

# Q1

## CANACCORD CAPITAL INC. REPORTS FIRST QUARTER RESULTS

First Quarter Fiscal 2008 Report to Shareholders

### **CANACCORD CAPITAL INC. ANNOUNCES PAUL REYNOLDS AS CEO, PETER BROWN REMAINS AS CHAIRMAN, AND REPORTS RECORD FISCAL FIRST QUARTER 2008 RESULTS Announces 25% dividend increase**

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

VANCOUVER, August 1, 2007 – On behalf of the Board of Directors, Peter Brown, Chairman of Canaccord Capital Inc. (TSX & AIM: CCI) is pleased to announce that Paul Reynolds has been appointed CEO effective August 1, 2007. After 40 years of successful leadership, Peter Brown is pleased with the seamless transition of this role to Paul Reynolds, who has been with the firm for over 22 years. As Chairman, Peter Brown looks forward to actively supporting Paul Reynolds, Mark Maybank and Brad Kotush as the firm continues to move forward. He will also represent the interests of both our internal and external shareholders. “We’re proud that our leadership succession has been accomplished entirely from within the organization,” said Peter Brown. “This is a young and dynamic team that shares the goals and values upon which we’ve built Canaccord.”

Canaccord Capital Inc.’s revenue for the first quarter of fiscal year 2008, ended June 30, 2007, was a record \$245.9 million, up 19.3% from the same quarter a year ago. Net income for the first quarter was also a record \$39.0 million, up 50.4% and diluted earnings per share (EPS) of \$0.80 was up 48.1% from the same period a year ago. Commenting on the quarter, Paul Reynolds, President and CEO said “These record levels of revenue and profitability reflect excellent execution across our geographies, business lines and focus sectors during the first three months of our fiscal year.”

### **Highlights of the fiscal first quarter 2008 results (three months ended June 30, 2007) compared to the fiscal first quarter 2007 results (three months ended June 30, 2006):**

- Revenue of \$245.9 million, up 19.3% or \$39.8 million from \$206.1 million
- Expenses of \$187.2 million, up 12.1% or \$20.3 million from \$166.9 million
- Net income of \$39.0 million, up 50.4% or \$13.1 million from \$25.9 million
- Diluted EPS of \$0.80, up 48.1% or \$0.26 from \$0.54
- Return on Equity (ROE) of 41.2%, up from 34.7%
- Working capital increased by 4.8% to \$303.7 million from \$289.7 million
- Book value per diluted common share for the period end was \$7.96, up 22.7%, or \$1.47, from \$6.49
- Supported by Canaccord’s results, the Board of Directors approved a quarterly dividend increase of \$0.025, or 25% per share to \$0.125 per share on August 1, 2007, payable on September 10, 2007 with a record date of August 24, 2007.

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CANACCORD

C A P I T A L

### Highlights of Operations:

- Canaccord Adams, our capital markets team, led 64 transactions<sup>(1)</sup> globally to raise total proceeds of more than \$2.6 billion during Q1/08
- During Q1/08, Canaccord Adams led and co-led the following equity transactions:
  - \$614.5 million on AIM for Aricom
  - \$201.2 million on TSX for Eastplats Eastern Platinum Limited
  - \$201.1 million on TSX for SentrySelect Primary Metals Corp.
  - \$161.0 million on TSX-V for Holloway Lodging REIT
  - \$105.0 million on TSX for InStorage REIT
  - \$104.9 million on TSX and AIM for Oriel Resources Plc.
  - \$100.8 million on TSX for Aura Gold
  - \$92.0 million on TSX for Artis REIT
  - \$65.0 million on TSX for Killam Properties
- During Q1/08, Canaccord Adams led its first transaction from China on the TSX-V totalling \$75.0 million for Hanwei Energy Services Corp.
- Including the led and co-led transactions referred to above, Canaccord Adams participated in a total of 116 transactions<sup>(1)</sup> globally to raise gross proceeds of more than \$9.6 billion during Q1/08. Of this:
  - Canada participated in 95 transactions, which raised \$6.9 billion
  - UK participated in 8 transactions, which raised \$1.7 billion
  - US participated in 13 transactions, which raised \$1.0 billion
- Canaccord Adams advised UrAsia on its \$3.4 billion acquisition by Uranium One Inc. and was the exclusive advisor for Holloway Lodging REIT on a \$215.0 million acquisition of Pomeroy Group
- Assets under administration (AUA) of \$15.7 billion, up 12.6% from the same period a year ago, and up 4.6% from Q4/07
- Assets under management (AUM)<sup>(2)</sup> of \$815 million, up 14.5% from the same period a year ago, and up 1.0% from Q4/07
- As of June 30, 2007, Canaccord had 440 Investment Advisors, up 10 from the same period a year ago

(1) Transactions over \$1.5 million.

(2) AUM has been reclassified commencing in Q1/07, to include all assets managed on a discretionary basis under our programs generally described as or known as the *Independence Accounts, Separately Managed Accounts and Advisor Managed Accounts* offered by Canaccord.

## LETTER TO SHAREHOLDERS

We are pleased to report two important accomplishments during the first quarter of fiscal 2008. First, the management transition announced last August was completed as planned and will be announced at this year's Annual General Meeting. Second, solid execution in Canada, the US and UK, and across most of our seven focus sectors, drove record levels of revenue and profitability for the first three months of the fiscal year.

Effective with the Annual General Meeting on August 2, 2007, the roles of Chairman and CEO will be separated. Peter Brown continues as Chairman of the Board, and as a member of the Executive committees. Paul Reynolds, President of Canaccord since August 2006, adds the responsibilities of Chief Executive Officer. Mark Maybank and Brad Kotush – our Chief Operating Officer and Chief Financial Officer, respectively – have held their positions since 2006.

This leadership succession combined with Canaccord's other senior managers, gives us a dynamic executive team with both a strong unified and strategic vision and the operating experience to make it a reality. In our view, Canaccord's excellent financial performance is a direct result of an entrepreneurial business culture that shares common goals and values. We have a diverse and deeply talented team in all our geographies and disciplines, in all age groups. It is this depth that produces these outstanding results.

Additionally, we have now launched our new long term incentive plan (LTIP). This program results in senior producers and management receiving a portion of their compensation which would otherwise be paid in cash in the form of Canaccord shares subject to vesting requirements. The significance of this program is the alignment of employee and external shareholder interests. We believe that the LTIP program will also increase our employee ownership over time.

### RECORD FINANCIAL PERFORMANCE

The strong performance we saw in Canaccord's last quarter of fiscal 2007 continued during the first quarter of the new fiscal year. Net income reached \$39 million, an increase of more than 50% from the same period last year; diluted earnings per share rose 48% to \$0.80 from \$0.54 in the comparable quarter of fiscal 2007. Revenues increased by more than 19% to \$246 million in the first three months of fiscal 2008, driven by stronger markets across all geographies as well as continuing success in serving the needs of our corporate, institutional and retail clients with ideas that count. We held expenses to a 12% increase year over year, which gave us meaningful operating leverage in each of Canaccord's business groups. Based on these results, we've increased our dividend by 25% per share, to \$0.125 per share commencing this quarter. Canaccord intends to pay \$0.125 for each quarter in fiscal 2008.

### CONTINUED GROWTH IN OUR CAPITAL MARKETS ACTIVITY

In aggregate, Canaccord Adams enjoyed excellent performance during the first quarter of fiscal 2008, with continuing strength in our capital markets activities. Globally, the division led 64 transactions over \$1.5 million, raising \$2.6 billion in proceeds. Of particular note was the largest transaction ever led by Canaccord – a \$614.5 million offering for Aricom on the AIM.

Canaccord Adams' Canadian operations delivered outstanding results during the quarter. The division's capital markets revenues surged more than 46% to \$62.5 million compared to the first quarter of fiscal 2007. Continuing gains in market share, as well as high demand for our corporate finance product, drove the increase in revenues.

In the United Kingdom and Other Foreign Location, Canaccord Adams' revenues totalled \$57.4 million, an increase of over 17% from the comparable quarter in fiscal 2007. This reflects higher financing activity, particularly in the resource sectors. We are a leading broker and Nomad in the UK and are well positioned to benefit when underwriting activity broadens beyond the current enthusiasm for mining and metals offerings. Our new 11 member Investment Trust team is now engaged. This development enhances our existing trading expertise as well as expands our sectors under coverage with the addition of investment trusts. We expect this team to bring us new opportunities to serve a growing sector in the UK.

We continue to be optimistic about Canaccord Adams' prospects in the United States. Revenues for the first quarter of fiscal 2008 advanced nearly 12% from a year ago to \$25.3 million, with notable contributions from our expanded Life Sciences practice. We also saw strength in Resource Optimization and Sustainability, and Industrial Technology. Our corporate finance initiative is succeeding. As a result, the US had its best quarter ever, and June was a record banking month. Our team entered the second quarter of fiscal 2008 with a solid pipeline of opportunities that it is pursuing

aggressively. In early August, we will hold our annual Global Growth Conference in Boston. This is the 27th year for this popular event, which brings more than 1,000 institutional investors together with private equity firms and presenting companies from the US, Canada and the UK.

### **SOLID GAINS IN PRIVATE CLIENT SERVICES**

Canaccord Investment Advisors (IAs) took advantage of strong equity markets, particularly for commodity-related issues, during the quarter. Revenue for the first three months of fiscal 2008 advanced more than 5% to \$76.1 million compared to a very strong first quarter of fiscal 2007. Reduced overhead expenses contributed to solid gains in the division's income before income taxes and corporate allocations, which rose 11% to \$18.9 million compared to the same quarter a year ago.

The market for recruiting new IAs remained very competitive during our first quarter. Year over year, we have net additions of ten new advisors bringing our total number to 440. Assets under administration rose 12.6% from the same period a year ago to \$15.7 billion primarily due to stronger equity markets, bringing average book size to \$35.7 million.

We are also pleased to report continuing overall growth in our discretionary asset management programs, which include the *Independence Accounts*, *Separately Managed Accounts (SMA)* and *Advisor Managed Accounts (AMA)*. The value of the SMA and AMA assets is now of a size that we believe they should be included with our Independence Accounts in our determination of assets under management (AUM). As a result, AUM has now been reclassified commencing in the first quarter of fiscal 2007. For the first quarter of fiscal 2008, AUM totalled \$815 million, an increase of 14.5% year over year.

### **BUSINESS OUTLOOK**

We entered the second quarter of the fiscal year with a healthy pipeline of new opportunities in all our businesses. We expect to see continued demand for global commodities as well as growing strength in the US technology cycle. These trends are likely to drive robust mergers and acquisitions activity and continuing strength in equity markets.

We are proud to lead a dynamic team of men and women with a deep dedication to delivering ideas that count for clients and shareholders alike. The success of Canaccord's strategy of becoming a diversified, global investment firm focused on growth is largely in their hands, and we look forward to continuing our work with them to achieve that goal.



**PETER M. BROWN**  
CHAIRMAN



**PAUL D. REYNOLDS**  
PRESIDENT & CHIEF EXECUTIVE OFFICER

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*Fiscal first quarter 2008 for the three months ended June 30, 2007 – this document is dated August 1, 2007*

The following discussion of the financial condition and results of operations for Canaccord Capital Inc. (Canaccord) is provided to enable the reader to assess material changes in such financial condition and to assess results for the three-month period ended June 30, 2007, compared to the corresponding period in the preceding fiscal year. The three-month period ended June 30, 2007 is also referred to as first quarter 2008, Q1/08 and fiscal Q1/08 in the following discussion. This discussion should be read in conjunction with the unaudited interim consolidated financial statements for the three-month period ended June 30, 2007, beginning on page 18 of this report; our Annual Information Form dated June 26, 2007; and the 2007 annual Management's Discussion and Analysis (MD&A) including the audited consolidated financial statements for the fiscal year ended March 31, 2007, in Canaccord's Annual Report dated June 26, 2007 (the Annual Report). There has been no material change to the information contained in the annual MD&A for fiscal 2007 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 specified. All the financial data below is unaudited except for certain fiscal year data from our 2007 audited financial statements.

## 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](http://www.sedar.com). These forward-looking statements are made as of the date of this document, and Canaccord assumes no obligation to update or revise them to reflect new events or circumstances.

## 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.

Assets under administration (AUA) and assets under management (AUM) are non-GAAP measures of client assets that are common to the wealth management aspects of the private client services industry. AUA is the market value of client assets administered by Canaccord from which Canaccord earns commissions or fees. This measure includes funds held in client accounts as well as the aggregate market value of long and short security positions. Canaccord's method of calculating AUA may differ from the methods used by other companies and therefore may not be comparable to other companies. Management uses this measure to assess operational performance of the Private Client Services business segment. In Q1/08, our AUM definition was reclassified to include all assets managed on a discretionary basis under our programs generally described as or known as the *Independence Accounts*, *Separately Managed Accounts* and *Advisor Managed Accounts*. AUM including all these programs has been reclassified commencing in Q1/07 on this basis. Services under these programs provided include the selection of investments and the provision of investment advice. AUM are also administered by Canaccord and are included in AUA.

## OVERVIEW

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

### Business environment

During fiscal Q1/08, the Canadian economy remained strong as rising commodity prices continue to boost the economy. Economic strength prompted the Bank of Canada to raise rates in July, similar to other global central banks around the world, in order to moderate inflationary pressures. In the US, the major market indices increased, both sequentially and year over year.

In the UK, the economy remains strong with expected GDP growth rates of 2.9% and 2.7% in calendar 2007 and 2008, respectively, according to the International Monetary Fund. Due to the continued strength in the economy and resulting in inflationary pressures, the Bank of England is expected to raise interest rates in the short term. Both the FTSE and AIM indices increased during Q1/08 relative to Q4/07 and to Q1/07.

### Market data

Year-over-year trading volumes of shares increased on the TSX, TSX-Venture, and AIM, while declining on the NASDAQ. Sequentially, trading volumes were mixed between North America and the UK. Financing values on each of the TSX, TSX-Venture, AIM and NASDAQ experienced strong growth, both year over year and sequentially. Although NASDAQ volumes in Q1/07 were down significantly compared to Q1/08, financing values were up 72.6% during the same period, which is largely due to three very large transactions in Q1/08. On the AIM, trading volumes decreased modestly in Q1/08 compared to Q4/07, but financing were significantly higher since Q4/07 in both new and further issues. Financing value in Canaccord's focus sectors on the AIM grew as well. The Mining and Media sectors were particularly strong both year over year and quarter over quarter.

### Trading volume by exchange (billions of shares)

	April 2007	May 2007	June 2007	Fiscal Q1/08	Increase (decrease) from fiscal Q1/07	Increase (decrease) from fiscal Q4/07
TSX	8.0	8.8	8.0	24.8	19.9%	4.4%
TSX – Venture	5.1	4.5	3.8	13.4	30.8%	(0.3)%
AIM	11.5	12.5	12.4	36.4	6.1%	(15.9)%
NASDAQ	19.2	21.6	21.5	60.3	(40.3)%	0.5%

Source: TSX Statistics, LSE AIM Statistics, Thomson One

### Total financing value by exchange

	April 2007	May 2007	June 2007	Fiscal Q1/08	Increase from fiscal Q1/07	Increase from fiscal Q4/07
TSX and TSX Venture (C\$ billions)	6.8	5.4	5.8	18.1	29.5%	13.1%
AIM (£ billions)	1.9	2.0	3.1	7.0	31.2%	147.5%
NASDAQ (US\$ billions)	7.7	5.6	5.0	18.3	72.6%	41.5%

Source: TSX Statistics, LSE AIM Statistics, Equidesk

### Financing value for relevant AIM industry sectors

(£ millions, except for percentage amounts)	April 2007	May 2007	June 2007	Fiscal Q1/08	Increase (decrease) from fiscal Q1/07	Increase (decrease) from fiscal Q4/07
Oil and gas	161.7	86.3	127.5	375.5	(47.9)%	112.7%
Mining	137.4	267.0	487.5	892.0	51.0%	263.5%
Biotech	30.0	11.5	25.8	67.3	(31.4)%	(34.2)%
Media	585.2	24.4	71.9	681.5	201.4%	568.9%
Technology	112.0	108.7	74.6	295.4	30.6%	319.2%
<b>Total</b>	<b>1,026.2</b>	<b>497.9</b>	<b>787.4</b>	<b>2,311.6</b>	<b>24.2%</b>	<b>231.9%</b>

**About Canaccord's operations**

Canaccord Capital Inc.'s operations are divided into two business segments: Canaccord Adams (our capital markets operations) and Private Client Services.

Revenue from Canaccord Adams (our capital markets segment) 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.

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

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

**Consolidated operating results****First quarter and fiscal 2008 summary data <sup>(1)</sup>**

	Three months ended June 30		Year-over-year increase (decrease)
	2007	2006	
<i>(C\$ thousands, except per share, employee and % amounts)</i>			
<b>Canaccord Capital Inc.</b>			
Revenue			
Commission	\$ 85,775	\$ 78,054	9.9%
Investment banking	128,625	102,840	25.1%
Principal trading	6,813	7,784	(12.5)%
Interest	16,310	13,638	19.6%
Other	8,347	3,811	119.0%
Total revenue	\$ 245,870	\$ 206,127	19.3%
Expenses			
Incentive compensation	\$ 121,406	\$ 104,955	15.7%
Salaries and benefits	14,269	12,493	14.2%
Other overhead expenses <sup>(2)</sup>	51,545	49,504	4.1%
Total expenses	\$ 187,220	\$ 166,952	12.1%
Income before income taxes	58,650	39,175	49.7%
Net income	39,029	25,942	50.4%
Earnings per share (EPS) – diluted	0.80	0.54	48.1%
Return on average common equity (ROE)	41.2%	34.7%	6.5 p.p.
Book value per share – period end	\$ 7.96	\$ 6.49	22.7%
Number of employees	1,673	1,534	9.1%

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

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



**Geographic distribution of revenue for the first quarter of fiscal 2008 <sup>(1)</sup>**

(C\$ thousands, except % amounts)	Three months ended June 30		Year-over-year increase (decrease)
	2007	2006	
Canada	\$ 162,093	\$ 133,250	21.6%
UK	47,501	48,892	(2.9)%
US	26,422	23,985	10.2%
Other Foreign Location	9,854	—	n.m.

(1) For a business description of Canaccord's geographic distribution please refer to the "About Canaccord's Operations" section on page 7.  
 n.m.: not meaningful

**Three-month summary**

On a consolidated basis, revenue is generated through five activities: commissions and fees associated with agency trading and private client wealth management activity, investment banking, principal trading, interest and other. Revenue for the three months ended June 30, 2007, was a record \$245.9 million, up 19.3% or \$39.7 million compared to the same period a year ago.

For the first quarter of fiscal 2008, revenue generated from commissions was up \$7.7 million to \$85.8 million compared to the same period a year ago and is largely due to strong market activity.

Investment banking revenue was \$128.6 million, up \$25.8 million, or 25.1%, primarily due to increased activity from Canadian equity markets and from higher merger and acquisition fees. Revenue derived from principal trading was \$6.8 million, down \$1.0 million, or 12.5%. Interest revenue was \$16.3 million, up \$2.7 million, or 19.6%, mainly due to interest earned on higher cash balances.

First quarter revenue in Canada was \$162.1 million, up 21.6% or \$28.8 million from the same period a year ago. Our operations in Canada benefited from greater activity in the Canadian equity markets, largely due to the continued global demand for commodities and related equities.

Revenue in the UK was \$47.5 million, down 2.9% or \$1.4 million from the same period a year ago. Revenue from Other Foreign Location was \$9.9 million.

Revenue in the US was \$26.4 million, up \$2.4 million or 10.2%, from Q1/07.

**Expenses as a percentage of revenue**

in percentage points	Three months ended June 30		Year-over-year (decrease)
	2007	2006	
Incentive compensation	49.4%	50.9%	(1.5)p.p.
Salaries and benefits	5.8%	6.1%	(0.3)p.p.
Other overhead expenses <sup>(1)</sup>	20.9%	24.0%	(3.1)p.p.
Total	76.1%	81.0%	(4.9)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

Expenses for the three months ended June 30, 2007, were \$187.2 million, up 12.1% or \$20.3 million from a year ago. The overall increase in expenses is largely due to the parallel growth in incentive compensation relative to higher revenue.

Incentive compensation expense was \$121.4 million for the quarter, up 15.7% or \$16.5 million, due to the increase in incentive-based revenue. Consolidated incentive compensation as a percentage of total revenue was 49.4%, down 1.5 percentage points. This is largely due to the implementation of the long term incentive plan (LTIP). Compensation expense includes a 3% National Health Insurance (NHI) tax applicable for UK-based employees.

Salaries and benefits expense was \$14.3 million, up 14.2% in the first quarter of fiscal 2008 from the same period a year ago.

The total compensation (incentive compensation plus salaries) payout as a percentage of consolidated revenue for Q1/08 was 55.2%, down from 57.0% in Q1/07.



**Other overhead expenses**

<i>(C\$ thousands, except % amounts)</i>	Three months ended June 30		Year-over-year increase (decrease)
	2007	2006	
Trading costs	\$ 6,958	\$ 8,559	(18.7)%
Premises and equipment	5,259	5,937	(11.4)%
Communication and technology	5,739	5,063	13.4%
Interest	6,168	4,982	23.8%
General and administrative	18,271	19,107	(4.4)%
Amortization	1,977	1,989	(0.6)%
Development costs	7,173	3,867	85.5%
Total other overhead expenses	\$ 51,545	\$ 49,504	4.1%

Other overhead expenses were up 4.1% or \$2.0 million to \$51.5 million for the first quarter of fiscal 2008 from the same period a year ago. Contributing to the overall increase in overhead expenses were development costs, which grew by 85.5% or \$3.3 million, and communications and technology costs up \$0.7 million. These increases are largely related to Canaccord's growth across all geographies. Additionally, interest expense was up 23.8% or \$1.2 million compared to Q1/07 due to higher interest rates, larger cash balances in client accounts and subordinated debt entered into on March 30, 2007. Offsetting the increase in overhead expenses were lower trading costs, down 18.7% or \$1.6 million.

General and administrative expense was down 4.4% or \$0.8 million. The decrease in general and administrative expense for Q1/08 was largely due to a decrease in reserve expenses, down 78.1% or \$1.2 million, and client expenses, which were down 87.4% or \$1.3 million. General and administrative expense was offset by an increase in promotion and travel expense of 17.1% or \$1.1 million which is largely due to an increase in business travel as a result of our geographically diverse business.

Development costs for Q1/08 were \$7.2 million, up 85.5% or \$3.3 million from the previous year, and include hiring incentives and systems development costs. Hiring incentives are one of our tools to recruit new Investment Advisors (IAs) and capital markets professionals, and include retention costs related to the acquisition of Adams Harkness Financial Group, Inc. Systems development costs are expenditures that we have made related to enhancing our information technology platform. Hiring incentives were \$5.5 million, up 104.3% or \$2.8 million because of the recruitment of professionals for both Private Client Services and Canaccord Adams. Overall systems development costs for Q1/08 were \$1.7 million, up 42.0% or \$0.5 million, due to enhancements to our technological platform associated with our growth.

Net income for Q1/08 was \$39.0 million, up 50.4% or \$13.1 million from the same period a year ago. Diluted EPS was \$0.80, up \$0.26 or 48.1%. ROE for Q1/08 was 41.2% compared to an ROE of 34.7% a year ago. The increase in EPS is largely due to growth in net income, and the investments made in our US and UK operations. Book value per common share for Q1/08 was up 22.7% to \$7.96.

Income taxes were \$19.6 million for the quarter, reflecting an effective tax rate of 33.5%, down from 33.8% a year ago.

## RESULTS OF OPERATIONS

### Canaccord Adams

	Three months ended June 30		Year-over-year increase
	2007	2006	
<i>(C\$ thousands, except employees and % amounts)</i>			
<b>Canaccord Adams</b>			
Revenue	\$ 155,023	\$ 125,106	23.9%
Expenses			
Incentive compensation	\$ 76,203	\$ 65,948	15.6%
Salaries and benefits	4,019	3,188	26.1%
Other overhead expenses	26,127	22,386	16.7%
Total expenses	\$ 106,349	\$ 91,522	16.2%
Income before income taxes <sup>(1)</sup>	48,674	33,584	44.9%
Number of employees	550	481	14.3%

(1) Income before income taxes excludes allocated overhead expenses that are included in Corporate and Other segment expenses.

Revenue from Canaccord Adams (our capital markets segment) 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.

#### Three months ended June 30, 2007, compared with three months ended June 30, 2006

Revenue for Canaccord Adams in Q1/08 was \$155.0 million, up 23.9% or \$29.9 million from the same quarter a year ago, due to continued growth in market share as well as relatively strong capital markets in all geographies.

#### Revenue from Canadian operations

Canaccord Adams in Canada generated fiscal first quarter revenue of \$72.4 million that was derived from four divisions: Capital Markets, \$62.5 million, up 46.3% or \$19.8 million; International Trading, \$6.0 million, down 18.9% or \$1.4 million; Registered Traders, \$1.7 million, up 6.5% or \$0.1 million; and Fixed Income, \$2.1 million, up 16.0% or \$0.3 million. The growth in this geographic sector is largely due to our growing market share as well as continued high global demand for commodities and for Canadian equities relative to Q1/07. Canadian revenue for Canaccord Adams of \$72.4 million represents 46.7% of Canaccord Adams' total revenue.

#### Revenue from UK operations

Operations related to Canaccord Adams Limited in the UK include institutional sales and trading, investment banking and research. Revenue in this business was \$47.5 million, down 2.8% or \$1.4 million from the same period a year ago due to slower market activity compared to the same period a year ago. UK revenue of \$47.5 million represents 30.6% of Canaccord Adams' total revenue.

#### Revenue from US operations

The US operations reflect the US capital markets activities of Canaccord Adams Inc. First quarter 2008 revenue for Canaccord Adams in the US was \$25.3 million, representing 16.3% of Canaccord Adams' total revenue.

#### Revenue from Other Foreign Location

Revenue attributable to Other Foreign Location was derived in large part from investment banking activity. Revenue in Q1/08 was \$9.9 million, representing 6.4% of Canaccord Adams' total revenue. Revenue realized from these operations in the comparative period was not material.

#### Expenses

Expenses for Q1/08 were \$106.3 million, up 16.2% or \$14.8 million. The largest increases in non-compensation expenses were in development costs, up 233.5% or \$3.0 million, and general and administrative expense, up 19.3% or \$1.7 million. Within general and administrative expense, promotion and travel was up 29.7% or \$1.3 million; and professional fees up 52.5% or \$0.6 million.

The increase in incentive compensation for the quarter of 15.6%, or \$10.3 million, is largely attributable to the higher revenue during the quarter. Salary and benefits expense for the quarter was up by \$0.8 million, up 26.1% from a year ago, largely due to an increase of 69 net new Canaccord Adams employees across all geographies compared to last year. The total compensation expense payout as a percentage of revenue for the quarter was 51.7%, down 3.6 percentage points from 55.3% for the same period a year ago.

Income before income taxes and corporate overhead allocations for the quarter was \$48.7 million, up \$15.1 million or 44.9%, from the same quarter a year ago.

### Private Client Services

(C\$ thousands, except assets under administration and assets under management, which are in C\$ millions; employees; Investment Advisors and % amounts)

	Three months ended June 30		Year-over-year increase (decrease)
	2007	2006	
Revenue	\$ 76,083	\$ 72,286	5.3%
Expenses			
Incentive compensation	\$ 37,680	\$ 33,368	12.9%
Salaries and benefits	4,049	3,430	18.0%
Other overhead expenses	15,419	18,419	(16.3)%
Total expenses	\$ 57,148	\$ 55,217	3.5%
Income before income taxes <sup>(1)</sup>	18,935	17,069	10.9%
Assets under management (AUM)	815	712	14.5%
Assets under administration (AUA)	15,701	13,942	12.6%
Number of Investment Advisors (IAs)	440	430	2.3%
Number of employees	757	710	6.6%

(1) Income before income taxes excludes allocated overhead expenses that are included in Corporate and Other segment expenses.

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

#### Three months ended June 30, 2007, compared with three months ended June 30, 2006

Revenue from Private Client Services was \$76.1 million, up \$3.8 million or 5.3% mainly due to favourable market conditions in North America. AUA grew by 12.6% or \$1.8 billion to \$15.7 billion compared to Q1/07. AUM grew by 14.5% year over year, and has been restated back to Q1/07 for comparative purposes. There were 440 IAs at the end of the first quarter of fiscal 2008, up from 430 a year ago. Despite an extremely competitive recruiting environment, we successfully recruited net 10 IAs. Fee-related revenue as a percentage of total Private Client Services' revenue was up 2.5 percentage points to 22.5% from the same period last year.

Expenses for Q1/08 were \$57.1 million, up 3.5% or \$1.9 million. For the quarter, the largest increase in expenses were incentive compensation expenses, up 12.9% or \$4.3 million, and interest expense, up 19.2% or \$0.8 million due to higher interest rates and larger client cash balances in our Private Client Services business this year versus last year. General and administrative expense was down 51.1% or \$3.1 million, related to provisions made in Q1/07.

Income before income taxes and corporate allocations for the quarter was \$18.9 million, up 10.9% from the same period a year ago.

### Corporate and Other

(C\$ thousands, except employees and % amounts)

	Three months ended June 30		Year-over-year increase (decrease)
	2007	2006	
Revenue	\$ 14,764	\$ 8,735	69.0%
Expenses			
Incentive compensation	\$ 7,523	\$ 5,639	33.4%
Salaries and benefits	6,201	5,875	5.5%
Other overhead expenses	9,999	8,699	14.9%
Total expenses	\$ 23,723	\$ 20,213	17.4%
(Loss) before income taxes	(8,959)	(11,478)	(21.9)%
Number of employees	366	343	6.7%

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

### **Three months ended June 30, 2007, compared with three months ended June 30, 2006**

Revenue for the three months ended June 30, 2007, was \$14.8 million, up 69.0% or \$6.0 million from the same quarter a year ago, and is due to increased business activity.

Expenses for Q1/08 were \$23.7 million, up 17.4% or \$3.5 million. The largest increases in expenses were recorded in incentive compensation, up 33.4% or \$1.9 million; and general and administrative expense, up 13.0% or \$0.6 million.

Loss before income taxes was \$9.0 million in the first quarter of fiscal 2008, representing a 21.9% or \$2.5 million improvement from the same quarter a year ago.

### **FINANCIAL CONDITION**

Below are specific changes in selected balance sheet items.

#### **Cash and cash equivalents**

Cash and cash equivalents were \$329.6 million on June 30, 2007, compared to \$506.6 million on March 31, 2007. During the first quarter of fiscal 2008, operating activities used cash in the amount of \$144.6 million, due to net changes in non-cash working capital items.

#### **Accounts receivable**

Client security purchases are entered into on either a cash or a margin basis. When securities are purchased on margin, Canaccord extends a loan to the client, using securities purchased and/or securities in the client's account as collateral. Client accounts receivable were \$718.8 million on June 30, 2007, compared to \$694.1 million on March 31, 2007. These receivables vary significantly on a day-to-day basis, as they are based on trading volumes. On June 30, 2007, total accounts receivable were \$2.1 billion compared with \$1.7 billion on March 31, 2007, mainly due to increases in brokers', dealers' and clients' accounts at fiscal quarter end.

#### **Call loans**

Loan facilities utilized by Canaccord may vary significantly on a day-to-day basis and depend on securities trading activity. On June 30, 2007, the amount borrowed pursuant to call loan facilities was \$2.3 million compared with nil on March 31, 2007.

### **OFF-BALANCE SHEET ARRANGEMENTS**

At June 30, 2007, Canaccord has credit facilities with Canadian, American and United Kingdom banks in an aggregate amount of \$514.0 million. These credit facilities, consisting of call loans, letters of credit and daylight overdraft facilities are collateralized by either unpaid securities and/or securities owned by the Company. Canaccord Capital Corporation has provided a bank letter of credit in the amount of \$1.3 million as a guarantee for lease obligations of Canaccord Adams Limited. Canaccord Adams Inc. has also entered into irrevocable standby letters of credit from a financial institution totalling \$2.4 million (US\$2.3 million) as rent guarantees for its leased premises in Boston, New York and San Francisco. As of June 30, 2007, there were nil outstanding balances under these standby letters of credit.

### **LIQUIDITY AND CAPITAL RESOURCES**

Canaccord has a capital structure comprised of share capital, retained earnings and accumulated other comprehensive income. On June 30, 2007, cash and cash equivalents net of call loans were \$327.3 million, down \$179.3 million from \$506.6 million as of March 31, 2007. During the quarter ended June 30, 2007, financing activities used cash in the amount of \$18.2 million, which was primarily due to the purchase of common shares related to Canaccord's long term incentive plan (LTIP) of \$8.5 million, and dividend payments of \$4.8 million. Investing activities used cash in the amount of \$9.2 million for the purchase of equipment and leasehold improvements of \$4.2 million and from the acquisition of an investment of \$5.0 million. Operating activities used cash in the amount of \$144.6 million, which was due to net increases in non-cash working capital items, net income and items not affecting cash. In total, there was a reduction in net cash of \$49.1 million compared to the same period a year ago. This decrease is largely attributed to cash used in operating activities during the first quarter of fiscal 2008.

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

marketable securities and are reviewed daily for impairment in value and collectibility. Receivables and payables from brokers and dealers represent the following: current open transactions that generally settle within the normal three-day settlement cycle; collateralized securities borrowed and/or loaned in transactions that can be closed within a few days on demand; and balances on behalf of introducing brokers representing net balances in connection with their client accounts.

The addition of subordinated debt at the end of fiscal year 2007 provides additional regulatory capital to support business activities across our global platform. Subordinated debt supports regulatory capital in our operating subsidiaries. Therefore, this addition of leverage to our balance sheet supports our ongoing growth initiatives.

## OUTSTANDING SHARE DATA

	Outstanding shares as of June 30	
	2007	2006
Issued shares excluding unvested shares <sup>(1)</sup>	<b>45,183,714</b>	45,857,761
Issued shares outstanding <sup>(2)</sup>	<b>47,864,234</b>	47,827,350
Issued shares outstanding – diluted <sup>(3)</sup>	<b>48,872,327</b>	47,950,568
Average shares outstanding – basic	<b>45,170,532</b>	45,906,368
Average shares outstanding – diluted	<b>48,859,145</b>	47,998,175

(1) Excludes 2,279,281 unvested shares that are outstanding relating to share purchase loans for recruitment and retention programs and 401,239 unvested shares purchased by employee benefit trust for the LTIP.

(2) Includes 2,279,281 unvested shares that are outstanding relating to share purchase loans for recruitment and retention programs and 401,239 unvested shares purchased by employee benefit trust for the LTIP.

(3) Includes 1,008,093 of share issuance commitments.

At June 30, 2007, Canaccord had 47,864,234 common shares issued and outstanding, up 36,884 common shares from June 30, 2006, due to the net effect of shares issued in connection with stock compensation plans and shares cancelled.

On December 22, 2006, Canaccord renewed its Normal Course Issuer Bid (NCIB) for one year commencing on December 29, 2006, and ending on December 28, 2007. The NCIB allows for purchases of up to 5% of Canaccord's issued and outstanding shares at the time of the renewal. At December 29, 2006, there were 2,391,880 common shares available for purchase under the NCIB. Canaccord has agreed with the relevant regulators to update its shareholders at a minimum rate of every two weeks if purchases are made, and will update shareholders immediately if more than 1% of its outstanding shares are purchased in one day. From time to time, Canaccord may purchase its common shares for the purpose of resale or cancellation. There were no share transactions under the NCIB between March 31, 2007, and June 30, 2007. However, the employee benefit trust has purchased 401,239 shares for the LTIP, which reduces the number of shares allowable under NCIB going forward.

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

In connection with the acquisition of Adams Harkness Financial Group, Inc., a retention plan was established, which provides for the issuance of up to 1,118,952 common shares after a three-year vesting period. The total number of shares to be vested is also based on revenue earned by Canaccord Adams Inc. subsequent to the date of acquisition. The aggregate number of common shares that will vest and will therefore be issued at the end of the vesting period will be the number, which is equal to the revenue earned by Canaccord Adams Inc. during the vesting period divided by US\$250.0 million multiplied by the number of common shares subject to the retention plan (892,354 common shares as of June 30, 2007). As such revenue levels are achieved during the vesting period, the associated proportion of the retention payment will be recorded as a development cost, and the applicable number of retention shares will be included in weighted average diluted common shares outstanding.

## INTERNATIONAL FINANCIAL CENTRE

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

## **FOREIGN EXCHANGE**

Canaccord manages its foreign exchange risk by periodically hedging pending settlements in foreign currencies. Realized and unrealized gains and losses related to these transactions are recognized in income during the year. On June 30, 2007, forward contracts outstanding to sell US dollars had a notional amount of US\$37.3 million, up from \$8.5 million from a year ago. Forward contracts outstanding to buy US dollars had a notional amount of US\$32.0 million, up from US\$14.5 million compared to a year ago. The fair value of these contracts was nominal. Some of Canaccord's operations in London, England are conducted in UK pounds sterling; however, any foreign exchange risk in respect of these transactions is generally limited, as pending settlements on both sides of the transaction are typically in UK pounds sterling.

## **CRITICAL ACCOUNTING ESTIMATES**

The following is a summary of Canaccord's critical accounting estimates. Canaccord's accounting policies are in accordance with Canadian GAAP and are described in Note 1 to the audited consolidated financial statements for the year ended March 31, 2007. The accounting policies described below require estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses recorded in the financial statements. Because of their nature, estimates require judgment based on available information. Actual results or amounts could differ from estimates, and the difference could have a material impact on the financial statements.

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

Securities held, including share purchase warrants and options, are recorded at market value and, accordingly, the unaudited interim consolidated financial statements reflect unrealized gains and losses associated with such securities. In the case of publicly traded securities, market value is determined on the basis of market prices from independent sources, such as listed exchange prices or dealer price quotations. Adjustments to market prices are made for liquidity, relative to the size of the position, holding periods and other resale restrictions, if applicable. Investments in illiquid or non-publicly traded securities are measured at cost. There is inherent uncertainty and imprecision in estimating the factors that can affect value and in estimating values generally. The extent to which valuation estimates differ from actual results will affect the amount of revenue or loss recorded for a particular security position in any given period. With Canaccord's security holdings consisting primarily of publicly traded securities, our procedures for obtaining market prices from independent sources, the validation of estimates through actual settlement of transactions, and the consistent application of our approach from period to period, we believe that the estimates of market value recorded are reasonable.

### **Provisions**

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

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

### **Tax**

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

### **Goodwill and other intangible assets**

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



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

## **RETENTION PLANS**

### **Stock-based compensation**

In connection with the acquisition of Enermarket Solutions Ltd., Canaccord agreed to issue common shares to key employees of Enermarket and its senior management over two years. Similarly, in connection with the acquisition of Adams Harkness Financial Group, Inc., Canaccord agreed to issue common shares to certain key employees of Adams Harkness upon the expiry of a three-year vesting period, with the numbers of common shares to be adjusted in the event that certain revenue targets are not achieved.

### **Long term incentive plan**

The long term incentive plan (LTIP) is a new plan implemented in the first quarter of fiscal 2008 pending shareholders' approval in August 2007. Under the LTIP, eligible participants are awarded restricted share units which vest over three years.

## **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.

## **CHANGES IN ACCOUNTING POLICIES**

On April 1, 2007, the Company adopted the provisions of CICA Handbook Section 3855 *"Financial Instruments – Recognition and Measurement"*, CICA Handbook Section 3865 *"Hedges"* and CICA Handbook Section 1530 *"Comprehensive Income"*.

### **Financial Instruments – Recognition and Measurement**

This standard prescribes the recognition and measurement of financial instruments. Section 3855 requires all financial assets and liabilities (including derivatives) be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on the classification of the instruments. All financial instruments must be classified as one of the following categories: held for trading, held to maturity, loans and receivables and available for sale assets.

The financial assets categorized as held for trading are measured at fair value with unrealized gains and losses recognized in net income. Section 3855 permits an entity to designate any financial instruments as held for trading on initial recognition or adoption of this standard, even if that instrument would not otherwise meet the definition of held for trading as specified in Section 3855. The Company's financial instruments classified as held for trading include commercial paper and bankers' acceptances, marketable securities owned and sold short, forward contracts, and broker warrants. The Company has historically measured these instruments at fair value and any unrealized gains and losses have been included in income. The Company's accounting treatment of these instruments remains unchanged as a result of adoption of the new accounting standards.

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

The financial assets classified as loans and receivables and held to maturity are measured at amortized cost. There is no change in accounting treatment for these financial instruments as a result of adoption of Section 3855.



## **Hedges**

This standard sets out the criteria of when hedge accounting is applied and how it is applied. It provides the option of designating qualifying transactions as hedges for accounting purposes. The qualifying hedging relationships include fair value hedges, cash flow hedges, and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. The changes in the fair value of the hedging derivatives will be recognized in net earnings or other comprehensive income depending on the nature of the hedging relationships. Any gains and losses resulting from any ineffectiveness in hedging relationships are recognized in net income immediately. The Company does not currently apply hedge accounting and as a result Section 3865 does not apply to the Company at this time.

## **Comprehensive Income**

This section establishes standards for the reporting and disclosure of other comprehensive income ["OCI"] in a new category, Accumulated Comprehensive Income, which will be added to shareholders' equity on the consolidated balance sheet. Comprehensive income includes all changes in equity of the Company during a period except those resulting from investments by shareholders and distributions to shareholders. The major components included in Accumulated Comprehensive Income are unrealized gains and losses on financial assets classified as available for sale, and unrealized foreign exchange gains and losses arising on translation of the financial statements of self-sustaining foreign operations.

As a result of adopting Section 1530, the Company has disclosed the OCI in a new category, Accumulated Comprehensive Income, which has been added to shareholders' equity on the consolidated balance sheet. The OCI is comprised of the cumulative translation adjustment arising on the translation of the financial statements of self-sustaining foreign operations. The Company has reclassified \$6.3 million of cumulative translation adjustments to the opening balance of accumulated comprehensive income.

## **CONTROLS AND PROCEDURES**

### **Disclosure controls and procedures**

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

### **Changes in internal control over financial reporting**

There were no changes in internal control over financial reporting that occurred during the quarter ended June 30, 2007, 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 and capital requirements and such other factors as the Board determines to be relevant.

## **DIVIDEND DECLARATION**

For the first quarter of fiscal 2008, the Board of Directors approved a quarterly dividend increase of \$0.025, or 25% per share to \$0.125 per share. Dividends are payable on September 10, 2007, to shareholders of record on August 24, 2007. The common share dividend payment to common shareholders will total approximately \$5.9 million, or about 15.2%, of first quarter net income. Canaccord intends to pay a \$0.125 regular quarterly common share dividend for each quarter in fiscal 2008.

**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 June 30, 2007. 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.

	Fiscal 2008	Fiscal 2007				Fiscal 2006			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<i>(C\$ thousands, except per share amounts)</i>									
Revenue									
Canaccord Adams	<b>\$155,023</b>	\$ 130,151	\$ 101,427	\$ 93,033	\$ 125,106	\$ 120,243	\$ 98,918	\$ 60,048	\$ 54,457
Private Client Services	<b>76,083</b>	75,876	68,831	55,626	72,286	78,422	54,731	52,411	39,630
Corporate and Other	<b>14,764</b>	10,416	8,055	7,372	8,735	8,409	5,021	6,195	4,930
Total revenue	<b>\$245,870</b>	\$ 216,443	\$ 178,313	\$ 156,031	\$ 206,127	\$ 207,074	\$ 158,670	\$ 118,654	\$ 99,017
Net income	<b>39,029</b>	26,016	23,692	17,806	25,942	30,070	24,248	15,754	11,078
EPS – basic	<b>\$ 0.87</b>	\$ 0.57	\$ 0.51	\$ 0.39	\$ 0.57	\$ 0.66	\$ 0.55	\$ 0.35	\$ 0.24
EPS – diluted	<b>\$ 0.80</b>	\$ 0.54	\$ 0.49	\$ 0.37	\$ 0.54	\$ 0.63	\$ 0.52	\$ 0.34	\$ 0.24

**RISKS**

The securities industry and Canaccord's activities are by their very nature subject to a number of inherent risks. Economic conditions, competition and market factors such as volatility in the Canadian and international markets, interest rates, commodity prices, market prices, trading volumes and liquidity will have a significant impact on Canaccord's profitability. An investment in the common shares of Canaccord involves a number of risks, including market, liquidity, credit, operational, legal and regulatory risks, which could be substantial and are inherent in Canaccord's business. Canaccord is also directly exposed to market price risks, liquidity risk and volatility risk as a result of its principal trading activities in equity securities and to specific interest rate risk as a result of its principal trading in fixed income securities. Private Client Services' revenue is dependent on trading volumes and, as such, is dependent on the level of market activity and investor confidence. Canaccord Adams' revenue is dependent on financing activity by corporate issuers and the willingness of institutional clients to actively trade and participate in capital markets transactions. There may also be a lag between market fluctuations and changes in business conditions and the level of Canaccord's market activity and the impact that these factors have on Canaccord's operating results and financial position. Furthermore, Canaccord may not achieve its growth plans associated with the acquisition and integration of Adams Harkness Financial Group, Inc.

**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 financial statements in Canaccord's 2007 Annual Report, which are available on our Web site at [www.canaccord.com/investor](http://www.canaccord.com/investor) and on SEDAR at [www.sedar.com](http://www.sedar.com).

# INTERIM CONSOLIDATED BALANCE SHEETS *(Unaudited)*

<i>As at (in thousands of dollars)</i>	<b>June 30, 2007</b>	March 31, 2007	June 30, 2006
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	\$ <b>329,584</b>	\$ 506,640	\$ 376,986
Securities owned, at market [note 3]	<b>225,734</b>	348,764	194,061
Accounts receivable [notes 6 and 11]	<b>2,052,737</b>	1,672,035	1,154,454
<b>Total current assets</b>	<b>2,608,055</b>	2,527,439	1,725,501
Investment [note 5]	<b>5,000</b>	—	—
Equipment and leasehold improvements	<b>39,231</b>	37,549	24,449
Future income taxes	<b>7,761</b>	11,021	11,872
Goodwill and other intangible assets [note 7]	<b>33,580</b>	33,933	27,575
	<b>\$ 2,693,627</b>	\$ 2,609,942	\$ 1,789,397
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Call loans	\$ <b>2,265</b>	\$ —	\$ 556
Securities sold short, at market [note 3]	<b>85,222</b>	41,176	109,923
Accounts payable and accrued liabilities [notes 6 and 11]	<b>2,189,371</b>	2,156,540	1,359,198
Income taxes payable	<b>2,528</b>	15,035	8,522
Subordinated debt [note 8]	<b>25,000</b>	25,000	—
<b>Total current liabilities</b>	<b>2,304,386</b>	2,237,751	1,478,199
Commitments and contingencies [note 13]			
<b>Shareholders' equity</b>			
Share capital [note 9]	<b>146,068</b>	156,296	158,718
Retained earnings	<b>247,903</b>	213,659	158,579
Accumulated other comprehensive income (losses) [note 2]	<b>(4,730)</b>	2,236	(6,099)
<b>Total shareholders' equity</b>	<b>389,241</b>	372,191	311,198
	<b>\$ 2,693,627</b>	\$ 2,609,942	\$ 1,789,397

See accompanying notes

# INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS *(Unaudited)*

	For the three months ended	
	June 30, 2007	June 30, 2006
<i>(in thousands of dollars, except per share amounts)</i>		
<b>REVENUE</b>		
Commission	\$ 85,775	\$ 78,054
Investment banking	128,625	102,840
Principal trading	6,813	7,784
Interest	16,310	13,638
Other	8,347	3,811
	<b>245,870</b>	206,127
<b>EXPENSES</b>		
Incentive compensation	121,406	104,955
Salaries and benefits	14,269	12,493
Trading costs	6,958	8,559
Premises and equipment	5,259	5,937
Communication and technology	5,739	5,063
Interest	6,168	4,982
General and administrative	18,271	19,107
Amortization	1,977	1,989
Development costs	7,173	3,867
	<b>187,220</b>	166,952
Income before income taxes	<b>58,650</b>	39,175
Income tax expense (recovery)		
Current	17,075	14,336
Future	2,546	(1,103)
	<b>19,621</b>	13,233
<b>Net income for the period</b>	<b>\$ 39,029</b>	\$ 25,942
Basic earnings per share [note 9[v]]	\$ 0.86	\$ 0.57
Diluted earnings per share [note 9[v]]	\$ 0.80	\$ 0.54

See accompanying notes

## INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY *(Unaudited)*

As at and for the three months ended June 30, 2007 and 2006 and for the year ended March 31, 2007  
 (in thousands of dollars)

	June 30, 2007	March 31, 2007	June 30, 2006
Current shares, opening	\$ 147,900	\$ 152,705	\$ 152,705
Shares issued	426	194	-
Shares cancelled	-	(45)	-
Acquisition of common shares for long-term incentive plan [note 10]	(8,544)	-	-
Unvested share purchase loans	(6,596)	(4,954)	375
<b>Common shares, closing</b>	<b>133,186</b>	147,900	153,080
Contributed surplus, opening	8,396	4,939	4,939
Excess on redemption of common shares	-	(38)	-
Excess on distribution of acquired common shares [note 9(iv)]	-	1,623	-
Stock-based compensation [note 10]	3,139	-	-
Unvested share purchase loans	1,347	1,872	699
Contributed surplus, closing	12,882	8,396	5,638
<b>Share capital</b>	<b>146,068</b>	156,296	158,718
Retained earnings, opening	213,659	136,463	136,463
Net income for the period	39,029	93,456	25,942
Cash dividends	(4,785)	(16,260)	(3,826)
<b>Retained earnings, closing</b>	<b>247,903</b>	213,659	158,579
Accumulated other comprehensive income (losses), opening	2,236	(6,277)	(6,277)
Other comprehensive income (loss)	(6,966)	8,513	178
<b>Accumulated other comprehensive income (losses), closing</b>	<b>(4,730)</b>	2,236	(6,099)
<b>Shareholders' equity</b>	<b>\$ 389,241</b>	\$ 372,191	\$ 311,198

## INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME *(Unaudited)*

	For the three months ended	
	June 30, 2007	June 30, 2006
Net income for the period	\$ 39,029	\$ 25,942
Other comprehensive income (loss), net of taxes		
Net change in unrealized gains (losses) on translation of self-sustaining foreign operations	(6,966)	178
<b>Comprehensive income for the period</b>	<b>\$ 32,063</b>	<b>\$ 26,120</b>

See accompanying notes

# INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS *(Unaudited)*

<i>(in thousands of dollars)</i>	For the three months ended	
	June 30, 2007	June 30, 2006
<b>OPERATING ACTIVITIES</b>		
Net income for the period	\$ 39,029	\$ 25,942
Items not affecting cash		
Amortization	1,977	1,377
Issuance of shares in connection with stock compensation plans	76	—
Stock option expense	41	—
Future income tax expense (recovery)	2,546	(1,103)
Changes in non-cash working capital		
Decrease in securities owned	122,274	9,035
(Increase) decrease in accounts receivable	(412,550)	388,138
Increase in securities sold short	44,049	72,766
Increase (decrease) in accounts payable and accrued liabilities	68,569	(474,398)
Decrease in income taxes payable	(10,634)	(6,868)
<b>Cash provided by (used in) operating activities</b>	<b>(144,623)</b>	<b>14,889</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of shares for cash	350	—
Decrease in unvested common share purchase loans	(5,249)	1,074
Acquisition of common shares for long-term incentive plan	(8,544)	—
Dividends paid	(4,786)	(3,826)
<b>Cash used in financing activities</b>	<b>(18,229)</b>	<b>(2,752)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment and leasehold improvements	(4,187)	(446)
Acquisition of investment	(5,000)	—
<b>Cash used in investing activities</b>	<b>(9,187)</b>	<b>(446)</b>
<b>Effect of foreign exchange on cash balances</b>	<b>(7,282)</b>	<b>(1,084)</b>
<b>Increase (decrease) in cash position</b>	<b>(179,321)</b>	<b>10,607</b>
Cash position, beginning of period	506,640	365,823
<b>Cash position, end of period</b>	<b>\$ 327,319</b>	<b>\$ 376,430</b>
<b>Cash position is comprised of:</b>		
Cash and cash equivalents	329,584	376,986
Call loans	(2,265)	(56)
	<b>\$ 327,319</b>	<b>\$ 376,430</b>
<b>Supplemental cash flow information</b>		
Interest paid	\$ 6,160	\$ 4,939
Income taxes paid	28,814	21,614

See accompanying notes

# NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS *(Unaudited)*

For the three months ended June 30, 2007  
(in thousands of dollars, except per share amounts)

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

The Company’s business is cyclical and experiences considerable variations in revenue from quarter to quarter as a result of the overall condition of the North American and European equity markets and the seasonal variance in these markets.

## 1. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation and principles of consolidation

These interim unaudited consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”) with respect to interim financial statements, applied on a consistent basis. These interim unaudited consolidated financial statements follow the same accounting principles and methods of application as those disclosed in Note 1 to the Company’s audited consolidated financial statements as at and for the year ended March 31, 2007 (“Audited Annual Consolidated Financial Statements”). Accordingly, they do not include all the information and footnotes required for compliance with Canadian GAAP for annual financial statements. These interim unaudited consolidated financial statements and notes thereon should be read in conjunction with the Audited Annual Consolidated Financial Statements.

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

### Consolidation of variable interest entities

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

The Company has established an employee benefit trust [Note 10] to fulfill obligations to employees arising from the Company’s stock-based compensation plan. The employee benefit trust has been consolidated in accordance with Accounting Guideline 15 as it meets the definition of a VIE and the Company is the primary beneficiary of the employee benefit trust.

## 2. CHANGE IN ACCOUNTING POLICIES

On April 1, 2007, the Company adopted the provisions of CICA Handbook Section 3855 “Financial Instruments – Recognition and Measurement”, CICA Handbook Section 3865 “Hedges” and CICA Handbook Section 1530 “Comprehensive Income”.

### Financial Instruments – Recognition and Measurement:

This standard prescribes the recognition and measurement of financial instruments. Section 3855 requires all financial assets and liabilities (including derivatives) be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on the classification of the instruments. All financial instruments must be classified as one of the following categories: held for trading, held to maturity, loans and receivables and available for sale assets.



The financial assets categorized as held for trading are measured at fair value with unrealized gains and losses recognized in net income. Section 3855 permits an entity to designate any financial instruments as held for trading on initial recognition or adoption of this standard, even if that instrument would not otherwise meet the definition of held for trading as specified in Section 3855. The Company's financial instruments classified as held for trading include commercial paper and bankers' acceptances, marketable securities owned and sold short, forward contracts, and broker warrants. The Company has historically measured these instruments at fair value and any unrealized gains and losses have been included in income. The Company's accounting treatment of these instruments remains unchanged as a result of adoption of the new accounting standards.

Available for sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The Company's investment [Note 5] has been classified as available for sale. The investment has been carried at cost as there is no available quoted market price in an active market.

The financial assets classified as loans and receivables and held to maturity are measured at amortized cost. There is no change in accounting treatment for these financial instruments as a result of adoption of Section 3855.

### Hedges

This standard sets out the criteria of when hedge accounting is applied and how it is applied. It provides the option of designating qualifying transactions as hedges for accounting purposes. The qualifying hedging relationships include fair value hedges, cash flow hedges, and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. The changes in the fair value of the hedging derivatives will be recognized in net earnings or other comprehensive income depending on the nature of the hedging relationships. Any gains and losses resulting from any ineffectiveness in hedging relationships are recognized in net income immediately. The Company does not currently apply hedge accounting and as a result Section 3865 does not apply to the Company at this time.

### Comprehensive Income

This section establishes standards for the reporting and disclosure of other comprehensive income ["OCI"] in a new category, Accumulated Comprehensive Income, which will be added to shareholders' equity on the consolidated balance sheet. Comprehensive income includes all changes in equity of the Company during a period except those resulting from investments by shareholders and distributions to shareholders. The major components included in Accumulated Comprehensive Income are unrealized gains and losses on financial assets classified as available for sale, and unrealized foreign exchange gains and losses arising on translation of the financial statements of self-sustaining foreign operations.

As a result of adopting Section 1530, the Company has disclosed the OCI in a new category, Accumulated Comprehensive Income, which has been added to shareholders' equity on the consolidated balance sheet. The OCI is comprised of the cumulative translation adjustment arising on the translation of the financial statements of self-sustaining foreign operations. The Company has reclassified \$6.3 million of cumulative translation adjustments to the opening balance of accumulated comprehensive income.

### 3. SECURITIES OWNED AND SECURITIES SOLD SHORT

	June 30, 2007		March 31, 2007		June 30, 2006	
	Securities owned	Securities sold short	Securities owned	Securities sold short	Securities owned	Securities sold short
Corporate and government debt	\$ 49,965	\$ 28,287	\$ 23,786	\$ 5,313	\$ 116,317	\$ 88,710
Equities and convertible debentures	175,769	56,935	324,978	35,863	77,744	21,213
	<b>\$ 225,734</b>	<b>\$ 85,222</b>	<b>\$ 348,764</b>	<b>\$ 41,176</b>	<b>\$ 194,061</b>	<b>\$ 109,923</b>

As at June 30, 2007, corporate and government debt maturities range from 2007 to 2040 [March 31, 2007 – 2007 to 2054 and June 30, 2006 – 2006 to 2053] and bear interest ranging from 3.125% to 11.50% [March 31, 2007 – 2.75% to 11.50% and June 30, 2006 – 2.55% to 14.00%].

The security positions are classified as held for trading under CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement". Unrealized gains and losses are included in net income in the period incurred.

#### 4. FOREIGN EXCHANGE RISK

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

Forward contracts outstanding at June 30, 2007:

	Notional amounts (millions of USD)	Average price (CAD/USD)	Maturity	Fair value (millions of USD)
To sell US dollars	\$ 37.25	\$ 1.06	July 3, 2007	\$ 0.1
To buy US dollars	\$ 32.00	\$ 1.06	July 3, 2007	\$ (0.1)

Forward contracts outstanding at March 31, 2007:

	Notional amounts (millions of USD)	Average price (CAD/USD)	Maturity	Fair value (millions of USD)
To sell US dollars	\$ 12.90	\$ 1.16	April 30, 2007	\$ 0.1
To buy US dollars	\$ 2.50	\$ 1.16	April 3, 2007	\$ (0.1)

Forward contracts outstanding at June 30, 2006:

	Notional amounts (millions of USD)	Average price (CAD/USD)	Maturity	Fair value (millions of USD)
To sell US dollars	\$ 8.50	\$ 1.11	July 5, 2006	\$ 0.1
To buy US dollars	\$ 14.50	\$ 1.11	July 6, 2006	\$ (0.1)

#### 5. INVESTMENT

	June 30, 2007	March 31, 2007	June 30, 2006
Available for sale	\$ 5,000	\$ -	\$ -

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

#### 6. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

##### Accounts receivable

	June 30, 2007	March 31, 2007	June 30, 2006
Brokers and investment dealers	\$ 901,200	\$ 571,461	\$ 368,262
Clients	718,810	694,123	428,005
RRSP cash balances held in trust	362,067	349,932	306,648
Other	70,660	56,519	51,539
	<b>\$ 2,052,737</b>	<b>\$ 1,672,035</b>	<b>\$ 1,154,454</b>

##### Accounts payable and accrued liabilities

	June 30, 2007	March 31, 2007	June 30, 2006
Brokers and investment dealers	\$ 569,733	\$ 442,828	\$ 300,774
Clients	1,369,152	1,212,464	919,481
Other	250,486	501,248	138,943
	<b>\$ 2,189,371</b>	<b>\$ 2,156,540</b>	<b>\$ 1,359,198</b>

Accounts payable to clients include \$362.1 million [March 31, 2007 – \$349.9 million and June 30, 2006 – \$306.6 million] payable to clients for RRSP cash balances held in trust.

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

Amounts due from and to clients are due by the settlement date of the trade transaction. Margin loans are due on demand and are collateralized by the assets in the client accounts. Interest on margin loans and amounts due to clients is based on a floating rate [June 30, 2007 – 8.00%–10.25% and 2.25%–3.00%, respectively; March 31, 2007 – 8.00%–10.25% and 2.27%–3.00%, respectively; and June 30, 2006 – 6.25%–10.00% and 2.09%–3.00%, respectively].

## 7. GOODWILL AND OTHER INTANGIBLE ASSETS

	June 30, 2007	March 31, 2007	June 30, 2006
<b>Goodwill</b>	<b>\$ 30,070</b>	\$ 30,070	\$ 22,653
<b>Other intangible assets</b>			
Balance at beginning of period	3,863	5,276	5,276
Amortization	353	1,413	354
Balance at end of period	3,510	3,863	4,922
	<b>\$ 33,580</b>	\$ 33,933	\$ 27,575

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

In March 2007, the Company completed its assessment of the net assets acquired in connection with the purchase price allocation for the acquisition of Adams Harkness Financial Group, Inc. ("Adams Harkness") in January 2006, and goodwill was increased to \$30,070 to reflect finalization of the fair value assessment of future income tax benefits.

## 8. SUBORDINATED DEBT

	June 30, 2007	March 31, 2007	June 30, 2006
Loan payable, interest payable monthly at prime + 2% per annum, due on demand	<b>\$ 25,000</b>	\$ 25,000	\$ —

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

## 9. SHARE CAPITAL

	June 30, 2007	March 31, 2007	June 30, 2006
<b>Issued and fully paid</b>			
Share capital			
Common shares	<b>\$ 173,857</b>	\$ 173,431	\$ 173,282
Unvested share purchase loans	<b>(32,127)</b>	(25,531)	(20,202)
Acquisition of common shares for long term incentive plan [note 10]	<b>(8,544)</b>	—	—
Contributed surplus	<b>12,882</b>	8,396	5,638
	<b>\$ 146,068</b>	\$ 156,296	\$ 158,718

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

### [i] Authorized

Unlimited common shares without par value

Unlimited preferred shares without par value

**[ii] Issued and fully paid**

**Common shares**

	Number of shares	Amount
Balance June 30, 2006	47,827,350	\$ 173,282
Shares issued in connection with stock compensation plans [note 10]	17,133	194
Shares cancelled	(12,522)	(45)
<b>Balance, March 31, 2007</b>	<b>47,831,961</b>	<b>173,431</b>
Shares issued for cash	25,000	350
Shares issued in connection with stock compensation plan [note 10]	7,273	76
<b>Balance, June 30, 2007</b>	<b>47,864,234</b>	<b>\$ 173,857</b>

The Company renewed its normal course issuer bid and is currently entitled to acquire from December 29, 2006 to December 28, 2007, up to 2,391,880 of its shares, which represents 5% of its shares outstanding as of December 20, 2006. There were no share transactions under the NCIB between March 31, 2007 and June 30, 2007. However, the employee benefit trust has purchased 401,239 shares for the long term incentive plan [Note 10], which reduces the number of shares allowable under NCIB going forward.

**[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 of three years. Contributed surplus includes the amortization of unvested forgivable common share purchase loans.

**[iv] Distribution of acquired common shares**

In December 2006, the Company repurchased 195,968 common shares for \$1.9 million from departed employees as settlement of the unvested portion of forgivable loans. A total of 189,567 common shares were subsequently distributed to existing employees at market price of \$18.20 per share for cash proceeds of \$3.5 million. The excess on distribution of \$1.6 million has been credited to contributed surplus. The Company has cancelled the remaining 6,401 common shares.

**[v] Earnings per share**

	For the three months ended	
	June 30, 2007	June 30, 2006
<b>Basic earnings per share</b>		
Net income for the period	\$ 39,029	\$ 25,942
Weighted average number of common shares (number)	45,170,532	45,906,368
Basic earnings per share	\$ 0.86	\$ 0.57
<b>Diluted earnings per share</b>		
Net income for the period	39,029	25,942
Weighted average number of common shares (number)	45,170,532	45,906,368
Dilutive effect of unvested shares (number)	2,279,281	1,968,589
Dilutive effect of directors options (number) [note 10]	125,000	-
Dilutive effect of share issuance commitment in connection with retention plan (number) [note 10]	326,576	123,218
Dilutive effect of unvested shares purchased by employee benefit trust (number) [note 10]	401,239	-
Dilutive effect of share issuance commitment in connection with long term incentive plan (number) [note 10]	556,517	-
Adjusted weighted average number of common shares (number)	48,859,145	47,998,175
Diluted earnings per share	\$ 0.80	\$ 0.54

**10. STOCK-BASED COMPENSATION PLANS****Retention plans**

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

The plan for Enermarket consists of the issuance of up to 25,210 common shares of the Company over two years. In December 2006, the Company issued 10,254 common shares under this plan [Note 9[ii)].

The plan for Adams Harkness provides for the issuance of up to 1,118,952 common shares of the Company after a three-year vesting period. The total number of shares which will vest is also based on revenue earned by Canaccord Adams Inc. during the vesting period. The aggregate number of common shares which vest will be that number which is equal to the revenue earned by Canaccord Adams Inc. during the vesting period divided by US\$250.0 million multiplied by the number of common shares subject to the retention plan (892,354 common shares as of June 30, 2007). As such revenue levels are achieved during the vesting period, the associated proportion of the retention payment will be recorded as a development cost and the applicable number of retention shares will be included in diluted common shares outstanding [Note 9[v]]. The Company has expensed \$1,129 and \$736 for the period ended June 30, 2007 and June 30, 2006. The Company issued 7,273 common shares in June 2007 and 6,879 common shares in February 2007 to employees who have ceased their employment in circumstances where the retention plan provides for a partial vesting of the shares awarded under the plan [Note 9[ii)].

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

	For the three months ended	
	June 30, 2007	June 30, 2006
Number of common shares subject to the Enermarket retention plan:		
Beginning of period	<b>10,254</b>	25,210
Grants	-	-
End of period	<b>10,254</b>	25,210
Shares vested during the period	-	-
Number of common shares subject to the Adams Harkness retention plan:		
Beginning of period	<b>953,107</b>	1,046,219
Grants	-	72,733
Issued	<b>(7,273)</b>	-
Forfeitures	<b>(53,480)</b>	(2,308)
End of period	<b>892,354</b>	1,116,644
Shares vested during the period	-	-
Number of common shares subject to the employee treasury stock purchase plan:		
Beginning of period	-	276,776
Issued	-	-
End of period	-	276,776

Under the fair value method, the aggregate cost of the grants made under the retention plans are estimated to be \$12.0 million – \$0.3 million relating to Enermarket and \$11.7 million (US\$10.0 million) for Adams Harkness. The costs of the retention plans have been recognized in the financial statements of the Company in accordance with the vesting terms of the respective plans.

**Stock options**

On May 16, 2007, the Company granted stock options to five independent directors. Each of the directors has been granted the option to purchase up to 25,000 common shares of the Company with an exercise price of \$23.13 and a vesting period of four years. The term of the options is seven years. The fair value of the stock options has been estimated on grant date using the Black-Scholes option pricing model with the following assumptions:

	May 2007 Grant
Dividend yield	1.80%
Expected volatility	30.00%
Risk-free interest rate	4.25%
Expected life	5 years

Compensation expense of \$41 has been recognized for the three months ended June 30, 2007.

A summary of stock options outstanding is as follows:

	For the three months ended	
	June 30, 2007	June 30, 2006
Beginning of period	-	-
Grants	<b>125,000</b>	-
End of period	<b>125,000</b>	-

### Long term incentive plan

The long term incentive plan ("LTIP") is a new plan implemented in the first quarter of fiscal 2008 pending shareholders' approval in August 2007. Under the LTIP, eligible participants are awarded restricted share units 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 restricted share units vest or (b) the Company will issue common shares from treasury to participants following vesting of restricted share units. For employees in the United States and the United Kingdom, at the time of each restricted share unit award, the Company will allot common shares and these shares will be issued from treasury at the time they vest for each participant. The shares issued as part of the LTIP will generally be offset by purchases under the Company's normal course issuer bid.

On June 5, 2007, the Board approved the award of 475,168 restricted common share units in lieu of cash compensation to employees.

The cost of the restricted share units are amortized over the vesting period of three years. Compensation expense of \$1,932 has been recognized for the three months ended June 30, 2007.

	For the three months ended	
	June 30, 2007	June 30, 2006
Awards outstanding, beginning of period	-	-
Granted	<b>475,168</b>	-
Vested	-	-
Awards outstanding, end of period	<b>475,168</b>	-

	For the three months ended	
	June 30, 2007	June 30, 2006
Common shares held by Trust, beginning of period	-	-
Acquired	<b>401,239</b>	-
Released on vesting	-	-
Common shares held by Trust, end of period	<b>401,239</b>	-

### 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 overall operations of the Company.

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

	June 30, 2007	March 31, 2007	June 30, 2006
Accounts receivable	\$ <b>49,490</b>	\$ 49,694	\$ 35,815
Accounts payable and accrued liabilities	\$ <b>81,169</b>	\$ 85,795	\$ 86,745

**12. SEGMENTED INFORMATION**

The Company has two operating segments:

Private Client Services – provides brokerage services and investment advice to retail or private clients.

Canaccord Adams – includes investment banking, research and trading activities on behalf of corporate, institutional and government clients as well as principal trading activities in Canada, the United Kingdom and the United States of America.

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

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

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

	For the three months ended June 30,							
	2007				2006			
	Canaccord Adams	Private Client Services	Corporate and Other	Total	Canaccord Adams	Private Client Services	Corporate and Other	Total
Revenues	\$ 155,023	\$ 76,083	\$ 14,764	\$ 245,870	\$ 125,106	\$ 72,286	\$ 8,735	\$ 206,127
Expenses	101,146	55,346	21,578	178,070	89,285	53,286	18,525	161,096
Amortization	911	430	636	1,977	950	410	629	1,989
Development costs	4,292	1,372	1,509	7,173	1,287	1,521	1,059	3,867
Income (loss) before income taxes	\$ 48,674	\$ 18,935	\$ (8,959)	\$ 58,650	\$ 33,584	\$ 17,069	\$ (11,478)	\$ 39,175

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

	For the three months ended	
	June 30, 2007	June 30, 2006
Canada		
Revenue	\$ 162,093	\$ 133,250
Equipment and leasehold improvements	23,969	20,950
Goodwill and other intangible assets	4,270	4,521
United Kingdom		
Revenue	\$ 47,501	\$ 48,892
Equipment and leasehold improvements	9,076	1,148
United States		
Revenue	\$ 26,422	\$ 23,985
Equipment and leasehold improvements	6,186	2,351
Goodwill and other intangible assets	29,310	23,054
Other Foreign Location		
Revenue	\$ 9,854	\$ —

**13. COMMITMENTS AND CONTINGENCIES**

During the period, there have been no material changes to the Company's commitments or contingencies from those described in Note 16 of the March 31, 2007 Audited Annual Consolidated Financial Statements.

**14. SUBSEQUENT EVENT****Dividend**

On August 1, 2007, the Board of Directors declared a common share dividend of \$0.125 per share payable on September 10, 2007, with a record date of August 24, 2007.



# NOTES

# SHAREHOLDER INFORMATION

## CORPORATE HEADQUARTERS:

### Street address:

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

### Mailing address:

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

## STOCK EXCHANGE LISTING:

TSX: CCI  
 AIM: CCI

## GENERAL SHAREHOLDER INQUIRIES AND INFORMATION:

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

### Media relations:

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

## INSTITUTIONAL INVESTORS, BROKERS AND SECURITY ANALYSTS: For financial information inquiries contact:

Katherine Young  
 Vice President, Investor Relations  
 2200 – 609 Granville Street  
 Vancouver, BC, Canada  
 Phone: 604-643-7013  
 Fax: 604-601-5863  
 Email: katherine\_young@canaccord.com

The CCI fiscal 2007 Annual Report is available on our Web site at [www.canaccord.com](http://www.canaccord.com). For a printed copy please contact the Investor Relations department.

## FISCAL 2008 EXPECTED DIVIDEND <sup>(1)</sup> AND EARNINGS DATES

	Earnings release date	Dividend record date	Dividend payment date
Q1/08	August 2, 2007	August 24, 2007	September 10, 2007
Q2/08	November 8, 2007	November 30, 2007	December 10, 2007
Q3/08	February 7, 2008	February 22, 2008	March 10, 2008
Q4/08	May 15, 2008	May 30, 2008	June 10, 2008

(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 and capital requirements and such other factors as the Board determines to be relevant.

## SHAREHOLDER ADMINISTRATION:

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

### COMPUTERSHARE INVESTOR SERVICES INC.:

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

## FINANCIAL INFORMATION:

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

### AUDITOR:

Ernst & Young LLP  
 Chartered Accountants  
 Vancouver, BC

### CORPORATE WEB SITE:

[www.canaccord.com](http://www.canaccord.com)

