CANACCORD Genuity

# SECOND QUARTER

Fiscal 2014 Report to Shareholders

## TO US THERE ARE NO FOREIGN MARKETS

## Canaccord Genuity Group Inc. Reports Second Quarter Fiscal 2014 Results

### *Excluding significant items, earned net income of $6.7 million during the quarter*[1]

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

**TORONTO, November 6, 2013** – In the second quarter of fiscal 2014, the quarter ended September 30, 2013, Canaccord Genuity Group Inc. (Canaccord, the Company, TSX: CF, LSE: CF.) generated $183.3 million in revenue. Excluding significant items[1] (a non-IFRS measure), the Company recorded net income of $6.7 million or net income of $3.3 million available to common shareholders[2] ($0.03 per diluted common share). Including all expense items, on an IFRS basis, the Company recorded a net loss of $0.1 million or a net loss available to common shareholders of $3.3 million[2] (loss of $0.03 per diluted common share).

"Fiscal Q2 was characterized by a challenging environment in some of our operating units, but we believe we are beginning to see signs of improved market activity across our geographies. Canaccord Genuity's global platform is very well suited to meet the evolving demands of our clients," said Paul Reynolds, President and CEO of Canaccord Genuity Group Inc. "I'm confident that our improving pipeline of activity combined with our focus on cost-containment should provide for better results in the coming quarters."

## Second Quarter of Fiscal 2014 vs. First Quarter of Fiscal 2014

- Revenue of $183.3 million, down 2% or $3.9 million from $187.2 million
- Excluding significant items, expenses of $175.4 million, up $0.9 million from $174.5 million[1]
- Expenses of $184.3 million, up 3% or $6.2 million from $178.1 million
- Excluding significant items, net income of $6.7 million compared to net income of $11.8 million[1]
- Net loss of $0.1 million compared to net income of $7.9 million
- Excluding significant items, diluted earnings per common share (EPS) of $0.03 compared to diluted EPS of $0.09 in the first quarter of fiscal 2014[1]
- Loss per common share of $0.03 compared to diluted EPS of $0.06 in the first quarter of fiscal 2014

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## Second Quarter of Fiscal 2014 vs. Second Quarter of Fiscal 2013

- Revenue of $183.3 million, down 2% or $3.3 million from $186.6 million
- Excluding significant items, expenses of $175.4 million, down 2% or $4.3 million from $179.7 million(1)
- Expenses of $184.3 million, down 10% or $20.6 million from $204.9 million
- Excluding significant items, net income of $6.7 million compared to net income of $5.9 million(1)
- Net loss of $0.1 million compared to a net loss of $14.8 million
- Excluding significant items, diluted EPS of $0.03 compared to diluted EPS of $0.03(1)
- Loss per common share of $0.03 compared to a loss per common share of $0.19

## First Half of Fiscal 2014 vs. First Half of Fiscal 2013 (Six Months Ended September 30, 2013 vs. Six Months Ended September 30, 2012)

- Revenue of $370.5 million, up 6% or $21.4 million from $349.1 million
- Excluding significant items, expenses of $349.9 million, down 3% from $361.4 million(1)
- Expenses of $362.4 million, down 8% or $29.6 million from $392.0 million
- Excluding significant items, net income of $18.5 million compared to a net loss of $10.4 million(1)
- Net income of $7.8 million compared to a net loss of $35.5 million
- Excluding significant items, diluted EPS of $0.12 compared to a loss per common share of $0.17(1)
- Diluted EPS of $0.02 compared to a loss per common share of $0.43

## Financial Condition at End of Second Quarter Fiscal 2014 vs. Fourth Quarter Fiscal 2013

- Cash and cash equivalents balance of $360.2 million, down $130.8 million from $491.0 million
- Working capital of $412.3 million, up $18.6 million from $393.7 million
- Total shareholders' equity of $1.1 billion, up $33.4 million from $1.0 billion
- Book value per diluted common share of $8.00, up $0.32 from $7.68(1)
- On November 6, 2013, the Board of Directors approved a quarterly dividend of $0.05 per common share payable on December 10, 2013 with a record date of November 22, 2013
- On November 6, 2013, the Board of Directors also approved a cash dividend of $0.34375 per Series A Preferred Share payable on December 31, 2013 with a record date of December 20, 2013, and a cash dividend of $0.359375 per Series C Preferred Share payable on December 31, 2013 to Series C Preferred shareholders of record as at December 20, 2013

## Summary of Operations

### CORPORATE

- On August 7, 2013, the Company held its 2013 Annual General Meeting of shareholders, where all nominated directors were re-elected to the Board
- On August 8, 2013, the Company renewed its normal course issuer bid (NCIB)/buy-back programme, which provides the Company with the ability to purchase, at its discretion, up to 5,136,948 of its common shares through the facilities of the TSX for cancellation
- During the fiscal second quarter, the Company repurchased 796,992 of its common shares under the terms of its former and current NCIB
  - Of these shares, 739,292 have been cancelled effective as of September 30, 2013, and the remaining 57,700 will be held in treasury until subsequently cancelled
- During fiscal Q2/14, the Company recorded restructuring costs of $5.5 million in connection with the restructuring of the sales and trading operations in Canada and the UK and Europe as well as certain office closure costs
- Subsequent to the end of the quarter, on October 1, 2013, Canaccord Financial Inc. was renamed Canaccord Genuity Group Inc.
- Subsequent to the end of the quarter, on October 23, 2013, Canaccord Genuity Inc. (Canaccord Genuity's US capital markets division) held a charity trading day, where designated commissions from equity, electronic and agency options trades on that day were donated to Youth, I.N.C. In total, Canaccord Genuity's US team generated approximately US$1.0 million for at-risk children through the eighth annual Trading Day for Kids.

### CAPITAL MARKETS

- Canaccord Genuity led or co-led 27 transactions globally, raising total proceeds of C$1.5 billion(3) during fiscal Q2/14
- Canaccord Genuity participated in 75 transactions globally, raising total proceeds of C$8.8 billion(3) during fiscal Q2/14
- During fiscal Q2/14, Canaccord Genuity led or co-led the following transactions:
  - £300.0 million for the Renewables Infrastructure Group Limited on the LSE
  - £125.0 million for Saffron Housing Finance PLC on the LSE
  - £86.0 million for HICL Infrastructure Company Limited on the LSE

- AUD$80.6 million for G8 Education Limited on the ASX
  - C$68.8 million for HealthLease Properties REIT on the TSX
  - C$65.0 million for MINT Income Fund on the TSX
  - AUD$47.7 million for Red Fork Energy Limited on the ASX
  - US$41.7 million for Datalink Corporation on the NASDAQ
  - US$40.4 million for TearLab Corp. on the NASDAQ
  - C$40.0 million for Amaya Gaming Group Inc. on the TSX
  - AUD$36.4 million for Buccaneer Energy Limited on the ASX
  - US$31.6 million for XOMA Corporation on the NASDAQ
  - US$25.0 million for DragonWave Inc. on the NASDAQ
  - £15.0 million for W&G Investments PLC on AIM
  - C$24.2 million for Halogen Software Inc. on the TSX
  - US$23.0 million for Pure Multi-Family REIT LP on the TSX Venture
  - C$23.1 million for FAM Real Estate Investment Trust on the TSX
  - US$15.2 million for Glu Mobile on the NASDAQ
  - SGD$18.4 million for Sin Heng Heavy Machinery Limited on the Singapore Exchange
- In Canada, Canaccord Genuity raised $228.8 million for government and corporate bond issuances during fiscal Q2/14
- Canaccord Genuity generated advisory revenues of $29.9 million during fiscal Q2/14, an increase of 5% compared to the same quarter last year
- During fiscal Q2/14, Canaccord Genuity advised on the following M&A and advisory transactions:
  - Uranium One Inc. on its sale to ARMZ Uranium Holding Company
  - May Gurney Integrated Services PLC on the recommended takeover offer by Kier Group PLC
  - Morgan Stanley Real Estate on its disposal of Executive Offices Group
  - AXA Private Equity and Trescal Group's Management team on its acquisition of Trescal
  - Independent News & Media PLC on the sale of its South African subsidiary
  - Renewable Energy Developers Inc. on its sale to Capstone Infrastructure Corporation
  - Payzone Group on its disposal of Cashzone to Cardtronics
  - Côte Holdings Limited on its disposal to CPBE Capital LLP
  - Phoenix Equity Partners on its acquisition of a controlling stake in the issued share capital of Key Retirement Solutions Limited
  - Xceed Mortgage Corporation on its sale to MCAN Mortgage Corporation
  - Datawatch Corporation on its acquisition of Panopticon Software AB
  - Labrador Iron Mines Holdings Limited on its strategic collaboration agreement with Tata Steel Minerals Canada Ltd.
  - Luminus Devices, Inc. on its merger with Lightera Corporation
  - Revolution Lighting Technologies, Inc. on its acquisition of Relume Technologies Inc.
  - Cub Energy Inc. on its acquisition of Anatolia Energy Corp.

## CANACCORD GENUITY WEALTH MANAGEMENT (GLOBAL)

- Globally, Canaccord Genuity Wealth Management generated $51.2 million in revenue in Q2/14
- Assets under administration in Canada and assets under management in the UK and Europe, and Australia were $27.5 billion at the end of Q2/14[1]

## CANACCORD GENUITY WEALTH MANAGEMENT (NORTH AMERICA)

- Canaccord Genuity Wealth Management (North America) generated $24.4 million in revenue and, after intersegment allocations, recorded a net loss of $5.1 million before taxes in Q2/14
- Assets under administration in Canada were $9.4 billion as at September 30, 2013, up 1% from $9.3 billion at the end of the previous quarter and down 29% from $13.3 billion at the end of fiscal Q2/13[1]
- Assets under management in Canada (discretionary) were $935 million as at September 30, 2013, up 6% from $880 million at the end of the previous quarter and up 19% from $784 million at the end of fiscal Q2/13[1]
- As at September 30, 2013, Canaccord Genuity Wealth Management had 163 Advisory Teams[4], a decrease of 68 Advisory Teams from September 30, 2012 and a decrease of 10 from June 30, 2013

## CANACCORD GENUITY WEALTH MANAGEMENT (UK AND EUROPE)

- Wealth management operations in the UK and Europe generated $25.8 million in revenue and, after intersegment allocations, and excluding significant items, recorded net income of $3.6 million before taxes in Q2/14[1]
- Assets under management (discretionary and non-discretionary) were $17.7 billion (£10.6 billion)[1]

(1) See Non-IFRS Measures on pages 4 and 8.
(2) Net income (loss) available to common shareholders is calculated as net income (loss) adjusted for non-controlling interests and preferred share dividends.
(3) Source: Transactions over $1.5 million. Internally sourced information.
(4) Advisory Teams are normally comprised of one or more Investment Advisors (IAs) and their assistants and associates, who together manage a shared set of client accounts. Advisory Teams that are led by, or only include, an IA who has been licensed for less than three years are not included in our Advisory Team count, as it typically takes a new IA approximately three years to build an average-sized book of business.

## NON-IFRS MEASURES

The non-International Financial Reporting Standards (IFRS) measures presented include assets under administration, assets under management, book value per diluted common share and figures that exclude significant items. Significant items include restructuring costs, amortization of intangible assets, and acquisition-related expense items, which include costs recognized in relation to both prospective and completed acquisitions. Book value per diluted common share is calculated as total common shareholders' equity divided by the number of diluted common shares outstanding and, commencing in Q1/14, adjusted for shares purchased under the normal course issuer bid and not yet cancelled, and estimated forfeitures in respect of unvested share awards under share-based payment plans.

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

## SELECTED FINANCIAL INFORMATION EXCLUDING SIGNIFICANT ITEMS[1]

| | Three months ended September 30 | | | Six months ended September 30 | | |
|---|---|---|---|---|---|---|
| (C$ thousands, except per share and % amounts) | **2013** | 2012 | Quarter-over-quarter change | **2013** | 2012 | YTD-over-YTD change |
| Total revenue per IFRS | **$ 183,306** | $ 186,599 | (1.8)% | **$ 370,537** | $ 349,148 | 6.1% |
| Total expenses per IFRS | **184,262** | 204,910 | (10.1)% | **362,380** | 391,958 | (7.5)% |
| *Significant items recorded in Canaccord Genuity* | | | | | | |
| Restructuring costs | **5,486** | 4,395 | 24.8% | **5,486** | 4,395 | 24.8% |
| Acquisition-related costs | **—** | 388 | (100.0)% | **—** | 388 | (100.0)% |
| Amortization of intangible assets | **1,658** | 3,436 | (51.7)% | **3,360** | 7,809 | (57.0)% |
| *Significant items recorded in Canaccord Genuity Wealth Management* | | | | | | |
| Restructuring costs | **—** | 13,567 | (100.0)% | **—** | 13,567 | (100.0)% |
| Acquisition-related costs | **—** | 900 | (100.0)% | **—** | 900 | (100.0)% |
| Amortization of intangible assets | **1,751** | 1,614 | 8.5% | **3,640** | 2,612 | 39.4% |
| *Significant items recorded in Corporate and Other* | | | | | | |
| Restructuring costs | **—** | 900 | (100.0)% | **—** | 900 | (100.0)% |
| Total significant items | **8,895** | 25,200 | (64.7)% | **12,486** | 30,571 | (59.2)% |
| Total expenses excluding significant items | **175,367** | 179,710 | (2.4)% | **349,894** | 361,387 | (3.2)% |
| Net income (loss) before taxes – adjusted | **$ 7,939** | $ 6,889 | 15.2% | **$ 20,643** | $ (12,239) | 268.7% |
| Income taxes (recovery) – adjusted | **1,205** | 982 | 22.7% | **2,099** | (1,851) | 213.4% |
| Net income (loss) – adjusted | **$ 6,734** | $ 5,907 | 14.0% | **$ 18,544** | $ (10,388) | 278.5% |
| Earnings (loss) per common share – basic, adjusted | **$ 0.03** | $ 0.03 | — | **$ 0.13** | $ (0.17) | 176.5% |
| Earnings (loss) per common share – diluted, adjusted | **$ 0.03** | $ 0.03 | — | **$ 0.12** | $ (0.17) | 170.6% |

(1) Figures excluding significant items are non-IFRS measures. See Non-IFRS Measures on page 8.

# Fellow Shareholders:

Canaccord Genuity's fiscal second quarter once again showcased our geographic diversification. While our core markets were affected by the decreased activity of the summer months, we saw sequentially strong performances by our US- and UK-based businesses. Overall, we believe we are returning to more normalized market conditions, as we have already seen an improvement in activity across our geographies and sector verticals. As such, our firm's performance rebounded in September, ending the quarter with growing momentum across our business and a strong pipeline of activity.

Following a significant period of growth over the past several years, our priorities centre on delivering global services to our clients as well as the continued search for efficiencies throughout our business. We are implementing important changes that we're confident will lower our ongoing expenses and improve our margins in the longer term, and we are making investments to improve our support infrastructure and internal systems. While our Q2 performance was profitable on a non-IFRS basis, Canaccord Genuity recorded $8.9 million of restructuring and other significant items(1) during the quarter, due largely to the leadership changes in our equities businesses in Canada and the UK, resulting in a small loss for the quarter under IFRS.

On October 1, the parent company of the Canaccord group of companies was renamed Canaccord Genuity Group Inc., unifying the brand structure of our global business under the established Canaccord Genuity name. We believe this better aligns the publicly traded company with the proven capabilities of our two main operating divisions.

## Financial Performance

The benefits of our diversified revenue streams continue to be apparent, with each of our geographies providing meaningful contributions to our overall results this quarter. Once again, two-thirds of our global revenue was generated outside of Canada.

During the second quarter fiscal 2014, Canaccord Genuity generated $183 million of revenue, a steady result compared to the previous quarter and the same period last year, and excluding significant items(1) recorded net income of $6.7 million or net income of $3.3 million available to common shareholders(2) ($0.03 per diluted common share). Including significant items, the Company recorded a net loss of $0.1 million or a net loss available to common shareholders of $3.3 million(2) (loss of $0.03 per diluted common share).

We remain well capitalized through the diligent monitoring of our balance sheet, and as of September 30 the Company's net working capital position was $412.3 million. I am pleased to report the renewal of our normal course issuer bid (NCIB)/buy-back programme, and during the first half of the year, the Company repurchased for cancellation 1,361,496 common shares under our former and current NCIB. We continue to be very active in share buybacks into our fiscal third quarter.

## Canaccord Genuity – Capital Markets

Our global capital markets division generated $126.7 million of revenue during the second quarter, an increase of 5% compared to the same period last year and a slight decline compared to the previous quarter. Advisory revenue declined by 17% from the previous quarter and increased slightly, by 5%, compared to the same quarter last year. We were pleased that the division increased underwriting revenue by 29% compared to the previous quarter and by 18% compared to the same quarter last year. Globally, our business continues to leverage the current market environment to find opportunities for our clients.

For the three months ended September 30, 2013, Canaccord Genuity led or co-led 27 transactions globally, raising total proceeds of $1.5 billion for our clients, due largely to the solid performances of our US- and UK-based teams. In fact, our Investment Companies team in the UK acted on the £300 million IPO of the Renewables Infrastructure Group, a milestone transaction in the European IPO market. And we're maintaining our market leadership in IPO transactions in this geography as we begin our fiscal third quarter. Canaccord Genuity in the UK was named the Investment Bank of the Week by Financial News in early October, following our role as sole bookrunner in the Tungsten Corporation IPO, the largest corporate float on AIM since 2007.

In Canada, our capital markets practice was impacted by the difficult market environment, particularly in the resources sector. However, we are beginning to see encouraging signs of a return to more normalized activity, as evidenced by the $200 million financing that Canaccord Genuity recently co-led for Bellatrix Exploration Ltd. on the TSX in October.

In the US, our business continues to outperform. This division was the largest contributor of revenue globally for the second consecutive quarter, underscoring the exceptional equity financing team we have assembled. We've further enhanced our institutional service offering by adding new high yield capabilities to our platform, through the addition of a US fixed income sales and trading team. We're confident this added scale is well suited to our broad sector coverage and will help the division grow our client base.

In addition, Canaccord Genuity in Australia had a record performance, demonstrating the success of our strategy to expand the business' sector coverage beyond the resource space. In July, our Australian business was named the Best Equities House in the non-bank owned category of the 2013 East Coles Survey, as voted on by Australian institutional investors.

It's clear that the diversity of our revenue streams is a key differentiator of our global capital markets business, and we're confident the division is poised for success in a more robust market environment.

## Canaccord Genuity – Wealth Management

Canaccord Genuity Wealth Management generated $50.2 million of revenue during the second fiscal quarter, a 7% decline compared to the previous quarter. However, we're pleased that each of our wealth management businesses successfully increased assets under management compared to Q1. Globally, the division manages $27.5 billion of client assets, an increase of 7% from June 30, 2013.

In Canada, difficult market conditions continue to pose challenges to the business. Canaccord Genuity Wealth Management in North America generated $24.4 million of revenue and recorded a net loss of $5.1 million for the quarter. However, the business increased assets under management by 6% compared to the previous quarter and by 19% compared to last year, to $935 million, a solid indication of growth in our managed and fee-based accounts.

Our wealth management business in the UK and Europe provides consistent returns to our global franchise, recording another quarter of profitability. The division generated $25.8 million of revenue and posted net income of $3.6 million before taxes and excluding significant items.(1) Having consistently increased assets under management over the past four consecutive quarters, to $17.7 billion as of September 30, this division is successfully attracting more clients in a market facing growing regulation.

In the coming months, our wealth management business in Canada will be introducing a sophisticated portfolio offering developed for the Canadian retail investor, while leveraging the global infrastructure established by our UK-based business. Once it is available to our clients, we believe this new product will drive higher fee-generation and improve our margins.

## Looking Ahead

Subsequent to the end of the quarter, Canaccord Genuity launched an advertising campaign featuring our new global value proposition, *To us there are no foreign markets*. It showcases the global perspective of our capital markets and wealth management businesses and enhances our brand exposure to existing and prospective clients.

In addition, I want to reiterate our continuing commitment to pursue opportunities to further reduce our overhead expenses and find ways to advance the efficiencies of our company on behalf of our shareholders.

In closing, we are beginning to see a strengthening in global market conditions with a concurrent improvement in our pipelines across our operating units. While our fiscal second quarter performance was seasonally slow, we believe Canaccord Genuity is in an excellent position to leverage the improving environment in the latter half of our fiscal year.

Kind regards,

**PAUL D. REYNOLDS**
President & CEO

(1) A non-IFRS measure.
(2) Net income (loss) available to common shareholders is calculated as net income (loss) adjusted for non-controlling interests and preferred share dividends.

# Management's Discussion and Analysis

Second quarter fiscal 2014 for the three months and six months ended September 30, 2013 – this document is dated November 6, 2013

The following discussion of the financial condition and results of operations for Canaccord Genuity Group Inc. (Canaccord or the Company, formerly Canaccord Financial Inc.) is provided to enable the reader to assess material changes in our financial condition and to assess results for the three- and six-month periods ended September 30, 2013 compared to the corresponding period in the preceding fiscal year. The three- and six-month periods ended September 30, 2013 are also referred to as second quarter 2014 and Q2/14. This discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three- and six-month periods ended September 30, 2013, beginning on page 29 of this report; our Annual Information Form (AIF) dated June 18, 2013; and the 2013 annual Management's Discussion and Analysis (MD&A) including the audited consolidated financial statements for the fiscal year ended March 31, 2013 (Audited Annual Consolidated Financial Statements) in Canaccord's annual report dated May 21, 2013 (the 2013 Annual Report). There has been no material change to the information contained in the annual MD&A for fiscal 2013 except as disclosed in this MD&A. Canaccord's financial information is expressed in Canadian dollars unless otherwise specified.

## Cautionary Statement Regarding Forward-looking Information

This document may contain "forward-looking statements" (as defined under applicable securities laws). These statements relate to future events or future performance and reflect management's expectations, beliefs, plans, estimates, intentions and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts, 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", "could" 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 discussed from time to time in the Company's interim condensed and annual consolidated financial statements and the 2013 Annual Report and AIF filed on www.sedar.com as well as the factors discussed in the section entitled "Risks" in this MD&A, which include market, liquidity, credit, operational, legal and regulatory risks. Material factors or assumptions that were used by the Company to develop the forward-looking information contained in this document include, but are not limited to, those set out in the Fiscal 2014 Outlook section in the annual MD&A and those discussed from time to time in the Company's interim condensed and annual consolidated financial statements and the 2013 Annual Report and AIF filed on www.sedar.com. The preceding list is not exhaustive of all possible risk factors that may influence actual results. Readers are cautioned that the preceding list of material factors or assumptions is not exhaustive.

Although the forward-looking information contained in this document is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this document are made as of the date of this document and should not be relied upon as representing the Company's views as of any date subsequent to the date of this document. Certain statements included in this document may be considered "financial outlook" for purposes of applicable Canadian securities laws, and such financial outlook may not be appropriate for purposes other than this document. Except as may be required by applicable law, the Company does not undertake, and specifically disclaims, any obligation to update or revise any forward-looking information, whether as a result of new information, further developments or otherwise.

## Presentation of Financial Information and Non-IFRS Measures

This MD&A is based on the unaudited interim condensed consolidated financial statements for the three- and six-month periods ended September 30, 2013 (Second Quarter 2014 Financial Statements) prepared in accordance with International Financial Reporting Standards (IFRS). The Second Quarter 2014 Financial Statements have been prepared in accordance with International Accounting Standard 34, "*Interim Financial Reporting*" (IAS 34), using accounting policies consistent with those applied in preparing the Company's Audited Annual Consolidated Financial Statements for the year ended March 31, 2013, except for new standards adopted as directed in Note 3 of the Second Quarter 2014 Financial Statements.

### NON-IFRS MEASURES

Certain non-IFRS measures are utilized by Canaccord as measures of financial performance. Non-IFRS measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Non-IFRS measures presented include assets under administration, assets under management, book value per diluted common share, return on common equity and figures that exclude significant items.

Canaccord's capital is represented by common and preferred shareholders' equity and, therefore, management uses return on common equity (ROE) as a performance measure. Also used by the Company as a performance measure is book value per diluted common share, which is calculated as total common shareholders' equity divided by the number of diluted common shares outstanding and, commencing in Q1/14, adjusted for shares purchased under the normal course issuer bid and not yet cancelled, and estimated forfeitures in respect of unvested share awards under share-based payment plans.

Assets under administration (AUA) and assets under management (AUM) are non-IFRS measures of client assets that are common to the wealth management business. AUA – Canada, AUM – Australia or AUM – UK and Europe is the market value of client assets managed and administered by Canaccord from which Canaccord earns commissions and fees. This measure includes funds held in client accounts as well as the aggregate market value of long and short security positions. AUM – Canada includes all assets managed on a discretionary basis under programs that are generally described as or known as the *Complete Canaccord Investment Counselling Program* and the *Complete Canaccord Private Investment Management Program*. Services provided include the selection of investments and the provision of investment advice. Canaccord's method of calculating AUA – Canada, AUM – Canada, AUM – Australia or AUM – UK and Europe may differ from the methods used by other companies and therefore may not be comparable to other companies. Management uses these measures to assess operational performance of the Canaccord Genuity Wealth Management business segment. AUM – Canada is also administered by Canaccord and is included in AUA – Canada.

Financial statement items that exclude significant items are non-IFRS measures. Significant items for these purposes are defined as including restructuring costs, amortization of intangible assets, and acquisition-related expense items, which include costs recognized in relation to both prospective and completed acquisitions. See the Selected Financial Information Excluding Significant Items table on page 12.

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

## Business Overview

Through its principal subsidiaries, Canaccord Genuity Group Inc. is a leading independent, full-service financial services firm, with operations in two principal segments of the securities industry: wealth management and capital markets. Since its establishment in 1950, Canaccord has been driven by an unwavering commitment to building lasting client relationships. We achieve this by generating value for our individual, institutional and corporate clients through comprehensive investment solutions, brokerage services and investment banking services. Canaccord has offices in 11 countries worldwide, including wealth management offices located in Canada, Australia, the UK and Europe. Canaccord Genuity, the Company's international capital markets division, operates in Canada, the US, the UK, France, Germany, Ireland, Hong Kong, mainland China, Singapore, Australia and Barbados.

Canaccord Genuity Group Inc. is publicly traded under the symbol CF on the TSX and the symbol CF. on the main market of the London Stock Exchange. Canaccord Series A Preferred Shares are listed on the TSX under the symbol CF.PR.A. Canaccord Series C Preferred Shares are listed on the TSX under the symbol CF.PR.C.

Our business is affected by the overall condition of the worldwide equity and debt markets, including the seasonal variance in these markets.

## BUSINESS ENVIRONMENT

The economic environment in developed economies moderately improved in fiscal Q2/14. Europe began exhibiting signs of activity, with the lagged impact of interest rate cuts by the European Central Bank filtering through the economy. This was also the case for Japan, where manufacturing surveys indicated their best reading in 20 years. In the US, several forward-looking economic indicators also improved this summer. Notably, the level of manufacturing orders relative to inventories has been the highest since 2010. But unsatisfied by economic progress on housing and employment, and a disturbing political stalemate in Washington, the US Federal Reserve decided not to taper its bond purchases in September. This decision helped stabilize emerging market economies, which are still contending with inflationary pressures resulting from the deep plunge in their currencies this summer. In fact, before the Federal Reserve announcement, fears of another financial crisis spread through emerging market equities and currencies. However, the idea that monetary policy will remain very accommodative globally combined with signs of economic growth reacceleration in China halted capital flights from emerging markets.

Despite an uncertain economic outlook, fears of military strikes in Syria, and budget/debt-ceiling concerns, equity markets pushed higher and generally outperformed other asset classes in fiscal Q2/14. In fact, the S&P/TSX rose by 5.4% and surpassed the S&P 500, which increased by 4.7%. Interestingly, both Canadian resource and non-resource cyclicals, which rose by 6.5% and 6%, respectively, outperformed defensive industry firms, which increased by 2%. Even the S&P CDNX small-cap index rose by 6.8%. This performance is consistent with increasing visibility on global growth prospects, and equity investors continuing to prefer equities over bonds in asset-allocation decisions. This positive shift in investors' risk appetite, however, has yet to translate into more underwriting and secondary market-trading activities.

Looking forward, we believe the global economy will continue to gain momentum as the synchronization among G7 countries and emerging market countries re-energizes the global economy. Further into next year, we believe the global fiscal drag will fall markedly as fiscal austerity in Europe abates and the economic shock from the US Sequester is absorbed. Related to monetary policy, President Obama nominated Janet Yellen as the new Federal Reserve Chairman starting next year. Ms. Yellen is unlikely to modify the Federal Reserve's Quantitative Easing programs unless inflation and employment statistics warrant a policy change. Abundant global liquidity provides downside risk protection to the economic outlook, and could encourage further risk taking in equities and "growth" commodities, as expected returns on other asset classes remain uncompetitive. Overall, improved visibility and stronger global growth prospects should continue to support capital markets activities.

## MARKET DATA

Financing values on the TSX, TSX Venture and on AIM experienced notable decreases compared to the previous quarter and the same period last year. Conversely, financing values on the NASDAQ experienced increases compared to the previous quarter and the same period last year.

### TOTAL FINANCING VALUE BY EXCHANGE

| | July 2013 | August 2013 | September 2013 | Fiscal Q2/14 | Change from fiscal Q2/13 | Change from fiscal Q1/14 |
|---|---|---|---|---|---|---|
| TSX and TSX Venture (C$ billions) | 4.5 | 2.8 | 1.6 | 8.9 | (14.4)% | (18.3)% |
| AIM (£ billions) | 0.5 | 0.1 | 0.1 | 0.7 | (87.5)% | (12.5)% |
| NASDAQ (US$ billions) | 3.4 | 3.6 | 9.1 | 16.1 | 17.5% | 7.3% |

Source: TSX Statistics, LSE AIM Statistics, Equidesk

## ABOUT CANACCORD’S OPERATIONS

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

### Canaccord Genuity

Canaccord Genuity offers corporations and institutional investors around the world an integrated platform for equity research, sales and trading, and investment banking services that is built on extensive operations in Canada, the UK, Europe, the US, mainland China, Hong Kong, Singapore, Australia and Barbados.

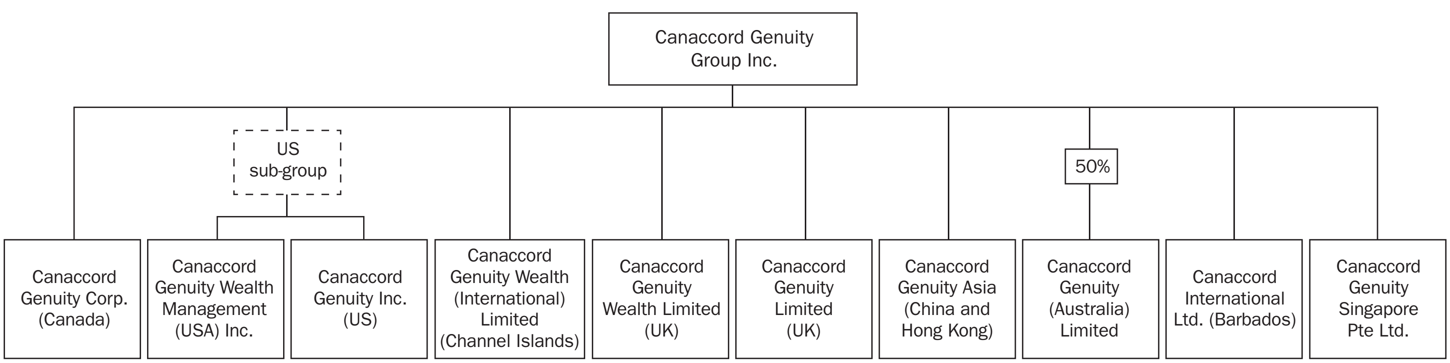
### Canaccord Genuity Wealth Management

Canaccord’s wealth management operations provide comprehensive wealth management solutions and brokerage services to individual investors, private clients, charities and intermediaries, through a full suite of services tailored to the needs of clients in each of its markets. Canaccord’s wealth management division now has Investment Advisors (IAs) and professionals in Canada, Australia, the UK, Switzerland and offshore locations (the Channel Islands and the Isle of Man).

### Corporate and Other

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

### Corporate structure



## Consolidated Operating Results

### SECOND QUARTER AND FIRST HALF OF 2014 SUMMARY DATA[1][2]

| | Three months ended September 30 | | | | Six months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| (C$ thousands, except per share and % amounts, and number of employees) | 2013 | 2012 | 2011 | QTD Q2/14 vs. Q2/13 | 2013 | 2012 | 2011 | YTD FY 2014 vs. FY 2013 |
| **Canaccord Genuity Group Inc. (CGGI)** | | | | | | | | |
| Revenue | | | | | | | | |
| Commissions and fees | $ 81,832 | $ 87,525 | $ 60,299 | (6.5)% | $ 171,867 | $ 176,272 | $ 121,327 | (2.5)% |
| Investment banking | 40,283 | 37,961 | 29,799 | 6.1% | 72,116 | 66,622 | 89,657 | 8.2% |
| Advisory fees | 29,894 | 28,571 | 21,664 | 4.6% | 65,799 | 54,197 | 44,195 | 21.4% |
| Principal trading | 18,883 | 17,109 | (1,379) | 10.4% | 38,423 | 24,956 | 574 | 54.0% |
| Interest | 6,132 | 6,758 | 7,590 | (9.3)% | 12,937 | 15,150 | 15,447 | (14.6)% |
| Other | 6,282 | 8,675 | 1,527 | (27.6)% | 9,395 | 11,951 | 8,083 | (21.4)% |
| Total revenue | 183,306 | 186,599 | 119,500 | (1.8)% | 370,537 | 349,148 | 279,283 | 6.1% |
| Expenses | | | | | | | | |
| Incentive compensation | 87,511 | 94,514 | 61,838 | (7.4)% | 173,836 | 179,290 | 139,452 | (3.0)% |
| Salaries and benefits | 21,506 | 21,417 | 14,163 | 0.4% | 44,616 | 44,615 | 31,280 | — |
| Other overhead expenses[3] | 69,759 | 68,829 | 47,439 | 1.4% | 138,442 | 147,903 | 96,742 | (6.4)% |
| Restructuring costs | 5,486 | 18,862 | — | (70.9)% | 5,486 | 18,862 | — | (70.9)% |
| Acquisition-related costs | — | 1,288 | 2,956 | (100.0)% | — | 1,288 | 2,956 | (100.0)% |
| Total expenses | 184,262 | 204,910 | 126,396 | (10.1)% | 362,380 | 391,958 | 270,430 | (7.5)% |
| (Loss) income before income taxes | (956) | (18,311) | (6,896) | 94.8% | 8,157 | (42,810) | 8,853 | 119.1% |
| Net (loss) income | $ (80) | $ (14,841) | $ (5,278) | 99.5% | $ 7,803 | $ (35,463) | $ 7,917 | 122.0% |
| Net (loss) income attributable to: | | | | | | | | |
| CGGI shareholders | $ (383) | $ (14,562) | $ (5,278) | 97.4% | $ 8,358 | $ (34,529) | $ 7,917 | 124.2% |
| Non-controlling interests | $ 303 | $ (279) | $ — | 208.6% | $ (555) | $ (934) | $ — | 40.6% |
| (Loss) earnings per common share – diluted | $ (0.03) | $ (0.19) | $ (0.09) | 84.2% | $ 0.02 | $ (0.43) | $ 0.07 | 104.7% |
| Return on common equity[4] | (1.5)% | (8.3)% | (2.8)% | 6.8 p.p. | 0.6% | (9.4)% | 2.1% | 10.0 p.p. |
| Dividends per common share | $ 0.05 | $ 0.05 | $ 0.10 | — | $ 0.10 | $ 0.10 | $ 0.20 | — |
| Book value per diluted common share[5] | $ 8.00 | $ 7.61 | $ 8.75 | 5.1% | | | | |
| Total assets | $4,245,682 | $5,102,481 | $5,665,166 | (16.8)% | | | | |
| Total liabilities | $3,150,694 | $4,052,592 | $4,801,673 | (22.3)% | | | | |
| Non-controlling interests | $ 12,375 | $ 16,047 | $ — | (22.9)% | | | | |
| Total shareholders' equity | $1,082,613 | $1,033,842 | $ 863,493 | 4.7% | | | | |
| Number of employees | 2,012 | 2,215 | 1,710 | (9.2)% | | | | |
| **Excluding significant items**[6] | | | | | | | | |
| Total expenses | $ 175,367 | $ 179,710 | $ 122,510 | (2.4)% | $ 349,894 | $ 361,387 | $ 265,614 | (3.2)% |
| Income (loss) before income taxes | 7,939 | 6,889 | (3,010) | 15.2% | 20,643 | (12,239) | 13,669 | 268.7% |
| Net income (loss) | 6,734 | 5,907 | (1,665) | 14.0% | 18,544 | (10,388) | 12,460 | 278.5% |
| Net income (loss) attributable to CGGI shareholders | 6,192 | 5,864 | (1,665) | 5.6% | 18,606 | (10,195) | 12,460 | 282.5% |
| Earnings (loss) per common share – diluted | 0.03 | 0.03 | (0.05) | — | 0.12 | (0.17) | 0.13 | 170.6% |

(1) Data is in accordance with IFRS except for ROE, book value per diluted common share, number of employees, and figures that exclude significant items. See Non-IFRS Measures on page 8.
(2) Since the closing date of November 1, 2011, the operating results of the Australian operations have been included on a fully consolidated basis and a 50% non-controlling interest has been recognized. Results of former Collins Stewart Hawkpoint plc (CSHP) entities since March 22, 2012 and the wealth management business of Eden Financial Ltd. since October 1, 2012 are also included.
(3) Consists of trading costs, premises and equipment, communication and technology, interest, general and administrative, amortization and development costs.
(4) ROE is presented on an annualized basis. ROE for each period is calculated by dividing the annualized net income (loss) available to common shareholders for the period over the average common shareholders' equity for the period.
(5) Book value per diluted common share is calculated as total common shareholders' equity divided by the number of diluted common shares outstanding and, commencing in Q1/14, adjusted for shares purchased under the normal course issuer bid and not yet cancelled, and estimated forfeitures in respect of unvested share awards under share-based payment plans.
(6) Net income (loss) and earnings (loss) per diluted common share excluding significant items reflect tax-effected adjustments related to such items. See the Selected Financial Information Excluding Significant Items table on page 12.
p.p.: percentage points

## SELECTED FINANCIAL INFORMATION EXCLUDING SIGNIFICANT ITEMS[1]

| | Three months ended September 30 | | | Six months ended September 30 | | |
|---|---|---|---|---|---|---|
| (C$ thousands, except per share and % amounts) | **2013** | 2012 | Quarter-over-quarter change | **2013** | 2012 | YTD-over-YTD change |
| Total revenue per IFRS | **$ 183,306** | $ 186,599 | (1.8)% | **$ 370,537** | $ 349,148 | 6.1% |
| Total expenses per IFRS | **184,262** | 204,910 | (10.1)% | **362,380** | 391,958 | (7.5)% |
| *Significant items recorded in Canaccord Genuity* | | | | | | |
| Restructuring costs | **5,486** | 4,395 | 24.8% | **5,486** | 4,395 | 24.8% |
| Acquisition-related costs | **—** | 388 | (100.0)% | **—** | 388 | (100.0)% |
| Amortization of intangible assets | **1,658** | 3,436 | (51.7)% | **3,360** | 7,809 | (57.0)% |
| *Significant items recorded in Canaccord Genuity Wealth Management* | | | | | | |
| Restructuring costs | **—** | 13,567 | (100.0)% | **—** | 13,567 | (100.0)% |
| Acquisition-related costs | **—** | 900 | (100.0)% | **—** | 900 | (100.0)% |
| Amortization of intangible assets | **1,751** | 1,614 | 8.5% | **3,640** | 2,612 | 39.4% |
| *Significant items recorded in Corporate and Other* | | | | | | |
| Restructuring costs | **—** | 900 | (100.0)% | **—** | 900 | (100.0)% |
| Total significant items | **8,895** | 25,200 | (64.7)% | **12,486** | 30,571 | (59.2)% |
| Total expenses excluding significant items | **175,367** | 179,710 | (2.4)% | **349,894** | 361,387 | (3.2)% |
| Net income (loss) before taxes – adjusted | **$ 7,939** | $ 6,889 | 15.2% | **$ 20,643** | $ (12,239) | 268.7% |
| Income taxes (recovery) – adjusted | **1,205** | 982 | 22.7% | **2,099** | (1,851) | 213.4% |
| Net income (loss) – adjusted | **$ 6,734** | $ 5,907 | 14.0% | **$ 18,544** | $ (10,388) | 278.5% |
| Earnings (loss) per common share – basic, adjusted | **$ 0.03** | $ 0.03 | — | **$ 0.13** | $ (0.17) | 176.5% |
| Earnings (loss) per common share – diluted, adjusted | **$ 0.03** | $ 0.03 | — | **$ 0.12** | $ (0.17) | 170.6% |

(1) Figures excluding significant items are non-IFRS measures. See Non-IFRS Measures on page 8.

### Revenue

***Second quarter 2014 vs. second quarter 2013***

On a consolidated basis, revenue is generated through six activities: commissions and fees associated with agency trading and private client wealth management activity, investment banking, advisory fees, principal trading, interest and other. Revenue for the three months ended September 30, 2013 was $183.3 million, a decrease of 1.8% or $3.3 million compared to the same period a year ago.

Revenue generated from commissions and fees decreased by $5.7 million, to $81.8 million, compared to the same period a year ago. The $10.1 million drop in commissions and fees revenue earned in Canada was partially offset by the $4.7 million increase in commissions and fees earned in the UK and Europe. Commissions and fees revenue decreased as a result of challenging market conditions that existed during the current fiscal quarter in Canada and the branch closures in Q2/13 that led to scaled-back North American wealth management operations.

Investment banking revenue was $40.3 million, up $2.3 million or 6.1% from the same period a year ago. The growth in investment banking revenue was most notable in the US, with a $7.2 million increase from Q2/13. The Company's operations in the Other Foreign Locations geographic region, which includes operations in Australia, Singapore, China, Hong Kong and Barbados, also contributed $2.5 million to the increase in investment banking revenue. These increases in investment banking revenue were offset by a $6.8 million decline in Canada.

Advisory fee revenue was $29.9 million, an increase of $1.3 million or 4.6% from the same period a year ago. Advisory fees grew by $2.0 million in Canada and by $3.1 million in the UK and Europe, but decreased by $4.0 million in the US.

Principal trading revenue was $18.9 million, up $1.8 million compared to $17.1 million in Q2/13. The main source of the increase in principal trading revenue was a $1.5 million increase in the UK and Europe.

Other revenue was $6.3 million, a decrease of $2.4 million from the same period a year ago, mostly as a result of a decline in our correspondent brokerage services operations revenue.

With increased activity, improved market conditions and growth in our operations in the US and the UK and Europe, these geographies experienced increased revenue compared to Q2/13. Revenue in Canada, however, has suffered as a result of the difficult market conditions, particularly in the resource sector, that have prevailed in Canada during the current fiscal quarter.

***First-half fiscal year 2014 vs. first-half fiscal year 2013***

Revenue for the six months ended September 30, 2013 was $370.5 million, an increase of 6.1% or $21.4 million compared to the same period a year ago, mainly due to a $13.5 million increase in principal trading revenue and an $11.6 million increase in advisory fees revenue.

Commissions and fees revenue was $171.9 million, representing a decrease of 2.5% compared to the six months ended September 30, 2012. Revenue generated from investment banking activities was up 8.2%, to $72.1 million, mainly due to a $16.3 million increase in the US arising from increased activity in certain key focus sectors.

Advisory fees of $65.8 million represented an increase of 21.4%, or $11.6 million, compared to the same period in the prior year. This increase was primarily due to increased activity in our capital markets operations in the UK and Europe, which contributed $10.1 million to this increase.

Revenue derived from principal trading was $13.5 million higher at $38.4 million, compared to the same period last year, primarily due to the strong performance of the International Equities Group in the US.

Interest revenue decreased by $2.2 million mostly as a result of reductions in our North American wealth management operations. Other revenue decreased by $2.6 million to $9.4 million during the first half of fiscal year 2014 as a result of decreased client margin activity arising from branch closures at the end of Q2/13 and decreased correspondent brokerage services operations as well as lower foreign exchange gains.

## GEOGRAPHIC DISTRIBUTION OF REVENUE FOR THE SECOND QUARTER 2014[1]

| | Three months ended September 30 | | | Six months ended September 30 | | |
|---|---|---|---|---|---|---|
| (C$ thousands, except % amounts) | **2013** | 2012 | Quarter-over-quarter change | **2013** | 2012 | YTD-over-YTD change |
| Canada | **$ 61,692** | $ 80,728 | (23.6)% | **$ 123,191** | $ 157,369 | (21.7)% |
| UK and Europe | **68,766** | 59,706 | 15.2% | **136,233** | 108,513 | 25.5% |
| US | **44,357** | 40,008 | 10.9% | **97,758** | 71,702 | 36.3% |
| Other Foreign Locations[2] | **8,491** | 6,157 | 37.9% | **13,355** | 11,564 | 15.5% |
| Total | **$ 183,306** | $ 186,599 | (1.8)% | **$ 370,537** | $ 349,148 | 6.1% |

(1) For a business description of Canaccord's geographic distribution, please refer to the About Canaccord's Operations section on page 10.
(2) Other Foreign Locations include operations for Canaccord International Ltd., Canaccord Genuity Asia, Canaccord Genuity Singapore Pte Ltd., and Canaccord Genuity (Australia) Limited (formerly Canaccord BGF).

***Second quarter 2014 vs. second quarter 2013***

Revenue in Canada decreased by $19.0 million to $61.7 million in Q2/14 due to lower revenue earned in both our capital markets and wealth management segments. Our operations in Canada experienced lower activity due to continued weakness in the resource sector and limited corporate activity. In addition, revenue decreased in the wealth management segment as a result of the branch closures in the second quarter of fiscal 2013. Revenue derived from the Corporate and Other segment also decreased due to lower foreign exchange gains, as well as reduced activity in our correspondent brokerage services operations.

Our UK and Europe operations generated revenue of $68.8 million in Q2/14, an increase of $9.1 million, as advisory fees increased by $3.1 million, principal trading revenue increased by $1.5 million and the wealth management operations expanded through the acquisition of the wealth management business of Eden Financial Ltd. in Q3/13, which contributed to the $5.2 million increase in that division. Offsetting these increases was a decline of $0.5 million in investment banking revenue.

Revenue in the US was $44.4 million in Q2/14, an increase of $4.4 million, or 10.9%, compared to Q2/13. The increase was mostly driven by higher investment banking revenue due to improved investment banking activity in our key focus sectors, partially offset by lower advisory fees.

Revenue generated in the Other Foreign Locations geographic region was up $2.3 million from Q2/13 as investment banking revenue in the region increased by $2.5 million primarily due to improved performance in our Australian operations.

***First-half fiscal year 2014 vs. first-half fiscal year 2013***

On a year-to-date basis, revenue has increased in all our foreign operations. Our UK and Europe and US operations increased revenue by 25.5% and 36.3%, respectively, primarily as a result of improved market conditions and increased activity in our focus sectors. The increases in revenue in these geographic segments were offset by a decrease in revenue in Canada due to slower market conditions in the first half of fiscal 2014 compared to the first half of fiscal 2013.

### Expenses

Expenses for the three months ended September 30, 2013 were $184.3 million, a decrease of 10.1% or $20.6 million from the same period a year ago.

## EXPENSES AS A PERCENTAGE OF REVENUE

| | Three months ended September 30 | | | Six months ended September 30 | | |
|---|---|---|---|---|---|---|
| (in percentage points) | 2013 | 2012 | Quarter-over-quarter change | 2013 | 2012 | YTD-over-YTD change |
| Incentive compensation | **47.7%** | 50.7% | (3.0) p.p. | **46.9%** | 51.4% | (4.5) p.p. |
| Salaries and benefits | **11.8%** | 11.5% | 0.3 p.p. | **12.1%** | 12.7% | (0.6) p.p. |
| Other overhead expenses(1) | **38.0%** | 36.8% | 1.2 p.p. | **37.3%** | 42.4% | (5.1) p.p. |
| Restructuring costs | **3.0%** | 10.1% | (7.1) p.p. | **1.5%** | 5.4% | (3.9) p.p. |
| Acquisition-related costs | **—** | 0.7% | (0.7) p.p. | **—** | 0.4% | (0.4) p.p. |
| Total | **100.5%** | 109.8% | (9.3) p.p. | **97.8%** | 112.3% | (14.5) p.p. |

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

### Compensation expense

***Second quarter 2014 vs. second quarter 2013***

Incentive compensation expense was $87.5 million for the quarter, a decrease of 7.4% or $7.0 million, reflecting a lower average payout ratio. Incentive compensation expense as a percentage of revenue was 47.7%, down 3.0 percentage points from 50.7% compared to the second quarter of fiscal 2013. The decrease in incentive compensation expense as a percentage of revenue reflects the Company's continuing efforts to monitor its compensation structure and payout ratios. Salaries and benefits expense was relatively unchanged at $21.5 million in Q2/14 compared to $21.4 million in Q2/13.

Total compensation expense (incentive compensation plus salaries and benefits) as a percentage of revenue for Q2/14 was 59.5%, down 2.7 percentage points from 62.2% in Q2/13.

***First-half fiscal year 2014 vs. first-half fiscal year 2013***

Incentive compensation expense was $173.8 million for the first half of fiscal 2014, a decrease of 3.0% from the same period in the prior year. Incentive compensation as a percentage of total revenue was 46.9%, a decrease of 4.5 percentage points, reflecting certain changes in our incentive-based compensation structure made during the current fiscal year.

Salaries and benefits expense of $44.6 million in the first half of fiscal 2014 was consistent with the same period a year ago. Total compensation expense (incentive compensation plus salaries and benefits) as a percentage of consolidated revenue was 59.0%, a decrease of 5.1 percentage points from 64.1% recorded in the first half of fiscal 2013.

## OTHER OVERHEAD EXPENSES

| | Three months ended September 30 | | | Six months ended September 30 | | |
|---|---|---|---|---|---|---|
| (C$ thousands, except % amounts) | 2013 | 2012 | Quarter-over-quarter change | 2013 | 2012 | YTD-over-YTD change |
| Trading costs | **$ 10,336** | $ 10,189 | 1.4% | **$ 22,303** | $ 22,776 | (2.1)% |
| Premises and equipment | **9,823** | 10,842 | (9.4)% | **19,158** | 21,696 | (11.7)% |
| Communication and technology | **11,406** | 11,280 | 1.1% | **21,930** | 25,585 | (14.3)% |
| Interest | **4,063** | 3,291 | 23.5% | **8,706** | 7,842 | 11.0% |
| General and administrative | **20,440** | 20,957 | (2.5)% | **41,263** | 44,973 | (8.2)% |
| Amortization(1) | **6,020** | 7,755 | (22.4)% | **12,581** | 15,891 | (20.8)% |
| Development costs | **7,671** | 4,515 | 69.9% | **12,501** | 9,140 | 36.8% |
| Total other overhead expenses | **$ 69,759** | $ 68,829 | 1.4% | **$ 138,442** | $ 147,903 | (6.4)% |

(1) Includes amortization of intangible assets in connection with the acquisitions of Genuity, a 50% interest in Canaccord Genuity (Australia) Limited (formerly Canaccord BGF), CSHP and Eden Financial Ltd.

**Other overhead expenses**

***Second quarter 2014 vs. second quarter 2013***

Compared to Q2/13, overhead expenses increased by 1.4% or $0.9 million in the second quarter of fiscal 2014, to $69.8 million. The increases in development costs and interest expense were partially offset by lower general and administrative expense, amortization expense and premises and equipment expense.

Consolidating office space across the geographies contributed to a decrease in premises and equipment expense of $1.0 million. A decline in the amortization expense associated with intangible assets acquired through the acquisition of CSHP was the main reason for the $1.7 million decrease in amortization expense, as certain intangible assets are now fully amortized.

Development costs increased by $3.2 million as a result of the amortization cost of the CSH Inducement Plan which began in Q3/13 and hiring incentives paid during the quarter. Interest expense also increased, by $0.8 million, mainly due to increased activity in the Fixed Income group in Canada.

***First-half fiscal year 2014 vs. first-half fiscal year 2013***

Other overhead expenses for the six months ended September 30, 2013 decreased by 6.4% or $9.5 million, to $138.4 million, from the same period a year ago. The decrease was a result of lower expenses in all categories, except for increases in development costs and interest expense.

Premises and equipment expense was down $2.5 million due to the consolidation of office space. Communication and technology expense decreased by $3.7 million from the first half of fiscal 2013, to $21.9 million, primarily as a result of cost savings realized in the US and the UK and Europe. Interest expense increased by $0.9 million during the period, primarily as a result of an increase in the US.

General and administrative expense decreased by $3.7 million as the Company continued to benefit from cost synergies and efficiencies throughout the organization. The $3.3 million decrease in amortization expense relates to a decrease in the amortization of intangible assets discussed above. Development costs increased by $3.4 million, mainly due to the amortization of the CSH Inducement Plan and additional hiring incentives.

During Q2/14, the Company also recognized $5.5 million of restructuring costs, mainly related to the restructuring of our sales and trading operations in Canada and the UK and Europe, as well as certain office closure costs.

**Net (loss) income**

***Second quarter 2014 vs. second quarter 2013***

Net loss for Q2/14 was $0.1 million compared to a net loss of $14.8 million in the same period a year ago. Diluted loss per share was $0.03 in Q2/14 compared to a diluted loss per share of $0.19 in Q2/13. The net loss recognized in Q2/14 was attributable to restructuring costs for the period in Canada and the UK and Europe. Book value per diluted common share at the end of Q2/14 was $8.00 versus $7.61 at the end of Q2/13.

Excluding significant items(1), which consist of amortization of intangible assets and restructuring costs, net income for Q2/14 was $6.7 million compared to $5.9 million in Q2/13. Diluted earnings per share (EPS), excluding significant items(1), were $0.03 in Q2/14 compared to a diluted EPS, excluding significant items(1), of $0.03 in Q2/13.

Income tax recovery was $0.9 million for the current quarter compared to an income tax recovery of $3.5 million in the same quarter last year. The tax recovery rate for Q2/14 was affected by the utilization of tax losses and other temporary differences not recognized in prior periods by subsidiaries outside of Canada. As a result, the effective tax recovery rate in Q2/14 was 91.6% compared to an effective tax recovery rate of 19.0% in the same period last year.

***First-half fiscal year 2014 vs. first-half fiscal year 2013***

Net income for the first half of fiscal 2014 was $7.8 million compared to a net loss of $35.5 million for the same period a year ago. Diluted EPS was $0.02 compared to a diluted loss per share of $0.43 a year ago, and ROE was 0.6% compared to (9.4)% a year ago. Net income excluding significant items was $18.5 million and diluted EPS was $0.12, compared to a diluted loss per share excluding significant items(1) of $0.17 in the same period a year ago. The increase resulted from improved profitability in our foreign operations.

(1) Figures excluding significant items are non-IFRS measures. See Non-IFRS Measures on page 8.

Income tax was $0.4 million for the six months ended September 30, 2013, reflecting a year-to-date effective tax rate of 4.3%, compared to an income tax recovery of $7.3 million and an effective tax recovery rate of 17.2% for the same period last year. The change in the effective tax rate was mainly due to the utilization of tax losses and other temporary differences not recognized in prior periods by subsidiaries outside of Canada.

## Results of Operations by Business Segment

### CANACCORD GENUITY[1][2]

| (C$ thousands, except number of employees and % amounts) | Three months ended September 30 2013 | Three months ended September 30 2012 | Quarter-over-quarter change | Six months ended September 30 2013 | Six months ended September 30 2012 | YTD-over-YTD change |
|---|---|---|---|---|---|---|
| Revenue | $ 126,691 | $ 120,110 | 5.5% | $ 257,897 | $ 221,411 | 16.5% |
| Expenses | | | | | | |
| Incentive compensation | 64,639 | 66,579 | (2.9)% | 126,976 | 124,741 | 1.8% |
| Salaries and benefits | 8,594 | 8,670 | (0.9)% | 17,530 | 17,481 | 0.3% |
| Other overhead expenses | 46,165 | 46,050 | (0.2)% | 91,903 | 100,102 | (8.2)% |
| Restructuring costs | 5,486 | 4,395 | 24.8% | 5,486 | 4,395 | 24.8% |
| Acquisition-related costs | — | 388 | (100.0)% | — | 388 | (100.0)% |
| Total expenses | 124,884 | 126,082 | (1.0)% | 241,895 | 247,107 | (2.1)% |
| (Loss) income before income taxes[3] | $ (26) | $ (6,476) | 99.6% | $ 11,866 | $ (27,904) | 142.5% |
| Number of employees | 975 | 993 | (1.8)% | | | |
| **Excluding significant items[4]** | | | | | | |
| Total expenses | $ 117,740 | $ 117,863 | (0.1)% | $ 233,049 | $ 234,515 | (0.6)% |
| Intersegment allocations[3] | 1,833 | 504 | 263.7% | 4,136 | 2,208 | 87.3% |
| Income (loss) before income taxes[3] | 7,118 | 1,743 | n.m. | 20,712 | (15,312) | 235.3% |

(1) Data is in accordance with IFRS except for figures excluding significant items and number of employees.
(2) Data includes results of Canaccord Genuity's operations in Australia since the closing date of November 1, 2011 including its wealth management activity. The operating results of the Australian operations have been fully consolidated and a 50% non-controlling interest has been recognized. Results of former CSHP entities since March 22, 2012 are also included.
(3) Income (loss) before income taxes includes intersegment allocated costs. See the Intersegment Allocated Costs section on page 22.
(4) Refer to the Selected Financial Information Excluding Significant Items table on page 12.
n.m.: not meaningful

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

### REVENUE BY GEOGRAPHY AS A PERCENTAGE OF CANACCORD GENUITY REVENUE

| (in percentage points) | Three months ended September 30 2013 | Three months ended September 30 2012 | Quarter-over-quarter change | Six months ended September 30 2013 | Six months ended September 30 2012 | YTD-over-YTD change |
|---|---|---|---|---|---|---|
| Revenue generated in: | | | | | | |
| Canada | 24.7% | 29.5% | (4.8) p.p. | 24.9% | 32.1% | (7.2) p.p. |
| UK and Europe | 33.9% | 32.5% | 1.4 p.p. | 32.3% | 30.8% | 1.5 p.p. |
| US | 34.7% | 32.9% | 1.8 p.p. | 37.6% | 31.9% | 5.7 p.p. |
| Other Foreign Locations | 6.7% | 5.1% | 1.6 p.p. | 5.2% | 5.2% | — |
| | 100.0% | 100.0% | | 100.0% | 100.0% | |

p.p.: percentage points

### CANACCORD GENUITY INCENTIVE COMPENSATION EXPENSE AS A PERCENTAGE OF REVENUE BY GEOGRAPHY

| | Three months ended September 30 | | | Six months ended September 30 | | |
|---|---|---|---|---|---|---|
| (in percentage points) | **2013** | 2012 | Quarter-over-quarter change | **2013** | 2012 | YTD-over-YTD change |
| Incentive compensation ratio as a percentage of revenue | | | | | | |
| Canada | **50.9%** | 54.9% | (4.0) p.p. | **46.8%** | 51.4% | (4.6) p.p. |
| UK and Europe | **49.9%** | 62.0% | (12.1) p.p. | **47.4%** | 62.5% | (15.1) p.p. |
| US | **52.0%** | 51.0% | 1.0 p.p. | **50.6%** | 55.5% | (4.9) p.p. |
| Other Foreign Locations | **51.9%** | 45.3% | 6.6 p.p. | **62.0%** | 55.4% | 6.6 p.p. |

p.p.: percentage points

***Second quarter 2014 vs. second quarter 2013***

*Revenue*

Revenue for Canaccord Genuity in Q2/14 was $126.7 million, an increase of 5.5% or $6.6 million from the same quarter a year ago.

Revenue in the UK and Europe and the US increased by $3.9 million and $4.5 million, respectively, as markets improved in these regions and activity increased in our key investment banking focus sectors. Revenue from Other Foreign Locations represented 6.7% of total Canaccord Genuity revenue, a growth of 1.6 percentage points compared to the second quarter of fiscal 2013. Capital markets activity in our Canadian operations declined during the second quarter of fiscal 2014, mainly as a result of lower investment banking activity and lower commissions and fees during the period, leading to a decrease of 11.8% in total revenue.

*Expenses*

Expenses for Q2/14 were $124.9 million, down 1.0% or $1.2 million. Incentive compensation expense was $64.6 million for the quarter, which was 2.9% or $1.9 million lower than in Q2/13. Incentive compensation expense as a percentage of revenue decreased by 4.4 percentage points in Q2/14, from 55.4% in Q2/13 to 51.0%. The decrease in incentive compensation expense as a percentage of revenue was mainly attributable to certain changes in the compensation structure and to a reduced payout ratio as well as reductions arising from combining the capital markets and advisory operations in the UK and Europe. Higher revenue combined with lower compensation levels led to a drop of 12.1 percentage points in the incentive compensation ratio as a percentage of revenue in our UK and Europe operations.

The capital markets segment experienced a decline in most overhead expenses as the Company began to see the benefits of the restructuring efforts made throughout fiscal 2013. As a result of these restructuring efforts, general and administrative expense and premises and equipment expense decreased compared to the same quarter of the prior year.

Prior to Q1/14, certain trading, clearing and settlement charges were included with the intersegment allocated costs in Canada. Beginning in Q1/14, the basis for determining these charges was changed and these charges were classified as a trading cost in the applicable business unit and as a trading cost recovery in the Corporate and Other segment. This change led to a $0.5 million increase in trading costs in Canada compared to Q2/13. Trading costs increased in the US by $0.7 million as a result of increased customer and principal trading activity. Trading costs increased by $0.3 million in the UK.

General and administrative expense in Q2/14 was $12.1 million, which was $1.6 million or 11.5% lower than in Q2/13 as a result of continuing efforts to reduce costs. As noted above, the Company's restructuring efforts in fiscal 2013 included consolidation of office space in our US and UK and European capital markets operations, resulting in a $0.8 million decrease in premises and equipment expense in Q2/14.

Amortization expense was $3.3 million in Q2/14, down $1.9 million or 36.0% as certain intangible assets acquired through the acquisition of CSHP are now fully amortized.

The Company also recognized $5.5 million of restructuring costs, mainly related to the restructuring of the sales and trading operations in Canada and the UK and Europe, as well as certain office closure costs.

*Income (loss) before income taxes*

Loss before income taxes, including allocated overhead expenses for the quarter, was $0.03 million compared to a loss of $6.5 million in the same quarter a year ago. Excluding significant items(1), income before income taxes was $7.1 million, an increase of $5.4 million from $1.7 million in Q2/13. The increase in income before income taxes was attributable to improved market conditions leading to higher income in the US and the UK and Europe, and the implementation of cost reduction strategies.

(1) Figures excluding significant items are non-IFRS measures. See Non-IFRS Measures on page 8.

***First-half fiscal year 2014 vs. first-half fiscal year 2013***

*Revenue*

Revenue for Canaccord Genuity in the first half of fiscal 2014 was $257.9 million, an increase of $36.5 million from the same period last year. Revenue in the UK and Europe and the US operations increased by 22.2% and 37.5%, respectively, due to improved market conditions and increased corporate activity in our focus sectors in these geographies.

Capital markets activity decreased in Canada during the first half of fiscal 2014, mainly as a result of a weak resource market, leading to a decrease of 9.7% in revenue. Revenue from our Other Foreign Locations represented 5.2% of total Canaccord Genuity revenue, relatively unchanged from the first half of fiscal 2013.

*Expenses*

Expenses for first-half fiscal 2014 were $241.9 million, down 2.1% or $5.2 million. As discussed above, the Company's restructuring efforts in fiscal 2013 led to decreases in most overhead expenses. General and administrative expense, amortization expense, communication and technology expense and premises and equipment expense all decreased compared to the first half of fiscal 2013.

The $2.2 million increase in incentive compensation was a result of higher incentive-based revenue. The incentive compensation ratio decreased to 49.2% from 56.3% for the reasons discussed above.

Communication and technology expense decreased by $3.6 million or 20.7% compared to the same period of the prior year as subscriptions, licences and other costs duplicated in connection with the acquisition of CSHP in Q3/12 were eliminated. The decrease in amortization expense of $4.0 million was attributable to lower amortization of intangible assets as certain intangible assets became fully amortized. General and administrative expense decreased by $4.4 million and premises and equipment expense decreased by $2.1 million as a result of the Company's continuing efforts to eliminate and reduce costs.

Interest expense was $0.9 million higher due to higher capital markets activity in the US. The reclassification of trading costs discussed above also led to an increase of $2.6 million in the segment's trading cost expense.

During the first half of fiscal 2014, restructuring costs of $5.5 million were incurred mainly in connection with restructuring of the sales and trading operations in Canada and the UK and Europe, as well as certain office closure costs.

*Income (loss) before income taxes*

Income before income taxes for first-half fiscal 2014 was $11.9 million, an increase of $39.8 million or 142.5% from a loss of $27.9 million in the same period a year ago. The increase in income before income taxes was attributable to improved markets leading to higher income in the US, the UK and Europe and the Other Foreign Locations geographic region, as well as to the implementation of cost reduction strategies. Excluding significant items[(1)], income before income taxes for the six months ended September 30, 2013 was $20.7 million compared to a loss before income taxes of $15.3 million for the same period last year.

(1) Figures excluding significant items are non-IFRS measures. See Non-IFRS Measures on page 8.

## CANACCORD GENUITY WEALTH MANAGEMENT NORTH AMERICA[1]

| (C$ thousands, except AUM and AUA (in C$ millions), number of employees, Advisory Teams and % amounts) | Three months ended September 30 2013 | 2012 | Quarter-over-quarter change | Six months ended September 30 2013 | 2012 | YTD-over-YTD change |
|---|---|---|---|---|---|---|
| Revenue | $ 24,413 | $ 35,814 | (31.8)% | $ 51,255 | $ 72,581 | (29.4)% |
| Expenses | | | | | | |
| Incentive compensation | 12,605 | 19,797 | (36.3)% | 25,689 | 38,829 | (33.8)% |
| Salaries and benefits | 2,644 | 3,404 | (22.3)% | 6,419 | 7,108 | (9.7)% |
| Other overhead expenses | 11,128 | 10,611 | 4.9% | 21,435 | 22,426 | (4.4)% |
| Restructuring costs | — | 13,567 | (100.0)% | — | 13,567 | (100.0)% |
| Total expenses | 26,377 | 47,379 | (44.3)% | 53,543 | 81,930 | (34.6)% |
| Intersegment allocations[2] | 3,182 | 9,222 | (65.5)% | 7,990 | 18,647 | (57.2)% |
| Loss before income taxes[2] | $ (5,146) | $ (20,787) | 75.2% | $ (10,278) | $ (27,996) | 63.3% |
| AUM – Canada (discretionary)[3] | 935 | 784 | 19.3% | | | |
| AUA – Canada[4] | 9,427 | 13,344 | (29.4)% | | | |
| Number of Advisory Teams – Canada | 163 | 231 | (29.4)% | | | |
| Number of employees | 430 | 617 | (30.3)% | | | |
| **Excluding significant items[5]** | | | | | | |
| Total expenses | $ 26,377 | $ 33,812 | (22.0)% | $ 53,543 | $ 68,363 | (21.7)% |
| Intersegment allocations[2] | 3,182 | 9,222 | (65.5)% | 7,990 | 18,647 | (57.2)% |
| Loss before income taxes[2] | (5,146) | (7,220) | 28.7% | (10,278) | (14,429) | 28.8% |

(1) Data is in accordance with IFRS except for AUM, AUA, number of Advisory Teams and number of employees.
(2) Loss before income taxes includes intersegment allocations. See the Intersegment Allocated Costs section on page 22.
(3) AUM in Canada are assets managed on a discretionary basis under our programs generally described as or known as the *Complete Canaccord Investment Counselling Program* and the *Complete Canaccord Private Investment Management Program*.
(4) AUA in Canada is the market value of client assets administered by Canaccord, from which Canaccord earns commissions and fees.
(5) Refer to the Selected Financial Information Excluding Significant Items table on page 12.

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

***Second quarter 2014 vs. second quarter 2013***

Revenue from Canaccord Genuity Wealth Management North America was $24.4 million, a decrease of $11.4 million or 31.8%, mainly caused by weaker market conditions in Canada that existed during Q2/14.

AUA in Canada decreased by 29.4% to $9.4 billion at September 30, 2013 compared to September 30, 2012, primarily due to weaker market conditions in Canada and the branch closures during Q2/13. AUM in Canada increased by 19.3% compared to Q2/13 due to an increased focus on the transition from traditional commission-based accounts to fee-based and managed accounts. There were 163 Advisory Teams in Canada, a decrease of 68 from a year ago as a result of the branch closures. The fee-based revenue in our North American operations was 9.6 percentage points higher than in the same quarter of the prior year and accounted for 35.8% of the wealth management revenue in Canada during the second quarter of fiscal 2014.

Expenses for Q2/14 were $26.4 million, a decrease of 44.3% or $21.0 million. Total compensation expense of $15.2 million was $8.0 million lower compared to Q2/13 as a result of lower incentive-based revenue during the quarter. As a result of branch closures and cost reduction efforts, certain overhead expenses such as general and administrative expense, premises and equipment expense and development costs have decreased compared to Q2/13.

Prior to Q1/14, certain trading, clearing and settlement charges were included with the intersegment allocated costs in Canada. Beginning in Q1/14, the basis for determining these charges was changed and these charges were classified as a trading cost in the applicable business unit and as a trading cost recovery in Corporate and Other. This change has led to an increase in trading costs of $2.4 million in the North American wealth management business unit.

Loss before income taxes was $5.1 million, compared to a loss before income taxes of $20.8 million in the same period a year ago, mostly due to $13.6 million of restructuring costs recorded in Q2/13. The challenging market conditions in Canada experienced by the independent wealth management sector resulted in a loss before income taxes in Q2/14.

***First-half fiscal year 2014 vs. first-half fiscal year 2013***

Revenue from Canaccord Genuity Wealth Management North America was $51.3 million during the first half of fiscal 2014, a decrease of $21.3 million from the same period in the prior year as a result of the difficult market conditions that have so far prevailed during fiscal 2014.

Expenses for the six months ended September 30, 2013 were $53.5 million, a decrease of $28.4 million or 34.6% from the same period in the prior year.

Incentive compensation expense decreased by $13.1 million as a result of lower incentive-based revenue. In addition, as a result of branch closures in fiscal 2013 and cost reduction initiatives, premises and equipment expense decreased by $0.9 million, general and administrative expense decreased by $2.5 million and development costs decreased by $1.1 million. Offsetting these decreases in expenses was an increase in trading costs of $4.0 million from the same period in the prior year. As discussed above, the increase in trading costs was as a result of a change in the basis for allocating certain trading, clearing and settlement charges among the Canadian business units.

Restructuring costs of $13.6 million were recorded in the first half of fiscal 2013 as a result of the closure of underperforming branches.

Loss before income taxes for the first half of fiscal 2014 was $10.3 million compared to a loss before income taxes of $28.0 million from the same period a year ago.

### CANACCORD GENUITY WEALTH MANAGEMENT UK AND EUROPE(1)(2)

| (C$ thousands, except AUM and AUA (in C$ millions), number of employees, investment professionals and fund managers, and % amounts) | Three months ended September 30 | | | Six months ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | Quarter-over-quarter change | **2013** | 2012 | YTD-over-YTD change |
| Revenue | **$ 25,830** | $ 20,672 | 25.0% | **$ 52,808** | $ 40,259 | 31.2% |
| Expenses | | | | | | |
| Incentive compensation | **9,132** | 8,091 | 12.9% | **19,119** | 15,831 | 20.8% |
| Salaries and benefits | **3,559** | 2,281 | 56.0% | **6,565** | 4,833 | 35.8% |
| Other overhead expenses | **9,451** | 7,117 | 32.8% | **18,584** | 14,385 | 29.2% |
| Acquisition-related costs | **—** | 900 | (100.0)% | **—** | 900 | (100.0)% |
| Total expenses | **22,142** | 18,389 | 20.4% | **44,268** | 35,949 | 23.1% |
| Intersegment allocations(3) | **1,880** | 2,014 | (6.7)% | **3,513** | 3,224 | 9.0% |
| Income before income taxes(3) | **$ 1,808** | $ 269 | n.m. | **$ 5,027** | $ 1,086 | n.m. |
| AUM – UK and Europe(4) | **17,655** | 13,122 | 34.5% | | | |
| Number of investment professionals and fund managers – UK and Europe | **115** | 96 | 19.8% | | | |
| Number of employees | **287** | 262 | 9.5% | | | |
| **Excluding significant items(5)** | | | | | | |
| Total expenses | **$ 20,391** | $ 15,875 | 28.4% | **$ 40,628** | $ 32,437 | 25.3% |
| Intersegment allocations(3) | **1,880** | 2,014 | (6.7)% | **3,513** | 3,224 | 9.0% |
| Income before income taxes(3) | **3,559** | 2,783 | 27.9% | **8,667** | 4,598 | 88.5% |

(1) Data is in accordance with IFRS except for AUM, number of investment professionals and fund managers and number of employees.
(2) Includes operating results from the wealth management business of Eden Financial Ltd. since October 1, 2012.
(3) Income before income taxes includes intersegment allocations. See the Intersegment Allocated Costs section on page 22.
(4) AUM in the UK and Europe is the market value of client assets managed and administered by Canaccord, from which Canaccord earns commissions and fees. This measure includes both discretionary and non-discretionary accounts.
(5) Refer to the Selected Financial Information Excluding Significant Items table on page 12.
n.m.: not meaningful

***Second quarter 2014 vs. second quarter 2013***

Revenue generated by our UK and Europe operations is largely produced through fee-based accounts and portfolio management activities, and, as such, is less sensitive to changes in market conditions. Through the acquisition of the wealth management business of Eden Financial Ltd., Canaccord Genuity Wealth Management UK and Europe further expanded its operations in the UK. Revenue for Q2/14 was $25.8 million, an increase of 25.0% compared to Q2/13.

AUM in the UK and Europe as of September 30, 2013 was $17.7 billion. The fee-based revenue in our UK and European operations accounted for 62.5% of total revenue in this geography. As discussed above, this business has a higher proportion of fee-based revenue and managed accounts compared to our Canadian wealth management business.

Incentive compensation expense was $9.1 million, an increase of $1.0 million or 12.9% from Q2/13. The increase in incentive compensation expense is consistent with the increase in incentive-based revenue. The increase in salaries and benefits expense of $1.3 million is consistent with the higher headcount in Q2/14 compared to the same quarter of the prior year. Development costs of $1.4 million related to the amortization of new hire incentive plans and the CSH Inducement Plan.

Income before income taxes was $1.8 million compared to income before income taxes of $0.3 million in the same period a year ago.

***First-half fiscal year 2014 vs. first-half fiscal year 2013***

Revenue from Canaccord Genuity Wealth Management UK and Europe was $52.8 million during the first half of fiscal 2014, an increase of $12.5 million or 31.2% from the same period in the prior year.

Expenses for the six months ended September 30, 2013 were $44.3 million, an increase of $8.3 million or 23.1% from the same period in the prior year. Total compensation expense (incentive compensation plus salaries and benefits) was $5.0 million higher compared to first-half fiscal 2013 and related to higher incentive-based revenue as well as higher headcount. There was also a $2.3 million increase in development costs in connection with new hiring incentives and the CSH Inducement Plan.

Amortization expense increased by $0.8 million as a result of the amortization of intangible assets acquired through the acquisition of the wealth management business of Eden Financial Ltd.

Income before income taxes for the first half of fiscal 2014 was $5.0 million compared to income before income taxes of $1.1 million for the same period a year ago. The higher income was mainly due to higher revenue generated in the first six months of fiscal 2014.

## CORPORATE AND OTHER(1)

| (C$ thousands, except number of employees and % amounts) | Three months ended September 30 2013 | 2012 | Quarter-over-quarter change | Six months ended September 30 2013 | 2012 | YTD-over-YTD change |
|---|---|---|---|---|---|---|
| Revenue | **$ 6,372** | $ 10,003 | (36.3)% | **$ 8,577** | $ 14,897 | (42.4)% |
| Expenses | | | | | | |
| Incentive compensation | **1,135** | 47 | n.m. | **2,052** | (111) | n.m. |
| Salaries and benefits | **6,709** | 7,062 | (5.0)% | **14,102** | 15,193 | (7.2)% |
| Other overhead expenses | **3,015** | 5,051 | (40.3)% | **6,520** | 10,990 | (40.7)% |
| Restructuring costs | **—** | 900 | (100.0)% | **—** | 900 | (100.0)% |
| Total expenses | **10,859** | 13,060 | (16.9)% | **22,674** | 26,972 | (15.9)% |
| Income (loss) before income taxes(2) | **$ 2,408** | $ 8,683 | (72.3)% | **$ 1,542** | $ 12,004 | (87.2)% |
| Number of employees | **320** | 343 | (6.7)% | | | |
| **Excluding significant items(3)** | | | | | | |
| Total expenses | **$ 10,859** | $ 12,160 | (10.7)% | **$ 22,674** | $ 26,072 | (13.0)% |
| Intersegment allocations(2) | **(6,895)** | (11,740) | 41.3% | **(15,639)** | (24,079) | 35.1% |
| Income (loss) before income taxes(2) | **2,408** | 9,583 | (74.9)% | **1,542** | 12,904 | (88.1)% |

(1) Data is in accordance with IFRS except for number of employees.
(2) Income (loss) before income taxes includes intersegment allocations. See the Intersegment Allocated Costs section on page 22.
(3) Refer to the Selected Financial Information Excluding Significant Items table on page 12.
n.m.: not meaningful

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

***Second quarter 2014 vs. second quarter 2013***

Revenue for the three months ended September 30, 2013 was $6.4 million, a decrease of 36.3% or $3.6 million from the same quarter a year ago. The change was mainly related to a decrease in foreign exchange gains recognized in Q2/14 due to the fluctuation of the Canadian dollar and as a result of a reduction in revenue associated with our correspondent brokerage services activity.

Expenses for Q2/14 decreased by $2.2 million or 16.9%, to $10.9 million, mainly due to trading cost recoveries from a change to the basis for recording certain trading, clearing and settlement charges to the Canaccord Genuity and Canaccord Genuity Wealth Management business units in Canada, offset by an increase in general and administrative expense. Overall, income before income taxes was $2.4 million in Q2/14 compared to income before income taxes of $8.7 million in the same quarter a year ago.

***First-half fiscal year 2014 vs. first-half fiscal year 2013***

Revenue decreased by $6.3 million from the first half of fiscal 2013 to $8.6 million in the six months ended September 30, 2013, primarily due to lower foreign exchange gains in first-half fiscal year 2014 and a reduction in correspondent brokerage services revenue.

Expenses for the first half of fiscal 2014 were $22.7 million, a decrease of $4.3 million. The overall decrease in expenses was as a result of the significant decrease in trading costs as a result of the trading cost recoveries discussed above. Incentive compensation expense increased by $2.2 million as a result of higher group profitability. General and administrative expense increased by $2.8 million.

Overall, income before income taxes was $1.5 million compared to $12.0 million for the same period a year ago.

## Intersegment Allocated Costs

Included in the Corporate and Other segment are certain support services, research and other expenses that have been incurred to support the activities within the Canaccord Genuity and Canaccord Genuity Wealth Management segments in Canada. Prior to Q1/14, certain trading, clearing and settlement charges were included as an intersegment allocated cost. Beginning in Q1/14, these costs were classified as a trading cost in the applicable business units and as a trading cost recovery in Corporate and Other. In addition, certain overhead costs are charged by Canaccord Genuity UK and Europe to Canaccord Genuity Wealth Management UK and Europe and included in intersegment allocated costs for these business units.

## Financial Condition

Below are specific changes in selected items on the unaudited interim condensed consolidated statement of financial position as compared to the Audited Annual Consolidated Financial Statements.

### ASSETS

Cash and cash equivalents were $360.2 million on September 30, 2013 compared to $491.0 million on March 31, 2013. Refer to the Liquidity and Capital Resources section on page 23 for more details.

Securities owned were $929.2 million on September 30, 2013, an increase of $4.9 million from $924.3 million on March 31, 2013 due to an increase in corporate and government debt, and equities and convertible debentures owned.

Accounts receivable were $2.3 billion at September 30, 2013 compared to $2.5 billion at March 31, 2013, mainly due to a decrease in receivables from brokers and investment dealers.

Goodwill was $496.5 million and intangible assets were $126.2 million at September 30, 2013, representing the goodwill and intangible assets acquired from the purchases of Genuity Capital Markets, The Balloch Group, CSHP, a 50% interest in Canaccord Genuity (Australia) Limited (formerly Canaccord BGF), the wealth management business of Eden Financial Ltd., and from the acquisition of certain assets of Kenosis Capital Partners. At March 31, 2013, goodwill was $484.7 million and intangible assets were $130.3 million. The decrease in intangible assets is primarily as a result of the related amortization recorded during the six months ended September 30, 2013.

Other assets, consisting of income taxes receivable, deferred tax assets, equipment and leasehold improvements, and investments, were $64.9 million at September 30, 2013 compared to $59.2 million at March 31, 2013. The increase in other assets was mainly attributable to a $5.0 million investment made in Canadian First Financial Holdings Limited (Canadian First), a private company which has been established as a Canadian retail financial services organization, during the six months ended September 30, 2013.

### LIABILITIES

Bank overdrafts and call loan facilities utilized by Canaccord may vary significantly on a day-to-day basis and depend on securities trading activity. At September 30, 2013, Canaccord had available credit facilities with banks in Canada and the UK in the aggregate amount of $716.0 million [March 31, 2013 – $705.5 million]. These credit facilities, consisting of call loans, subordinated debt, letters of credit and daylight overdraft facilities, are collateralized by either unpaid client securities and/or securities owned by the Company. On September 30, 2013, there was bank indebtedness of $83.4 million, compared to $66.1 million on March 31, 2013.

Securities sold short were $718.8 million at September 30, 2013 compared to $689.0 million at March 31, 2013, due mostly to an increase in short positions in both corporate and government debt, and equities and convertible debentures.

Accounts payable, including provisions, were $2.3 billion at September 30, 2013, a decrease from $2.7 billion on March 31, 2013, mainly due to a decrease in payables to clients, brokers and investment dealers.

Other liabilities, including subordinated debt, contingent consideration, income taxes payable and deferred tax liabilities, were $30.8 million at September 30, 2013 compared to $36.2 million at March 31, 2013. This decrease was mainly due to lower income taxes payable.

Non-controlling interests were $12.4 million at September 30, 2013 compared to $16.2 million on March 31, 2013, which represents 50% of the net assets of our operations in Australia.

## Off-balance Sheet Arrangements

A subsidiary of the Company has entered into irrevocable secured standby letters of credit from a financial institution totalling $3.3 million (US$3.2 million) [March 31, 2013 – $3.3 million (US$3.2 million)] as rent guarantees for its leased premises in Boston and New York.

## Liquidity and Capital Resources

Canaccord has a capital structure comprised of preferred shares, common shares, contributed surplus, retained earnings and accumulated other comprehensive income. On September 30, 2013, cash and cash equivalents were $360.2 million, a decrease of $130.8 million from $491.0 million as of March 31, 2013. During the six months ended September 30, 2013, financing activities used cash in the amount of $15.4 million, mainly due to dividends paid, purchases of common shares for the long-term incentive plan (LTIP) as well as shares repurchased for cancellation, which were offset by an increase in bank indebtedness. Investing activities used cash in the amount of $11.2 million, mainly for the purchase of equipment and leasehold improvements and for the investment in Canadian First. Operating activities used cash in the amount of $110.0 million, which was largely due to a decrease in accounts payable, accrued liabilities and provisions, offset by a decrease in accounts receivable. An increase in cash of $5.7 million was attributable to the effect of foreign exchange translation on cash balances. In total, there was a decrease in net cash of $130.8 million compared to March 31, 2013.

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

In the normal course of business, the Company enters into contracts that give rise to commitments of future minimum payments that affect its liquidity.

The following table summarizes Canaccord's long term contractual obligations on September 30, 2013:

| | | Contractual obligations payments due by period | | | |
|---|---|---|---|---|---|
| (C$ thousands) | Total | Fiscal 2015 | Fiscal 2016– Fiscal 2017 | Fiscal 2018– Fiscal 2019 | Thereafter |
| Premises and equipment operating leases | $ 204,181 | $ 32,510 | $ 58,869 | $ 41,164 | $ 71,638 |

## Outstanding Share Data

| | Outstanding shares as of September 30 | |
|---|---|---|
| | **2013** | 2012 |
| **Preferred shares** | | |
| Series A – issued shares outstanding | **4,540,000** | 4,540,000 |
| Series C – issued shares outstanding | **4,000,000** | 4,000,000 |
| **Common shares** | | |
| Issued shares excluding unvested shares(1) | **93,951,272** | 93,991,129 |
| Issued shares outstanding(2) | **102,519,742** | 102,381,448 |
| Issued shares outstanding – diluted(3) | **109,603,592** | 108,789,119 |
| Average shares outstanding – basic | **94,622,479** | 93,963,447 |
| Average shares outstanding – diluted | **103,363,909** | 102,096,163 |

(1) Excludes 3,802,285 outstanding unvested shares related to share purchase loans for recruitment and retention programs, 4,708,485 unvested shares purchased by an employee benefit trust for the LTIP and 57,700 shares held in treasury purchased through the NCIB to be cancelled.
(2) Includes 3,802,285 outstanding unvested shares related to share purchase loans for recruitment and retention programs, 4,708,485 unvested shares purchased by an employee benefit trust for the LTIP and 57,700 shares held in treasury purchased through the NCIB to be cancelled.
(3) Includes 8,880,697 share issuance commitments adjusted for estimated forfeitures and excludes 57,700 shares held in treasury purchased through the NCIB to be cancelled.

In August 2012, the Company filed a renewal notice for a normal course issuer bid (NCIB) to provide for the ability to purchase, at the Company's discretion, up to 3,000,000 of its common shares through the facilities of the TSX from August 13, 2012 to August 12, 2013. The purpose of the purchase of common shares under the NCIB is to enable the Company to acquire shares for cancellation. There were 924,040 shares repurchased through the NCIB between August 13, 2012 and August 12, 2013, and cancelled.

On August 6, 2013, the Company filed a notice for the renewal of its NCIB to provide for the ability to purchase, at the Company's discretion, up to a maximum of 5,136,948 common shares through the facilities of the TSX during the period from August 13, 2013 to August 12, 2014. The purpose of any purchases under the NCIB program is to enable the Company to acquire shares for cancellation. The maximum number of shares that may be purchased under the current NCIB represents 5.0% of the Company's outstanding common shares. There were 437,456 shares repurchased through the NCIB between August 13, 2013 and September 30, 2013, of which 379,756 shares have been cancelled and 57,700 shares are held in treasury to be cancelled.

The Company has also entered into a predefined plan with a designated broker to allow for the repurchase of its common shares under this NCIB. The Company's broker may repurchase the common shares under the plan on any trading day during the NCIB, including at any time during the Company's internal trading blackout periods. The plan has been reviewed by the Toronto Stock Exchange and will terminate on the earlier of the termination of the plan by the Company in accordance with its terms and the expiry of the bid.

Purchases under the current NCIB commenced on August 13, 2013, and will continue for one year (to August 12, 2014) at the discretion of the Company. The maximum consideration will be the market price of the securities at the time of acquisition. In order to comply with the trading rules of the TSX and the conditions for trading under the EU Buy-back and Stabilisation Regulation, the daily purchases are limited to 26,456 common shares of the Company (which is the lesser of (a) 25% of the average daily trading volume of common shares of the Company on the TSX in the six calendar months from February 2013 to July 2013 and (b) 25% of the average daily trading volume of common shares of the Company on the TSX in the month of July 2013). To fulfill its regulatory reporting requirements in Canada and in the UK, Canaccord will issue a press release no later than the end of the seventh daily market session following the date of execution of the purchases.

As of November 5, 2013, the Company has 102,081,474 common shares issued and outstanding.

## Share-based Payment Plans

There have been no updates to the share-based payment plans discussed in the 2013 Annual Report.

## International Financial Centre

Canaccord is a member of the AdvantageBC International Business Centre Society (formerly known as the International Financial Centre British Columbia Society) and the Montréal International Financial Centre, both of which provide certain tax and financial benefits pursuant to the *International Business Activity Act* of British Columbia and the *Act Respecting International Financial Centres* of Québec. Accordingly, Canaccord's overall income tax rate is less than the rate that would otherwise be applicable.

## Financial Instruments

### 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 period. On September 30, 2013, forward contracts outstanding to sell US dollars had a notional amount of US$6.5 million, an increase of $1.7 million from a year ago. Forward contracts outstanding to buy US dollars increased $10.3 million from a year ago with a notional amount of US$22.8 million. The fair value of these contracts was nominal. Some of Canaccord's operations in the US, the UK and Europe, Australia, Singapore, Hong Kong and China are conducted in the local currency; however, any foreign exchange risk in respect of these transactions is generally limited as pending settlements on both sides of the transaction are typically in the local currency.

The Company's Canadian operations also have a net sell position for pounds sterling (GBP) of £3.0 million with an average price of 1.586 (CAD/GBP) and a maturity date of October 15, 2013, to hedge foreign exchange risk on pending security settlements in foreign currencies. The fair value of these contracts is nominal due to their short term to maturity.

The Company's Canaccord Genuity Wealth Management segment in the UK and Europe trades foreign exchange forward contracts on behalf of its clients, and establishes matching contracts with the counterparties. The Company has no net exposure assuming no counterparty default.

### FUTURES

The Company's Canadian operations are involved in trading bond futures contracts, which are agreements to buy or sell a standardized amount of an underlying Government of Canada bond, at a predetermined future date and price, in accordance with terms specified by a regulated futures exchange, and are subject to daily cash margining. The Company's Canadian operations trade in bond futures in an attempt to mitigate interest rate risk, yield curve risk and liquidity risk. At September 30, 2013, the notional amount of the bond futures contracts outstanding was $0.5 million [March 31, 2013 – nil].

Beginning in the second quarter of fiscal 2014, the Company's Canadian operations began trading US Treasury futures. The Company's Canadian operations trade in US Treasury futures in an attempt to mitigate interest rate risk, yield curve risk and liquidity risk. At September 30, 2013, the notional amount of the US Treasury futures contracts outstanding held by the Company was $5.9 million (US$5.7 million) [March 31, 2013 – nil].

The Company's UK operation also trades equity index futures, which are agreements to buy or sell a standardized amount of an underlying equity index, at a predetermined future date and price, and are subject to daily cash margining. The Company's UK operation trades in equity index futures in an attempt to mitigate the price risk of its inventory position. At September 30, 2013, the equity index futures outstanding have a notional amount of $3.5 million (£2.1 million) [March 31, 2013 – nil].

The fair value of all of the above futures contracts is nominal due to their short term to maturity. Realized and unrealized gains and losses related to these contracts are recognized in net income (loss) during the reporting period.

## Investments

During the six months ended September 30, 2013, the Company invested $5.0 million in Canadian First Financial Holdings Limited, a private company which has been established as a Canadian retail financial services organization.

## Business Combination

On July 25, 2013, the Company acquired the remaining 50% ownership of Canaccord Genuity (Hong Kong) Limited (CGHKL) for cash consideration of $0.7 million to now own 100% of CGHKL. The fair value of the net assets acquired approximates the cash consideration. The Company previously held a 50% beneficial interest in CGHKL through its ownership of Canaccord Financial Group (Australia) Pty Ltd. CGHKL is licensed with the Securities and Futures Commission in Hong Kong.

## Related Party Transactions

The Company's related parties include the following persons and/or entities: (a) entities that are controlled or significantly influenced by the Company, and (b) key management personnel, who are comprised of the directors of the Company, as well as executives involved in strategic decision-making for the Company.

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.

The Company offers various share-based payment plans to its key management personnel, including common share purchase loans, a long-term incentive plan, the CSH Inducement Plan and share options. Directors have also been granted share options and have the right to acquire deferred share units (DSUs). Please see Note 18 of the March 31, 2013 Audited Annual Consolidated Financial Statements for further information on the compensation of and transactions with key management personnel. Note 15 of the unaudited interim condensed consolidated financial statements for the quarter ended September 30, 2013 provides information on the accounts payable and accrued liabilities balance with key management personnel.

## Critical Accounting Policies and Estimates

The unaudited interim condensed consolidated financial statements for the quarter ended September 30, 2013 have been prepared in accordance with International Accounting Standard 34, "*Interim Financial Reporting*" (IAS 34), as issued by the International Accounting Standards Board (IASB).

The preparation of the unaudited interim condensed consolidated financial statements in conformity with IAS 34 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Therefore, actual results may differ from those estimates and assumptions. Accounts which require significant estimates to be made include share-based payments, income taxes, deferred tax assets associated with tax losses available for carryforward, goodwill, indefinite life intangible assets and other long-lived assets, allowance for credit losses, fair value of financial instruments, provisions and contingent liabilities.

In particular, the assessment for impairment of goodwill and identifiable indefinite life intangible assets requires the use of management's best estimates in order to determine fair values using discounted cash flow projections that employ the following key assumptions: future cash flows, growth projections and discount rates. Due to continuing economic uncertainties, interim impairment tests were performed for goodwill and indefinite life intangible assets for all applicable cash-generating units as of September 30, 2013.

Refer to Note 9 of the unaudited interim condensed consolidated financial statements for the quarter ended September 30, 2013 for further information regarding the key assumptions used in connection with the September 30, 2013 interim impairment tests of goodwill and indefinite life intangible assets.

With the exception of the "Changes in Accounting Policies" discussed below, significant accounting policies used and policies requiring management's judgment and estimates have not changed during the second quarter of fiscal 2014 and are discussed under "Critical Accounting Policies and Estimates" in our 2013 Annual Report.

## Changes in Accounting Policies

There were no significant changes in the accounting policies discussed in Note 4 of the March 31, 2013 consolidated financial statements, during the six months ended September 30, 2013, except for the following new standards, which were adopted and effective as of April 1, 2013:

### IFRS 10 – "*CONSOLIDATED FINANCIAL STATEMENTS*" (IFRS 10)

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing International Accounting Standards (IAS) 27, "*Consolidated and Separate Financial Statements*", that dealt with consolidated financial statements and SIC-12, "*Consolidation – Special Purpose Entities*". IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This replaced the previous approach, which emphasized legal control or exposure to risks and rewards, depending on the nature of the entity. The adoption of IFRS 10 had no impact on the entities that are consolidated by the Company.

### IFRS 12 – "*DISCLOSURE OF INTERESTS IN OTHER ENTITIES*" (IFRS 12)

IFRS 12 includes the disclosure requirements for subsidiaries and associates and introduces new requirements for unconsolidated structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they be provided. Accordingly, the Company has not made such disclosures. Additional disclosures may be required for the annual consolidated financial statements for the year ending March 31, 2014.

### IFRS 13 – "*FAIR VALUE MEASUREMENTS*" (IFRS 13)

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The prospective application of IFRS 13 has not materially impacted the fair value measurements carried out by the Company.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7, "*Financial Instruments: Disclosures*". Some of these disclosures are specifically required for financial instruments by IAS 34, thereby affecting the interim condensed consolidated financial statements.

### IAS 1 – "*PRESENTATION OF FINANCIAL STATEMENTS*" (IAS 1)

Amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time are to be presented separately from items that will never be reclassified. There were no presentation changes to items within OCI and net income or loss as a result of the adoption of these amendments to IAS 1. All amounts currently recorded in OCI will be reclassified to profit or loss in subsequent periods.

### IAS 19R – "*EMPLOYEE BENEFITS*" (IAS 19R)

Amendments to IAS 19R contain a number of changes to the accounting for employment benefit plans, including recognition and disclosure of defined benefit pension plans and clarification on the recognition of post-employment and termination benefits. The amendments did not have an impact on the Company's consolidated financial statements.

## Future Changes in Accounting Policies and Estimates

There have been no updates to the "Future Changes in Accounting Policies and Estimates" disclosed in our 2013 Annual Report, during the six months ended September 30, 2013. The Company is currently evaluating the impact these developments will have on its consolidated financial statements and assessing whether to early adopt any of the new requirements.

## Disclosure Controls and Procedures and Internal Control over Financial Reporting

### DISCLOSURE CONTROLS AND PROCEDURES

Based on an evaluation performed as of March 31, 2013, the President & CEO and the Executive Vice President & CFO concluded that the design and operation of our disclosure controls and procedures were effective as defined under *National Instrument 52-109*. During the six months ended September 30, 2013, there were no changes that would have materially affected, or are reasonably likely to materially affect, Canaccord's disclosure controls and procedures.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

An evaluation of the Company's internal control over financial reporting was performed as of March 31, 2013. Based on this evaluation, the President & CEO and the Executive Vice President & CFO concluded that Canaccord's internal control over financial reporting is designed and operating effectively as defined under *National Instrument 52-109* and that there are no material weaknesses. There were no changes in internal control over financial reporting that occurred during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, Canaccord's internal control over financial reporting.

## Dividend Policy

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

## Dividend Declaration

On November 6, 2013, the Board of Directors approved the following cash dividends: $0.05 per common share payable on December 10, 2013 to common shareholders with a record date of November 22, 2013; $0.34375 per Series A Preferred Share payable on December 31, 2013 with a record date of December 20, 2013; and $0.359375 per Series C Preferred Share payable on December 31, 2013 with a record date of December 20, 2013.

## 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 designed to provide service and coverage in the current market environment.

The following table provides selected quarterly financial information for the eight most recently completed financial quarters ended on or before September 30, 2013. 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 indications of future performance.

| (C$ thousands, except per share amounts) | Fiscal 2014 | | Fiscal 2013 | | | | Fiscal 2012 | |
|---|---|---|---|---|---|---|---|---|
| | **Q2** | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Revenue | | | | | | | | |
| Canaccord Genuity | **$ 126,691** | $ 131,206 | $ 153,997 | $ 165,625 | $ 120,110 | $ 101,301 | $ 113,067 | $ 93,581 |
| Canaccord Genuity Wealth Management | **50,243** | 53,820 | 58,929 | 59,843 | 56,486 | 56,354 | 54,524 | 44,571 |
| Corporate and Other | **6,372** | 2,205 | 5,045 | 4,535 | 10,003 | 4,894 | 10,101 | 9,737 |
| Total revenue | **$ 183,306** | $ 187,231 | $ 217,971 | $ 230,003 | $ 186,599 | $ 162,549 | $ 177,692 | $ 147,889 |
| Net (loss) income | **(80)** | 7,883 | 6,424 | 10,264 | (14,841) | (20,622) | (31,794) | 2,531 |
| (Loss) earnings per common share – basic | **$ (0.03)** | $ 0.06 | $ 0.04 | $ 0.09 | $ (0.19) | $ (0.24) | $ (0.42) | $ 0.02 |
| (Loss) earnings per common share – diluted | **$ (0.03)** | $ 0.06 | $ 0.04 | $ 0.08 | $ (0.19) | $ (0.24) | $ (0.42) | $ 0.01 |

## Risks

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

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

The financial services business is subject to extensive regulation in Canada, the US, the UK and Europe, Singapore, Hong Kong, Australia and elsewhere. Compliance with many of the regulations applicable to Canaccord involves a number of risks, particularly in areas where applicable regulations may be subject to interpretation and change. Changing regulations and interpretations could have a significant impact on Canaccord's business and profitability. The Company has a capital management framework to maintain the level of capital that will meet the Company's regulated subsidiaries' target ratios as set out by the respective regulators, to fund current and future operations, to ensure that the firm is able to meet its financial obligations as they come due, and to support the creation of shareholder value. The regulatory bodies that govern the Company's subsidiaries' use of regulatory capital are listed in Note 20 of Canaccord's 2013 Audited Annual Consolidated Financial Statements.

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

## Additional Information

A comprehensive discussion of Canaccord's business, strategies, objectives and risks is available in our Annual Information Form and in the Management's Discussion and Analysis and Audited Annual Consolidated Financial Statements included in our 2013 Annual Report, which are available on our website at www.canaccordgenuitygroup.com/EN/IR/FinReports/Pages/default.aspx and on SEDAR at www.sedar.com.

# Unaudited Interim Condensed Consolidated Statements of Financial Position

| As at (in thousands of Canadian dollars) | Notes | September 30, 2013 | March 31, 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash and cash equivalents | | $ 360,172 | $ 491,012 |
| Securities owned | 4 | 929,247 | 924,337 |
| Accounts receivable | 6 | 2,268,642 | 2,513,958 |
| Income taxes receivable | | 3,405 | — |
| **Total current assets** | | 3,561,466 | 3,929,307 |
| Deferred tax assets | | 10,877 | 12,552 |
| Investments | 7 | 9,267 | 3,695 |
| Equipment and leasehold improvements | | 41,306 | 42,979 |
| Intangible assets | 9 | 126,240 | 130,283 |
| Goodwill | 9 | 496,526 | 484,686 |
| | | $ 4,245,682 | $ 4,603,502 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current** | | | |
| Bank indebtedness | | $ 83,430 | $ 66,138 |
| Securities sold short | 4 | 718,815 | 689,020 |
| Accounts payable and accrued liabilities | 6 | 2,302,602 | 2,726,735 |
| Provisions | 17 | 15,066 | 20,055 |
| Income taxes payable | | — | 4,428 |
| Contingent consideration | | 14,288 | 14,218 |
| Subordinated debt | | 15,000 | 15,000 |
| **Total current liabilities** | | 3,149,201 | 3,535,594 |
| Deferred tax liabilities | | 1,493 | 2,576 |
| | | 3,150,694 | 3,538,170 |
| **Shareholders' equity** | | | |
| Preferred shares | 11 | 205,641 | 205,641 |
| Common shares | 12 | 651,874 | 638,456 |
| Contributed surplus | | 76,840 | 85,981 |
| Retained earnings | | 118,386 | 126,203 |
| Accumulated other comprehensive income (loss) | | 29,872 | (7,118) |
| **Total shareholders' equity** | | 1,082,613 | 1,049,163 |
| Non-controlling interests | | 12,375 | 16,169 |
| **Total equity** | | 1,094,988 | 1,065,332 |
| | | $ 4,245,682 | $ 4,603,502 |

See accompanying notes

On behalf of the Board:

**PAUL D. REYNOLDS**
Director

**TERRENCE A. LYONS**
Director

# Unaudited Interim Condensed Consolidated Statements of Operations

| (in thousands of Canadian dollars, except per share amounts) | Notes | For the three months ended September 30, 2013 | For the three months ended September 30, 2012 | For the six months ended September 30, 2013 | For the six months ended September 30, 2012 |
|---|---|---|---|---|---|
| **REVENUE** | | | | | |
| Commissions and fees | | $ 81,832 | $ 87,525 | $ 171,867 | $ 176,272 |
| Investment banking | | 40,283 | 37,961 | 72,116 | 66,622 |
| Advisory fees | | 29,894 | 28,571 | 65,799 | 54,197 |
| Principal trading | | 18,883 | 17,109 | 38,423 | 24,956 |
| Interest | | 6,132 | 6,758 | 12,937 | 15,150 |
| Other | | 6,282 | 8,675 | 9,395 | 11,951 |
| | | 183,306 | 186,599 | 370,537 | 349,148 |
| **EXPENSES** | | | | | |
| Incentive compensation | | 87,511 | 94,514 | 173,836 | 179,290 |
| Salaries and benefits | | 21,506 | 21,417 | 44,616 | 44,615 |
| Trading costs | | 10,336 | 10,189 | 22,303 | 22,776 |
| Premises and equipment | | 9,823 | 10,842 | 19,158 | 21,696 |
| Communication and technology | | 11,406 | 11,280 | 21,930 | 25,585 |
| Interest | | 4,063 | 3,291 | 8,706 | 7,842 |
| General and administrative | | 20,440 | 20,957 | 41,263 | 44,973 |
| Amortization | | 6,020 | 7,755 | 12,581 | 15,891 |
| Development costs | | 7,671 | 4,515 | 12,501 | 9,140 |
| Restructuring costs | | 5,486 | 18,862 | 5,486 | 18,862 |
| Acquisition-related costs | | — | 1,288 | — | 1,288 |
| | | 184,262 | 204,910 | 362,380 | 391,958 |
| (Loss) income before income taxes | | (956) | (18,311) | 8,157 | (42,810) |
| Income taxes (recovery) | | | | | |
| Current | 10 | 607 | (21) | (1,572) | (2,297) |
| Deferred | 10 | (1,483) | (3,449) | 1,926 | (5,050) |
| | | (876) | (3,470) | 354 | (7,347) |
| **Net (loss) income for the period** | | $ (80) | $ (14,841) | $ 7,803 | $ (35,463) |
| **Net (loss) income attributable to:** | | | | | |
| CGGI shareholders | | $ (383) | $ (14,562) | $ 8,358 | $ (34,529) |
| Non-controlling interests | | $ 303 | $ (279) | $ (555) | $ (934) |
| **Weighted average number of common shares outstanding (thousands)** | | | | | |
| Basic | | 94,486 | 93,716 | 94,622 | 93,963 |
| Diluted | | 103,387 | 102,235 | 103,364 | 102,096 |
| **Net (loss) income per common share** | | | | | |
| Basic | 12iii | $ (0.03) | $ (0.19) | $ 0.03 | $ (0.43) |
| Diluted | 12iii | $ (0.03) | $ (0.19) | $ 0.02 | $ (0.43) |
| **Dividend per common share** | 13 | $ 0.05 | $ 0.05 | $ 0.10 | $ 0.10 |
| **Dividend per Series A Preferred Share** | 13 | $ 0.34 | $ 0.34 | $ 0.69 | $ 0.69 |
| **Dividend per Series C Preferred Share** | 13 | $ 0.36 | $ 0.36 | $ 0.72 | $ 0.72 |

See accompanying notes

# Unaudited Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

| (in thousands of Canadian dollars) | For the three months ended September 30, 2013 | For the three months ended September 30, 2012 | For the six months ended September 30, 2013 | For the six months ended September 30, 2012 |
|---|---|---|---|---|
| **Net (loss) income for the period** | **$ (80)** | $ (14,841) | **$ 7,803** | $ (35,463) |
| **Other comprehensive income (loss)** | | | | |
| Transfer of net realized gain on disposal of available for sale asset (net of tax: $234) | **—** | (700) | **—** | (700) |
| Net change in unrealized gains (losses) on translation of foreign operations | **18,026** | (8,382) | **35,573** | (5,625) |
| **Comprehensive income (loss) for the period** | **$ 17,946** | $ (23,923) | **$ 43,376** | $ (41,788) |
| **Comprehensive income (loss) attributable to:** | | | | |
| CGGI shareholders | **$ 17,637** | $ (23,524) | **$ 45,348** | $ (40,704) |
| Non-controlling interests | **$ 309** | $ (399) | **$ (1,972)** | $ (1,084) |

See accompanying notes

# Unaudited Interim Condensed Consolidated Statements of Changes in Equity

| For the six months ended (in thousands of Canadian dollars) | Notes | September 30, 2013 | September 30, 2012 |
|---|---|---|---|
| Preferred shares, opening | | $ 205,641 | $ 110,818 |
| Shares issued, net of share issuance costs | 11 | — | 97,450 |
| Shares held in treasury | 11 | — | (2,627) |
| **Preferred shares, closing** | | 205,641 | 205,641 |
| Common shares, opening | | 638,456 | 623,739 |
| Shares issued in connection with share-based payments | | 10,606 | 7,278 |
| Acquisition of common shares for long-term incentive plan | | (8,086) | (14,872) |
| Release of vested common shares from employee benefit trust | | 14,414 | 12,450 |
| Cancellation of shares in connection with the acquisition of Genuity Capital Markets | | (1,882) | — |
| Shares purchased in treasury for cancellation through normal course issuer bid (NCIB) | | (9,525) | — |
| Net unvested share purchase loans | | 7,891 | 8,995 |
| **Common shares, closing** | | 651,874 | 637,590 |
| Contributed surplus, opening | | 85,981 | 68,336 |
| Share-based payments | | (6,067) | 1,692 |
| Cancellation of shares in connection with the acquisition of Genuity Capital Markets | | 1,882 | — |
| Shares purchased in treasury for cancellation through NCIB | | 1,072 | — |
| Unvested share purchase loans | | (6,028) | (6,736) |
| **Contributed surplus, closing** | | 76,840 | 63,292 |
| Retained earnings, opening | | 126,203 | 180,748 |
| Net income (loss) attributable to CGGI shareholders | | 8,358 | (34,529) |
| Preferred shares dividends | 13 | (5,881) | (5,835) |
| Common shares dividends | 13 | (10,294) | (15,374) |
| **Retained earnings, closing** | | 118,386 | 125,010 |
| Accumulated other comprehensive (loss) income, opening | | (7,118) | 8,484 |
| Other comprehensive income (loss) attributable to CGGI shareholders | | 36,990 | (6,175) |
| **Accumulated other comprehensive income, closing** | | 29,872 | 2,309 |
| **Total shareholders' equity** | | 1,082,613 | 1,033,842 |
| Non-controlling interests, opening | | 16,169 | 17,454 |
| Foreign exchange on non-controlling interests | | (1,822) | (323) |
| Comprehensive loss attributable to non-controlling interests | | (1,972) | (1,084) |
| **Non-controlling interests, closing** | | 12,375 | 16,047 |
| **Total equity** | | $ 1,094,988 | $ 1,049,889 |

See accompanying notes

# Unaudited Interim Condensed Consolidated Statements of Cash Flows

| For the six months ended (in thousands of Canadian dollars) | Notes | September 30, 2013 | September 30, 2012 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income (loss) for the period | | $ 7,803 | $ (35,463) |
| Items not affecting cash | | | |
| Amortization | | 12,581 | 15,891 |
| Deferred income tax expense (recovery) | | 1,926 | (5,050) |
| Share-based compensation expense | 14 | 29,259 | 29,299 |
| Changes in non-cash working capital | | | |
| Decrease in securities owned | | 3,160 | 80,930 |
| Decrease in accounts receivable | | 258,632 | 344,393 |
| Increase in income taxes receivable | | (12,602) | (7,095) |
| Increase (decrease) in securities sold short | | 25,560 | (66,047) |
| Decrease in accounts payable, accrued liabilities and provisions | | (436,265) | (449,425) |
| **Cash used by operating activities** | | (109,946) | (92,567) |
| **FINANCING ACTIVITIES** | | | |
| Bank indebtedness | | 17,292 | (45,667) |
| Acquisition of common shares for long-term incentive plan | | (8,086) | (14,872) |
| Purchase of shares for cancellation | | (8,453) | — |
| Cash dividends paid on common shares | | (10,294) | (14,520) |
| Cash dividends paid on preferred shares | | (5,881) | (2,837) |
| Repayment of short term credit facility | | — | (150,000) |
| Issuance of preferred shares, net of share issuance costs | | — | 94,823 |
| Decrease in net vesting of share purchase loans | | — | (12,563) |
| **Cash used by financing activities** | | (15,422) | (145,636) |
| **INVESTING ACTIVITIES** | | | |
| Investment in Canaccord Genuity (Hong Kong) Limited | 8 | (699) | — |
| Investment in Canadian First Financial Holdings Limited (Canadian First) | 7 | (5,000) | — |
| Purchase of equipment and leasehold improvements | | (5,517) | (1,486) |
| **Cash used in investing activities** | | (11,216) | (1,486) |
| **Effect of foreign exchange on cash balances** | | 5,744 | 818 |
| **Decrease in cash position** | | (130,840) | (238,871) |
| Cash position, beginning of period | | 491,012 | 814,238 |
| **Cash position, end of period** | | $ 360,172 | $ 575,367 |
| **Supplemental cash flow information** | | | |
| Interest received | | $ 12,636 | $ 18,870 |
| Interest paid | | $ 8,036 | $ 7,146 |
| Income taxes paid | | $ 6,732 | $ 6,368 |

See accompanying notes

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

*(in thousands of Canadian dollars, except per share amounts)*

## NOTE 01 Corporate Information

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

Canaccord Genuity Group Inc. was incorporated on February 14, 1997 by the filing of a memorandum and articles with the Registrar of Companies for British Columbia under the *Company Act* (British Columbia) and continues in existence under the *Business Corporations Act* (British Columbia). The Company's head office is located at Suite 2200 – 609 Granville Street, Vancouver, British Columbia, V7Y 1H2. The Company's registered office is located at Suite 1000 – 840 Howe Street, Vancouver, British Columbia, V6Z 2M1. On October 1, 2013, Canaccord Financial Inc. was renamed Canaccord Genuity Group Inc.

The Company's common shares are publicly traded under the symbol CF on the TSX and the symbol CF. on the main market of the London Stock Exchange. The Company's Series A Preferred Shares are listed on the TSX under the symbol CF.PR.A. The Company's Series C Preferred Shares are listed on the TSX under the symbol CF.PR.C.

The Company's business is cyclical and experiences considerable variations in revenue and income from quarter to quarter and year to year due to factors beyond the Company's control. More specifically, the Company's business is affected by the overall condition of the worldwide equity and debt markets.

## NOTE 02 Basis of Preparation

### STATEMENT OF COMPLIANCE

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "*Interim Financial Reporting*" (IAS 34), as issued by the International Accounting Standards Board (IASB).

These unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Company's audited annual consolidated financial statements as at and for the year ended March 31, 2013 (March 31, 2013 consolidated financial statements) filed on SEDAR on May 21, 2013. All defined terms used herein are consistent with those terms defined in the March 31, 2013 consolidated financial statements.

The unaudited interim condensed consolidated financial statements have been prepared on an accrual basis and are based on the historical cost basis except for investments, securities owned and sold short, and contingent consideration, which have been measured at fair value as set out in the relevant accounting policies.

The unaudited interim condensed consolidated financial statements are presented in thousands of Canadian dollars, except when otherwise indicated.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Company's Board of Directors on November 6, 2013.

### USE OF ESTIMATES AND ASSUMPTIONS

The preparation of the unaudited interim condensed consolidated financial statements in conformity with IAS 34 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date. Accounts which require significant estimates to be made include share-based payments, income taxes, deferred tax assets associated with tax losses available for carryforward, goodwill, indefinite life intangible assets and other long-lived assets, allowance for credit losses, fair value of financial instruments, contingent consideration and provisions, which are more fully described in Note 2 of the March 31, 2013 consolidated financial statements.

### FUTURE ACCOUNTING DEVELOPMENTS

There have been no further updates to the future accounting developments disclosed in Note 3 of the March 31, 2013 consolidated financial statements, during the six months ended September 30, 2013, except for the adoption of certain standards as noted in the following note disclosure.

## NOTE 03 Summary of Significant Accounting Policies

There were no significant changes in the accounting policies discussed in Note 4 of the March 31, 2013 consolidated financial statements, during the six months ended September 30, 2013, except for the following new standards, which were adopted and effective as of April 1, 2013:

### IFRS 10 – "*CONSOLIDATED FINANCIAL STATEMENTS*" (IFRS 10)

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing International Accounting Standards (IAS) 27, "*Consolidated and Separate Financial Statements*" that dealt with consolidated financial statements and SIC-12, "*Consolidation – Special Purpose Entities*". IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This replaced the previous approach, which emphasized legal control or exposure to risks and rewards, depending on the nature of the entity. The adoption of IFRS 10 had no impact on the entities that are consolidated by the Company.

### IFRS 12 – "*DISCLOSURE OF INTERESTS IN OTHER ENTITIES*" (IFRS 12)

IFRS 12 includes the disclosure requirements for subsidiaries and associates and introduces new requirements for unconsolidated structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they be provided. Accordingly, the Company has not made such disclosures. Additional disclosures may be required for the annual consolidated financial statements for the year ending March 31, 2014.

### IFRS 13 – "*FAIR VALUE MEASUREMENTS*" (IFRS 13)

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The prospective application of IFRS 13 has not materially impacted the fair value measurements carried out by the Company.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7, "*Financial Instruments: Disclosures*". Some of these disclosures are specifically required for financial instruments by IAS 34, thereby affecting the interim condensed consolidated financial statements. The Company provides these disclosures in Note 5.

### IAS 1 – "*PRESENTATION OF FINANCIAL STATEMENTS*" (IAS 1)

Amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time are to be presented separately from items that will never be reclassified. There were no presentation changes to items within OCI and net income or loss as a result of the adoption of these amendments to IAS 1. All amounts currently recorded in OCI will be reclassified to profit or loss in subsequent periods.

### IAS 19R – "*EMPLOYEE BENEFITS*" (IAS 19R)

Amendments to IAS 19R contain a number of changes to the accounting for employment benefit plans including recognition and disclosure of defined benefit pension plans and clarification on the recognition of post-employment and termination benefits. The amendments did not have an impact on the Company's consolidated financial statements.

## NOTE 04 Securities Owned and Securities Sold Short

| | September 30, 2013 | | March 31, 2013 | |
|---|---|---|---|---|
| | Securities owned | Securities sold short | Securities owned | Securities sold short |
| Corporate and government debt | $ 754,484 | $ 638,446 | $ 753,256 | $ 617,841 |
| Equities and convertible debentures | 174,763 | 80,369 | 171,081 | 71,179 |
| | $ 929,247 | $ 718,815 | $ 924,337 | $ 689,020 |

As at September 30, 2013, corporate and government debt maturities range from 2013 to 2097 [March 31, 2013 – 2013 to 2097] and bear interest ranging from 0.0% to 15.0% [March 31, 2013 – 0.0% to 15.0%].

## NOTE 05 Financial Instruments

The categories of financial instruments, other than cash and cash equivalents and bank indebtedness, held by the Company at September 30, 2013 are as follows:

| | Held for trading | Designated at fair value | Available for sale | Loans and receivables | Other liabilities | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Securities owned | $ 929,247 | $ — | $ — | $ — | $ — | $ 929,247 |
| Accounts receivable from brokers and investment dealers | — | — | — | 1,607,178 | — | 1,607,178 |
| Accounts receivable from clients | — | — | — | 304,138 | — | 304,138 |
| RRSP cash balances held in trust | — | — | — | 285,518 | — | 285,518 |
| Other accounts receivable | — | — | — | 71,808 | — | 71,808 |
| Investments | — | — | 9,267 | — | — | 9,267 |
| **Total financial assets** | 929,247 | — | 9,267 | 2,268,642 | — | 3,207,156 |
| **Financial liabilities** | | | | | | |
| Securities sold short | 718,815 | — | — | — | — | 718,815 |
| Accounts payable to brokers and investment dealers | — | — | — | — | 1,298,317 | 1,298,317 |
| Accounts payable to clients | — | — | — | — | 877,672 | 877,672 |
| Other accounts payable and accrued liabilities | — | — | — | — | 126,613 | 126,613 |
| Provisions | — | — | — | — | 15,066 | 15,066 |
| Contingent consideration | — | — | — | — | 14,288 | 14,288 |
| Subordinated debt | — | — | — | — | 15,000 | 15,000 |
| **Total financial liabilities** | 718,815 | — | — | — | 2,346,956 | 3,065,771 |

### FAIR VALUE HIERARCHY

All financial instruments for which fair value is recognized or disclosed are categorized within a fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities

Level 2 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)

Level 3 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

For financial instruments that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

As at September 30, 2013, the Company held the following classes of financial instruments measured at fair value:

| | | Estimated fair value | | |
|---|---|---|---|---|
| | | September 30, 2013 | | |
| | **September 30, 2013** | **Level 1** | **Level 2** | **Level 3** |
| Securities owned | | | | |
| Corporate and government debt | $ 754,484 | $ 246,751 | $ 507,733 | $ — |
| Equities and convertible debentures | 174,763 | 153,565 | 9,796 | 11,402 |
| Securities sold short | | | | |
| Corporate and government debt | (638,446) | (206,509) | (431,937) | — |
| Equities and convertible debentures | (80,369) | (79,527) | (842) | — |
| Investments | 9,267 | — | — | 9,267 |
| Contingent consideration[(1)] | (14,288) | — | — | (14,288) |

(1) Contingent consideration is settled in cash and is therefore classified as a financial liability measured at fair value, with any subsequent gains or losses recognized in earnings.

As at March 31, 2013, the Company held the following classes of financial instruments measured at fair value:

| | | Estimated fair value | | |
|---|---|---|---|---|
| | March 31, 2013 | Level 1 | March 31, 2013 Level 2 | Level 3 |
| Securities owned | | | | |
| Corporate and government debt | $ 753,256 | $ 258,188 | $ 495,068 | $ — |
| Equities and convertible debentures | 171,081 | 141,062 | 14,759 | 15,260 |
| Securities sold short | | | | |
| Corporate and government debt | (617,841) | (221,125) | (396,716) | — |
| Equities and convertible debentures | (71,179) | (70,651) | (528) | — |
| Investments | 3,695 | — | — | 3,695 |
| Contingent consideration[1] | (14,218) | — | — | (14,218) |

(1) Contingent consideration is settled in cash and is therefore classified as a financial liability measured at fair value, with any subsequent gains or losses recognized in earnings.

**Movement in net Level 3 financial assets**

| | |
|---|---|
| March 31, 2013 | $ 4,737 |
| Additions of Level 3 assets | 13,372 |
| Net unrealized loss during the period | (3,045) |
| Transfer to Level 1 assets | (8,399) |
| Other | (284) |
| **September 30, 2013** | **$ 6,381** |

During the six-month period ended September 30, 2013, there were $8.4 million of Level 3 assets that were transferred to Level 1 as a result of a private company stock that became publicly traded in the UK. There were no transfers between Level 1 and Level 2 fair value measurements. The fair value net unrealized loss of $3.0 million was included as a facilitation loss, which reduced commissions and fees revenue during the six months ended September 30, 2013.

## FAIR VALUE ESTIMATION

### Level 2 financial instruments

Level 2 financial instruments include the Company's investment in certain corporate and government debt, and convertible debt. The fair values of corporate and government debt, and convertible debt classified as Level 2 are determined using the quoted market prices of identical assets or liabilities in markets that do not have transactions which take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Company regularly reviews the transaction frequency and volume of trading in these instruments to determine the accuracy of pricing information.

### Available for sale investments

Available for sale investments include the Company's investment in Euroclear, which has an estimated fair value of $4.3 million as at September 30, 2013 [March 31, 2013 – $3.7 million]. The current fair value is determined using the carrying value of net assets as a valuation basis as no other observable market data is available.

Available for sale investments also include the Company's investment in Canadian First Financial Holdings Limited, which has an estimated fair value of $5.0 million as at September 30, 2013 [Note 7]. The fair value for Canadian First is determined by the Company using a market-based approach with information that the Company has determined to be reliable, and represents the best estimate of fair value readily available.

An increase or decrease of 10% in the fair value of investments would cause an increase or decrease of approximately $0.5 million in other comprehensive income.

### Private investments

The fair value for private investments is determined by the Company using a market-based approach with information that the Company has determined to be reliable, and represents the best estimate of fair value readily available. Prices for these private investments are determined based on the last trade price or offer price, or, if these prices are considered stale, the Company obtains information based on certain inquiries, recent trades or pending new issues. The fair value of the private investments as at September 30, 2013 was $11.1 million [March 31, 2013 – $14.1 million].

The fair value measurements determined as described above may not be indicative of net realizable value or reflective of future values. Furthermore, the Company believes its valuation methods are appropriate and consistent with those which would be utilized by a market participant.

**Contingent considerations**

The Company recognized contingent considerations as a result of its acquisition of Eden Financial Ltd. and certain assets and liabilities of Kenosis Capital Partners. Management has estimated the fair value of the contingent consideration related to the Eden Financial Ltd. acquisition to be $8.5 million as of September 30, 2013 [March 31, 2013 – $8.2 million]. The determination of this fair value is based upon estimated discounted cash flows. The key assumption affecting the fair value is the probability that the revenue target will be met. Management has estimated the fair value of the liability for contingent consideration related to the acquisition of certain assets and liabilities of Kenosis Capital Partners to be $5.8 million [March 31, 2013 – $6.0 million]. The determination of the fair value is based upon estimated discounted cash flows, and the key assumption affecting the fair value is the probability that the performance target will be met.

## SECURITIES LENDING AND BORROWING

| | Cash | | Securities | |
|---|---|---|---|---|
| | Loaned or delivered as collateral | Borrowed or received as collateral | Loaned or delivered as collateral | Borrowed or received as collateral |
| **September 30, 2013** | **$ 156,372** | **$ 51,118** | **$ 49,476** | **$ 199,894** |
| March 31, 2013 | 168,371 | 36,710 | 36,047 | 199,956 |

Securities lending and borrowing are included in the accounts receivable and accounts payable and accrued liabilities balances on the statements of financial position.

**Foreign exchange forward contracts**

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

Forward contracts outstanding at September 30, 2013:

| | Notional amount (millions of USD) | Average price (CAD/USD) | Maturity |
|---|---|---|---|
| To sell US dollars | **$ 6.5** | **$ 1.03** | **October 3, 2013** |
| To buy US dollars | **$ 22.8** | **$ 1.03** | **October 3, 2013** |

Forward contracts outstanding at March 31, 2013:

| | Notional amount (millions of USD) | Average price (CAD/USD) | Maturity |
|---|---|---|---|
| To sell US dollars | $ 14.8 | $ 1.02 | April 1, 2013 |
| To buy US dollars | $ 3.8 | $ 1.02 | April 1, 2013 |

The Company's Canadian operations also have a net sell position for pounds sterling (GBP) of £3.0 million with an average price of 1.586 (CAD/GBP) and a maturity date of October 15, 2013, in an attempt to mitigate foreign exchange risk on pending security settlements in foreign currencies. The fair value of these contracts is nominal due to their short term to maturity.

The Company's Canaccord Genuity Wealth Management segment in the UK and Europe trades foreign exchange forward contracts on behalf of its clients, and establishes matching contracts with the counterparties. The Company has no significant net exposure, assuming no counterparty default. The principal currencies of the forward contracts are: the UK pound sterling, the US dollar, or the euro. The weighted average term to maturity is 71 days. The table below shows the fair value of the forward contract assets and liabilities, and the notional value of these forward contracts as at September 30, 2013. The fair value of the forward contract assets and liabilities is included in the accounts receivable and payable balances.

| | September 30, 2013 | | | March 31, 2013 | | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Notional amount | Assets | Liabilities | Notional amount |
| Foreign exchange forward contracts | **$ 3,607** | **$ (3,607)** | **$ 274,461** | $ 4,483 | $ (4,483) | $ 352,205 |

***Futures***

The Company's Canadian operations are involved in trading bond futures contracts, which are agreements to buy or sell a standardized amount of an underlying Government of Canada bond, at a predetermined future date and price, in accordance with terms specified by a regulated futures exchange, and are subject to daily cash margining. The Company's Canadian operations trade in bond futures in an attempt to mitigate interest rate risk, yield curve risk and liquidity risk. At September 30, 2013, the notional amount of the bond futures contracts outstanding was $0.5 million [March 31, 2013 – nil].

Beginning in the second quarter of fiscal 2014, the Company's Canadian operations began trading US Treasury futures. The Company's Canadian operations trade in US Treasury futures in an attempt to mitigate interest rate risk, yield curve risk and liquidity risk. At September 30, 2013, the notional amount of US Treasury futures contracts outstanding was $5.9 million (US$5.7 million) [March 31, 2013 – nil].

The Company's UK operation also trades equity index futures, which are agreements to buy or sell a standardized amount of an underlying equity index, at a predetermined future date and price, and are subject to daily cash margining. The Company's UK operation trades in equity index futures in an attempt to mitigate the price risk of its inventory position. At September 30, 2013, the equity index futures outstanding have a notional amount of $3.5 million (£2.1 million) [March 31, 2013 – nil].

The fair value of all of the above futures contracts is nominal due to their short term to maturity. Realized and unrealized gains and losses related to these contracts are recognized in net income (loss) during the reporting period.

## NOTE 06 Accounts Receivable and Accounts Payable and Accrued Liabilities

### ACCOUNTS RECEIVABLE

| | September 30, 2013 | March 31, 2013 |
|---|---|---|
| Brokers and investment dealers | **$ 1,607,178** | $ 1,773,043 |
| Clients | **304,138** | 320,564 |
| RRSP cash balances held in trust | **285,518** | 327,173 |
| Other | **71,808** | 93,178 |
| | **$ 2,268,642** | $ 2,513,958 |

### ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | September 30, 2013 | March 31, 2013 |
|---|---|---|
| Brokers and investment dealers | **$ 1,298,317** | $ 1,473,058 |
| Clients | **877,672** | 1,016,297 |
| Other | **126,613** | 237,380 |
| | **$ 2,302,602** | $ 2,726,735 |

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

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

Amounts due from and to clients are due by the settlement date of the trade transaction. Margin loans are due on demand and are collateralized by the assets in the client's account. Interest on margin loans and on amounts due to clients is based on a floating rate [September 30, 2013 – 6.00% to 6.25% and 0.00% to 0.05%, respectively; March 31, 2013 – 6.00% to 6.25% and 0.00% to 0.05%, respectively].

As at September 30, 2013, the allowance for doubtful accounts was $14.2 million [March 31, 2013 – $14.0 million].

## NOTE 07 Investments

During the six months ended September 30, 2013, the Company invested $5.0 million in the common shares of Canadian First Financial Holdings Limited, a private company which has been established as a Canadian retail financial services organization [see Note 5].

## NOTE 08 Business Combination

On July 25, 2013, the Company acquired the remaining 50% ownership of Canaccord Genuity (Hong Kong) Limited (CGHKL) for cash consideration of $0.7 million to now own 100% of CGHKL. The fair value of the net assets acquired approximates the cash consideration. The Company previously already held a 50% beneficial interest in CGHKL through its ownership of Canaccord Financial Group (Australia) Pty Ltd. CGHKL is licensed with the Securities and Futures Commission in Hong Kong.

## NOTE 09 Impairment Testing of Goodwill and Identifiable Intangible Assets with Indefinite Lives

The carrying amounts of goodwill and indefinite life intangible assets acquired through business combinations have been allocated to the cash-generating units (CGUs) as follows:

| | Intangible assets with indefinite lives | | Goodwill | | Total | |
|---|---|---|---|---|---|---|
| | **September 30, 2013** | March 31, 2013 | **September 30, 2013** | March 31, 2013 | **September 30, 2013** | March 31, 2013 |
| **Canaccord Genuity** | | | | | | |
| Canada | **$ 44,930** | $ 44,930 | **$ 242,074** | $ 242,074 | **$ 287,004** | $ 287,004 |
| UK and Europe | **—** | — | **86,609** | 80,136 | **86,609** | 80,136 |
| US | **—** | — | **7,403** | 7,313 | **7,403** | 7,313 |
| Other Foreign Locations (China) | **—** | — | **10,153** | 10,365 | **10,153** | 10,365 |
| Other Foreign Locations (Australia) | **183** | 202 | **21,138** | 23,309 | **21,321** | 23,511 |
| Other Foreign Locations (Singapore) | **—** | — | **29,405** | 29,208 | **29,405** | 29,208 |
| **Canaccord Genuity Wealth Management** | | | | | | |
| UK and Europe (Channel Islands) | **—** | — | **89,852** | 83,138 | **89,852** | 83,138 |
| UK and Europe | **—** | — | **9,892** | 9,143 | **9,892** | 9,143 |
| | **$ 45,113** | $ 45,132 | **$ 496,526** | $ 484,686 | **$ 541,639** | $ 529,818 |

Goodwill and intangible assets with indefinite lives are tested for impairment annually at March 31, and when circumstances indicate the carrying value may potentially be impaired. If any indication of impairment exists, the Company estimates the recoverable amount of the CGU to which goodwill and indefinite life intangible assets are allocated. Where the carrying amount of a CGU exceeds its recoverable amount an impairment loss is recognized. Any impairment loss first reduces the carrying amount of any goodwill allocated to the CGU and then if any impairment loss remains, the other assets of the unit are reduced on a pro rata basis. Impairment losses relating to goodwill cannot be reversed in future periods. The Company considers the relationship between its market capitalization and the book value of its equity, among other factors, when reviewing for indicators of impairment. Consequently, interim goodwill impairment testing was carried out for all applicable CGUs at September 30, 2013.

In accordance with IAS 36, "*Impairment of Assets*" (IAS 36), the recoverable amounts of the CGUs' net assets have been determined using fair value less costs to sell (FVLCS) calculations, which are based on cash flow assumptions approved by senior management. There is a material degree of uncertainty with respect to the estimates of the recoverable amounts of the CGUs' net assets given that these estimates involve making key assumptions about the future. In making such assumptions, management has used its best estimate of future economic and market conditions within the context of the Company's capital markets and wealth management activities.

The FVLCS calculations are based on assumptions, as described above, made in connection with future cash flows, terminal growth rates and discount rates. In order to estimate the FVLCS for each cash-generating unit, cash flows are forecast over a five-year period from the end of the current interim period, a terminal growth rate is applied and then such cash flows are discounted to their present value. The discount rate is based on the specific circumstances of each CGU and is derived from the estimated weighted average cost of capital of the Company. The discount rate utilized for each CGU for the purposes of these calculations was 12.5% in respect of Canada and the UK and Europe [March 31, 2013 – 12.5%], 14.0% in respect of Australia, Singapore and the US [March 31, 2013 – 14.0%], and 20.0% in respect of China [March 31, 2013 – 20.0%]. Cash flow estimates for each CGU are based on management assumptions, as described above, and utilize compound annual revenue growth rates for the five-year period beginning October 1, 2014 (the Forecast Period) which range from 9.0% to 16.0% [March 31, 2013 – 9.0% to 16.0%] as well as estimates in respect of operating margins. The compound annual revenue growth rates utilized were: (a) Canaccord Genuity (i) Canada – 10.0%, (ii) UK and Europe – 10.0%, (iii) US – 10.0%, (iv) Other Foreign Locations – 10.5% to 16.0%; and (b) Canaccord Genuity Wealth Management, UK and Europe – 9.0%. Management estimates in respect of year-over-year increases in revenue for the 12-month period ending on September 30, 2014 (the commencement date for the Forecast Period) are in the range of (3)% to 8% for each CGU except for Other Foreign Locations. CGUs in Other Foreign Locations are in earlier stages of development and, as such, with the revenue for the most recent 12-month period at relatively low base levels, revenue estimates for the 12-month period ending on September 30, 2014 for those CGUs range from

1.3 times to 5 times the revenue recorded for the 12-month period ended September 30, 2013. The terminal growth rate used for CGUs located in Canada and the UK and Europe was 3.0% [March 31, 2013 – 3.0%] and for CGUs in all other locations was 5.0% [March 31, 2013 – 5.0%].

Sensitivity testing was conducted as a part of the September 30, 2013 interim impairment test of goodwill and indefinite life intangible assets. The sensitivity testing includes assessing the impact that reasonably possible declines in growth rates and increases in the discount rate would have on the recoverable amount of the CGUs, with other assumptions being held constant.

The Company's impairment testing has determined that the recoverable amounts for Other Foreign Locations CGUs (Australia, Singapore and China) exceed their carrying amounts by $9.4 million, $8.5 million and $1.6 million, respectively, and consequently, a reasonably possible decline in the growth rates or increase in the discount rates may result in an impairment charge in respect of the goodwill allocated to any of these CGUs. An increase of 1.1 percentage points in the discount rate for Australia (from 14.0% to 15.1%), an increase of 2.2 percentage points in the discount rate for Singapore (from 14.0% to 16.2%) and an increase of 2.1 percentage points in the discount rate for China (from 20.0% to 22.1%); a reduction in the compound annual growth rate of 3.1 percentage points for Australia (from 14.4% to 11.3%), a reduction in the compound annual growth rate of 5.1 percentage points for Singapore (from 10.5% to 5.4%) and a reduction in the compound annual growth rate of 4.5 percentage points for China (from 16.0% to 11.5%); or a decrease in the revenue estimates for the 12-month period ending September 30, 2014 to the range of 1.2 times to 4.8 times the revenue recorded in the 12-month period ended September 30, 2013 would result in the recoverable amount being equal to the carrying value.

The FVLCS calculations for purposes of the goodwill impairment testing described herein are based on inputs that have a significant effect on the FVLCS calculation and that are not based on observable market data. As such, these assets would fall within the Level 3 fair value hierarchy (as described in Note 5).

## NOTE 10 Income Taxes

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

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **September 30, 2013** | September 30, 2012 | **September 30, 2013** | September 30, 2012 |
| Income taxes at the statutory rate (F2014: 26.0%; F2013: 25.0%) | **$ (249)** | $ (4,641) | **$ 2,121** | $ (10,703) |
| Difference in tax rates in foreign jurisdictions | **65** | (424) | **60** | (2,830) |
| Non-deductible items affecting the determination of taxable income | **548** | 1,030 | **1,411** | 2,839 |
| Change in accounting and tax base estimate | **107** | 539 | **565** | (948) |
| Change in deferred tax asset – reversal period of temporary difference | **(254)** | (529) | **(863)** | (620) |
| Tax losses and other temporary differences not recognized (utilization of tax losses previously not recognized) | **(1,093)** | 555 | **(2,940)** | 4,915 |
| Income tax expense (recovery) – current and deferred | **$ (876)** | $ (3,470) | **$ 354** | $ (7,347) |

## NOTE 11 Preferred Shares

| | **September 30, 2013** | | March 31, 2013 | |
|---|---|---|---|---|
| | **Amount** | **Number of shares** | Amount | Number of shares |
| Series A Preferred Shares issued and outstanding | **$ 110,818** | **4,540,000** | $ 110,818 | 4,540,000 |
| Series C Preferred Shares issued and outstanding | **97,450** | **4,000,000** | 97,450 | 4,000,000 |
| Series C Preferred Shares held in treasury | **(2,627)** | **(106,794)** | (2,627) | (106,794) |
| | **94,823** | **3,893,206** | 94,823 | 3,893,206 |
| | **$ 205,641** | **8,433,206** | $ 205,641 | 8,433,206 |

Terms of the Series A and C Preferred Shares are disclosed in Note 14 of the March 31, 2013 consolidated financial statements.

## NOTE 12 Common Shares

| | September 30, 2013 | | March 31, 2013 | |
|---|---|---|---|---|
| | Amount | Number of shares | Amount | Number of shares |
| Issued and fully paid | $ 717,511 | 102,519,742 | $ 717,908 | 102,896,172 |
| Shares repurchased through NCIB for cancellation | (404) | (57,700) | — | — |
| Unvested share purchase loans | (26,121) | (3,802,285) | (34,012) | (4,872,547) |
| Held for long-term incentive plan | (39,112) | (4,708,485) | (45,440) | (4,961,829) |
| | $ 651,874 | 93,951,272 | $ 638,456 | 93,061,796 |

### [i] AUTHORIZED

Unlimited common shares without par value

### [ii] ISSUED AND FULLY PAID

| | Number of shares | Amount |
|---|---|---|
| Balance, March 31, 2013 | 102,896,172 | $ 717,908 |
| Shares issued in connection with share-based payment plans [note 14] | 917,917 | 7,472 |
| Shares issued in connection with retention plan [note 14] | 160,656 | 2,048 |
| Shares issued in connection with replacement plans [note 14] | 118,031 | 1,085 |
| Shares cancelled | (1,573,034) | (11,002) |
| **Balance, September 30, 2013** | **102,519,742** | **$ 717,511** |

In August 2012, the Company filed a notice for a normal course issuer bid (NCIB) to provide for the ability to purchase, at the Company's discretion, up to 3,000,000 of its common shares through the facilities of the TSX from August 13, 2012 to August 12, 2013. The purpose of the purchase of common shares under the NCIB is to enable the Company to acquire shares for cancellation. The shares that might have been repurchased represented 2.93% of the Company's common shares outstanding at the time of the notice. There were 924,040 shares repurchased through the NCIB between August 13, 2012 and August 12, 2013 and cancelled.

On August 6, 2013, the Company filed a notice to renew the NCIB to provide the Company with the choice to purchase up to a maximum of 5,136,948 of its common shares through the facilities of the TSX and on alternative trading systems in accordance with the requirements of the TSX. The purpose of the purchase of common shares under the NCIB is to enable the Company to acquire shares for cancellation. The shares that may be repurchased under the current NCIB represent 5.0% of the Company's outstanding common shares at the time of the notice. There were 437,456 shares repurchased through the NCIB between August 13, 2013 and September 30, 2013, of which 57,700 shares are held in treasury to be cancelled.

### [iii] (LOSS) EARNINGS PER COMMON SHARE

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | September 30, 2013 | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| **Basic (loss) earnings per common share** | | | | |
| Net (loss) income attributable to CGGI shareholders | $ (383) | $ (14,562) | $ 8,358 | $ (34,529) |
| Preferred shares dividends | (2,921) | (2,998) | (5,881) | (5,835) |
| Net (loss) income available to common shareholders | (3,304) | (17,560) | 2,477 | (40,364) |
| Weighted average number of common shares (number) | 94,485,745 | 93,715,829 | 94,622,479 | 93,963,447 |
| Basic (loss) earnings per share | $ (0.03) | $ (0.19) | $ 0.03 | $ (0.43) |
| **Diluted (loss) earnings per common share** | | | | |
| Net (loss) income available to common shareholders | (3,304) | (17,560) | 2,477 | (40,364) |
| Weighted average number of common shares (number) | 94,485,745 | 93,715,829 | 94,622,479 | 93,963,447 |
| Dilutive effect of unvested shares (number) | 3,802,285 | 2,840,557 | 3,802,285 | 2,840,557 |
| Dilutive effect of unvested shares purchased by employee benefit trust (number) [note 14] | 4,714,501 | 5,671,276 | 4,703,226 | 5,252,671 |
| Dilutive effect of share issuance commitment in connection with long-term incentive plan (number) [note 14] | 384,829 | 7,795 | 235,919 | 39,488 |
| Adjusted weighted average number of common shares (number) | 103,387,360 | 102,235,457 | 103,363,909 | 102,096,163 |
| Diluted (loss) earnings per common share | $ (0.03) | $ (0.19) | $ 0.02 | $ (0.43) |

## NOTE 13 Dividends

### COMMON SHARES DIVIDENDS

The Company declared the following common shares dividends during the six months ended September 30, 2013:

| Record date | Payment date | Cash dividend per common share | Total common dividend amount |
|---|---|---|---|
| May 31, 2013 | June 10, 2013 | $ 0.05 | $ 5,177 |
| August 30, 2013 | September 10, 2013 | $ 0.05 | $ 5,132 |

On November 6, 2013, the Board of Directors approved a cash dividend of $0.05 per common share payable on December 10, 2013 to common shareholders of record as at November 22, 2013 [Note 18].

### PREFERRED SHARES DIVIDENDS

The Company declared the following preferred shares dividends during the six months ended September 30, 2013:

| Record date | Payment date | Cash dividend per Series A Preferred Share | Cash dividend per Series C Preferred Share | Total preferred dividend amount |
|---|---|---|---|---|
| June 21, 2013 | July 2, 2013 | $ 0.34375 | $ 0.359375 | $ 2,998 |
| September 13, 2013 | September 30, 2013 | $ 0.34375 | $ 0.359375 | $ 2,998 |

On November 6, 2013, the Board also approved a cash dividend of $0.34375 per Series A Preferred Share payable on December 31, 2013 to Series A Preferred shareholders of record as at December 20, 2013 [Note 18].

On November 6, 2013, the Board also approved a cash dividend of $0.359375 per Series C Preferred Share payable on December 31, 2013 to Series C Preferred shareholders of record as at December 20, 2013 [Note 18].

## NOTE 14 Share-based Payment Plans

### [i] LONG-TERM INCENTIVE PLAN

Under the long-term incentive plan (LTIP), eligible participants are awarded restricted share units (RSUs), which generally 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 the trustee to purchase on the open market common shares of the Company that will be held in trust by the trustee until the RSUs vest or (b) the Company will issue common shares from treasury to participants following vesting of the RSUs. For employees in the US and the UK, the Company will allot common shares at the time of each RSU award, and these shares will be issued from treasury at the time they vest for each participant.

The fair value of the RSUs at the measurement date is based on the volume weighted average price at the grant date and is amortized on a graded basis over the vesting period of three years. The weighted average fair value of RSUs granted during the period ended September 30, 2013 was $6.11 [September 30, 2012 – $5.94].

| | Number |
|---|---|
| Awards outstanding, March 31, 2013 | 9,128,169 |
| Grants | 4,758,621 |
| Vested | (2,493,248) |
| Forfeited | (459,655) |
| **Awards outstanding, September 30, 2013** | **10,933,887** |

| | Number |
|---|---|
| Common shares held by the Trust, March 31, 2013 | 4,961,829 |
| Acquired | 1,321,987 |
| Released on vesting | (1,575,331) |
| **Common shares held by the Trust, September 30, 2013** | **4,708,485** |

### [ii] SHARE-BASED COMPENSATION EXPENSE

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **September 30, 2013** | September 30, 2012 | **September 30, 2013** | September 30, 2012 |
| Long-term incentive plan | **$ 9,561** | $ 7,800 | **$ 16,499** | $ 17,078 |
| Forgivable common share purchase loans | **3,104** | 4,217 | **6,827** | 7,335 |
| Share-based payment expense related to acquisition of Collins Stewart Hawkpoint plc | **1,780** | — | **2,950** | — |
| Replacement plans | **976** | 1,755 | **1,798** | 3,520 |
| Share options | **277** | 261 | **475** | 555 |
| Deferred share units | **85** | 5 | **(4)** | (89) |
| Retention shares | **—** | 529 | **—** | 900 |
| Other | **385** | — | **714** | — |
| Total share-based compensation expense | **$ 16,168** | $ 14,567 | **$ 29,259** | $ 29,299 |

## NOTE 15 Related Party Transactions

Security trades executed by the Company for 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 payable and accrued liabilities include the following balances with key management personnel:

| | **September 30, 2013** | March 31, 2013 |
|---|---|---|
| Accounts payable and accrued liabilities | **$ 2,349** | $ 1,206 |

## NOTE 16 Segmented Information

The Company operates in two industry segments as follows:

Canaccord Genuity – includes investment banking, research and trading activities on behalf of corporate, institutional and government clients as well as principal trading activities in Canada, the UK and Europe and the US. Operations located in Other Foreign Locations under Canaccord International Ltd., Canaccord Genuity Asia and the 50% interest in Canaccord Genuity Australia are also included in Canaccord Genuity.

Canaccord Genuity Wealth Management – provides brokerage services and investment advice to retail or institutional clients in Canada, the US, and the UK and Europe.

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

The Company's industry segments are managed separately because each business offers different services and requires different personnel and marketing strategies. The Company evaluates the performance of each business based on operating results, without regard to non-controlling interests.

The Company does not allocate total assets, liabilities or equipment and leasehold improvements to the segments. Amortization of tangible assets is allocated to the segments based on the square footage occupied. Amortization of identifiable intangible assets is allocated to the Canaccord Genuity segment, as it relates to the acquisitions of Genuity and the 50% interest in Canaccord Genuity Australia. Amortization of the identifiable intangible assets acquired through the purchase of Collins Stewart Hawkpoint plc (CSHP) is allocated to Canaccord Genuity and Canaccord Genuity Wealth Management segments in the UK and Europe (Channel Islands). Amortization of identifiable intangible assets acquired through the acquisition of Eden Financial Ltd. is allocated to Canaccord Genuity Wealth Management segments in the UK and Europe (Eden Financial Ltd.). There are no significant intersegment revenues. Income taxes are managed on a Company basis and are not allocated to operating segments. All revenue and operating profit is derived from external customers.

| | For the three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **September 30, 2013** | | | | September 30, 2012 | | | |
| | **Canaccord Genuity** | **Canaccord Genuity Wealth Management** | **Corporate and Other** | **Total** | Canaccord Genuity | Canaccord Genuity Wealth Management | Corporate and Other | Total |
| Revenues, excluding interest revenue | **$ 124,189** | **$ 47,866** | **$ 5,119** | **$ 177,174** | $ 118,196 | $ 53,529 | $ 8,116 | $ 179,841 |
| Interest revenue | **2,502** | **2,377** | **1,253** | **6,132** | 1,914 | 2,957 | 1,887 | 6,758 |
| Expenses, excluding undernoted | **108,102** | **43,236** | **9,684** | **161,022** | 111,227 | 47,070 | 10,902 | 169,199 |
| Amortization | **3,319** | **2,287** | **414** | **6,020** | 5,183 | 2,187 | 385 | 7,755 |
| Development costs | **4,412** | **2,877** | **382** | **7,671** | 2,025 | 1,981 | 509 | 4,515 |
| Interest expense | **3,565** | **119** | **379** | **4,063** | 2,864 | 63 | 364 | 3,291 |
| Restructuring costs | **5,486** | **—** | **—** | **5,486** | 4,395 | 13,567 | 900 | 18,862 |
| Acquisition-related costs | **—** | **—** | **—** | **—** | 388 | 900 | — | 1,288 |
| Income (loss) before intersegment allocations and income taxes | **1,807** | **1,724** | **(4,487)** | **(956)** | (5,972) | (9,282) | (3,057) | (18,311) |
| Intersegment allocations | **1,833** | **5,062** | **(6,895)** | **—** | 504 | 11,236 | (11,740) | — |
| Income (loss) before income taxes | **$ (26)** | **$ (3,338)** | **$ 2,408** | **$ (956)** | $ (6,476) | $ (20,518) | $ 8,683 | $ (18,311) |

| | For the six months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **September 30, 2013** | | | | September 30, 2012 | | | |
| | **Canaccord Genuity** | **Canaccord Genuity Wealth Management** | **Corporate and Other** | **Total** | Canaccord Genuity | Canaccord Genuity Wealth Management | Corporate and Other | Total |
| Revenues, excluding interest revenue | **$ 252,809** | **$ 99,029** | **$ 5,762** | **$ 357,600** | $ 216,530 | $ 106,516 | $ 10,952 | $ 333,998 |
| Interest revenue | **5,088** | **5,034** | **2,815** | **12,937** | 4,881 | 6,324 | 3,945 | 15,150 |
| Expenses, excluding undernoted | **215,192** | **87,675** | **20,239** | **323,106** | 220,397 | 95,134 | 23,404 | 338,935 |
| Amortization | **7,010** | **4,691** | **880** | **12,581** | 10,963 | 4,161 | 767 | 15,891 |
| Development costs | **6,510** | **5,183** | **808** | **12,501** | 4,183 | 3,961 | 996 | 9,140 |
| Interest expense | **7,697** | **262** | **747** | **8,706** | 6,781 | 156 | 905 | 7,842 |
| Restructuring costs | **5,486** | **—** | **—** | **5,486** | 4,395 | 13,567 | 900 | 18,862 |
| Acquisition-related costs | **—** | **—** | **—** | **—** | 388 | 900 | — | 1,288 |
| Income (loss) before intersegment allocations and income taxes | **16,002** | **6,252** | **(14,097)** | **8,157** | (25,696) | (5,039) | (12,075) | (42,810) |
| Intersegment allocations | **4,136** | **11,503** | **(15,639)** | **—** | 2,208 | 21,871 | (24,079) | — |
| Income (loss) before income taxes | **$ 11,866** | **$ (5,251)** | **$ 1,542** | **$ 8,157** | $ (27,904) | $ (26,910) | $ 12,004 | $ (42,810) |

For geographic reporting purposes, the Company's business operations are grouped into Canada, the US, the UK and Europe, and Other Foreign Locations. The following table presents the revenue of the Company by geographic location:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **September 30, 2013** | September 30, 2012 | **September 30, 2013** | September 30, 2012 |
| Canada | **$ 61,692** | $ 80,728 | **$ 123,191** | $ 157,369 |
| UK and Europe | **68,766** | 59,706 | **136,233** | 108,513 |
| United States | **44,357** | 40,008 | **97,758** | 71,702 |
| Other Foreign Locations | **8,491** | 6,157 | **13,355** | 11,564 |
| | **$ 183,306** | $ 186,599 | **$ 370,537** | $ 349,148 |

## NOTE 17 Provisions and Contingencies

### PROVISIONS

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. At each reporting date, the Company assesses the adequacy of its pre-existing provisions and adjusts the amounts as necessary. The following is a summary of the changes during the six months ended September 30, 2013:

| | Legal provisions | Restructuring provisions | Total provisions |
|---|---|---|---|
| Balance, March 31, 2013 | $ 10,179 | $ 9,876 | $ 20,055 |
| Additions | 935 | — | 935 |
| Utilized | (367) | (2,666) | (3,033) |
| Balance, June 30, 2013 | 10,747 | 7,210 | 17,957 |
| Additions | 655 | 5,486 | 6,141 |
| Utilized | (3,323) | (5,709) | (9,032) |
| **Balance, September 30, 2013** | **$ 8,079** | **$ 6,987** | **$ 15,066** |

**Commitments, litigation proceedings and contingent liabilities**

During the period ended September 30, 2013, there were no material changes to the Company's commitments or contingencies from those described in Notes 22 and 23 of the March 31, 2013 consolidated financial statements.

## NOTE 18 Subsequent Event

### DIVIDENDS

On November 6, 2013, the Board of Directors approved the following cash dividends: $0.05 per common share payable on December 10, 2013 to common shareholders with a record date of November 22, 2013; $0.34375 per Series A Preferred Share payable on December 31, 2013 with a record date of December 20, 2013; and $0.359375 per Series C Preferred Share payable on December 31, 2013 with a record date of December 20, 2013.

# Shareholder Information

## Corporate Headquarters

**STREET ADDRESS**

Canaccord Genuity Group Inc.
609 Granville Street, Suite 2200
Vancouver, BC, Canada

**MAILING ADDRESS**

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

## Stock Exchange Listing

Common shares:
TSX: CF
LSE: CF.

Preferred shares:
Series A (TSX): CF.PR.A.
Series C (TSX): CF.PR.C.

## Corporate Website

www.canaccord.com

## General Shareholder Inquiries and Information

**INVESTOR RELATIONS**

161 Bay Street, Suite 3000
Toronto, ON, Canada
Telephone: 416.869.7293
Fax: 416.947.8343
Email: investor.relations@canaccord.com

## Media Relations and Inquiries from Institutional Investors and Analysts

**Scott Davidson**
Executive Vice President, Global Head of Corporate Development and Strategy
Telephone: 416.869.3875
Email: scott.davidson@canaccord.com

The Canaccord Financial 2013 Annual Report is available on our website at www.canaccordgenuitygroup.com. For a printed copy please contact the Investor Relations department.

## Fiscal 2014 Expected Dividend[1] and Earnings Release Dates

| | Expected earnings release date | Preferred dividend record date | Preferred dividend payment date | Common dividend record date | Common dividend payment date |
|---|---|---|---|---|---|
| Q2/14 | November 6, 2013 | December 20, 2013 | December 31, 2013 | November 22, 2013 | December 10, 2013 |
| Q3/14 | February 5, 2014 | March 14, 2014 | March 31, 2014 | February 21, 2014 | March 10, 2014 |
| Q4/14 | June 4, 2014 | June 13, 2014 | June 30, 2014 | June 20, 2014 | July 2, 2014 |

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

## Shareholder Administration

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

**COMPUTERSHARE INVESTOR SERVICES INC.**

100 University Avenue, 9th Floor
Toronto, ON M5J 2Y1
Telephone toll free (North America): 1.800.564.6253
International: 514.982.7555
Fax: 1.866.249.7775
Toll free fax (North America): or
International fax: 416.263.9524
Email: service@computershare.com
Website: www.computershare.com

Offers enrolment for self-service account management for registered shareholders through the Investor Centre.

## Financial Information

For present and archived financial information, please visit www.canaccordgenuitygroup.com

## Auditor

Ernst & Young LLP
Chartered Accountants
Vancouver, BC

## Editorial and Design Services

The Works Design Communications Ltd.