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CANACCORD CAPITAL INC.

FIRST QUARTER FISCAL 2007 REPORT TO SHAREHOLDERS

CANACCORD CAPITAL INC. IMPLEMENTS MANAGEMENT TRANSITION AND POSTS RECORD FIRST QUARTER FISCAL 2007 RESULTS

PETER BROWN, CHAIRMAN & CEO, ANNOUNCES PAUL REYNOLDS AS PRESIDENT AND MARK MAYBANK AS COO; RECORD FIRST QUARTER REVENUE UP 108.2% WITH NET INCOME UP 134.2%.

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

VANCOUVER, August 4, 2006 – Peter M. Brown, the Chairman of the Board & Chief Executive Officer of Canaccord Capital Inc. (TSX & AIM: CCI) ("CCI" or the "Company") announced today the Board has appointed Paul Reynolds as President and Mark Maybank as Chief Operating Officer of Canaccord Capital Inc. In addition, Peter Brown announced the resignation of Michael G. Greenwood as Director and President & Chief Operating Officer of CCI.

Paul Reynolds remains a director of CCI and Global Head of Canaccord Adams and, for regulatory purposes, President & Chief Operating Officer of Canaccord Adams Limited (CCI's UK operating subsidiary). Mark Maybank continues as Deputy Head of Canaccord Adams and Global Head of Research & Operations. In addition, Mark Maybank has been nominated as the President & Chief Operating Officer of Canaccord Capital Corporation (the Company's Canadian operating subsidiary), subject to regulatory approval.

"I am confident in Paul's and Mark's abilities to take on the reigns of these key leadership roles, and to carry forward Canaccord's entrepreneurial, consensus-driven culture," said Peter Brown. "We are fortunate to have a deep, diverse, global pool of talent that has allowed us to develop the next generation of leadership internally and I look forward to working with Paul and Mark to continue our tradition of generating sustainable growth."

To support the transition period, Michael Greenwood has entered into a twelve-month consulting arrangement with Canaccord. Peter Brown stated, "Mike leaves a great many friends behind at Canaccord, and his strategic leadership and contribution to our growth over the last 14 years has been integral to our success. We wish him every success in the future." Also, he added "On a personal note, I, more than anyone else in the company, have worked with Mike on a daily basis and I will miss the benefit of his forward thinking, dedication and drive for perfection in every area of our business."

CCI's Fiscal Q1/07 Results

Canaccord Capital Inc. announced that revenue for its first quarter of fiscal 2007, ended June 30, 2006, was a first quarter record of $206.1 million, up $107.1 million, or 108.2%, from $99.0 million for the same period a year ago. Net income of $25.9 million was also a first quarter record, up $14.9 million, or 134.2%, from $11.1 million for the first quarter of fiscal 2006, and diluted earnings per share (EPS) were a first quarter record of $0.54, up $0.30, or 125.0%, from $0.24 for the same period a year ago.

"Strong global markets for the first part of the quarter played a significant role in our record first quarter results," added Brad Kotush, Executive VP & CFO. "We are proud of the hard work and client focus demonstrated by all of our partners."

CONTENTS

CANACCORD CAPITAL

Highlights of the first quarter fiscal 2007 results (three months ended June 30, 2006) compared to the first quarter fiscal 2006 results (three months ended June 30, 2005):

- Revenue of $206.1 million, up 108.2%, or $107.1 million, from $99.0 million
- Expenses of $167.0 million, up 99.7%, or $83.4 million, from $83.6 million
- Net income of $25.9 million, up 134.2%, or $14.9 million, from $11.1 million
- Diluted EPS of $0.54, up 125.0%, or $0.30, from $0.24
- Return on equity (ROE) of 34.7%, up from 19.8%
- Book value per common share at the period end increased to $6.51, up 32.6%, or $1.60, from $4.91
- The Board approved a common share dividend of $0.08 per share on August 3, 2006, payable on September 8, 2006, with a record date of August 25, 2006
- 47,827,350 total issued common shares outstanding on a diluted basis as of August 3, 2006

Highlights of Operations:

- During Q1/07, our international capital markets team, Canaccord Adams, led the following equity transactions:
  - $200 million in a TSX financing for Yamana Gold Inc. (TSX: YRI)
  - $178 million in an AIM placing for European Nickel plc (AIM: ENK)
  - $175 million in a bought deal for First Calgary Petroleums Ltd. (TSX: FCP/AIM: FPL)
  - $125 million in a TSX financing for Corriente Resources Inc. (TSX: CTQ)
  - $55 million in a bought deal for Royal Laser Corp. (TSX: RLC)
  - $30 million in a TSX firm commitment for Westfield Real Estate Investment Trust (TSX: WFD.DB.C)

- Revenue from Private Client Services' business increased by 82.4% over the same period a year ago to $72.3 million from $39.6 million.
- During Q1/07, we experienced growth in market share in our Canadian trading operations. Canaccord's market share was 3.83% in terms of TSX-traded volume, up from 3.32% for the same period a year ago.
- Canaccord ranked 4th in Thomson Financial's Canada equity & equity-related league table (January to June 2006), raising US$951.3 million in proceeds for our clients serving as bookrunner on 15 deals above all other independents. Canaccord also ranked 2nd in the Canada Secondary Offerings category, up from 6th place last year.
- Our liquidity remains strong as working capital increased by 18.7% from $208.4 million a year ago, to $247.3 million.

Annual General Meeting:

The Annual General Meeting of shareholders will be held on Friday, August 4, 2006, at 2:00 p.m. (Pacific Time [PDT]) at the Four Seasons Hotel, 791 West Georgia Street, Vancouver, BC, Canada. The Annual General Meeting will also be simultaneously broadcast through a live Internet Webcast on August 4, 2006. This Webcast will be archived for viewing after the event. Please visit the Webcast events page at www.canaccord.com for more information and a direct link.

MESSAGE FROM THE CHAIRMAN & CEO

This past quarter was a period of significant volatility for the broader capital markets. Strength in the first half of the quarter was followed by sharp swings in value of global indices and commodity prices. Even with these challenges, Q1 of fiscal 2007 was our second most successful quarter in the firm's history and a record first quarter. This performance comes on the heels of our record financial performance in fiscal 2006. Revenue of $206.1 million and net income of $25.9 million represents triple-digit revenue growth of 108.2%, net income growth of 134.2% and diluted EPS growth of 125.0% relative to Q1 of last year. Our achievements in Q1/07 demonstrate the strength provided by our different business lines and our geographical diversity.

OUR CULTURE OF IDEAS SUPPORTED BY MANAGEMENT TRANSITION

We credit our success to our idea-driven culture, and are proud that Canaccord is an environment that demands contribution and facilitates success for all our partners. Our client focus is evident in every area of our business. The global structure of our management team is designed to maintain and enhance this culture and further our growth, improve our client service and create value for our shareholders. We are fortunate to have a deep, diverse, global pool of talent that has allowed us to develop the next generation of leadership internally, in line with our values and goals.

The leaders that are stepping forward share all of our common goals and values. Paul Reynolds and Mark Maybank have made significant contributions to Canaccord's growth and proven their ability to lead a global investment firm. Working with the rest of our management team, they will continue to execute our business plan in a consensus-based, idea-driven environment.

Unfortunately, Mike Greenwood, upon reflection, has decided that this is a good time to resign his role as Director, President & Chief Operating Officer of Canaccord Capital Inc. to pursue other interests. Mike joined Canaccord in 1992 and shared with me the vision to convert a West Coast transaction firm into Canada's largest independent full service investment dealer with important international operations. Since that first vision, Mike has played an integral role in our achievements and has led many of the key initiatives that helped develop the great firm we are today. Mike leaves a great many friends behind at Canaccord, and his strategic leadership and contribution to our growth over the last 14 years has been integral to our success. We wish him every success in the future. On a personal note, I, more than anyone else in the company, have worked with Mike on a daily basis and I will miss the benefit of his forward thinking, dedication and drive for perfection in every area of our business.

Among our core values, we remain committed to a continued high level of employee ownership of the firm. During fiscal 2007, we will consider a variety of different programs designed to maintain the high level of employee ownership in the firm.

CANACCORD ADAMS LEVERAGES ITS GLOBAL PLATFORM

Canaccord Adams' consolidated revenue increased 129.7%, from $54.5 million in Q1/06, to $125.1 million in Q1/07. Broken down geographically, revenue in the UK increased 114.1%, from $22.8 million to $48.9 million; revenue in Canada increased 69.5%, from $31.6 million to $53.6 million; and revenue in the US was $22.6 million reflecting the contribution from our recent acquisition.

Much of this growth was driven by higher market share in Canada and the UK as well as increased overall capital markets activity year over year. Canaccord Adams was ranked fourth in lead underwritings by Thomson Financial in its Canadian equity and equity-related statistics. Significantly, market share in terms of proceeds raised from Canadian transactions increased to 7.8% for the six months ended June 30, 2006, up from 4.1% for the same period in 2005. Operating highlights include leading a $200 million equity offering on the TSX for Yamana Gold Inc. We also led a $178 million placement for European Nickel plc on AIM and a $175 million bought deal for First Calgary Petroleums Ltd. Although resource sector transactions revenue was relatively high, 64.7% of our total transactions this quarter were for non-resource companies, demonstrating our sector diversity despite a commodities boom. An example of this diversity and focus on balance is that we are breaking new ground in the creation and development of innovative small- to mid-cap Canadian REITs.

We continue to make solid progress integrating our new US group since the close of our acquisition of Adams Harkness Financial Group, Inc. in January. The development and evolution of our US operation is focused on adding talented professionals to our existing team, broadening our capabilities, and providing our clients with superior, money-making ideas.

To support this plan, we will continue to expand our San Francisco-based technology practice, and further diversify our sector mix in the US through the expansion of our current energy practice in Houston, as well as building out our New York facilities in order to solidify our growing presence in a key US financial centre.

GROWTH IN ASSETS SUPPORTS PRIVATE CLIENT SERVICES' REVENUE GROWTH

Private Client Services' revenue for the quarter was $72.3 million, up 82.4% from a year ago. This increase is due to both market share gains as well as strong activity in the North American equity markets. Our assets under management (AUM) were $649 million, experiencing growth of 58.3% year over year. Despite tougher markets during May and June, AUM increased by 5.9% from March 31, 2006.

Assets under administration (AUA) were up 40.1% to $13.9 billion from last year, and were down 2.6% from March 31, 2006 versus the S&P/TSX index decline of 4.1% during fiscal Q1. Year-over-year AUA growth reflects market value increases in North American equity markets, asset transfers with new Investment Advisors (IA) and additional assets added to our existing client accounts. As at June 30, 2006, there were 430 IAs, a net increase of 12 from a year ago.

We continue to improve the products and services we offer to our private clients. To this end, in July 2006 we added Connor, Clark & Lunn Financial Group and Dixon Mitchell Investment Counsel Inc. to our Alliance program, bringing the total to six portfolio managers. Additional high value managers will be added to our managed accounts platform as we find appropriate firms with which to partner.

OUTLOOK FOR THE REMAINDER OF FISCAL 2007

Our business is cyclical and, as such, revenue and net income vary from quarter to quarter and year to year. Normally, Canaccord experiences the traditional seasonal fluctuations of the financial industry with the first half of each fiscal year contributing approximately 35% to 40% of our annual revenue. While the capital markets performed better during the first quarter of fiscal 2007, compared to the same quarter in previous years, we expect the remaining quarters of this year to reflect historical seasonality patterns. Capital markets globally experienced a sharp drop in performance in May, which has continued into the summer, and we expect Q2/07 performance to be more in line with previous fiscal second quarters.

We would like to congratulate and thank our employees and partners for their continued commitment and dedication. These contributions enable Canaccord to successfully continue with carrying out our long term strategy. We look forward to discussing our progress with you over the remaining quarters of this year.

PETER M. BROWN
CHAIRMAN & CHIEF EXECUTIVE OFFICER

MANAGEMENT'S DISCUSSION AND ANALYSIS

First quarter fiscal 2007 for the three months ended June 30, 2006 – this document is dated August 4, 2006

The following discussion of the financial condition and results of operations for Canaccord Capital Inc. (Canaccord) is provided to enable the reader to assess material changes in such condition and results for the three-month period ended June 30, 2006, compared to the corresponding period in the preceding fiscal year, with an emphasis on the most recent three-month period. Canaccord's fiscal year end is March 31. Canaccord's first quarter fiscal 2007 was the three-month period ended June 30, 2006, and is also referred to as first quarter 2007 and as Q1/07 in the following discussion. This discussion should be read in conjunction with the unaudited interim consolidated financial statements for the three-month period ended June 30, 2006, beginning on page 19 of this report, the 2006 annual Management's Discussion and Analysis (MD&A), our Annual Information Form dated June 26, 2006, and the audited consolidated financial statements for the fiscal year ended March 31, 2006, in Canaccord's Annual Report dated June 26, 2006 (the Annual Report). There has been no material change to the information contained in the annual MD&A for fiscal 2006 except as disclosed in this MD&A. Canaccord's financial information is expressed in Canadian dollars unless otherwise specified. This document is prepared in accordance with Canadian generally accepted accounting principles (GAAP) with reconciliation to international financial reporting standards (IFRS). All the financial data below is unaudited except for the full fiscal year 2006 data.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

NON-GAAP MEASURES

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

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

Assets under administration (AUA) and assets under management (AUM) are non-GAAP measures of client assets that are common to the wealth management aspects of the private client services industry. AUA is the market value of client assets administered by Canaccord in respect of which Canaccord earns commissions or fees. This measure includes funds held in client accounts as well as the aggregate market value of long and short security positions. Canaccord's method of calculating AUA may differ from the methods used by other companies and therefore may not be comparable to other companies. Management uses this measure to assess operational performance of the Private Client Services business segment. AUM is the market value of assets that are beneficially owned by clients and are discretionarily managed by Canaccord as part of our *Independence Accounts* program. Services provided include the selection of investments and the provision of investment advice. AUM are also administered by Canaccord and are included in AUA.

OVERVIEW

Business environment

Canaccord's business is cyclical and experiences considerable variations in revenue and income from quarter to quarter and year to year due to factors beyond Canaccord's control and, accordingly, revenue and net income are expected to fluctuate as they have historically. Our business is subject to the overall condition of the North American and the European equity markets, including the seasonal variance in these markets. In general, North American capital markets are slower during the first half of our fiscal year, during which we typically generate approximately 35% to 40% of our annual revenue. During the second half of our fiscal year, we typically generate 60% to 65% of our annual revenue. However, during the first quarter of fiscal 2007, global capital markets performed better compared to the same quarter in previous years. Capital markets' activity dropped sharply in late May with no significant improvement to date. We expect, therefore, that fiscal Q2/07 performance will be more reflective of our historical seasonality pattern. We continue, however, to have a pipeline of potential transactions available for completion subject to market activity improvement.

We expect that Japan's efforts to normalize its economy will have a net effect of causing a rise in global interest rates, resulting in slower economic growth on a global scale. This effect has started to be felt in the US as its growth slowed to 3.5% in the second quarter of calendar 2006, in response to past monetary tightening, a cooling housing market, and the expectation of further interest rate increases in the second half of 2006. Similarly, growth in Canada levelled off at 3.3%, and Canadian capital markets experienced a considerable drop in activity in May 2006 as measured by the volume of equity traded. For the second half of calendar 2006, the Canadian dollar may continue its rise against the US dollar, therefore challenging exports and affecting our net trading balance. As a result, Canadian interest rates remained stable in July and further increases are expected to be limited.

European confidence levels plunged in June as inflation and interest rates continued to rise. Economic activity in Europe slowed considerably during fiscal Q1/07, which is expected to continue in Q2 of fiscal 2007. Household expenditure is still lacking solid support from labour market fundamentals and is expected to rise by only 0.5% by the end of Q3 calendar 2006.

About Canaccord's operations

Canaccord Capital Inc.'s operations are divided into three segments: The first two, Private Client Services and Canaccord Adams, are principally operating segments, while the third, Other, is mainly an administrative segment.

Private Client Services provides brokerage services and investment advice to retail or private clients primarily in Canada, and to a lesser degree, in the US and internationally. Canaccord Adams (formerly known as Canaccord's Global Capital Markets) includes investment banking, research and trading activities on behalf of corporate, institutional and government clients as well as principal trading activities in Canada, the UK and the US.

Canaccord acquired 100% of Adams Harkness Financial Group, Inc. (engaged primarily in capital markets activities in the US), on January 3, 2006. As a result of this acquisition, the Adams Harkness Financial Group, Inc.'s operating subsidiary was renamed Canaccord Adams Inc. and Canaccord's Global Capital Markets (Canada, UK and US) was re-branded globally as Canaccord Adams. Canaccord Adams Inc. together with Canaccord Capital Corporation (USA), Inc., which includes US Private Client Services and Other operations in the US, constitute Canaccord's US geographic segment.

In addition, Canaccord Adams Limited (engaged in capital markets activities in the United Kingdom) constitutes Canaccord's UK geographic segment.

The division of Canaccord Capital Corporation, our principal Canadian operating subsidiary, that is engaged in capital markets activities in Canada was branded as Canaccord Adams, and together with Canadian Private Client Services and Other operations, they constitute Canaccord's Canadian geographic segment.

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

Consolidated operating results

First quarter fiscal 2007 summary data [1]

C$ thousands, except per share, employee and % amounts)	Three months ended June 30 2006	2005	Year-over-year increase
Canaccord Capital Inc.			
Revenue [2]			
Commission	**$ 78,054**	$ 40,811	91.3%
Investment banking	**102,840**	49,505	107.7%
Principal trading	**7,784**	(1,741)	n.m.
Interest	**13,638**	8,243	65.4%
Other	**3,811**	2,199	73.3%
Total Revenue	**$ 206,127**	$ 99,017	108.2%
Expenses			
Incentive compensation	**$ 104,955**	$ 48,650	115.7%
Salaries and benefits	**12,493**	9,226	35.4%
Other overhead expenses [3]	**49,504**	25,711	92.5%
Total Expenses	**$ 166,952**	$ 83,587	99.7%
Income before income taxes	**39,175**	15,430	153.9%
Net income	**25,942**	11,078	134.2%
Earnings per share (EPS) – diluted	**0.54**	0.24	125.0%
Return on average common equity (ROE)	**34.7%**	19.8%	14.9p.p.
Book value per share – period end	**$ 6.51**	$ 4.91	32.6%
Number of employees	**1,534**	1,288	19.1%
US geographic segment [4]			
Revenue	**$ 23,985**	–	n.m.
Expenses		–	n.m.
Incentive compensation	**12,902**	–	n.m.
Salaries and benefits	**1,754**	–	n.m.
Other overhead expenses [3]	**7,141**	–	n.m.
Total Expenses	**$ 21,797**	–	n.m.
Income before income taxes	**2,188**	–	n.m.
Net income	**1,648**	–	n.m.
Canaccord Capital Inc., excluding US geographic segment			
Revenue	**$ 182,142**	$ 99,017	84.0%
Expenses			
Incentive compensation	**$ 92,053**	$ 48,650	89.2%
Salaries and benefits	**10,739**	9,226	16.4%
Other overhead expenses [3]	**42,363**	25,711	64.8%
Total Expenses	**$ 145,155**	$ 83,587	73.7%
Income before income taxes	**36,987**	15,430	139.7%
Net income	**24,294**	11,078	119.3%

(1) Some of this data is considered to be non-GAAP.

(2) To enhance our disclosure and to facilitate comparison with other companies in the industry, consolidated revenue has been changed from "revenue by business segment" to "revenue by activity". For revenue by business segment information, please refer to the Results of Operations section on page 11.

(3) Consists of trading costs, premises and equipment, communication and technology, interest, general and administrative, amortization, development costs and gain on disposal of investment.

(4) Starting on January 3, 2006, revenues and expenses for Canaccord Capital Corporation (USA), Inc. and Canaccord Adams Inc. are disclosed together under the US geographic segment. Therefore, US geographic segment results are not to be interpreted as generated exclusively from Canaccord Adams Inc. or as a result of the acquisition of Adams Harkness Financial Group, Inc.

n.m.: not meaningful

p.p.: percentage points

Geographic distribution of revenue for first quarter fiscal 2007

(C$ thousands, except % amount)	Three months ended June 30 2006	2005	Year-over-year increase
Canada (1)	**$ 133,250**	$ 76,184	74.9%
UK (2)	**48,892**	22,833	114.1%
US (3)	**23,985**	–	n.m.

(1) Canada geographic segment includes operations for Private Client Services, Canaccord Adams (a division of Canaccord Capital Corporation) and Other business segments.

(2) UK geographic segment includes operations for Canaccord Adams Limited.

(3) Commencing on January 3, 2006, as a result of the acquisition of Adams Harkness Financial Group, Inc., the US geographic segment includes operations for Canaccord Adams Inc. and Canaccord Capital Corporation (USA), Inc., which also includes operations from Private Client Services and Other business segments in the US.

n.m.: not meaningful

Three-month summary

Revenue was a first quarter record of $206.1 million, up $107.1 million, or 108.2%, compared to the same period a year ago. Revenue increased across all lines of business due to Canaccord's higher market share in its key Canadian and UK market sectors, which also experienced higher activity during the quarter compared to the same period a year ago. Also, the momentum from our growth initiatives and expanded sector participation created during Q4/06 contributed to the increase in revenue during Q1/07. On a consolidated basis, revenue is generated through five activities: commissions, investment banking, principal trading, interest, and other. Overall, first quarter fiscal 2007 revenue would have been $182.1 million, up $83.1 million, or 84.0%, compared to first quarter fiscal 2006, excluding the contribution of the US geographic segment (see footnote (4) of first quarter fiscal 2007 summary data table on page 7).

Revenue generated from commissions for the first quarter of fiscal 2007 was $78.1 million, up $37.2 million, or 91.3%, from the same period a year ago, in part due to higher transaction volumes, growth in client assets, improved market share in Canada, and the addition of Canaccord Adams Inc. in the US.

Investment banking revenue was $102.8 million, up $53.3 million, or 107.7%, mainly due to greater contributions from larger financing transactions, including secondary offerings, private placements, and initial public offerings; an increase in proceeds from the sale of fee shares received as compensation for investment banking transactions; and the added contribution of Canaccord Adams Inc. in the US.

Revenue derived from principal trading activity was $7.8 million, up $9.5 million, compared to a loss of $1.7 million in Q1/06 mainly due to favourable market conditions and increased activity in Canaccord Adams. In addition to traditional sales and trading activities for clients, Canaccord Adams trades as principal and is a market maker for a number of equity securities.

Interest revenue was $13.6 million, up $5.4 million, or 65.4%, mainly due to an increase in the number and size of margin accounts and the increase in interest rates in Canada since Q1/06.

Other revenue was $3.8 million, up $1.6 million, or 73.3%, mainly due to increases in foreign exchange gains.

First quarter revenue in Canada increased to $133.3 million, up $57.1 million, or 74.9%, from a year ago, reflecting increased market share in corporate finance and trading that benefited from the robust market activity in Canadian equity markets, largely due to rising global demand for commodities and related equities. Similarly, revenue in the UK increased to $48.9 million, up $26.1 million, or 114.1%, as the result of Canaccord's leading market share on AIM, which benefited from high levels of activity, resulting in increased corporate finance revenue.

First quarter fiscal 2007 consolidated revenue in the US was $24.0 million and includes revenue generated by Canaccord Capital Corporation (USA), Inc. ($2.6 million) and Canaccord Adams Inc. ($21.4 million), as a result of the acquisition of Adams Harkness Financial Group, Inc., on January 3, 2006. Consequently, our US operations became a reportable segment for the first time in Q4/06.

Expenses as a percentage of revenue

Increase (decrease) in percentage points	Three months ended June 30 2006	2005	Year-over-year increase (decrease)
Incentive compensation	**50.9%**	49.1%	1.8p.p.
Salaries and benefits	**6.1%**	9.3%	(3.2)p.p.
Other overhead expenses (1)	**24.0%**	26.0%	(2.0)p.p.
Total	**81.0%**	84.4%	(3.4)p.p.

(1) Consists of trading costs, premises and equipment, communication and technology, interest, general and administrative, amortization, development costs and gain on disposal of investment.

p.p.: percentage points

Expenses were $167.0 million, up $83.4 million, or 99.7%, from a year ago. In addition to the $21.8 million of expenses incurred by the US geographic segment, the overall increase is largely due to a rise in incentive compensation, trading costs, and general and administrative expense, which collectively increased at a slower pace than revenue. During Q1/06, Canaccord realized a one time pre-tax gain of $1.6 million from the disposal of an investment in the Bourse de Montréal. Had Canaccord not realized such gain in Q1/06, the expense to revenue ratio would have been 86.1% compared to 81.0% for Q1/07. Overall, first quarter fiscal 2007 expenses would have been $145.2 million, up $61.6 million, or 73.7%, compared to Q1/06 excluding the expenses incurred by the US geographic segment.

For the quarter, incentive compensation expense was $105.0 million, up $56.3 million, or 115.7%, largely due to the increase in fiscal first quarter revenue posted by the Private Client Services and Canaccord Adams divisions. However, incentive compensation as a percentage of revenue increased to 50.9% compared to 49.1% for the same quarter a year ago. Investment Advisors are individually earning higher revenue and are therefore receiving higher payouts that are based on a sliding revenue scale. Compensation expense includes a 3% National Health Insurance (NHI) tax applicable for UK-based employees.

Salaries and benefits expense increased by $3.3 million for the first quarter of fiscal 2007, compared to the same quarter a year ago due to our increased levels of activity and the addition of salaries and benefits expenses associated with Canaccord Adams Inc. in the US. The total compensation payout as a percentage of consolidated revenue for Q1/07 was 57.0%, down from 58.5% in Q1/06 due to the leverage achieved from our fixed level of salaries and benefits expense.

Other overhead expenses

(C$ thousands, except % amount)	Three months ended June 30 2006	2005	Year-over-year increase
Trading costs	**$ 8,559**	$ 4,312	98.5%
Premises and equipment	**5,937**	3,626	63.7%
Communication and technology	**5,063**	3,690	37.2%
Interest	**4,982**	2,491	100.0%
General and administrative	**19,107**	10,016	90.8%
Amortization	**1,989**	1,118	77.9%
Development costs	**3,867**	2,091	84.9%
Gain on disposal of investment	**–**	(1,633)	n.m.
Total other overhead expenses	**$ 49,504**	$ 25,711	92.5%

n.m.: not meaningful

Other overhead expenses increased by $23.8 million for the first quarter of fiscal 2007, compared to the same quarter a year ago. This increase is largely attributable to the increase in trading costs, up $4.2 million mainly due to the increase in activity in our commission revenue and the contribution associated with our new US platform; interest, up by $2.5 million due to higher interest rates compared to Q1/06; and general and administrative expense, up $9.1 million.

General and administrative expense was $19.1 million, up $9.1 million, or 90.8%, from a year ago partly due to the increase in business activity during the quarter, and the addition of Adams Harkness in Q4/06. The largest increases in general and administrative expense were in reserves, up $1.1 million related to increased trading activity; promotion and travel, up $3.1 million, largely attributable to the increase in the geographic span of our business; and client expenses, up $1.3 million, reflecting an increased provision related to client activity.

Development costs

	Three months ended June 30		Year-over-year
(C$ thousands, except % amounts)	**2006**	2005	increase
Hiring incentives	**$ 2,698**	$ 1,009	167.4%
Systems development	**1,169**	1,082	8.0%
Total	**$ 3,867**	$ 2,091	84.9%

Development costs are also included as a component of other overhead expenses and include hiring incentives and systems development costs. Hiring incentives are one of our tools to recruit new Investment Advisors (IAs) and capital markets professionals. The increase in hiring incentives in Q1/07 is mainly due to the costs associated with the hiring of Private Client Services employees in Canada and the costs associated with retaining Adams Harkness' employees. Systems development costs are expenditures that Canaccord has made related to enhancing its information technology platform.

Overall hiring incentives increased by $1.7 million from a year ago. Private Client Services' Q1 fiscal 2007 hiring incentives were $1.5 million, up $0.7 million, compared to the same period a year ago. Similarly, hiring incentives for Canaccord Adams were $1.2 million, up $1.0 million. The increase in hiring incentives is due to the recruitment of professionals for both Private Client Services and Canaccord Adams, and the retention costs associated with Adams Harkness' employees, as a result of the acquisition on January 3, 2006.

Net income was a first quarter record of $25.9 million, up by $14.9 million, or 134.2%, from a year ago. Diluted EPS was $0.54, up by $0.30, or 125.0%, and ROE was 34.7% compared to a ROE of 19.8% a year ago. The lower increase in EPS and ROE compared to the increase in net income is partially associated with the issuance of 691,940 shares under the incentive plan for recruiting purposes and the issuance of 1,420,342 common shares in connection with acquisitions during fiscal 2006. Book value per common share increased by 32.6% to $6.51, up $1.60 from $4.91 a year ago, reflecting an increase in retained earnings and share capital.

The US geographic segment generated quarterly net income of $1.6 million, equivalent to 6.4% of Canaccord's overall net income of $25.9 million.

Income taxes were $13.2 million for the quarter, reflecting an effective tax rate of 33.8% compared to 28.2% a year ago. The increase in the effective tax rate in Q1/07 relative to Q1/06 is related to the geographical composition of Canaccord's net income and the preferential tax treatment a year ago due to the capital gain from the disposal of an investment in the Bourse de Montréal. Had Canaccord not realized such gain, the effective tax rate in Q1/06 would have been 30.1%. Our effective tax rate will vary depending on the geographic composition of our operating activities.

RESULTS OF OPERATIONS

Private Client Services

(C$ thousands, except assets under administration and assets under management, which are in C$ millions, employees, Investment Advisors and % amounts)	Three months ended June 30 2006	2005	Year-over-year increase
Revenue	**$ 72,286**	$ 39,630	82.4%
Expenses			
Incentive compensation	**33,368**	17,581	89.8%
Salaries and benefits	**3,430**	3,036	13.0%
Other overhead expenses	**18,419**	10,403	77.1%
Total Expenses	**$ 55,217**	$ 31,020	78.0%
Income before income taxes	**17,069**	8,610	98.2%
Assets under management (AUM)	**649**	410	58.3%
Assets under administration (AUA)	**13,942**	9,954	40.1%
Number of Investment Advisors (IAs)	**430**	418	2.9%
Number of employees	**710**	667	6.4%

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

Three months ended June 30, 2006, compared with three months ended June 30, 2005

Revenue from Private Client Services was $72.3 million, up $32.7 million, or 82.4%, from a year ago due to strong activity in the North American equity markets, particularly in Canada within the resource sectors during the first two months of fiscal Q1/07. Parallel to this revenue growth was a $4.0 billion increase in assets under administration (AUA) to a total of $13.9 billion. The 40.1% increase in AUA since fiscal Q1/06 reflects the strong increase in market values in North American equity markets, the addition of assets through transfers with newly hired IAs and additional assets added to existing accounts since Q1/06. There were 430 IAs at the end of the first quarter of fiscal 2007, a net increase of 12 from a year ago in an extremely competitive recruiting environment. Fee-related revenue as a percentage of total Private Client Services' revenue decreased 4.2 percentage points to 20.0% compared to the same period a year ago.

Expenses for Q1/07 were $55.2 million, up $24.2 million, or 78.0%. The largest increases in expenses were recorded in incentive compensation expense, up $15.8 million, or 89.8%, due to the increase in revenue for the quarter. Other overhead expenses included interest, up $3.0 million, or 231.1%; and general and administrative expense, up $3.2 million, or 113.1%. The largest components of general and administrative expense were client expenses, up $1.3 million due to increased provisions related to client activity; promotion and travel, up $0.7 million, which was required to support the overall increase in business activity due to corporate expansion, and other expenses, up $1.1 million, pertaining to regulatory expenses.

Income before income taxes for the quarter was $17.1 million, up 98.2% from the same period a year ago.

Canaccord Adams

(C$ thousands, except employees and % amounts)		Three months ended June 30 2006		2005	Year-over-year increase
Canaccord Adams (1)					
Revenue	**$**	**125,106**	$	54,457	129.7%
Expenses					
Incentive compensation		**65,948**		28,781	129.1%
Salaries and benefits		**3,188**		1,287	147.7%
Other overhead expenses		**22,386**		9,396	138.3%
Total Expenses	**$**	**91,522**	$	39,464	131.9%
Income before income taxes		**33,584**		14,993	124.0%
Number of employees		**481**		293	64.2%
US geographic segment (2)					
Revenue	**$**	**22,625**	$	–	n.m.
Expenses				–	n.m.
Incentive compensation		**12,303**		–	n.m.
Salaries and benefits		**1,754**		–	n.m.
Other overhead expenses		**7,144**		–	n.m.
Total Expenses	**$**	**21,201**	$	–	n.m.
Income before income taxes		**1,424**		–	n.m.
Number of employees		**154**		–	n.m.
Canaccord Adams, excluding the US geographic segment					
Revenue	**$**	**102,481**	$	54,457	88.2%
Expenses					
Incentive compensation		**53,645**		28,781	86.4%
Salaries and benefits		**1,434**		1,287	11.4%
Other overhead expenses		**15,242**		9,396	62.2%
Total Expenses	**$**	**70,321**	$	39,464	78.2%
Income before income taxes		**32,160**		14,993	114.5%
Number of employees		**327**		293	11.6%

(1) Includes the global capital markets division of Canaccord Capital Corporation in Canada; Canaccord Adams Limited in the UK; and Canaccord Adams Inc. and Canaccord Capital Corporation (USA), Inc. in the US.

(2) US geographic segment includes the operations of Canaccord Adams Inc. and Canaccord Capital Corporation (USA), Inc.'s capital markets activities only.

n.m.: not meaningful

Revenue in this business segment is generated from commissions and fees earned in connection with investment banking transactions and institutional sales and trading activity as well as trading gains and losses from Canaccord's principal and international trading operations. Contribution to Canaccord Adams' revenue comes from three regions: Canada, the UK, and most recently, from the US through the acquisition of Adams Harkness Financial Group, Inc.

Three months ended June 30, 2006, compared with three months ended June 30, 2005

Revenue from Canaccord Adams in Q1/07 was a quarterly record of $125.1 million, up $70.6 million, or 129.7%, compared to the same quarter a year ago due to increases in market share that also benefited from strong capital markets activity in Canada, the US, and the UK. Excluding the contribution of the US geographic segment, Q1/07 revenue would have been $102.5 million, up $48.0 million, or 88.2%, compared to Q1/06.

Revenue from Canadian operations

Canaccord Adams in Canada generated a fiscal first quarter record revenue of $53.6 million that was derived from four divisions: Capital Markets ($42.8 million, up $16.9 million, or 65.5%); International Trading ($7.4 million, up $4.0 million, or 115.6%); Registered Traders ($1.6 million, up $1.1 million, or 205.3%); and Fixed Income $1.8 million, same as Q1/06. The increase in this sector is primarily due to benefits from increased market share in corporate finance and trading as a result of an increase in market activity in the Canadian equity markets during Q1/07, largely due to rising global demand for commodities and Canadian equities.

Revenue from UK operations

Operations related to Canaccord Adams Limited in the UK include institutional sales and trading, corporate finance, and research teams. Revenue in this business was an all-time quarterly record of $48.9 million, up $26.1 million, or 114.1%, from Q1/06. This increase is a result of Canaccord Adams' leadership position as a Nominated Advisor/Broker on AIM, increasing liquidity and international interest in that market, and the successful expansion of our global securities distribution platform.

Revenue from US operations

The US geographic segment's results reflect the contribution of Canaccord Capital Corporation (USA), Inc. and Canaccord Adams Inc. (formerly the operating subsidiary of Adams Harkness Financial Group, Inc., acquired on January 3, 2006). Operational results for this new geographic segment are being reported separately as of January 3, 2006, and therefore, have no fiscal Q1 historical data for comparative purposes. Q1/07 revenue for Canaccord Adams in the US was $22.6 million, representing 11.0% of Canaccord's total revenue.

Expenses for Q1/07 were $91.5 million, up $52.1 million, or 131.9%. Excluding expenses from Canaccord Adams' US geographic segment, expenses would have been $70.3 million, up $30.9 million, or 78.2%. The largest increases in non-compensation expenses were in trading costs, up $3.6 million, reflecting the addition of Canaccord Adams Inc.; general and administrative expense, up $4.8 million related to higher business activity; and hiring incentives, up $1.0 million, related to ongoing hiring costs and the retention costs associated with the acquisitions of Adams Harkness Financial Group, Inc. and Enermarket Solutions Ltd.

The increase in incentive compensation for the quarter of $37.2 million, or 129.1%, is largely attributed to the 129.7% increase in revenue, which resulted in higher payouts for the period. Also contributing to this increase was the introduction of Canaccord's Employee Stock Incentive Plan (ESIP) in Q2/06, which was primarily offered to key Canaccord Adams' employees. Salary and benefits expense for the quarter increased by 147.7% compared to a year ago, due to the fact that the US geographic segment added $1.4 million in new salaries and benefits for the quarter. For the quarter, the total compensation expense payout as a percentage of revenue was 55.3%, up 0.1 percentage points compared to 55.2% for the same period a year ago.

The largest components of other non-compensation overhead expenses were general and administrative expenses, up $4.8 million; premises and equipment, up $1.7 million; and communication and technology, up $2.4 million related to expansion and upgrades of our premises globally. The largest increase in general and administrative expenses was promotion and travel, up $2.0 million, to support the overall increase in business activity due to corporate expansion. General and administrative expenses incurred by Canaccord Adams Inc. in the US were $2.1 million, or 24.1%, of Canaccord Adams' overall general and administrative expenses. Excluding Canaccord Adams Inc.'s operations in the US during Q1/07, general and administrative expenses for Canaccord Adams would have been $6.7 million, up $2.8 million, or 71.8%, compared to Q1/06.

Income before income taxes for the quarter was $33.6 million, up $18.6 million, or 124.0%, compared to the same quarter a year ago.

Other segment

	Three months ended June 30		
(C$ thousands, except employees and % amounts)	**2006**	2005	Year-over-year increase
Revenue	**$ 8,735**	$ 4,930	77.2%
Expenses			
Incentive compensation	**5,639**	2,288	146.5%
Salaries and benefits	**5,875**	4,903	19.8%
Other overhead expenses	**8,699**	5,912	47.1%
Total Expenses	**20,213**	13,103	54.3%
(Loss) before income taxes	**(11,478)**	(8,173)	40.4%
Number of employees	**343**	328	4.6%

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

Three months ended June 30, 2006, compared with three months ended June 30, 2005

Revenue for the three months ended June 30, 2006, was $8.7 million, up $3.8 million, or 77.2%, compared to the same quarter a year ago, and is primarily attributed to an increase in foreign exchange revenue, bank interest and security rebate revenue.

Expenses for Q1/07 were $20.2 million, up $7.1 million, or 54.3%. The largest increases in expenses were recorded in incentive compensation, up $3.4 million; salaries and benefits, up $1.0 million; and general and administrative expense, up $1.1 million, mainly attributable to increases in promotion and travel, up $0.4 million.

Loss before income taxes was $11.5 million in the first quarter of fiscal 2007, up $3.3 million, or 40.4%, compared to a loss of $8.2 million in the same quarter a year ago. This is mainly due to a one time pre-tax gain of $1.6 million from the disposal of an investment in the Bourse de Montréal in Q1/06. Had Canaccord not realized such gain in Q1/06, loss before income taxes in Q1/07 would have increased by $1.7 million, or 17.1%. Another contributing factor to the increase in loss is due to higher incentive compensation expenses related to higher profitability.

FINANCIAL CONDITIONS

Below are specific changes in selected balance sheet items.

Accounts receivable

Client security purchases are entered into either on a cash or margin basis. When securities are purchased on margin, Canaccord extends a loan to the client for the purchase of securities, using securities purchased and/or securities in the client's account as collateral. Therefore, the clients' accounts receivable balance of $428.0 million may vary significantly on a day-to-day basis and is based on trading volumes and market activity. As at June 30, 2006, total accounts receivable were $1,154.5 million compared to $1,540.0 million as at March 31, 2006. Also included in total accounts receivable are receivables from brokers and investment dealers totalling $368.3 million; $306.6 million in RRSP cash balances held in trust; and other receivables totalling $51.5 million.

Cash and cash equivalents

Cash and cash equivalents were $377.0 million as of June 30, 2006, compared to $370.5 million as of March 31, 2006. Significant sources of cash include net income of $25.9 million and securities sold short of $72.8 million. Uses of cash include a decrease in accounts receivable of $388.1 million; a decrease in securities owned of $9.0 million; the payment of dividends of $3.8 million; income taxes payable of $6.9 million; and the decrease in accounts payable of $474.4 million.

Call loans

Loan facilities utilized by the company may vary significantly on a day-to-day basis and depend on securities trading activity. Amounts borrowed pursuant to these call loan facilities, at June 30, 2006, totalled $0.6 million.

OFF-BALANCE SHEET ARRANGEMENTS

On June 30, 2006, Canaccord had an irrevocable standby letter of credit from one of its banks in the amount of $1.3 million as a rent guarantee for our leased premises in the UK. Canaccord Adams has also entered into irrevocable standby letters of credit from a financial institution totalling $1.6 million as rent guarantees for its leased premises in Boston, New York and San Francisco. As of June 30, 2006, the total outstanding balances were zero.

LIQUIDITY AND CAPITAL RESOURCES

Canaccord has a capital structure underpinned by shareholders' equity, which is comprised of share capital, retained earnings and cumulative foreign currency translation adjustments. On June 30, 2006, cash and cash equivalents net of call loans were $376.4 million, up $10.6 million from $365.8 million as of March 31, 2006. During the first quarter fiscal 2007 ended June 30, 2006, financing activities used cash in the amount of $2.8 million, which was primarily due to payment of dividends of $3.8 million, and offset by a $1.0 million for the decrease in unvested common share purchase loans[1] related to Canaccord's ESIP and other stock plans. Investing activities used cash in the amount of $0.4 million for the purchase of equipment and leasehold improvement. A further reduction in cash of $1.1 million was attributed to the effect of foreign exchange on cash balances. Operating activities provided cash in the amount of $14.9 million, which was due to net changes in non-cash working capital items, net income and items not affecting cash.

(1) These are forgivable loans granted to key employees in connection to the purchase of common stock in the open market under the ESIP and other incentive plans.

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

In fiscal Q1/07, Canaccord entered into a new tenancy agreement for its premises in London, England. The following table summarizes Canaccord's consolidated long-term contractual obligations as of June 30, 2006.

	Contractual obligations payments due by period				
(C$ in thousands)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Premises and equipment operating leases	$ 187,305	$ 18,894	$ 39,278	$ 37,177	$ 91,956

Credit facilities

Canaccord has credit facilities with Canadian, US and UK banks in an aggregate amount of $342.3 million. These credit facilities, consisting of call loans, letters of credit and daylight overdraft facilities, are collateralized by either unpaid securities and/or securities owned by Canaccord.

Outstanding share data

	Outstanding shares as of June 30	
	2006	2005
Issued shares outstanding – basic (1)	**45,906,368**	45,413,175
Issued shares outstanding – diluted (2)	**47,827,350**	46,116,268
Average shares outstanding – basic	**45,906,368**	45,426,032
Average shares outstanding – diluted	**47,998,175**	46,129,125

(1) Excludes 703,093 unvested shares that are outstanding relating to share purchase loans for recruitment and retention programs.

(2) Includes 703,093 shares related to share purchase loans referred to in footnote (1) above.

As of June 30, 2006, Canaccord had 47,827,350 common shares issued and outstanding on a diluted basis, up 1,711,082 common shares from June 30, 2005, comprising 1,420,342 common shares issued in connection with acquisitions, 691,940 common shares issued as part of the employee treasury stock purchase plan offset by a reduction of 401,200 common shares, which were purchased and cancelled during fiscal year 2006 through the normal course issuer bid (NCIB).

On December 22, 2005, Canaccord renewed its NCIB for one year commencing on December 29, 2005, and ending on December 28, 2006. The NCIB allows for purchases of up to 5% of Canaccord's issued and outstanding shares at the time of the renewal. As of August 4, 2006, there are 2,324,233 common shares available for purchase under the NCIB. Canaccord has agreed with the relevant regulators to update its shareholders at a minimum rate of every two weeks if purchases are made, and will update shareholders immediately if more than 1% of its outstanding shares are purchased in one day. Going forward and from time to time, Canaccord may purchase its common shares for the purpose of resale or cancellation.

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

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

As of August 3, 2006, Canaccord had 47,827,350 common shares outstanding on a diluted basis.

INTERNATIONAL FINANCIAL CENTRES

Canaccord is a member of the International Financial Centres of both British Columbia and Québec, which provide certain tax and financial benefits pursuant to the *International Financial Activity Act* of British Columbia and the *Act Respecting International Financial Centres of Québec*. As such, Canaccord's overall income tax rate is less than the rate that would otherwise be applicable.

FOREIGN EXCHANGE

Canaccord manages its foreign exchange risk by periodically hedging pending settlements in foreign currencies. Realized and unrealized gains and losses related to those contracts are recognized in income during the year. As of June 30, 2006, forward contracts outstanding to sell US dollars had a notional amount of US$8.5 million, down $3.8 million from a year ago. Forward contracts outstanding to buy US dollars had a notional amount of US$14.5 million, up US$6.3 million compared to a year ago. The fair value of these contracts was nominal. A certain number of Canaccord's operations in London, England, are conducted in British pounds sterling; however, any foreign exchange risk in respect of these transactions is generally limited as pending settlements on both sides of the transaction are typically in British pounds sterling.

CRITICAL ACCOUNTING ESTIMATES

The following is a summary of Canaccord's critical accounting estimates. Canaccord's accounting policies are in accordance with Canadian GAAP and are described in Note 1 to the audited consolidated financial statements for the year ended March 31, 2006. The accounting policies described below require estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses recorded in the financial statements. Because of their nature, estimates require judgement based on available information. Actual results or amounts could differ from estimates, and the difference could have a material impact on the financial statements.

Revenue recognition and valuation of securities

Securities held, including share purchase warrants and options, are recorded at market value and, accordingly, the interim consolidated financial statements reflect unrealized gains and losses associated with such securities. In the case of publicly traded securities, market value is determined on the basis of market prices from independent sources such as listed exchange prices or dealer price quotations. Adjustments to market prices are made for liquidity relative to the size of the position and holding periods and other resale restrictions, if applicable. Investments in illiquid or non-publicly traded securities are valued on a basis determined by management using information available and prevailing market prices of securities with similar qualities and characteristics, if known.

There is inherent uncertainty and imprecision in estimating the factors which can affect value and in estimating values generally. The extent to which valuation estimates differ from actual results will affect the amount of revenue or loss recorded for a particular security position in any particular period. With Canaccord's security holdings consisting primarily of publicly traded securities, its procedures for obtaining market prices from independent sources, the validation of estimates through actual settlement of transactions and the consistent application of its approach from period to period, Canaccord believes that the estimates of market value recorded are reasonable.

Provisions

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

Tax

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

Goodwill and other intangible assets

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

Other intangible assets are amortized over their estimated useful lives and tested for impairment periodically or whenever a potential impairment may arise as a result of an event or change in circumstances. Management must exercise judgement and make use of estimates and assumptions in determining the estimated useful lives of other intangible assets and in periodic determinations of value.

Stock-based compensation

In connection with the acquisition of Adams Harkness Financial Group, Inc., Canaccord agreed to issue common shares to certain key employees of Adams Harkness upon the expiry of a three-year vesting period, with the number of common shares to be adjusted in the event that certain revenue targets are not achieved. Canaccord uses the fair-value method of accounting for these payments, which includes making estimates in respect of forfeiture rates. Under this method the compensation expense is recognized over the relevant vesting period on a pro-rata basis as revenue targets are achieved. The fair value of the stock-based compensation was determined as of the grant date.

RELATED PARTY TRANSACTIONS

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

DIVIDEND POLICY

Although dividends are expected to be declared and paid quarterly, the Board of Directors, in its sole discretion, will determine the amount and timing of any dividends. All dividend payments will depend on general business conditions, Canaccord's financial condition, results of operations and capital requirements and such other factors as the Board determines to be relevant. Canaccord intends to continue to pay a $0.08 regular quarterly common share dividend in respect of Q1/07 and for each quarter in fiscal year 2007.

DIVIDEND DECLARATION

For the first quarter of fiscal 2007, the Board of Directors declared a common share dividend of $0.08 per share, which is payable on September 8, 2006, to shareholders of record on August 25, 2006. The common share dividend payment to common shareholders will total approximately $3.8 million or approximately 14.7% of first quarter net income.

Financial instruments

In the normal course of business Canaccord utilizes certain financial instruments to manage its exposure to credit risk, market risk and foreign exchange risk as mentioned above.

HISTORICAL QUARTERLY INFORMATION

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

The following table provides selected quarterly financial information for the nine most recently completed financial quarters ended June 30, 2006. This information is unaudited, but reflects all adjustments of a recurring nature, which are, in the opinion of management, necessary to present a fair statement of the results of operations for the periods presented. Quarter-to-quarter comparisons of financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

	Fiscal 2007	Fiscal 2006				Fiscal 2005			
(C$ thousands, except per share amounts)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue									
Private Client Services	**$ 72,286**	$ 78,422	$ 54,731	$ 52,411	$ 39,630	$ 56,391	$ 46,964	$ 36,499	$ 38,322
Canaccord Adams	**125,106**	120,243	98,918	60,048	54,457	81,444	72,368	46,671	39,171
Other	**8,735**	8,409	5,021	6,195	4,930	5,094	4,351	2,431	3,072
Total Revenue	**$ 206,127**	$ 207,074	$ 158,670	$ 118,654	$ 99,017	$ 142,929	$ 123,683	$ 85,601	$ 80,565
Net income	**25,942**	30,070	24,248	15,754	11,078	17,307	16,743	6,123	8,406
EPS – basic	**$ 0.57**	$ 0.66	$ 0.55	$ 0.35	$ 0.24	$ 0.38	$ 0.37	$ 0.14	$ 0.28
EPS – diluted	**$ 0.54**	$ 0.63	$ 0.52	$ 0.34	$ 0.24	$ 0.38	$ 0.36	$ 0.13	$ 0.23

RISKS

The securities industry and Canaccord's activities are by their very nature subject to a number of inherent risks. Economic conditions, competition and market factors such as volatility in the Canadian and international markets, interest rates, commodity prices, market prices, trading volumes and liquidity will have a significant impact on Canaccord's profitability. An investment in the common shares of Canaccord involves a number of risks, including market, liquidity, credit, operational, legal and regulatory risks, which could be substantial and are inherent in Canaccord's business. Private Client Services' revenue is dependent on trading volumes and, as such, is dependent on the level of market activity and investor confidence. Canaccord Adams' revenue is dependent on financing activity by corporate issuers and the willingness of institutional clients to actively trade and participate in capital markets transactions. There may also be a lag between market fluctuations and changes in business conditions and the level of Canaccord's market activity and the impact that these factors have on Canaccord's operating results and financial position. Furthermore, Canaccord may not achieve its growth plans associated with the acquisition and integration of Adams Harkness Financial Group, Inc. In addition to the risks previously mentioned above, other risks have not changed substantially from those set out in the Annual Report of June 26, 2006.

ADDITIONAL INFORMATION

A comprehensive discussion of our business, strategies, objectives and risks is available in the Management's Discussion and Analysis, Annual Information Form and audited annual financial statements in Canaccord's 2006 Annual Report, which are available on our Web site at www.canaccord.com/investor and on SEDAR at www.sedar.com.

Additional information relating to Canaccord, including Canaccord's Annual Information Form and interim filings can also be found on our Web site and on SEDAR at www.sedar.com.

INTERIM CONSOLIDATED BALANCE SHEETS *(Unaudited)*

As at (in thousands of dollars)	**June 30, 2006**	March 31, 2006	June 30, 2005
ASSETS			
Current			
Cash and cash equivalents	**$ 376,986**	$ 370,507	$ 282,485
Securities owned, at market [note 2]	**194,061**	203,020	122,745
Accounts receivable [notes 4 and 8]	**1,154,454**	1,539,998	855,730
Income taxes recoverable	**–**	–	1,222
Total current assets	**1,725,501**	2,113,525	1,262,182
Equipment and leasehold improvements	**24,449**	25,750	14,131
Notes receivable	**–**	–	42,731
Future income taxes	**11,872**	10,769	4,109
Goodwill and other intangible assets [note 5]	**27,575**	27,929	–
	$ 1,789,397	$ 2,177,973	$ 1,323,153
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Call loans	**$ 556**	$ 4,684	$ 819
Securities sold short, at market [note 2]	**109,923**	37,169	49,180
Accounts payable and accrued liabilities [notes 4 and 8]	**1,359,198**	1,832,956	1,003,765
Income taxes payable	**8,522**	15,334	–
Total current liabilities	**1,478,199**	1,890,143	1,053,764
Notes payable	**–**	–	42,731
Total liabilities	**$ 1,478,199**	$ 1,890,143	$ 1,096,495
Commitments and contingencies [note 10]			
Shareholders' equity			
Share capital [note 6]	**158,718**	157,644	151,100
Cumulative foreign currency translation adjustment	**(6,099)**	(6,277)	(3,010)
Retained earnings	**158,579**	136,463	78,568
Total shareholders' equity	**311,198**	287,830	226,658
	$ 1,789,397	$ 2,177,973	$ 1,323,153

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS *(Unaudited)*

For the three months ended (in thousands of dollars, except per share amounts)	**June 30, 2006**	June 30, 2005
REVENUE		
Commission	**$ 78,054**	$ 40,811
Investment banking	**102,840**	49,505
Principal trading	**7,784**	(1,741)
Interest	**13,638**	8,243
Other	**3,811**	2,199
	206,127	99,017
EXPENSES		
Incentive compensation	**104,955**	48,650
Salaries and benefits	**12,493**	9,226
Trading costs	**8,559**	4,312
Premises and equipment	**5,937**	3,626
Communication and technology	**5,063**	3,690
Interest	**4,982**	2,491
General and administrative	**19,107**	10,016
Amortization	**1,989**	1,118
Development costs	**3,867**	2,091
Gain on disposal of investment [note 11]	**–**	(1,633)
	166,952	83,587
Income before income taxes	**39,175**	15,430
Income tax expense (recovery)		
Current	**14,336**	4,469
Future	**(1,103)**	(117)
Net income for the period	**25,942**	11,078
Retained earnings, beginning of period	**136,463**	72,564
Cash dividends	**(3,826)**	(5,074)
Retained earnings, end of period	**$ 158,579**	$ 78,568
Basic earnings per share [note 6 [vi]]	**$ 0.57**	$ 0.24
Diluted earnings per share [note 6 [vi]]	**$ 0.54**	$ 0.24

See accompanying notes

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS *(Unaudited)*

For the three months ended (in thousands of dollars)	**June 30, 2006**	June 30, 2005
OPERATING ACTIVITIES		
Net income for the period	**$ 25,942**	$ $11,078
Items not affecting cash		
Amortization	**1,377**	1,205
Future income tax recovery	**(1,103)**	(117)
Gain on disposal of investment	**–**	(1,633)
Changes in non-cash working capital		
Decrease in securities owned	**9,035**	37,181
Decrease in accounts receivable	**388,138**	205,844
Increase in income taxes recoverable	**–**	(997)
Increase (decrease) in securities sold short	**72,766**	(56,348)
Decrease in accounts payable and accrued liabilities	**(474,398)**	(249,330)
Decrease in income taxes payable	**(6,868)**	(6,737)
Cash provided by (used in) operating activities	**14,889**	(59,854)
FINANCING ACTIVITIES		
Increase in notes payable	**–**	1,113
Decrease in unvested common share purchase loans	**1,074**	187
Redemption of share capital	**–**	(117)
Dividends paid	**(3,826)**	(5,074)
Cash used in financing activities	**(2,752)**	(3,891)
INVESTING ACTIVITIES		
Purchase of equipment and leasehold improvements	**(446)**	(1,571)
Increase in notes receivable	**–**	(1,113)
Proceeds on disposal of investment	**–**	1,639
Cash used in investing activities	**(446)**	(1,045)
Effect of foreign exchange on cash balances	**(1,084)**	(3,244)
Increase (decrease) in cash position	**10,607**	(68,034)
Cash position, beginning of period	**365,823**	349,700
Cash position, end of period	**$ 376,430**	$ 281,666
Cash position is comprised of:		
Cash and cash equivalents	**$ 376,986**	$ 282,485
Call loans	**(556)**	(819)
	$ 376,430	$ 281,666
Supplemental cash flow information		
Interest paid	**$ 4,939**	$ 1,685
Income taxes paid	**21,614**	12,622

See accompanying notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS *(Unaudited)*

For the three months ended June 30, 2006
(in thousands of dollars, except per share amounts)

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

Historically, the Company's operating results are characterized by a seasonal pattern and it earns the majority of its revenue in the last two quarters of its fiscal year. However, during the first quarter of fiscal 2007, the Company generated unusually strong revenue from North American operations, and therefore, the traditional seasonality variances may be less pronounced this fiscal year.

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

These interim unaudited consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP") with respect to interim financial statements, applied on a consistent basis. These interim unaudited consolidated financial statements follow the same accounting principles and methods of application as those disclosed in Note 1 to the Company's audited consolidated financial statements as at and for the year ended March 31, 2006 ("Audited Annual Consolidated Financial Statements"). Accordingly, they do not include all the information and footnotes required for compliance with Canadian GAAP for annual financial statements. These interim unaudited consolidated financial statements and notes thereon should be read in conjunction with the Audited Annual Consolidated Financial Statements.

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

2. SECURITIES OWNED AND SECURITIES SOLD SHORT

	June 30, 2006		March 31, 2006		June 30, 2005	
	Securities owned	**Securities sold short**	Securities owned	Securities sold short	Securities owned	Securities sold short
Corporate and government debt	**$ 116,317**	**$ 88,710**	$ 40,784	$ 14,319	$ 66,822	$ 29,592
Equities and convertible debentures	**77,744**	**21,213**	162,236	22,850	55,923	19,588
	$ 194,061	**$ 109,923**	$ 203,020	$ 37,169	$ 122,745	$ 49,180

As at June 30, 2006, corporate and government debt maturities range from 2006 to 2053 [March 31, 2006 – 2006 to 2053 and June 30, 2005 – 2005 to 2053] and bear interest ranging from 2.55% to 14.00% [March 31, 2006 and June 30, 2005 – 2.05% to 14.00%].

3. FINANCIAL INSTRUMENTS

Foreign exchange risk

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

Forward contracts outstanding at June 30, 2006:

	Notional amounts (US$ millions)	Average price (C$/US$)	Maturity	Fair value (US$ millions)
To sell US dollars	**$ 8.50**	**$ 1.11**	**July 5, 2006**	**$ 0.1**
To buy US dollars	**$ 14.50**	**$ 1.11**	**July 5, 2006**	**$ (0.1)**

Forward contracts outstanding at March 31, 2006:

	Notional amounts (US$ millions)	Average price (C$/US$)	Maturity	Fair value (US$ millions)
To sell US dollars	$ 90.85	$ 1.16	April 5, 2006	$ 0.1
To buy US dollars	$ 7.00	$ 1.16	April 3, 2006	$ (0.1)

Forward contracts outstanding at June 30, 2005:

	Notional amounts (US$ millions)	Average price (C$/US$)	Maturity	Fair value (US$ millions)
To sell US dollars	$ 12.25	$ 1.23	July 5, 2005	$ 0.1
To buy US dollars	$ 8.25	$ 1.23	July 6, 2005	$ (0.1)

4. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts receivable

	June 30, 2006	March 31, 2006	June 30, 2005
Brokers and investment dealers	**$ 368,262**	$ 567,308	$ 238,507
Clients	**428,005**	607,118	346,098
RRSP cash balances held in trust	**306,648**	320,766	252,731
Other	**51,539**	44,806	18,394
	$ 1,154,454	$ 1,539,998	$ 855,730

Accounts payable and accrued liabilities

	June 30, 2006	March 31, 2006	June 30, 2005
Brokers and investment dealers	**$ 300,774**	$ 397,733	$ 283,279
Clients	**919,481**	1,172,511	621,693
Other	**138,943**	262,712	98,793
	$ 1,359,198	$ 1,832,956	$ 1,003,765

Accounts payable to clients include $306.6 million [March 31, 2006 – $320.8 million and June 30, 2005 – $252.7 million] payable to clients for RRSP cash balances held in trust.

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

Amounts due from and to clients are due by the settlement date of the trade transaction. Margin loans are due on demand and are collateralized by the assets in the clients' accounts. Interest on margin loans and amounts due to clients is based on a floating rate [June 30, 2006 – 8.00% and 3.00%, respectively, March 31, 2006 – 7.50% and 2.50%, respectively, and June 30, 2005 – 6.25% and 1.25%, respectively].

5. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill and other intangible assets are as follows:

	June 30, 2006	March 31, 2006	June 30, 2005
Goodwill	**$ 22,653**	$ 22,653	$ –
Other intangible assets			
Balance at beginning of period	**5,276**	–	–
Acquisitions	**–**	5,650	–
Amortization	**354**	374	–
Balance at end of period	**4,922**	5,276	–
	$ 27,575	$ 27,929	$ –

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

6. SHARE CAPITAL

	June 30, 2006	March 31, 2006	June 30, 2005
Issued and fully paid			
Share capital			
Common shares	**$ 173,282**	$ 173,282	$ 153,018
Unvested share purchase loans	**(20,202)**	(20,577)	(2,958)
Contributed surplus	**5,638**	4,939	1,040
	$ 158,718	$ 157,644	$ 151,100

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

[i] Authorized

Unlimited common shares without par value

Unlimited preferred shares without par value

[ii] Issued and fully paid

Common shares

	Number of shares	Amount $
Balance, March 31, 2005	46,129,268	$ 153,061
Shares cancelled	(13,000)	(43)
Balance, June 30, 2005	46,116,268	153,018
Shares issued for cash	691,940	6,574
Shares issued in connection with acquisitions	1,420,342	15,022
Shares cancelled	(401,200)	(1,332)
Balance, June 30 and March 31, 2006	**47,827,350**	**$ 173,282**

Pursuant to the Company's normal course issuer bid ("NCIB"), as approved by the Toronto Stock Exchange, the Company was entitled to acquire up to 2,306,463, or 5.0%, of its shares from December 29, 2004 to December 28, 2005. Under the NCIB, the Company purchased for resale a total of 222,548 common shares between December 29, 2004 and March 31, 2005, and purchased for cancellation 414,200 common shares during the twelve months ended March 31, 2006, with a book value of $1.3 million for aggregate cash consideration of $4.6 million. The excess has been recorded to contributed surplus and retained earnings.

The Company renewed its NCIB and is currently entitled to acquire from December 29, 2005 to December 28, 2006, up to 2,324,233 of its shares, which represents 5% of its shares outstanding as of December 20, 2005. There were no share transactions under the NCIB between December 20, 2005 and June 30, 2006.

[iii] Excess on redemption of common shares

The excess on redemption of common shares represents amounts paid to shareholders, by the Company and its subsidiaries, on redemption of their shares in excess of the book value of those shares at the time of redemption. The excess on redemption of common shares has been charged against contributed surplus.

	For the three months ended	
	June 30, 2006	June 30, 2005
Redemption price	$ –	$ 117
Book value	–	43
Excess on redemption of common shares	$ –	$ 74

[iv] Common share purchase loans

The Company provides forgivable common share purchase loans to employees in order to purchase common shares. The unvested balance of forgivable common share purchase loans is presented as a deduction from share capital. The forgivable common share purchase loans are amortized over a vesting period of three years. Contributed surplus represents the amortization of unvested forgivable common share purchase loans.

[v] Distribution of acquired common shares

On November 24, 2005, the Company repurchased 132,000 common shares from departed employees at cost for total cash consideration of $0.5 million. These shares were subsequently distributed to existing employees at an average market price of $14.00 per share for total cash proceeds of $1.8 million. This excess on distribution of $1.3 million has been credited to contributed surplus.

Contributed surplus

Balance, March 31, 2005	$ 898
Unvested share purchase loans	216
Excess on redemption of common shares	(74)
Balance, June 30, 2005	1,040
Unvested share purchase loans and stock compensation plans	2,970
Excess on redemption of common shares	(386)
Excess on distribution of acquired common shares	1,315
Balance, March 31, 2006	4,939
Unvested share purchase loans and stock compensation plans	699
Balance, June 30, 2006	**$ 5,638**

[vi] Earnings per share

	For the three months ended	
	June 30, 2006	June 30, 2005
Basic earnings per share		
Net income for the period	**$ 25,942**	$ 11,078
Weighted average number of common shares (number)	**45,906,368**	45,426,032
Basic earnings per share	**$ 0.57**	$ 0.24
Diluted earnings per share		
Net income for the period	**25,942**	11,078
Weighted average number of common shares (number)	**45,906,368**	45,426,032
Dilutive effect of unvested shares (number)	**1,644,206**	703,093
Dilutive effect of stock-based compensation plans (number) [note 7]	**447,601**	–
Adjusted weighted average number of common shares (number)	**47,998,175**	46,129,125
Diluted earnings per share	**$ 0.54**	$ 0.24

7. STOCK-BASED COMPENSATION PLANS

Retention plans

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

The plan for Enermarket consists of the issuance of up to 25,210 common shares of the Company which will be paid after a two-year vesting period.

The plan for Adams Harkness provides for the issuance of up to 1,118,952 common shares of the Company after a three-year vesting period. The total number of shares which will vest is also based on revenue earned by Canaccord Adams Inc. during the vesting period. The aggregate number of common shares which vest will be that number which is equal to the revenue earned by Canaccord Adams Inc. during the vesting period divided by US$250.0 million multiplied by 1,118,952, subject to the maximum of 1,118,952 common shares adjusted for forfeitures and cancellations. As such revenue levels are achieved during the vesting period, the associated proportion of the retention payment will be recorded as a development cost and the applicable number of retention shares will be included in diluted common shares outstanding [Note 6[vi]].

Employee treasury stock purchase plan

In August 2005, the Company established an employee treasury stock purchase plan under which the Company made a forgivable loan to an employee for the purpose of paying 40% of the aggregate purchase price of common shares of the Company issued from treasury. A repayable loan in the amount of 35% of the aggregate purchase price of the common shares was also made to the employee. Subject to continued employment, one-third of the number of common shares purchased utilizing the forgivable loan portion of the aggregate purchase will vest on each anniversary of the date of the purchase and the forgivable loan portion related to amounts vested will be forgiven. The applicable number of shares under this employee treasury stock purchase plan will be included in diluted common shares outstanding [Note 6[vi]].

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

	For the three months ended	
	June 30, 2006	June 30, 2005
Number of common shares subject to the Enermarket retention plan:		
Beginning of period	**25,210**	–
Grants	**–**	–
End of period	**25,210**	–
Number of common shares subject to the Adams Harkness retention plan:		
Beginning of period	**1,046,219**	–
Grants	**72,733**	–
Forfeitures	**(2,308)**	–
End of period	**1,116,644**	–
Number of common shares subject to the employee treasury stock purchase plan:		
Beginning of period	**276,776**	–
Issued	**–**	–
End of period	**276,776**	–

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

The forgivable loan amount in respect of the common shares issued under the employee treasury stock purchase plan is $2.6 million. This amount will be recognized in the financial statements of the Company over the vesting period on a straight-line basis.

8. RELATED PARTY TRANSACTIONS

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

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

	June 30, 2006	March 31, 2006	June 30, 2005
Accounts receivable	**$ 35,815**	$ 34,582	$ 30,762
Accounts payable and accrued liabilities	**$ 86,745**	$ 88,506	$ 64,111

9. SEGMENTED INFORMATION

The Company has two operating segments:

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

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

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

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

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

	For the three months ended June 30							
	2006				2005			
	Private Client Services	**Canaccord Adams**	**Corporate and Other**	**Total**	Private Client Services	Canaccord Adams	Corporate and Other	Total
Revenues	**$ 72,286**	**$ 125,106**	**$ 8,735**	**$ 206,127**	$ 39,630	$ 54,457	$ 4,930	$ 99,017
Expenses	**53,286**	**89,285**	**18,525**	**161,096**	29,758	38,864	11,756	80,378
Amortization	**410**	**950**	**629**	**1,989**	380	445	293	1,118
Development, restructuring and other costs	**1,521**	**1,287**	**1,059**	**3,867**	882	155	1,054	2,091
Income (loss) before income taxes	**$ 17,069**	**$ 33,584**	**$ (11,478)**	**$ 39,175**	$ 8,610	$ 14,993	$ (8,173)	$ 15,430

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

	For the three months ended	
	June 30, 2006	June 30, 2005
Canada		
Revenue	**$ 133,250**	$ 76,184
Net income	**13,103**	5,960
Equipment and leasehold improvements	**20,950**	12,428
Goodwill and other intangible assets	**4,521**	–
United States		
Revenue	**$ 23,985**	$ –
Net income	**1,648**	–
Equipment and leasehold improvements	**2,351**	–
Goodwill and other intangible assets	**23,054**	–
United Kingdom		
Revenue	**$ 48,892**	$ 22,833
Net income	**11,191**	5,118
Equipment and leasehold improvements	**1,148**	1,703

10. COMMITMENTS AND CONTINGENCIES

Commitments

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

	$
2007	14,282
2008	18,798
2009	20,189
2010	18,978
2011	18,495
Thereafter	96,563
	187,305

Contingencies

During the period, there have been no material changes to the Company's contingencies from those described in Note 17 of the March 31, 2006 Audited Annual Consolidated Financial Statements.

11. GAIN ON DISPOSAL OF INVESTMENT

During the three months ended June 30, 2005, the Company recognized a gain of $1,633 from the sale of its investment in shares of the Bourse de Montréal.

12. SUBSEQUENT EVENT

Dividend

On August 3, 2006, the Board of Directors declared a common share dividend of $0.08 per share payable on September 8, 2006, with a record date of August 25, 2006.

13. CANADIAN AND INTERNATIONAL FINANCIAL REPORTING STANDARDS DIFFERENCES

These consolidated financial statements have been prepared in accordance with Canadian GAAP with respect to interim financial statements. In certain respects, International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board differ from those applied in Canada.

If IFRS were employed, there would be no material adjustment to net income or earnings per share and consolidated shareholders' equity of the Company for the three months ended June 30, 2006 and 2005.

The area of material difference between GAAP and IFRS and its impact on the consolidated financial statements of the Company is in the consolidated statement of changes in shareholders' equity. IFRS requires the inclusion of a consolidated statement of changes in shareholders' equity for each statement of income year, as follows:

	June 30, 2006	June 30, 2005
ISSUED AND PAID SHARE CAPITAL		
Common shares		
Balance at the beginning of the period	$ 173,282	$ 153,061
Shares cancelled	–	(43)
Balance at the end of the period	$ 173,282	$ 153,018
Unvested share purchase loans		
Balance at the beginning of the period	$ (20,577)	$ (2,929)
Movements during the period	375	(29)
Balance at the end of the period	$ (20,202)	$ (2,958)
Contributed surplus		
Balance at the beginning of the period	$ 4,939	$ 898
Movements during the period	699	142
Balance at the end of the period	5,638	1,040
	$ 158,718	$ 151,100
CUMULATIVE FOREIGN CURRENCY TRANSLATION ADJUSTMENT		
Balance at the beginning of the period	$ (6,277)	$ (1,383)
Movements during the period	178	(1,627)
Balance at the end of the period	$ (6,099)	$ (3,010)
RETAINED EARNINGS		
Balance at the beginning of the period	$ 136,463	$ 72,564
Net income for the period	25,942	11,078
Cash dividends	(3,826)	(5,074)
Balance at the end of the period	$ 158,579	$ 78,568

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the fiscal 2006 annual financial statement presentation.

SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS:

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

Mailing address:
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2200 – 609 Granville Street
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STOCK EXCHANGE LISTING:
TSX: CCI
AIM: CCI

GENERAL SHAREHOLDER INQUIRIES AND INFORMATION:
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Scott Davidson
Managing Director, Global Head of Marketing & Communications
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INSTITUTIONAL INVESTORS, BROKERS AND SECURITY ANALYSTS:

For financial information inquiries contact:
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Vice President, Investor Relations
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CCI's 2006 Annual Report is available on our Web site at www.canaccord.com. For a printed copy please contact the Investor Relations department.

FISCAL 2007 EXPECTED DIVIDEND AND EARNINGS DATES

	Earnings release date	Dividend record date	Dividend payment date
Q1/07	August 4, 2006	August 25, 2006	September 8, 2006
Q2/07	November 9, 2006	November 24, 2006	December 8, 2006
Q3/07	February 8, 2007	February 23, 2007	March 8, 2007
Q4/07	May 17, 2007	June 1, 2007	June 8, 2007

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

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

FINANCIAL INFORMATION:
For present and archived financial information, please visit www.canaccord.com/financialreports

AUDITOR:
Ernst & Young LLP
Chartered Accountants
Vancouver, BC

FEES PAID TO SHAREHOLDERS' AUDITORS:
For fees paid to shareholders' auditors, see page 35 of the fiscal 2006 Annual Information Form.

PRINCIPAL SUBSIDIARIES:
Canaccord Capital Corporation
Canaccord Adams Limited
Canaccord International Limited
Canaccord Capital Corporation (USA), Inc.
Canaccord Adams Inc.
Canaccord Enermarket Ltd.

CORPORATE WEB SITE:
www.canaccord.com

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