Q3 CANACCORD FINANCIAL INC.

Third Quarter Fiscal 2011 Report to Shareholders

REPORTS FISCAL THIRD QUARTER 2011 RESULTS

CANACCORD REPORTS RECORD REVENUE AND NET INCOME

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

VANCOUVER, February 10, 2011 – Canaccord Financial Inc. generated record revenue of $254.8 million and record net income of $42.7 million in the third quarter of fiscal 2011, the quarter ended December 31, 2010. Revenue was 47.1% higher than the same quarter last year and 70.7% higher compared to the previous quarter. Net income for the third quarter was $42.7 million, 182.6% higher than net income of $15.1 million during the same quarter last year and 340.2% higher than $9.7 million recorded in the previous quarter. Diluted earnings per share (EPS) for fiscal Q3/11 were $0.51, compared to diluted EPS of $0.27 in the same quarter last year and diluted EPS of $0.12 in the previous quarter.

"This quarter's record results are an early indication of the earnings power we believe is possible from our expanded global capital markets operations. While our investment banking team was well positioned to capitalize on the improved underwriting environment, revenue from our advisory business increased nearly 300% compared to the same period last year," noted Paul Reynolds, President and CEO of Canaccord Financial Inc. "All of Canaccord's businesses contributed to the significant results we achieved this quarter, a testament to the abilities of our employees and the strength of our integrated global platform."

THIRD QUARTER 2011 VS. THIRD QUARTER 2010

- Revenue of $254.8 million, up 47.1% or $81.6 million from $173.2 million
- Expenses of $193.3 million, up 28.1% or $42.4 million from $150.9 million
- Net income of $42.7 million, up 182.6% or $27.6 million compared to net income of $15.1 million
- Return on equity (ROE) of 24.2%, up from 15.2%(1)(2)
- Diluted EPS of $0.51 compared to diluted EPS of $0.27

Excluding acquisition-related expense items(1)(3)

- Expenses of $190.6 million, up 26.3% or $39.7 million from $150.9 million
- Net income of $45.3 million, up 199.8% or $30.2 million compared to net income of $15.1 million
- ROE of 25.1%, up from 15.2%(1)(2)(4)
- Diluted EPS of $0.54 compared to diluted EPS of $0.27

THIRD QUARTER 2011 VS. SECOND QUARTER 2011

- Revenue of $254.8 million, up 70.7% or $105.5 million from $149.3 million
- Expenses of $193.3 million, up 42.9% or $58.0 million from $135.3 million
- Net income of $42.7 million, up 340.2% or $33.0 million compared to net income of $9.7 million
- ROE of 24.2%, up from 5.7%(1)(2)
- Diluted EPS of $0.51 compared to diluted EPS of $0.12 in the second quarter of 2011

(1) See non-GAAP measures
(2) ROE is presented on an annualized basis. ROE for the third quarter 2011 is calculated by dividing the annualized net income for the three months ending December 31, 2010 over the average shareholders' equity. ROE for year-to-date 2011 is calculated by dividing the annualized net income for the nine months ending December 31, 2010 over the average shareholders' equity.
(3) Acquisition-related expense items are related to the acquisition of Genuity Capital Markets and The Balloch Group Limited. See non-GAAP measures.
(4) ROE figures exclude acquisition-related items. See non-GAAP measures.

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CANACCORD Financial

Excluding acquisition-related expense items[1][3]

- Expenses of $190.6 million, up 42.8% or $57.1 million from $133.5 million
- Net income of $45.3 million, up 293.9% or $33.8 million compared to net income of $11.5 million
- ROE of 25.1%, up from 6.7%[1][2][4]
- Diluted EPS of $0.54 compared to diluted EPS of $0.14 in the second quarter of 2011

YEAR-TO-DATE 2011 VS. YEAR-TO-DATE 2010

(Nine months ended December 31, 2010 vs. nine months ended December 31, 2009)

- Revenue of $556.0 million, up 28.0% or $121.6 million from $434.4 million
- Expenses of $473.4 million, up 21.9% or $85.2 million from $388.2 million
- Net income of $57.3 million, up 85.0% or $26.3 million compared to net income of $31.0 million
- ROE of 11.2%, up from 10.6%[1][2]
- Diluted EPS of $0.71 compared to diluted EPS of $0.56 in the same period of the prior year

Excluding acquisition-related expense items[1][3]

- Expenses of $456.4 million, up 17.6% or $68.2 million from $388.2 million
- Net income of $70.7 million, up 128.4% or $39.7 million compared to net income of $31.0 million
- ROE of 14.0%, up from 10.6%[1][2][4]
- Diluted EPS of $0.87 compared to diluted EPS of $0.56 in the same period of the prior year

FINANCIAL CONDITION AT END OF THIRD QUARTER 2011 VS. THIRD QUARTER 2010

- Cash and cash equivalents balance of $713.1 million, down $69.5 million from $782.6 million
- Working capital of $387.9 million, up $60.9 million from $327.0 million
- Total shareholders' equity of $723.6 million, up $322.9 million from $400.7 million
- Book value per diluted common share for the period end was $8.42, up 20.3% or $1.42 from $7.00[1]
- On February 9, 2011 the Board of Directors approved a quarterly dividend of $0.075 per share payable on March 15, 2011 with a record date of March 4, 2011

SUMMARY OF OPERATIONS

Corporate

- On November 22, 2010, Canaccord announced its acquisition of The Balloch Group Limited, a leading independent boutique investment bank in China and a strategic agreement with the Export-Import Bank of China ("China Eximbank")
  - These initiatives represent an important entry into Asia for Canaccord that add to its global capabilities and the services it provides clients, while leveraging the strength of Canaccord's sector expertise, particularly in mining, energy, life sciences and clean technology
  - Canaccord's agreement with China Eximbank provides China-based clients with an enhanced ability to grow internationally and provides international clients with increased access to Chinese debt financing

Capital Markets

- Canaccord Genuity led 44 transactions globally to raise total proceeds of $1.6 billion[5] during fiscal Q3/11
- Canaccord Genuity participated in a total of 138 transactions globally to raise total proceeds of $3.8 billion[5] during fiscal Q3/11
- During fiscal Q3/11, Canaccord Genuity led or co-led the following transactions:
  - *C$347.6 million for Eastern Platinum Limited on the TSX*
  - *US$208.4 million for Northern Oil and Gas Inc. on the AMEX*
  - *£206.3 million for Rockhopper Exploration Plc. on AIM*
  - *C$184.1 million for Baja Mining Corp. on the TSX*
  - *C$162.8 million for Air Canada on the TSX*
  - *C$130.0 million for Canadian Overseas Petroleum Ltd. on the TSX Venture*
  - *C$116.0 million for Artis Real Estate Investment Trust on the TSX*
  - *C$86.3 million for Pinecrest Energy Inc. on the TSX Venture*
  - *US$86.3 million for Golden Minerals Company on the TSX*
  - *US$76.0 million for NxStage Medical Inc. on the NASDAQ*
  - *C$74.8 million for International Tower Hill Mines Ltd. on the TSX*
  - *US$60.8 million for Aveo Pharmaceuticals Inc. on the NASDAQ*
  - *US$55.0 million for IMRIS Inc. on the NASDAQ*
  - *C$53.9 million for Orezone Gold Corporation on the TSX*
  - *C$50.9 million for P1 Energy Corp. (non-exchange listed)*
  - *C$50.0 million for Exeter Resource Corporation on the TSX*
  - *C$47.2 million for Alexco Resource Corp. on the TSX*
  - *C$46.0 million for Fortuna Silver Minds Inc. on the TSX*

(1) See non-GAAP measures
(2) ROE is presented on an annualized basis. ROE for the third quarter 2011 is calculated by dividing the annualized net income for the three months ending December 31, 2010 over the average shareholders' equity. ROE for year-to-date 2011 is calculated by dividing the annualized net income for the nine months ending December 31, 2010 over the average shareholders' equity.
(3) Acquisition-related expense items are related to the acquisition of Genuity Capital Markets and The Balloch Group Limited. See non-GAAP measures.
(4) ROE figures exclude acquisition-related items. See non-GAAP measures.
(5) Source: Placement Tracker. Includes placements for companies incorporated in Canada and the US

  - *US$43.0 million for Petroneft Resources Plc. on AIM*
  - *US$41.6 million for Insulet Corporation on the NASDAQ*
- Canaccord Genuity recorded advisory revenues of $25.2 million during fiscal Q3/11, an increase of 298.6% compared to the same quarter last year
- During fiscal Q3/11, Canaccord Genuity advised on the following M&A transactions:
  - *Nellix, Inc. on its acquisition by Endologix Inc.*
  - *Skana Capital Corp. on its merger with MENA Hydrocarbons Inc.*
  - *Avenir Diversified Income Trust on its acquisition of Great Plains Exploration Inc.*
  - *Pacific Equity Partners on its acquisition of CIBC Mellon Issuer Services Business*
  - *Dragonwave Inc. on its acquisition of Axerra Networks Inc.*
  - *Francisco Partners LP on its acquisition of Source Photonics Inc.*
  - *Parkbridge Lifestyle Communities Inc. on its acquisition by British Columbia Investment Management Corporation*
- Canaccord Genuity acted for the Ad Hoc Committee of Unsecured Noteholders of Abitibi-Consolidated Inc. et al. during the restructuring of $4.0 billion of debt under the *Companies' Creditors Arrangement Act* (Canada), which was completed during the quarter
- Canaccord Genuity completed four Private Investment in Public Equity (PIPE) transactions in North America that raised US$207.4 million in proceeds during fiscal Q3/11[5]
- In October 2010, Canaccord Genuity opened an office in Minneapolis, Minnesota – Canaccord's sixth US office

Wealth Management

- Canaccord Wealth Management recorded $9.0 million of net income before taxes in Q3/11, which has made the division profitable during the first nine months of the fiscal year
- Assets under administration of $16.0 billion, up 31.1% from $12.2 billion at the end of Q3/10, and up 15.1% from $13.9 billion at the end of Q2/11[1]
- Assets under management of $514 million, up 21.5% from $423 million at the end of Q3/10, and up 8.7% from $473 million at the end of Q2/11[1]
- As at December 31, 2010, Canaccord had 272 Advisory Teams[6], down 55 from 327 Advisory Teams as of December 31, 2009 and down eight from 280 Advisory Teams as of September 30, 2010
  - This decrease is largely due to an ongoing strategic review of our Wealth Management division and the conversion of corporate branches to the Independent Wealth Management (IWM) platform, where each branch is led by one Investment Advisor (IA) and is counted as one Advisory Team
- On November 1, 2010, Canaccord Wealth Management's corporate Prince George, British Columbia branch converted to the IWM platform
- On November 30, 2010, Canaccord Wealth Management welcomed a new Calgary, Alberta branch to the IWM platform

Subsequent to December 31, 2010

- On January 17, 2011, Canaccord completed the acquisition of The Balloch Group Limited. Canaccord's operations in Asia were launched as Canaccord Genuity Asia
- On January 17, 2011, Canaccord Financial Inc. welcomed Howard Balloch to its Board of Directors
  - Mr. Balloch was the founder and president of The Balloch Group Limited, and is now the Chairman of Canaccord Genuity Asia
- On January 1, 2011, Canaccord Wealth Management's Simcoe, Ontario branch converted to the IWM platform
- On January 21, 2011, Canaccord Wealth Management welcomed a new Burlington, Ontario branch to the IWM platform
- Canaccord Wealth Management now has 31 offices across Canada, including 15 branches on the IWM platform

Non-GAAP measures

Non-GAAP measures presented include assets under administration, assets under management, book value per diluted common share, return on equity and figures that exclude acquisition-related expense items. 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. Figures that exclude acquisition-related expense items provide useful information by excluding certain items that may not be indicative of Canaccord's core operating results. A limitation of utilizing these figures that exclude acquisition-related expense items is that the GAAP accounting effects of the acquisition-related expense 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 respective non-GAAP measures should be considered together.

Acquisition-related expense items in the third quarter 2011 include $1.8 million for costs incurred for the acquisition of The Balloch Group Limited and $0.9 million of amortization of intangible assets in connection with the acquisition of Genuity Capital Markets. Acquisition-related expense items during the nine months ended December 31, 2010 include $11.0 million for acquisition-related costs and $4.2 million for the amortization of intangible assets related to the acquisition of Genuity Capital Markets, and $1.8 million costs incurred for the acquisition of The Balloch Group Limited.

(1) See non-GAAP measures
(5) Source: Placement Tracker. Includes placements for companies incorporated in Canada and the US
(6) Advisory Teams are normally comprised of one or more Investment Advisors (IAs) and their assistants and associates, who together manage a shared set of client accounts. Advisory Teams that are led by, or only include, an IA who has been licenced for less than three years are not included in our Advisory Team count, as it typically takes a new IA approximately three years to build an average sized book.

TO OUR SHAREHOLDERS

The momentum we gained in September continued into our fiscal third quarter, helping us achieve significant top-line growth and record financial performance. While the improved market environment during the last three months of calendar 2010 buoyed the industry in general, our client activity and revenue levels increased even further, largely due to combining the core strengths and client relationships of Canaccord and Genuity. We expected it would take some time to fully realize the benefits and earnings power from our acquisition in April, however we view our performance this quarter as an early indication of what our expanded capital markets team is capable of accomplishing.

At $42.7 million, we generated record net income for the quarter, which is the result of both top-line growth and ongoing efforts to improve our operating efficiency. Revenue for the three months ended December 31, 2010 was a record $254.8 million, up 70% compared to Q2/11 and 47% compared to the same period last year. Strong underwriting and advisory fees and increased client activity in our Wealth Management division anchored our revenue growth this quarter. Expenses of $193.3 million grew with business activity; however we experienced a significant increase in our operating leverage compared to last quarter and the same period last year.

Excluding acquisition-related charges, diluted earnings per share for the three months ended December 31 were $0.54, an increase of 286% from last quarter and double that of the same quarter last year. These charges include $1.8 million related to our recent expansion into Asia through the acquisition of The Balloch Group Limited (TBG) and $0.9 million of amortization of intangible assets related to the acquisition of Genuity Capital Markets. On a GAAP basis, diluted earnings per share were $0.51 – up 325% compared to Q2/11, and 89% compared to the same period last year.

The 24.2% of annualized return on equity we achieved during Q3/11 is in line with our expectations of what we can realize at current business levels. It is a significant increase from past quarters and above our stated 20% ROE target that we have set for the Company over a full business cycle. Excluding all acquisition-related expense items, annualized ROE was 25.1% for the quarter and 14.0% for the first nine months of the fiscal year.

The strength of our balance sheet and the much improved business environment were important factors in our board's decision to increase our quarterly dividend to $0.075 this quarter. While we are pleased with the Company's recent performance and continue to be cautiously optimistic in our outlook for the year ahead, we remain committed to allocating capital in a way that most effectively builds long-term value for our shareholders. Investing in projects and initiatives that allow us to expand into new markets, or grow our existing market share, will continue to be a priority.

CANACCORD GENUITY

The power of our global capital markets team was truly demonstrated this quarter, with significant revenue and income contributions from all geographies we operate in and all capital markets activities we perform. Canaccord Genuity generated $177.8 million of revenue during Q3/11, an 83% increase compared to last quarter and a 53% increase from the same period last year. As revenue levels rose, so did the operational efficiency of the division. This quarter's lower expense ratios contributed substantially to improving the operating margins of Canaccord Genuity. Net income before income taxes was $55.9 million for the division, up 239% from the previous quarter and more than double the earnings recorded in Q3/10.

Strong client activity from the resource sector carried over from last quarter, marked by several large transactions we led or co-led for mining and energy companies. Of these, the largest transactions were a C$347.6 million offering for Eastern Platinum Limited on the TSX, a US$208.4 million transaction for Northern Oil and Gas on the AMEX and a £206.3 million deal for Rockhopper Exploration on AIM. Notably, each of these offerings originated in different geographies – underscoring the capabilities Canaccord Genuity is recognized for globally.

While the strong commodities cycle continues to provide ample opportunity for us to leverage our expertise in the resource sector, the breadth of our expanded capital markets team is evident by the range of industries we're leading transactions in. In Canada, our capital markets team led or co-led an outstanding 43 equity transactions or private placements over $1.5 million during the quarter, including a $162.8 million offering for Air Canada. It is a transaction that also highlights the traction we're getting by combining the skills and relationships of the new Canaccord Genuity team. Additionally, of the five transactions our US team led or co-led over $50 million during the quarter, three were for healthcare-related companies. In fact, during calendar 2010 we participated in more life sciences and med-tech sector transactions in the US than any other investment bank – firmly establishing Canaccord Genuity as a recognized leader in this important sector.

The significant increase in advisory revenue we achieved this quarter reveals the kind of earnings power we believe is possible through our much larger M&A and restructuring team. At $25.2 million, advisory fee revenue nearly doubled compared to last quarter and increased 299% compared to the same period last year. Advisory assignments take time to secure and complete, and our results this quarter provide some insight into the level of client activity we would expect in suitable market conditions. Of particular note, Canaccord Genuity advised Parkbridge Lifestyle Communities Inc. during its acquisition by British Columbia Investment Management Corporation, Pacific Equity Partners on its acquisition of CIBC Mellon's Issuer Services business, and Francisco Partners LP on its acquisition of Source Photonics Inc. During the quarter we were also very pleased to close our first restructuring assignment since our acquisition of Genuity, acting for the unsecured noteholders of Abitibi-Consolidated Inc. during the restructuring of $4 billion of debt under creditor protection.

CANACCORD WEALTH MANAGEMENT

As markets improved, so did client activity in Canaccord Wealth Management. This, combined with our ongoing efforts to increase the operational efficiency of the division, paid off substantially as the business generated its first profitable quarter since the financial crisis. With $9.0 million in net income during Q3/11, the division is now profitable during the first nine months of fiscal 2011 and continues to show strong momentum.

The activities of our Wealth Management team generated $68.6 million in revenue during the quarter, achieved entirely by the hard work and dedication of our Investment Advisors and the success they have had in identifying opportunities for our private clients.

As of December 31, Canaccord Wealth Management had $16.0 billion in assets under administration, a 31% increase compared to the same quarter last year. At this asset level, we believe we've turned the corner in building appropriate scale to capture more value for our shareholders in the division. As we continue to evaluate opportunities to enhance our client service offering and grow the scale of our wealth management platform, we have reasons to be confident this division will contribute to our bottom line on a more consistent basis in the quarters ahead.

GROWING OUR GLOBAL PLATFORM

On January 17, we launched Canaccord Genuity Asia with the completion of our acquisition of TBG, a leading boutique investment bank in China. This important expansion provides us with significant opportunities to tap into the region's growing demand for expertise in many of the areas Canaccord Genuity has established market leadership – including the mining, energy, life sciences and clean technology sectors. In November we also announced a strategic agreement with the Export-Import Bank of China, the benefits of which will provide our China-based and international clients with many new opportunities to grow their operations with access to Chinese debt financing.

With the acquisition, we welcomed approximately 40 new employees to the global Canaccord Genuity team. We were also very pleased to welcome the newest member of our Board of Directors, Howard Balloch. As the past president of TBG, Howard brings extensive knowledge of the Asian market, as well as many important relationships with key stakeholders in the region.

The integration of our new offices in China is largely complete, and we're already seeing great opportunities in that market. I look forward to discussing what we achieve in Asia in the quarters ahead.

LOOKING FORWARD

The current market environment is providing many opportunities for us to leverage our existing operations to gain new clients and garner market share. It is also revealing many new business development prospects that, under the right circumstances, could allow us to expand our service offering and global footprint.

While our Company has been built on a bedrock of strategic acquisitions, the pillars of Canaccord's success have always been the quality of our people and the strength of our ideas. To that end, we remain committed to identifying opportunities that are strategically complementary to our existing businesses, culturally compatible with our integrated global team, and fundamental in generating long-term value for our shareholders.

PAUL REYNOLDS
President & Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal third quarter 2011 for the three months and nine months ended December 31, 2010 – this document is dated February 10, 2011

The following discussion of the financial condition and results of operations for Canaccord Financial Inc. (Canaccord or the Company) is provided to enable the reader to assess material changes in our financial condition and to assess results for the three- and nine-month periods ended December 31, 2010 compared to the corresponding periods in the preceding fiscal year. The three- and nine-month periods ended December 31, 2010 are also referred to as third quarter 2011, Q3/11, fiscal Q3/11 and year-to-date fiscal year 2011 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, 2010, beginning on page 28 of this report; our Annual Information Form dated May 19, 2010; and the 2010 annual Management's Discussion and Analysis (MD&A) including the audited consolidated financial statements for the fiscal year ended March 31, 2010 (Audited Annual Consolidated Financial Statements) in Canaccord's Annual Report dated May 19, 2010 (the Annual Report). There has been no material change to the information contained in the annual MD&A for fiscal 2010 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 www.sedar.com. These forward-looking statements are made as of the date of this document, and will not be updated or revised except as may be required by applicable law.

NON-GAAP MEASURES

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

Canaccord's capital is represented by common shareholders' equity and, therefore, management uses return on average common equity (ROE) as a performance measure. Also used by the Company as a performance measure is book value per diluted common share, which is calculated as total shareholders' equity divided by the number of diluted shares outstanding.

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 Canaccord Wealth Management business segment. AUM includes all assets managed on a discretionary basis under our programs generally described as or known as the *Complete Canaccord Investment Counselling Program* and the *Complete Canaccord Managed Account Program*. 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 acquisition-related expense items are non-GAAP measures. Acquisition-related expense items include acquisition-related costs and the amortization of intangible assets related to the acquisition of Genuity Capital Markets (Genuity) and The Balloch Group Limited (TBG).

Non-GAAP measures presented include assets under administration, assets under management, book value per diluted common share, return on equity and figures that exclude acquisition-related expense items. 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. Figures that exclude acquisition-related expense items provide useful information by excluding certain items that may not be indicative of Canaccord's core operating results. A limitation of utilizing these figures that exclude acquisition-related expense items is that the GAAP accounting effects of the acquisition-related expense 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 respective non-GAAP measures should be considered together.

BUSINESS OVERVIEW

Through its principal subsidiaries, Canaccord Financial Inc. is a leading independent, full-service financial services firm, with operations in two principal segments of the securities industry: wealth management and global capital markets. Since its establishment in 1950, Canaccord has been driven by an unwavering commitment to building lasting client relationships. We achieve this by generating value for our individual, institutional and corporate clients through comprehensive investment solutions, brokerage services and investment banking services. Canaccord has 41 offices worldwide, including 31 Wealth Management offices located across Canada. Canaccord Genuity, the international capital markets division, operates in Canada, the US, the UK, China and Barbados.

Canaccord Financial Inc. is publicly traded under the symbol CF on the TSX and the symbol CF. on AIM, a market operated by the London Stock Exchange.

Our business is subject to the overall condition of the North American and European equity markets, including seasonal fluctuations.

Business Environment

Increased confidence in a sustainable cyclical recovery allowed calendar year 2010 to end on an optimistic note. Economic data began to demonstrate that G7 countries in general, and the US in particular, are emerging from their so-called "soft patch". Meanwhile much of the developing world continued to experience sustained economic growth, giving rise to worries about the impact of their policy responses to increased asset values, as well as generalized wage and price inflation pressures in emerging markets, particularly China.

Although fears of a double dip recession have largely been put to rest in North America, most developed economies remain at subdued levels of activity and are operating well below capacity. Therefore reflationary policies in G7 countries remained the norm with the long anticipated second round of quantitative easing initiated by the US Federal Reserve. This program, commonly referred to as QE2, was viewed as the most aggressive policy move by any of the major economies. On the other hand, the pace of policy tightening in emerging markets picked up.

During the quarter, capital markets, currencies and commodities continued to display volatility in the face of this potent mix of policies. The appetite for risk assets improved as the quarter progressed, most notably global equity markets resumed their advances after a tough third quarter – culminating with dramatic upward moves in December. Longer duration US government bond values weakened as nominal yields rose, reflecting both higher real yields that typically accompany economic growth and the modest increase in medium term inflation expectations. For the first time since the start of the financial crisis there were net outflows from bond funds, a trend that in due course should be supportive of equity values. Commodities and currencies remained volatile, while the upward price pressure on gold seemed to arrest as investors' confidence in the economy improved. Nevertheless, gold prices appeared to find a floor based on inflationary and currency fears. Meanwhile industrial commodities price continued to show strength, shrugging off Chinese hard landing fears.

In general this environment of ample liquidity, improving confidence and increased risk appetite was constructive for capital markets activities, especially in the junior resource sector.

Looking forward, the constructive environment for risk assets and capital markets activities are expected to be sustained during fiscal Q4. However, it's cautioned that periods of heightened volatility may occur as geopolitical aftershocks from the financial crisis are likely to persist and clashes between increasingly divergent economic policies will need to be digested by the market. Instability in the Middle East, triggered by uprisings and potential regime changes in Tunisia and Egypt, may also weigh down markets due to fears the unrest could spread in the region.

Market Data

Financing values increased on the AIM and TSX/TSX Venture markets compared to the same quarter last year, and increased significantly compared to the previous quarter. Financing values were up significantly on the NASDAQ compared to the previous quarter, however were 31% lower compared to the same quarter last year.

Financings in our key sectors on the TSX and TSX Venture were up 36.3% compared to the same quarter last year, and up 116.4% compared to the previous quarter. The mining sector had the most significant increase, while only the technology sector experienced a decline compared to the same quarter last year.

Financings in all of Canaccord's key sectors were up significantly on the AIM compared to the previous quarter and the same quarter last year.

Total financing value by exchange

	October 10	*November 10*	*December 10*	*Fiscal Q3/11*	*Change from fiscal Q3/10*	*Change from fiscal Q2/11*
TSX and TSX Venture (C$ billions)	4.7	6.0	9.7	20.4	12.1%	151.9%
AIM (£ billions)	0.6	1.1	1.4	3.1	29.2%	138.5%
NASDAQ (US$ billions)	2.2	4.2	4.6	11.0	(31.3)%	35.8%

Source: TSX Statistics, LSE AIM Statistics, Equidesk

Financing value for relevant AIM industry sectors

(£ millions, except for percentage amounts)	*October 10*	*November 10*	*December 10*	*Fiscal Q3/11*	*Change from fiscal Q3/10*	*Change from fiscal Q2/11*
Oil and gas	£ 183.8	£ 535.6	£ 332.7	£ 1,052.1	78.6%	202.2%
Mining	52.8	317.8	466.6	837.2	106.5%	520.6%
Health care	4.8	12.1	46.3	63.2	4.8%	1,189.8%
Media	1.3	7.7	13.7	22.7	59.9%	548.6%
Technology	53.8	24.8	19.2	97.8	113.5%	206.6%
Total (of relevant sectors)	**£ 296.5**	**£ 898.0**	**£ 878.5**	**£ 2,073.0**	**85.9%**	**296.6%**

Source: LSE AIM Statistics

Financing value for relevant TSX and TSX Venture industry sectors

($ millions, except for percentage amounts)	*October 10*	*November 10*	*December 10*	*Fiscal Q3/11*	*Change from fiscal Q3/10*	*Change from fiscal Q2/11*
Oil and gas	$ 650.0	$ 2,022.3	$ 1,383.5	$ 4,055.8	12.0%	90.7%
Mining	1,160.1	1,883.7	2,686.3	5,730.1	75.7%	270.4%
Biotech	–	28.7	62.6	91.3	6.9%	84.8%
Media	31.5	–	–	31.5	n.m.	(84.3)%
Technology	4.9	8.4	64.9	78.2	(78.1)%	(88.7)%
Total (of relevant sectors)	**$ 1,846.5**	**$ 3,943.1**	**$ 4,197.3**	**$ 9,986.9**	**36.3%**	**116.4%**

Source: FP Infomart
n.m.: not meaningful

About Canaccord's operations

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

Canaccord Genuity

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

- Canaccord's research analysts have deep knowledge of more than 760 companies across our focus sectors: Mining & Metals, Energy, Technology, Life Sciences, Agriculture & Fertilizers, Media & Telecom, Financials, Consumer, Real Estate, Infrastructure, Transportation and Sustainability
- Our Sales and Trading desk executes timely transactions for more than 2,000 institutional relationships around the world, operating as an integrated team on one common platform
- With more than 135 skilled investment bankers, Canaccord Genuity provides clients with deep sector expertise and broad equity transaction and M&A advisory experience

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

Canaccord Wealth Management

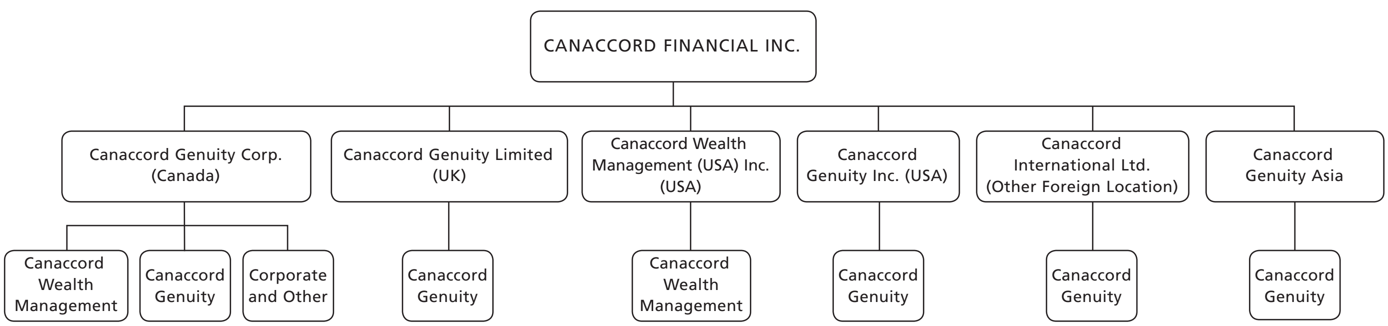
As a leading independent investment dealer, Canaccord Wealth Management provides comprehensive wealth management solutions and services to our private clients. We recognize that the growing complexity of many clients' financial circumstances demands experienced Advisory Teams who can provide tailored financial services and ideas that meet our clients' needs. Many of our Investment Advisors have obtained advanced industry designations such as Chartered Financial Analyst or Certified Investment Manager. We continue to provide our advisors with support from specialized financial planning and insurance experts, the latest technology and ongoing training opportunities.

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

Corporate and Other

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

Corporate structure (as of January 17, 2011)



Note: Canaccord Genuity Asia began operating on January 17, 2011 (subsequent to fiscal Q3/11), when the acquisition of The Balloch Group Limited and certain of its affiliates was completed.

CONSOLIDATED OPERATING RESULTS

Third quarter and year-to-date fiscal 2011 summary data(1)(6)

(C$ thousands, except per share, employee and % amounts)	*Three months ended December 31* 2010	2009	2008	*QTD Q3/11 vs. Q3/10*	*Nine months ended December 31* 2010	2009	2008	*YTD fiscal 2011 vs. 2010*
Canaccord Financial Inc.								
Revenue								
Commission	**$ 87,433**	$ 60,696	$ 51,473	44.1%	**$ 212,691**	$ 172,780	$ 184,099	23.1%
Investment banking	**116,716**	82,089	8,887	42.2%	**223,853**	161,045	87,770	39.0%
Advisory fees	**25,276**	6,328	11,311	299.4%	**59,212**	30,878	42,599	91.8%
Principal trading	**10,658**	15,645	3,781	(31.9)%	**26,213**	38,704	9,779	(32.3)%
Interest	**7,753**	3,099	9,108	150.2%	**16,333**	9,696	33,171	68.5%
Other	**6,998**	5,340	2,628	31.0%	**17,734**	21,301	13,307	(16.7)%
Total revenue	**$ 254,834**	$ 173,197	$ 87,188	47.1%	**$ 556,036**	$ 434,404	$ 370,725	28.0%
Expenses								
Incentive compensation	**127,033**	93,872	43,299	35.3%	**271,947**	226,301	177,003	20.2%
Salaries and benefits	**14,739**	14,945	12,817	(1.4)%	**46,877**	42,730	42,455	9.7%
Other overhead expenses(2)	**49,816**	42,070	52,418	18.4%	**141,804**	119,207	154,060	19.0%
Acquisition-related costs	**1,750**	–	–	n.m.	**12,740**	–	–	n.m.
ABCP fair value adjustment	–	–	6,700	–	–	–	6,700	–
Client relief provision	–	–	2,700	–	–	–	2,700	–
Canaccord relief program fair value adjustment	–	–	2,647	–	–	–	2,647	–
Impairment of goodwill and intangible assets	–	–	31,524	–	–	–	31,524	–
Restructuring costs	–	–	7,520	–	–	–	7,520	–
Total expenses	**$ 193,338**	$ 150,887	$ 159,625	28.1%	**$ 473,368**	$ 388,238	$ 424,609	21.9%
Income (loss) before income taxes	**61,496**	22,310	(72,437)	175.6%	**82,668**	46,166	(53,884)	79.1%
Net income (loss)	**42,704**	15,113	(62,378)	182.6%	**57,290**	30,971	(51,317)	85.0%
Earnings (loss) per diluted share	**0.51**	0.27	(1.27)	140.2%	**0.71**	0.56	(1.05)	26.8%
Return on average common equity (ROE)(3)	**24.2%**	15.2%	(64.3)%	9.0 p.p.	**11.2%**	10.6%	(18.0)%	0.6p.p.
Dividends per share	**0.075**	0.05	–	50.0%	0.175	0.10	0.125	75.0%
Book value per diluted common share	**8.42**	7.00	6.37	20.3%				
Total assets	**4,569,589**	2,583,857	1,679,685	76.8%				
Total liabilities	**3,845,995**	2,183,190	1,321,724	76.1%				
Total shareholders' equity	**723,594**	400,667	357,961	80.6%				
Number of employees	**1,628**	1,570	1,570	3.7%				
Excluding significant and acquisition-related expense items(4)(5)								
Total expenses	**$ 190,658**	$ 150,887	$ 108,534	26.4%	**$ 456,432**	$ 388,238	$ 373,518	17.6%
Income (loss) before income taxes	**64,176**	22,310	(21,346)	187.7%	**99,604**	46,166	(2,793)	115.8%
Net income (loss)	**45,311**	15,113	(5,104)	199.8%	**70,743**	30,971	(5,181)	128.4%
Earnings (loss) per diluted share	**0.54**	0.27	(0.33)	100.0%	**0.87**	0.56	(0.11)	55.4%

(1) Data is considered to be GAAP except for ROE, book value per diluted common share, number of employees and figures excluding significant and acquisition-related expense items.
(2) Consists of trading costs, premises and equipment, communication and technology, interest, general and administrative, amortization and development costs.
(3) ROE is presented on an annualized basis. ROE for the third quarter 2011 is calculated by dividing the annualized net income for the three months ending December 31, 2010 over the average shareholders' equity. ROE for year-to-date 2011 is calculated by dividing the annualized net income for the nine months ending December 31, 2010 over the average shareholders' equity.
(4) Acquisition-related expense items in the third quarter 2011 include $1.8 million for costs incurred for the acquisition of The Balloch Group Limited and $0.9 million of amortization of intangible assets in connection with the acquisition of Genuity Capital Markets. Acquisition-related expense items during the nine months ended December 31, 2010 include $11.0 million for acquisition-related costs and $4.2 million for the amortization of intangible assets related to the acquisition of Genuity, and $1.8 million for costs incurred for the acquisition of The Balloch Group Limited.
(5) Significant items include ABCP fair value adjustment, Canaccord and client relief programs, impairment of goodwill and intangible assets, and restructuring costs recorded in fiscal 2008.
(6) Data includes the results of Genuity since the closing date of April 23, 2010.
p.p.: percentage points
n.m.: not meaningful

Geographic distribution of revenue for the third quarter of fiscal 2011(1)

(C$ thousands, except % amounts)	Three months ended December 31 2010	2009	Quarter-over-quarter change	Nine months ended December 31 2010	2009	YTD-over-YTD change
Canada	**$ 196,906**	$ 123,626	59.3%	**$ 415,317**	$ 290,750	42.8%
UK	**23,339**	26,420	(11.7)%	**58,122**	61,120	(4.9)%
US	**34,173**	22,817	49.8%	**81,972**	80,133	2.3%
Other Foreign Location	**416**	334	24.6%	**625**	2,401	(74.0)%
Total	**$ 254,834**	$ 173,197	47.1%	**$ 556,036**	$ 434,404	28.0%

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

Revenue

Third quarter 2011 vs. third quarter 2010

On a consolidated basis, revenue is generated through six activities: commissions and fees associated with agency trading and private client wealth management activity, investment banking, advisory fees, principal trading, interest and other. Revenue for the three months ended December 31, 2010 was a record high of $254.8 million, an increase of 47.1% or $81.6 million compared to the same period a year ago.

For the third quarter of fiscal 2011, revenue generated from commissions increased by $26.7 million to $87.4 million compared to the same period a year ago. Our Canaccord Genuity segment contributed $14.8 million while our Canaccord Wealth Management segment contributed $11.7 million to this increase.

Investment banking revenue was $116.7 million, up $34.6 million or 42.2%, primarily due to increased capital markets activities from our Canadian operations. Advisory revenue was up 299.4% from the same period a year ago to $25.3 million. The strength in investment banking revenue this quarter is a reflection of the improved economic environment, increased performance from our focus sectors and the incremental revenue generated from the acquisition of Genuity.

Revenue derived from principal trading was $10.7 million, down $5.0 million or 31.9%, primarily due to decreased trading gains from our Fixed Income and Canaccord Wealth Management segments.

Interest revenue was $7.8 million, which increased by $4.7 million or 150.2% resulting from higher interest rates and additional interest revenue earned from activities in the Fixed Income group in Q3/11. Other revenue was $7.0 million, up $1.7 million or 31.0%, which was mainly attributable to an increase in foreign exchange gains in the quarter compared to the same period last year.

Third quarter revenue in Canada was $196.9 million, an increase of 59.3% or $73.3 million from the third quarter last year. Revenue in our Canadian operations strengthened in Q3/11 as a result of the positive market trends, increased performance from our focus sectors and the acquisition of Genuity.

Revenue in the UK was $23.3 million, a decrease of 11.7% or $3.1 million compared to the same period a year ago. The UK revenue decreased slightly due to fewer investment banking transactions. Revenue from Other Foreign Location was $0.4 million, an increase of $0.1 million.

Revenue in the US was $34.2 million, up $11.4 million or 49.8% from Q3/10. Revenue increased from the third quarter last year because of increased activities in both public and private offerings and advisory work.

Year-to-date fiscal year 2011 vs. year-to-date fiscal year 2010

Revenue for the nine months ended December 31, 2010 was $556.0 million, an increase of 28.0% or $121.6 million compared to the same period a year ago as a result of the improved economic environment, the acquisition of Genuity and increased activities in our focus sectors. Clients in both the Canaccord Wealth Management and Canaccord Genuity segments increased their trading activities during the third quarter compared to the same period a year ago, resulting in an increase in commission revenue of 23.1% to $212.7 million.

The Company's growing capital markets business contributed to the increase in investment banking and advisory revenue. Investment banking revenue was $223.9 million, up $62.8 million or 39.0% and advisory revenue was $59.2 million representing an increase of $28.3 million or 91.8%.

Principal trading revenue experienced a decline of $12.5 million to $26.2 million compared to the same period last year due to reduced trading gains in our Canaccord Wealth Management segment, the UK and Canadian capital markets operations, and the Fixed Income group.

Interest revenue was $16.3 million, an increase of 68.5% due to higher interest rates and additional interest revenue earned by the Fixed Income group. Other revenue decreased by $3.6 million to $17.7 million during the nine months ended December 31, 2010, largely as a result of reduced foreign exchange gains. First quarter of fiscal year 2010 experienced large fluctuations in foreign exchange rates resulting in exceptionally high foreign exchange gains during that quarter that did not recur in the less volatile foreign exchange market during the nine months ended December 31, 2010.

Year-to-date revenue in Canada was $415.3 million, an increase of 42.8% or $124.6 million from the same period a year ago. Year-to-date fiscal year 2011 revenue in the UK was $58.1 million, down 4.9% or $3.0 million from the same period a year ago. Revenue in the US was $82.0 million, an increase of 2.3% or $1.8 million compared with the nine months ended December 31, 2009. Revenue from Other Foreign Location was $0.6 million compared to $2.4 million in the same period a year ago. Overall, the positive market trends, increased performance of our sectors, and expansion of the Canaccord Genuity segment have led to tremendous growth in investment banking and advisory fees. In addition, higher revenue from the Canaccord Wealth Management segment also contributed to the 28.0% increase in overall revenue over the comparative period last year.

Expenses as a percentage of revenue

	Three months ended December 31			*Nine months ended December 31*		
(in percentage points)	*2010*	*2009*	*Quarter-over-quarter change*	*2010*	*2009*	*YTD-over-YTD change*
Incentive compensation	**49.8%**	54.2%	(4.4)p.p.	**48.9%**	52.1%	(3.2)p.p.
Salaries and benefits	**5.8%**	8.6%	(2.8)p.p.	**8.4%**	9.8%	(1.4)p.p.
Other overhead expenses(1)	**19.6%**	24.3%	(4.7)p.p.	**25.5%**	27.5%	(2.0)p.p.
Acquisition-related costs	**0.7%**	–	0.7p.p.	**2.3%**	–	2.3p.p.
Total	**75.9%**	87.1%	(11.2)p.p.	**85.1%**	89.4%	(4.3)p.p.

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

Compensation expenses

Third quarter 2011 vs. third quarter 2010

Expenses for the three months ended December 31, 2010 were $193.3 million, an increase of 28.1% from a year ago.

Incentive compensation expense was $127.0 million for the quarter, up 35.3% or $33.2 million, consistent with the net increase in incentive-based revenue. Incentive compensation as a percentage of total revenue was 49.8%, a decrease of 4.4 percentage points, reflecting the Company's continued efforts to monitor the incentive compensation structure to maximize shareholder value. In addition, reclassification of expense recoveries to compensation pools contributed to the decrease. Salaries and benefits expense was $14.7 million, a decrease of 1.4% in the third quarter of fiscal 2011 from the same period a year ago.

Total compensation (incentive compensation plus salaries) expense as a percentage of revenue for Q3/11 was 55.6%, a decrease of 7.2 percentage points from 62.8% in Q3/10. As discussed above, this was mainly due to the Company's efforts to manage its compensation structure to maximize shareholder value.

Year-to-date fiscal year 2011 vs. year-to-date fiscal year 2010

Expenses for the nine months ended December 31, 2010 were $473.4 million, an overall increase of $85.1 million or 21.9% from a year ago.

Incentive compensation expense was $271.9 million, up 20.2%, which was consistent with the increase in incentive-based revenue. Incentive compensation as a percentage of total revenue was 48.9%, a decrease of 3.2 percentage points mainly as a result of continued monitoring of the incentive compensation ratio by the Company and the reclassification of expense recoveries to compensation pools. Salaries and benefits expense was $46.9 million, an increase of 9.7% in the nine months ended December 31, 2010 compared to the same period a year ago due to changes in staffing levels, as well as classification of certain expenses as salaries and benefits expense in the current year rather than as development costs. The total compensation (incentive compensation plus salaries) expense as a percentage of consolidated revenue was 57.3%, a decrease of 4.6 percentage points from 61.9% in the same period for the prior year.

Other overhead expenses

(C$ thousands, except % amounts)	Three months ended December 31 2010	2009	Quarter-over-quarter change	Nine months ended December 31 2010	2009	YTD-over-YTD change
Trading costs	**$ 7,937**	$ 7,140	11.2%	**$ 22,883**	$ 21,466	6.6%
Premises and equipment	**7,077**	6,228	13.6%	**19,755**	18,214	8.5%
Communication and technology	**6,111**	5,838	4.7%	**19,159**	16,572	15.6%
Interest	**3,037**	631	381.3%	**5,326**	1,968	170.6%
General and administrative	**17,049**	13,609	25.3%	**48,830**	37,195	31.3%
Amortization(1)	**2,786**	1,904	46.3%	**9,776**	5,731	70.6%
Development costs	**5,819**	6,720	(13.4)%	**16,075**	18,061	(11.0)%
Total other overhead expenses	**$ 49,816**	$ 42,070	18.4%	**$ 141,804**	$ 119,207	19.0%

(1) Includes $0.9 million of amortization of intangible assets in connection with the acquisition of Genuity Capital Markets for the three months ended December 31, 2010 and $4.2 million for the nine months ended December 31, 2010.

Other overhead expenses

Third quarter 2011 vs. third quarter 2010

Other overhead expenses increased by 18.4% or $7.7 million from the prior year to $49.8 million for the third quarter of fiscal 2011 mainly due to a $3.4 million increase in general and administrative expense, a $2.4 million increase in interest expense, a $0.9 million increase in amortization expense, and a $0.8 million increase in trading cost expense, offset by a $0.9 million decrease in development costs.

The Company recovers certain expenses from compensation pools, which were netted against the related expenses in previous periods. Beginning in Q1/11, these expense recoveries were reflected in incentive compensation expense resulting in a decrease in this expense and an increase in promotion and travel, and communication and technology expense.

The main contributor to the $3.4 million increase in general and administrative expense was an increase in promotion and travel expense of $2.3 million largely explained by the reclassification discussed above. The credit provision was up by $1.0 million due to $0.6 million of credit recoveries in the Canaccord Wealth Management segment and UK operations in Q3/10 that did not recur in Q3/11.

Amortization of intangible assets acquired through the purchase of Genuity resulted in the $0.9 million increase in amortization expense. Interest expense was up by $2.4 million, which was attributable to higher interest rates and additional interest expense incurred by the Fixed Income group. Trading costs increased by $0.8 million or 11.2%, consistent with the growth in revenue.

Development costs decreased by $0.9 million compared to Q3/10 as a result of reduced hiring incentives in the current period.

Year-to-date fiscal year 2011 vs. year-to-date fiscal year 2010

Other overhead expenses for the nine months ended December 31, 2010 increased by 19.0% or $22.6 million to $141.8 million from the same period a year ago. The main contributors were increases in general and administrative expense of $11.6 million, amortization expense of $4.0 million, interest expense of $3.4 million, and communication and technology expense of $2.6 million.

General and administrative expense increased by $11.6 million primarily as a result of the $6.4 million increase in promotion and travel expense resulting largely from the reclassification as discussed above. In addition, office expense increased by $1.6 million due mostly to the printing of new marketing materials. As per the Company's policy of reserving against unsecured balances, the Company recognized an additional $1.9 million credit provision in the nine months ended December 31, 2010 compared to the same period last year.

The remaining increase in overhead expenses was due to the additional $4.2 million increase in amortization of intangible assets acquired through the purchase of Genuity. Reclassification of certain expense recoveries mentioned above also resulted in a $2.6 million increase in communication and technology expense. Interest expense was also up by $3.4 million resulting from activities in the Fixed Income group.

Development costs decreased by $2.0 million due to reduced expenditures on systems development and hiring incentives.

Net income

Third quarter 2011 vs. third quarter 2010

Net income for Q3/11 was $42.7 million compared to net income of $15.1 million in the same period a year ago. Diluted EPS was $0.51 in Q3/11, compared to diluted EPS of $0.27 in Q3/10. The increase in net income was mainly due to stronger revenue performance and reduced compensation ratio levels in the Canaccord Genuity segment. ROE for Q3/11 was 24.2% compared to ROE of 15.2% in Q3/10. Book value per diluted common share for Q3/11 was $8.42 versus $7.00 in Q3/10. Excluding acquisition-related expense items, net income was $45.3 million and diluted EPS was $0.54.

The effective tax rate for this quarter was 30.6% compared to 32.3% in the same quarter last year. The higher taxable income in Q3/11 has led to the utilization of additional non-capital loss carryforwards resulting in a lower tax rate compared to the prior period. In addition, there has been a decrease in the statutory tax rates compared to the prior period.

Year-to-date fiscal year 2011 vs. year-to-date fiscal year 2010

Net income for the nine months ended December 31, 2010 was $57.3 million compared to $31.0 million for the same period a year ago. Although the acquisition of Genuity led to an increase in revenue, the Company incurred $17.0 million of acquisition-related expense items. Diluted EPS was $0.71 compared to $0.56 a year ago, and ROE was 11.2% compared to 10.6% a year ago. Book value per diluted common share at the period end was $8.42, a 20.3% increase from $7.00. Net income excluding acquisition-related expense items was $70.7 million and diluted EPS excluding acquisition-related expense items was $0.87.

The year-to-date effective tax rate was 30.7% compared to 32.9% for the same period last year. The higher taxable income in the nine months ended December 31, 2010 has led to the utilization of additional non-capital loss carryforwards resulting in a lower tax rate compared to the prior period. In addition, there has been a decrease in the statutory tax rates compared to the prior period.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

Canaccord Genuity[1][4]

	Three months ended December 31			Nine months ended December 31		
(C$ thousands, except number of employees and % amounts)	*2010*	*2009*	*Quarter-over-quarter change*	*2010*	*2009*	*YTD-over-YTD change*
Canaccord Genuity						
Revenue	**$ 177,758**	$ 116,090	53.1%	**$ 374,873**	$ 280,062	33.9%
Expenses						
Incentive compensation	**83,843**	63,567	31.9%	**177,252**	151,559	17.0%
Salaries and benefits	**3,896**	4,441	(12.3)%	**12,071**	11,221	7.6%
Other overhead expenses	**29,634**	20,102	47.4%	**81,400**	58,480	39.2%
Acquisition-related costs	**1,750**	–	n.m.	**12,740**	–	n.m.
Total expenses	**$ 119,123**	$ 88,110	35.2%	**$ 283,463**	$ 221,260	28.1%
Income before income taxes[2]	**58,635**	27,980	109.6%	**91,410**	58,802	55.5%
Number of employees	**592**	503	17.7%			
Excluding acquisition-related expense items[3]						
Total expenses	**116,443**	88,110	32.2%	**266,527**	221,260	20.5%
Income before income taxes	**61,315**	27,980	119.1%	**108,346**	58,802	84.3%

(1) Data is considered to be GAAP except for number of employees and figures excluding acquisition-related expense items.
(2) Income before income taxes excludes Intersegment Allocated Costs. See "Intersegment Allocated Costs".
(3) Acquisition-related expense items in the third quarter 2011 include $1.8 million for costs incurred for the acquisition of The Balloch Group Limited and $0.9 million of amortization of intangible assets in connection with the acquisition of Genuity Capital Markets. Acquisition-related expense items during the nine months ended December 31, 2010 include $11.0 million for acquisition-related costs and $4.2 million for the amortization of intangible assets related to the acquisition of Genuity, and $1.8 million for costs incurred for the acquisition of The Balloch Group Limited.
(4) Data includes the results of Genuity since the closing date of April 23, 2010.
n.m.: not meaningful

Revenue from Canaccord Genuity is generated from commissions and advisory 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 2011 vs. third quarter 2010

Revenue for Canaccord Genuity in Q3/11 was $177.8 million, an increase of 53.1% or $61.7 million from the same quarter a year ago as a result of the improved economic environment, increased activities in our focus sectors, and the acquisition of Genuity.

Revenue from Canadian operations

Canaccord Genuity in Canada generated revenue of $121.4 million in Q3/11, an increase of 80.2% or $54.0 million from Q3/10. Within Canada, $109.4 million was derived from investment banking and equities activity, while $12.0 million was from international trading, registered traders and fixed income operations. Canadian revenue for Canaccord Genuity of $121.4 million represented 68.3% (Q3/10: 58.0%) of Canaccord Genuity's total revenue. The increase in capital market activities resulting from the Genuity acquisition as well as positive North American market trends resulted in a record quarter for our Canadian operations.

Revenue from UK and Other Foreign Location operations

Canaccord Genuity's operations in the UK and Europe include providing sales and trading, corporate finance and research services to our institutional and corporate customers. Revenue derived from capital markets activities outside of Canada, the UK and the US is reported as Other Foreign Location, which includes operations for Canaccord International Ltd. Revenue in the UK and Other Foreign Location was $23.8 million, which decreased 11.2% or $3.0 million from the same period a year ago mainly due to decreased investment banking activities. UK and Other Foreign Location revenue of $23.8 million was 13.4% (Q3/10: 23.0%) of Canaccord Genuity's total revenue.

Revenue from US operations

Third quarter fiscal 2011 revenue for Canaccord Genuity in the US was $32.6 million, an increase of $10.6 million or 48.4% compared to the same period last year primarily due to increased public and private offering activities. Revenue from US operations represented 18.3% (Q3/10: 18.9%) of Canaccord Genuity's total revenue.

Expenses

Expenses for Q3/11 were $119.1 million, up 35.2% or $31.0 million. The primary contributors to this increase were incentive compensation expense of $20.3 million, general and administrative expense of $3.5 million, interest expense of $2.3 million, acquisition-related costs of $1.8 million, communication and technology expense of $1.0 million, trading costs of $0.9 million and amortization of $0.9 million.

The Company recovers certain expense items from compensation pools. These expense recoveries were previously reflected in the related expense items in prior periods, but these recoveries have been reclassified to incentive compensation beginning in Q1/11. Therefore, the reclassification has reduced incentive compensation expense and contributed to the increase in promotion and travel expense of $2.8 million, and communication and technology expense of $1.0 million in Q3/11 compared to the same period a year ago.

The reclassification of expense recoveries discussed above has contributed to the decrease in the incentive compensation ratio from 54.8% to 47.2%. In addition, the Company has continued its efforts to monitor the incentive compensation structure to maximize shareholder value. Salaries and benefits expense was $3.9 million, down $0.5 million or 12.3% compared to the third quarter of fiscal 2010.

General and administrative expense was $9.3 million in Q3/11, up $3.5 million or 59.9%. Promotion and travel expense increased by $2.8 million or 113.3%, largely as a result of the reclassification discussed above. The Company's policy of reserving against unsecured balances led to an increase in credit provision expense by $0.7 million compared to the same quarter in the prior year.

Included in amortization expense in Q3/11 is $0.9 million of amortization of intangible assets related to the acquisition of Genuity. Interest expense was up $2.3 million, attributable to additional interest incurred from the Fixed Income group's activities.

Net income

Income before income taxes excluding allocated overhead expenses for the quarter was $58.6 million, an increase of $30.7 million or 109.6% from the same quarter a year ago. The acquisition of Genuity as well as stronger business in the capital markets operations resulted in a higher pre-tax income in Q3/11 compared to Q3/10. Excluding acquisition-related expense items, income before income taxes in Q3/11 was $61.3 million compared to $28.0 million in Q3/10.

Year-to-date fiscal year 2011 vs. year-to-date fiscal year 2010

Revenue for Canaccord Genuity for the nine months ended December 31, 2010 was $374.9 million, which increased $94.8 million from the same period last year as a result of the improved economic environment, increased activities in our focus sectors and the acquisition of Genuity.

Revenue from Canadian operations

In Canada, revenue was $237.6 million, an increase of 71.8% from the same period a year ago. Within Canada, $212.4 million was derived from investment banking and agency activities, while $25.3 million was from international trading, registered traders and fixed income operations. The acquisition of Genuity as well as strong performances in all focus sectors led to the significant increase in revenue in Canada. Overall, Canadian revenue represented 63.4% of Canaccord Genuity's total revenue (YTD fiscal 2010: 49.4%).

Revenue from UK and Other Foreign Location operations
The UK and Other Foreign Location revenue was $58.7 million, a decrease of $4.8 million from the same period a year ago. Revenue from the UK and Other Foreign Location operations represented 15.7% of Canaccord Genuity's total revenue (YTD fiscal 2010: 22.7%).

Revenue from US operations
Revenue was $78.5 million, an increase of $0.3 million or 0.3% compared to the same period a year ago. Revenue from US operations represented 20.9% of Canaccord Genuity's total revenue (YTD fiscal 2010: 28.0%).

Expenses
Expenses for the nine months ended December 31, 2010 were $283.5 million, up 28.1% or $62.2 million. The higher expenses were mainly attributed to increases in incentive compensation expense of $25.7 million, acquisition-related costs of $12.7 million, general and administrative expense of $9.4 million, amortization of $4.2 million, communication and technology expense of $3.7 million, interest expense of $3.5 million and trading costs of $1.8 million.

Acquisition-related expense items of $15.2 million were incurred in relation to the purchase of Genuity and $1.8 million in relation to the purchase of The Balloch Group Limited during the nine months ended December 31, 2010. Acquisition-related expense items include: $6.6 million of severance, $2.8 million of lease termination costs, $4.2 million of amortization of intangible assets, $1.6 million of professional and consulting fees, and $1.8 million of other expenses.

Incentive compensation ratio decreased to 47.3% from 54.1% due to the Company's continued efforts to maximize shareholder value by monitoring the incentive compensation structure, as well as reclassification of pool recoveries as discussed above. Salaries and benefits expense for the nine months ended December 31, 2010 experienced a slight increase of $0.9 million consistent with the 17.7% growth in employees.

General and administrative expense was $26.4 million in the nine months ended December 31, 2010, up $9.4 million or 55.6%. Promotion and travel expense increased by $7.4 million, partially as a result of the reclassification discussed above. Promotion and travel expense also increased as a result of the Company's sales and marketing initiatives and higher staffing levels. The Company's policy of reserving against unsecured balances led to an increase in credit provision expense by $1.5 million compared to the same period in the prior year.

Communication and technology expense also increased by $3.7 million largely due to the reclassification of pool recoveries. Interest expense was up by $3.5 million, which was attributable to the Fixed Income group's activities. An additional $1.8 million of trading costs was incurred to support the revenue growth this quarter. The amortization of intangible assets in connection with the acquisition of Genuity resulted in the $4.2 million increase in amortization expense.

Net income
Income before income taxes excluding allocated overhead expenses for the nine months ended December 31, 2010 was $91.4 million, an increase of $32.6 million or 55.5% from the same period a year ago. Income before income taxes was higher for the nine months ended December 31, 2010 compared to the same period in the prior year as a result of revenue growth in this segment, offset by $17.0 million of acquisition-related expense items. Excluding acquisition-related expense items, income before income taxes in the third quarter ending December 31, 2010 was $108.3 million compared to $58.8 million for the same period last year.

Canaccord Wealth Management(1)

	Three months ended December 31			*Nine months ended December 31*		
(C$ thousands, except AUM and AUA, which are in C$ millions; number of employees; Advisory Teams; and % amounts)	*2010*	*2009*	*Quarter-over-quarter change*	*2010*	*2009*	*YTD-over-YTD change*
Revenue	**$ 68,599**	$ 51,733	32.6%	**$ 160,345**	$ 132,056	21.4%
Expenses						
Incentive compensation	**34,997**	24,376	43.6%	**80,560**	62,387	29.1%
Salaries and benefits	**3,601**	4,015	(10.3)%	**12,300**	12,621	(2.5)%
Other overhead expenses	**12,510**	13,656	(8.4)%	**37,070**	37,420	(0.9)%
Total expenses	**$ 51,108**	$ 42,047	21.5%	**$ 129,930**	$ 112,428	15.6%
Income before income taxes(2)	**17,491**	9,686	80.6%	**30,415**	19,628	55.0%
Assets under management	**514**	423	21.7%			
Assets under administration	**16,006**	12,210	31.1%			
Number of Advisory Teams	**272**	327	(16.8)%			
Number of employees	**671**	707	(5.1)%			

(1) Data is considered to be GAAP except for AUM, AUA, number of Advisory Teams and number of employees.
(2) Income before income taxes excludes Intersegment Allocated Costs. See "Intersegment Allocated Costs".

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

Third quarter 2011 vs. third quarter 2010

Revenue from Canaccord Wealth Management was $68.6 million, an increase of $16.9 million or 32.6% mainly due to an $11.7 million increase in commission revenue and $8.5 million increase in investment banking revenue. This segment was able to benefit from the growth in our capital markets activities, as demonstrated in the increase in investment banking revenue this quarter. The overall growth in revenue is consistent with the movement in AUA and AUM, and also reflects the Company's strategic initiatives in this sector.

AUA grew by 31.1% or $3.8 billion to $16.0 billion compared to Q3/10 primarily due to higher market values. AUM increased by 21.5% year over year. There were 272 Advisory Teams at the end of the third quarter of fiscal 2011, a decrease of 55 from a year ago due to an ongoing strategic review of the Canaccord Wealth Management segment and the conversion of corporate branches to the Independent Wealth Management (IWM) platform. Canaccord's fee-based revenue was 1.2 percentage points lower than the same quarter of the prior year and accounted for 10.5% of Canaccord Wealth Management's revenue during the third quarter 2011.

Expenses for Q3/11 were $51.1 million, an increase of 21.5% or $9.1 million. This change was made up of an increase in incentive compensation expense of $10.6 million offset by decreases in development costs of $0.9 million, communication and technology of $0.4 million, and salaries and benefits of $0.4 million. The movement in incentive compensation expense was due to increased activities in the third quarter of fiscal year 2011. Incentive compensation ratio was 51.0% in Q3/11 compared to 47.1% in Q3/10. Development costs decreased by $0.9 million due to lower hiring incentives in Q3/11.

Communication and technology expense was $1.3 million, a decrease of $0.4 million as a result of the segment's initiatives to reduce expenses. Salaries and benefits decreased by $0.4 million to $3.6 million due to lower staffing levels.

Income before income taxes excluding allocated overhead expenses for the quarter was $17.5 million compared to an income of $9.7 million from the same period a year ago. Revenue growth in this segment as well as cost containment efforts resulted in the higher income before income taxes.

Year-to-date fiscal year 2011 vs. year-to-date fiscal year 2010

Revenue from Canaccord Wealth Management was $160.3 million, an increase of $28.3 million. This increase was attributed to an increase in commission revenue of $19.4 million, investment banking revenue of $13.9 million, interest revenue of $1.1 million, offset by a decline in principal trading revenue of $5.9 million. Fee-related revenue as a percentage of total Canaccord Wealth Management revenue remained relatively consistent at 12.8% compared to 13.4% in the same period last year.

Expenses for the nine months ended December 31, 2010 were $129.9 million, up $17.5 million or 15.6%. Incentive compensation expense increased by $18.2 million or 29.1%, in line with the 21.4% growth in total revenue. The total compensation expense payout as a percentage of revenue for the first nine months of fiscal 2011 was 57.9%, an increase of 1.1 percentage points from 56.8% for the same period a year ago.

General and administrative expense increased $1.7 million or 16.5%. General and administrative expense was up as a result of an increase in office expense of $0.9 million resulting from the printing of marketing materials, as well as a $1.2 million increase in client settlement expense. Reserve expense increased by $0.4 million as a result of credit recoveries in Q3/10 that did not recur in Q3/11. These increases in expenses were offset by a $0.7 million decrease in promotion and travel expense resulting from this segment's efforts to monitor spending.

The increase in expenses was partially offset by a decrease in communication and technology expense of $0.8 million, development costs of $0.6 million, trading costs of $0.4 million and salaries and benefits expense of $0.3 million. The lower expenses were a result of this segment's cost reduction efforts. As a reflection of our strategy to contain expenses, non-compensation expense as a percentage of revenue dropped 5.2 percentage points from 28.3% to 23.1%.

Income before income taxes excluding allocated overhead expenses for the nine months ended December 31, 2010 was $30.4 million compared to $19.6 million from the same period a year ago.

Corporate and Other[1]

(C$ thousands, except number of employees and % amounts)	Three months ended December 31 2010	2009	Quarter-over-quarter change	Nine months ended December 31 2010	2009	YTD-over-YTD change
Revenue	**$ 8,477**	$ 5,374	57.7%	**$ 20,818**	$ 22,286	(6.6)%
Expenses						
Incentive compensation	**8,193**	5,929	38.2%	**14,135**	12,355	14.4%
Salaries and benefits	**7,242**	6,489	11.6%	**22,506**	18,888	19.2%
Other overhead expenses	**7,672**	8,312	(7.7)%	**23,334**	23,307	0.1%
Total expenses	**$ 23,107**	$ 20,730	11.5%	**$ 59,975**	$ 54,550	9.9%
Loss before income taxes[2]	**(14,630)**	(15,356)	4.7%	**(39,157)**	(32,264)	21.4%
Number of employees	**365**	360	1.4%			

(1) Data is considered to be GAAP except for number of employees.
(2) Income before income taxes excludes Intersegment Allocated Costs. See "Intersegment Allocated Costs".

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

Third quarter 2011 vs. third quarter 2010

Revenue for the three months ended December 31, 2010 was $8.5 million, an increase of 57.7% or $3.1 million from the same quarter a year ago. The change was mainly related to a $1.9 million increase in foreign exchange gains and a $1.0 million increase in interest revenue. Foreign exchange gains relate to fluctuations in the foreign exchange rates and interest revenue was up due to higher interest rates.

Expenses for Q3/11 were $23.1 million, an increase of $2.4 million or 11.5%. Incentive compensation expense increased by $2.3 million due to compensation based on higher group profitability. Salaries and benefits expense was up $0.8 million, mostly due to the Company reclassifying salaries and benefit expense relating to systems development to this expense line item. This reclassification also explains the $0.5 million decrease in development costs. Premises and equipment increased by $0.5 million from Q3/10 as a result of additional lease commitments assumed by the Company from the acquisition of Genuity.

Overall, loss before income taxes was $14.6 million in Q3/11 compared to $15.4 million in the same quarter a year ago.

Year-to-date fiscal year 2011 vs. year-to-date fiscal year 2010

Revenue was $20.8 million, down $1.5 million, primarily attributed to lower foreign exchange gains in the nine months ended December 31, 2010. There were significant fluctuations in the foreign exchange rates during the first quarter of fiscal year 2010 resulting in exceptionally high gains reported by the Company during that period. The decrease in revenue resulting from the lower foreign exchange gain was partially offset by an increase in interest revenue due to higher interest rates.

Expenses for the nine months ended December 31, 2010 were $60.0 million, an increase of $5.4 million. Incentive compensation was higher by $1.8 million or 14.4% due to compensation based on higher group profitability. Salaries and benefits expense was up $3.6 million or 19.2% partially due to higher staffing levels during the year compared to the same period a year ago and the reclassification of development costs discussed above. This reclassification resulted in a decrease in development costs of $1.6 million. Premises and equipment expense increased by $1.5 million or 46.0% due to additional lease commitments as discussed above.

Overall, loss before income taxes was $39.2 million compared to $32.3 million for the same period a year ago.

INTERSEGMENT ALLOCATED COSTS

Included in the Corporate and Other segment are certain trade processing, support services, research and other expenses that have been incurred to support the activities within the Canaccord Genuity and Canaccord Wealth Management segments. Excluding executive incentive compensation and certain administrative support, foreign exchange gains and losses, and net interest, management has determined that allocable costs from Corporate and Other to Canaccord Wealth Management were $8.4 million for the three months ending December 31, 2010 and to Canaccord Genuity such allocable costs were $2.7 million. For the nine months ending December 31, 2010, $27.2 million was allocated to Canaccord Wealth Management and $8.4 million to Canaccord Genuity.

FINANCIAL CONDITION

Below are specific changes in selected balance sheet items.

Assets

Cash and cash equivalents were $713.1 million on December 31, 2010 compared to $731.9 million on March 31, 2010. Refer to the Liquidity and Capital Resources section below for more details.

Securities owned were $1.1 billion compared with $362.8 million on March 31, 2010, mainly attributable to growth in fixed income activity, and increased holding in equities and convertible debentures and corporate finance bought deal positions. The increase in fixed income holdings was a result of the continuing corporate initiative to expand the Fixed Income group, which deals in the primary and secondary markets for various fixed income products.

Accounts receivable were $2.4 billion at December 31, 2010 compared to $2.0 billion at March 31, 2010, mainly due to increases in receivables from brokers and investment dealers resulting from the expansion of the Fixed Income group.

Goodwill was $242.1 million and intangible assets were $74.9 million, representing the goodwill and intangible assets acquired from the purchase of Genuity.

Other assets consisting of future income taxes, equipment and leasehold improvements, and investments remained relatively consistent at $58.3 million compared to $56.3 million at March 31, 2010.

Liabilities

Bank overdrafts and call loan facilities utilized by Canaccord may vary significantly on a day-to-day basis and depend on securities trading activity. At December 31, 2010 Canaccord had available credit facilities with banks in Canada and the UK in the aggregate amount of $418.1 million [March 31, 2010 – $411.4 million]. These credit facilities, consisting of call loans, letters of credit and daylight overdraft facilities are collateralized by either unpaid client securities and/or securities owned by the Company. On December 31, 2010 there was bank indebtedness of $34.9 million compared to $29.4 million on March 31, 2010 related to these facilities.

Securities sold short were $853.9 million at December 31, 2010 compared to $364.1 million at March 31, 2010. This increase was a result of the Company's initiative to expand the Fixed Income group.

Accounts payable were $2.9 billion compared to $2.3 billion at March 31, 2010. The increase in accounts payable to brokers and investment dealers resulting from the growth of the Fixed Income group explains most of the increase in accounts payable.

Non-current future income tax liability was $23.1 million largely due to the recognition of a future income tax liability in connection with the intangible assets acquired through the purchase of Genuity.

Other liabilities were $23.7 million at December 31, 2010 and $20.4 million at March 31, 2010. The decrease was due mainly to a drop in income taxes payable.

OFF-BALANCE SHEET ARRANGEMENTS

A subsidiary of the Company has entered into irrevocable secured standby letters of credit from a financial institution totalling $2.3 million (US$2.3 million) [March 31, 2010 – $2.3 million (US$2.3 million)] as rent guarantees for its leased premises in Boston, New York and San Francisco.

LIQUIDITY AND CAPITAL RESOURCES

Canaccord has a capital structure comprised of share capital, contributed surplus retained earnings and accumulated other comprehensive loss. On December 31, 2010 cash and cash equivalents were $713.1 million, a decrease of $18.8 million from $731.9 million as of March 31, 2010. During the nine months ended December 31, 2010 financing activities used cash in the amount of $22.8 million mainly due to the acquisition of common shares for LTIP and dividends paid. Investing activities used cash in the amount of $51.6 million primarily related to the acquisition of Genuity. Operating activities provided cash in the amount of $57.0 million, which was primarily due to net income earned from operations during this period. A decrease in cash of $1.4 million was attributed to the effect of foreign exchange on cash balances. In total, there was a decrease in net cash of $18.8 million compared to March 31, 2010.

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

The following table summarizes Canaccord's long-term contractual obligations on December 31, 2010.

		Contractual obligations payments due by period			
(C$ thousands)	Total	Fiscal 2012	Fiscal 2013–Fiscal 2014	Fiscal 2015–Fiscal 2016	Thereafter
Premises and equipment operating leases	134,175	24,099	40,385	32,736	36,955

OUTSTANDING SHARE DATA

	Outstanding shares as of December 31	
	2010	2009
Issued shares excluding unvested shares[1]	**75,055,499**	48,105,856
Issued shares outstanding[2]	**82,626,059**	55,404,528
Issued shares outstanding – diluted[3]	**85,706,609**	57,226,909
Average shares outstanding – basic	**72,356,918**	48,376,433
Average shares outstanding – diluted	**80,941,606**	55,576,702

(1) Excludes 4,532,119 unvested shares that are outstanding relating to share purchase loans for recruitment and retention programs and 3,038,441 unvested shares purchased by an employee benefit trust for the long term incentive plan (LTIP).
(2) Includes 4,532,119 unvested shares that are outstanding relating to share purchase loans for recruitment and retention programs and 3,038,441 unvested shares purchased by an employee benefit trust for the LTIP.
(3) Includes 3,080,550 of share issuance commitments.

The Company acquired 100% of Genuity for consideration consisting of 26.5 million Canaccord common shares and cash of $58.0 million. At February 10, 2011 Canaccord had 82,684,718 common shares issued and outstanding, an increase of 27,280,190 common shares from December 31, 2009 due to shares issued in connection with the acquisition of Genuity and stock compensation plans. See Note 5 of the Unaudited Interim Consolidated Financial Statements for more information regarding the acquisition of Genuity.

STOCK-BASED COMPENSATION PLANS

Stock options

The Company grants stock options to purchase common shares of the Company to independent directors and senior managers. The independent directors and senior managers have been granted options to purchase up to an aggregate of 2,599,993 common shares of the Company. The stock options vest over a four- to five-year period and expire seven years after the grant date. The weighted average exercise price of the stock options is $9.82 per share.

In May 2010 the Company granted an aggregate of 150,000 stock options to six independent directors with an exercise price of $8.39 per share. The options vest over a four-year period and expire seven years after the grant date or 30 days after the participant ceases to be a director.

Long term incentive plan

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

INTERNATIONAL FINANCIAL CENTRE

Canaccord is a member of the International Financial Centre British Columbia Society and it operates an international financial centre in Montreal, both of which provide certain tax and financial benefits pursuant to the *International Business Activity 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, 2010 forward contracts outstanding to sell US dollars had a notional amount of US$5.8 million, an increase of $3.0 million from a year ago. Forward contracts outstanding to buy US dollars had a notional amount of US$19.0 million, an increase of US$14.0 million compared to a year ago. The fair value of these contracts was nominal. Some of Canaccord's operations in the US and UK are conducted in the local currency; 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 the local currency.

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

As a result of adopting Canadian Institute of Chartered Accountants (CICA) Handbook Sections 1582 "*Business Combinations*", Handbook Section 1601 "*Consolidated Financial Statements*" and Handbook Section 1602 "*Non-controlling Interests*", and the completion of the acquisition of Genuity, the Company has the following critical accounting estimates in addition to those described in Canaccord's 2010 Annual Report:

Goodwill and other intangible assets

As a result of the acquisition of Genuity Capital Markets, 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 is 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.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset's carrying value may not be recoverable. The amortization periods for intangible assets are reviewed annually. Intangible assets with indefinite lives are not amortized, but are tested for impairment annually, or more frequently if there is an indication the asset may be impaired.

CHANGE IN ACCOUNTING POLICIES

Business Combinations and Consolidated Financial Statements

Effective April 1, 2010, the Company adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 1582 "*Business Combinations*", Handbook Section 1601 "*Consolidated Financial Statements*", and Handbook Section 1602 "*Non-controlling Interests*", which replace CICA Handbook Section 1581 "*Business Combinations*" and Handbook Section 1600 "*Consolidated Financial Statements*". Handbook Section 1582 harmonizes Canadian guidance to International Financial Reporting Standards (IFRS) 3 "*Business Combinations*". CICA Handbook Section 1601 carries forward guidance from CICA Handbook Section 1600 except for the standards relating to the accounting for non-controlling interests, which are addressed separately in Section 1602. Section 1602 substantially harmonizes Canadian standards with amended International Accounting Standard (IAS) 27 "*Consolidated and Separate Financial Statements*". This Canadian standard provides guidance on accounting for non-controlling interests in a subsidiary in the consolidated financial statements subsequent to a business combination.

The adoption of these sections is required for the Company's interim financial statements beginning April 1, 2011. Earlier adoption of these sections was permitted and required that all three sections be adopted concurrently. The Company early adopted all three standards concurrently for the acquisition of Genuity Capital Markets and The Balloch Group Limited effective April 1, 2010.

Business combinations from April 1, 2010

As a result of adoption of Handbook Section 1582, business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs are expensed as incurred.

Goodwill is initially measured at cost, being the excess of the consideration transferred over the Company's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the statement of operations.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Business combinations prior to April 1, 2010

In comparison to the above-mentioned requirements, the following differences continue to apply:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs and consideration transferred was measured at the announcement date. The accounting treatment for business combinations prior to April 1, 2010 have not been restated to comply with the new accounting policies.

RECENT ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of IFRS will be required commencing in 2011 for publicly accountable, profit-oriented enterprises. The Company will issue its first annual and interim consolidated financial statements prepared under IFRS for the year ended March 31, 2012 and the three months ended June 30, 2011, respectively, with restatement of comparative information presented.

We have presented a detailed discussion of the project plan and significant differences between Canadian GAAP and IFRS in the 2010 Annual Report, which should be read in conjunction with the following IFRS update. The following is a status update of the IFRS conversion plan based on work undertaken during the nine months ended December 31, 2010.

IFRS conversion plan status update

The Company is in the final stages of the design and planning phase of its changeover plan.
During the nine months ended December 31, 2010 the Company completed the following:

- Prepared and presented mock IFRS financial statements to the Audit Committee which highlighted notes disclosure and presentation differences
- Selected accounting policies under IFRS and discussed with auditors
- Determined the exceptions and exemptions that will be elected by the Company under IFRS 1 "*First time Adoption of International Financial Reporting Standards*"
- Reviewed changes for regulatory capital reporting

We will continue to evaluate the impact of IFRS conversion on our information technology and data systems, internal control of financial reporting, or disclosure controls and procedures as well as any business impacts. We do not expect significant changes in our information technology and data systems, the design of our disclosure controls and procedures, or our internal controls of financial reporting based on our operations as of today.

Summary of key differences

Key differences identified to date between IFRS and Canadian GAAP are summarized below. Further differences may be identified as the Company completes its implementation analysis.

Accounting Policy Area	Key Differences in Accounting Treatment	Potential Key Impacts
Share-based payments	**Canadian GAAP** *Expense recognition:* Amortization of share-based payments may be expensed either on a straight-line basis or a graded basis. *Forfeiture rate:* Canadian GAAP provides an option to either estimate a forfeiture rate at the grant date or recognize forfeitures as they occur. **IFRS** *Expense recognition:* Share-based payments must be amortized on a graded basis. *Forfeiture rate:* A forfeiture rate must be estimated at the grant date. **Analysis** Amortization of our share-based payments must be recognized on a graded basis with a forfeiture rate estimated at grant date. The forfeiture rate will be reviewed on an annual basis.	**Impact to IFRS opening Consolidated Balance Sheet:** The difference in incentive compensation expense as a result of using the graded amortization and estimating a forfeiture rate for any unvested share-based payments will result in a change in our opening retained earnings.

Financial instruments	**Canadian GAAP** Financial assets with no quoted market price which are classified as available for sale are carried at cost. **IFRS** Financial assets with no quoted market price which are classified as available for sale are carried at fair value unless fair value is not reliably measured. **Analysis** Under Canadian GAAP, the Company's investment in an Alternative Alpha Trading System is designated as available for sale and is carried at cost. Under IFRS, the Investment should be recorded at fair value unless the fair value cannot be reliably measured, and any unrealized gains and losses should be recorded through other comprehensive income. The Company also reviewed the difference in accounting treatment of transactions costs. For financial instruments other than those classified as held for trading, Canadian GAAP offers an option of expensing or adding transaction costs to the carrying amount of the asset. Under IFRS, transaction costs for all financial instruments other than those classified as held for trading are included in the costs of the assets.	**Impact to IFRS opening Consolidated Balance Sheet:** The Company is currently assessing the impact to its IFRS opening Consolidated Balance Sheet.
Impairment of assets	**Canadian GAAP** ***Goodwill*** Impairment should be tested annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment loss is recognized when the carrying amount exceeds its fair value. Impairment losses may not be reversed. ***Indefinite lived intangible assets*** Impairment should be tested annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. An impairment loss is recognized when the carrying amount exceeds its fair value. Impairment losses may not be reversed. ***Finite lived intangible assets*** Intangible assets should be tested for impairment if events or changes in circumstances indicate that the asset might be impaired. Impairment losses are recognized when the carrying amount exceeds its fair value. Impairment losses may not be reversed. **IFRS** ***Goodwill*** Impairment is tested annually or more frequently if events or circumstances indicate that the asset might be impaired. IFRS requires a one-step impairment test for identifying and measuring impairment, comparing an asset's carrying value to the higher of its value in use and fair value less cost to sell. Impairment losses may not be reversed in future periods. ***Indefinite lived intangible assets*** Impairment is determined by comparing the carrying amount with the recoverable amount and is tested annually or more frequently if circumstances indicate an asset may be impaired. Impairment is recognized when the carrying amount exceeds the higher of the asset's fair value less cost to sell or its value in use. Impairment losses may be reversed in the future not exceeding the carrying amount that would have been determined if there was no impairment loss. ***Finite lived intangible assets*** Impairment is determined by comparing the carrying amounts with the recoverable amount and is tested only if circumstances indicate an asset may be impaired. Impairment is recognized when the carrying amount exceeds the higher of the asset's fair value less cost to sell or its value in use. Impairment losses may be reversed in the future not exceeding the carrying amount that would have been determined if there was no impairment loss. **Analysis** These differences may lead to additional impairment charges under IFRS.	**Impact to IFRS opening Consolidated Balance Sheet:** The Company recently acquired goodwill and intangible assets as part of its acquisition of Genuity Capital Markets. The Company has not recognized any impairment as of the date of this MD&A. The Company will prepare its annual impairment testing under Canadian GAAP during the fourth quarter of fiscal 2011. The Company will assess any quantitative difference from IFRS at that time.

Income taxes	**Canadian GAAP** Future income tax asset and liability can be classified as either current or non-current asset or liability on the balance sheet. **IFRS** Future income tax assets and liabilities must be classified as non-current on the balance sheet. **Analysis** Presentation of the balance sheet will be different as all future income tax asset or liability will be classified as non-current under IFRS. There may also be other income tax impacts on any transition adjustments resulting from the conversion to IFRS.	**Impact to IFRS opening Consolidated Balance Sheet:** The Company will recognize future income tax impact on the transition adjustments.

IFRS 1 – First-Time Adoption

IFRS 1 "*First-time Adoption of International Financial Reporting Standards*" states that IFRS is to be applied retrospectively with some optional exemptions and mandatory exceptions to this requirement. The significant exemption options are summarized in the table below:

Business combinations	The Company will elect not to apply IFRS 3: "*Business Combinations*" to all business combinations that occur before April 1, 2010. The Company has early adopted Handbook Section 1582 which is harmonized with IFRS 3 for all business combinations subsequent to April 1, 2010. The Company will elect this exemption option to not restate all business combinations that occurred prior to April 1, 2010.
Share-based payments	The Company will elect not to apply IFRS 2: "*Share-based Payments*" retrospectively to its share-based payments that have vested as of the IFRS transition date.
Currency translation differences	The Company will elect to reclassify all cumulative translation differences for self-sustaining foreign subsidiaries in accumulated other comprehensive income into retained earnings on transition.

During the third quarter fiscal 2011, the Company determined the quantitative impacts on the opening balance sheet as of April 1, 2010. The Company has estimated the reclassification of all cumulative translation differences for self-sustaining foreign subsidiaries to retained earnings as of April 1, 2010 to be $35.3 million. The Company is currently finalizing the remaining quantitative impact on opening retained earnings related to share-based payments, income taxes and other possible adjustments.

The Audit Committee was provided IFRS updates each quarter during fiscal 2010 and this will continue through fiscal 2011 until the date of changeover. The Audit Committee has been kept up to date on the progress of the conversion and any significant impacts, including potential quantitative impacts, have been disclosed to the Audit Committee. The Audit Committee is involved in the approval of accounting policy choices and IFRS 1 optional exemptions, opening balance sheet adjustments, and changes to presentation and disclosures of financial statements during fiscal 2011.

BUSINESS COMBINATIONS

[i] Genuity Capital Markets

On March 4, 2010 the Company announced that it had signed a definitive agreement to acquire 100% control of Genuity, a leading independent advisory and restructuring firm in Canada. The transaction was completed on April 23, 2010 for consideration consisting of 26.5 million Canaccord common shares valued at $271.9 million and cash of $30.0 million. The share price of $10.26 was based on the closing share price as of April 22, 2010, the date before the transaction closed. In addition, the vendors received $28.0 million as a working capital adjustment subsequent to closing. All of the Canaccord common shares issued as part of the purchase price were placed in escrow at closing and will be released ratably over five years.

This transaction has been accounted for in accordance with CICA Handbook 1582 "*Business Combinations*" using the acquisition method. The consolidated statement of operations includes the results of Genuity since the closing date of April 23, 2010. See Note 5 of the Interim Unaudited Consolidated Financial Statements.

[ii] The Balloch Group Limited
On November 22, 2010, the Company announced its agreement to purchase 100% of the interest in The Balloch Group Limited, a leading Chinese boutique investment bank, headquartered in Beijing. The purchase price was $3.0 million, with up to an additional $1.0 million as a working capital adjustment subsequent to closing. The acquisition closed on January 17, 2011.

Canaccord's operations in China have been branded Canaccord Genuity Asia and will focus on providing Asia-based clients with advisory services for M&A and strategic partnerships, international market offerings and Chinese debt financing.

In connection with the acquisition, retention payments will be paid to key employees of Canaccord Genuity Asia. The retention payments will involve the issuance of up to approximately 1,187,800 common shares of the Company over a five-year vesting period. The total number of common shares to be vested is also based on revenue earned by Canaccord Genuity Asia subsequent to the date of the acquisition.

This transaction has been accounted for in accordance with CICA Handbook 1582 "*Business Combinations*", using the acquisition method. The Company expensed $1.8 million of acquisition-related costs as at December 31, 2010. These acquisition-related costs include professional and consulting fees incurred for this acquisition. These costs also include payments for staff restructuring that resulted from this acquisition.

The Company is in the process of determining the purchase price allocation for this acquisition and will disclose the preliminary allocation in its audited consolidated financial statements for the year ended March 31, 2011.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures
Based on an evaluation performed as of March 31, 2010, the President & CEO and the Executive Vice President & CFO concluded that the design and operation of our disclosure controls and procedures were effective as defined under *National Instrument 52-109*. During the nine months ended December 31, 2010 there were no changes that would have materially affected, or are reasonably likely to materially affect, Canaccord's disclosure controls and procedures.

Changes in internal control over financial reporting
An evaluation of the Company's internal control over financial reporting was performed as of March 31, 2010. Based on this evaluation, the President & CEO and the Executive Vice President & CFO concluded that our internal control over financial reporting is designed and operating effectively as defined under *National Instrument 52-109* and that there are no material weaknesses. There were no changes in internal control over financial reporting that occurred during the nine months ended December 31, 2010 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 9, 2011 the Board of Directors approved a quarterly dividend of $0.075 per share payable on March 15, 2011 with a record date of March 4, 2011.

HISTORICAL QUARTERLY INFORMATION

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

The following table provides selected quarterly financial information for the nine most recently completed financial quarters ended December 31, 2010. 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 per share amounts)	*Fiscal 2011* Q3	Q2	Q1	*Fiscal 2010* Q4	Q3	Q2	Q1	*Fiscal 2009* Q4	Q3
Revenue									
Canaccord Genuity	**$ 177,758**	$ 96,963	$ 100,152	$ 83,496	$ 116,090	$ 78,475	$ 85,497	$ 64,972	$ 49,250
Canaccord Wealth Management	**68,599**	44,539	47,207	54,990	51,733	40,138	40,185	37,255	33,532
Corporate and Other	**8,477**	7,783	4,558	4,647	5,374	5,131	11,781	4,769	4,406
Total revenue	**$ 254,834**	$ 149,285	$ 151,917	$ 143,133	$ 173,197	$ 123,744	$ 137,463	$ 106,996	$ 87,188
Net income	**42,704**	9,711	4,875	7,526	15,113	6,746	9,112	3,666	(62,378)
EPS – basic	**$ 0.57**	$ 0.13	$ 0.07	$ 0.15	$ 0.31	$ 0.14	$ 0.19	$ 0.07	$ (1.27)
EPS – diluted	**$ 0.51**	$ 0.12	$ 0.06	$ 0.14	$ 0.27	$ 0.12	$ 0.16	$ 0.07	$ (1.27)

RISKS

The Company's ability to maintain and successfully execute its business strategy depends upon the personal reputation, judgment, business generation capabilities and project execution skills of its senior professionals. Any management disruption could result in a loss of clients and customers, or revenues from clients and customers, and could significantly affect the Company's business and results of operations.

The securities industry and Canaccord's activities are by their very nature subject to a number of inherent risks. Economic conditions, competition and market factors such as volatility in the Canadian and international markets, interest rates, commodity prices, market prices, trading volumes and liquidity will have a significant impact on Canaccord's profitability. An investment in the common shares of Canaccord involves a number of risks, including market, liquidity, credit, operational, legal and regulatory risks, which could be substantial and are inherent in Canaccord's business. Canaccord is also directly exposed to market price risk, liquidity risk and volatility risk as a result of its principal trading activities in equity securities and to specific interest rate risk as a result of its principal trading in fixed income securities. Canaccord Wealth Management revenue is dependent on trading volumes and, as such, is dependent on the level of market activity and investor confidence. Canaccord Genuity's revenue is dependent on financing activity by corporate issuers and the willingness of institutional clients to actively trade and participate in capital markets transactions. There may also be a lag between market fluctuations and changes in business conditions and the level of Canaccord's market activity and the impact that these factors have on Canaccord's operating results and financial position.

The financial services business is subject to extensive regulation in Canada, the US, the UK and elsewhere. Compliance with many of the regulations applicable to Canaccord involves a number of risks, particularly in areas where applicable regulations may be subject to interpretation and change. Changing regulations and interpretations could have a significant impact on its business and profitability. 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 some of the Company's subsidiaries are subject to are listed in Note 13 of the December 31, 2010 Unaudited Interim Consolidated Financial Statements.

Further discussion regarding risks can be found in our Annual Information Form.

ADDITIONAL INFORMATION

A comprehensive discussion of our business, strategies, objectives and risks is available in our Annual Information Form and Management's Discussion and Analysis, including our Audited Annual Consolidated Financial Statements in Canaccord's 2010 Annual Report, which are available on our website at www.canaccordfinancial.com/EN/IR/FinReports/Pages/default.aspx and on SEDAR at www.sedar.com.

INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited)

As at (in thousands of dollars)	*December 31, 2010*	*March 31, 2010*
ASSETS		
Current		
Cash and cash equivalents	**$ 713,117**	$ 731,852
Securities owned [note 3]	**1,098,154**	362,755
Accounts receivable [notes 4 and 11]	**2,383,057**	1,972,924
Future income taxes	**16,473**	13,190
Total current assets	**4,210,801**	3,080,721
Investment	**5,000**	5,000
Equipment and leasehold improvements	**36,860**	38,127
Intangible assets [note 6]	**74,854**	–
Goodwill [note 6]	**242,074**	–
	$ 4,569,589	$ 3,123,848
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	**$ 34,914**	$ 29,435
Securities sold short [note 3]	**853,869**	364,137
Accounts payable and accrued liabilities [notes 4 and 11]	**2,910,424**	2,308,146
Income taxes payable	**8,668**	5,385
Subordinated debt [note 8]	**15,000**	15,000
Total current liabilities	**3,822,875**	2,722,103
Future income taxes	**23,120**	–
	3,845,995	2,722,103
Commitments and contingencies [note 14]		
Shareholders' equity		
Common shares [note 9]	**464,520**	185,691
Contributed surplus	**55,102**	57,351
Retained earnings	**238,569**	194,007
Accumulated other comprehensive loss	**(34,597)**	(35,304)
Total shareholders' equity	**723,594**	401,745
	$ 4,569,589	$ 3,123,848

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands of dollars, except per share amounts)	*For the three months ended* December 31, 2010	December 31, 2009	*For the nine months ended* December 31, 2010	December 31, 2009
REVENUE				
Commission	$ **87,433**	$ 60,696	$ **212,691**	$ 172,780
Investment banking	**116,716**	82,089	**223,853**	161,045
Advisory fees	**25,276**	6,328	**59,212**	30,878
Principal trading	**10,658**	15,645	**26,213**	38,704
Interest	**7,753**	3,099	**16,333**	9,696
Other	**6,998**	5,340	**17,734**	21,301
	254,834	173,197	**556,036**	434,404
EXPENSES				
Incentive compensation	**127,033**	93,872	**271,947**	226,301
Salaries and benefits	**14,739**	14,945	**46,877**	42,730
Trading costs	**7,937**	7,140	**22,883**	21,466
Premises and equipment	**7,077**	6,228	**19,755**	18,214
Communication and technology	**6,111**	5,838	**19,159**	16,572
Interest	**3,037**	631	**5,326**	1,968
General and administrative	**17,049**	13,609	**48,830**	37,195
Amortization [note 6]	**2,786**	1,904	**9,776**	5,731
Development costs	**5,819**	6,720	**16,075**	18,061
Acquisition-related costs [notes 5 and 15]	**1,750**	–	**12,740**	–
	193,338	150,887	**473,368**	388,238
Income before income taxes	**61,496**	22,310	**82,668**	46,166
Income tax expense [note 7]				
Current	**18,211**	7,070	**24,091**	11,429
Future	**581**	127	**1,287**	3,766
	18,792	7,197	**25,378**	15,195
Net income for the period	$ **42,704**	$ 15,113	$ **57,290**	$ 30,971
Basic earnings per share [note 9[iv]]	$ **0.57**	$ 0.31	$ **0.79**	$ 0.64
Diluted earnings per share [note 9[iv]]	$ **0.51**	$ 0.27	$ **0.71**	$ 0.56

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands of dollars)	*For the three months ended* December 31, 2010	*For the three months ended* December 31, 2009	*For the nine months ended* December 31, 2010	*For the nine months ended* December 31, 2009
Net income for the period	**$ 42,704**	$ 15,113	**$ 57,290**	$ 30,971
Other comprehensive income (loss), net of taxes				
Net unrealized gains (losses) on translation of self-sustaining foreign operations	**(3,683)**	(63)	**707**	(10,082)
Comprehensive income for the period	**$ 39,021**	$ 15,050	**$ 57,997**	$ 20,889

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(in thousands of dollars)	*As at and for the nine months ended* December 31, 2010	*As at and for the nine months ended* December 31, 2009
Common shares, opening	**$ 185,691**	$ 183,619
Shares issued in connection with the acquisition of Genuity Capital Markets [note 5]	**271,900**	–
Shares issued in connection with the long term incentive plan (LTIP)	**5,918**	3,819
Acquisition of common shares for LTIP	**(14,688)**	(11,691)
Release of vested common shares from employee benefit trust	**16,777**	10,035
Unvested share purchase loans	**(1,078)**	2,828
Common shares, closing	**464,520**	188,610
Contributed surplus, opening	**57,351**	44,383
Stock-based compensation	**(2,163)**	4,742
Unvested share purchase loans	**(86)**	154
Contributed surplus, closing	**55,102**	49,279
Retained earnings, opening	**194,007**	160,868
Net income for the period	**57,290**	30,971
Dividends	**(12,728)**	(2,813)
Retained earnings, closing	**238,569**	189,026
Accumulated other comprehensive loss, opening	**(35,304)**	(16,166)
Other comprehensive income (loss) for the period	**707**	(10,082)
Accumulated other comprehensive loss, closing	**(34,597)**	(26,248)
Shareholders' equity	**$ 723,594**	$ 400,667

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the three months ended		For the nine months ended	
(in thousands of dollars)	**December 31, 2010**	December 31, 2009	**December 31, 2010**	December 31, 2009
OPERATING ACTIVITIES				
Net income for the period	**$ 42,704**	$ 15,113	**$ 57,290**	$ 30,971
Items not affecting cash				
Amortization	**2,786**	1,904	**9,776**	5,731
Stock-based compensation expense	**7,294**	5,874	**19,863**	16,949
Future income tax expense	**581**	127	**1,287**	3,766
Asset-backed commercial paper (ABCP) gain and fair value adjustment	**–**	(4,559)	**–**	(4,559)
Changes in non-cash working capital				
Decrease (increase) in securities owned	**169,943**	112,437	**(730,195)**	(271,752)
Decrease (increase) in accounts receivable	**593,657**	670,252	**(402,960)**	(255,291)
Increase (decrease) in income taxes payable	**14,346**	5,877	**(1,997)**	25,231
(Decrease) increase in securities sold short	**(382,078)**	(57,345)	**489,665**	245,822
(Decrease) increase in accounts payable and accrued liabilities	**(336,619)**	(630,792)	**614,297**	329,681
Cash provided by operating activities	**112,614**	118,888	**57,026**	126,549
FINANCING ACTIVITIES				
Acquisition of common shares for LTIP	**–**	(6,454)	**(14,688)**	(11,691)
Decrease (increase) in unvested common share purchase loans	**3,636**	(308)	**(1,077)**	2,828
Dividends paid	**(4,183)**	(2,770)	**(12,539)**	(2,770)
Change in bank indebtedness	**(29,820)**	(41,000)	**5,478**	(31,000)
Repayment of subordinated debt	**–**	–	**–**	(10,000)
Cash used in financing activities	**(30,367)**	(50,532)	**(22,826)**	(52,633)
INVESTING ACTIVITIES				
Acquisition of Genuity Capital Markets	**–**	–	**(37,997)**	–
Net liabilities acquired from Genuity Capital Markets	**–**	–	**(11,227)**	–
Purchase of equipment and leasehold improvements	**(1,576)**	(993)	**(2,339)**	(1,558)
Purchase of Intelli	**–**	(1,199)	**–**	(1,199)
Proceeds on net redemption of investment in ABCP	**–**	9,871	**–**	11,632
Cash (used in) provided by investing activities	**(1,576)**	7,679	**(51,563)**	8,875
Effect of foreign exchange on cash balances	**(4,462)**	(2,914)	**(1,372)**	(1,388)
Increase (decrease) in cash position	**76,209**	73,121	**(18,735)**	81,403
Cash position, beginning of period	**636,908**	709,455	**731,852**	701,173
Cash position, end of period	**$ 713,117**	$ 782,576	**$ 713,117**	$ 782,576
Supplemental cash flow information				
Interest paid	**$ 3,922**	$ 579	**$ 5,970**	$ 1,806
Income taxes paid	**4,215**	591	**23,961**	2,594

See accompanying notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the three and nine months ended December 31, 2010 (in thousands of dollars, except per share amounts)

Through its principal subsidiaries, Canaccord Financial 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 wealth management services. Together, these operations offer a wide range of complementary investment products, brokerage services and investment banking services to the Company's private, institutional and corporate clients.

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

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (GAAP) with respect to interim financial statements, 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, 2010 as filed on SEDAR on May 19, 2010 (Audited Annual Consolidated Financial Statements) except for the changes in accounting policies as described in Note 2. Accordingly, they do not include all the information and footnotes required for compliance with Canadian GAAP for annual financial statements. These unaudited interim consolidated financial statements and notes thereon should be read in conjunction with the Audited Annual Consolidated Financial Statements.

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

As a result of adopting Canadian Institute of Chartered Accountants (CICA) Handbook Section 1582 "*Business Combinations*", Handbook Section 1601 "*Consolidated Financial Statements*" and Handbook Section 1602 "*Non-controlling Interests*", and the completion of the acquisition of Genuity Capital Markets (Genuity) and The Balloch Group Limited (TBG), the Company is disclosing the following accounting policies in addition to those previously disclosed in the Audited Annual Consolidated Financial Statements.

Goodwill

Goodwill represents the excess of the purchase price paid for an acquisition over the fair value of the net tangible and identifiable intangible assets acquired. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets

The cost of identifiable intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset's carrying value may not be recoverable. The amortization periods for intangible assets are reviewed annually. Intangible assets with indefinite lives are not amortized, but are tested for impairment annually, or more frequently if there is an indication the asset may be impaired.

Impairment testing of goodwill and intangible assets with indefinite lives

In accordance with CICA Handbook Section 3064 "*Goodwill and Intangible Assets*", the Company is required to annually evaluate goodwill and intangible assets with indefinite lives to determine whether they are impaired. Goodwill and intangible assets with indefinite lives 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 and intangible assets with indefinite lives have been allocated is greater than or at least equal to its carrying value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount. Any impairment of goodwill or intangible assets with indefinite lives will be recognized as an expense in the period of impairment, and subsequent reversals of impairments are prohibited.

Recent accounting pronouncements

International Financial Reporting Standards (IFRS)

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

The Company is currently in the process of evaluating the potential impact of IFRS to the consolidated financial statements. The Company's consolidated financial performance and financial position as disclosed in the current Canadian GAAP financial statements may differ significantly when presented in accordance with IFRS. Some of the significant differences identified between IFRS and Canadian GAAP may have a material impact on the Company's consolidated financial statements.

2. CHANGE IN ACCOUNTING POLICIES

Business Combinations and Consolidated Financial Statements

Effective April 1, 2010, the Company adopted CICA Handbook Section 1582 "*Business Combinations*", Handbook Section 1601 "*Consolidated Financial Statements*" and Handbook Section 1602 "*Non-controlling Interests*", which replace CICA Handbook Section 1581 "*Business Combinations*" and Handbook Section 1600 "*Consolidated Financial Statements*". Handbook Section 1582 harmonizes Canadian guidance to IFRS 3 "*Business Combinations*". CICA Handbook Section 1601 carries forward guidance from CICA Handbook Section 1600 except for the standards relating to the accounting for non-controlling interests, which are addressed separately in Section 1602. Section 1602 substantially harmonizes Canadian standards with amended International Accounting Standard (IAS) 27 "*Consolidated and Separate Financial Statements*". This Canadian standard provides guidance on accounting for non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination.

The adoption of these sections is required for the Company's interim financial statements beginning April 1, 2011. Earlier adoption of these sections was permitted and required that all three sections be adopted concurrently. The Company early adopted all three standards concurrently for the acquisitions of Genuity [Note 5] and TBG [Note 15] effective April 1, 2010.

Business combinations from April 1, 2010

As a result of adoption of Handbook Section 1582, business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs are expensed as incurred.

Goodwill is initially measured at cost, being the excess of the consideration transferred over the Company's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the statement of operations.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The adoption of these standards had a significant impact on how the Company accounted for the business combination with Genuity. The impact was as follows:

- Transaction costs were not capitalized as part of the purchase consideration and instead were expensed as incurred. As a result, the Company expensed approximately $5.0 million during the year ended March 31, 2010 and $11.0 million during the three months ended June 30, 2010.
- Measurement date for equity instruments issued by the Company as consideration for the acquisition was the date of acquisition (April 22, 2010 closing price) and not at the average of a few days before and after the terms were agreed to and announced (March 4, 2010). Therefore, the Company used a share price of $10.26 versus a share price of $9.49 to value the consideration, increasing the purchase consideration for the business combination by $20.3 million and increasing goodwill being recorded on the consolidated balance sheet by the same amount.

The adoption of these standards also resulted in an additional $1.8 million of acquisition-related costs recognized in the three months ended December 31, 2010 in connection with the acquisition of TBG, which closed as of January 17, 2011 [Note 15].

Business combinations prior to April 1, 2010

In comparison to the above-mentioned requirements, the following differences continue to apply:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs and consideration transferred was measured at the announcement date. The accounting treatment for business combinations prior to April 1, 2010 have not been restated to comply with the accounting policies described above.

3. SECURITIES OWNED AND SECURITIES SOLD SHORT

	December 31, 2010		March 31, 2010	
	Securities owned	*Securities sold short*	*Securities owned*	*Securities sold short*
Corporate and government debt	**$ 947,910**	**$ 829,819**	$ 282,686	$ 342,916
Equities and convertible debentures	**148,530**	**24,050**	79,098	21,221
Investment in asset-backed commercial paper	**1,714**	**–**	971	–
	$ 1,098,154	**$ 853,869**	$ 362,755	$ 364,137

As at December 31, 2010 corporate and government debt maturities range from 2011 to 2060 [March 31, 2010 – 2010 to 2060] and bear interest ranging from 0.50% to 14.00% [March 31, 2010 – 0.50% to 14.00%].

4. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts receivable

	December 31, 2010	*March 31, 2010*
Brokers and investment dealers	**$ 1,407,202**	$ 932,408
Clients	**423,424**	503,733
RRSP cash balances held in trust	**478,557**	475,220
Other	**73,874**	61,563
	$ 2,383,057	$ 1,972,924

Accounts payable and accrued liabilities

	December 31, 2010	*March 31, 2010*
Brokers and investment dealers	**$ 1,470,623**	$ 949,595
Clients	**1,222,969**	1,188,545
Other	**216,832**	170,006
	$ 2,910,424	$ 2,308,146

Amounts due from and to brokers and dealers include balances from resale and repurchase agreements, securities loaned and borrowed, as well as brokers' and dealers' counterparties.

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

Securities purchased under agreements to resell and securities sold under agreements to repurchase represent collateralized financing transactions. The Company receives securities purchased under agreements to resell, makes delivery of securities sold under agreements to repurchase, monitors the market value of these securities on a daily basis and delivers or obtains additional collateral as appropriate.

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

Amounts due from and to clients are due by the settlement date of the trade transaction. Margin loans are due on demand and are collateralized by the assets in the client accounts. Interest on margin loans and amounts due to clients is based on a floating rate [December 31, 2010 – 6.00%–6.25% and 0.00%–0.05%, respectively; March 31, 2010 – 5.25%–6.25% and 0.00%–0.05%, respectively].

5. BUSINESS COMBINATION

On March 4, 2010 the Company announced that it had signed a definitive agreement to acquire 100% control of Genuity, a leading independent advisory and restructuring firm in Canada. The transaction was completed on April 23, 2010 for consideration consisting of 26.5 million Canaccord common shares valued at $271.9 million and cash of $30.0 million. The shares issued were valued at $10.26 per share based on the closing share price as of April 22, 2010, the date before the transaction closed. In addition, the vendors received $28.0 million as a working capital adjustment subsequent to closing. All of the Canaccord common shares issued as part of the purchase price were placed in escrow at closing and will be released ratably over five years.

This transaction has been accounted for in accordance with CICA Handbook 1582 "*Business Combinations*" [Note 2], using the acquisition method. The consolidated statement of operations includes the results of Genuity since the closing date of April 23, 2010. The Company has not disclosed the amounts of revenue and net income contributed by Genuity for the nine months ended December 31, 2010 as required by CICA Handbook Section 1582 as the Company has determined that it is impracticable to provide such disclosure. The Company has fully integrated Genuity's operations and accounting records into its existing Canaccord Genuity operating segment, and as such, the Company is not able to separately identify the revenue and net income from Genuity since the acquisition on April 23, 2010.

Total costs related to this transaction were $11.0 million for the nine months ended December 31, 2010. These costs include professional and consulting fees, lease termination costs and staff restructuring incurred for this acquisition.

Acquisition-related costs		
Severance	$	5,968
Lease termination costs		2,800
Professional and consulting fees		869
Other		1,353
Total	$	10,990

The purchase price, determined by the fair value of the consideration given at the date of the acquisition, and the fair value of the net assets acquired on the date of the acquisition was as follows:

Consideration paid		
Cash	$	58,000
Common shares issued (26.5 million shares @ $10.26 per share)		271,900
	$	329,900

Net assets acquired		
Net tangible assets	$	28,212
Identifiable intangible assets		79,050
Future income tax liability		(19,436)
Goodwill		242,074
	$	329,900

The net tangible assets acquired included accounts receivable of $8.8 million. The goodwill of $242.1 million represents the value of expected synergies arising from the acquisition. Goodwill is not deductible for tax purposes.

The above amounts are estimates, which were made by management at the time of the preparation of these unaudited interim financial statements based on information then available. Amendments may be made to these amounts as values subject to estimates are finalized. No such amendments were recorded during the nine-month period ended December 31, 2010.

6. GOODWILL AND INTANGIBLE ASSETS

		Identifiable intangible assets				
	Goodwill	Brand names	Customer relationships	Sales backlog	Non-competition	Total
Gross amount						
Balance, April 1, 2010	$ –	$ –	$ –	$ –	$ –	$ –
Additions	242,074	44,930	25,450	1,633	7,037	79,050
Balance, December 31, 2010	242,074	44,930	25,450	1,633	7,037	79,050
Amortization						
Balance, April 1, 2010	–	–	–	–	–	–
Amortization	–	–	(1,597)	(1,633)	(966)	(4,196)
Balance, December 31, 2010	–	–	(1,597)	(1,633)	(966)	(4,196)
Net book value						
December 31, 2010	$ 242,074	$ 44,930	$ 23,853	$ –	$ 6,071	$ 74,854

Intangible assets reflect assigned values related to acquired brand names, customer relationships, sales backlogs and non-competition agreements. Customer relationships, sales backlogs and non-competition agreements have a finite life and are amortized on a straight-line basis over their estimated useful lives. The estimated amortization periods of these amortizable intangible assets are as follows:

- Customer relationships 11 years
- Sales backlogs 0.4 years
- Non-competition 5 years

The amortization of intangible assets is recognized in the statement of operations as part of amortization expense. Amortization of intangible assets was $0.9 million and $4.2 million for the three and nine months ended December 31, 2010, respectively.

Brand names are considered to have an indefinite life as they will provide benefit to the Company over a continuous period.

Impairment testing of goodwill and intangible assets

Goodwill and intangible assets acquired through the acquisition of Genuity have been allocated to the Canadian portion of the Canaccord Genuity cash-generating unit for impairment testing. There have been no changes to circumstances or events that would indicate the carrying value of goodwill and intangibles has been impaired at December 31, 2010. As a result, no interim impairment testing has been performed. The annual impairment testing for goodwill and intangible assets with indefinite lives will be performed at March 31, 2011.

7. INCOME TAXES

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

	For the three months ended		For the nine months ended	
	December 31, 2010	December 31, 2009	**December 31, 2010**	December 31, 2009
Income taxes at the estimated statutory rate	**$ 17,128**	$ 6,772	**$ 23,038**	$ 13,976
Less: Difference in tax rates in foreign jurisdictions	**463**	(178)	**414**	(124)
Non-deductible items affecting the determination of taxable income	**913**	490	**1,825**	1,163
Change in valuation allowance related to US operating losses	**(2,267)**	(223)	**(3,761)**	(2,920)
Change in future income tax asset – reversal period of temporary differences	**36**	606	**293**	2,032
Change in accounting and tax base estimate	**2,519**	(270)	**3,569**	1,068
Income tax expense – current and future	**$ 18,792**	$ 7,197	**$ 25,378**	$ 15,195

8. SUBORDINATED DEBT

	December 31, 2010	March 31, 2010
Loan payable, interest payable monthly at prime + 4% per annum, due on demand	**$ 15,000**	$ 15,000

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

9. COMMON SHARES

	December 31, 2010		*March 31, 2010*	
	Number of shares	*Amount*	*Number of shares*	*Amount*
Common shares	**82,626,059**	**$ 532,371**	55,571,133	$ 254,553
Unvested share purchase loans	**(4,532,119)**	**(36,357)**	(4,475,468)	(35,280)
Held for long term incentive plan [note 10]	**(3,038,441)**	**(31,494)**	(3,201,274)	(33,582)
	75,055,499	**$ 464,520**	47,894,391	$ 185,691

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

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

[ii] Issued and fully paid

Common shares	*Number of shares*		*Amount*
Balance, December 31, 2009	55,404,528	$	253,237
Shares issued in connection with stock compensation plans [note 10]	208,041		1,487
Shares cancelled	(41,436)		(171)
Balance, March 31, 2010	55,571,133		254,553
Shares issued in relation to the acquisition of Genuity, net of issuance costs [note 5]	26,500,000		271,900
Shares issued in connection with stock compensation plans [note 10]	554,926		5,918
Balance, December 31, 2010	82,626,059	$	532,371

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

[iv] Earnings per share

	For the three months ended		*For the nine months ended*	
	December 31, 2010	*December 31, 2009*	*December 31, 2010*	*December 31, 2009*
Basic earnings per share				
Net income for the period	**$ 42,704**	$ 15,113	**$ 57,290**	$ 30,971
Weighted average number of common shares (number)	**74,946,677**	48,147,301	**72,356,918**	48,376,433
Basic earnings per share	**$ 0.57**	$ 0.31	**$ 0.79**	$ 0.64
Diluted earnings per share				
Net income for the period	**$ 42,704**	$ 15,113	**$ 57,290**	$ 30,971
Weighted average number of common shares (number)	**74,946,677**	48,147,301	**72,356,918**	48,376,433
Dilutive effect of unvested shares (number)	**4,532,119**	3,811,007	**4,532,119**	3,811,007
Dilutive effect of stock options (number) [note 10]	**513,037**	412,594	**281,616**	26,563
Dilutive effect of unvested shares purchased by employee benefit trust (number) [note 10]	**3,119,878**	3,422,722	**3,390,224**	3,092,333
Dilutive effect of share issuance commitment in connection with long term incentive plan (number) [note 10]	**531,264**	480,544	**380,729**	270,366
Adjusted weighted average number of common shares (number)	**83,642,975**	56,274,168	**80,941,606**	55,576,702
Diluted earnings per share	**$ 0.51**	$ 0.27	**$ 0.71**	$ 0.56

10. STOCK-BASED COMPENSATION PLANS

Stock options

The Company grants stock options to purchase common shares of the Company to independent directors and senior management. Stock options to independent directors vest over a four-year period and expire seven years after the grant date or 30 days after the participant ceases to be a director. Stock options to senior management vest over a five-year period and expire on the earliest of: (a) seven years from the grant date; (b) three years after death or any other event of termination of employment; (c) after any unvested optioned shares held by the optionee are cancelled for any reason (other than early retirement but including resignation without entering into a formal exit agreement and termination for cause); and (d) in the case of early retirement, after a determination that the optionee has competed with the Company or violated any non-competition, non-solicitation or non-disclosure obligations. The exercise price is based on the fair market value of the common shares at grant date. The weighted average exercise price of the stock options was $9.82 at December 31, 2010.

In May 2010 the Company granted an aggregate of 150,000 stock options to six independent directors with an exercise price of $8.39 per share.

The following is a summary of the Company's stock options awarded to directors and senior management as at December 31, 2010 and changes during the nine-month period then ended:

	Number of options		*Weighted average exercise price*
Balance, December 31, 2009	2,499,993	$	9.91
Granted	–		–
Balance, March 31, 2010	2,449,993		9.91
Granted	150,000		8.39
Balance, December 31, 2010	**2,599,993**	**$**	**9.82**

Options outstanding						*Options exercisable*		
	Range of exercise price	*Number of options*	*Weighted average remaining contractual life*		*Weighted average exercise price*	*Number of options exercisable*		*Weighted average exercise price*
$	23.13	100,000	1 year	$	23.13	75,000	$	23.13
	7.21–9.48	2,499,993	3.85 years		9.28	93,750		8.51
$	**7.21–23.13**	**2,599,993**	**3.74 years**	**$**	**9.82**	**168,750**	**$**	**15.01**

The fair value of each stock option grant has been estimated on grant date using the Black-Scholes option pricing model. The following assumptions were used for the options granted in May 2010:

	May 2010 grant
Dividend yield	2.00%
Expected volatility	44.00%
Risk-free interest rate	1.94%
Expected life	4 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 $0.8 million and $1.7 million has been recognized for the three and nine months ended December 31, 2010 ($0.4 million and $0.7 million for the three and nine months ended December 31, 2009), in connection with stock options.

Long term incentive plan

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

The costs of the RSUs are amortized over the vesting period of three years. Compensation expense of $6.5 million and $18.1 million has been recognized for the three and nine months ended December 31, 2010 ($5.4 million and $16.3 million for the three and nine months ended December 31, 2009).

	For the three months ended		For the nine months ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Number of awards outstanding, beginning of period	**5,089,556**	5,447,251	**5,317,945**	4,602,385
Granted	**1,073,092**	285,756	**2,698,591**	2,189,216
Vested	**(291,259)**	(169,425)	**(2,091,254)**	(1,228,019)
Forfeitures	**(41,140)**	–	**(95,033)**	–
Awards outstanding, end of period	**5,830,249**	5,563,582	**5,830,249**	5,563,582

	For the three months ended		For the nine months ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Number of common shares held by Trust, beginning of period	**3,256,405**	2,931,932	**3,201,274**	3,075,300
Acquired	**–**	680,119	**1,451,953**	1,328,700
Released on vesting	**(217,964)**	(124,386)	**(1,614,786)**	(916,335)
Common shares held by Trust, end of period	**3,038,441**	3,487,665	**3,038,441**	3,487,665

11. RELATED PARTY TRANSACTIONS

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

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

	December 31, 2010	March 31, 2010
Accounts receivable	**$ 33,306**	$ 39,534
Accounts payable and accrued liabilities	**90,963**	82,299

12. SEGMENTED INFORMATION

The Company has two operating segments:

Canaccord Genuity – 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.

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

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

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

The Company does not allocate total assets or equipment and leasehold improvements to the segments. Amortization of equipment and leasehold improvements is allocated to the segments based on square footage occupied. Amortization of identifiable intangible assets is allocated to Canaccord Genuity as it relates to the acquisition of Genuity. There are no significant intersegment revenues.

	For the three months ended							
	December 31, 2010				December 31, 2009			
	Canaccord Genuity	Canaccord Wealth Management	Corporate and Other	Total	Canaccord Genuity	Canaccord Wealth Management	Corporate and Other	Total
Revenues	**$ 177,758**	**$ 68,599**	**$ 8,477**	**$ 254,834**	$ 116,090	$ 51,733	$ 5,374	$ 173,197
Expenses excluding undernoted	**112,587**	**48,237**	**22,159**	**182,983**	84,743	38,194	19,326	142,263
Amortization	**1,829**	**596**	**361**	**2,786**	903	637	364	1,904
Development costs	**2,957**	**2,275**	**587**	**5,819**	2,464	3,216	1,040	6,720
Acquisition-related costs [notes 5 and 15]	**1,750**	**–**	**–**	**1,750**	–	–	–	–
Income (loss) before income taxes	**$ 58,635**	**$ 17,491**	**$ (14,630)**	**$ 61,496**	$ 27,980	$ 9,686	$ (15,356)	$ 22,310

	For the nine months ended							
	December 31, 2010				December 31, 2009			
	Canaccord Genuity	Canaccord Wealth Management	Corporate and Other	Total	Canaccord Genuity	Canaccord Wealth Management	Corporate and Other	Total
Revenues	**$ 374,873**	**$ 160,345**	**$ 20,818**	**$ 556,036**	$ 280,062	$ 132,056	$ 22,286	$ 434,404
Expenses excluding undernoted	**256,349**	**121,007**	**57,421**	**434,777**	211,278	102,837	50,331	364,446
Amortization	**6,965**	**1,790**	**1,021**	**9,776**	2,787	1,857	1,087	5,731
Development costs	**7,409**	**7,133**	**1,533**	**16,075**	7,195	7,734	3,132	18,061
Acquisition-related costs [notes 5 and 15]	**12,740**	**–**	**–**	**12,740**	–	–	–	–
Income (loss) before income taxes	**$ 91,410**	**$ 30,415**	**$ (39,157)**	**$ 82,668**	$ 58,802	$ 19,628	$ (32,264)	$ 46,166

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

	For the three months ended		For the nine months ended	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Canada				
Revenue	**$ 196,906**	$ 123,626	**$ 415,317**	$ 290,750
Equipment and leasehold improvements	**27,879**	28,791	**27,879**	28,791
Goodwill and other intangible assets	**316,928**	–	**316,928**	–
United Kingdom				
Revenue	**$ 23,339**	$ 26,420	**$ 58,122**	$ 61,120
Equipment and leasehold improvements	**4,230**	5,736	**4,230**	5,736
United States				
Revenue	**$ 34,173**	$ 22,817	**$ 81,972**	$ 80,133
Equipment and leasehold improvements	**4,751**	5,944	**4,751**	5,944
Other Foreign Location				
Revenue	**$ 416**	$ 334	**$ 625**	$ 2,401

13. 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 common shares, contributed surplus, retained earnings and accumulated other comprehensive loss, and is further complemented by subordinated debt. The following tables summarize our capital as at December 31, 2010 and March 31, 2010:

Type of capital	Carrying amount	As a percentage of capital
December 31, 2010		
Common shares	**$ 464,520**	**62.9%**
Contributed surplus	**55,102**	**7.5%**
Retained earnings	**238,569**	**32.3%**
Accumulated other comprehensive loss	**(34,597)**	**(4.7)%**
Shareholders' equity	**723,594**	**98.0%**
Subordinated debt	**15,000**	**2.0%**
	$ 738,594	**100.0%**
March 31, 2010		
Common shares	$ 185,691	44.6%
Contributed surplus	57,351	13.8%
Retained earnings	194,007	46.6%
Accumulated other comprehensive loss	(35,304)	(8.5)%
Shareholders' equity	401,745	96.5%
Subordinated debt	15,000	3.5%
	$ 416,745	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 Genuity Corp. is subject to regulation in Canada primarily by the IIROC
- Canaccord Genuity Limited is regulated in the UK by the Financial Services Authority and is a member of the London Stock Exchange
- Canaccord Genuity Inc. is registered as a broker dealer in the US and is subject to regulation primarily by the Financial Industry Regulatory Authority
- Canaccord Wealth Management (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. There were no significant changes in the Company's capital management policy during the current year. The Company's subsidiaries were in compliance with all of the minimum regulatory capital requirements during the nine months ended December 31, 2010.

14. 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:

2012	$ 24,099
2013	21,488
2014	18,897
2015	17,596
2016	15,140
Thereafter	36,955
	$ 134,175

Contingencies

During the period, there have been no material changes to the Company's contingencies from those described in Note 16 of the Audited Annual Consolidated Financial Statements as filed on SEDAR on May 19, 2010 except for the following:

Genuity has been named as co-defendant in an action alleging improper solicitation of the plaintiffs' employees, conspiracy, inducing breach of contract, interference with commercial relations, breach of fiduciary duties, misuse of confidential information and misappropriation of corporate opportunities. The claim against Genuity is for general damages to be determined by the court and an accounting of benefits received by all the parties as a result of these alleged activities. There is also a claim against all the parties for $10.0 million for punitive and exemplary damages. Management believes these claims can be wholly defended and no liability will be determined against Genuity. As Canaccord Genuity Corp. assumed all the assets and liabilities of Genuity, it may be subject to any judgment that may be made against Genuity in connection with this litigation.

15. SUBSEQUENT EVENTS

[i] Business combination

On November 22, 2010 the Company announced its agreement to purchase 100% of the interest in The Balloch Group Limited, a leading Chinese boutique investment bank, headquartered in Beijing. The purchase price was $3.0 million, with up to an additional $1.0 million as a working capital adjustment subsequent to closing. The acquisition closed on January 17, 2011.

Canaccord's operations in China have been branded Canaccord Genuity Asia and will focus on providing Asia-based clients with advisory services for M&A and strategic partnerships, international market offerings and Chinese debt financing.

In connection with the acquisition, retention payments will be paid to key employees of Canaccord Genuity Asia. The retention payments will involve the issuance of up to approximately 1,187,800 common shares of the Company over a five-year vesting period. The total number of common shares to be vested is also based on revenue earned by Canaccord Genuity Asia subsequent to the date of the acquisition.

This transaction has been accounted for in accordance with CICA Handbook 1582 "*Business Combinations*" [Note 2], using the acquisition method. The Company expensed $1.8 million of acquisition-related costs during the three-month period ended December 31, 2010. These acquisition-related costs include professional and consulting fees incurred for this acquisition. These costs also include payments for staff restructuring that resulted from this acquisition.

The Company is in the process of determining the purchase price allocation for this acquisition and will disclose the preliminary allocation in its audited consolidated financial statements for the year ended March 31, 2011.

[ii] Dividends

On February 9, 2011 the Board of Directors approved a quarterly dividend of $0.075 per share payable on March 15, 2011 with a record date of March 4, 2011.

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the fiscal 2011 interim financial statement presentation.

SHAREHOLDER INFORMATION

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FISCAL 2011 EXPECTED DIVIDEND[(1)] EARNINGS RELEASE DATES

	Expected earnings release date	*Dividend record date*	*Dividend payment date*
Q1/11	August 5, 2010	August 27, 2010	September 10, 2010
Q2/11	November 3, 2010	November 19, 2010	December 10, 2010
Q3/11	February 10, 2011	March 4, 2011	March 15, 2011
Q4/11	May 18, 2011	June 3, 2011	June 15, 2011

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

SHAREHOLDER ADMINISTRATION

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

Computershare Investor Services Inc.
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Internet: www.computershare.com
Offers enrolment for self-service account management for registered shareholders through the Investor Centre.

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For present and archived financial information, please visit
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