The total compensation expense payout as a percentage of revenue for the first nine months of fiscal 2010 was 56.8%, an increase of 3.9 percentage points from 52.9% for the same period a year ago. The significant decrease in non-incentive-based revenue, particularly interest revenue, is the main reason for this increase in compensation expense payout as a percentage of revenue.

The decrease in expenses was offset by an increase in development costs of \$2.5 million or 47.1%, which was mainly due to additional hiring incentives incurred as part of our recruiting strategy in this segment.

Income before income taxes for the year-to-date of fiscal 2010 was \$19.6 million, an increase of 36.1% from the same period a year ago. The increase was mainly attributed to \$5.5 million of significant expenses incurred in Q3/09 not recurring in fiscal 2010. Excluding significant items, net income was \$19.6 million in Q3/10, consistent with the \$19.9 million net income reported in Q3/09.

### Corporate and Other <sup>(1)</sup>

| (C\$ thousands, except employees and % amounts) | Three months ended December 31 |           |  | Quarter-over-quarter change | Nine months ended December 31 |           | YTD-over-YTD change |
|---|--------------------------------|-----------|--|-----------------------------|-------------------------------|-----------|---------------------|
|   | 2009                           | 2008      |  |                             | 2009                          | 2008      |                     |
| Revenue   | \$ 5,374                       | \$ 4,406  |  | 22.0%                       | \$ 22,286                     | \$ 23,117 | (3.6)%              |
| Expenses  |                                |           |  |                             |                               |           |                     |
| Incentive compensation                          | 5,929                          | 247       |  | n.m.                        | 12,355                        | 4,358     | 183.5%              |
| Salaries and benefits                           | 6,489                          | 6,347     |  | 2.2%                        | 18,888                        | 20,585    | (8.2)%              |
| Other overhead expenses                         | 8,312                          | 8,954     |  | (7.2)%                      | 23,307                        | 26,825    | (13.1)%             |
| ABCP fair value adjustment                      | —                              | 6,700     |  | (100.0)%                    | —                             | 6,700     | (100.0)%            |
| Restructuring costs                             | —                              | 1,391     |  | (100.0)%                    | —                             | 1,391     | (100.0)%            |
| Total expenses                                  | \$ 20,730                      | \$ 23,639 |  | (12.3)%                     | \$ 54,550                     | \$ 59,859 | (8.9)%              |
| Loss before income taxes <sup>(2)</sup>         | (15,356)                       | (19,233)  |  | (20.2)%                     | (32,264)                      | (36,742)  | (12.2)%             |
| Loss before significant items and income taxes  | (15,356)                       | (11,142)  |  | 37.8%                       | (32,264)                      | (28,651)  | 12.6%               |
| Number of employees                             | 360                            | 365       |  | (1.4)%                      |                               |           |                     |

(1) Data is considered to be GAAP except for loss before significant items and income taxes and number of employees.

(2) See "Intersegment Allocated Costs".  
n.m.: not meaningful

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

#### Third quarter 2010 vs. third quarter 2009

Revenue for the three months ended December 31, 2009 was \$5.4 million, an increase of 22.0% or \$1.0 million from the same quarter a year ago. The change was mainly related to a \$4.2 million increase in foreign exchange gains offset by a \$3.4 million decrease in interest revenue.

Expenses for Q3/10 were \$20.7 million, down 12.3% or \$2.9 million. This drop in expenses was primarily due to the \$6.7 million ABCP fair value adjustment and \$1.4 million of restructuring costs recognized in fiscal 2009 that did not recur in fiscal 2010. This was offset by an increase in incentive compensation expense of \$5.7 million due to higher profitability of the consolidated group of companies.

Overall, loss before income taxes was \$15.4 million in Q3/10 compared to \$19.2 million in the same quarter a year ago. The decrease in loss was mainly due to the recognition of the \$6.7 million ABCP fair value adjustment and \$1.4 million of restructuring costs that did not recur in fiscal 2009, offset by an increase in incentive compensation expense.

#### Year-to-date fiscal year 2010 vs. year-to-date fiscal year 2009

Revenue was \$22.3 million, a slight drop of \$0.8 million, primarily attributed to the \$11.3 million decline in interest revenue offset by \$8.7 million of foreign exchange gains.

Expenses for the year-to-date of fiscal 2010 were \$54.6 million, a decrease of \$5.3 million. There was a net increase in incentive compensation expense of \$8.0 million or 183.5% mainly due to greater profitability amongst the consolidated group of companies. This was offset by a decrease in salaries and benefits expense of \$1.7 million, a result of the staff restructuring in fiscal 2009. General and administrative expense also decreased by \$0.8 million mainly due to less contingent liability accruals during the period. Development costs were reduced by \$1.1 million, resulting from decreased spending on systems development.

Overall, loss before income taxes was \$32.3 million compared to \$36.7 million for the same period a year ago.

**Intersegment allocated costs**

Included in the Corporate and Other segment are certain trade processing, support services, research and other expenses that have been incurred to support the activities within the Canaccord Adams and Canaccord Wealth Management segments. Excluding executive incentive compensation and certain administrative support, foreign exchange gains and losses and net interest, management has determined that allocable costs from Corporate and Other to Canaccord Wealth Management were \$9.8 million for the quarter ending December 31, 2009 and to Canaccord Adams such allocable costs were \$2.4 million.

**FINANCIAL CONDITION**

Below are specific changes in selected balance sheet items.

**Assets**

Cash and cash equivalents were \$782.6 million on December 31, 2009 compared to \$701.2 million on March 31, 2009. Refer to the Liquidity and Capital Resources section below for more details.

Securities owned were \$404.5 million compared with \$133.7 million on March 31, 2009, mainly attributable to an increase in fixed income activity, net holdings of marketable securities and additional corporate finance bought deals. This was a result of a corporate initiative to expand the Fixed Income group, which deals in the primary and secondary markets of all fixed income products.

Accounts receivable were \$1.3 billion at December 31, 2009 compared to \$1.1 billion at March 31, 2009, attributed to an increase in brokers' and investment dealers' receivables. This increase was due to increased trading activities and expansion of the Fixed Income group. Accounts receivable net of accounts payable was \$(483.0) million at December 31, 2009 compared to \$(408.2) million at March 31, 2009.

Other assets were \$85.6 million compared to \$126.1 million at March 31, 2009, mainly due to a decrease in income taxes receivable and disposal of holdings in ABCP.

**Liabilities**

Bank overdrafts and call loan facilities utilized by Canaccord may vary significantly on a day-to-day basis and depend on securities trading activity. At December 31, 2009 Canaccord had available credit facilities with banks in Canada and the UK in the aggregate amount of \$485.4 million (March 31, 2009 – \$568.7 million). These credit facilities, consisting of call loans, letters of credit and daylight overdraft facilities, are collateralized by either unpaid client securities and/or securities owned by the Company. On December 31, 2009 there was bank indebtedness of \$44.6 million compared to \$75.6 million on March 31, 2009.

Accounts payable were \$1.8 billion compared to \$1.5 billion at March 31, 2009, an increase of \$0.3 billion mainly related to an increase in payables to brokers and investment dealers. As discussed above in "Assets", the increase was due to increased trading activities, expansion of the Fixed Income group and additional corporate finance activities.

Securities sold short were \$324.9 million, an increase of \$245.5 million compared to \$79.4 million at March 31, 2009. This increase was a result of the Company's initiative to grow the Fixed Income group.

Other liabilities include income taxes payable and subordinated debt with a total balance of \$19.6 million at December 31, 2009, a decrease of \$5.4 million. This decrease was due to the \$10.0 million repayment of subordinated debt during fiscal 2010 and an increase in income taxes payable.

**OFF-BALANCE SHEET ARRANGEMENTS**

A subsidiary of the Company has entered into irrevocable, secured standby letters of credit from a financial institution totalling \$2.4 million (US\$2.3 million) [March 31, 2009 – \$2.9 million (US\$2.3 million)] as rent guarantees for its leased premises in Boston, New York and San Francisco.

**LIQUIDITY AND CAPITAL RESOURCES**

Canaccord has a capital structure comprised of share capital, retained earnings and accumulated other comprehensive losses and is further complemented by subordinated debt. On December 31, 2009, cash and cash equivalents of \$782.6 million, net of bank indebtedness of \$44.6 million, were \$738.0 million, an increase of \$112.4 million from \$625.6 million as of March 31, 2009. During the nine months ended December 31, 2009, financing activities used cash in the amount of \$21.6 million mainly due to the \$11.7 million acquisition of common shares for LTIP and \$10.0 million repayment of subordinated debt. Investing activities provided cash in the amount of \$8.9 million mainly relating to the net proceeds on sale and redemption of investment in ABCP. Operating activities provided cash in the amount of \$126.5 million, which was due to net income offset by net changes in working capital. A decrease in cash of \$1.4 million was attributed to the effect of foreign exchange on cash balances. In total, there was an increase in net cash of \$112.4 million compared to March 31, 2009.

Canaccord's business requires capital for operating and regulatory purposes. The majority of current assets reflected on Canaccord's balance sheet are highly liquid. The majority of the positions held as securities owned are readily marketable and all are recorded at their fair value. The fair value of these securities fluctuates daily as factors such as changes in market conditions, economic conditions and investor outlook affect market prices. Client receivables are secured by readily marketable securities and are reviewed daily for impairment in value and collectibility. Receivables and payables from brokers and dealers represent the



following: current open transactions that generally settle within the normal three-day settlement cycle; collateralized securities borrowed and/or loaned in transactions that can be closed within a few days on demand; and balances on behalf of introducing brokers representing net balances in connection with their client accounts.

During the nine months ended December 31, 2009, there were no material changes to the Company's commitments from those described in Note 17 of the Audited Annual Consolidated Financial Statements.

#### OUTSTANDING SHARE DATA

|  | Outstanding shares as of December 31 |            |
|--|--------------------------------------|------------|
|  | 2009                                 | 2008       |
| Issued shares excluding unvested shares <sup>(1)</sup> | 48,105,856                           | 49,108,237 |
| Issued shares outstanding <sup>(2)</sup>               | 55,404,528                           | 54,636,139 |
| Issued shares outstanding – diluted <sup>(3)</sup>     | 57,266,909                           | 56,218,193 |
| Average shares outstanding – basic                     | 48,376,433                           | 48,656,116 |
| Average shares outstanding – diluted                   | 55,576,702                           | 54,329,767 |

(1) Excludes 3,811,007 unvested shares that are outstanding relating to share purchase loans for recruitment and retention programs, and 3,487,665 unvested shares purchased by the employee benefit trust for the LTIP.

(2) Includes 3,811,007 unvested shares that are outstanding relating to share purchase loans for recruitment and retention programs, and 3,487,665 unvested shares purchased by the employee benefit trust for the LTIP.

(3) Includes 1,862,381 of share issuance commitments.

At February 3, 2010, Canaccord had 55,404,528 common shares issued and outstanding, an increase of 768,389 common shares from December 31, 2008 due to shares issued in connection with stock-based compensation plans.

The Company renewed its normal course issuer bid (NCIB) and is currently entitled to acquire up to 2,767,974 of its shares from September 3, 2009 to September 2, 2010; this number represents 5% of its shares outstanding as of August 28, 2009. There were nil shares purchased through the NCIB between September 3, 2009 and December 31, 2009.

#### STOCK-BASED COMPENSATION PLANS

##### Stock options

The Company granted stock options to purchase common shares of the Company to independent directors and senior managers. The independent directors and senior managers have been granted options to purchase up to an aggregate of 2,449,993 common shares of the Company. The stock options vest over a four- to five-year period and expire seven years after the grant date. The weighted average exercise price of the stock options is \$9.91.

In May 2009, the Company granted an aggregate of 125,000 stock options to five independent directors with an exercise of \$7.21 per share. The options vest over a four-year period and expire seven years after the grant date.

On August 31, 2009, the independent directors of the Company approved the grant of stock options to certain senior managers of the Company and its subsidiaries. An aggregate of 2,099,993 options were granted at an exercise price of \$9.47 per share that vest over five years. The options expire at the earliest of: (1) seven years after the grant date, (2) three years after death or any other event of termination of employment, (3) after any unvested optioned shares held by the optionee are cancelled for any reason, and (4) in the case of early retirement, after a determination that the optionee has competed with the Company or violated any non-competition, non-solicitation or non-disclosure obligations.

##### Long term incentive plan

Under the LTIP, eligible participants are awarded restricted share units (RSUs) which vest over three years. For employees in Canada, an employee benefit trust (the Trust) has been established, and either (a) the Company will fund the Trust with cash, which will be used by a trustee to purchase on the open market common shares of the Company that will be held in trust by the trustee until RSUs vest, or (b) the Company will issue common shares from treasury to participants following vesting of RSUs. For employees in the United States and the United Kingdom, at the time of each RSU award, the Company will allot common shares and these shares will be issued from treasury at the time they vest for each participant.

#### INTERNATIONAL FINANCIAL CENTRE

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

#### FOREIGN EXCHANGE

Canaccord manages its foreign exchange risk by periodically hedging pending settlements in foreign currencies. Realized and unrealized gains and losses related to these transactions are recognized in income during the year. On December 31, 2009, forward contracts outstanding to sell US dollars had a notional amount of US\$2.8 million, an increase of \$2.2 million from a year ago. Forward contracts outstanding to buy US dollars had a notional amount of US\$5.0 million, an increase of

US\$2.7 million compared to a year ago. The fair value of these contracts was nominal. Some of Canaccord's operations in London, England are conducted in UK pounds sterling; however, any foreign exchange risk in respect of these transactions is generally limited, as pending settlements on both sides of the transaction are typically in UK pounds sterling.

#### **RELATED PARTY TRANSACTIONS**

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

#### **CRITICAL ACCOUNTING ESTIMATES**

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

#### **Revenue recognition and valuation of securities**

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

#### **Asset-backed commercial paper**

There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the Company's holdings in ABCP. The Company estimates the fair value of its ABCP holdings by discounting expected future cash flows on a probability weighted basis considering the best available data. Since the fair value of the ABCP is based on the Company's assessment of current conditions, amounts reported may change materially in subsequent periods. Refer to Note 7 in the Audited Annual Consolidated Financial Statements for further details and Note 6 of the Unaudited Interim Consolidated Financial Statements.

#### **Provisions**

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

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

#### **Tax**

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

### Consolidation of variable interest entities

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

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

### Stock-based compensation plans

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

## RECENT ACCOUNTING PRONOUNCEMENTS

### Business Combinations and Consolidated Financial Statements

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

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

Early adoption prior to April 1, 2011 is permitted, and all three standards must be adopted concurrently. The impact of adoption of these standards is being assessed.

### International Financial Reporting Standards

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

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

In order to prepare for the conversion to IFRS, the Company has developed an IFRS conversion plan, which includes the following three phases:

1. Diagnostic phase – This phase involves preparing the high-level impact assessment of the significant differences between IFRS and Canadian GAAP that may have a material impact on the Company's financial statements. The procedures in this phase will prioritize the areas that will be affected.
2. Design and planning – This phase includes identification, evaluation, and selection of accounting policies in accordance with IFRS. Mock financial statements will be prepared during this phase and quantitative impacts will be determined. Operational plans will be completed to evaluate the impact of conversion on information technology, internal control over financial reporting, training, and communication to internal and external stakeholders.

3. Implementation and post-implementation review – This phase involves execution of the plans prepared in the phases described above. It will also include collecting information required for IFRS-compliant financial statements, implementing IFRS in business processes, obtaining audit committee approval of IFRS financial statements, and provide any further training for employees for revised systems.

The Company is in the design and planning phase of the changeover plan. We are currently focusing on the areas that will have the most significant impact on the consolidated financial statements. Assessment of the application of IFRS 1 “First time adoption of IFRS” (IFRS 1) is also ongoing. IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirements for full retrospective application of IFRSs.

It is noted that both the AcSB and the IASB have significant workplans to change certain accounting standards. The AcSB is continuously making changes to converge some standards to align with IASB before the changeover date, while IASB is modifying its standards to meet the needs of the current economic environment. For example, the IASB have published discussion papers and exposure drafts proposing significantly different accounting models in the following areas that may materially impact the Company's consolidated financial statements: lease accounting, financial instruments, and revenue recognition. The Company will continue to monitor the progress of these changes and assess the impact on the changeover implementation plan. Due to the uncertainties of the proposed standards, the Company has not been able to evaluate the quantitative impacts expected on its consolidated financial statements.

We have identified three main areas below that contain significant differences based on current Canadian GAAP and IFRS as of today.

#### **Financial instruments**

The IASB recently issued IFRS 9 “*Financial Instruments: Recognition and Measurement*”, which specifically addresses the recognition and measurement of financial assets. Financial assets are initially measured at fair value and classified as either amortized cost or fair value. This differs from the current CICA Handbook Section 3855 “Financial Instruments: Recognition and Measurement” in that financial assets are initially measured at fair value, and they are classified as held for trading, held to maturity, loans and receivables, or available for sale.

Under Canadian GAAP, any gains or losses from available for sale assets are recognized in other comprehensive income; however, this classification does not exist under IFRS. Any changes in fair value or amortization of amortized cost financial assets are recognized into net income directly.

Transaction costs are also required to be capitalized as part of the fair value of the financial asset upon initial recognition under IFRS. Canadian GAAP allows for the option to expense transaction costs as incurred or capitalized as part of the fair value of the financial asset.

#### **Stock-based compensation**

IFRS 2 “*Share-Based Payments*” requires that cash-settled share-based payments to employees be measured based on fair values of the awards at initial and subsequent measurement. Under CICA Handbook Section 3870 “*Stock-Based Compensation*”, cash-settled share-based payments are measured at intrinsic values of the awards. This will have an impact on the accounting of our stock-based compensation plans.

#### **Revenue recognition**

Per CICA Handbook Section 3400 “*Revenue*”, revenue is recognized when performance is completed and collectibility is reasonably assured. Performance relating to services rendered and long-term contracts is determined using the percentage completion method or the completed contract method. Per International Accounting Standard (IAS) 18 “*Revenue*”, revenue should be recognized based on the stage of completion of the transaction at the end of the reporting period when the following conditions are satisfied: amount of revenue can be reasonably determined, probable that economic benefits of the transaction will flow to the entity, stage of completion of the transaction at the end of the reporting period can be measured reliably, and costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Accounting for revenue under Canadian GAAP and IFRS is similar except for some differences in the accounting for long-term contracts where the completed contract method is permitted under Canadian GAAP but not under IFRS. This may have an impact on the revenue recognition of our investment banking revenue.

### **CHANGES IN ACCOUNTING POLICIES**

#### **Goodwill and Intangible Assets**

The CICA issued a new accounting standard, CICA Handbook Section 3064 “*Goodwill and Intangible Assets*”, which prescribes when expenditures qualify for recognition as intangible assets and provides increased guidance on the recognition and measurement of internally generated goodwill and intangible assets. The Company adopted Section 3064 effective April 1, 2009. The adoption of this new standard had no impact on the Company's financial statements.

## Financial Instruments – Disclosures

The AcSB amended CICA Handbook Section 3862 “*Financial Instruments – Disclosures*”, to increase disclosure requirements regarding the fair value measurements of financial instruments. The Company adopted these new amendments during fiscal 2010 and this information is included in Note 4 of the Unaudited Interim Consolidated Financial Statements.

### ASSET-BACKED COMMERCIAL PAPER

As a result of liquidity issues in the ABCP market, there has been very limited trading of the ABCP since mid-August 2007. On March 17, 2008 the Pan-Canadian Investors Committee (the Committee) for ABCP filed proceedings for a plan of compromise and arrangement (the Plan) under the *Companies' Creditors Arrangement Act* (Canada) (CCAA) with the Ontario Superior Court (the Court). The Court issued the final implementation order in the ABCP restructuring process on January 12, 2009 and the restructuring closed on January 21, 2009. The Plan as amended provided for a declaratory release that was effective on implementation of the Plan and that, with the closing of the Canaccord Relief Program, resulted in the release of all existing and future ABCP-related claims against the Company. This release has been given effect in the United States under Chapter 15 of the US Bankruptcy Code as announced in January 2010.

The first two installments of interest (to August 31, 2008) were made during the year ended March 31, 2009 and one further and final payment was received during the third quarter of fiscal 2010. Reimbursement of restructuring costs under the Canaccord Relief Program has been received.

On December 21, 2009, a Hearing Panel of the Investment Industry Regulatory Organization of Canada (IIROC) accepted a settlement agreement between the IIROC Staff and Canaccord Financial Ltd. regarding matters surrounding ABCP, which resulted in a settlement of \$3.1 million. This amount was substantially accrued at September 30, 2009 and therefore, there was no significant impact on net income in the quarter ended December 31, 2009. This amount was paid subsequent to December 31, 2009.

There has been very limited trading of the restructured ABCP notes since January 21, 2009 and, as such, no meaningful market quote is available. There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. The Company estimated the fair value of its ABCP by discounting expected future cash flows on a probability weighted basis considering the best available data at December 31, 2009. During the quarter ended December 31, 2009, the Company disposed of its investment in ABCP with a carrying value of \$14.3 million for proceeds of \$18.5 million resulting in a gain of \$4.2 million included in principal trading revenue.

### DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

#### Disclosure controls and procedures

Based on an evaluation performed as of March 31, 2009, the President & CEO and the Executive Vice President & CFO concluded that the design and operation of our disclosure controls and procedures were effective as defined under *National Instrument 52-109*. During the quarter ended December 31, 2009, there were no changes that would have materially affected, or are reasonably likely to materially affect, Canaccord's disclosure controls and procedures.

#### Changes in internal control over financial reporting

An evaluation of the Company's internal control over financial reporting was performed as of March 31, 2009. Based on this evaluation, the President & CEO and the Executive Vice President & CFO concluded that our internal controls over financial reporting are designed and operating effectively as defined under *National Instrument 52-109* and there were no material weaknesses. There were no changes in internal control over financial reporting that occurred during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, Canaccord's internal control over financial reporting.

### DIVIDEND POLICY

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

### DIVIDEND DECLARATION

On February 3, 2010 the Board of Directors considered the dividend policy and approved a quarterly dividend of \$0.05 per share payable on March 10, 2010 with a record date of February 26, 2010.

### HISTORICAL QUARTERLY INFORMATION

Canaccord's revenue from an underwriting transaction is recorded only when the transaction has closed. Consequently, the timing of revenue recognition can materially affect Canaccord's quarterly results. The expense structure of Canaccord's operations is geared towards providing service and coverage in the current market environment. If general capital markets activity were to drop significantly, Canaccord could experience losses.

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

| (C\$ thousands,<br>except EPS in \$) | Fiscal 2010 |            |            | Fiscal 2009 |           |            |            | Fiscal 2008 |            |
|--------------------------------------|-------------|------------|------------|-------------|-----------|------------|------------|-------------|------------|
|                                      | Q3          | Q2         | Q1         | Q4          | Q3        | Q2         | Q1         | Q4          | Q3         |
| Revenue                              |             |            |            |             |           |            |            |             |            |
| Canaccord Adams                      | \$ 116,090  | \$ 78,475  | \$ 85,497  | \$ 64,972   | \$ 49,250 | \$ 58,336  | \$ 104,793 | \$ 77,965   | \$ 109,583 |
| Canaccord Wealth Management          | 51,733      | 40,138     | 40,185     | 37,255      | 33,532    | 43,844     | 57,853     | 54,463      | 61,166     |
| Corporate and Other                  | 5,374       | 5,131      | 11,781     | 4,769       | 4,406     | 8,649      | 10,062     | 11,018      | 12,605     |
| Total revenue                        | \$ 173,197  | \$ 123,744 | \$ 137,463 | \$ 106,996  | \$ 87,188 | \$ 110,829 | \$ 172,708 | \$ 143,446  | \$ 183,354 |
| Net income (loss)                    | 15,113      | 6,746      | 9,112      | 3,666       | (62,378)  | (5,398)    | 16,459     | (35,154)    | 15,048     |
| EPS – basic                          | \$ 0.31     | \$ 0.14    | \$ 0.19    | \$ 0.07     | \$ (1.27) | \$ (0.11)  | \$ 0.35    | \$ (0.80)   | \$ 0.34    |
| EPS – diluted                        | \$ 0.27     | \$ 0.12    | \$ 0.16    | \$ 0.07     | \$ (1.27) | \$ (0.11)  | \$ 0.31    | \$ (0.80)   | \$ 0.31    |

#### RISKS

The securities industry and Canaccord's activities are by their very nature subject to a number of inherent risks. Economic conditions, competition and market factors such as volatility in the Canadian and international markets, interest rates, commodity prices, market prices, trading volumes and liquidity will have a significant impact on Canaccord's profitability. An investment in the common shares of Canaccord involves a number of risks, including market, liquidity, credit, operational, legal and regulatory risks, which could be substantial and are inherent in Canaccord's business. Canaccord is also directly exposed to market price risk, liquidity risk and volatility risk as a result of its principal trading activities in equity securities and to specific interest rate risk as a result of its principal trading in fixed income securities. Canaccord Wealth Management revenue is dependent on trading volumes and, as such, is dependent on the level of market activity and investor confidence. Canaccord Adams' revenue is dependent on financing activity by corporate issuers and the willingness of institutional clients to actively trade and participate in capital markets transactions. There may also be a lag between market fluctuations and changes in business conditions and the level of Canaccord's market activity and the impact that these factors have on Canaccord's operating results and financial position. The Company has a capital management framework to maintain the level of capital that will meet the firm's regulated subsidiaries' target ratios as set out by the respective regulators, fund current and future operations, ensure that the firm is able to meet its financial obligations as they come due, and support the creation of shareholder value. The regulatory bodies that certain of the Company's subsidiaries are subject to are listed in Note 16 of the March 31, 2009 Audited Annual Consolidated Financial Statements. Further discussion regarding risks can be found in our Annual Information Form.

#### ADDITIONAL INFORMATION

A comprehensive discussion of our business, strategies, objectives and risks is available in our Annual Information Form and Management's Discussion and Analysis, including our Audited Annual Consolidated Financial Statements in Canaccord's 2009 Annual Report, which have been posted to shareholders and are available on our website at [canaccordfinancial.com](http://canaccordfinancial.com) and on SEDAR at [sedar.com](http://sedar.com).

# INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited)

| <i>As at (in thousands of dollars)</i>                    | <i>December 31,<br/>2009</i> | <i>March 31,<br/>2009</i> |
|---|------------------------------|---------------------------|
| <b>ASSETS</b>   |                              |                           |
| <b>Current</b>  |                              |                           |
| Cash and cash equivalents                                 | \$ 782,576                   | \$ 701,173                |
| Securities owned [note 3]                                 | 404,537                      | 133,691                   |
| Accounts receivable [notes 5 and 11]                      | 1,311,144                    | 1,061,161                 |
| Income taxes receivable                                   | —                            | 23,771                    |
| Future income taxes                                       | 11,890                       | 15,680                    |
| <b>Total current assets</b>                               | <b>2,510,147</b>             | <b>1,935,476</b>          |
| Investment  | 5,000                        | 5,000                     |
| Investment in asset-backed commercial paper [note 6]      | 28,239                       | 35,312                    |
| Equipment and leasehold improvements                      | 40,471                       | 46,311                    |
|   | <b>\$ 2,583,857</b>          | <b>\$ 2,022,099</b>       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>               |                              |                           |
| <b>Current</b>  |                              |                           |
| Bank indebtedness   | \$ 44,600                    | \$ 75,600                 |
| Securities sold short [note 3]                            | 324,877                      | 79,426                    |
| Accounts payable and accrued liabilities [notes 5 and 11] | 1,794,123                    | 1,469,369                 |
| Income taxes payable                                      | 4,590                        | —                         |
| Subordinated debt [note 8]                                | 15,000                       | 25,000                    |
| <b>Total current liabilities</b>                          | <b>2,183,190</b>             | <b>1,649,395</b>          |
| Commitments and contingencies [note 13]                   |                              |                           |
| <b>Shareholders' equity</b>                               |                              |                           |
| Common shares [note 9]                                    | 188,610                      | 183,619                   |
| Contributed surplus                                       | 49,279                       | 44,383                    |
| Retained earnings   | 189,026                      | 160,868                   |
| Accumulated other comprehensive losses                    | (26,248)                     | (16,166)                  |
| <b>Total shareholders' equity</b>                         | <b>400,667</b>               | <b>372,704</b>            |
|   | <b>\$ 2,583,857</b>          | <b>\$ 2,022,099</b>       |

See accompanying notes

# INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

|  | For the three months ended |                      | For the nine months ended |                      |
|--|----------------------------|----------------------|---------------------------|----------------------|
|  | December 31,<br>2009       | December 31,<br>2008 | December 31,<br>2009      | December 31,<br>2008 |
| <i>(in thousands of dollars, except per share amounts)</i> |                            |                      |                           |                      |
| <b>REVENUE</b>   |                            |                      |                           |                      |
| Commission   | \$ 60,696                  | \$ 51,473            | \$ 172,780                | \$ 184,099           |
| Investment banking   | 88,417                     | 20,198               | 191,923                   | 130,369              |
| Principal trading [note 6]                                 | 15,645                     | 3,781                | 38,704                    | 9,779                |
| Interest   | 3,099                      | 9,108                | 9,696                     | 33,171               |
| Other  | 5,340                      | 2,628                | 21,301                    | 13,307               |
|  | <u>173,197</u>             | <u>87,188</u>        | <u>434,404</u>            | <u>370,725</u>       |
| <b>EXPENSES</b>  |                            |                      |                           |                      |
| Incentive compensation                                     | 93,872                     | 43,299               | 226,301                   | 177,003              |
| Salaries and benefits                                      | 14,945                     | 12,817               | 42,730                    | 42,455               |
| Trading costs  | 7,140                      | 6,708                | 21,466                    | 19,746               |
| Premises and equipment                                     | 6,228                      | 6,549                | 18,214                    | 18,291               |
| Communication and technology                               | 5,838                      | 6,277                | 16,572                    | 18,979               |
| Interest   | 631                        | 2,568                | 1,968                     | 9,881                |
| General and administrative                                 | 13,609                     | 19,827               | 37,195                    | 58,715               |
| Amortization   | 1,904                      | 2,751                | 5,731                     | 6,865                |
| Development costs  | 6,720                      | 7,738                | 18,061                    | 21,583               |
| Asset-backed commercial paper fair value adjustment        | —                          | 6,700                | —                         | 6,700                |
| Client relief program                                      | —                          | 5,347                | —                         | 5,347                |
| Impairment of goodwill and intangibles                     | —                          | 31,524               | —                         | 31,524               |
| Restructuring costs  | —                          | 7,520                | —                         | 7,520                |
|  | <u>150,887</u>             | <u>159,625</u>       | <u>388,238</u>            | <u>424,609</u>       |
| Income (loss) before income taxes                          | 22,310                     | (72,437)             | 46,166                    | (53,884)             |
| Income tax expense (recovery)                              |                            |                      |                           |                      |
| Current  | 7,070                      | (7,769)              | 11,429                    | (17,910)             |
| Future   | 127                        | (2,290)              | 3,766                     | 15,343               |
|  | <u>7,197</u>               | <u>(10,059)</u>      | <u>15,195</u>             | <u>(2,567)</u>       |
| <b>Net income (loss) for the period</b>                    | <u>\$ 15,113</u>           | <u>\$ (62,378)</u>   | <u>\$ 30,971</u>          | <u>\$ (51,317)</u>   |
| Basic earnings (loss) per share [note 9[iv]]               | \$ 0.31                    | \$ (1.27)            | \$ 0.64                   | \$ (1.05)            |
| Diluted earnings (loss) per share [note 9[iv]]             | \$ 0.27                    | \$ (1.27)            | \$ 0.56                   | \$ (1.05)            |

See accompanying notes



# INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

| <i>(in thousands of dollars)</i>  | <i>For the three months ended</i> |                              | <i>For the nine months ended</i> |                              |
|---|-----------------------------------|------------------------------|----------------------------------|------------------------------|
|   | <i>December 31,<br/>2009</i>      | <i>December 31,<br/>2008</i> | <i>December 31,<br/>2009</i>     | <i>December 31,<br/>2008</i> |
| Net income (loss) for the period  | \$ 15,113                         | \$ (62,378)                  | \$ 30,971                        | \$ (51,317)                  |
| Other comprehensive loss, net of taxes  |                                   |                              |                                  |                              |
| Net change in unrealized losses on translation<br>of self-sustaining foreign operations | (63)                              | (1,519)                      | (10,082)                         | (8,281)                      |
| <b>Comprehensive income (loss) for the period</b>                                       | <b>\$ 15,050</b>                  | <b>\$ (63,897)</b>           | <b>\$ 20,889</b>                 | <b>\$ (59,598)</b>           |

# INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

| <i>As at and for the nine months ended<br/>(in thousands of dollars)</i>   | <i>December 31,<br/>2009</i> | <i>December 31,<br/>2008</i> |
|--|------------------------------|------------------------------|
| Common shares, opening   | \$ 183,619                   | \$ 111,142                   |
| Shares issued  | 3,819                        | 69,979                       |
| Shares cancelled   | —                            | (442)                        |
| Acquisition of common shares for long term incentive plan [notes 9 and 10] | (11,691)                     | (13,839)                     |
| Release of vested common shares from employee benefit trust [note 10]      | 10,035                       | 5,994                        |
| Unvested share purchase loans  | 2,828                        | 3,162                        |
| <b>Common shares, closing</b>  | <b>188,610</b>               | <b>175,996</b>               |
| Contributed surplus, opening   | 44,383                       | 34,024                       |
| Excess on redemption of common shares                                      | —                            | (340)                        |
| Stock-based compensation [note 10]   | 4,742                        | 9,509                        |
| Unvested share purchase loans  | 154                          | (451)                        |
| <b>Contributed surplus, closing</b>  | <b>49,279</b>                | <b>42,742</b>                |
| Retained earnings, opening   | 160,868                      | 222,597                      |
| Net income for the period  | 30,971                       | (51,317)                     |
| Dividends  | (2,813)                      | (13,457)                     |
| <b>Retained earnings, closing</b>  | <b>189,026</b>               | <b>157,823</b>               |
| Accumulated other comprehensive losses, opening                            | (16,166)                     | (10,319)                     |
| Other comprehensive losses for the period                                  | (10,082)                     | (8,281)                      |
| <b>Accumulated other comprehensive losses, closing</b>                     | <b>(26,248)</b>              | <b>(18,600)</b>              |
| <b>Shareholders' equity</b>  | <b>\$ 400,667</b>            | <b>\$ 357,961</b>            |

See accompanying notes

# INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| (in thousands of dollars)  | For the three months ended |                      | For the nine months ended |                      |
|--|----------------------------|----------------------|---------------------------|----------------------|
|  | December 31,<br>2009       | December 31,<br>2008 | December 31,<br>2009      | December 31,<br>2008 |
| <b>OPERATING ACTIVITIES</b>  |                            |                      |                           |                      |
| Net income (loss) for the period   | \$ 15,113                  | \$ (62,378)          | \$ 30,971                 | \$ (51,317)          |
| Items not affecting cash   |                            |                      |                           |                      |
| Amortization   | 1,904                      | 2,751                | 5,731                     | 6,865                |
| Stock-based compensation expense   | 5,874                      | 5,542                | 16,949                    | 16,122               |
| Future income tax (recovery) expense   | 127                        | (2,290)              | 3,766                     | 15,343               |
| Impairment of goodwill and intangibles   | –                          | 31,524               | –                         | 31,524               |
| Asset-backed commercial paper gain and fair value adjustment                   | (4,559)                    | 6,700                | (4,559)                   | 6,700                |
| Changes in non-cash working capital  |                            |                      |                           |                      |
| Decrease (increase) in securities owned  | 112,437                    | (16,974)             | (271,752)                 | 19,251               |
| Decrease (increase) in accounts receivable                                     | 670,252                    | 425,012              | (255,291)                 | 606,405              |
| Decrease (increase) in income taxes receivable net of payable                  | 5,877                      | (9,295)              | 25,231                    | (17,614)             |
| (Decrease) increase in securities sold short                                   | (57,345)                   | 46,927               | 245,822                   | 48,351               |
| (Decrease) increase in accounts payable and accrued liabilities                | (630,792)                  | (296,629)            | 329,681                   | (490,610)            |
| <b>Cash provided by operating activities</b>                                   | <b>118,888</b>             | <b>130,890</b>       | <b>126,549</b>            | <b>191,020</b>       |
| <b>FINANCING ACTIVITIES</b>  |                            |                      |                           |                      |
| Acquisition of common shares for long term incentive plan                      | (6,454)                    | –                    | (11,691)                  | (13,839)             |
| Dividends paid   | (2,770)                    | –                    | (2,770)                   | (13,457)             |
| Decrease in unvested common share purchase loans                               | (308)                      | 1,936                | 2,828                     | 2,711                |
| Repayment of subordinated debt   | –                          | –                    | (10,000)                  | –                    |
| Issuance of shares for cash net of issuance costs                              | –                          | –                    | –                         | 66,462               |
| Purchase and cancellation of shares  | –                          | –                    | –                         | (782)                |
| <b>Cash (used in) provided by financing activities</b>                         | <b>(9,532)</b>             | <b>1,936</b>         | <b>(21,633)</b>           | <b>41,095</b>        |
| <b>INVESTING ACTIVITIES</b>  |                            |                      |                           |                      |
| Purchase of equipment and leasehold improvements                               | (993)                      | (5,267)              | (1,558)                   | (8,024)              |
| Purchase of Intelli  | (1,199)                    | –                    | (1,199)                   | –                    |
| Proceeds on sale of investment in ABCP   | 18,537                     | –                    | 18,537                    | –                    |
| Purchase of investment in ABCP under client relief program, net of redemptions | (8,666)                    | –                    | (6,905)                   | –                    |
| <b>Cash provided by (used in) investing activities</b>                         | <b>7,679</b>               | <b>(5,267)</b>       | <b>8,875</b>              | <b>(8,024)</b>       |
| <b>Effect of foreign exchange on cash balances</b>                             | <b>(2,914)</b>             | <b>3,396</b>         | <b>(1,388)</b>            | <b>721</b>           |
| <b>Increase in cash position</b>   | <b>114,121</b>             | <b>130,955</b>       | <b>112,403</b>            | <b>224,812</b>       |
| Cash position, beginning of period   | 623,855                    | 514,468              | 625,573                   | 420,611              |
| <b>Cash position, end of period</b>  | <b>\$ 737,976</b>          | <b>\$ 645,423</b>    | <b>\$ 737,976</b>         | <b>\$ 645,423</b>    |
| <b>Cash position is comprised of:</b>  |                            |                      |                           |                      |
| Cash and cash equivalents  | \$ 782,576                 | \$ 684,463           | \$ 782,576                | \$ 684,463           |
| Bank indebtedness  | (44,600)                   | (39,040)             | (44,600)                  | (39,040)             |
|  | <b>\$ 737,976</b>          | <b>\$ 645,423</b>    | <b>\$ 737,976</b>         | <b>\$ 645,423</b>    |
| <b>Supplemental cash flow information</b>                                      |                            |                      |                           |                      |
| Interest paid  | \$ 579                     | \$ 2,508             | \$ 1,806                  | \$ 9,775             |
| Income taxes paid  | 591                        | 3,420                | 2,594                     | 6,256                |

See accompanying notes

# NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the three and nine months ended December 31, 2009 (in thousands of dollars, except per share amounts)

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

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

## I. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation and principles of consolidation

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (GAAP) with respect to interim financial statements. These interim unaudited consolidated financial statements follow the same accounting principles and methods of application as those disclosed in Note 1 to the Company's audited consolidated financial statements as at and for the year ended March 31, 2009 as filed on SEDAR on May 26, 2009 (Audited Annual Consolidated Financial Statements) except for the changes in accounting policies as described in Note 2. Accordingly, they do not include all the information and footnotes required for compliance with Canadian GAAP for annual financial statements. These unaudited interim consolidated financial statements and notes thereon should be read in conjunction with the Audited Annual Consolidated Financial Statements.

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

### Recent accounting pronouncements

#### *Business Combinations and Consolidated Financial Statements*

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

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

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

#### *International Financial Reporting Standards*

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

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

## 2. CHANGE IN ACCOUNTING POLICIES

### Goodwill and Intangible Assets

The CICA issued a new accounting standard, CICA Handbook Section 3064 "*Goodwill and Intangible Assets*", which prescribes when expenditures qualify for recognition as intangible assets and provides increased guidance on the recognition and measurement of internally generated goodwill and intangible assets. The Company adopted Section 3064 effective April 1, 2009. The adoption of this new standard has no impact on the consolidated financial statements.

### Financial Instruments – Disclosures

The AcSB amended CICA Handbook Section 3862 "*Financial Instruments – Disclosures*" to increase disclosure requirements regarding the fair value measurements and liquidity of financial instruments. The Company adopted these new amendments during fiscal 2010 and this information is included in Note 4.

### Revenue Recognition

The Company introduced Registered Plan Administration Fees during the three month period ended December 31, 2009. This fee income is received in advance for a one-year period and it is deferred and recognized into income as earned on a straight line basis.

## 3. SECURITIES OWNED AND SECURITIES SOLD SHORT

|                                     | December 31, 2009 |                       | March 31, 2009    |                       |
|-------------------------------------|-------------------|-----------------------|-------------------|-----------------------|
|                                     | Securities owned  | Securities sold short | Securities owned  | Securities sold short |
| Corporate and government debt       | \$ 311,503        | \$ 311,023            | \$ 86,069         | \$ 72,315             |
| Equities and convertible debentures | 93,034            | 13,854                | 47,622            | 7,111                 |
|                                     | <b>\$ 404,537</b> | <b>\$ 324,877</b>     | <b>\$ 133,691</b> | <b>\$ 79,426</b>      |

As at December 31, 2009, corporate and government debt maturities ranged from 2010 to 2060 (March 31, 2009 – 2009 to 2049) bearing interest ranging from 0.50% to 14.00% (March 31, 2009 – 3.00% to 10.75%).

## 4. FINANCIAL INSTRUMENTS

During the periods, there were no material changes to the risks associated with the Company's financial instruments from those described in Note 4 of the Audited Annual Consolidated Financial Statements. Additional disclosures regarding fair value measurements of financial instruments as required by recent amendments made to CICA Handbook Section 3862 are presented below.

A fair value hierarchy is presented below that distinguishes the significance of the inputs used in determining the fair value measurements of various financial instruments. The hierarchy contains the following levels: Level 1 uses inputs based on quoted prices, Level 2 uses observable inputs other than quoted prices and Level 3 uses inputs that are not based on observable market data.

|  | Carrying value    |                | Estimated fair value |         |         |
|--|-------------------|----------------|----------------------|---------|---------|
|  | December 31, 2009 | March 31, 2009 | December 31, 2009    |         |         |
|  |                   |                | Level 1              | Level 2 | Level 3 |
| <b>Held for trading <sup>(1)</sup></b>         |                   |                |                      |         |         |
| Cash and cash equivalents                      | \$ 782,576        | \$ 701,173     | \$ 782,576           | \$ —    | \$ —    |
| Securities owned, net of securities sold short | 79,660            | 54,265         | 74,606               | 5,054   | —       |
| Investment in ABCP [note 6]                    | 28,239            | 35,312         | —                    | —       | 28,239  |
| <b>Available for sale financial assets</b>     |                   |                |                      |         |         |
| Investment <sup>(2)</sup>                      | 5,000             | 5,000          | n/a                  | n/a     | n/a     |
| <b>Other financial liabilities</b>             |                   |                |                      |         |         |
| Subordinated debt                              | 15,000            | 25,000         | 15,000               | —       | —       |

(1) The fair values of the Company's bank indebtedness, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.

(2) Investment is classified as available for sale and carried at cost as the investment does not have a quoted market price. The estimated fair value of the investment cannot be reliably determined and, therefore, it is not disclosed in the above table.

**5. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES****Accounts receivable**

|                                  | <i>December 31,</i><br><i>2009</i> | <i>March 31,</i><br><i>2009</i> |
|----------------------------------|------------------------------------|---------------------------------|
| Brokers and investment dealers   | \$ 535,303                         | \$ 331,930                      |
| Clients                          | 326,995                            | 288,877                         |
| RRSP cash balances held in trust | 379,179                            | 397,011                         |
| Other                            | 69,667                             | 43,343                          |
|                                  | <u>\$ 1,311,144</u>                | <u>\$ 1,061,161</u>             |

**Accounts payable and accrued liabilities**

|                                | <i>December 31,</i><br><i>2009</i> | <i>March 31,</i><br><i>2009</i> |
|--------------------------------|------------------------------------|---------------------------------|
| Brokers and investment dealers | \$ 659,383                         | \$ 419,437                      |
| Clients                        | 988,817                            | 923,902                         |
| Other                          | 145,923                            | 126,030                         |
|                                | <u>\$ 1,794,123</u>                | <u>\$ 1,469,369</u>             |

Accounts payable to clients include \$379.2 million (March 31, 2009 – \$397.0 million) payable to clients for RRSP cash balances held in trust.

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

Amounts due from and to clients are due by the settlement date of the trade transaction. Margin loans are due on demand and are collateralized by the assets in the clients' accounts. Interest on margin loans and amounts due to clients is based on a floating rate [December 31, 2009 – 5.25%–6.25% and 0.00%–0.05%, respectively; March 31, 2009 – 5.50%–6.25% and 0.00%–0.20%, respectively].

**6. INVESTMENT IN ASSET-BACKED COMMERCIAL PAPER**

|   | <i>December 31,</i><br><i>2009</i> | <i>March 31,</i><br><i>2009</i> |
|---|------------------------------------|---------------------------------|
| Investment in asset-backed commercial paper | \$ 28,239                          | \$ 35,312                       |

In January 2009, the Company received restructured ABCP notes upon the final implementation order issued by the Ontario Superior Court in a plan of arrangement under the *Companies' Creditors Arrangement Act* (Canada) (CCAA) (the Plan). During the quarter ended December 31, 2009, there were no material changes to the accounting treatment of investment in ABCP. Refer to Note 7 of the Audited Annual Consolidated Financial Statements for further information.

The Plan as amended provided for a declaratory release that was effective on implementation of the Plan and that, with the closing of the Canaccord Relief Program, resulted in the release of all existing and future ABCP-related claims against the Company. This release has been given effect in the United States under Chapter 15 of the US Bankruptcy Code.

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

On December 21, 2009, a Hearing Panel of the IIROC accepted a settlement agreement between the IIROC Staff and Canaccord Financial Ltd. regarding matters surrounding ABCP, which resulted in a settlement of \$3.1 million. This amount was substantially accrued at September 30, 2009 and therefore, there was no significant impact on net income in the quarter ended December 31, 2009. This amount was paid subsequent to December 31, 2009.

There has been very limited trading of the restructured ABCP notes since January 2009 and, as such, no meaningful market quote is available. There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. The Company estimates the fair value of its ABCP by discounting expected future cash flows on a probability weighted basis considering the best available data at the reporting date. During the quarter ended December 31, 2009, the Company disposed of its investment in ABCP with a carrying value of \$14.3 million for proceeds of \$18.5 million resulting in a gain of \$4.2 million included in principal trading revenue. A fair value adjustment of \$0.3 million was also included in principal trading revenue.

The assumptions used in the valuation model include:

|                                | <i>December 31,<br/>2009</i> | <i>March 31,<br/>2009</i> |
|--------------------------------|------------------------------|---------------------------|
| Weighted average interest rate | 0.29%                        | 4.72%                     |
| Weighted average discount rate | 6.03%                        | 6.83%                     |
| Maturity of notes              | 7 to 18 years                | 8 to 19 years             |
| Credit losses                  | 30% to 100%                  | 25% to 100%               |

The following is a summary of transactions impacting ABCP for the nine-month period ended December 31, 2009:

|   | <i>Amount</i>    |
|---|------------------|
| Balance, March 31, 2009                   | \$ 35,312        |
| Net redemptions                           | (2,222)          |
| Purchases under the client relief program | 9,127            |
| Disposal of investment                    | (14,276)         |
| Fair value adjustment                     | 298              |
| <b>Balance, December 31, 2009</b>         | <b>\$ 28,239</b> |

#### 7. INCOME TAXES

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

|  | <i>For the three months ended</i> |                              | <i>For the nine months ended</i> |                              |
|--|-----------------------------------|------------------------------|----------------------------------|------------------------------|
|  | <i>December 31,<br/>2009</i>      | <i>December 31,<br/>2008</i> | <i>December 31,<br/>2009</i>     | <i>December 31,<br/>2008</i> |
| Income taxes at the estimated statutory rate                       | \$ 6,772                          | \$ (22,595)                  | \$ 13,976                        | \$ (16,780)                  |
| Less: International Finance Business recovery of provincial taxes  | (208)                             | (336)                        | (389)                            | (336)                        |
| Less: Difference in tax rates in foreign jurisdictions             | (178)                             | (1,199)                      | (124)                            | (2,111)                      |
| Non-deductible items affecting the determination of taxable income | 490                               | 10,254                       | 1,164                            | 11,295                       |
| Change in valuation allowance related to US operating losses       | (223)                             | 4,277                        | (2,920)                          | 6,043                        |
| Change in FIT asset – reversal period of temporary differences     | 544                               | (460)                        | 3,488                            | (678)                        |
| Income tax expense – current and future                            | <u>\$ 7,197</u>                   | <u>\$ (10,059)</u>           | <u>\$ 15,195</u>                 | <u>\$ (2,567)</u>            |

#### 8. SUBORDINATED DEBT

|   | <i>December 31,<br/>2009</i> | <i>March 31,<br/>2009</i> |
|---|------------------------------|---------------------------|
| Loan payable, interest payable monthly at prime + 4% per annum, due on demand | \$ 15,000                    | \$ 25,000                 |

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

#### 9. SHARE CAPITAL

|   | <i>December 31,<br/>2009</i> | <i>March 31,<br/>2009</i> |
|---|------------------------------|---------------------------|
| Share capital   |                              |                           |
| Common shares   | \$ 253,237                   | \$ 249,418                |
| Unvested share purchase loans                                       | (28,083)                     | (30,911)                  |
| Acquisition of common shares for long term incentive plan [note 10] | (36,544)                     | (34,888)                  |
|   | <u>\$ 188,610</u>            | <u>\$ 183,619</u>         |

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

##### [i] Authorized

Unlimited common shares without par value  
Unlimited preferred shares without par value

**[ii] Issued and fully paid***Common shares*

|   | <i>Number of<br/>shares</i> | <i>Amount</i>     |
|---|-----------------------------|-------------------|
| Balance, December 31, 2008  | 54,636,139                  | \$ 243,336        |
| Shares issued in connection with stock compensation plans [note 10] | 681,777                     | 7,101             |
| Shares cancelled  | (225,072)                   | (1,019)           |
| Balance, March 31, 2009   | 55,092,844                  | 249,418           |
| Shares issued in connection with stock compensation plans [note 10] | 311,684                     | 3,819             |
| <b>Balance, December 31, 2009</b>                                   | <b>55,404,528</b>           | <b>\$ 253,237</b> |

The Company renewed its normal course issuer bid (NCIB) and is currently entitled to acquire up to 2,767,974 of its shares from September 3, 2009 to September 2, 2010; this number represents 5% of its shares outstanding as of August 28, 2009. There were nil shares purchased through the NCIB between September 3, 2009 and December 31, 2009.

**[iii] Common share purchase loans**

The Company provides forgivable common share purchase loans to employees in order to purchase common shares. The unvested balance of forgivable common share purchase loans is presented as a deduction from share capital. The forgivable common share purchase loans are amortized over a vesting period up to five years. The difference between the unvested and unamortized values is included in contributed surplus.

**[iv] Earnings per share**

|   | <i>For the three months ended</i> |                              | <i>For the nine months ended</i> |                              |
|---|-----------------------------------|------------------------------|----------------------------------|------------------------------|
|   | <i>December 31,<br/>2009</i>      | <i>December 31,<br/>2008</i> | <i>December 31,<br/>2009</i>     | <i>December 31,<br/>2008</i> |
| <b>Basic earnings (loss) per share</b>  |                                   |                              |                                  |                              |
| Net income (loss) for the period  | \$ 15,113                         | \$ (62,378)                  | \$ 30,971                        | \$ (51,317)                  |
| Weighted average number of common shares (number)   | 48,147,301                        | 49,073,032                   | 48,376,433                       | 48,656,116                   |
| Basic earnings (loss) per share   | \$ 0.31                           | \$ (1.27)                    | \$ 0.64                          | \$ (1.05)                    |
| <b>Diluted earnings (loss) per share</b>  |                                   |                              |                                  |                              |
| Net income (loss) for the period  | \$ 15,113                         | \$ (62,378)                  | \$ 30,971                        | \$ (51,317)                  |
| Weighted average number of common shares (number)   | 48,147,301                        | 49,073,032                   | 48,376,433                       | 48,656,116                   |
| Dilutive effect of unvested shares (number)   | 3,811,007                         | 2,810,989                    | 3,811,007                        | 2,810,989                    |
| Dilutive effect of stock options (number) [note 10]   | 412,594                           | -                            | 26,563                           | -                            |
| Dilutive effect of share issuance commitment in connection with retention plan (number) [note 10]           | -                                 | 616,205                      | -                                | 616,205                      |
| Dilutive effect of unvested shares purchased by employee benefit trust (number) [note 10]                   | 3,422,722                         | 2,719,062                    | 3,092,333                        | 2,246,457                    |
| Dilutive effect of share issuance commitment in connection with long term incentive plan (number) [note 10] | 480,544                           | -                            | 270,366                          | -                            |
| Adjusted weighted average number of common shares (number)  | 56,274,168                        | 55,219,288                   | 55,576,702                       | 54,329,767                   |
| Diluted earnings (loss) per share   | \$ 0.27                           | \$ (1.27)                    | \$ 0.56                          | \$ (1.05)                    |

**10. STOCK-BASED COMPENSATION PLANS****Stock options**

The Company granted stock options to purchase common shares of the Company to independent directors and senior managers. The stock options vest over a four- to five-year period and expire seven years after the grant date or 30 days after the participant ceases to be a director. The exercise price is based on the fair market value of the common shares at grant date. The weighted average exercise price of the stock options was \$9.91 at December 31, 2009.

In May 2009, the Company granted an aggregate of 125,000 stock options to five independent directors with an exercise of \$7.21 per share. The options vest over a four-year period and expire seven years after the grant date.

In August 2009, the independent directors of the Company approved the grant of stock options to certain senior managers of the Company and its subsidiaries. An aggregate of 2,099,993 options were granted at an exercise price of \$9.47 per share that vest over five years. The options expire at the earliest of: (1) seven years after the grant date, (2) three years after death or any other event of termination of employment, (3) after any unvested optioned shares held by the optionee are cancelled for any reason, and (4) in the case of early retirement, after a determination that the optionee has competed with the Company or violated any non-competition, non-solicitation or non-disclosure obligations.

The following is a summary of the Company's stock options to independent directors and senior managers as at December 31, 2009 and changes during the year then ended:

|                                   | <i>Number of<br/>shares</i> | <i>Weighted average<br/>exercise price</i> |
|-----------------------------------|-----------------------------|--|
| Balance, December 31, 2008        | 275,000                     | \$ 15.54                                   |
| Expired                           | (50,000)                    | 16.31                                      |
| Balance, March 31, 2009           | 225,000                     | 15.37                                      |
| Granted                           | 2,224,993                   | 9.34                                       |
| <b>Balance, December 31, 2009</b> | <b>2,449,993</b>            | <b>\$ 9.91</b>                             |

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

|                         | <i>August 2009 grant</i> | <i>May 2009 grant</i> | <i>August 2008 grant</i> | <i>June 2008 grant</i> |
|-------------------------|--------------------------|-----------------------|--------------------------|------------------------|
| Dividend yield          | 2.00%                    | 2.30%                 | 5.10%                    | 5.10%                  |
| Expected volatility     | 44.00%                   | 44.00%                | 30.00%                   | 30.00%                 |
| Risk-free interest rate | 2.45%                    | 2.45%                 | 2.32%                    | 2.32%                  |
| Expected life           | 5 years                  | 5 years               | 5 years                  | 5 years                |

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

Compensation expense of \$436 and \$693 has been recognized for the three and nine months ended December 31, 2009 (\$51 and \$152 for the three and nine months ended December 31, 2008) in respect of the above stock options.

### Long term incentive plan

Under the long term incentive plan (LTIP), eligible participants are awarded restricted share units (RSUs) which vest over three years. For employees in Canada, an employee benefit trust (the Trust) has been established, and either (a) the Company will fund the Trust with cash, which will be used by a trustee to purchase on the open market common shares of the Company that will be held in trust by the trustee until RSUs vest, or (b) the Company will issue common shares from treasury to participants following vesting of RSUs. For employees in the United States and the United Kingdom, at the time of each RSU award, the Company will allot common shares and these shares will be issued from treasury at the time they vest for each participant.

The costs of the RSUs are amortized over the vesting period of three years. Compensation expense of \$5.4 million and \$16.3 million has been recognized for the three and nine months ended December 31, 2009 (\$4.7 million and \$13.5 million for the three and nine months ended December 31, 2008) in respect of the LTIP.

|  | <i>For the three months ended</i> |                              | <i>For the nine months ended</i> |                              |
|--|-----------------------------------|------------------------------|----------------------------------|------------------------------|
|  | <i>December 31,<br/>2009</i>      | <i>December 31,<br/>2008</i> | <i>December 31,<br/>2009</i>     | <i>December 31,<br/>2008</i> |
| Awards outstanding, beginning of period          | 5,447,251                         | 3,881,558                    | 4,602,385                        | 2,221,578                    |
| Grants   | 285,756                           | 133,994                      | 2,189,216                        | 2,195,969                    |
| Vested   | (169,425)                         | (128,100)                    | (1,228,019)                      | (530,095)                    |
| Awards outstanding, end of period                | <u>5,563,582</u>                  | <u>3,887,452</u>             | <u>5,563,582</u>                 | <u>3,887,452</u>             |
|  | <i>For the three months ended</i> |                              | <i>For the nine months ended</i> |                              |
|  | <i>December 31,<br/>2009</i>      | <i>December 31,<br/>2008</i> | <i>December 31,<br/>2009</i>     | <i>December 31,<br/>2008</i> |
| Common shares held by Trust, beginning of period | 2,931,932                         | 3,011,055                    | 3,075,300                        | 1,621,895                    |
| Acquired   | 680,119                           | —                            | 1,328,700                        | 1,706,903                    |
| Released on vesting                              | (124,386)                         | (97,898)                     | (916,335)                        | (415,641)                    |
| Common shares held by Trust, end of period       | <u>3,487,665</u>                  | <u>2,913,157</u>             | <u>3,487,665</u>                 | <u>2,913,157</u>             |



**II. RELATED PARTY TRANSACTIONS**

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

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

|  | <i>December 31,<br/>2009</i> | <i>March 31,<br/>2009</i> |
|--|------------------------------|---------------------------|
| Accounts receivable                      | \$ 44,297                    | \$ 38,733                 |
| Accounts payable and accrued liabilities | 79,763                       | 77,334                    |

**12. SEGMENTED INFORMATION**

The Company has two operating segments:

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

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

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

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

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

|   | <i>For the three months ended December 31</i> |  |                                    |              |                            |  |                                    |              |
|---|---|--|------------------------------------|--------------|----------------------------|--|------------------------------------|--------------|
|   | <i>2009</i>                                   |  |                                    |              | <i>2008</i>                |  |                                    |              |
|   | <i>Canaccord<br/>Adams</i>                    | <i>Canaccord<br/>Wealth<br/>Management</i> | <i>Corporate<br/>and<br/>Other</i> | <i>Total</i> | <i>Canaccord<br/>Adams</i> | <i>Canaccord<br/>Wealth<br/>Management</i> | <i>Corporate<br/>and<br/>Other</i> | <i>Total</i> |
| Revenue                                   | \$ 116,090                                    | \$ 51,733                                  | \$ 5,374                           | \$ 173,197   | \$ 49,250                  | \$ 33,532                                  | \$ 4,406                           | \$ 87,188    |
| Expenses                                  | 84,743  | 38,194                                     | 19,326                             | 142,263      | 58,409                     | 37,441                                     | 21,762                             | 117,612      |
| Amortization                              | 903   | 637  | 364                                | 1,904        | 1,586                      | 463  | 702                                | 2,751        |
| Development costs                         | 2,464   | 3,216                                      | 1,040                              | 6,720        | 4,251                      | 2,312                                      | 1,175                              | 7,738        |
| Impairment of goodwill<br>and intangibles | –   | –  | –                                  | –            | 31,524                     | –  | –                                  | 31,524       |
| Income (loss) before income taxes         | \$ 27,980                                     | \$ 9,686                                   | \$ (15,356)                        | \$ 22,310    | \$ (46,520)                | \$ (6,684)                                 | \$ (19,233)                        | \$ (72,437)  |
|   | <i>For the nine months ended December 31</i>  |  |                                    |              |                            |  |                                    |              |
|   | <i>2009</i>                                   |  |                                    |              | <i>2008</i>                |  |                                    |              |
|   | <i>Canaccord<br/>Adams</i>                    | <i>Canaccord<br/>Wealth<br/>Management</i> | <i>Corporate<br/>and<br/>Other</i> | <i>Total</i> | <i>Canaccord<br/>Adams</i> | <i>Canaccord<br/>Wealth<br/>Management</i> | <i>Corporate<br/>and<br/>Other</i> | <i>Total</i> |
| Revenue                                   | \$ 280,062                                    | \$ 132,056                                 | \$ 22,286                          | \$ 434,404   | \$ 212,379                 | \$ 135,229                                 | \$ 23,117                          | \$ 370,725   |
| Expenses                                  | 211,278                                       | 102,837                                    | 50,331                             | 364,446      | 196,936                    | 114,271                                    | 53,430                             | 364,637      |
| Amortization                              | 2,787   | 1,857                                      | 1,087                              | 5,731        | 3,424                      | 1,283                                      | 2,158                              | 6,865        |
| Development costs                         | 7,195   | 7,734                                      | 3,132                              | 18,061       | 12,056                     | 5,256                                      | 4,271                              | 21,583       |
| Impairment of goodwill<br>and intangibles | –   | –  | –                                  | –            | 31,524                     | –  | –                                  | 31,524       |
| Income (loss) before income taxes         | \$ 58,802                                     | \$ 19,628                                  | \$ (32,264)                        | \$ 46,166    | \$ (31,561)                | \$ 14,419                                  | \$ (36,742)                        | \$ (53,884)  |

The Company's business operations are grouped into the following four geographic segments (revenue is attributed to geographic areas on the basis of the underlying corporate operating results):

|                                      | <i>For the three months ended</i>  |                                    | <i>For the nine months ended</i>   |                                    |
|--------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|                                      | <i>December 31,</i><br><i>2009</i> | <i>December 31,</i><br><i>2008</i> | <i>December 31,</i><br><i>2009</i> | <i>December 31,</i><br><i>2008</i> |
| Canada                               |                                    |                                    |                                    |                                    |
| Revenue                              | \$ 123,626                         | \$ 57,907                          | \$ 290,750                         | \$ 247,580                         |
| Equipment and leasehold improvements | 28,791                             | 29,285                             | 28,791                             | 29,285                             |
| United Kingdom                       |                                    |                                    |                                    |                                    |
| Revenue                              | \$ 26,420                          | \$ 11,752                          | \$ 61,120                          | \$ 58,567                          |
| Equipment and leasehold improvements | 5,736                              | 7,099                              | 5,736                              | 7,099                              |
| United States                        |                                    |                                    |                                    |                                    |
| Revenue                              | \$ 22,817                          | \$ 16,533                          | \$ 80,133                          | \$ 60,438                          |
| Equipment and leasehold improvements | 5,944                              | 7,794                              | 5,944                              | 7,794                              |
| Other Foreign Location               |                                    |                                    |                                    |                                    |
| Revenue                              | \$ 334                             | \$ 996                             | \$ 2,401                           | \$ 4,140                           |

### 13. COMMITMENTS AND CONTINGENCIES

During the period, there were no material changes, except for the contingencies disclosed below, to the Company's commitments and contingencies from those described in Note 17 of the Audited Annual Consolidated Financial Statements.

- a) Canaccord Financial Ltd. was one of the underwriters of a public offering of 13% senior secured notes of Redcorp Ventures Ltd. under a prospectus dated July 5, 2007. The offering was for a total of \$142.0 million and Canaccord participated for 12.5% of that amount (\$17.8 million). A number of entities have given notice to the underwriters (including Canaccord) alleging that the statements in the prospectus describing the security for Redcorp's obligations under the notes were incorrect and constitute, among other things, negligent misstatements, which were reasonably relied upon by these entities to their detriment in deciding to purchase the notes and, as a result, the underwriters (including Canaccord) are liable to compensate these entities for all of their losses flowing from the misrepresentations. The defences to these claims, third party claims and the quantification of damages are yet to be determined. Canaccord intends to vigorously defend itself against these claims.
- b) As disclosed in the Audited Annual Consolidated Financial Statements, in 2002, an action was commenced in the Ontario Superior Court of Justice against the Company and other defendants including another investment dealer. The claim makes allegations of illegal activities by two of the Company's former Investment Advisors who were previously employed by the other investment dealer named in the action. The claim against the Company and the other investment dealer is, among other things, that there was a failure to supervise the conduct of the investment advisors. The damages claimed in this action are \$27 million. During the period ended December 31, 2009, this action was dismissed for failure to post security for costs. The period for an appeal of that decision has not yet expired.

### 14. BUSINESS COMBINATION

On October 1, 2009, Canaccord Adams Limited, a wholly owned subsidiary of the Company, acquired Intelli Partners Limited and its wholly owned subsidiary, Intelli Corporate Finance Limited, a corporate advisory and brokerage boutique located in Edinburgh, Scotland (Intelli) with net assets at fair value of approximately \$5.8 million, for cash consideration of \$7.0 million. Intelli is focused on investment companies and companies within the asset management sector.

### 15. SUBSEQUENT EVENTS

On February 3, 2010, the Board of Directors declared a common share dividend of \$0.05 per share payable on March 10, 2010, with a record date of February 26, 2010.

# SHAREHOLDER INFORMATION

## CORPORATE HEADQUARTERS:

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

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

## STOCK EXCHANGE LISTING:

TSX: CF  
AIM: CF.

## GENERAL SHAREHOLDER INQUIRIES AND INFORMATION:

Investor Relations  
2900 – 161 Bay Street  
Toronto, ON, Canada  
Phone: 416-869-7293  
Fax: 416-947-8343  
Email:  
investor.relations@canaccord.com

## MEDIA RELATIONS:

Scott Davidson  
Managing Director, Global Head of  
Marketing & Communications  
Phone: 416-869-3875  
Email: scott.davidson@canaccord.com

## INSTITUTIONAL INVESTORS, BROKERS AND SECURITY ANALYSTS:

**For financial information  
inquiries contact:**  
Joy Fenney  
Vice President, Investor Relations  
2900 – 161 Bay Street  
Toronto, ON, Canada  
Phone: 416-869-3515  
Fax: 416-869-7327  
Email: joy.fenney@canaccord.com

The Canaccord Financial Inc. fiscal 2009  
Annual Report is available on our  
website at [canaccordfinancial.com](http://canaccordfinancial.com).  
For a printed copy please contact the  
Investor Relations department.

## FISCAL 2010 EXPECTED DIVIDEND<sup>(1)</sup> EARNINGS RELEASE DATES

|       | <i>Expected earnings release date</i> | <i>Dividend record date</i> | <i>Dividend payment date</i> |
|-------|---------------------------------------|-----------------------------|------------------------------|
| Q1/10 | August 6, 2009                        | suspended                   | suspended                    |
| Q2/10 | November 5, 2009                      | November 20, 2009           | December 10, 2009            |
| Q3/10 | February 4, 2010                      | February 26, 2010           | March 10, 2010               |
| Q4/10 | May 19, 2010                          | June 4, 2010                | June 15, 2010                |

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

## SHAREHOLDER

### ADMINISTRATION:

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

### COMPUTERSHARE INVESTOR SERVICES INC.:

100 University Avenue, 9th Floor  
Toronto, ON, M5J 2Y1  
Phone: 1-800-564-6253  
(toll-free within North America)  
514-982-7555 (international)  
Fax: 1-866-249-7775  
(toll-free within North America) or  
416-263-9524 (international)  
Email: [service@computershare.com](mailto:service@computershare.com)  
Internet: [computershare.com](http://computershare.com)  
Offers enrolment for self-service account  
management for registered shareholders  
through Investor Centre.

## FINANCIAL INFORMATION:

For present and archived  
financial information, please visit  
[canaccordfinancial.com](http://canaccordfinancial.com).

### AUDITOR:

Ernst & Young LLP  
Chartered Accountants  
Vancouver, BC

### CORPORATE WEBSITE:

[canaccordfinancial.com](http://canaccordfinancial.com)

