Canaccord Capital Inc.
Reports fiscal third quarter 2009 results
Third Quarter Fiscal 2009 Report to Shareholders

Reports third quarter of fiscal 2009 results

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

VANCOUVER, February 12, 2009 – Canaccord Capital Inc.'s (TSX & AIM: CCI) revenue for the three months ended December 31, 2008 was $87.2 million, down 52.4% from the same quarter a year ago. The net loss for the third quarter excluding a number of significant items, a non-GAAP measure, was $16.2 [1] million, or $0.33 [1] per share. A number of significant items, listed below, were recorded during the quarter which totalled $51.0 million on a pre-tax basis, or $0.94 per share, of which $38.2 million were non-cash. Including these significant items, Canaccord's net loss for the quarter, as measured under GAAP, was $62.4 million and diluted loss per share was $1.27. Commenting on the quarter, Paul Reynolds, President and CEO, said, "We have made difficult but necessary decisions regarding our balance sheet this quarter. Moving forward, we intend to leverage our solid capital base and aggressively pursue growth opportunities while controlling costs."

Revenue for the nine months ended December 31, 2008 was $370.7 million, down 37.0% from the same period a year ago. The net loss for year to date fiscal 2009 was $51.3 million, and diluted loss per share was $1.05. Excluding the significant items listed below, the net loss for the nine month period was $5.2 [1] million and diluted loss per share was $0.11 [1].

The following significant items were recorded during the third quarter of fiscal 2009:

- **ABCP adjustments:**
  - **ABCP fair value adjustment:** The Company recognized an additional $6.7 million pre-tax non-cash adjustment related to ABCP held in treasury to reflect the impact of the current market conditions on the valuation of its holdings in ABCP. This adjustment reduces the carrying value of the ABCP held by the Company in treasury to $23.2 million as at December 31, 2008. This value excludes the additional $9.5 million of MAV 2, Class 15 positions added to our treasury holdings as announced on January 30, 2009.
  - **Canaccord Relief Program:** The Canaccord Relief Program which was announced in April 2008 included the repurchase of up to $152 million of restructured ABCP at par value from clients who hold $1 million or less. The total pre-tax provision recorded in Q3/09 was $5.3 million, which brings the total provision relating to client relief to $59.5 million as at December 31, 2008. The provision is made up of the following:
    - **Relief provision** – In connection with client relief, the Company recorded a pre-tax provision of $54.2 million in fiscal 2008. The completion of the Canaccord Relief Program was announced on January 30, 2009 and due to additional out-of-pocket charges, the Company increased this provision by $2.7 million in Q3/09.
    - **Fair value adjustment** – In addition, the Company has also recorded a $2.6 million pre-tax fair value adjustment related to the MAV II, Class 15 positions, purchased by the Company as a result of the completion of the Canaccord Relief Program.
- **Impairment of goodwill and intangibles:**
  - **Canaccord Adams Inc.:** Canaccord Adams Inc. ("CAI") primarily provides capital markets services to institutional and corporate clients in the US. This reporting unit has experienced a decline in business activity and revenue with the continued deterioration in the financial markets during Q3/09. Due to the adverse changes in the business environment,

(1) Financial statement items that exclude significant items are non-GAAP measures (see non-GAAP Measures).

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a valuation was performed to assess the fair value of this reporting unit compared to the carrying value. The results of this valuation led to the recognition of a non-cash charge for the impairment of goodwill and other intangible assets related to our US capital markets business of $27.5 million.

- **Enermarket:** As a result of market conditions during Q3/09, including the steep decline in oil prices, the earnings prospects for Canaccord Enermarket Ltd. ("Enermarket"), whose primary business is to provide advisory services to companies in the oil and gas industry, were negatively impacted. It was announced on November 6, 2008, that the value of goodwill and intangibles related to Enermarket had been impaired and, therefore, a pre-tax non-cash charge of $4.0 million was recorded in Q3/09.

- **Restructuring costs:** As announced on October 30, 2008, Canaccord implemented a firm-wide restructuring that resulted in the reduction of staff across all geographies where the Company operates. This restructuring resulted in a $7.5 million pre-tax expense recognized in Q3/09 which was slightly higher than the estimated $6.8 million due to additional costs identified once the magnitude of the staff reduction had been finalized.

The results for the third quarter and year-to-date fiscal 2009 also include a pre-tax credit provision of $5.5 million, of which $4.5 million relates to our Canadian operations and $1.0 million is attributed to our UK operations. This provision is $2.0 million higher than our estimate announced on October 30, 2008 due to further deterioration in the markets. As a result of the volatility and rapid deterioration in the global financial markets during Q3/09, a number of clients experienced losses that resulted in unsecured balances. The Company recorded this provision in accordance with its policy of reserving against unsecured balances. The after-tax provision is $3.8 million, or $0.08 per share. Management will continue to work diligently to collect these balances.

Third quarter and year-to-date fiscal 2009 adjusted data

	Three months ended December 31, 2008					Nine months ended December 31, 2008				
(C$ thousands, except EPS in $)	*Revenue*	*Expenses*	*Net loss before tax*	*Net loss*	*Earnings per share ("EPS")*	*Revenue*	*Expenses*	*Net loss before tax*	*Net loss*	*EPS*
Per financial statements	$ 87,188	$ 159,625	$ (72,437)	$ (62,378)	$ (1.27)	$ 370,725	$424,609	$ (53,884)	$ (51,317)	$ (1.05)
ABCP fair value adjustment [(a)]	–	6,700	6,700	4,600	0.09	–	6,700	6,700	4,600	0.09
Relief provision [(b)]	–	2,700	2,700	1,854	0.04	–	2,700	2,700	1,854	0.04
Canaccord relief program fair value adjustment [(c)]	–	2,647	2,647	1,817	0.03	–	2,647	2,647	1,817	0.03
Impairment of goodwill and intangibles [(d)]	–	31,524	31,524	31,524	0.65	–	31,524	31,524	31,524	0.65
Restructuring costs [(e)]	–	7,520	7,520	6,341	0.13	–	7,520	7,520	6,341	0.13
Excluding significant items [(f)]	$ 87,188	$ 108,534	$ (21,346)	$ (16,242)	$ (0.33)	$ 370,725	$ 373,518	$ (2,793)	$ (5,181)	$ (0.11)

(a) Represents the Q3/09 ABCP fair value adjustment for ABCP held by the Company.
(b) Represents the additional accrual for client relief related to the ABCP held by eligible clients.
(c) Relates to the fair value adjustment of ABCP purchased by the Company under a client relief program.
(d) Relates to the impairment of CAI and Enermarket goodwill and intangibles.
(e) Consists of staff restructuring costs.
(f) Financial statement items which exclude significant items are non-GAAP measures.

Financial condition at third quarter 2009 vs. third quarter 2008

- Cash and cash equivalents balance of $684.5 million, up $262.7 million from $421.8 million
- Working capital of $285.6 million, up $7.7 million from $277.9 million
- Total shareholders' equity of $358.0 million, down $32.2 million from $390.2 million
- Return on equity ("ROE") of (64.3)%, down from 16.2%
- Book value per diluted common share for the period end was $6.37, down 19.9% from $7.95

Third quarter 2009 vs. third quarter 2008, excluding significant items [(1)]

- Revenue of $87.2 [(1)] million, down 52.5% or $96.2 million from $183.4 [(1)] million
- Expenses of $108.5 [(1)] million, down 29.9% or $46.3 million from $154.8 [(1)] million
- Net loss of $16.2 [(1)] million compared to net income of $17.8 [(1)] million in the same period of the prior year

(1) Financial statement items that exclude significant items are non-GAAP measures (see non-GAAP Measures).

- Diluted loss per share of $0.33 [1] compared to EPS of $0.36 [1]
- On February 11, 2009, the Board of Directors considered the dividend policy in the context of the market environment and Canaccord's business activity and approved a suspension of Canaccord's quarterly dividend for this quarter. This measure was taken to enable Canaccord to preserve its working capital and book value, as well as to position the Company to take advantage of growth opportunities that may become available.

Year-to-date 2009 vs. year-to-date 2008, excluding significant items [1]

- Revenue of $370.7 [1] million, down 37.0% or $217.4 million from $588.1 [1] million
- Expenses of $373.5 [1] million, down 21.8% or $103.9 million from $477.4 [1] million
- Net loss of $5.1 million [1] compared to net income of $72.2 [1] million in the same period of the prior year
- Diluted loss per share of $0.11 [1] compared to an EPS of $1.48 [1] in the prior year

Third quarter 2009 vs. second quarter 2009, excluding significant items [1]

- Revenue of $87.2 [1] million, down 21.3% or $23.6 million from $110.8 million
- Expenses of $108.5 [1] million, down 6.3% or $7.3 million from $115.8 million
- Net loss of $16.2 [1] million compared to net loss of $5.4 million
- Diluted loss per share of $0.33 [1] compared to a diluted loss of $0.11 per share in the second quarter of 2009

Summary of operations

- In January 2009, the Company implemented the Canaccord Relief Program for eligible clients, demonstrating the Company's firm commitment to putting our clients first
- In January 2009, Canaccord's Head of Private Client Services, John Rothwell, appointed three new leadership positions in the division:
  - National Sales Manager
  - Head of Training and Education
  - Director of Corporate Development
- Canaccord Adams, our capital markets team, led 9 transactions globally to raise total proceeds of $189.3 million during Q3/09
- During Q3/09, Canaccord Adams led or co-led the following equity transactions:
  - $135.0 million on TSX/LSE for Yamana Gold Inc.
  - US$10.3 million on NASDAQ for Osmetech plc
  - $12.4 million on TSX for Mavrix Explore
  - $7.0 million on TSX for Alexco Resource Corp.
- During Q3/09, Canaccord Adams acted as financial advisor on the following transactions:
  - Co-Advised First Calgary Petroleums Ltd. in its $923 million acquisition by Eni SpA
  - Advised Hargraves Technology in its acquisition by Parker Hannifin Corporation
  - Advised IAMGOLD Corporation in its pending $140 million acquisition of Orezone Resources Inc.
- Canaccord Adams participated in 26 transactions [2] globally to raise total proceeds of $5.8 billion during Q3/09
- Canaccord Adams ranked number one for 50 completed Private Investment in Public Equity [3] ("PIPE") transactions in North America that raised over US$1.2 billion in proceeds during calendar 2008
- Assets under administration ("AUA") of $9.0 billion, down 39.2% from the same period a year ago, and down 22.0% from Q2/09
- Assets under management ("AUM") of $454 million, down 40.3% from the same period a year ago, and down 25.5% from Q2/09
- As of December 31, 2008, Canaccord had 347 Advisory Teams, down 30 from the same period a year ago, and up 6 from Q2/09

Non-GAAP Measures

Management believes that the non-GAAP measures presented provide useful information by excluding certain items that may not be indicative of Canaccord's core operating results. Management believes that these non-GAAP measures will allow for a better evaluation of the operating performance of Canaccord's business and facilitate meaningful comparison of results in the current period to those in prior periods and future periods. Reference to these non-GAAP measures should not be considered as a substitute for results that are presented in a manner consistent with GAAP. These non-GAAP measures are provided to enhance investors' overall understanding of Canaccord's current financial performance.

A limitation of utilizing these non-GAAP measures is that the GAAP accounting effects of the significant items do in fact reflect the underlying financial results of Canaccord's business and these effects should not be ignored in evaluating and analyzing Canaccord's financial results. Therefore, management believes that Canaccord's GAAP measures of loss per share and diluted loss per share and the same respective non-GAAP measures of financial performance should be considered together.

(1) Financial statement items that exclude significant items are non-GAAP measures (see non-GAAP Measures).
(2) Transactions over $1.5 million
(3) Source: Placement Tracker

letter to shareholders

The third quarter of fiscal 2009 proved to be one of the most challenging periods in market history. The rapid deterioration of business volumes driven by the worst economic environment in generations had a material and negative impact on our financial results. This, combined with charges we announced on our last conference call and a number of significant items, resulted in a very difficult quarter. Despite these difficulties, we ended the quarter with a strong capital position that will serve Canaccord well in dealing not only with the challenging conditions that lie immediately ahead but also the opportunities that are likely to become available to build our businesses.

In addition, we are very pleased to have completed on January 30, 2009 the Canaccord Relief Program for eligible clients holding frozen Asset-Backed Commercial Paper ("ABCP"). The funds are now in client accounts and this challenging chapter in our history is behind us. Although we wish the hardship of this experience could have been avoided, we are proud of the Canaccord Relief Program, which demonstrates our continued commitment to putting our clients first.

Financial overview

On an operating basis, the net loss, excluding significant items, for the fiscal third quarter was $16 million or $0.33 per diluted share. Further impacting this loss were several significant items booked in the quarter, including a $31.5 million non-cash charge for goodwill impairment, a $6.7 million non-cash fair value adjustment for the ABCP in our treasury, a $2.6 million fair value adjustment to the ABCP received on closing of the Canaccord Relief Program, $7.5 million for restructuring costs relating to staff reductions and $2.7 million of additional expenses relating to the ABCP-related client relief. Including the significant charges of $51 million taken in the quarter, expenses were $160 million and the net loss was $62 million or $1.27 per diluted share. Further details on these charges may be found on page 1 of this report.

The majority of these charges are non-cash, and we remain well capitalized for any business environment. At the end of the third quarter, Canaccord had cash and cash equivalents of nearly $685 million, $285 million of net working capital and an estimated $130 million of excess capital. With an unleveraged and highly liquid balance sheet, we believe that we are well positioned to take advantage of market opportunities. This substantial capital position gives us a solid operating base for the foreseeable future. However, Canaccord remains focused on doing whatever we need to do to reduce or eliminate further losses.

That said, I appreciate that this quarter's results and provisions may raise some questions among shareholders and employees. So I intend to use the balance of this letter to answer questions that I believe shareholders and employees would ask about Canaccord's business plan and outlook for the future. The Operating Highlights usually included in this letter can be found on page 2 of this report.

Q: How do you intend to grow Canaccord through these difficult market conditions?

We are working diligently to operate a strong and efficient business. However, we intend to leverage our strong capital base and continue to aggressively pursue growth opportunities while controlling costs. Despite the obvious challenges, I see some excellent opportunities to build both revenues and market share. In the short term, for example, our US sales and trading operations are benefiting from the complete reshaping of the competitive landscape in the US. The market is still tough, but we're gaining market share and we've used the opportunity to add some industry veterans to fill out and enhance our capabilities. And in Canada, we are the first independent dealer to offer institutional clients direct market access, which is an innovative trading strategy we've been working on for several years.

In the medium term, our new Head of Private Client Services, John Rothwell, is putting together a strong team and a more effective operating structure for the division. He is aggressively addressing cost and capacity issues in the business and has hired senior-level professionals to handle recruiting and training. With the ABCP situation behind us, we're on the offence in Private Client Services, putting together a stronger foundation for future growth while the market is going through this very difficult period. We will continue to build toward the long-term opportunity to provide wealth management services while retaining our traditional brokerage expertise.

We think that calendar 2009 will be challenging in most of our businesses. Looking past that horizon, however, we see a good opportunity to be smart buyers of distressed assets. Additional scale would benefit our global platform, not only by adding capabilities but also by offsetting our fixed costs. That is yet another reason why we're so intent on protecting Canaccord's capital base – we intend to be buyers, not sellers, when the time is right. We believe this will be a great opportunity to grow.

Q: Are you committed to Canaccord's global business model?

Definitely. We intend to wholeheartedly support our global infrastructure as long as our global service capability is valued by our clients. We're committed to all of our individual business units, just as we are to improving their integration and efficiency so we can be appropriately lean and global.

Q: What has been the effect of the cost-cutting initiatives, including the 120-Day Plan you announced last quarter?

The 120-Day Plan we launched in June 2008 achieved its goals for cost containment. But, frankly, the rapid and severe deterioration of markets in October and November exceeded our expectations. The cost-cutting measures we put in place were insufficient to deal with this market decline, and our business volume fell faster than our expense reduction. However, in the quarter, we did see over $5 million of net general and administrative cost savings and over $1 million in net salary reductions. The combined benefit of these and other initiatives is expected to be over $20 million on an annualized basis.

Before the end of this fiscal year, we expect to deliver a plan that will further address some of the systemic costs of our business, as well as a proactive strategy to better align our operations to enhance shareholder value. This plan – along with the initiatives we announced last quarter, like reducing staff levels and management salaries, deferring projects and making further cuts in discretionary costs – should demonstrably impact our ability to generate positive returns for shareholders. We believe the impact of these measures will be more evident in the fourth quarter of this fiscal year and beyond, as employees across the Company continue to be increasingly vigilant in controlling costs and increasing efficiencies.

Q: As far as you can see, what does the future look like for Canaccord?

I've already talked about some specifics, but as an over-arching comment I'd say that we remain a significant force in the capital markets in Canada and abroad. We intend to continue to provide clients with quality ideas that help them make money. And we will become as efficient as possible in order to deliver enhanced shareholder returns in the future. As I said, the remainder of calendar 2009 will likely remain challenging, but our best analysis suggests that global markets, and the global commodity cycle, will return to more normal levels of business as the many national stimulus packages being implemented rekindle demand around the world.

Q: Do you have any final thoughts on the ABCP situation?

I'm pleased that the restructuring process was finally completed, but it has been a challenging 17-month-long process for Canaccord and the industry. More to the point, it has been a very challenging process for the 1% of our clients who were affected. We wish this situation could have been resolved more quickly and that the cases of inconvenience and hardship could have been avoided. I'd like to offer heartfelt thanks to our clients for their patience with the entire process. Over 90% of the clients and over 92% of the affected client assets have stayed with Canaccord and that is a strong testimonial to the way in which we handled a very difficult situation. The Canaccord Relief Program, and the tremendous amount of work that our employees put into securing a deal, clearly reflect our commitment to protecting the best interests of our clients. We can be proud of that.

PAUL D. REYNOLDS
President & Chief Executive Officer

management's discussion and analysis

Fiscal third quarter 2009 for the three and nine months ended December 31, 2008 – this document is dated February 12, 2009

The following discussion of the financial condition and results of operations for Canaccord Capital Inc. ("Canaccord") is provided to enable the reader to assess material changes in such financial condition and to assess results for the three- and nine-month periods ended December 31, 2008 compared to the corresponding periods in the preceding fiscal year. The three- and nine- month periods ended December 31, 2008 are also referred to as the third quarter 2009, Q3/09, year-to-date fiscal 2009 and fiscal Q3/09 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, 2008 beginning on page 25 of this report; our Annual Information Form dated June 30, 2008; and the 2008 annual Management's Discussion and Analysis ("MD&A") including the audited consolidated financial statements for the fiscal year ended March 31, 2008 ("Audited Annual Consolidated Financial Statements") in Canaccord's Annual Report dated July 8, 2008 ("the Annual Report"). There has been no material change to the information contained in the annual MD&A for fiscal 2008 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 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. 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.

Management believes that the non-GAAP measures presented provide useful information by excluding certain items that may not be indicative of Canaccord's core operating results. Management believes that these non-GAAP measures will allow for a better evaluation of the operating performance of Canaccord's business and facilitate meaningful comparison of results in the current period to those in prior periods and future periods. A limitation of utilizing these non-GAAP measures is that the GAAP accounting effects of the significant items do in fact reflect the underlying financial results of Canaccord's business and these effects should not be ignored in evaluating and analyzing Canaccord's financial results. Therefore, management believes that Canaccord's GAAP measures of financial performance and the same respective non-GAAP measures should be considered together.

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

Assets under administration ("AUA") and assets under management ("AUM") are non-GAAP measures of client assets that are common to the wealth management aspects of the private client services industry. AUA is the market value of client assets administered by Canaccord from which Canaccord earns commissions or fees. This measure includes funds held in client accounts as well as the aggregate market value of long and short security positions. Canaccord's method of calculating AUA may differ from the methods used by other companies and therefore may not be comparable to other companies. Management uses this measure to assess operational performance of the Private Client Services business segment. AUM includes all assets managed

on a discretionary basis under our programs generally described as or known as the *Alliance Program* and *Private Investment Management*. Services provided include the selection of investments and the provision of investment advice. AUM is also administered by Canaccord and is included in AUA.

Financial statement items which exclude significant items are non-GAAP measures. Significant items include the 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 CAI and Enermarket goodwill and intangibles and restructuring costs.

Overview

Through its principal subsidiaries, Canaccord Capital Inc. (TSX & AIM: CCI) is a leading independent, full service investment dealer in Canada with capital markets operations in the United Kingdom and the United States. Canaccord is publicly traded on both the Toronto Stock Exchange and AIM, a market operated by the London Stock Exchange. The Company has operations in two of the principal segments of the securities industry: capital markets and private client services.

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 the seasonal variance in these markets.

Business environment

The effects of the global credit crisis persisted during the third quarter of fiscal 2009 as world economies continued to weaken and equity markets deteriorated. The dramatic decline of the US economy and the severe credit conditions in its financial system prompted the sudden contraction in the Canadian economy. This triggered subsequent job losses in Canada as shown by the increase in the unemployment rate from 6.6% to 7.2% between December 2008 and January 2009. Financial markets were also impacted significantly. The S&P/TSX index lost 23% of its value between October 1 and December 31, 2008.

Several fiscal and monetary measures are underway globally to help combat declining economies. In January 2009, the Bank of Canada lowered its benchmark interest rate to 1.0% and in February 2009, the Bank of England reduced its benchmark interest rate to an all-time low of 1.0%. In December 2008, the US Federal Open Market Committee established a target range for the federal funds rate of 0% to 0.25%, which it re-affirmed at its most recent meeting. Governments in all three countries have invested or earmarked significant amounts of funds to shore up weakened financial institutions, increase the availability of credit, and provide stimulus for job creation. Despite these measures, the International Monetary Fund ("IMF") predicts that GDP will contract by 1.2% in Canada, 1.6% in the US, and 2.8% in the UK in 2009.

Market data

The TSX, TSX Venture, and NASDAQ all experienced gains in trading volumes during fiscal Q3/09 compared to Q2/09, though trading volumes on the AIM decreased slightly. Compared to the same quarter last year, the TSX recorded a substantial increase in trading volumes, while the TSX Venture, NASDAQ and AIM had lower trading volumes on a year-over-year basis.

Financing values were varied, with the NASDAQ and AIM down substantially quarter over quarter and year over year, but the TSX and TSX Venture up significantly compared to Q2/09. Most of this increase can be attributed to multiple stock offerings by Canadian banks in December – $5.6 billion of the total $13.8 billion recorded in Q3.

Financing values for all of Canaccord's focus sectors on AIM and the TSX/TSX Venture were down compared to the same period last year. Most focus sectors on the AIM and the TSX/TSX Venture were down quarter over quarter, though mining and media financing values improved on AIM and the oil and gas sector grew on the TSX/TSX Venture.

Trading volume by exchange (billions of shares)

	October 2008	November 2008	December 2008	Fiscal Q3/09	Change from fiscal Q2/09	Change from fiscal Q3/08
TSX	12.2	10.4	10.5	33.1	28.8%	34.0%
TSX Venture	3.7	3.0	4.0	10.7	33.8%	(29.1)%
AIM	11.9	7.9	7.8	27.6	(7.4)%	(34.4)%
NASDAQ	27.3	18.3	16.5	62.1	7.6%	(2.8)%

Source: TSX Statistics, LSE AIM Statistics, Thomson One

Total financing value by exchange

	October 2008	November 2008	December 2008	Fiscal Q3/09	Change from fiscal Q2/09	Change from fiscal Q3/08
TSX and TSX Venture (C$ billions)	0.5	2.7	10.6	13.8	155.6%	(5.5)%
AIM (£ billions)	0.1	0.1	0.2	0.4	(55.6)%	(87.1)%
NASDAQ (US$ billions)	0.5	1.8	1.1	3.4	(26.1)%	(85.5)%

Source: TSX Statistics, LSE AIM Statistics, Equidesk

Financing value for relevant AIM industry sectors

(£ millions, except for percentage amounts)	October 2008	November 2008	December 2008	Fiscal Q3/09	Change from fiscal Q2/09	Change from fiscal Q3/08
Oil and gas	£ 14.5	£ 6.0	£ 3.1	£ 23.6	(91.2)%	(93.2)%
Mining	35.9	4.2	96.6	136.7	63.7%	(63.6)%
Pharmaceutical and Biotech	0.9	0.5	1.2	2.6	(82.8)%	(94.0)%
Media	0.8	2.4	0.6	3.8	90.0%	(95.3)%
Technology	11.2	1.8	0.1	13.1	(64.2)%	(85.6)%
Total (of relevant sectors)	£ 63.3	£ 14.9	£ 101.6	£ 179.8	(55.7)%	(80.8)%

Source: LSE AIM Statistics

Financing value for relevant TSX and TSX Venture industry sectors

($ millions, except for percentage amounts)	October 2008	November 2008	December 2008	Fiscal Q3/09	Change from fiscal Q2/09	Change from fiscal Q3/08
Oil and gas	$ 43.5	$ 1,181.8	$ 295.0	$ 1,520.3	44.1%	(45.5)%
Mining	46.2	117.9	577.8	741.9	0.1%	(84.0)%
Biotech	4.2	–	–	4.2	(89.2)%	(97.3)%
Media	–	–	–	–	(100.0)%	(100.0)%
Technology	–	–	–	–	(100.0)%	(100.0)%
Total (of relevant sectors)	$ 93.9	$ 1,299.7	$ 872.8	$ 2,266.4	23.0%	(74.0)%

Source: FP Infomart

About Canaccord's operations

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

Canaccord Adams

Canaccord Adams offers mid-market 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 600 companies across eight focus sectors: Mining and Metals, Energy, Technology, Life Sciences, Consumer, Real Estate, Industrial Growth and Sustainability.
- Our Sales and Trading desk executes transactions supporting more than 1,500 institutional relationships around the world, operating as an integrated team on one common platform.
- With more than 75 skilled investment bankers, Canaccord Adams provides clients with deep sector expertise and broad equity transaction and M&A advisory experience.

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.

Private Client Services

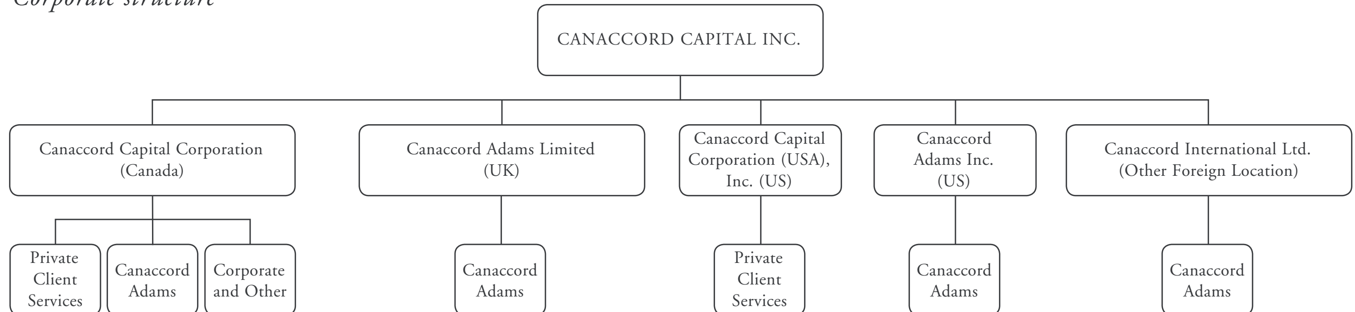
As a leading independent investment dealer, Canaccord's Private Client Services has built its reputation on the quality of our investment ideas. We recognize that the growing complexity of many clients' financial circumstances demands experienced Advisory Teams who can provide solutions and ideas that meet our clients' needs. Many of our Investment Advisors have completed the training required for advanced industry designations such as Chartered Financial Analyst or Certified Investment Manager. We continue to provide our advisors with ongoing training opportunities.

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

Corporate and Other

Canaccord's administrative segment, described as Corporate and Other, includes correspondent brokerage services, bank and other interest, and foreign exchange revenue and expenses not specifically allocable to either the Canaccord Adams or Private Client Services 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 2009 summary data [1]

(C$ thousands, except per share, employee and % amounts)	*Three months ended December 31* 2008	2007	*Quarter-over-quarter change*	*Nine months ended December 31* 2008	2007	*YTD-over-YTD change*
Canaccord Capital Inc.						
Revenue						
Commission	**$ 51,473**	$ 74,959	(31.3)%	**$ 184,099**	$ 226,462	(18.7)%
Investment banking	**20,198**	84,910	(76.2)%	**130,369**	287,266	(54.6)%
Principal trading	**3,781**	387	n.m.	**9,779**	3,275	198.6%
Interest	**9,108**	16,011	(43.1)%	**33,171**	48,594	(31.7)%
Other	**2,628**	7,087	(62.9)%	**13,307**	22,496	(40.8)%
Total revenue	**87,188**	183,354	(52.4)%	**370,725**	588,093	(37.0)%
Expenses						
Incentive compensation	**$ 43,299**	$ 90,778	(52.3)%	**$ 177,003**	$ 283,600	(37.6)%
Salaries and benefits	**12,817**	12,658	1.3%	**42,455**	39,576	7.3%
Other overhead expenses [2]	**52,418**	51,381	2.0%	**154,060**	154,203	0.0%
ABCP fair value adjustment [3]	**6,700**	4,226	(58.5)%	**6,700**	8,625	(22.3)%
Relief provision [4]	**2,700**	–	n.m.	**2,700**	–	n.m.
Canaccord relief program fair value adjustment [5]	**2,647**	–	n.m.	**2,647**	–	n.m.
Impairment of goodwill and intangibles [6]	**31,524**	–	n.m.	**31,524**	–	n.m.
Restructuring costs [7]	**7,520**	–	n.m.	**7,520**	–	n.m.
Total expenses	**159,625**	159,043	(0.4)%	**424,609**	486,004	(12.6)%
Income (loss) before income taxes	**$ (72,437)**	$ 24,311	(398.0)%	**$ (53,884)**	$ 102,089	(152.8)%
Net income (loss)	**(62,378)**	15,048	(514.5)%	**(51,317)**	66,488	(177.2)%
Earnings (loss) per share – diluted ("EPS")	**(1.27)**	0.31	(509.7)%	**(1.05)**	1.37	(176.6)%
Return on average common equity	**(64.3)%**	16.2%	(80.5) p.p.	**(18.0)%**	23.3%	(41.3) p.p.
Book value per share – period end	**6.37**	7.95	(19.9)%			
Number of employees	**1,570**	1,676	(6.3)%			

(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. Also includes the pre-tax credit provision of $5.5 million recorded in fiscal Q3/09 as discussed on page 2 of this MD&A.
(3) Represents the ABCP fair value adjustment for ABCP held by the Company.
(4) Represents the additional accrual for client relief related to the ABCP held by eligible clients.
(5) Relates to the fair value adjustment of the ABCP purchased by the Company under a client relief program.
(6) Relates to impairment of CAI and Enermarket goodwill and intangibles.
(7) Consists of staff restructuring costs.
p.p.: percentage points
n.m.: not meaningful

Third quarter and year-to-date fiscal 2009 adjusted data

(C$ thousands, except EPS in $)	Three months ended December 31, 2008					Nine months ended December 31, 2008				
	Revenue	Expenses	Net loss before tax	Net loss	EPS	Revenue	Expenses	Net loss before tax	Net loss	EPS
Per financial statements	$ 87,188	$ 159,625	$ (72,437)	$ (62,378)	$ (1.27)	$ 370,725	$424,609	$ (53,884)	$ (51,317)	$ (1.05)
ABCP fair value adjustment (1)	–	6,700	6,700	4,600	0.09	–	6,700	6,700	4,600	0.09
Relief provision (2)	–	2,700	2,700	1,854	0.04	–	2,700	2,700	1,854	0.04
Canaccord relief program fair value adjustment (3)	–	2,647	2,647	1,817	0.03	–	2,647	2,647	1,817	0.03
Impairment of goodwill and intangibles (4)	–	31,524	31,524	31,524	0.65	–	31,524	31,524	31,524	0.65
Restructuring costs (5)	–	7,520	7,520	6,341	0.13	–	7,520	7,520	6,341	0.13
Excluding significant items (6)	$ 87,188	$ 108,534	$ (21,346)	$ (16,242)	$ (0.33)	$ 370,725	$ 373,518	$ (2,793)	$ (5,181)	$ (0.11)

(1) Represents the Q3/09 ABCP fair value adjustment for ABCP held by the Company.
(2) Represents the additional accrual for client relief related to the ABCP held by eligible clients.
(3) Relates to the fair value adjustment of the ABCP purchased by the Company under a client relief program.
(4) Relates to the impairment of CAI and Enermarket goodwill and intangibles.
(5) Consists of staff restructuring costs.
(6) Financial statement items that exclude significant items are non-GAAP measures.

Geographic distribution of revenue [1]

(C$ thousands, except % amounts)	Three months ended December 31 2008	Three months ended December 31 2007	Quarter-over-quarter change	Nine months ended December 31 2008	Nine months ended December 31 2007	YTD-over-YTD change
Canada	$ 57,854	$ 125,102	(53.8)%	$ 247,482	$ 404,470	(38.8)%
UK	11,752	34,644	(66.1)%	58,567	102,952	(43.1)%
US	16,586	23,135	(28.3)%	60,536	70,294	(13.9)%
Other Foreign Location	996	473	110.6%	4,140	10,377	(60.1)%
Total	$ 87,188	$ 183,354	(52.4)%	$ 370,725	$ 588,093	(37.0)%

(1) For a business description of Canaccord's geographic distribution please refer to the "About Canaccord's Operations" section on page 8.

Third quarter 2009 vs. third quarter 2008

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, 2008 was $87.2 million, down $96.2 million compared to the same period a year ago.

For the third quarter of fiscal 2009, revenue generated from commissions was $51.5 million, a decrease of 31.3% compared to the same period a year ago largely due to the continuing weak market conditions during the quarter. Investment banking revenue was $20.2 million, a decrease of $64.7 million primarily due to lower financing activity related to the heightened investor anxiety in the markets compared to the same period in the prior year. Principal trading had revenue of $3.8 million during Q3/09 compared to total revenue of $0.4 million during Q3/08. The increase in principal trading revenue was as a result of exiting certain proprietary trading strategies to mitigate our portfolio risk. Interest revenue was $9.1 million, a decrease of 43.1% mainly due to lower interest rates and smaller clients' receivable balances. Other revenue decreased by 62.9% or $4.5 million to $2.6 million compared to the same period in the prior year mainly due to a decrease in foreign exchange gain.

Third quarter 2009 revenue in Canada was $57.9 million, a decrease of 53.8% or $67.2 million from the same quarter a year ago. Revenue in the UK decreased by 66.1% to $11.8 million compared to the same period a year ago. In the US, revenue was $16.6 million, a decline of 28.3% compared to Q3/08. Other Foreign Location revenue increased by $0.5 million compared to the same quarter in the prior year. The overall decrease in revenue across geographies was mainly attributed to the financial credit crisis that has continued to impact the global equity markets during the third quarter of fiscal 2009.

Year-to-date fiscal 2009 vs. year-to-date fiscal 2008

Revenue for the nine months ended December 31, 2008 was $370.7 million, a decline of 37.0% or $217.4 million compared to the same period a year ago. Revenue generated from commissions decreased by 18.7% to $184.1 million compared to the prior year largely due to the credit crunch that resulted in weaker financial markets. Investment banking revenue was $130.4 million, representing a decrease of 54.6% primarily due to the decline in financing activity in equity markets across the geographies where we operate.

Principal trading revenue was $9.8 million, representing an increase of $6.5 million compared to the same period in the prior year. This increase in revenue was a result of exiting certain proprietary trading strategies to maintain a lower risk inventory portfolio. Interest revenue was $33.2 million, a decline of 31.7% due to lower client interest revenue. Other revenue decreased by $9.2 million to $13.3 million during year-to-date fiscal 2009 as a result of lower foreign exchange gains.

Year-to-date revenue in Canada was $247.5 million, a drop of 38.8% or $157.0 million from the same period a year ago. Year-to-date fiscal 2009 revenue in the UK was $58.6 million, a decrease of 43.1% or $44.4 million from the same period a year ago. Revenue in the US was $60.5 million, representing a decline of 13.9% or $9.8 million compared to year-to-date fiscal 2008. Revenue from Other Foreign Location was $4.1 million compared to $10.4 million in the nine months ended December 31, 2007. The overall decrease in revenue across the various operations was a result of the decline in global financial markets during fiscal 2009.

Expenses as a percentage of revenue

	Three months ended December 31		Quarter-over-	Nine months ended December 31		YTD-over-YTD
(in percentage points)	**2008**	2007	quarter change	**2008**	2007	change
Incentive compensation	**49.7%**	49.5%	0.2 p.p.	**47.7%**	48.2%	(0.5)p.p.
Salaries and benefits	**14.7%**	6.9%	7.8 p.p.	**11.5%**	6.8%	4.7 p.p.
Other overhead expenses (1)	**60.1%**	28.0%	32.1 p.p.	**41.6%**	26.2%	15.4 p.p.
ABCP fair value adjustment (2)	**7.7%**	2.3%	5.4 p.p.	**1.8%**	1.5%	0.3 p.p.
Relief provision (3)	**3.1%**	–	3.1 p.p.	**0.7%**	–	0.7 p.p.
Canaccord relief program fair value adjustment (4)	**3.0%**	–	3.0 p.p.	**0.7%**	–	0.7 p.p.
Impairment of goodwill and intangibles (5)	**36.2%**	–	36.2 p.p.	**8.5%**	–	8.5 p.p.
Restructuring costs (6)	**8.6%**	–	8.6 p.p.	**2.0%**	–	2.0 p.p.
Total	**183.1%**	86.7%	96.4 p.p.	**114.5%**	82.7%	31.8 p.p.

(1) Consists of trading costs, premises and equipment, communication and technology, interest, general and administrative, amortization and development costs. Also includes the pre-tax credit provision of $5.5 million as discussed on page 2 of this MD&A.
(2) Represents the ABCP fair value adjustment for ABCP held by the Company.
(3) Represents the additional accrual for client relief related to the ABCP held by eligible clients.
(4) Relates to the fair value adjustment of the ABCP purchased by the Company under a client relief program.
(5) Relates to the impairment of CAI and Enermarket goodwill and intangibles.
(6) Consists of staff restructuring costs.
p.p.: percentage points

Third quarter 2009 vs. third quarter 2008

Expenses for the three months ended December 31, 2008 were $159.6 million, a slight increase of 0.4% or $0.6 million from a year ago. Incentive compensation expense decreased by 52.3% or $47.5 million, which is consistent with the 52.4% drop in total revenue. Total compensation (incentive compensation plus salaries) as a percentage of consolidated revenue for Q3/09 was 64.4% compared to 56.4% in Q3/08, an increase of 8.0 percentage points. This increase was attributed to constant salaries and benefits expense combined with declining revenue.

During the quarter, non-compensation expense increased by $47.9 million or 86.1% from $55.6 million in Q3/08 to $103.5 million in Q3/09. This was mainly a result of the following significant items: ABCP fair value adjustment, additional accrual for client relief, fair value adjustment of a client relief program, impairment of CAI and Enermarket goodwill and intangibles and the restructuring costs recognized in the current quarter. The additional ABCP fair value non-cash adjustment of $6.7 million pre-tax resulted from a valuation of the ABCP held by the Company based on current market conditions. An additional $5.3 million pre-tax charge was recorded in the current quarter for client relief programs, bringing the total accrual to $59.5 million. The current period charge included $2.7 million additional out-of-pocket charges and $2.6 million fair value adjustment regarding ABCP purchased by the Company under a client relief program. Further information regarding the Canaccord relief program is provided under the "Asset-backed Commercial Paper" section. The Company recognized a non-cash $27.5 million impairment of goodwill and intangibles related to CAI, the US capital markets reporting unit. A $4.0 million impairment of Enermarket goodwill and intangibles was recognized to reflect the impact of the deteriorating market conditions on Enermarket's earnings prospects. The restructuring costs included the $7.5 million pre-tax for staff restructuring expense which was slightly higher than anticipated by the Company when it made its announcement last quarter.

Year-to-date fiscal 2009 vs. year-to-date fiscal 2008

Expenses for the nine months ended December 31, 2008 were $424.6 million, an overall decrease of $61.4 million or 12.6% from a year ago. Incentive compensation expense was $177.0 million, a decrease of 37.6%, which was consistent with the 37.0% decline in total revenue. Incentive compensation as a percentage of total revenue was 47.7%, compared to 48.2% during year-to-date fiscal 2008.

Salaries and benefits expense was $42.5 million, an increase of $2.9 million during year-to-date fiscal 2009 compared to the same period a year ago. Total compensation (incentive compensation plus salaries) as a percentage of consolidated revenue was 59.2% in fiscal 2009, representing an increase of 4.1 percentage points compared to the same period in fiscal 2008. The increase was due to an increase in number of staff during the first six months of fiscal 2009 to enhance our operations and support services. However, the number of employees decreased during Q3/09 due to the staff restructuring announced in October 2008, which resulted in a $1.4 million decrease in salaries and benefits expense between Q2/09 and Q3/09.

The ABCP fair value adjustment, additional accrual for client relief, fair value adjustment of ABCP purchased by the Company under a client relief program, impairment of CAI and Enermarket goodwill and intangibles and restructuring costs were $51.1 million pre-tax in aggregate, which represented 13.7% of total revenue.

Other overhead expenses

(C$ thousands, except % amounts)	Three months ended December 31 2008	Three months ended December 31 2007	Quarter-over-quarter change	Nine months ended December 31 2008	Nine months ended December 31 2007	YTD-over-YTD change
Trading costs	$ **6,708**	$ 7,054	(4.9)%	$ **19,746**	$ 21,261	(7.1)%
Premises and equipment	**6,549**	5,781	13.3%	**18,291**	16,775	9.0%
Communication and technology	**6,277**	5,611	11.9%	**18,979**	17,163	10.6%
Interest	**2,568**	6,574	(60.9)%	**9,881**	19,155	(48.4)%
General and administrative (1)	**19,827**	17,390	14.0%	**58,715**	51,416	14.2%
Amortization	**2,751**	2,197	25.2%	**6,865**	6,320	8.6%
Development costs	**7,738**	6,774	14.2%	**21,583**	22,113	(2.4)%
Total other overhead expenses	$ **52,418**	$ 51,381	2.0%	$ **154,060**	$ 154,203	0.0%

(1) Consists of trading costs, premises and equipment, communication and technology, interest, general and administrative, amortization and development costs. Also includes the pre-tax credit provision of $5.5 million as discussed on page 2 of this MD&A.

Third quarter 2009 vs. third quarter 2008

Other overhead expenses increased 2.0% to $52.4 million for the third quarter of fiscal 2009 compared to the same period a year ago. Contributing to the overall increase in other overhead expenses was an increase in general and administrative expense and communication and technology expense. General and administrative expense increased by $2.4 million mainly due to the recognition of a pre-tax credit provision of $4.5 million as announced in Q2/09. Of this $5.5 million provision, $4.5 million related to our Canadian operations and $1.0 million related to our UK operations. The $0.7 million increase in communication and technology expense was mainly due to technological enhancements incurred during the quarter. This was offset by a decrease in interest expense of $4.0 million due to lower interest rates and lower client payable balances.

Net loss for Q3/09 was $62.4 million compared to net income of $15.0 million from a year ago. Diluted loss per share was $1.27 in Q3/09 and diluted earnings per share was $0.31 in Q3/08. The decrease in EPS was due to the decline in net income as well as the issuance of 6,733,250 common shares in connection with the equity financing in May 2008. ROE for Q3/09 was (64.3)% compared to ROE of 16.2% a year ago. Book value per diluted share for Q3/09 decreased by 19.9% to $6.37 compared to Q3/08. Income tax recovery was $10.1 million in Q3/09.

Excluding significant items, net loss was $16.2 million in Q3/09 and net income was $17.8 million in Q3/08. Diluted loss per share was $0.33 in Q3/09 compared to diluted EPS of $0.36 in Q3/08 after excluding significant items.

Year-to-date fiscal 2009 vs. year-to-date fiscal 2008

Other overhead expenses for the nine months ended December 31, 2008 was $154.1 million, consistent with the prior period overhead expense of $154.2 million. Premises and equipment, communication and technology and general and administrative expenses all increased during the fiscal 2009 year to date. Premises and equipment increased by $1.5 million or 9.0% to $18.3 million during fiscal 2009 year to date partly due to an expansion of premises in Canada in the current period. The increase was also due to a lower than normal rental expense in the UK in Q3/08, which resulted from the reversal of a rental accrual during that period. Communication and technology expense was $19.0 million, which increased $1.8 million or 10.6%. This increase was mainly attributed to technological enhancements incurred during the quarter. General and administrative expense increased to $58.7 million, up $7.3 million compared to year-to-date figures at Q3/08. The increase in general and administrative expense for year-to-date fiscal 2009 related mostly to consultancy fees incurred to upgrade internal infrastructure and an increase in the credit provision as announced in October 2008 due to the current market conditions. This increase was offset by a decrease in promotion and travel expense during the first nine months of fiscal 2009.

The increase in overhead expenses was offset by the decline in interest expense, which decreased by 48.4% or $9.3 million. The decrease in interest expense was the result of a drop in clients' payable balances in addition to lower interest rates.

Net loss for year-to-date fiscal 2009 was $51.3 million, and net income for the same period a year ago was $66.5 million. Diluted loss per share for the first nine months of fiscal 2009 was $1.05 compared to diluted EPS for the first nine months in fiscal 2008 of $1.37. This decrease was due to lower net income resulting from the negative impact of the credit crunch on the global markets during fiscal 2009 as well as the share issuance as discussed previously. ROE was (18.0)% compared to 23.3% a year ago. Book value per diluted share at the period end was $6.37, a decrease of 19.9% from Q3/08.

Excluding significant items, net loss was $5.2 million for year-to-date fiscal 2009 compared to net income of $72.2 million at year-to-date fiscal 2008. This resulted in a diluted loss per share of $0.11 in Q3/09 compared to a diluted EPS of $1.48 at Q3/08.

Income tax recovery was $2.6 million in year-to-date fiscal 2009, a decrease of $38.2 million. The change was largely due to reduced income. The year-to-date effective tax rate was 4.8% compared to 34.9% for the same period last year. The decrease in effective tax rate was due in part to certain expenses not being deductible for tax purposes, changes in estimates, as well as a valuation allowance provision against certain future income tax assets.

Results of operations

Canaccord Adams [1]

(C$ thousands, except employees and % amounts)	Three months ended December 31 2008	Three months ended December 31 2007	Quarter-over-quarter change	Nine months ended December 31 2008	Nine months ended December 31 2007	YTD-over-YTD change
Canaccord Adams						
Revenue	**$ 49,250**	$ 109,583	(55.1)%	**$ 212,379**	$ 353,677	(40.0)%
Expenses						
Incentive compensation	**28,857**	57,933	(50.2)%	**111,384**	176,341	(36.8)%
Salaries and benefits	**3,413**	3,275	4.2%	**11,555**	10,488	10.2%
Other overhead expenses [2]	**26,027**	25,140	3.5%	**83,528**	78,850	5.9%
ABCP fair value adjustment [3]	**–**	1,101	n.m.	**–**	2,247	n.m.
Impairment of goodwill and intangibles [4]	**31,524**	–	n.m.	**31,524**	–	n.m.
Restructuring costs [5]	**5,949**	–	n.m.	**5,949**	–	n.m.
Total expenses	**$ 95,770**	$ 87,449	9.5%	**$ 243,940**	$ 267,926	(9.0)%
Income (loss) before income taxes [6]	**(46,520)**	22,134	(310.2)%	**(31,561)**	85,751	(136.8)%
Income (loss) before before significant items and income taxes [7]	**(9,047)**	23,235	(138.9)%	**5,912**	87,998	(93.3)%
Number of employees	**480**	531	(9.6)%			

(1) Data is considered to be GAAP except for number of employees and income before significant items and income taxes.
(2) Includes $1.0 million of the total pre-tax $5.5 million credit provision as discussed on page 2 of this MD&A.
(3) Represents the ABCP fair value adjustment for ABCP held by the Company.
(4) Relates to impairment of CAI and Enermarket goodwill and intangibles.
(5) Consists of staff restructuring costs.
(6) Income before income taxes excludes allocated overhead expenses that are included in Corporate and Other segment expenses.
(7) Significant items include ABCP fair value adjustment, impairment of goodwill and intangibles, and restructuring 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 2009 vs. third quarter 2008

Total revenue for Canaccord Adams in Q3/09 was $49.3 million, a decline of $60.3 million from the same quarter a year ago due to challenging market conditions as described in the "Business Environment" section on page 7.

Revenue from Canadian operations

As a result of these market challenges, our Canadian operations generated fiscal third quarter 2009 revenue of $20.4 million, a decrease of 60.8% compared to a year ago. Canaccord Adams' Canadian revenue is made up of the following revenue streams: capital markets, international trading, registered trading, and fixed income. The decrease in revenue was mainly attributed to the drop in capital markets revenue of $30.3 million. International trading decreased by $0.9 million and registered trading increased by $0.6 million. The decrease in capital markets revenue was consistent with the significant drop in financing activity and the challenging market conditions in the Canadian equity markets. Revenue from Canadian operations represents 41.5% of Canaccord Adams' total revenue.

Revenue from UK operations
Revenue from our UK operations was $11.8 million, a drop of 66.1% from the same period a year ago due to a general slowdown in the market. Revenue from UK operations represents 23.9% of Canaccord Adams' total revenue.

Revenue from US operations
In the US, revenue was $16.1 million, a decrease of 28.2% from a year ago. This represents 32.6% of Canaccord Adams' total revenue. The decrease in revenue was due to the financial crisis that impacted the equity markets significantly during the third quarter of fiscal 2009.

Revenue from Other Foreign Location operations
Revenue from Other Foreign Location operations was $1.0 million compared to revenue of $0.5 million in Q3/08. In any quarter, revenue in this region represents a small number of transactions and is therefore very irregular. Revenue from Other Foreign Location operations represents 2.0% of Canaccord Adams' total revenue.

Expenses
Expenses for Q3/09 were $95.8 million, up $8.3 million compared to the same period in the prior year. The main contributor to the increase was the $31.5 million impairment of goodwill and intangibles with $27.5 million related to CAI and $4.0 million related to Enermarket. Both subsidiaries' earnings prospects were severely impacted by the credit crisis during the quarter. The Company also recognized a pre-tax $5.9 million charge in Canaccord Adams for staff restructuring costs compared to the consolidated $7.5 million charge.

This increase was offset by the 50.2% or $29.1 million decline in incentive compensation expense for the quarter, consistent with the 55.1% decrease in revenue during the quarter. Salary and benefits expense during Q3/09 remained stable at $3.4 million compared to $3.3 million in Q3/08. The total compensation expense payout as a percentage of revenue for the quarter was 65.5%, which represented a 9.6 percentage point increase from Q3/08 mainly due to the steep decline in revenue combined with a constant salaries and benefits expense.

Loss before income taxes and corporate overhead allocations in Q3/09 was $46.5 million and net income before income taxes and corporate overhead allocation in Q3/08 was $22.1 million. Excluding significant items, loss before income taxes and corporate overhead allocations in Q3/09 was $9.0 million.

Year-to-date fiscal 2009 vs. year-to-date fiscal 2008
Revenue for Canaccord Adams for the first nine months of fiscal 2009 was $212.4 million, which decreased $141.3 million from the same period last year due to declining capital markets in all geographies where we operate.

Revenue from Canadian operations
In Canada, revenue was $91.6 million, a decrease of 47.0% from the same period a year ago. Within Canada, $70.5 million was derived from investment banking and equities activity, while $21.1 million was from our international trading, registered trading and fixed income operations. The overall reduction in revenue from the Canadian operations was largely due to the weak capital markets both in Canada and globally. Overall, our Canadian revenue represented 43.1% of Canaccord Adams' total revenue.

Revenue from UK operations
Our UK revenue was $58.6 million, down $44.4 million from the same period a year ago due to slower market conditions. Revenue from our UK operations represented 27.6% of Canaccord Adams' total revenue.

Revenue from US operations
In the US, revenue was $58.1 million, a decrease of $9.4 million or 13.9% compared to the same period a year ago. The decrease is attributed to the declining markets and recessionary economy in the US. Revenue from US operations represented 27.4% of Canaccord Adams' total revenue.

Revenue from Other Foreign Location operations
Revenue from Other Foreign Location was $4.1 million, a decrease of $6.2 million compared to Q3/08. Revenue from Other Foreign Location represents 1.9% of Canaccord Adams' total revenue. Revenue in this region represents a small number of transactions and is therefore very irregular.

Expenses
Expenses for the first nine months of fiscal 2009 were $243.9 million, a decrease of $24.0 million. Incentive compensation was $111.4 million, which was a decrease of $65.0 million or 36.8% compared to the same period a year ago. This decline is consistent with the 40.0% drop in total revenue during the first nine months of the fiscal year.

Salary and benefits expense for year-to-date fiscal 2009 increased by $1.1 million from a year ago. The total compensation expense payout as a percentage of revenue also increased by 5.1 percentage points to 57.9% during year-to-date fiscal 2009. This increase was due to a growth in the number of employees during the first six months of fiscal 2009. However, in Q3/09, salaries and benefits expense decreased by $0.5 million compared to Q2/09 as a result of the staff restructuring announced in October 2008.

The general and administrative expense increased by $4.1 million to $33.2 million for year-to-date fiscal 2009. The general and administrative expense increase was due to consultancy fees paid to upgrade our internal infrastructure and an increase in reserve expense. Communication and technology expenses also increased by approximately $1.3 million mainly due to technological enhancements incurred during the quarter. This increase was partially offset by a decrease in promotion and travel expense.

Loss before income taxes and corporate overhead allocations for the period was $31.6 million, a decrease of $117.3 million from the same period a year ago. Excluding significant items, the net income before income taxes and corporate overhead allocations for the first nine months of fiscal 2009 was $5.9 million.

Private Client Services (1)

(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*
	2008	*2007*		***2008***	*2007*	
Revenue	**$ 33,532**	$ 61,166	(45.2)%	**$ 135,229**	$ 194,664	(30.5)%
Expenses						
Incentive compensation	**14,195**	28,443	(50.1)%	**61,261**	91,474	(33.0)%
Salaries and benefits	**3,057**	3,272	(6.6)%	**10,315**	10,831	(4.8)%
Other overhead expenses (2)	**17,437**	16,417	6.2%	**43,707**	47,014	(7.0)%
Relief provision (3)	**2,700**	–	n.m.	**2,700**	–	n.m.
Canaccord relief program fair value adjustment (4)	**2,647**	–	n.m.	**2,647**	–	n.m.
Restructuring costs (5)	**180**	–	n.m.	**180**	–	n.m.
Total expenses	**$ 40,216**	$ 48,132	(16.4)%	**$ 120,810**	$ 149,319	(19.1)%
Income (loss) before income taxes (6)	**(6,684)**	13,034	(151.3)%	**14,419**	45,345	(68.2)%
Income (loss) before significant items and income taxes (7)	**(1,157)**	13,034	(108.9)%	**19,946**	45,345	(56.0)%
Assets under management	**454**	760	(40.3)%			
Assets under administration	**9,030**	14,860	(39.2)%			
Number of Advisory Teams	**347**	377	(8.0)%			
Number of employees	**725**	772	(6.1)%			

(1) Data is considered to be GAAP except for AUM, AUA, number of Advisory Teams, number of employees, and income (loss) before significant items and income taxes.
(2) Includes $4.5 million of the total pre-tax $5.5 million credit provision as discussed on page 2 of this MD&A.
(3) Represents the additional accrual for client relief related to the ABCP held by eligible clients.
(4) Relates to the fair value adjustment of the ABCP purchased by the Company under a client relief program.
(5) Consists of staff restructuring costs.
(6) Income before income taxes excludes allocated overhead expenses that are included in Corporate and Other segment expenses.
(7) Significant items include additional accrual for client relief, fair value adjustment of the ABCP purchased by the Company under a client relief program and the restructuring costs.
n.m.: not meaningful

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

Third quarter 2009 vs. third quarter 2008

Revenue from Private Client Services was $33.5 million, a decrease of $27.6 million mainly due to the deteriorating market conditions in North America during the quarter. AUA decreased by $5.8 billion to $9.0 billion. AUM decreased by 40.3% year over year to $454 million. The decrease in AUA and AUM was due to lower market value of assets related to declining global markets in Q3/09. There were 347 Advisory Teams at the end of the third quarter of fiscal 2009, a decrease of 30 from 377 a year ago. Fee-related revenue as a percentage of total Private Client Services revenue increased by 3.1 percentage points to 18.4% from the same period last year. The increase was the result of fee-related revenue remaining stable compared to prior periods, while other Private Client Services revenue decreased.

Expenses for Q3/09 were $40.2 million, down $7.9 million or 16.4%. The decrease in incentive compensation of $14.2 million or 50.1% was the main contributor to the overall decrease in total expenses during the quarter. This decline in incentive

compensation was consistent with the 45.2% drop in total revenue. The total compensation expense payout as a percentage of revenue for the quarter was 51.4%, a decrease of 0.5 percentage points from 51.9% for the same period a year ago.

The largest decrease in non-compensation expenses was the 66.9% or $3.5 million decline in interest expense due to lower interest rates and smaller cash balances in our client accounts this year versus last year. This decrease was offset by an increase in the general and administrative expense of $4.2 million. The general and administrative expense increased to $7.8 million during Q3/09 mainly due to the recognition of a $4.5 million pre-tax credit provision against the unsecured balances resulting from deteriorating financial markets.

The Company also recognized an additional $5.3 million charge for client relief programs in the current quarter bringing the total pre-tax accrual to $59.5 million as at December 31, 2008. The current period charge consisted of $2.7 million additional out-of-pocket charges and $2.6 million fair value adjustment of ABCP purchased by the Company under a client relief program. The Canaccord Relief Program was announced in April 2008 and includes the repurchase of up to $138 million of restructured ABCP at par value from eligible clients. Additional information is provided in the "Asset-backed Commercial Paper" section of this MD&A.

Loss before income taxes and corporate overhead allocations for the quarter was $6.7 million, a decrease of 151.3% or $19.7 million from the same period a year ago. Excluding significant items, loss before income taxes and corporate overhead allocations was $1.2 million.

Year-to-date fiscal 2009 vs. year-to-date fiscal 2008

Revenue from Private Client Services was $135.2 million, a decrease of $59.4 million mainly due to weakening market conditions in North America during the first nine months of fiscal 2009. Fee-related revenue as a percentage of total Private Client Services revenue was 17.6% for both year-to-date fiscal 2009 and fiscal 2008.

Expenses for the nine months ended December 31, 2008 were $120.8 million, down $28.5 million or 19.1%. The largest decrease in expenses was incentive compensation expense, which decreased $30.2 million, and interest expense, which decreased $8.7 million. Incentive compensation declined by 33.0%, which was in line with the 30.5% decrease in total revenue. Interest expense decreased due to lower interest rates and smaller cash balances in our client accounts this year versus last year. The total compensation expense payout as a percentage of revenue for the first nine months of fiscal 2009 was 52.9%, no change from the same period a year ago. Trading costs also decreased by $1.6 million or 22.9% due to lower trading activity.

The decreases were offset by an increase in the general and administrative expense of $5.8 million or 63.9%, which was mainly due to an increase in the credit provision. As discussed above, this expense was recognized to provide for unsecured balances in client accounts resulting from current market conditions. The Company also recognized a $5.3 million charge for client relief as mentioned above.

Income before income taxes and corporate overhead allocations for year-to-date fiscal 2009 was $14.4 million, a decrease of 68.2% or $30.9 million from the same period a year ago. Excluding significant items, net income before income taxes and corporate overhead allocations was $19.9 million.

Corporate and Other (1)

(C$ thousands, except employees and % amounts)	Three months ended December 31 2008	Three months ended December 31 2007	Quarter-over-quarter change	Nine months ended December 31 2008	Nine months ended December 31 2007	YTD-over-YTD change
Revenue	**$ 4,406**	$ 12,605	(65.0)%	**$ 23,117**	$ 39,752	(41.8)%
Expenses						
Incentive compensation	**247**	4,402	(94.4)%	**4,358**	15,785	(72.4)%
Salaries and benefits	**6,347**	6,111	3.9%	**20,585**	18,257	12.8%
Other overhead expenses	**8,954**	9,824	(8.9)%	**26,825**	28,339	(5.3)%
ABCP fair value adjustment (2)	**6,700**	3,125	(114.4)%	**6,700**	6,378	(5.0)%
Restructuring costs (3)	**1,391**	–	n.m.	**1,391**	–	n.m.
Total expenses	**$ 23,639**	$ 23,462	(0.8)%	**$ 59,859**	$ 68,759	(12.9)%
Loss before income taxes	**(19,233)**	(10,857)	(77.1)%	**(36,742)**	(29,007)	(26.7)%
Loss before significant items and income taxes (4)	**(11,142)**	(7,732)	(44.1)%	**(28,651)**	(22,629)	(26.6)%
Number of employees	**365**	373	(2.1)%			

(1) Data is considered to be GAAP except for number of employees and loss before significant items and income taxes.
(2) Represents the ABCP fair value adjustment for ABCP held by the Company.
(3) Consists of staff restructuring costs.
(4) Significant items include ABCP fair value adjustment and restructuring costs.
n.m: not meaningful

Canaccord's administrative segment, described as Corporate and Other, includes correspondent brokerage services, bank and other interest, and foreign exchange revenue and expenses not specifically allocable to either the Canaccord Adams or Private Client Services 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 2009 vs. third quarter 2008
Revenue for the three months ended December 31, 2008 was $4.4 million, a decrease of $8.2 million from the same quarter a year ago. The change was mostly related to a decrease in foreign exchange gains compared to the prior year. Foreign exchange gains declined $5.8 million or 187.3% during the quarter to a total foreign exchange loss of $2.7 million. Interest revenue also decreased by $2.7 million or 39.0% compared to the same period a year ago as a result of lower interest rates.

Fiscal 2009 third quarter expenses were $23.6 million, a decrease of 0.8%. Incentive compensation also decreased by $4.2 million due to lower profitability of the consolidated group of companies. This decrease was partially offset by a $1.4 million charge to restructuring costs related to the firm-wide staff restructuring announced in October 2008 and partially offset by a $6.7 million ABCP fair value adjustment.

Loss before income taxes was $19.2 million in Q3/09 compared to a net loss of $10.9 million in Q3/08. Excluding significant items, net loss before income taxes was $11.1 million.

Year-to-date fiscal 2009 vs. year-to-date fiscal 2008
Revenue was $23.1 million, a decrease of $16.6 million from the same period a year ago for the same reasons mentioned above.

Expenses for year-to-date fiscal 2009 were $59.9 million, a decrease of $8.9 million. The decline is mainly due to a decrease in incentive compensation expense of $11.4 million or 72.4% for the same reasons mentioned above. This was offset by a $1.4 million increase in restructuring costs that related to the firm-wide staff restructuring announced in October 2008 and $6.7 million ABCP fair value adjustment.

Overall, loss before income taxes was $36.7 million compared to a loss of $29.0 million in the same period a year ago. Excluding significant items, net loss before income taxes was $28.7 million.

Financial condition

Below are specific changes in selected balance sheet items.

Assets
Cash and cash equivalents were $684.5 million on December 31, 2008 compared to $435.6 million on March 31, 2008. Refer to the "Liquidity and Capital Resources" section for more details.

Securities owned were $72.9 million compared with $92.8 million on March 31, 2008. The decrease related mainly to fewer financings that were committed at December 31, 2008 as well as a decrease in market value of securities.

Accounts receivable were $0.8 billion on December 31, 2008 compared with $1.4 billion on March 31, 2008. The decrease mainly related to a decrease in receivable balances from clients and brokers and investment dealers.

Other assets in aggregate were $115.9 million at December 31, 2008 compared with $147.4 at March 31, 2008. The decrease was mainly due to the impairment of CAI and Enermarket goodwill and intangibles and the ABCP fair value adjustment, offset by an increase in equipment and leasehold improvements.

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. On December 31, 2008, there was bank indebtedness of $39.0 million compared to $15.0 million on March 31, 2008.

Accounts payable were $1.2 billion compared to $1.7 billion at March 31, 2008, a decrease of $0.5 billion mainly related to a decrease in payable balances to clients and brokers and investment dealers.

Other liabilities in aggregate were $87.1 million at December 31, 2008 compared with $38.8 million at March 31, 2008. The change was mainly due to an increase in corporate and government debt securities sold short as at December 31, 2008.

Off-balance sheet arrangements

At December 31, 2008, Canaccord had credit facilities with banks in Canada, the UK and the US in the aggregate amount of $491.8 million. These credit facilities, consisting of call loans, letters of credit and daylight overdraft facilities are collateralized by either unpaid securities and/or securities owned by the Company. A subsidiary of the Company has entered into irrevocable standby letters of credit from a financial institution totalling $2.8 million (US$2.3 million) as rent guarantees for its leased premises in Boston, New York and San Francisco. As of December 31, 2008, there were no outstanding balances under these standby letters of credit.

In connection with the Canaccord Relief Program, the Company entered into two letters of credit in April 2008 to facilitate the funding of the relief programs. The Canaccord Relief Program was successfully completed on January 30, 2009 without drawing the two letters of credit and, as a result, they have been subsequently cancelled.

Liquidity and capital resources

Canaccord has a capital structure comprising share capital, retained earnings and accumulated other comprehensive losses. On December 31, 2008, cash and cash equivalents net of call loans were $645.4 million, an increase of $224.8 million from $420.6 million as of March 31, 2008. During the quarter ended December 31, 2008, financing activities provided cash in the amount of $1.9 million, which was primarily due to a decrease in unvested common share purchase loans. Investing activities used cash in the amount of $5.3 million for the purchase of equipment and leasehold improvements. Operating activities generated cash in the amount of $130.9 million for the quarter, which was due to net change in non-cash working capital items, net loss and items not affecting cash.

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

Canaccord is committed to minimum lease payments for premises and equipment that extend beyond the next five years. The following table summarizes the approximate amount of Canaccord's consolidated long-term contractual obligations as of December 31, 2008.

	Contractual obligation payments due by period				
(C$ thousands)	**Total**	Fiscal 2010	Fiscal 2011–fiscal 2012	Fiscal 2013–fiscal 2014	Thereafter
Premises and equipment operating leases	**$ 160,457**	$ 26,928	$ 42,387	$ 34,246	$ 56,896

Outstanding share data

	Outstanding shares as of December 31	
	2008	2007
Issued shares excluding unvested shares (1)	**49,108,237**	44,191,145
Issued shares outstanding (2)	**54,636,139**	47,835,051
Diluted shares (3)	**56,218,193**	49,095,816
Average shares outstanding – basic	**48,656,116**	44,670,881
Average shares outstanding – diluted (4)	**54,329,767**	48,420,575

(1) Excludes 2,810,989 unvested shares that are outstanding relating to share purchase loans for recruitment and retention programs and 2,716,913 unvested shares purchased by the employee benefit trust for the LTIP.
(2) Includes 2,810,989 unvested shares that are outstanding relating to share purchase loans for recruitment and retention programs and 2,716,913 unvested shares purchased by the employee benefit trust for the LTIP.
(3) Includes dilutive earned shares under our stock-based compensation plans.
(4) This is the diluted share number used to calculate diluted EPS.

At December 31, 2008, Canaccord had 54,636,139 common shares issued and outstanding, an increase of 6,801,088 common shares from December 31, 2007 due to the net effect of shares issued relating to the equity financing in May 2008, shares issued in connection with stock-based compensation plans and shares cancelled.

On May 2, 2008, the Company closed a fully underwritten financing of 5,855,000 common shares at a price of $10.25 per share for total gross proceeds of $60.0 million. On May 22, 2008, the underwriters exercised an over-allotment option in connection with the financing to purchase an additional 878,250 common shares at a price of $10.25 per share for gross proceeds of $9.0 million. The net proceeds of the offering are being used for business development and general corporate purposes.

Stock-based compensation plans

Adams Harkness

On January 3, 2006, Canaccord completed the acquisition of Adams Harkness (renamed Canaccord Adams Inc.) which was a privately held Boston, Massachusetts-based institutional investment bank, and a retention plan was established. This retention plan provided for the issuance of up to 1,118,952 common shares after a three-year vesting period, which ended on December 31, 2008. As of December 31, 2008, 616,205 shares vested and this number was based on revenue earned by Canaccord Adams Inc. during the vesting period. As revenue levels were achieved during the vesting period, the associated proportion of the retention payment was recorded as a development cost and the applicable number of retention shares was included in weighted average diluted common shares outstanding.

On December 15, 2008, the Company issued 53,384 common shares to former employees of Adams Harkness as required by the retention plan upon vesting. The common shares were issued at $10.25 per share for an aggregate value of $547,186.

The Company issued 616,205 common shares in February 2009 to employees who received awards under the plan and the plan terminated on December 31, 2008.

Stock options

The Company granted stock options to purchase common shares of the Company to independent directors. The independent directors have been granted the option to purchase up to an aggregate of 275,000 common shares of the Company. The stock options vest over a four-year period and expire seven years after the grant date. The weighted average exercise price of the stock options is $15.54.

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 that will be used by a trustee to purchase common shares of the Company on the open market which 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 shares issued as part of the LTIP will generally be offset by purchases under the Company's NCIB.

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, 2008, forward contracts outstanding to sell US dollars had a notional amount of US$0.6 million, down from US$7.0 million a year ago. Forward contracts outstanding to buy US dollars had a notional amount of US$2.3 million, down from US$11.0 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 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 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 revenue or loss recorded for a particular security position in any given period. With Canaccord's security holdings consisting primarily of publicly traded securities, our procedures for obtaining market prices from independent sources, the validation of estimates through actual settlement of transactions and the consistent application of our approach from period to period, we believe that the estimates of 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. As there is no available market price, 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. 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.

Provisions

Canaccord records provisions related to pending or outstanding legal matters and doubtful accounts associated with clients' 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. Clients' receivable balances are generally collateralized by securities and, therefore, any impairment is generally measured after considering the market value of the collateral.

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

Tax

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

Goodwill and other intangible assets

As a result of the acquisitions of Adams Harkness Financial Group, Inc. and Enermarket Solutions Ltd., Canaccord acquired goodwill and other intangible assets. Goodwill is the cost of the acquired companies in excess of the fair value of their net assets, including other intangible assets, at the acquisition date. The identification and valuation of other intangible assets required management to use estimates and make assumptions. Goodwill is assessed for impairment at least annually or whenever a potential impairment may arise as a result of an event or change in circumstances to ensure that the fair value of the reporting unit to which goodwill has been allocated is greater than or at least equal to its carrying value. Fair value will be determined using valuation models that take into account such factors as projected earnings, earnings multiples, discount rates, other

available external information and market comparables. The determination of fair value requires management to apply judgment in selecting the valuation models and assumptions and estimates to be used in such models and value determinations. These judgments affect the determination of fair value and any resulting impairment charges. Other intangible assets are amortized over their estimated useful lives and tested for impairment periodically or whenever a potential impairment may arise as a result of an event or change in circumstances. Management must exercise judgment and make use of estimates and assumptions in determining the estimated useful lives of other intangible assets and in periodic determinations of value.

The purchase of Adams Harkness (renamed Canaccord Adams Inc.) resulted in the recognition of $27.5 million of goodwill and intangibles which represented the cost of the acquisition in excess of the fair value of the net tangible assets at the time of purchase. Canaccord Adams Inc. primarily provides capital markets services to institutional and corporate clients in the US. This reporting unit has experienced a decline in business activity and revenue with the continued deterioration in the financial markets during Q3/09. Due to the adverse changes in the business environment, the Company performed a valuation to assess the fair value of this reporting unit compared to the carrying value. The results of this valuation led to the recognition of a charge for the impairment of goodwill and other intangible assets related to our US capital markets business of $27.5 million. The impairment charge was determined based on a valuation of Canaccord Adams Inc. using an expected discounted cash flow analysis and certain market value indicators. The determination of fair value requires management to apply judgment in selecting the valuation models and assumptions and estimates to be used in such models and value determinations. These judgments affect the determination of fair value and any resulting impairment charges.

The Company also recorded a charge of $4.0 million to recognize an impairment of the goodwill and intangible related to Enermarket. An impairment test was performed and the results concluded that the fair value was significantly lower than the carrying amount due to the weak market conditions. Enermarket's primary business is to provide advisory services to companies in the oil and gas industry, and its earnings prospects were negatively impacted by the steep decline in oil prices and volatile financial markets.

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, net of estimated forfeitures, 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

Goodwill and intangible assets

The CICA has 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 will adopt Section 3064 effective April 1, 2009. The Company is currently evaluating the impact of adopting this section.

International Financial Reporting Standards

The Canadian Accounting Standards Board has now confirmed that the use of International Financial Reporting Standards ("IFRS") will be required commencing in 2011 for publicly accountable, profit-oriented enterprises. IFRS will replace Canadian GAAP currently followed by the Company. 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 to IFRS for the comparative periods presented. The Company is currently evaluating the impact of the transition to IFRS including its effect on accounting policies, disclosures, financial systems, and internal controls.

Changes in accounting policies

On April 1, 2008, the Company adopted the provisions of CICA Handbook Section 3862, *"Financial Instruments – Disclosures"*, CICA Handbook Section 3863, *"Financial Instruments – Presentation"*, CICA Handbook Section 1535, *"Capital Disclosures"*, and CICA Handbook Section 1400, *"General Standards on Financial Statement Presentation"*.

Capital Disclosures

This new standard requires the Company to disclose qualitative and quantitative information about the Company's capital and how it is managed. Additional note disclosure has been included in Note 14 of the December 31, 2008 unaudited interim consolidated financial statements.

Financial Instruments – Disclosures and Presentations

These two new standards require the Company to provide additional disclosure regarding the nature and extent of risk associated with financial instruments and how these risks are managed. Additional information has been provided in Note 4 of the December 31, 2008 unaudited interim consolidated financial statements, which includes a quantitative analysis on the risk of holding financial instruments including credit risk, liquidity risk and market risk.

General Standards on Financial Statement Presentation

CICA Handbook Section 1400, *"General Standards on Financial Statement Presentation"*, prescribes additional requirements to assess and disclose a company's ability to continue as a going concern. This new standard was adopted by the Company beginning April 1, 2008, and there was no impact on the December 31, 2008 unaudited interim consolidated financial statements.

Asset-backed commercial paper

At December 31, 2008, the Company held ABCP with a par value of $42.7 million and an estimated fair value of $23.2 million. The ABCP did not settle as it matured as a result of liquidity issues in the ABCP market. There has been no active trading of the ABCP since mid-August 2007.

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"). At the meeting of ABCP noteholders on April 25, 2008, noteholders approved the Plan by the required majorities. On June 5, 2008, the Court issued a sanction order and reasons for the decision approving the Plan as amended. On August 18, 2008, that decision was upheld by the Ontario Court of Appeal and, on September 19, 2008, the Supreme Court of Canada denied leave to appeal. On December 24, 2008, the Committee announced that an agreement had been reached with all key stakeholders, including the governments of Canada, Quebec, Ontario and Alberta, to provide additional margin facilities to support the Plan and certain further enhancements to the Plan.

On January 12, 2009, the Ontario Superior Court issued the final implementation order in the ABCP restructuring process. The restructuring closed on January 21, 2009. The exchange of restructured ABCP notes was also completed on January 21, 2009. A first installment of interest (to August 31, 2008) was paid on the same day. The balance of the interest is to be paid in subsequent installments, and the amounts and timing are still to be determined. Restructuring fees already incurred and a reserve for additional restructuring fees were deducted from this first interest payment.

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, has resulted in the release of all existing and future ABCP-related claims against the Company.

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.

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 period end. The assumptions used in determining the estimated fair value reflect the details included in the Information Statement issued by the Committee. There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. The Company recorded a fair value adjustment of $12.8 million during the fiscal year ended March 31, 2008. The valuation model was updated at December 31, 2008 with revised assumptions based on current market conditions and, as a result, an additional $6.7 million of fair value adjustment was recorded.

Disclosure controls and procedures and internal control over financial reporting

Disclosure controls and procedures

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

Changes in internal control over financial reporting

There were no changes in internal control over financial reporting that occurred during the quarter ended December 31, 2008 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 11, 2009, the Board of Directors considered the dividend policy in the context of the market environment and its business activity and approved a suspension of Canaccord's quarterly dividend for this quarter. This measure was taken to enable Canaccord to preserve its working capital and book value, as well as to position the Company to take advantage of growth opportunities that may become available.

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. Profitability of the Company is dependent on general capital markets activity, which dropped significantly during Q3/09 resulting in a net loss for the quarter.

The following table provides selected quarterly financial information for the nine most recently completed financial quarters ended December 31, 2008. This information is unaudited but reflects all adjustments of a recurring nature which are, in the opinion of management, necessary to present a fair statement of the results of operations for the periods presented. Quarter-to-quarter comparisons of financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

(C$ thousands, except EPS in $)	Fiscal 2009			Fiscal 2008				Fiscal 2007	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue									
Canaccord Adams	$ 49,250	$ 58,336	$ 104,793	$ 77,965	$ 109,583	$ 89,071	$ 155,023	$ 130,151	$ 101,427
Private Client Services	33,532	43,844	57,853	54,463	61,166	57,415	76,083	75,876	68,831
Corporate and Other	4,406	8,649	10,062	11,018	12,605	12,383	14,764	10,416	8,055
Total revenue	$ 87,188	$ 110,829	$ 172,708	$ 143,446	$ 183,354	$ 158,869	$ 245,870	$ 216,443	$ 178,313
Net income (loss)	(62,378)	(5,398)	16,459	(35,154)	15,048	12,411	39,029	26,016	23,692
EPS – basic	$ (1.27)	$ (0.11)	$ 0.35	$ (0.80)	$ 0.34	$ 0.28	$ 0.86	$ 0.57	$ 0.51
EPS – diluted	$ (1.27)	$ (0.11)	$ 0.31	$ (0.80)	$ 0.31	$ 0.26	$ 0.80	$ 0.54	$ 0.49

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 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. Current market conditions may increase many of these risks, including credit risk. Canaccord is also directly exposed to market price risks, liquidity risk and volatility risk as a result of its principal trading activities in equity securities and to specific interest rate risk as a result of its principal trading activities in fixed income securities. Private Client Services' revenue is dependent on trading volumes

and, as such, is dependent on the level of market activity and investor confidence. Canaccord Adams' revenue is dependent on financing activity by corporate issuers and the willingness of institutional clients to actively trade and participate in capital markets transactions. There may also be a lag between market fluctuations and changes in business conditions and the level of Canaccord's market activity and the impact that these factors have on Canaccord's operating results and financial position. Furthermore, Canaccord may not achieve its growth plans associated with the acquisition and integration of Adams Harkness Financial Group, Inc. 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 14 of the December 31, 2008 unaudited interim consolidated financial statements.

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 2008 Annual Report, which are available on our Web site at canaccord.com/investor and on SEDAR at sedar.com.

interim consolidated balance sheets

(Unaudited)

As at (in thousands of dollars)	***December 31, 2008***	*March 31, 2008*	*December 31, 2007*
ASSETS			
Current			
Cash and cash equivalents	**$ 684,463**	$ 435,649	$ 421,783
Securities owned [note 3]	**72,938**	92,796	164,388
Accounts receivable [notes 5 and 12]	**806,402**	1,422,917	1,260,869
Income taxes recoverable	**29,887**	11,083	2,758
Future income taxes	**13,657**	28,207	10,630
Total current assets	**1,607,347**	1,990,652	1,860,428
Investment [note 6]	**5,000**	5,000	5,000
Investment in asset-backed commercial paper [note 7]	**23,160**	29,860	34,501
Equipment and leasehold improvements	**44,178**	40,686	39,939
Goodwill and other intangible assets [note 8]	**–**	32,520	32,873
	$ 1,679,685	$ 2,098,718	$ 1,972,741
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	**$ 39,040**	$ 15,038	$ –
Securities sold short [note 3]	**62,151**	13,757	96,383
Accounts payable and accrued liabilities [notes 5 and 12]	**1,195,533**	1,687,479	1,461,130
Subordinated debt [note 9]	**25,000**	25,000	25,000
Total current liabilities	**1,321,724**	1,741,274	1,582,513
Commitments and contingencies [note 15]			
Shareholders' equity			
Share capital [note 10]	**218,738**	145,166	141,370
Retained earnings	**157,823**	222,597	263,571
Accumulated other comprehensive losses	**(18,600)**	(10,319)	(14,713)
Total shareholders' equity	**357,961**	357,444	390,228
	$ 1,679,685	$ 2,098,718	$ 1,972,741

See accompanying notes

interim consolidated statements of operations

(Unaudited)

(in thousands of dollars, except per share amounts)	For the three months ended December 31, 2008	For the three months ended December 31, 2007	For the nine months ended December 31, 2008	For the nine months ended December 31, 2007
REVENUE				
Commission	**$ 51,473**	$ 74,959	**$ 184,099**	$ 226,462
Investment banking	**20,198**	84,910	**130,369**	287,266
Principal trading	**3,781**	387	**9,779**	3,275
Interest	**9,108**	16,011	**33,171**	48,594
Other	**2,628**	7,087	**13,307**	22,496
	87,188	183,354	**370,725**	588,093
EXPENSES				
Incentive compensation	**43,299**	90,778	**177,003**	283,600
Salaries and benefits	**12,817**	12,658	**42,455**	39,576
Trading costs	**6,708**	7,054	**19,746**	21,261
Premises and equipment	**6,549**	5,781	**18,291**	16,775
Communication and technology	**6,277**	5,611	**18,979**	17,163
Interest	**2,568**	6,574	**9,881**	19,155
General and administrative	**19,827**	17,390	**58,715**	51,416
Amortization	**2,751**	2,197	**6,865**	6,320
Development costs	**7,738**	6,774	**21,583**	22,113
Asset-backed commercial paper fair value adjustment [note 7]	**6,700**	4,226	**6,700**	8,625
Canaccord relief program [note 16]	**5,347**	–	**5,347**	–
Impairment of goodwill and intangibles [note 8]	**31,524**	–	**31,524**	–
Restructuring costs [note 17]	**7,520**	–	**7,520**	–
	159,625	159,043	**424,609**	486,004
Income (loss) before income taxes	**(72,437)**	24,311	**(53,884)**	102,089
Income tax expense (recovery)				
Current	**(7,769)**	10,395	**(17,910)**	37,775
Future	**(2,290)**	(1,132)	**15,343**	(2,174)
	(10,059)	9,263	**(2,567)**	35,601
Net income (loss) for the period	**$ (62,378)**	$ 15,048	**$ (51,317)**	$ 66,488
Basic earnings (loss) per share [note 10 [iv]]	**$ (1.27)**	$ 0.34	**$ (1.05)**	$ 1.49
Diluted earnings (loss) per share [note 10 [iv]]	**$ (1.27)**	$ 0.31	**$ (1.05)**	$ 1.37

See accompanying notes

interim consolidated statements of changes in shareholders' equity

(Unaudited)

As at and for the nine months ended December 31, 2008 and 2007 and for the year ended March 31, 2008 (in thousands of dollars)	***December 31, 2008***	*March 31, 2008*	*December 31, 2007*
Common shares, opening	**$ 111,142**	$ 147,900	$ 147,900
Shares issued	**69,979**	495	495
Shares cancelled	**(442)**	(127)	(127)
Acquisition of common shares for long term incentive plan [note 11]	**(13,839)**	(27,247)	(23,335)
Release of vested common shares from employee benefit trust [note 11]	**5,994**	–	–
Unvested share purchase loans	**3,162**	(9,879)	(9,285)
Common shares, closing	**175,996**	111,142	115,648
Contributed surplus, opening	**34,024**	8,396	8,396
Excess on redemption of common shares	**(340)**	(369)	(369)
Shortfall on distribution of acquired common shares	**–**	(29)	(29)
Stock-based compensation [note 11]	**9,509**	20,776	14,841
Unvested share purchase loans	**(451)**	5,250	2,883
Contributed surplus, closing	**42,742**	34,024	25,722
Share capital	**218,738**	145,166	141,370
Retained earnings, opening	**222,597**	213,659	213,659
Net income (loss) for the period	**(51,317)**	31,334	66,488
Cash dividends	**(13,457)**	(22,396)	(16,576)
Retained earnings, closing	**157,823**	222,597	263,571
Accumulated other comprehensive income (losses), opening	**(10,319)**	2,236	2,236
Other comprehensive losses	**(8,281)**	(12,555)	(16,949)
Accumulated other comprehensive losses, closing	**(18,600)**	(10,319)	(14,713)
Shareholders' equity	**$ 357,961**	$ 357,444	$ 390,228

interim consolidated statements of comprehensive income (loss)

(Unaudited)

	For the three months ended		*For the nine months ended*	
(in thousands of dollars)	***December 31, 2008***	*December 31, 2007*	***December 31, 2008***	*December 31, 2007*
Net income (loss) for the period	**$ (62,378)**	$ 15,048	**$ (51,317)**	$ 66,488
Other comprehensive loss, net of taxes				
Net change in unrealized losses on translation of self-sustaining foreign operations	**(1,519)**	(3,149)	**(8,281)**	(16,949)
Comprehensive income (loss) for the period	**$ (63,897)**	$ 11,899	**$ (59,598)**	$ 49,539

See accompanying notes

interim consolidated statements of cash flows

(Unaudited)

(in thousands of dollars)	*For the three months ended* December 31, 2008	*For the three months ended* December 31, 2007	*For the nine months ended* December 31, 2008	*For the nine months ended* December 31, 2007
OPERATING ACTIVITIES				
Net income (loss) for the period	$ (62,378)	$ 15,048	$ (51,317)	$ 66,488
Items not affecting cash				
Amortization	2,751	2,197	6,865	6,320
Stock-based compensation expense	5,542	5,813	16,122	13,834
Future income tax (recovery) expense	(2,290)	41	15,343	123
Impairment of goodwill and intangibles	31,524	–	31,524	–
Asset-backed commercial paper fair value adjustment	6,700	4,226	6,700	8,625
Changes in non-cash working capital				
Decrease (increase) in securities owned	(16,974)	28,165	19,251	148,239
Decrease in accounts receivable	425,012	514,899	606,405	350,887
Increase in income taxes receivable	(9,295)	–	(17,614)	–
Increase in securities sold short	46,927	47,602	48,351	55,216
Decrease in accounts payable and accrued liabilities	(296,629)	(508,963)	(490,610)	(640,422)
Decrease in income taxes payable	–	(3,322)	–	(15,710)
Cash provided by (used in) operating activities	130,890	105,706	191,020	(6,400)
FINANCING ACTIVITIES				
Issuance of shares for cash net of issuance costs	–	48	66,462	495
Purchase and cancellation of shares	–	1,214	(782)	(6,402)
Decrease (increase) in unvested common share purchase loans	1,936	(497)	2,711	(497)
Acquisition of common shares for long term incentive plan	–	(5,040)	(13,839)	(23,335)
Dividends paid	–	(5,856)	(13,457)	(16,576)
Cash provided by (used in) financing activities	1,936	(10,131)	41,095	(46,315)
INVESTING ACTIVITIES				
Purchase of equipment and leasehold improvements	(5,267)	(2,116)	(8,024)	(9,506)
Acquisition of investment	–	–	–	(5,000)
Cash used in investing activities	(5,267)	(2,116)	(8,024)	(14,506)
Effect of foreign exchange on cash balances	3,396	(3,226)	721	(17,636)
Increase (decrease) in cash position	130,955	90,233	224,812	(84,857)
Cash position, beginning of period	514,468	331,550	420,611	506,640
Cash position, end of period	$ 645,423	$ 421,783	$ 645,423	$ 421,783
Cash position is comprised of:				
Cash and cash equivalents	684,463	421,783	684,463	421,783
Bank indebtedness	(39,040)	–	(39,040)	–
	$ 645,423	$ 421,783	$ 645,423	$ 421,783
Supplemental cash flow information				
Interest paid	$ 2,508	$ 6,579	$ 9,775	$ 19,130
Income taxes paid	3,420	13,458	6,256	54,334

See accompanying notes

notes to interim consolidated financial statements

(Unaudited)

For the three and nine months ended December 31, 2008 (in thousands of dollars, except per share amounts)

Through its principal subsidiaries, Canaccord Capital Inc. (the "Company") is a leading independent, full-service investment dealer in Canada with capital markets operations in the United Kingdom ("UK") and the United States of America ("US"). The Company has operations in each of the two principal segments of the securities industry: capital markets and private client 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 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 capital markets, including the seasonal variance in these markets.

1. Significant accounting policies

Basis of presentation and principles of consolidation

These interim unaudited consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") with respect to interim financial statements, applied on a consistent basis. These interim unaudited consolidated financial statements follow the same accounting principles and methods of application as those disclosed in Note 1 to the Company's audited consolidated financial statements as at and for the year ended March 31, 2008 ("Audited Annual Consolidated Financial Statements"). Accordingly, they do not include all the information and footnotes required for compliance with Canadian GAAP for annual financial statements. These interim unaudited consolidated financial statements and notes thereon should be read in conjunction with the Audited Annual Consolidated Financial Statements.

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

Recent accounting pronouncements

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 will adopt Section 3064 effective April 1, 2009. The Company is currently assessing the impact of the new standard on the consolidated financial statements.

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board has now 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 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 evaluating the impact of the transition to IFRS including its effect on accounting policies, disclosures, financial systems, and internal controls.

2. Change in accounting policies

On April 1, 2008, the Company adopted the provisions of CICA Handbook Section 1535, *"Capital Disclosures"*, CICA Handbook Section 3862, *"Financial Instruments – Disclosures"*, CICA Handbook Section 3863, *"Financial Instruments – Presentation"*, and CICA Handbook Section 1400, *"General Standards on Financial Statement Presentation"*.

Capital Disclosures

The Company adopted the provisions of CICA Handbook Section 1535, *"Capital Disclosures"*, which establishes standards for disclosing qualitative and quantitative information about an entity's capital and how it is managed. This information is included in Note 14.

Financial Instruments – Disclosures and Presentation

The Company adopted two new accounting standards related to the disclosure and presentation of financial instruments: CICA Handbook Section 3862, *"Financial Instruments – Disclosures"*, and CICA Handbook Section 3863, *"Financial Instruments – Presentation"*. These new standards increase the emphasis on disclosures about the nature and extent of risks associated with financial instruments and how these risks are managed. Refer to Note 4 for further information.

General Standards on Financial Statement Presentation

The Company adopted CICA Handbook Section 1400, *"General Standards on Financial Statement Presentation"*, which prescribes additional requirements to assess and disclose a company's ability to continue as a going concern. There was no impact on the interim unaudited consolidated financial statements as a result of adoption.

3. Securities owned and securities sold short

	December 31, 2008		March 31, 2008		December 31, 2007	
	Securities owned	Securities sold short	Securities owned	Securities sold short	Securities owned	Securities sold short
Corporate and government debt	**$ 48,385**	**$ 58,137**	$ 34,433	$ 5,106	$ 98,274	$ 84,484
Equities and convertible debentures	**24,553**	**4,014**	58,363	8,651	66,114	11,899
	$ 72,938	**$ 62,151**	$ 92,796	$ 13,757	$ 164,388	$ 96,383

As at December 31, 2008, corporate and government debt maturities range from 2009 to 2049 [March 31, 2008 – 2008 to 2053 and December 31, 2007 – 2008 to 2054] and bear interest ranging from 2.70% to 11.50% [March 31, 2008 – 2.85% to 11.60% and December 31, 2007 – 2.85% to 11.60%].

4. Financial instruments

The Company classifies financial instruments as one of the following categories according to CICA Handbook Section 3855, *"Financial Instruments – Recognition and Measurement"*: held for trading, held to maturity, loans and receivables, available for sale assets and other financial liabilities.

The financial assets and liabilities categorized as held for trading are measured at fair value, with unrealized gains and losses recognized in net income. The fair value is determined by utilizing valuation techniques if quoted market prices do not exist. Section 3855 permits an entity to designate any financial instrument as held for trading on initial recognition or adoption of this standard even if that instrument would not otherwise meet the definition of held for trading as specified in Section 3855 provided that the fair value of the financial instrument can be reliably determined. The Company's financial instruments classified as held for trading include cash, commercial paper and bankers' acceptances, marketable securities owned and sold short, forward contracts and broker warrants.

Available for sale financial assets are measured at fair value, with unrealized gains and losses recognized in other comprehensive income. The Company's investment [Note 6] has been classified as available for sale. The investment is carried at cost as there is no available quoted market price in an active market.

The financial assets and liabilities classified as loans and receivables, held to maturity and other financial liabilities are measured at amortized cost. The Company classifies accounts receivable as loans and receivables, and accounts payable and accrued liabilities, bank indebtedness and subordinated debt as other financial liabilities. The carrying values of the loans and receivables and other financial liabilities approximate their fair values.

The Company's financial instruments are recognized on a trade date basis. Transaction costs relating to the Company's financial instruments are expensed as incurred.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Credit risk arises from cash and cash equivalents, net receivables from clients and brokers and investment dealers and other accounts receivable. The maximum exposure of the Company to credit risk before taking into account any collateral held or other credit enhancements is the carrying amount of the financial instruments as disclosed in the interim unaudited consolidated financial statements as at December 31, 2008.

The primary source of credit risk to the Company is in connection with trading activity by private clients and private client margin accounts. To minimize its exposure, the Company applies certain credit standards, applies limits to transactions and requires settlement of securities transactions on a cash basis or delivery against payment. Margin transactions are collateralized by securities in the clients' accounts in accordance with limits established by the applicable regulatory authorities and are subject to the Company's credit review and daily monitoring procedures. Management monitors the collectibility of receivables and estimates an allowance for doubtful accounts. It is the Company's policy to provide an allowance against all unsecured balances. As at December 31, 2008, the allowance for doubtful accounts was $12.3 million [March 31, 2008 – $5.8 million; December 31, 2007 – $5.8 million].

The Company is also exposed to the risk that counterparties to transactions will not fulfill their obligations. Counterparties primarily include investment dealers, clearing agencies, banks and other financial institutions. The Company does not rely entirely on ratings assigned by credit rating agencies in evaluating counterparties' risks. The Company mitigates credit risk by performing its own due diligence assessments on the counterparties, obtaining and analyzing information regarding the structure of the financial instruments, and keeping current with new innovations in the market. The Company also manages this risk by imposing and monitoring individual and aggregate position limits for each counterparty, conducting regular credit reviews to assess creditworthiness, reviewing security and loan concentrations, holding and marking to market collateral on certain transactions and conducting business through clearing organizations with performance guarantees.

As at December 31, 2008 and 2007 and March 31, 2008, the Company's most significant counterparty concentrations were with financial institutions and institutional clients. Management believes that they are in the normal course of business and does not anticipate loss for non-performance.

The Company holds debt instruments that are subject to credit risk if the counterparties do not fulfill their obligations. The Company manages the risk with regards to debt instruments, including short-term debt instruments included in cash and cash equivalents, by monitoring counterparties' credit ratings.

Liquidity risk
Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they become due. The Company's management is responsible for reviewing liquidity resources to ensure funds are readily available to meet its financial obligations as they become due, as well as ensuring adequate funds exist to support business strategies and operational growth. The Company's business requires capital for operating and regulatory purposes. The current assets reflected on the balance sheet are highly liquid. The majority of the positions held as securities owned are readily marketable and all are recorded at their market value. 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. Additional information regarding the Company's capital structure and capital management objectives is discussed in Note 14.

The following table presents the contractual terms to maturity of the financial liabilities owed by the Company as at December 31, 2008:

Financial liability	*Carrying amount*	*Contractual term to maturity*
Bank indebtedness	$ 39,040	Due on demand
Accounts payable and accrued liabilities	1,195,533	Due within one year
Subordinated debt	25,000	Due on demand *

* *Subject to Investment Industry Regulatory Organization of Canada's approval.*

Market risk
Market risk is the risk that the fair value of financial instruments will fluctuate because of changes in market prices. The Company separates market risk into three categories: fair value risk, interest rate risk, and foreign exchange risk.

Fair value risk
The Company is exposed to fair value risk as a result of its principal trading activities in equity securities and fixed income securities. Securities held for trading are valued based on quoted market prices, and, as such, changes in fair value affect earnings as they occur. Fair value risk also arises from the possibility that changes in market prices will affect the value of the securities the Company holds as collateral for private client margin accounts. The Company mitigates its fair value risk exposure through controls to limit concentration levels and capital usage within its inventory trading accounts, as well as monitoring procedures of the margin accounts.

The Company has recorded fair value adjustments of its investment in asset-backed commercial paper ("ABCP") as a result of the uncertainties and lack of liquidity in the ABCP market. As there is no available market price, 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. This valuation was updated with the best available data at December 31, 2008 and the carrying amount of the ABCP was adjusted to reflect any changes in the estimate. The fair value of ABCP would decrease by a further $1.3 million if the discount rate used was to increase by 100 basis points. Detailed information is disclosed in Note 7.

The following table summarizes the effect on net income as a result of a fair value change in financial instruments. This analysis assumes all other variables remain constant.

Financial instrument	*Carrying value*	*Effect of a 10% increase in fair value on net income*	*Effect of a 10% decrease in fair value on net income*
Securities owned, net of securities sold short	$ 10,787	$ 372	$ (372)
Investment in ABCP	23,160	1,598	(1,598)
Investment [1]	5,000	n/a	(345)

(1) Investment [Note 6] is classified as available for sale and carried at cost as the investment does not have a quoted market price, and, therefore, there is no impact on other comprehensive income ("OCI") resulting from any temporary fluctuation in the market price of the investment. An other than temporary decline in the value of the investment is recognized in net income, and the table indicates the impact on net income as a result of a 10% impairment of the investment.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or future cash flows of financial instruments held by the Company. The Company incurs interest rate risk on its own cash and cash equivalent balances, net clients' payable balances, clients' cash balances, net brokers and investment dealers' balances, as well as its subordinated debt. The Company minimizes and monitors its exposure to interest rate risk through quantitative analysis of its net holdings positions of fixed income securities, clients' cash balances, securities lending and borrowing activities, and short-term borrowings. The Company does not hedge its exposure to interest rate risk as it is minimal.

All cash and cash equivalents mature within three months. Net clients' receivable (payable) balances charge (incur) interest based on floating interest rates. Subordinated debt bears interest at a rate of prime plus 2%, payable monthly.

The following table provides the effect on net income if interest rates were to increase or decrease by 100 basis points for the three months ended December 31, 2008 applied to balances as of this date. Fluctuations in interest rates do not have an effect on OCI. This sensitivity analysis assumes all other variables are constant.

	Carrying value	*Net income effect of a 100 bps increase in interest rates*	*Net income effect of a 100 bps decrease in interest rates*
Cash and cash equivalents, net of bank indebtedness	$ 645,423	$ 1,113	$ (1,113)
Clients' payable, net	556,053	(959)	959
RRSP cash balances held in trust	345,368	596	(596)
Brokers and investment dealers' payable, net	57,796	(247)	247
Subordinated debt	25,000	(43)	43

Foreign exchange risk

Foreign exchange risk arises from the possibility that changes in the price of foreign currencies will result in losses. The Company's primary foreign exchange risk results from its investment in its US and UK subsidiaries. These subsidiaries are considered self-sustaining and, therefore, are translated using the current rate method. Any fluctuation in the Canadian dollar against the US dollar and the pound sterling will result in a change in the unrealized gains (losses) on translation of self-sustaining foreign operations recognized in accumulated other comprehensive income (losses).

The Canadian subsidiaries also hold financial instruments in foreign currencies and, therefore, any fluctuations in foreign exchange rates will impact the realized foreign exchange gains or losses.

The following table summarizes the effects on net income and OCI as a result of a 10% change in the value of the foreign currencies where there is significant exposure. The analysis assumes all other variables remain constant.

Currency	*Effect of a 10% increase in foreign exchange rate on net income*	*Effect of a 10% decrease in foreign exchange rate on net income*	*Effect of a 10% increase in foreign exchange rate on OCI*	*Effect of a 10% decrease in foreign exchange rate on OCI*
US dollar	$ (5,936)	$ 5,936	$ (19)	$ 19
Pound sterling	(256)	256	12,613	(12,613)

The Company uses derivative financial instruments primarily to manage foreign exchange risk on pending security settlements in foreign currencies. The fair value of these contracts is nominal due to their short term to maturity. Realized and unrealized gains and losses related to these contracts are recognized in net income during the reporting period.

Forward contracts outstanding at December 31, 2008:

	Notional amounts (millions of USD)	Average price (CAD/USD)	Maturity	Fair value (millions of USD)
To sell US dollars	**$ $0.6**	**$ 1.28**	**January 2, 2009**	**$ 0.1**
To buy US dollars	**2.3**	**1.22**	**January 2, 2009**	**(0.1)**

Forward contracts outstanding at March 31, 2008:

	Notional amounts (millions of USD)	Average price (CAD/USD)	Maturity	Fair value (millions of USD)
To sell US dollars	$ 6.00	$ 1.03	April 1, 2008	$ 0.1
To buy US dollars	3.50	1.03	April 2, 2008	(0.1)

Forward contracts outstanding at December 31, 2007:

	Notional amounts (millions of USD)	Average price (CAD/USD)	Maturity	Fair value (millions of USD)
To sell US dollars	$ 7.00	$ 0.99	January 3, 2008	$ 0.1
To buy US dollars	11.00	0.99	January 3, 2008	(0.1)

Securities lending and borrowing

The Company employs securities lending and borrowing primarily to facilitate the securities settlement process. These arrangements are typically short term in nature, with interest being received on the cash delivered and interest being paid on the cash received. These transactions are fully collateralized and are subject to daily margin calls for any deficiency between the market value of the security given and the amount of collateral received. These transactions are collateralized by either cash or securities, including government treasury bills and government bonds, and are reflected within accounts receivable and accounts payable. The Company manages its credit exposure by establishing and monitoring aggregate limits by customer for these transactions. Interest earned on cash collateral is based on a floating rate. At December 31, 2008, the floating rates for equities and bonds were 1.26% and 1.216%, respectively [March 31, 2008 – 1.32% and 2.95%, respectively, and December 31, 2007 – 1.32% and 2.95%, respectively].

	Cash		Securities	
	Loaned or delivered as collateral	Borrowed or received as collateral	Loaned or delivered as collateral	Borrowed or received as collateral
December 31, 2008	**$ 88,894**	**$ 12,812**	**$ 597**	**$ 102,901**
March 31, 2008	188,654	84,257	13,541	279,550
December 31, 2007	182,491	66,982	7,656	254,716

Lines of credit

The Company has credit facilities with banks in Canada, the US and the UK for an aggregate amount of $491.8 million. These credit facilities, consisting of call loans, letters of credit and daylight overdraft facilities, are collateralized by either unpaid securities and/or securities owned by the Company. At December 31, 2008, the Company had bank indebtedness of $39.0 million outstanding.

A subsidiary of the Company has also entered into secured irrevocable standby letters of credit from a financial institution totalling $2.8 million (US$2.3 million) as rent guarantees for its leased premises in Boston, New York and San Francisco. As of December 31, 2008, there were no outstanding balances under these standby letters of credit.

In connection with the Canaccord Relief Program, the Company entered into two letters of credit in April 2008 to facilitate the funding of the relief programs. The Canaccord Relief Program was successfully completed on January 30, 2009 (Note 18) without drawing on the two letters of credit and, as a result, they have been subsequently cancelled.

5. Accounts receivable and accounts payable and accrued liabilities

Accounts receivable

	December 31, 2008	March 31, 2008	December 31, 2007
Brokers and investment dealers	$ **205,333**	$ 425,038	$ 383,120
Clients	**214,246**	555,935	499,739
RRSP cash balances held in trust	**345,368**	400,603	331,902
Other	**41,455**	41,341	46,108
	$ **806,402**	$ 1,422,917	$ 1,260,869

Accounts payable and accrued liabilities

	December 31, 2008	March 31, 2008	December 31, 2007
Brokers and investment dealers	$ **263,129**	$ 407,193	$ 391,091
Clients	**770,299**	1,037,860	902,226
Other	**162,105**	242,426	167,813
	$ **1,195,533**	$ 1,687,479	$ 1,461,130

Accounts payable to clients include $345.4 million [March 31, 2008 – $400.6 million and December 31, 2007 – $331.9 million] payable to clients for RRSP cash balances held in trust.

Client security purchases are entered into on either a cash or a margin basis. In the case of a margin account, the Company extends a loan to a client for the purchase of securities, using securities purchased and/or other securities in the client's account as collateral. Amounts loaned to any client are limited by margin regulations of the Investment 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 client accounts. Interest on margin loans and amounts due to clients is based on a floating rate [December 31, 2008: 6.50%–7.00% and 0.25%–0.50%, respectively; March 31, 2008: 7.25%–8.00% and 0.25%–2.25%, respectively; and December 31, 2007: 8.00%–9.25% and 1.13%–3.00%, respectively].

6. Investment

	December 31, 2008	March 31, 2008	December 31, 2007
Available for sale	$ **5,000**	$ 5,000	$ 5,000

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

7. Investment in asset-backed commercial paper

	December 31, 2008	March 31, 2008	December 31, 2007
Investment in asset-backed commercial paper	$ **23,160**	$ 29,860	$ 34,501

At December 31, 2008, the Company held ABCP with a par value of $42.7 million and an estimated fair value of $23.2 million. The ABCP did not settle as it matured as a result of liquidity issues in the ABCP market. There has been no active trading of the ABCP since mid-August 2007.

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"). At the meeting of ABCP noteholders on April 25, 2008, noteholders approved the Plan by the required majorities. On June 5, 2008, the Court issued a sanction order and reasons for the decision approving the Plan as amended. On August 18, 2008, that decision was upheld by the Ontario Court of Appeal and, on September 19, 2008, the Supreme Court of Canada denied leave to appeal. On December 24, 2008, the Committee announced that an agreement had been reached with all key stakeholders, including the governments of Canada, Quebec, Ontario and Alberta, to provide additional margin facilities to support the Plan and finalized certain enhancements to the Plan.

On January 12, 2009, the Ontario Superior Court issued the final implementation order in the ABCP restructuring process. The restructuring closed on January 21, 2009. The exchange of restructured ABCP notes was completed on January 21, 2009. A first installment of interest (to August 31, 2008) was also paid on the same day. The balance of the interest is to be paid in subsequent installments, and the amounts and timing are still to be determined. Restructuring fees already incurred and a reserve for additional restructuring fees were deducted from this first interest payment.

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.

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.

Based on the information contained in the Information Statement and other public information available at December 31, 2008, the Company estimated that it would receive upon completion of the restructuring in January 2009:

- $38.9 million of senior Master Asset Vehicle MAV II Class A-1 and A-2 Notes and subordinated Class B and Class C Notes
  - $18.6 million of Class A-1 Notes
  - $16.2 million of Class A-2 Notes
  - $2.9 million of Class B Notes
  - $1.2 million of Class C Notes

  Class A-1, Class A-2 and Class B Notes will bear interest at the Bankers' Acceptance ("BA") rate less 0.50% and Class C Notes will bear interest at the BA rate plus 20%. These notes have legal maturity dates in 2056 but the expected repayment date of the Class A-1 and A-2 notes is January 22, 2017. The senior notes (Class A-1 and Class A-2) have been rated "A" by DBRS Limited while the subordinated notes (Class B and C) are unrated.
- $1.3 million of MAV III Traditional Assets ("TA") Tracking Notes

  The TA Tracking Notes will bear interest at a rate based on the net rate of return generated by the underlying tracking assets. The maturities of the notes are based on the maturities of the underlying assets. Some of the TA Tracking Notes are rated as follows:
  - Class 5A: AAA
  - Class 7A: AAA
  - Class 10A: AA (high)
  - Class 12A: AA (high)
  - Class 15A: AAA
  - Class 16A: A (low)
- $2.5 million of MAV II Ineligible Asset ("IA") Notes

  The IA Tracking Notes will bear interest at a rate based on the net rate of return generated by the underlying tracking assets. The maturities of the notes are based on the maturities of the underlying assets. These notes will not be rated.

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 December 31, 2008. The assumptions used in determining the estimated fair value reflect the details included in the Information Statement issued by the Committee.

The assumptions used in the valuation model at December 31, 2008 include:

Weighted average interest rate	1.53%
Weighted average discount rate	6.89%
Maturity of notes	8 years to 19 years
Credit losses	10% to 80%

If these assumptions were to change, the fair value of ABCP could change significantly. The Company recorded a fair value adjustment of $12.8 million during the year ended March 31, 2008. The valuation model was updated at December 31, 2008 with revised assumptions based on current market conditions and, as a result, an additional $6.7 million fair value adjustment was recorded for the period ended December 31, 2008.

8. Goodwill and other intangible assets

	December 31, 2008	March 31, 2008	December 31, 2007
Goodwill			
Balance at beginning of period	$ 30,070	$ 30,070	$ 30,070
Impairment	(30,070)	–	–
Balance at end of period	–	30,070	30,070
Other intangible assets			
Balance at beginning of period	1,745	3,863	3,863
Amortization	(291)	(1,413)	(1,060)
Impairment	(1,454)	–	–
Balance at end of period	–	2,450	2,803
	$ –	$ 32,520	$ 32,873

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

In accordance with CICA Handbook Section 3062 *"Goodwill and other intangible assets"*, the Company is required to annually evaluate goodwill to determine whether it is impaired. Goodwill should also be tested for impairment whenever a potential impairment may arise as a result of an event or change in circumstances to ensure that the fair value of the reporting unit to which goodwill has been allocated is greater than or at least equal to its carrying value. Other intangible assets are amortized over their estimated useful lives and tested for impairment periodically or whenever a potential impairment may arise as a result of an event or change in circumstances.

The purchase of Adams Harkness Financial Group, Inc. (renamed Canaccord Adams Inc.) resulted in the recognition of $27.5 million of goodwill and intangibles which represented the cost of the acquisition in excess of the fair value of the net tangible assets at the time of purchase. Canaccord Adams Inc. primarily provides capital markets services to institutional and corporate clients in the US. With the rapid deterioration in the market conditions and uncertainties in the financial markets, this reporting unit experienced a decline in business activity and revenue. Due to these adverse changes in the business environment, the Company performed a valuation to assess the fair value of this reporting unit compared to the carrying value. The results of this valuation led to the recognition of a charge for the impairment of goodwill and other intangible assets related to Canaccord Adams Inc. of $27.5 million. The impairment charge was determined based on a valuation of Canaccord Adams Inc. using an expected discounted cash flow analysis and certain market value indicators. The determination of fair value requires management to apply judgment in selecting the valuation models and assumptions and estimates to be used in such models and value determinations. These judgments affect the determination of fair value and any resulting impairment charges.

The Company also recorded a charge of $4.0 million to recognize the impairment of the goodwill and intangibles related to Canaccord Enermarket Ltd. ("Enermarket"). Enermarket's primary business is to provide advisory services to companies in the oil and gas industry, and its earnings prospects were negatively impacted by the volatile financial markets conditions, including the recent steep decline in oil prices.

9. Subordinated debt

	December 31, 2008	March 31, 2008	December 31, 2007
Loan payable, interest payable monthly at prime + 2% per annum, due on demand	$ 25,000	$ 25,000	$ 25,000

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

10. Share capital

	December 31, 2008	March 31, 2008	December 31, 2007
Share capital			
Common shares	$ 243,336	$ 173,799	$ 173,799
Unvested share purchase loans	(32,248)	(35,410)	(34,816)
Acquisition of common shares for long term incentive plan [note 11]	(35,092)	(27,247)	(23,335)
Contributed surplus	42,742	34,024	25,722
	$ 218,738	$ 145,166	$ 141,370

Share capital of the Company is comprised of the following:

[i] Authorized
Unlimited common shares without par value
Unlimited preferred shares without par value

[ii] Issued and fully paid
Common shares

	Number of shares	Amount
Balance, December 31, 2007 and March 31, 2008	47,835,051	$ 173,799
Shares issued for cash	6,733,250	67,341
Shares issued in connection with stock compensation plan [note 11]	167,838	2,638
Shares cancelled	(100,000)	(442)
Balance, December 31, 2008	**54,636,139**	**$ 243,336**

On May 2, 2008, the Company closed a fully underwritten financing of 5,855,000 common shares at a price of $10.25 per share for total gross proceeds of $60.0 million. On May 22, 2008, the underwriters exercised an over-allotment option in connection with the financing to purchase an additional 878,250 common shares at a price of $10.25 per share for gross proceeds of $9.0 million. Total share issuance costs net of taxes were $1.6 million.

[iii] Common share purchase loans
The Company provides forgivable common share purchase loans to employees in order to purchase common shares. The unvested balance of forgivable common share purchase loans is presented as a deduction from share capital.

The forgivable common share purchase loans are amortized over the vesting period. Contributed surplus includes the amortization of unvested forgivable common share purchase loans.

[iv] Earnings (loss) per share

	For the three months ended		For the nine months ended	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Basic earnings (loss) per share				
Net income (loss) for the period	$ (62,378)	$ 15,048	$ (51,317)	$ 66,488
Weighted average number of common shares (number)	49,073,032	44,442,253	48,656,116	44,670,881
Basic earnings (loss) per share	$ (1.27)	$ 0.34	$ (1.05)	$ 1.49
Diluted earnings (loss) per share				
Net income (loss) for the period	$ (62,378)	$ 15,048	$ (51,317)	$ 66,488
Weighted average number of common shares (number)	49,073,032	44,442,253	48,656,116	44,670,881
Dilutive effect of unvested shares (number)	2,810,989	2,390,540	2,810,989	2,390,540
Dilutive effect of share issuance commitment in connection with retention plan (number) [note 11]	616,205	420,359	616,205	420,359
Dilutive effect of unvested shares purchased by employee benefit trust (number) [note 11]	2,719,062	1,023,043	2,246,457	796,063
Dilutive effect of share issuance commitment in connection with long term incentive plan (number) [note 11]	–	48,158	–	142,732
Adjusted weighted average number of common shares (number)	55,219,288	48,324,353	54,329,767	48,420,575
Diluted earnings (loss) per share	$ (1.27)	$ 0.31	$ (1.05)	$ 1.37

11. Stock-based compensation plans

Retention plans

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

The plan for Enermarket provided for the issuance of up to 25,210 common shares of the Company over two years. The Company issued 14,203 common shares under this plan during the years ended March 31, 2008 and March 31, 2007. The remaining shares have been forfeited.

The plan for Adams Harkness (renamed Canaccord Adams Inc.) provides for the issuance of up to 1,118,952 common shares of the Company after a three-year vesting period, which ended on December 31, 2008. As of December 31, 2008, 616,205 shares vested and this number was based on revenue earned by Canaccord Adams Inc. during the vesting period. The aggregate number of common shares that vested was equal to the revenue earned by Canaccord Adams Inc. during the vesting period divided by US$250.0 million multiplied by the number of common shares subject to the retention plan. As such revenue levels were achieved during the vesting period, the associated proportion of the retention payment was recorded as a development cost and the applicable number of retention shares were included in diluted common shares outstanding [Note 10 [iv]]. The Company has expensed $845 and $2,437 for the three and nine months ended December 31, 2008, respectively ($672 and $2,611 for the three and nine months ended December 31, 2007).

On December 15, 2008, the Company issued 53,384 common shares to former employees of Adams Harkness as required by the retention plan upon vesting. The common shares were issued at $10.25 per share for an aggregate value of $547.

The following table details the activity under the Company's retention plans:

	For the three months ended		*For the nine months ended*	
	December 31, 2008	*December 31, 2007*	***December 31, 2008***	*December 31, 2007*
Number of common shares subject to the Enermarket retention plan:				
Beginning of period	**–**	10,254	**–**	10,254
Issued	**–**	(3,949)	**–**	(3,949)
Adjustments and forfeitures	**–**	(6,305)	**–**	(6,305)
End of period	**–**	–	**–**	–
Shares vested during the period	**–**	3,949	**–**	3,949
Number of common shares subject to the Adams Harkness retention plan:				
Beginning of period	**772,473**	818,889	**804,012**	953,107
Issued	**(53,384)**	–	**(53,384)**	(9,268)
Forfeitures	**(102,884)**	(14,877)	**(134,423)**	(139,827)
End of period	**616,205**	804,012	**616,205**	804,012
Shares vested during the period	**616,205**	–	**616,205**	–

Stock options

The Company granted stock options to purchase common shares of the Company to independent directors. The stock options vest over a four-year period and expire seven years after the grant date. 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 is $15.54.

The following is a summary of the Company's stock options as at December 31, 2008 and 2007 and March 31, 2008 and changes during the periods then ended.

	Number of options	*Weighted average exercise price*
Balance, December 31, 2007	125,000	$ 23.13
Granted	–	–
Exercised	–	–
Balance, March 31, 2008	125,000	23.13
Granted	150,000	9.21
Exercised	–	–
Balance, December 31, 2008	**275,000**	**$ 15.54**

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

	August 2008 grant	*June 2008 grant*	*May 2007 grant*
Dividend yield	5.10%	5.10%	1.80%
Expected volatility	30.00%	30.00%	30.00%
Risk-free interest rate	2.32%	2.32%	4.25%
Expected life	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 $51 and $152 was recognized for the three and nine months ended December 31, 2008, respectively ($41 and $123 for the three and nine months ended December 31, 2007).

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 that will be used by a trustee to purchase common shares of the Company on the open market which 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 shares issued as part of the LTIP will generally be offset by purchases under the Company's NCIB.

The costs of the RSUs are amortized over the vesting period of three years. Compensation expense of $4.7 million and $13.5 million was recognized for the three and nine months ended December 31, 2008, respectively ($5.1 million and $11.1 million for the three and nine months ended December 31, 2007).

	For the three months ended		*For the nine months ended*	
	December 31, 2008	*December 31, 2007*	***December 31, 2008***	*December 31, 2007*
Awards outstanding, beginning of period	**3,881,558**	1,207,328	**2,221,578**	–
Grants	**133,994**	419,896	**2,195,969**	1,627,224
Vested	**(128,100)**	–	**(530,095)**	–
Awards outstanding, end of period	**3,887,452**	1,627,224	**3,887,452**	1,627,224

	For the three months ended		*For the nine months ended*	
	December 31, 2008	*December 31, 2007*	***December 31, 2008***	*December 31, 2007*
Common shares held by Trust, beginning of period	**3,011,055**	937,162	**1,621,895**	–
Acquired	**–**	316,264	**1,706,903**	1,253,366
Released on vesting	**(97,898)**	–	**(415,641)**	–
Common shares held by Trust, end of period	**2,913,157**	1,253,366	**2,913,157**	1,253,366

12. Related party transactions

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

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

	December 31 2008	*March 31, 2008*	*December 31, 2007*
Accounts receivable	**$ 37,539**	$ 48,521	$ 55,348
Accounts payable and accrued liabilities	**73,779**	64,945	68,272

13. 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 the US.

Private Client Services – 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 Private Client Services.

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

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

	For the three months ended December 31							
	2008				2007			
	Canaccord Adams	Private Client Services	Corporate and Other	Total	Canaccord Adams	Private Client Services	Corporate and Other	Total
Revenue	$ 49,250	$ 33,532	$ 4,406	$ 87,188	$ 109,583	$ 61,166	$ 12,605	$ 183,354
Expenses	58,409	37,441	21,762	117,612	82,529	46,087	21,456	150,072
Amortization	1,586	463	702	2,751	984	495	718	2,197
Development costs	4,251	2,312	1,175	7,738	3,936	1,550	1,288	6,774
Impairment of goodwill and intangibles	31,524	–	–	31,524	–	–	–	–
Income (loss) before income taxes	$ (46,520)	$ (6,684)	$ (19,233)	$ (72,437)	$ 22,134	$ 13,034	$ (10,857)	$ 24,311

	For the nine months ended December 31							
	2008				2007			
	Canaccord Adams	Private Client Services	Corporate and Other	Total	Canaccord Adams	Private Client Services	Corporate and Other	Total
Revenue	$ 212,379	$ 135,229	$ 23,117	$ 370,725	$ 353,677	$ 194,664	$ 39,752	$ 588,093
Expenses	196,936	114,271	53,430	364,637	251,236	143,659	62,676	457,571
Amortization	3,424	1,283	2,158	6,865	2,880	1,397	2,043	6,320
Development costs	12,056	5,256	4,271	21,583	13,810	4,263	4,040	22,113
Impairment of goodwill and intangibles	31,524	–	–	31,524	–	–	–	–
Income (loss) before income taxes	$ (31,561)	$ 14,419	$ (36,742)	$ (53,884)	$ 85,751	$ 45,345	$ (29,007)	$ 102,089

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

	For the three months ended		For the nine months ended	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Canada				
Revenue	$ 57,854	$ 125,102	$ 247,482	$ 404,470
Equipment and leasehold improvements	29,285	24,400	29,285	24,400
Goodwill and other intangible assets	–	4,144	–	4,144
United Kingdom				
Revenue	$ 11,752	$ 34,644	$ 58,567	$ 102,952
Equipment and leasehold improvements	7,099	8,273	7,099	8,273
United States				
Revenue	$ 16,586	$ 23,135	$ 60,536	$ 70,294
Equipment and leasehold improvements	7,794	7,266	7,794	7,266
Goodwill and other intangible assets	–	28,729	–	28,729
Other Foreign Location				
Revenue	$ 996	$ 473	$ 4,140	$ 10,377

14. Capital management

The Company's business requires capital for operating and regulatory purposes, including funding current and future operations. The Company's capital structure is underpinned by shareholders' equity, which is comprised of share capital, retained earnings and accumulated other comprehensive losses, and is further complemented by subordinated debt. The following table summarizes our capital as at December 31, 2008:

Type of capital	Carrying amount	As a percentage of capital
Share capital	$ 218,738	57.1%
Retained earnings	157,823	41.2%
Accumulated other comprehensive losses	(18,600)	(4.8)%
Shareholders' equity	357,961	93.5%
Subordinated debt	25,000	6.5%
	$ 382,961	100.0%

The Company's capital management framework is designed to maintain the level of capital that will:

- Meet the Company's regulated subsidiaries' target ratios as set out by the respective regulators
- Fund current and future operations
- Ensure that the Company is able to meet its financial obligations as they become due
- Support the creation of shareholder value

The following subsidiaries are subject to regulatory capital requirements in the respective jurisdictions by the listed regulators:

- Canaccord Capital Corporation is subject to regulation in Canada primarily by the IIROC.
- Canaccord Adams Limited is regulated in the UK by the Financial Services Authority and is a member of the London Stock Exchange.
- Canaccord Adams Inc. is registered as a broker dealer in the US and is subject to regulation primarily by the Financial Industry Regulatory Authority.
- Canaccord Capital Corporation (USA), Inc. is registered as a broker dealer in the US and is subject to regulation primarily by the Financial Industry Regulatory Authority.
- Canaccord International Ltd. is regulated in Barbados by the Central Bank of Barbados.

Margin requirements in respect of outstanding trades, underwriting deal requirements and/or working capital requirements cause regulatory capital requirements to fluctuate on a daily basis. Compliance with these requirements may require the Company to keep sufficient cash and other liquid assets on hand to maintain regulatory capital requirements rather than using these liquid assets in connection with its business or paying them out in the form of cash disbursements. The Company's subsidiaries were in compliance with all of the minimum regulatory capital requirements during the nine months ended December 31, 2008.

15. Commitments and contingencies

Commitments

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

2010	$ 26,928
2011	22,799
2012	19,588
2013	17,756
2014	16,490
Thereafter	56,896
	$ 160,457

During the period, there have been no material changes to the Company's contingencies from those described in Note 18 of the March 31, 2008 Audited Annual Consolidated Financial Statements.

16. Canaccord relief program

The Company has previously announced the details of the Canaccord Relief Program ("CRP") which included the repurchase of up to $152 million of restructured ABCP at par value from clients who hold $1 million or less. The CRP closed on January 30, 2009, and combined transactions with third-party sources with a Company-funded top-up to achieve par value. Clients were entitled to receive any unpaid interest to the extent it was available under the restructuring plan and the Company has reimbursed the clients for any restructuring costs.

Due to additional out-of-pocket charges, the Company increased its client relief programs provision by $2.7 million for the period ended December 31, 2008 to reflect the revised costs of the programs. Also, an additional expense of $2.6 million has been recorded to reflect the fair value adjustment of the MAV II Class 15 notes purchased by the Company as part of the completion of the CRP in January 2009 (Note 18). The total provision related to the ABCP relief programs was $59.5 million at December 31, 2008.

17. Restructuring costs

The Company implemented a firm-wide restructuring in October 2008 that has resulted in the reduction of staff across all geographies where the Company operates. The Company recorded a pre-tax expense of $7.5 million related to the staff restructuring.

18. Subsequent events

[i] The ABCP restructuring Plan [Note 7] was implemented on January 21, 2009. The ABCP held by the Company with a par value of $42.7 million at December 31, 2008 was exchanged for restructured notes on January 21, 2009. The par values of the restructured notes received by the Company on January 21, 2009 corresponded with the notes that were expected to be received at December 31, 2008 as disclosed in Note 7, Investment in Asset-backed Commercial Paper.

The restructured notes represent new financial instruments as they are new notes issued in exchange for existing ABCP positions. The Company is currently assessing the accounting treatment of the new notes in accordance with CICA Handbook Section 3855, *"Financial Instruments – Recognition and Measurement"*.

As a result of the completion of the Canaccord Relief Program, the Company has purchased MAV II, Class 15 notes, with a carrying value of $9.5 million on January 21, 2009. A fair value adjustment of $2.6 million was recorded for the period ended December 31, 2008 [Note 16].

[ii] The total costs of the ABCP relief programs to the Company were approximately $59.5 million. The Canaccord Relief Program was executed on January 30, 2009 following the successful restructuring of ABCP. The payments under the Canaccord Relief Program included the par value of the ABCP held, as well as interest paid to date under the restructuring plan and the reimbursement for any restructuring expenses borne by the eligible clients.

[iii] In connection with the Adams Harkness retention plan [Note 11], 616,205 common shares were issued in February 2009 to employees who received awards under the plan. The plan terminated on December 31, 2008 and in connection therewith, employees who met the vesting conditions received common shares in accordance with the terms of the plan.

[iv] On February 11, 2009, the Board of Directors considered the dividend policy in the context of the market environment and its business activity and approved a suspension of the Company's quarterly dividend for the quarter ended December 31, 2008. This measure was taken to enable the Company to preserve its working capital and book value, as well as to position the Company to take advantage of growth opportunities that may become available.

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The CCI fiscal 2008 Annual Report is available on our Web site at canaccord.com. For a printed copy please contact the Investor Relations department.

FISCAL 2009 EXPECTED DIVIDEND (1) AND EARNINGS DATES

	Earnings release date	*Dividend record date*	*Dividend payment date*
Q1/09	August 8, 2008	August 29, 2008	September 10, 2008
Q2/09	November 6, 2008	suspended	suspended
Q3/09	February 12, 2009	suspended	suspended
Q4/09	May 20, 2009	May 29, 2009	June 10, 2009

(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.

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

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