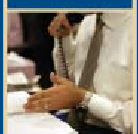
GRIFFITHS MCBURNEY

# GMP Capital Corp.
# Annual Report 2004

## GMP Securities Senior Management



"When asked: How can you account for the success of GMP? My answer is simple … effective execution. We have been very focused on the execution of money-making ideas for both our buy-side clients and our corporate clients. Success is contingent on total team involvement. This is a hallmark of our strategy."

— Gene McBurney, Chairman, GMP Securities

"The strength of GMP has its foundation in the quality of the individuals we hire. No decision is more rigourously discussed than who joins our firm."

— Robert Fraser, Vice Chairman, Investment Banking, GMP Securities

"We believe the formula for success in the securities industry is to promote a culture of integrity, respect and discipline in which all participants are accountable to the industry and each other. At GMP all of our employees personify that goal."

— Michael Wekerle, Vice Chairman, Institutional Trading, GMP Securities

"Critical to GMP's success has been a research team dedicated to the delivery of timely, money-making investment ideas and in-depth, creative industry analysis. GMP is well positioned with its stable of 19 highly regarded analysts focused on select verticals to continue to exploit this competitive advantage."

— Paul Pew, Vice Chairman, Director of Research, GMP Securities

"GMP is uniquely positioned to offer a differentiated and integrated brokerage model, which includes, among other things, the ability for Investment Advisors to participate as equity owners in their own business."

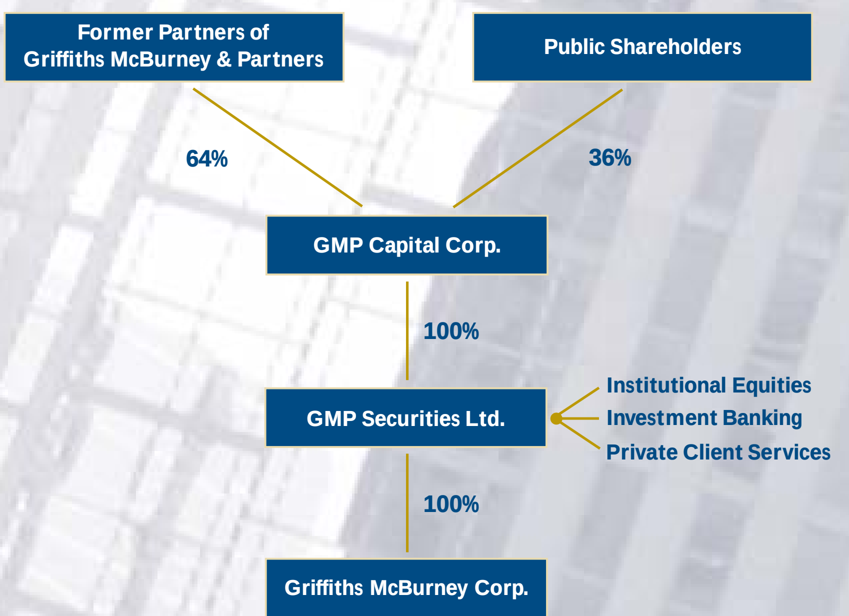
— James Werry, CEO, GMP Private Client Services

"GMP has a talented, energetic and idea-driven sales team with expertise in a variety of sectors in the Canadian capital markets. Key to our success has been a continued focus on finding money-making ideas for our clients — critical in today's competitive investment landscape."

— Kevin Overstrom, Managing Director, Head of Institutional Sales, GMP Securities

# Corporate Profile

**Founded by a group of Canadian entrepreneurs in 1995, GMP Capital Corp., through its operating subsidiary, GMP Securities Ltd., today is a leading Canadian independent investment dealer focused on serving corporate clients, institutional investors and high net worth private clients. GMP engages in investment banking, institutional equities and private client activities through its offices in Toronto, Calgary, Montreal and Geneva, Switzerland. In December 2003, GMP completed a successful $110 million initial public offering and began trading on the Toronto Stock Exchange under the symbol "GMP".**

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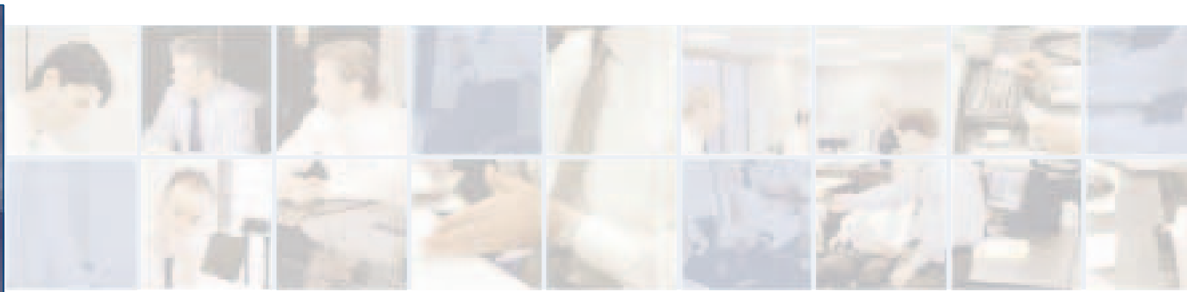
# A Message to our Shareholders and

Kevin Sullivan, CEO



Fiscal 2004 was an eventful year for GMP Capital. In the midst of a strong recovery in the capital markets, the Company posted record financial results, completed a $110 million initial public offering and began trading on the Toronto Stock Exchange. GMP reported $135.5 million in revenue and pretax profits of $58.1 million compared with $32.7 million in fiscal 2003. From a financial point of view, results for fiscal 2004 were the strongest in our history.

The foundation for the success of the past year was built in 1995, when a handful of Canadian entrepreneurs came together to build a new and unique firm in the Canadian capital markets. GMP was founded on two key philosophies: First, we felt that the way to create an energetic and creative environment for the people that work at GMP was to provide them with the opportunity to participate in the firm's growth and success through an ownership interest. Second, we felt that real success would be achieved by building long-term relationships with our clients and providing them with superior execution of their capital market needs. Now, nine years later, we are over 160 people strong, and while GMP Capital has grown, our culture and the philosophies that have led to our success remain intact.

In the nine years since our inception, we have experienced extremely volatile capital market conditions. Throughout these highs and lows, the commitment and ingenuity of the employees at GMP have allowed us to not only meet the needs of our clients but also to achieve consistent profitability. These profits have enabled us to attract the best people, grow our business and strengthen our competitive position. Ultimately, these factors led us to be the first brokerage firm in Canada in over a decade to embark on an initial public offering.

We intend to use the capital raised from our initial public offering to continue to grow our business, to raise our profile in the Canadian marketplace and to further solidify our position in an increasingly competitive market. We have been very active since going public. We have added several high-quality professionals to our institutional equities and investment banking groups. We entered into the Canadian healthcare/biotechnology sector with the addition of a team of seasoned professionals, and most recently, we appointed an experienced senior executive to lead our entry into private client services.

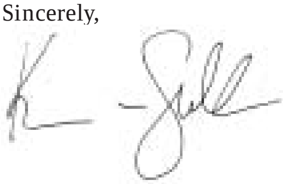
# Clients

While fiscal 2004 was a busy and exciting year for GMP, there is still much to be done. We are optimistic about our future and the challenges that lie ahead. The impact on our business of the level of activity generally in the Canadian capital markets makes projections about the future difficult. Indeed, it would have been extremely difficult back in 1995 to predict the changes that would occur in our industry. However, after nine years of operations, we are confident in saying that we are well positioned to implement new strategies and to adapt to change. In addition, our personal stake, as both employees and shareholders in the company, means that we share a common purpose with our shareholders — to build on the strength of our franchise, to provide superior financial results and to enhance shareholder value.

I would like to express my gratitude to a number of people for their many contributions to GMP. First and foremost, I would like to thank our clients, whose consistent support over the years has contributed immeasurably to our success. I would also like to thank the members of our Board of Directors for their guidance in our transition from a private partnership to a public company. Their expertise has been a welcome and valuable addition to our team and should assure our shareholders of our commitment to sound corporate governance. Lastly, I would like to thank our employees for their hard work, dedication and sacrifices over the years and during our transition to a public company.

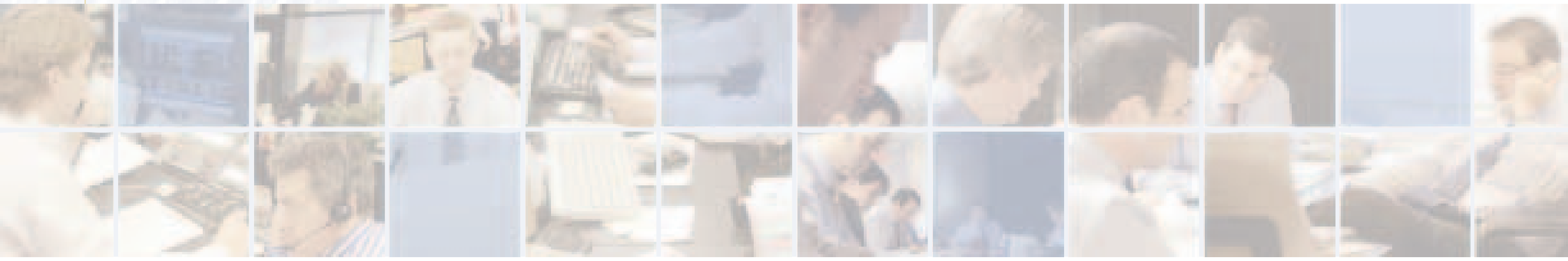
We look forward to keeping you informed of our progress and participating with you as shareholders in GMP Capital Corp.'s future.

Sincerely,



Kevin M. Sullivan
Chief Executive Officer
GMP Capital Corp.

# Highlights, Objectives and Strategies



## Highlights

- revenue increased 41% to a record $135.5 million for fiscal 2004, up from $96.3 million achieved in the prior year
- *pro forma* pretax income increased 78% to $58.1 million ($2.07/share) for fiscal 2004, up from $32.7 million achieved in the prior year
- *pro forma* after-tax return on equity was 30.6% for fiscal 2004, compared with 16.6% in the prior year
- fourth quarter fiscal 2004 *pro forma* pretax income was $17.7 million ($0.63/share)
- fourth quarter fiscal 2004 *pro forma* net income was $11.2 million ($0.40/share)
- completed a $110 million initial public offering
- began trading on the Toronto Stock Exchange under the symbol “GMP”
- declared a dividend of $0.10 per share payable for the last quarter of fiscal 2004
- entered the Canadian healthcare/biotechnology sector
- began expansion of private client division

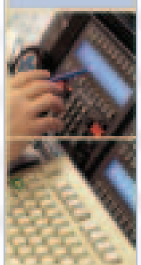
## Objectives

- continue to provide superior financial returns to our shareholders and clients
- expand our franchise by entering new and complementary businesses
- solidify our current position and continue to build on our core competencies
- raise our profile and brand awareness

## Strategies

- build new, and enhance current, relationships with our clients and shareholders
- pursue new businesses or market underdeveloped sectors where we can use our current platform to compete effectively
- use our strong capital base to facilitate the capital market needs of our clients
- expand the breadth of our products and services

# Management's Discussion and Analysis of Financial Condition and Results of Operations



## GMP Capital Corp.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*Unless the context indicates otherwise, all references to the "Company" refer to GMP Capital Corp., and all references to "we", "our", "us" and "GMP" refer to GMP Capital Corp. together with its consolidated operations, unless otherwise indicated. All references to "GMP Securities" refer to the principal operating subsidiary of the Company, GMP Securities Ltd. All references to the "Partnership" refer to Griffiths McBurney & Partners and its subsidiaries prior to the completion of the reorganization and initial public offering on December 9, 2003. Unless specifically stated otherwise, all references to fiscal 2004, fiscal 2003 and fiscal 2002 refer to our fiscal years ended, or the dates, as the context requires, January 31, 2004, January 31, 2003, and January 31, 2002, respectively (e.g., fiscal 2004 refers to the 12 months ended January 31, 2004).*

## Forward-Looking Statements

This document contains "forward-looking statements" concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events, many of which, by their nature are inherently uncertain and beyond our control. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in this document. Our primary business activities are, by their nature, both competitive and subject to various risks. The primary risks are variations in the value of securities, the volatility and liquidity of trading markets, and the volume of new financings and mergers and acquisitions. Other factors, such as general economic conditions and credit risk, also may have an impact on our results of operations. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. The information provided in this document is provided as of April 8, 2004, and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

## Presentation of Financial Information

On December 9, 2003, in anticipation and prior to completion of our initial public offering, the business carried on by the Partnership was transferred to GMP Securities, all the outstanding shares of which are held by the Company. As a result, our financial results for the year ended January 31, 2004, are prepared using the continuity of interests method. Our financial results for the year ended January 31, 2003, and for the period from February 1, 2003 to December 8, 2003, are those of the Partnership. The financial results from December 9, 2003, to January 31, 2004 (54 days), are those of the Company. Due to the inherent structural differences between Griffiths McBurney & Partners, which was a partnership, and the Company, which is a corporation, we have presented *pro forma* information that is intended to reflect the business of the Partnership as if it had been carried on as a corporation. See "Non-GAAP Measures" on page 7 and "*Pro Forma* Net Income Reconciliation" on page 12.

## Non-GAAP Measures

Due to the differences in accounting between the Partnership and the Company, we have presented, in addition to the financial statements of the Company, certain non-GAAP (generally accepted accounting principles) measures to assist in assessing our financial performance. Non-GAAP earnings measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Before the reorganization on December 9, 2003, variable incentive-based compensation paid to partners under the partnership structure was recorded as a current account draw and deducted in partners' equity. Since December 9, 2003, this compensation has been recorded as a salaries and benefits expense on the statement of operations. In addition, a partnership does not pay income tax — partnership income is allocated to each partner and the individual partner incurs the income tax. No adjustment was made for certain expenses paid by the Company to various governments related to salaries, which management does not believe are material. Under the corporate structure, the Company incurs the tax liability directly. See "*Pro Forma* Net Income Reconciliation" for a reconciliation from non-GAAP to GAAP earnings measures.

## Overview and Strategy

We are a leading Canadian independent investment dealer that is focused on serving corporate clients and institutional investors. Our main revenue-generating activities are investment banking and trading as agent for our clients. We believe that each of these activities complements the other. We also generate revenue in the form of interest income, income from principal activities that include proprietary trading (in which a small group of professionals actively trade securities of public entities that we follow to facilitate an efficient market in those securities), holding of broker warrants that we receive as part of our compensation pursuant to certain corporate finance engagements, holding securities that we have underwritten but that have not yet been sold, and investments that we make for our own account in unusual situations.

The nine years since we began operations have seen tremendous volatility and change in Canadian and global capital markets, including the technology bull market of the late 1990s, the Asian sell-off and related liquidity crisis in 1998, and the general impact on the global economy of the events of and following September 11, 2001. Accordingly, our revenue and net income have historically been, and we expect will continue to be, subject to significant fluctuations that will reflect similar factors and others (including general competitive conditions), many of which are beyond our control. Additionally, there may be lags between these market fluctuations and the level of our activity and their impact on our financial results, particularly in our investment banking business. Generally, our fees in respect of both corporate finance and mergers and acquisitions activities are paid on the closing of transactions, which often occur in a financial quarter that is later than the time of the announcement of, or our most significant involvement in, a transaction.

One of our basic business strategies is to bring value-added investment banking, sales, trading and research services to our institutional and corporate client base. In the implementation of this strategy, we have focused on controlling our fixed costs and incurring incremental variable expenses (primarily variable incentive-based compensation) only in the context of increased revenue generation and overall profitability. We strive to bring a disciplined approach to our operations and maintain very low levels of general and administrative expenses, which represented 12.8% of total revenue in fiscal 2004.

## Business Environment

The majority of our revenue comes from activity in the Canadian capital markets. While the Canadian market does not enjoy the same depth and liquidity as does the U.S. market, it is nonetheless highly competitive, with over 120 member firms in the Investment Dealers Association of Canada. Similar to other jurisdictions, the large majority of the securities trading business and corporate finance business is undertaken by the top 10 firms that represented approximately 80% of the overall industry revenue in 2003.

Due to the relatively small size of the Canadian capital markets, the large-capitalization market (which is comprised of only approximately 164 publicly listed entities having over $1 billion in market capitalization) is extremely competitive and well served by the large, predominately bank-owned investment dealers that offer a wide variety of products and services. Conversely, Canada has well over 1,000 publicly listed companies with less than $1 billion in market capitalization. This market segment has traditionally received less focus from the bank-owned and foreign dealer communities, as their size and cost base have made transactions involving these companies less attractive. For these reasons, we elected to focus our investment banking practice on this traditionally less competitive market segment. Our low cost structure and our defined sectoral focus have allowed us to compete effectively and earn favourable returns despite the lower revenue per transaction inherent in this market.

Additionally, there have been substantial ownership changes in the Canadian brokerage community that have resulted in somewhat reduced competition in this market segment, in which the smaller entrepreneurial firms traditionally have tended to play a more significant role. Specifically, firms such as Midland Walwyn, First Marathon, Gordon Capital, Richardson Greenshields and Newcrest Capital, which were all at one time strong competitors in the Canadian market, have been purchased by either Canadian or foreign banks or U.S.-based investment dealers. This consolidation and the resultant changes in Canadian market strategy adopted by the acquirors has presented us with many opportunities, as our financial results over the past several years attest. This consolidation has resulted in significant market share gains in both our trading and investment banking businesses.

As past cycles indicate, periods of consolidation have tended to lead to periods of start-up activity in the Canadian dealer community, and we have witnessed several new entrants over the past 12 to 18 months. Recognizing this trend, and with a view to further capitalizing on our strong competitive position, we elected to go public on December 9, 2003. Our initial public offering was the first by a Canadian investment dealer in over a decade. The initial public offering was designed to further enhance our strong position by providing us with increased capital, further supporting our franchise and brand awareness, and allowing our clients to participate in our future.

This strategy has made us unique on the Canadian dealer landscape and, we believe, offers us increased revenue-generating opportunities. While others will undoubtedly follow us down this path, we believe that we have a significant head start in terms of differentiation from both our large bank-owned competitors and the small independent brokerage firms. We intend to continue to utilize our public company structure and capital base to pursue new opportunities.

## Operations of the Company

The Company provides brokerage services in Canada and the United States in three main markets: investment banking, institutional equities (which comprises sales, trading and research) and private client services. The former two markets are served by 69 professionals focusing on seven industry groups including oil & gas, technology, communications, mining, non-bank financial services, healthcare/biotechnology, and industrials and special situations.

### *Investment Banking*

Our investment banking business consists primarily of public and private corporate financing activities and merger and acquisition advisory services. Our team of 19 professionals currently focuses on investment banking activities in each of the seven industry sectors in which we specialize. Our corporate finance business consists primarily of raising financing for public and private businesses in the capital markets in the form of equity, debt and other securities. An important element of our overall strategy is to work with growth companies at an early stage in their development, often before these companies become publicly traded. We also provide advisory services to private and public companies in connection with a wide variety of transactions, including mergers, acquisitions, reorganizations and restructurings.

### *Sales and Trading*

Our equity sales and trading operations consist primarily of buying and selling securities as an agent on behalf of our clients. We earn commissions for executing these trades. We have a strong and experienced sales and trading team consisting of 31 professionals. The diverse client base of our sales and trading business is primarily Canadian and U.S. institutional investors, including mutual funds, pension funds, investment counsellors and private investment pools. An important element that differentiates us from many other specialized investment dealers in Canada is our ability to provide institutional clients with strong and consistent execution of their trading strategies.

### *Research*

A key element of our business strategy is to provide specialized and in-depth research in order to compete against the larger investment dealers. We currently employ 19 analysts who provide research coverage of over 200 companies in the seven industry sectors on which we focus. The members of each industry team work closely together to provide our clients with timely information, to identify and evaluate industry trends, and to uncover investment opportunities with high-growth potential. In addition, we cover the industry leaders in each of these sectors.

### *Private Client Services*

On March 29, 2004, we announced the addition of a key executive to build on our private client division. Our market research over the past few years has indicated strong demand from the retail brokerage community for a differentiated and integrated brokerage model that includes, among other things, the ability for investment advisors to participate as equity owners in their own business. We are uniquely positioned to offer such a product given our history of wealth creation through equity ownership as well as our position as the only major independent Canadian brokerage firm with a public company structure. As we employ the proceeds of our initial public offering to pursue this business, we anticipate that there will be significant cash outflow. Approximately $10 million in capital has been allocated initially towards the expansion of our private client division.

## Summary of Fiscal 2004

Our *pro forma* earnings per share for fiscal 2004 were $1.32, an increase of 83% compared to fiscal 2003. The *pro forma* after-tax return on equity (taking into account the proceeds from our initial public offering) was 30.6% versus 16.6% in fiscal 2003. Each of our investment banking and institutional equities businesses achieved record results in terms of both revenue and earnings. Sales and trading revenue, at $48.7 million, was up 26% largely due to significant trading volume increases in those sectors of the market on which we focus. Investment banking revenue, at $73.7 million, represented an all-time record with strength across a number of sectors, particularly mining and oil & gas.

Overall revenue increased 41% to a record $135.5 million for fiscal 2004, up from $96.3 million in the prior year. *Pro forma* pretax income increased 78% to $58.1 million ($2.07 per share) for fiscal 2004, up from $32.7 million in fiscal 2003. At year-end, January 31, 2004, our book value was $4.60 per share.

We declared a dividend of $0.10 per common share payable for the last quarter of fiscal 2004, and the Board of Directors adopted an annual dividend policy pursuant to which it intends to pay a dividend of $0.10 per common share per quarter for fiscal 2005. The Board of Directors intends to review GMP's dividend policy periodically in the context of the firm's overall profitability, free cash flow and other business conditions.

## Selected Financial Information

The following tables provide an overview of GMP Capital Corp.'s financial results.

### Unaudited Consolidated Financial and *Pro Forma* Information and Operating Data

| | 3 months ended | | 12 months ended | |
|---|---|---|---|---|
| (C$000, except shares and per share amounts) | January 31, 2004 | January 31, 2003 | January 31, 2004 | January 31, 2003 |
| Income Statement Data | | | | |
| Total revenue | $ 39,559 | $ 28,033 | $ 135,539 | $ 96,332 |
| Expenses (excluding taxes) | 24,333 | 9,659 | 50,330 | 34,714 |
| Net income before tax | 15,226 | 18,374 | 85,209 | 61,618 |
| Adjustment for partners' incentive compensation and benefits (1)(4) | (2,442) | 6,674 | 27,142 | 28,870 |
| Adjusted income before tax(1)(2) | $ 17,668 | $ 11,700 | $ 58,067 | $ 32,748 |
| Adjusted income before tax per share after initial public offering(1) | $ 0.63 | $ 0.42 | $ 2.07 | $ 1.17 |
| Before tax return on *pro forma* equity after the offering (1)(4) | 14.6% | 9.7% | 48.1% | 27.1% |
| Before tax return on average monthly equity | 17.8% | 21.7% | 87.7% | 59.9% |
| *Pro Forma* Data (1)(4) | | | | |
| Tax per GAAP statements | 5,774 | (30) | 5,825 | 91 |
| *Pro forma* income tax adjustment | 662 | 4,535 | 15,348 | 12,557 |
| Adjusted *pro forma* net income after-tax | $ 11,232 | $ 7,195 | $ 36,894 | $ 20,100 |
| Adjusted *pro forma* net income after initial public offering | $ 0.40 | $ 0.26 | $ 1.32 | $ 0.72 |
| *Pro Forma* Selected Data and Ratios(1)(4) | | | | |
| After tax return on *pro forma* equity after adjusting for the offering | 9.3% | 6.0% | 30.6% | 16.6% |
| After tax return on average monthly equity | 11.3% | 13.3% | 55.7% | 36.8% |
| Ratio of *pro forma* compensation (including incentive compensation) and benefits to total revenues | 41.9% | 41.4% | 43.4% | 46.0% |
| Shareholders' Equity | $ 129,025 | | $ 129,025 | |
| Book Value Per Share | $ 4.60 | | $ 4.60 | |
| Assumptions(1) | | | | |
| *Pro forma* equity after initial public offering(4) | $ 120,730 | $120,730 | $ 120,730 | $ 120,730 |
| Average monthly *pro forma* equity(4) | $ 99,058 | $ 53,949(3) | $ 66,203 | $ 54,674(3) |
| Shares outstanding after inital public offering (000) | 28,000 | 28,000 | 28,000 | 28,000 |
| *Pro forma* tax rate(4) | 36.4% | 38.5% | 36.4% | 38.5% |

**Notes:**

1 This data is considered to be non-GAAP. See "Non-GAAP Measures."

2 Adjusted income deducts/adds back to net income the portion of the partners' distribution relating to partners' variable incentive-based compensation accounted for as a compensation and benefit expense (but without the consequent adjustments for tax).

3 Partners' capital includes subordinated loans to employees and partners' equity, but excludes partners' undistributed earnings.

4 *Pro forma* data reflects such adjustments as are necessary, in the opinion of management, for a fair presentation of the results of operations and shareholders' equity of the Company on a *pro forma* basis following the reorganization of the business from a partnership to a corporation. The Company's *pro forma* data is not necessarily indicative of either the results that actually would have been achieved if the reorganization and initial public offering had taken place or the results that may be achieved in the future.

## Selected Financial Data

| (C$000, except per share amounts) | January 31, 2004 | January 31, 2003 | January 31, 2002 |
|---|---|---|---|
| Total revenue | $ 135,539 | $ 96,332 | $ 98,111 |
| Income before income taxes and settlement costs | 85,699 | 63,553 | 63,020 |
| *Pro forma* basic and diluted net income per common share(1)(2) | $3.06 | — | — |
| *Pro forma* income after adjustment for taxes and incentive compensation(1)(2) | 36,894 | 20,100 | 18,933 |
| *Pro forma* basic and diluted net income per common share(3) | $1.32 | $0.72 | $0.68 |
| Total assets | 494,082 | 258,350 | 335,525 |
| Total liabilities | 364,883 | 194,518 | 279,758 |

**Notes:**

1 This data is considered to be non-GAAP earnings measures. See "Non-GAAP Measures".

2 *Pro forma* data reflects such adjustments as are necessary, in the opinion of management, for a fair presentation of the results of operations and shareholders' equity of the Company on a *pro forma* basis following the reorganization of the business and our initial public offering. The Company's *pro forma* data is not necessarily indicative of either the results that actually would have been achieved if the reorganization and initial public offering had taken place or the results that may be achieved in the future.

3 See note 13 of "Notes to Annual Consolidated Financial Statements".

## *Pro Forma* Net Income Reconciliation (Unaudited)

| | 3 months ended | | 12 months ended | |
|---|---|---|---|---|
| (C$000) | January 31, 2004 | January 31, 2003 | January 31, 2004 | January 31, 2003 |
| Net income - GAAP | $ 9,452 | $ 18,405 | $ 79,384 | $ 61,527 |
| Partners' variable incentive-based compensation (a) | 2,442 | (6,674) | (27,142) | (28,870) |
| *Pro forma* income before *pro forma* income taxes | 11,894 | 11,731 | 52,242 | 32,657 |
| *Pro forma* income taxes (b) | (662) | (4,535) | (15,348) | (12,557) |
| *Pro forma* net income | $ 11,232 | $ 7,196 | $ 36,894 | $ 20,100 |

*Pro forma* data reflects adjustments that are necessary, in the opinion of management, for a fair presentation of the results of the operations of the business as if the Partnership operated in corporate form. The adjustments are as follows:

(a) To reflect the adjustment for partners' variable incentive-based compensation. The adjustment amounts are the actual historical allocations of the Partnership's incentive compensation pool for each of the periods presented.

(b) To reflect a *pro forma* tax provision in corporate form at an assumed statutory income tax rate of 36.4% for the 3-month and 12-month periods ended January 31, 2004, and 38.5% for the 3-month and 12-month periods ended January 31, 2003.

This data is considered to be non-GAAP and does not have any standard meaning prescribed by GAAP. It is therefore unlikely to be comparable to similar measures presented by other issuers. See "Non-GAAP Measures".

# Results of Operations

## *Year Ended January 31, 2004, compared with the Year Ended January 31, 2003*

Fiscal 2004 witnessed a rebound in Canadian equity markets: the S&P/TSX Composite Index increased approximately 30% from 6,594 on February 3, 2003, to 8,521 on January 30, 2004. Other global market indices experienced similar increases. The year was also marked by growing investor confidence, as regulators responded to the highly publicized financial scandals of the previous year with tough new rules and aggressive enforcement. These improving market conditions led to a strong performance for the investment industry, with revenue and profit increases, a slight move to increased hiring and the realization of efficiencies associated with previous cost restructurings.

Fiscal 2004 also saw a significant increase in equity issuances and trading volumes, particularly in the mining and oil & gas sectors. As a result of our strong competitive position, diversified sector focus and efficient cost structure, our financial results reflect the benefits of this improved environment.

## *Revenue*

Total revenue for fiscal 2004 was $135.5 million, up 41% from the $96.3 million achieved in the previous year and up from $127.3 million, the previous record revenue, achieved in fiscal 2001.

Revenue from our investment banking business increased 40% to $73.7 million for fiscal 2004, compared with $52.8 million in the prior year. Our expertise in a variety of sectors allowed us to benefit from a surge in underwriting activity, particularly in the mining and oil & gas sectors. A total of $1.5 million in investment banking revenue from our initial public offering has been eliminated on consolidation for accounting purposes. The corresponding variable incentive-based compensation expense is reflected in the Company's expenses.

For fiscal 2004, we experienced increased investment banking revenue in four of the six sectors we covered. Our mining group contributed $35.8 million or 49% of total investment banking revenue in fiscal 2004, compared with $17.6 million or 33% in the prior year. By comparison, our mining group contributed $1.4 million or 2% of our revenue in fiscal 2002. Despite difficult market conditions in fiscal 2002 for mining stocks, we remained committed to the sector and this commitment reaped benefits in fiscal 2003 and 2004. The oil & gas group contributed $24.9 million or 33.8% of total investment banking revenue versus $21.1 million or 40% in the prior year. With our recent entry into the Canadian healthcare/biotechnology sector, we continue to broaden our focus to include industries we believe will augment future revenue in both investment banking and sales and trading.

The following table provides an overview of our investment banking revenue by sector:

| (C$000) | 12 months ended January 31, 2004 | 12 months ended January 31, 2003 |
|---|---|---|
| Mining | $ 35,820 | $ 17,594 |
| Oil & Gas | 24,888 | 21,134 |
| Industrials/Special Situations | 6,503 | 8,216 |
| Non-Bank Financial Services | 2,537 | 325 |
| Communications | 2,021 | 3,650 |
| Technology | 1,933 | 1,864 |
| Total Revenue | $ 73,702 | $ 52,783 |

Sales and trading revenue was approximately $48.7 million for fiscal 2004, up 26% from $38.7 million in the prior year. The increase in our revenue also represents significant market share gains in the last quarter of fiscal 2004 due to the addition of some key individuals and further franchise recognition in the Canadian equity market following our initial public offering. Toronto Stock Exchange trading statistics show that we were fifth in overall block trading volume in calendar 2003, an improvement from eighth position in calendar 2002. It is difficult to determine how much of this increase is attributable to the improved recognition of our franchise as a result of our initial public offering versus increased market activity.

In addition to increasing overall commission revenue in our sales and trading activities, we also broadened our account base through increased penetration in our core areas as well as a geographical expansion of our account coverage. This success is demonstrated by the fact that our top 40 institutional accounts contributed 52% of our overall commissions in fiscal 2004. This concentration has declined every year since 1998 from the 75.7% level, although last year's change was marginal. Such broadening has given us increased stability and predictability in our sales and trading revenue. With the recent move into the healthcare/biotechnology sector, we expect such broadening of our client base to continue.

Revenue from all other sources (principal activities, interest and dividends, and other) increased to $13.0 million in fiscal 2004 from $4.9 million the prior year, representing an approximate increase of 165%. This increase was mainly as a result of the rise in principal activities of $11.5 million due to the Company recording an unrealized gain of $9.6 million in fiscal 2004 compared with an unrealized loss of $1.9 million in fiscal 2003. A large component of the increase in principal activities was attributable to unrealized gains in broker warrant positions we received as compensation for various underwriting activities. Of the remaining unrealized gains, a large portion was due to a position we acquired in Sirit Inc. (SI–TSX). In fiscal 2003, we recorded an unrealized loss in principal activities of $1.7 million in respect of debt held in Sirit, which we acquired as a result of the settlement of a client margin call. A restructuring resulted in a conversion of our debt position into equity in Sirit. We have a book cost of $0.8 million on this position. A substantial increase in the market price for Sirit in fiscal 2004 resulted in an unrealized market gain of $2.5 million.

Interest and dividend income increased to $3.6 million in fiscal 2004 from $2.6 million in the prior year, primarily due to an increase in client margin account receivables and a decline in interest rates paid on amounts due to clients. Both of these increases were offset by a decrease in other income to a loss of $0.08 million from income of $4.1 million primarily as a result of a one-time gain from the sale of our shares in the TSX Group Inc. (X–TSX) in fiscal 2003.

## Expenses

Total expenses (before settlement costs and non-controlling interests) for fiscal 2004 were $49.9 million, an increase of 53% from $32.7 million in the prior year.

Sales, general and administrative expenses increased by $1.3 million, or 8%, to $17.4 million for fiscal 2004. This increase was primarily due to increased costs associated with our reorganization and initial public offering, which resulted in increases in professional fees of $0.7 million, capital taxes of $0.2 million, stock-based compensation of $0.2 million, and general office and other expenses related to the transition of $0.6 million. As well, we incurred increases in travel and client promotions of $0.4 million. These increased costs were, in part, offset by decreases in exchange and trade processing fees of $0.3 million and a non-recurring GST refund of $0.5 million, which resulted from changes in the calculation of input tax credits. While some of the increases in expenses are non-recurring, we expect that costs associated with our new corporate structure and public company obligations will increase in the future.

Salaries and benefits increased to $31.6 million for fiscal 2004 from $15.4 million in the prior year. Of the $31.6 million in total salary costs, $22.8 million represents variable incentive-based compensation, with $8.8 million being fixed salaries and benefits compared with $8.3 million in fixed salary expense in the prior year. Variable incentive-based compensation, as explained in "Non-GAAP Measures", is not directly comparable on a year-over-year basis. On a *pro forma* basis, total operating expenses (before taxes, settlement costs and non-controlling interest) were $77.0 million for fiscal 2004 compared with $61.5 million in the prior year, representing an increase of 25%.

*Pro forma* compensation and benefits increased $14.5 million in fiscal 2004 to $58.8 million from $44.3 million in the prior fiscal year. Variable incentive-based compensation increased by $14.0 million to $50.0 million in fiscal 2004, compared with $36.0 million in fiscal 2003. The increase in incentive-based compensation is entirely dependent on the increased revenue for the year. The remainder of the increase, $0.5 million, was attributable to fixed compensation and benefits. The majority of our professionals are remunerated exclusively through variable incentive-based compensation. The ratio of total compensation and benefits to total revenue was 43.4% in fiscal 2004 and 46% in fiscal 2003.

Other operating costs (Selling, general and administrative, Interest, and Amortization) increased 5.8% to $18.3 million in fiscal 2004 from $17.3 million in fiscal 2003. Other operating costs, excluding incentive-based compensation of $18.3 million plus $8.8 million in fixed salaries and benefits, totaled $27.1 million for the year. This compares with $17.3 million of operating expenses plus $8.3 million in fixed salaries and benefits totaling $25.6 million in fiscal 2003.

While some of our increased expenses are non-recurring, we expect that costs associated with our corporate structure and public company obligations will increase in the future. Operating costs excluding variable incentive-based compensation were $7.6 million in the last quarter of fiscal 2004. We expect to incur operating costs of approximately $8.0 million per quarter in fiscal 2005, or $32 million annually. With $0.60 of every dollar of revenue remaining after variable incentive-based compensation is paid to employees, we expect our breakeven run rate for fiscal 2005 to be approximately $53 million, or approximately $13 million per quarter. The strength of our business model is that of every $1 of revenue above the $13 million, $0.60 falls to our pretax bottom line.

On a *pro forma* basis, the variable incentive-based compensation recorded in fiscal 2004 totalled $50 million compared with $36.0 million in the prior year, after *pro forma* adjustments related to the former partnership structure. See "Non-GAAP Measures".

### *Net Income*

Our net income after tax for fiscal 2004 was $79.4 million compared with $61.5 million in the previous year. These numbers are not directly comparable because the prior year's net income does not reflect taxes since that income was earned by a partnership nor does it reflect variable incentive-based compensation of partners. After the payment of all variable incentive-based compensation, *pro forma* pretax income was $58.1 million ($2.07 per share) for fiscal 2004 compared with $32.7 million ($1.17 per share) in the prior year. This amount is equivalent to a pretax return on equity, on a *pro forma* basis adjusted for the additional initial public offering proceeds, of approximately 48.1% in fiscal 2004 versus 27.1% in the prior year on an equivalent basis. Adjusted *pro forma* income per share (after tax) increased 83% to $1.32 ($36.9 million) in fiscal 2004 compared with $0.72 ($20.1 million) earned in the prior year. We believe that our record net income in fiscal 2004, despite significant increases in variable incentive-based compensation, demonstrates the link between our cost structure and revenue. See "Non-GAAP Measures".

The net income attributable to shareholders after the initial public offering was $8.3 million for the 54-day period from December 9, 2003, to January 31, 2004, and the basic and diluted net income per common share was $0.30 for the same period.

## Summary of Quarterly Results

### *Three Months Ended January 31, 2004, compared with the Three Months Ended January 31, 2003*

### *Revenue*

Total revenue for the three months ended January 31, 2004, increased 41% to $39.6 million from $28.0 million for the comparable period in the prior year. A strong rally in the equity markets was reflected in strong revenue across virtually all of our business lines.

Investment banking revenue of approximately $19.6 million was an increase of 59% from $12.3 million in the comparable period last year. This increase results, in part, from a significant increase in equity financing activity in the industry generally quarter over quarter, as well as more pronounced increases in activity in those sectors of the market where we tend to be strong, particularly oil & gas and mining.

Sales and trading revenue in the three months ended January 31, 2004, increased 27% to $15.4 million from $12.1 million in the same period the prior year. The month of January 2004 saw trading volume of 7.2 billion shares on the Toronto Stock Exchange, breaking the previous record of 5.7 billion in September 2003. The total volume of shares traded on the Toronto Stock Exchange increased 13.2% in the fourth quarter of calendar 2003. The increase in revenue in the period was a result of the increase in general trading activity together with an increase in our market share in the quarter. In the fourth quarter of calendar 2003, we ranked first in block trading volumes on the Toronto Stock Exchange, a rise from fifth position in the third quarter of calendar 2003. We believe it is unlikely that we will be able to maintain the premier position but we expect to maintain or improve our year-over-year standing. Increased commission revenue was offset by facilitation losses that increased to 25% of sales and trading commissions in the fourth quarter of fiscal 2004. Historically, we have tried to keep facilitation losses at approximately 20% of total sales and trading commissions generated. However, typically with increases in trading commissions during particularly active and volatile markets, higher than normal losses are experienced. It should be noted that all trading revenue numbers are presented net of all such liability losses.

Revenue from all other sources (principal activities, interest and dividend, and other) increased $0.9 million to approximately $4.5 million for the three-month period ending January 31, 2004, from $3.6 million in the comparable period of the prior year. The increase in principal activities and interest and dividend income of $4.6 million is offset by an increase in other income of $3.7 million, consisting primarily of a one-time gain on the sale of GMP's shares in the TSX Group Inc. of $4.3 million in the three months ended January 31, 2003.

## *Expenses*

Total expenses (before settlement costs and non-controlling interests) for the three months ended January 31, 2004, increased by $15.3 million to $24.3 million from $9.0 million for the same period last year. Total *pro forma* operating expenses for the fourth quarter ended January 31, 2004 (before taxes, settlement costs and non-controlling interest) were $21.9 million compared with $15.7 million in the previous period, representing a 39.5% increase. See "Non-GAAP Measures."

*Pro forma* compensation and benefits increased 41.9% to $16.6 million in the quarter ended January 31, 2004, from $11.7 million in the same period last year. Variable incentive-based compensation rose approximately $4.9 million, the entire amount of the increase. See "Non-GAAP Measures." Fixed salaries and benefits remained flat. The ratio of total compensation and benefits to total revenue for the fourth quarter of fiscal 2004 was 41.9% compared with 41.4% in the fourth quarter of fiscal 2003.

All other operating costs increased 29% to $5.3 million in the fourth quarter of fiscal 2004 compared with $4.1 million in the fourth quarter of fiscal 2003. The increase was due to the added costs of the public company structure.

General and office expenses increased $0.6 million, professional fees increased $0.3 million and capital taxes (not previously borne by the partnership) amounted to $0.2 million. Client promotion and travel expenses also increased by $0.2 million. We continue to adhere to the goal of being a low-cost provider in the industry in order to remain competitive through market cycles.

### Net Income

Net income after tax for the three months ended January 31, 2004, decreased to $9.5 million from $18.4 million for the comparable period in the prior year. These numbers are not directly comparable, because net income earned by a partnership does not include taxes nor does it reflect variable incentive-based compensation of partners. *Pro forma* net income before taxes in the three-month period was $17.7 million ($0.63 per share) versus $11.7 million ($0.42 per share) in the comparable period of fiscal 2003. On an after-tax basis, the *pro forma* net income increased 54% to $11.2 million or $0.40 per share for the three months ended January 31, 2004, compared with $7.2 million or $0.26 per share for the comparable period in the previous year. See "Non-GAAP Measures."

## Liquidity and Capital Resources

Total cash and cash equivalents were $97.2 million at January 31, 2004, up from $30.7 million at January 31, 2003. This increase is largely attributable to the proceeds received from our initial public offering.

Our business requires capital for operating and regulatory purposes. The assets reflected on the balance sheet are highly liquid, which provides us flexibility in conducting our business. Our assets consist primarily of cash or assets that are readily convertible into cash and the majority of the security positions we hold are readily marketable and are recorded at their market value. The value of the securities that we hold fluctuates with market values and may be affected by a variety of factors such as economic and market conditions. Our customer margin receivables are secured by readily marketable securities, are reviewed daily and are subject to our right to demand payment at any time. Inter-broker receivables and payables represent either current open transactions, which normally settle within three business days, or collateralized securities that are borrowed and/or loaned in transactions that can be closed on demand with settlement occurring within a few days.

We borrow money primarily to facilitate the securities settlement process for both client and proprietary securities transactions. To this end, we have arranged various credit facilities with a Canadian chartered bank in an aggregate maximum amount of approximately $160 million. These call loans, letters of credit and daylight overdraft facilities are collateralized by either unpaid securities and/or securities owned by us. Amounts drawn on these credit facilities will vary from day to day. As of January 31, 2004, no material amounts were drawn on these facilities. Other than these facilities, we currently have no material indebtedness.

Cash flow from operations was $92.2 million in the 12 months ended January 31, 2004, compared with $66.9 million in the prior year. Amounts due to/from clients decreased in fiscal 2003 and increased in fiscal 2004 due to activity in the equity markets and as a function of trades initiated prior to the period end but not settling until after period end. Amounts due to issuers increased by $33.7 million and are solely a function of the timing of our investment banking activities. Similarly, accounts payable and accrued liabilities increased by $18.0 million, primarily due to the income tax liability and variable incentive-based compensation that was not reflected in the financial results of the partnership structure.

We continue to focus on controlling our fixed costs and incurring incremental, variable expenses (such as variable incentive-based compensation expense) only in proportion to increased revenue generated and overall profitability. For example, our variable incentive-based compensation expense (formerly accounted for as a distribution to partners of capital or partnership income) is intended to continue to reflect a fixed proportion (40%) of our revenue. Consequently, we anticipate funding all of our operating expenses from cash on hand and from our operations.

Our future liquidity and capital requirements will principally depend on our rate of growth and the means by which we achieve our growth. For example, we may use cash resources to fund strategic acquisitions of competing or complementary businesses.

We believe that our current holding of cash and cash equivalents, revenue from our operations and existing credit facilities provide us with a sufficient and appropriate level of capital and cash for both operating and regulatory purposes for the foreseeable future. Management believes that the payment of quarterly dividends will not materially affect future capital or liquidity requirements.

A summary of the Company's principal contractual obligations and other commitments as of January 31, 2004, which relate to equipment and premise leases, is shown in the following table. We believe that funds generated by our operations will continue to be the primary source for meeting these obligations and commitments.

## Future Obligations and Commitments

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** (C$000) | **Total** | **Less than 1 year** | **1 – 3 years** | **4 – 5 years** | **After 5 years** |
| Long-term debt | — | — | — | — | — |
| Capital lease obligations | — | — | — | — | — |
| Operating leases | $ 2,614 | $ 1,037 | $ 1,326 | $ 119 | $ 132 |
| Purchase obligations | — | — | — | — | — |
| Other long-term obligations | — | — | — | — | — |
| Total contractual obligations | $ 2,614 | $ 1,037 | $ 1,326 | $ 119 | $ 132 |

In addition to the commitments summarized above, in the ordinary course of business, we have entered into various agreements with third-party vendors, including agreements for data processing and software licensing. These agreements typically can be cancelled if notice is given according to the terms of the specific agreement. The Company currently has no debt on its balance sheet.

## Related-Party Transactions

Immediately prior to the reorganization, substantially all of the undistributed profits of the Partnership were paid to the partners. In connection with the reorganization and contemporaneously with the initial public offering, the Company reduced its paid-up capital in an amount of $45 million by way of payment on its common shares, all of which were then held by the former partners of the Partnership who are now officers of the Company.

We maintain trading accounts for employees and officers, which are included in receivables from and payables to clients. Security trades executed by us for our employees and officers (who may also be shareholders) are transacted in accordance with the terms and conditions applicable to all customers. Commission income on such transactions in the aggregate of $344,000, for the year ending January 31, 2004, is not material in relation to our overall operations.

## Accounting Estimates

Our consolidated financial statements have been prepared in accordance with GAAP in Canada. Our significant accounting policies are outlined in Note 1 of our "Notes to Annual Consolidated Financial Statements". Certain of these policies require us to make estimates or assumptions that in some cases may relate to matters that are inherently uncertain. Accounting policies that require management's judgment and estimates include reporting the fair value of certain financial instruments, the valuation of stock-based compensation and income taxes.

Fair value for the majority of financial assets and liabilities is determined based on quoted market prices and provides the best evidence of value. A provision is made in situations where we believe there is the potential that the amount realized on sale will be less than the estimated fair value due to insufficient liquidity over a short period of time or when the estimated value does not reflect the true value under certain distressed market conditions. Where quoted market values are not available, we use valuation models that incorporate prevailing market rates and prices on underlying instruments with similar characteristics and counterparty credit quality. Imprecision in estimating these factors can affect the amount of revenue or loss recorded for a particular security position. We believe our estimates of fair value are reasonable given our process for obtaining external market prices, internal model review, consistent application of approach from period to period and the validation of estimates through actual settlement of transactions. However, as we primarily trade in publicly traded securities, the use of estimates does not significantly affect our financial condition.

We record sales and trading revenue on a trade-date basis. We record non-trading revenue (i.e., investment banking, interest and dividends, and other) and related expenses when the revenue is earned, on an accrual basis.

Management uses judgment in the estimation of income taxes, and future income tax assets and liabilities. This process involves estimating actual current tax exposure together with assessing temporary differences that result from different treatment of items for tax and accounting purposes. In determining these estimates, we are required to interpret tax legislation as well as make assumptions about the expected timing of the reversal of future tax assets and liabilities. If our interpretations differ from those of the taxation officials or if the anticipated timing of reversals does not occur, our provision for income taxes could increase or decrease in future periods.

In determining our stock-based compensation expense, estimates must be used. Our stock-based compensation was calculated using the Black-Scholes option pricing model assuming a risk-free interest rate of 4.36%, a dividend yield of 1.9%, an expected volatility of 25% and expected life of stock options of seven years.

## Factors that May Affect Our Business

We face a variety of risks that are substantial and inherent in our business. In fiscal 2004, for example, several internal and external factors influenced our business. Any one of these factors could have either positive or negative outcomes but in fiscal 2004, they were predominantly positive. For example, entering the capital markets as a public company can be a speculative venture, and our decision to take the Company public on December 9, 2003, resulted in a highly successful, oversubscribed initial public offering. The heightened focus on corporate governance and a more focused regulatory environment over the past 12 months has affected the business of some of our competitors. We have engaged Borden Ladner Gervais LLP to conduct an independent review of GMP's underwriting practices and procedures as a result of the YBM Magnex International Inc. case determined by the Ontario Securities Commission. Also, like any comparable company, flux in the capital markets will directly impact our business. Capital markets enjoyed a buoyant calender 2003, which has positively affected our business. Some of the identifiable risks that could affect our business are detailed below.

### *Risks Associated with the Securities Business Generally*

The securities business is, by its nature, subject to numerous and substantial risks, particularly in volatile or illiquid markets and in markets influenced by sustained periods of low or negative economic growth, including the risk of losses resulting from the underwriting or ownership of securities, trading, principal activities, counterparty failure to meet commitments, customer fraud, employee errors, misconduct and fraud (including unauthorized transactions by traders), the risk of failures in connection with the processing of securities transactions, the risk of litigation, the risk of reduced revenue in periods of reduced demand for public offerings or reduced activity in the secondary markets and the risk of reduced spreads on the trading of securities.

Reductions in public offering, merger & acquisition, and securities trading activities due to any one or more changes in economic, political or market conditions could cause our revenue from investment banking and sales and trading activities to decline materially. The amount and profitability of these activities are affected by many national and international factors, including economic, political and market conditions; level and volatility of interest rates; legislative and regulatory changes; currency values; inflation; inflows and outflows of funds into and out of mutual and pension funds; and availability of short-term and long-term funding and capital.

Our revenue may decrease in the event of a decline in market volume, prices or liquidity. Declines in the volume of securities transactions and in market liquidity generally result in lower revenue from trading activities and commissions. Lower price levels of securities may also result in a reduced volume of underwriting transactions and could cause a reduction in revenue from investment banking activities as well as losses from declines in the market value of securities held in trading and investment and underwriting positions. Sudden sharp declines in market values of securities can result in illiquid markets and the failure of issuers and counterparties to perform their obligations as well as increases in claims and litigation. In such markets, we may incur reduced revenue or losses in our principal trading and market-making activities.

Recent financial scandals, particularly in the United States, have led to insecurity and uncertainty in the financial markets. In response to these scandals, securities regulators have made rules or rule proposals contemplating significant changes to corporate governance and public disclosure. To the extent that private companies, in order to avoid becoming subject to these new requirements, decide to forego initial public offerings, our equity underwriting business may be adversely affected. In addition, new corporate governance proposals, coupled with economic uncertainty, have diverted many companies' attention away from capital market transactions, including corporate finance and merger & acquisition activities. It is unclear how long this uncertainty and diversion will last, but so long as it does, it will have a negative impact on our business.

### *Risks of Underwriting Activities*

Participation in underwritings involves both economic and regulatory risks. Underwriting activities can decline for a number of reasons. Underwriting activity may decrease during periods of market uncertainty that arise from concerns about inflation, rising interest rates and related issues. Underwriting and sales and trading activity can also be materially adversely affected for a company or industry segment by disappointments in quarterly performance relative to analysts' expectations or by changes in long-term prospects.

An underwriter may incur losses if it is unable to resell the securities it is committed to purchase or if it is forced to liquidate its commitment at less than the agreed purchase price. In addition, the trend, for competitive and other reasons, toward larger commitments on the part of lead underwriters means that, from time to time, an underwriter (including a co-lead) may retain significant concentrated positions in individual securities. Increased competition has eroded and is expected to continue to erode underwriting spreads.

Underwriting commitments require a charge against net capital, and, accordingly, our ability to make underwriting commitments may be limited by the requirement that we must at all times be in compliance with the applicable net capital regulations. Historically, we have satisfied these needs from internally generated funds and loans from third parties. There can be no assurance that any, or sufficient, funding or regulatory capital will continue to be available to us in the future on terms that are acceptable to us.

### *Litigation and Potential Securities Laws Liability*

Many aspects of our business involve substantial liability risks. An underwriter is exposed to substantial liability under securities laws, other laws and court decisions, including decisions with respect to underwriters' liability and limitations on indemnification of underwriters by issuers. For example, a firm that acts as an underwriter may be held liable for misstatements or omissions of fact in a prospectus used in connection with the securities being offered or for statements made by its securities analysts or other personnel. In recent years, there has been an increasing incidence of litigation involving the securities industry, including class actions that seek substantial damages. We are also subject to the risk of litigation, including litigation that may be without merit. As we intend to actively defend such litigation, significant legal expenses could be incurred. An adverse resolution of any future lawsuits against us could materially affect our operating results and financial condition.

### *Credit Risk and Exposure to Losses*

We are exposed to the risk that third parties that owe us money, securities or other assets will not fulfill their obligations. These parties include trading counterparties, customers, clearing agents, exchanges, clearing houses, and other financial intermediaries as well as issuers whose securities are held by us. These parties may default on their obligations due to bankruptcy, lack of liquidity, operational failure or other reasons.

Although we regularly review our credit exposure to specific clients, counterparties, industries, countries, and regions that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect, such as fraud. We may also fail to receive full information with respect to the trading risks of a counterparty.

### *Risk Management Policies and Procedures*

We have developed and are updating risk management policies and procedures; however, our policies and procedures to identify, monitor and manage risks may not be fully effective. Some of our methods of managing risk are based on the use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which may be significantly greater than the historical measures indicate.

Other risk management methods depend on evaluation of information regarding markets, clients or other matters that is publicly available or otherwise accessible by us. This information may not in all cases be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

### *Risks of Reduced Revenue Due to Focus on Relatively Few Industries*

As a result of our dependence on revenue related to securities issued by companies in specific industry sectors, any downturn in the market for the securities of companies in these industries, or factors affecting such companies, could adversely affect our operating results and financial condition. Securities offerings can vary significantly from industry to industry due to economic, legislative, regulatory and political factors. Underwriting activities in a particular industry can decline for a number of reasons. Underwriting and sales and trading activity can also be materially adversely affected for a company or industry segment by disappointments in quarterly performance relative to analysts' expectations, or by changes in long-term prospects, for particular companies, industries or industry segments.

Our business is particularly dependent on the market for equity offerings by companies in the following industries: oil & gas, technology, communications, mining, non-bank financial services, industrials and special situations. These sectors have historically experienced significant volatility not only in the number and size of equity offerings, but also in the after-market trading volume and prices of newly issued securities. We have recently added the healthcare/biotechnology sector to our focus, which has experienced similar volatility.

The seven industries that we focus on account for the majority of our investment banking and research activities, exposing us to potential downturns in these industries. We also derive a significant portion of our revenue from institutional brokerage transactions related to the securities of companies in these sectors. In the past, revenue from such institutional brokerage transactions has declined when underwriting activities in these industry sectors declined, the volume of trading on the Toronto Stock Exchange declined, or industry sectors or individual companies reported results below investors' expectations.

### *Significant Fluctuations in Quarterly Results*

Our revenue and operating results may fluctuate from quarter to quarter and from year to year due to a combination of factors, including the number of corporate finance and merger & acquisition transactions completed by our clients, access to public markets for companies in which we have invested as a principal, the valuations of our principal investments, the level of institutional brokerage transactions, the timing of recording of special allocations of income, variations in expenditures for personnel, litigation expenses and expenses of establishing new business units. Our revenue from a corporate finance transaction or a merger & acquisition transaction is recorded when the underlying transaction is substantially completed under the terms of the engagement. Accordingly, the timing of our recognition of revenue from a significant transaction can materially affect our quarterly operating results. Presently, our cost structure is oriented to meet the current level of demand for investment banking transactions. As a result, despite the variability of incentive-based compensation, we could experience losses if demand for these transactions declines more quickly than our ability to change our cost structure. Due to the foregoing and other factors, there can be no assurance that we will be able to sustain profitability on a quarterly or annual basis.

### *Dependence on Ability to Retain and Recruit Personnel*

Our business depends on the highly skilled, and often highly specialized, individuals we employ. Retention of research, investment banking, sales and trading, and management and administrative professionals is particularly important to our prospects. Our strategy is to establish relationships with our prospective clients in advance of any transaction, and to maintain such relationships over the long term by providing investment banking and sales and trading services. Such relationships depend in part on the individual employees who represent us in dealings with such clients. A significant portion of our revenue is derived from the client relationships of members of the Executive Committee of GMP Securities. From time to time, other companies in the securities industry have experienced losses of research, investment banking, and sales and trading professionals. The level of competition for key personnel has increased recently, particularly due to the market entry efforts of certain non-brokerage financial services companies, commercial banks and other investment banks targeting or increasing their efforts in some of the same industries that we serve. While we have historically experienced little turnover in professional employees, there can be no assurance that losses of key personnel due to such competition or otherwise will not occur in the future. The loss of certain investment banking, sales and trading, or research professionals, particularly any member of the Executive Committee of GMP Securities or any other senior professional with a broad range of contacts in an industry, could materially and adversely affect our operating results.

We expect further growth in the number of our personnel. Competition for employees with the qualifications we desire is intense, especially with respect to investment banking and research professionals with expertise in industries in which corporate finance or advisory activity is robust. Competition for the recruiting and retention of employees has recently increased our compensation costs, and we expect that continuing competition will cause our compensation costs to continue to increase. There can be no assurance that we will be able to recruit a sufficient number of new employees with the desired qualifications in a timely manner. The failure to recruit new employees could materially and adversely affect our future operating results.

With the exception of an employment agreement with our Chief Executive Officer, we generally do not have employment agreements with our employees. We attempt to retain our employees with performance-based incentives. These incentives, however, may be insufficient in light of the increasing competition for experienced professionals in the securities industry, particularly if the value of our common shares declines or fails to appreciate sufficiently to be a competitive source of a portion of professional compensation.

In the past, the Partnership has issued partnership units to certain partners subject to an agreement among the partners that required, among other things, that departing partners sell their partnership units back to the Partnership at book value. As a result of the conversion from a partnership to a corporation, employee shareholders no longer sell their partnership units at book value upon leaving employment and, subject to the escrow agreement relating to the common shares issued to former partners, will be able to sell their common shares in the public market. This change could result in a higher level of attrition of senior employees than we have historically experienced.

### *Significant Competition*

We are engaged in the highly competitive securities brokerage and financial services businesses. We compete directly with large Canadian and U.S. securities firms, securities subsidiaries of major chartered banks, major regional firms and smaller niche-oriented companies. Our industry focus also subjects us to direct competition from a number of specialty securities firms and smaller investment banking firms that specialize in providing services to those industry sectors. Such competition could adversely affect our operating results as well as our ability to attract and retain highly skilled individuals.

Many other companies have greater personnel and financial resources than we do. Larger competitors are able to advertise their products and services on a national or regional basis and may have a greater number and variety of distribution outlets for their products, including retail distribution. Discount brokerage firms market their services through aggressive pricing and promotional efforts. In addition, some competitors have a much longer history of investment banking activities than we do and, therefore, may have a relative advantage with regard to access to deal flow and capital.

### *Regulation*

The securities business is subject to extensive regulation under securities laws in Canada, the United States and elsewhere. Compliance with many of the regulations applicable to us involves a number of risks, particularly in areas where applicable regulations may be subject to interpretation. In the event of non-compliance with an applicable regulation, securities regulators and the Investment Dealers Association of Canada may institute administrative or judicial proceedings that may result in censure, fines, civil penalties, issuance of cease-and-desist orders, deregistration or suspension of the non-compliant investment dealer or investment adviser, suspension or disqualification of the investment dealer's officers or employees, or other adverse consequences. The imposition of any such penalties or orders on us could have a material adverse effect on our operating results and financial condition.

The regulatory environment in which we operate is subject to change. Currently, investment dealers are the subject of increased regulatory scrutiny that has led, for example, to increased sensitivity to the interaction between research analysts and investment banking professionals; as a consequence, regulators have changed or proposed to change requirements with respect to research matters. New or revised legislation or regulations imposed by the securities legislation of Canada or the United States may have a material adverse effect on our operating results and financial condition.

The current environment of increased scrutiny may reasonably be expected to lead to increasingly stringent interpretation and enforcement of existing laws and rules. Once again, changes in the interpretation or enforcement of existing laws and rules by securities regulatory authorities in Canada and the United States may have a material adverse effect on our operating results and financial condition.

Additional regulation, changes in existing laws and rules, or changes in interpretations or enforcement of existing laws and rules often affect directly the method of operation and profitability of securities firms. We cannot predict what effect any such changes might have. Furthermore, our businesses may be materially affected not only by regulations applicable to us as a financial market intermediary, but also by regulations of general application. For example, the volume of our investment banking and principal investment businesses in a given time period could be affected by, among other things, existing and proposed tax legislation, competition policy and other governmental regulations and policies, including the interest rate policies of the Bank of Canada or the Board of Governors of the Federal Reserve System and changes in interpretation or enforcement of existing laws and rules that affect the business and financial communities. The level of business and financing activity in each of the industries on which we focus can be affected not only by such legislation or regulations of general applicability, but also by industry-specific legislation or regulations.

### *Management of Growth*

Over the past several years, we have experienced significant growth in our business activities and the number of our employees. This growth has required and will continue to require increased investment in management personnel, financial and management systems and controls, and facilities, which, in the absence of continued revenue growth, would cause our operating margins to decline from current levels. In addition, as is common in the securities industry, we are and will continue to be highly dependent on the effective and reliable operation of our communications and information systems. We believe that our current and anticipated future growth will require implementation of new and enhanced communications and information systems and training of our personnel to operate such systems. Any difficulty or significant delay in the implementation or operation of existing or new systems or the training of personnel could adversely affect our ability to manage growth.

### *Dependence on Systems*

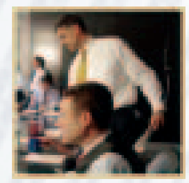
Our business is highly dependent on communications and information systems. Any failure or interruption of our systems, or of the systems of our clearing broker, could cause delays or other problems in our sales and trading activities that could have a material adverse effect on our operating results and financial condition. There can be no assurance that neither we, nor our clearing broker, will suffer any such systems failure or interruption, including those caused by an earthquake, fire, other natural disaster, power or telecommunications failure, act of God, act of war or terror or otherwise, or that our back-up procedures and capabilities in the event of any such failure or interruption will be adequate.

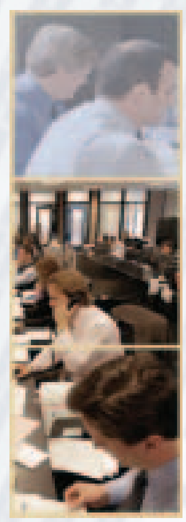
## Outstanding Share Data

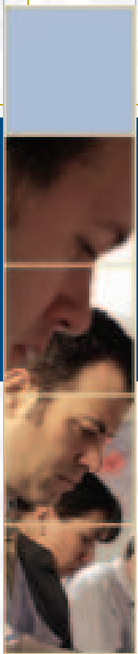
The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series, of which 28 million common shares and no preferred shares are issued and outstanding as at the date hereof. As of April 8, 2004, 1.76 million options to acquire common shares on a one-for-one basis are outstanding.

## Other Information

Additional information relating to GMP Capital Corp., including a copy of our annual information form, is available on SEDAR at *www.sedar.com*.







# Consolidated Financial Statements of GMP Capital Corp.

(Formerly Griffiths McBurney & Partners)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## Management's Responsibility for Financial Statements

The accompanying consolidated financial statements, which consolidate the financial results of GMP Capital Corp., were prepared by Company management, who are responsible for the integrity and fairness of all information presented in this annual report. The consolidated financial statements were prepared by management, in accordance with Canadian GAAP. Financial information presented elsewhere in this annual report is consistent with that in the financial statements.

In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in note 1 of the financial statements. Management maintains a system of internal controls to meet its responsibilities for the integrity of the financial statements. Management also administers a program of ethical business conduct compliance.

The Board of Directors appoints the Company's Audit Committee annually. Among other things, the mandate of the Audit Committee includes the review of the consolidated financial statements of the Company on a quarterly basis and to provide a recommendation to the Board of Directors for approval. The Audit Committee has access to management and the auditors to review their activities and to discuss the external audit program, internal controls, accounting policies, and financial reporting matters.

KPMG LLP performed an independent audit of the consolidated financial statements, as outlined in the audit report below. KPMG LLP had, and has, full and unrestricted access to the management of the Company, the Audit Committee and the Board of Directors to discuss their audit and related findings and have the right to request a meeting in the absence of management at any time.

The Audit Committee has reviewed the financial statements and Management's Discussion and Analysis and recommended their approval to the Board of Directors. The Board has, upon the recommendation of the Audit Committee, approved the financial statements and Management's Discussion and Analysis.

Kevin M. Sullivan,
Chief Executive Officer

Adina Masson-Crocker,
Chief Financial Officer

March 12, 2004

## Auditors' Report to Shareholders

We have audited the consolidated balance sheets of GMP Capital Corp. (formerly Griffiths McBurney & Partners) as at January 31, 2004 and 2003 and the consolidated statements of income and retained earnings, shareholders' equity/partners' capital and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian GAAP. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada

March 12, 2004

# Audited Annual Consolidated Financial Statements of GMP Capital Corp.

Years ended January 31, 2004 and 2003

## Consolidated Balance Sheets

| (C$000) | 2004 | 2003 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 97,202 | $ 30,735 |
| Funds deposited in trust (note 3) | 9,539 | 4,386 |
| Securities owned, at market (note 4) | 126,146 | 51,775 |
| Receivable from: | | |
| Clients (notes 5 and 11) | 169,582 | 133,017 |
| Brokers (note 10) | 79,522 | 33,781 |
| Commission and other receivables (note 11) | 7,480 | 2,951 |
| Future tax asset | 3,260 | – |
| Capital assets (note 6) | 1,296 | 1,650 |
| Exchange shares (note 7) | 55 | 55 |
| | $ 494,082 | $ 258,350 |
| **Liabilities and Shareholders' Equity/Partners' Capital** | | |
| Liabilities | | |
| Bank loan and overdraft (note 8) | $ – | $ 720 |
| Securities sold short, at market (note 4) | 64,367 | 12,151 |
| Payable to: | | |
| Clients (notes 5 and 11) | 217,962 | 136,894 |
| Brokers (note 10) | 7,255 | 19,631 |
| Issuers | 45,005 | 11,331 |
| Accounts payable and accrued liabilities | 24,469 | 6,481 |
| Income taxes payable | 5,825 | – |
| Bank subordinated loan (note 9) | – | 5,000 |
| Employee subordinated loans (note 9) | – | 2,310 |
| | 364,883 | 194,518 |
| Non-controlling interest | 174 | 232 |
| Shareholders' equity/partners' capital | | |
| Share capital/partners' capital | 120,540 | 63,600 |
| Contributed surplus (note 12(c)) | 190 | – |
| Retained earnings | 8,295 | – |
| | 129,025 | 63,600 |
| Commitments and contingencies (note 15) | | |
| | $ 494,082 | $ 258,350 |

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Kevin M. Sullivan, Chief Executive Officer

Stanley Beck, Chairman of the Board of Directors

# Consolidated Statements of Income and Retained Earnings

## Years ended January 31, 2004 and 2003

| (C$000, except per share amounts) | 2004 | 2003 |
|---|---|---|
| Revenue | | |
| Investment banking | $ 73,702 | $ 52,782 |
| Sales and trading | 48,739 | 38,678 |
| Principal activities | 9,561 | (1,889) |
| Interest and dividends | 3,620 | 2,633 |
| Other | (83) | 4,128 |
| | 135,539 | 96,332 |
| Expenses | | |
| Salaries and benefits | 31,611 | 15,419 |
| Selling, general and administrative | 17,399 | 16,144 |
| Interest | 392 | 585 |
| Amortization | 496 | 525 |
| | $ 49,898 | $ 32,673 |
| Income before the undernoted | 85,641 | 63,659 |
| Settlement and costs | (490) | (1,935) |
| Non-controlling interest, net | 58 | (106) |
| Income before income taxes | 85,209 | 61,618 |
| Income taxes (note 14) | 5,825 | 91 |
| Net income | 79,384 | 61,527 |
| Net income attributable to partners | (71,089) | (61,527) |
| Retained earnings, beginning of year | – | – |
| Retained earnings, end of year | $ 8,295 | $ – |
| Basic and diluted net income per common share (note 13) | $ 0.30 | $ – |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity/Partners' Capital

## Years ended January 31, 2004 and 2003

| (C$000, except share amounts) | Common shares Number | Common shares Amount | Partners' capital | Contributed surplus | Retained earnings | 2004 Total shareholders' equity/partners' capital | 2003 Total partners' capital |
|---|---|---|---|---|---|---|---|
| Balance, beginning of year | – | $ – | $ 63,600 | $ – | $ – | $ 63,600 | $ 55,571 |
| Partners' capital contributions, net | – | – | 4,075 | – | – | 4,075 | 188 |
| Net income attributable to partners | – | – | 71,089 | – | – | 71,089 | 61,527 |
| Partners' drawings | – | – | (78,590) | – | – | (78,590) | (53,686) |
| Issue of the Company's common shares in exchange for shares of GMP Securities Ltd. | 18,000,000 | 60,174 | (60,174) | – | – | – | – |
| Issuance of common shares, net of issuance costs of $8,089 less income tax recovery of $3,455 | 10,000,000 | 105,366 | – | – | – | 105,366 | – |
| Reduction of paid-up share capital to former partners | – | (45,000) | – | – | – | (45,000) | – |
| Stock-based compensation (note 12(c)) | – | – | – | 190 | – | 190 | – |
| Net income | – | – | – | – | 8,295 | 8,295 | – |
| Balance, end of year | 28,000,000 | $ 120,540 | $ – | $ 190 | $ 8,295 | $ 129,025 | $ 63,600 |

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows
### Years ended January 31, 2004 and 2003

| (C$000) | 2004 | 2003 |
|---|---|---|
| Cash provided by (used in) | | |
| Operating activities | | |
| Net income | $ 79,384 | $ 61,527 |
| Items not involving cash | | |
| Gain on sale of exchange shares | – | (4,276) |
| Amortization | 496 | 525 |
| Future income taxes | 195 | – |
| Stock-based compensation | 190 | – |
| Provision for diminution in value of long-term investment | – | 50 |
| | 80,265 | 57,826 |
| Change in non-cash operating items | | |
| Funds deposited in trust | (5,153) | (1,132) |
| Securities owned | (74,371) | 19,973 |
| Securities sold short | 52,216 | 3,822 |
| Receivable from clients | (36,565) | 55,988 |
| Payable to clients | 81,068 | (30,157) |
| Receivable from brokers | (45,741) | 18,490 |
| Payable to brokers | (12,376) | (30,365) |
| Commissions and other receivables | (4,529) | 760 |
| Accounts payable and accrued liabilities | 17,988 | (7,142) |
| Income taxes payable | 5,825 | – |
| Due to issuers | 33,674 | (21,169) |
| Non-controlling interest | (58) | 36 |
| | 92,243 | 66,930 |
| Financing activities | | |
| Issuance of common shares, net of issue costs | 101,911 | – |
| Reduction of paid-up share capital to former partners | (45,000) | – |
| Increase (decrease) in bank loan and overdraft | (720) | 433 |
| Decrease in subordinated loans | (7,310) | (661) |
| Partners' capital contributions | 4,075 | 188 |
| Partners' drawings | (78,590) | (53,686) |
| | (25,634) | (53,726) |
| Investing activities | | |
| Purchase of capital assets | (142) | (168) |
| Proceeds from sale of exchange shares | – | 4,311 |
| | (142) | 4,143 |
| Increase in cash and cash equivalents | 66,467 | 17,347 |
| Cash and cash equivalents, beginning of year | 30,735 | 13,388 |
| Cash and cash equivalents, end of year | $ 97,202 | $ 30,735 |
| Supplemental cash flow information | | |
| Interest paid | 392 | 585 |
| Income taxes paid | $ 218 | $ 263 |

See accompanying notes to consolidated financial statements.

# Notes to Annual Consolidated Financial Statements of GMP Capital Corp.

## Years ended January 31, 2004 and 2003

## C$000s, except shares and per share amounts

GMP Capital Corp. (the "Company") was formed on October 20, 2003 under the Canada Business Corporations Act and commenced operations on December 9, 2003.

On December 9, 2003, Griffiths McBurney & Partners (the "Partnership") completed a corporate reorganization. As part of the reorganization, the Company's wholly owned subsidiary, GMP Securities Ltd. ("GMP Securities"), acquired all the net assets of the Partnership in consideration for the issuance of shares, which were distributed to the partners of the Partnership. The Company then acquired all the outstanding shares of GMP Securities from the partners of the Partnership in exchange for 18,000,000 shares of the Company. GMP Securities also obtained all of the registration and membership status necessary to carry on the business carried on by the Partnership. Prior to these transactions, the then undistributed profits and the employee subordinated loans of the Partnership were paid to the Partners. In connection with the reorganization, the Company reduced its paid-up capital on common shares in the amount of $45,000 by way of a cash payment to the former partners of the Partnership.

These consolidated financial statements have been presented as a continuity of interests of the Partnership. Accordingly, the results of operations and cash flows to December 8, 2003, comparative balances and disclosures presented are the balances and disclosures of the Partnership.

### 1. Significant accounting policies:

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) as follows:

#### (a) Consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated upon consolidation.

#### (b) Securities transactions:

Securities transactions and related revenue are recorded on a trade date basis.

#### (c) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit, short-term, interest-bearing treasury bills and bankers' acceptances with a term to maturity of less than three months from the date of purchase.

As at January 31, 2004, the treasury bill had a yield of 2.68% (2003 - 1.1%) and the bankers' acceptance had a yield of 2.75% for 2003.

#### (d) Securities owned and securities sold short:

Securities owned and securities sold short are stated at market values at the consolidated balance sheet date. Unrealized gains and losses are reflected in income. Certain securities owned have been pledged as collateral for securities lending and borrowing transactions.

## 1. Significant accounting policies (continued):

### (e) Collateralized securities transactions:

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

### (f) Capital assets:

Capital assets are stated at cost less accumulated amortization.

Furniture, equipment and telephone, computer equipment and art are amortized over their estimated useful lives using the declining-balance method at rates from 20% to 50% per annum. Leasehold improvements are amortized over the term of the lease. Computer software is amortized over two years on a straight-line basis.

### (g) Investment banking revenue:

Underwriting revenue and fees from mergers and acquisitions and other corporate finance advisory assignments are recorded when the underlying transaction is substantially completed under the terms of the engagement. Syndicate expenses related to securities offerings in which the Company acts as an underwriter or agent are deferred until the related revenue is recognized.

### (h) Sales and trading revenue:

Sales and trading revenue consists of commissions revenue from customer security transactions and related facilitation trading gains and losses.

### (i) Principal activities:

Principal activities relate to security trading revenue through market making in securities, proprietary trading of securities and net gains or losses on principal investments.

### (j) Translation of foreign currency transactions and foreign subsidiaries:

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the consolidated balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at historical rates. Revenue and expense items are translated at the exchange rates in effect at the dates of the transactions. Foreign exchange translation gains and losses are recorded in income in the year in which they occur.

The accounts of the foreign subsidiaries, Griffiths McBurney Corp., Griffiths McBurney & Partners (Europe) S.A. and Griffiths McBurney & Partners (Asia) Inc., are translated into Canadian dollars using current rates of exchange for monetary assets and liabilities, historical rates of exchange for

*C$000s, except shares and per share amounts*

**1. Significant accounting policies (continued):**

non-monetary assets and liabilities, and average rates for the year for revenue and expenses, except amortization, which is translated at the rates of exchange applicable to the related assets. Gains or losses resulting from these translation adjustments are included in income for the year.

**(k) Derivative financial instruments:**

Derivative financial instruments are foreign currency exchange contracts entered into to offset exposure related to client trading in U.S. dollars. Realized and unrealized gains and losses related to the contracts are recognized in income during the year.

**(l) Fair values of financial assets and liabilities:**

The fair values of financial assets and liabilities, other than securities owned and sold short (note 4), subordinated loans (note 9), and exchange shares (note 7), approximate their carrying amounts due to the short-term maturity of these financial instruments.

**(m) Income taxes:**

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

**(n) Income per share:**

Basic income per share is computed by dividing net income by the weighted average shares outstanding during the reporting period. Diluted income per share is computed similar to basic income per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

**(o) Stock-based compensation:**

The Company uses the fair value method to account for stock-based compensation. Under this method, options granted are recognized at their fair value on the date of grant of the stock option. Deferred stock-based compensation is recognized as an expense on a straight-line basis over the vesting period of the option, or if the options are granted to non-employees as the services are performed and options are earned.

**(p) Incentive compensation and partnership:**

Included in partner drawings for the period from February 1, 2003 to December 8, 2003, is $29,100 (year ended January 31, 2003 - $30,227) related to the actual historical allocations to the

*C$000s, except shares and per share amounts*

## 1. Significant accounting policies (continued):

Partnership's incentive compensation pool. Under (GAAP) for partnerships, these amounts are not considered expenses of the Partnership. However, on its reorganization, the incentive compensation paid to the former partners (now employees of the Company) from December 9, 2003, have been accounted for as an expense of the Company.

### (q) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

## 2. Income allocation:

Up to December 8, 2003, the allocation of income among the partners was based on their respective partnership interests and contributions, as defined in the partnership agreement, unless otherwise agreed upon among the partners.

## 3. Funds deposited in trust:

Funds deposited in trust represent amounts held for RRSP and other similar accounts. The related liability is included in payable to clients.

## 4. Securities owned and securities sold short:

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | Securities owned | Securities sold short | Securities owned | Securities sold short |
| Corporate debt | $ 812 | $ – | $ 524 | $ – |
| Equities and convertible debentures | 125,334 | 64,367 | 51,251 | 12,151 |
| | $ 126,146 | $ 64,367 | $ 51,775 | $ 12,151 |

Corporate debt and convertible debentures maturities range from 2004 to 2030 (2003 - 2005 to 2030) and have annual interest yields ranging from 1% to 10.4% (2003 - 1% to 12.125%).

## 5. Client accounts:

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 (IDA) and other regulatory authorities and are subject to the Company's credit review and daily monitoring procedures.

Amounts due from and to clients are due by the settlement date of the trade transaction. Margin loans are due on demand and are collateralized by the assets in the client accounts. Interest on margin loans and amounts due to clients are based on a floating rate.

*C$000s, except shares and per share amounts*

## 6. Capital assets:

| 2004 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Furniture, equipment and telephone | $ 2,063 | $ 1,513 | $ 550 |
| Computer equipment | 1,663 | 1,423 | 240 |
| Computer software | 308 | 256 | 52 |
| Leasehold improvements | 1,359 | 948 | 411 |
| Art | 207 | 164 | 43 |
| Total capital assets | $ 5,600 | $ 4,304 | $ 1,296 |

| 2003 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Furniture, equipment and telephone | $ 2,020 | $ 1,366 | $ 654 |
| Computer equipment | 1,606 | 1,319 | 287 |
| Computer software | 264 | 203 | 61 |
| Leasehold improvements | 1,359 | 766 | 593 |
| Art | 207 | 152 | 55 |
| Total capital assets | $5,456 | $ 3,806 | $ 1,650 |

## 7. Exchange shares:

During the year ended January 31, 2003, as part of an initial public offering by the TSX Group Inc., the Company sold all of its shares in the TSX Group Inc. for proceeds of $4,311. The Partnership recognized a gain of $4,276 on the sale of exchange shares in the year ended January 31, 2003.

The Company owns 100,000 shares in the capital stock of the Bourse de Montréal Inc. The shares are held at cost. The Bourse de Montréal Inc. last purchased shares on April 11, 2001, at a price of $4.50 per share. As at January 31, 2004, the fair value of these shares was $4.96 based on the quoted market prices at that date.

## 8. Bank loan and overdraft:

Included in bank loan and overdraft at January 31, 2003, were call loans of $533 and overdraft loans of $187. The Company borrows money primarily to facilitate the securities settlement process for both client and Company securities transactions. The call loans were collateralized by either unpaid securities and/or securities owned by the Company. Interest on the call loans was 3.4% per annum. Interest on the overdraft balances was based on a floating rate per annum. As at January 31, 2004, the Company's call loans and overdraft balances were nil and total available credit was $159,000.

## 9. Subordinated loans:

Bank and employee subordinated loans were repaid in full on December 9, 2003, and were unsecured and subordinate to the claims of general creditors of the Partnership. These were issued pursuant to standard uniform subordination agreements in the form required by the IDA. The subordinated loans

*C$000s, except shares and per share amounts*

were repayable on demand and the repayment of the subordinated loans was subject to the prior approval of the IDA. The bank loan facility bore interest at prime plus 1.5% and was repayable on demand. The employee subordinated loans were non-interest bearing.

The fair value of subordinated loans was omitted because it was not practical to determine fair value with sufficient reliability.

## 10. Financial instruments:

### (a) Foreign exchange:

Financial instruments are traded to manage and hedge market risk, minimize regulatory capital requirements, and to manage and hedge foreign exchange risk on pending settlements in foreign currencies.

The following table presents notional principal amounts of forward contracts:

| | 2004 | | 2003 | |
|---|---|---|---|---|
| As at January 31 | Canada | United States | Canada | United States |
| Foreign currency contracts | | | | |
| Forward contracts | $ 7,181 | $ (5,400) | $ 4,522 | $ (3,000) |

### (b) Securities lending and borrowing:

The Company engages in securities lending and borrowing primarily to facilitate the securities settlement process. These arrangements are typically short term in nature, with interest being received on the cash delivered. These transactions are fully collateralized and are subject to daily margin calls for any deficiency between the market value of the security given and the amount of collateral received. These transactions are collateralized by either cash or securities, including government treasury bills and government bonds, and are reflected on the consolidated balance sheets as due to/from brokers. The Company manages its credit exposure by establishing and monitoring aggregate limits by customer for these transactions. Interest earned on cash collateral is based on a floating rate.

| | Cash | | Securities | |
|---|---|---|---|---|
| | Loaned or delivered as collateral | Borrowed or received as collateral | Loaned or delivered as collateral | Borrowed or received as collateral |
| January 31, 2004 | $ 60,117 | $ – | $ 45,346 | $ 101,114 |
| January 31, 2003 | 27,786 | – | – | 25,152 |

### (c) Letters of credit:

In the normal course of business, the Company pledged at a depository collateralized letters of credit issued by a Canadian chartered bank. As at January 31, 2004 of nil (2003 - $5,000).

*C$000s, except shares and per share amounts*

## 11. Related-party transactions:

Security trades executed by the Company for employees and officers who may also be shareholders are transacted in accordance with the terms and conditions applicable to all customers. Commission income on such transactions in the aggregate of $344 for the year ending January 31, 2004, is not material in relation to the overall operations of the Company.

The following balances arose with related parties:

| As at January 31 | 2004 | 2003 |
|---|---|---|
| Current assets: | | |
| Receivable from clients | $52,626 | $33,438 |
| Current liabilities: | | |
| Payable to clients | 73,745 | 34,025 |

Amounts receivable from and payable to clients resulting from transactions with partners/shareholders are on terms and conditions applicable to all customers.

## 12. Shareholders' equity:

### (a) Share capital:

Authorized:

Unlimited preferred shares, issuable in series

Unlimited common shares

### (b) Option plan:

The Company established an option plan (the "Plan") effective on completion of the reorganization and offering, which was approved by the Board of Directors of the Company on November 25, 2003. All directors, officers and employees of the Company and its subsidiaries are eligible to be granted options under the Plan. The aggregate number of shares that may be issued under the Plan is limited to 10% of the outstanding common shares.

Options granted under the Plan may be exercised during a term not exceeding 10 years from the date of grant, subject to earlier termination if the optionee ceases to be an officer, director or employee of the Company. Options issued under the Plan vest over a four-year period and are non-transferable.

During the year, the Company granted, and as at January 31, 2004, had outstanding, 1,436,000 options at an exercise price of $11.00 per share, and 60,000 options at an exercise price of $14.00 per share, which expire on November 25, 2013 and December 12, 2016, respectively. No options were exercised nor forfeited/cancelled during the period.

### (c) Stock-based compensation:

During the year, the Company recorded $190 (2003 - nil) in stock-based compensation for options issued to employees. The weighted average fair value of options issued during the year was $2.87 per option.

*C$000s, except shares and per share amounts*

The stock-based compensation was calculated using the Black-Scholes option pricing model assuming a risk-free interest rate of 4.36%; a dividend yield of 1.9%; an expected volatility of 25%; and an expected life of stock options of seven years.

## 13. Net income per share:

| | | |
|---|---|---|
| Net income available to common shareholders for the period from December 9, 2003 to January 31, 2004 | $ | 8,295 |
| Average number of common shares outstanding | | |
| Basic | | 27,830,189 |
| Effect of stock options | | 181,135 |
| Diluted | | 28,011,324 |
| Basic and diluted net income per common share for the period from December 9, 2003 to January 31, 2004 | $ | 0.30 |

## 14. Income taxes:

Income tax expense attributable to income from continuing operations differs from the amounts computed by applying the combined federal and provincial income tax rate of 36% to pretax income from continuing operations as a result of the following:

| | | |
|---|---|---|
| Income before income taxes | $ | 85,209 |
| Computed expected tax expense | $ | 30,675 |
| Income allocated to partners | | (25,529) |
| Non-deductible expenses | | 113 |
| Large corporations tax | | 68 |
| Other | | 498 |
| | $ | 5,825 |

The tax effects of temporary differences that give rise to significant portions of the future tax asset at January 31, 2004, are presented below.

| | | |
|---|---|---|
| Future tax asset | | |
| Current | $ | 652 |
| Long-term | | 2,608 |
| | $ | 3,260 |

*C$000s, except shares and per share amounts*

## 15. Commitments and contingencies:

### (a) Commitments:

The Company has entered into lease agreements for premises and equipment for periods to May 31, 2010.

Aggregate future minimum lease payments for the fiscal years ending January 31 are as follows:

| | |
|---|---|
| 2005 | $ 1,037 |
| 2006 | 696 |
| 2007 | 413 |
| 2008 | 217 |
| 2009 | 119 |
| Thereafter | 132 |
| | $ 2,614 |

The Company is also responsible for its share of operating costs and realty taxes related to these leases.

### (b) Contingencies:

The Company is involved with one legal action, the outcome of which is not determinable. The claim is for US$700 and management has assessed this claim as non-meritorious. Costs, if any, related to this action will be recorded in the year incurred.

## 16. Segmented information:

Management has determined that the Company operates in one dominant industry segment that involves brokerage services in Canada and the United States. Substantially all of the Company's assets are located in Canada. Revenues by geographic locations are as follows:

| | 2004 | 2003 |
|---|---|---|
| Canada | $ 121,687 | $ 87,238 |
| United States | 13,852 | 9,094 |
| | $ 135,539 | $ 96,332 |

## 17. Comparative figures:

Certain 2003 figures have been reclassified to conform with the financial statement presentation adopted in 2004.

# Unaudited Quarterly Consolidated Financial Statements of GMP Capital Corp.

Three Months ended January 31, 2004 and 2003

## Consolidated Statements of Income

| (C$000) | 2004 | 2003 |
|---|---|---|
| Revenue | | |
| Investment banking | $ 19,632 | $ 12,304 |
| Sales and trading | 15,401 | 12,143 |
| Principal activities | 3,259 | (523) |
| Interest and dividend | 1,262 | 403 |
| Other | 6 | 3,707 |
| | 39,560 | 28,034 |
| Expenses | | |
| Salaries and benefits | 19,019 | 4,922 |
| Selling, general and administrative | 5,088 | 3,840 |
| Interest | 76 | 133 |
| Amortization | 138 | 140 |
| | $ 24,321 | $ 9,035 |
| Income before the undernoted | 15,239 | 18,999 |
| Settlement and costs | (47) | (621) |
| Non-controlling interest, net | 34 | (3) |
| Income before income taxes | 15,226 | 18,375 |
| Income taxes of subsidiaries (recovery) | 5,774 | (30) |
| Net income | $ 9,452 | $ 18,405 |

# Consolidated Statements of Shareholders' Equity/Partners' Capital

## Three months ended January 31, 2004 and 2003

| (C$000) | 2004 | 2003 |
|---|---|---|
| Balance, beginning of year | $ 85,944 | $ 63,028 |
| Partners' capital contributions, net | 2,728 | – |
| Net income attributable to partners | 1,156 | 18,405 |
| Partners' drawings | (29,654) | (17,833) |
| Issue of the Company's common shares in exchange for shares of GMP Securities Ltd. | $ 60,174 | – |
| Issuance of common shares, net of issuance costs of $8,089 less income tax recovery of $3,455 | 105,366 | – |
| Reduction of paid-up share capital to former partners | (45,000) | – |
| Stock-based compensation | 190 | – |
| Net income | 8,295 | – |
| Balance, end of year | $ 129,025 | $63,600 |
| Represented by | | |
| Share capital/partners' capital | $ 120,730 | $ 51,640 |
| Retained earnings/partners' current account | 8,295 | 11,960 |
| | $ 129,025 | $ 63,600 |

## Consolidated Statements of Cash Flows

### Three months ended January 31, 2004 and 2003

| (C$000) | 2004 | 2003 |
|---|---|---|
| Cash provided (used in) | | |
| Operating activities | | |
| Net income | $ 9,450 | $ 18,404 |
| Items not involving cash | | |
| Amortization | 138 | 141 |
| Gain on sale of exchange shares | – | (4,276) |
| Future income taxes | 195 | – |
| Stock-based compensation | 190 | – |
| | 9,973 | 14,269 |
| Change in non-cash operating working capital | | |
| Funds deposited in trust | (3,157) | (528) |
| Securities owned and sold short | (20,182) | (12,115) |
| Due to/from clients | 44,795 | (34,317) |
| Due to/from brokers | (19,791) | 52,723 |
| Due to issuers | 11,608 | (2,575) |
| Other | 17,205 | (545) |
| Non-controlling interest | (34) | 3 |
| | 40,417 | 16,915 |
| Financing activities | | |
| Increase (decrease) in bank loan and overdraft | (396) | 502 |
| Issuance of common shares | 101,911 | – |
| Decrease in subordinated loans, net | (7,728) | – |
| Partners' capital contributions, net | 2,728 | – |
| Reduction of paid up capital | (45,000) | – |
| Partners' drawings | (29,654) | (17,833) |
| | 21,861 | (17,331) |
| Investing activities | | |
| Purchase of capital assets, net | (67) | (11) |
| Proceeds from sale of exchange shares | – | 4,311 |
| | (67) | 4,300 |
| Increase in cash and cash equivalents | 62,211 | 3,884 |
| Cash and cash equivalents, beginning of period | 34,991 | 26,851 |
| Cash and cash equivalents, end of period | $ 97,202 | $ 30,735 |

# Board of Directors

Our Board of Directors is comprised of seven individuals, five of whom are independent. The following individuals are currently members of our Board of Directors:

Stanley Beck (Chairman)
Ron Binns
Thomas Budd
Antoine Paquin
Robert Peters
Kevin Sullivan
Donald Wright

Our Board of Directors has a Corporate Governance Committee, an Audit Committee and a Compensation Committee. The membership of the committees and their respective mandates are described below.

The Corporate Governance Committee consists of Mr. Beck (Chairman), Mr. Paquin and Mr. Peters, all of whom meet the independence requirements of the Toronto Stock Exchange Guidelines on Corporate Governance and applicable legislation. The Corporate Governance Committee's mandate includes the development and recommendation to the Board of Directors of appropriate corporate governance guidelines, the identification of future Board and Committee members and the annual review of the Board's performance.

The Audit Committee consists of Mr. Binns (Chairman), Mr. Wright and Mr. Beck, all of whom meet the independence and experience requirements of the Toronto Stock Exchange Guidelines on Corporate Governance and applicable legislation. The Audit Committee mandate includes assisting the Board of Directors in its oversight and evaluation of our financial statements.

The Compensation Committee consists of Mr. Peters (Chairman), Mr. Paquin and Mr. Wright, all of whom meet the independence requirements of the Toronto Stock Exchange Guidelines on Corporate Governance and applicable legislation. The Compensation Committee's mandate includes evaluating our Chief Executive Officer's performance and determining his compensation, reviewing and making recommendations to the Board of Directors with respect to the compensation of all executive members of GMP Securities, fixing and determining (or delegating that authority to fix and determine) awards to employees of stock or stock options under the Company's incentive plans and reviewing key human resources policies and programs.

The Company has also established policies and procedures intended to meet or exceed the corporate governance standards set out by applicable legislation.

More information on the Company's corporate governance is provided in the Management Information Circular for the annual meeting of the Company to be held on May 27, 2004.

# Senior Management and Executive Officers

## GMP Capital Corp.

### Executive Officers

| | |
|---|---|
| **Kevin Sullivan** | **Chief Executive Officer** |
| **Thomas Budd** | **President** |
| **Adina Masson-Crocker** | **Chief Financial Officer** |
| **Leo Ciccone** | **Chief Compliance Officer** |

## GMP Securities Ltd.

### Executive Committee

| | |
|---|---|
| **Thomas Budd** | **President** |
| **Robert Fraser** | **Vice Chairman, Investment Banking** |
| **Gene McBurney** | **Chairman** |
| **Paul Pew** | **Vice Chairman, Director of Research** |
| **Kevin Sullivan** | **Chief Executive Officer** |
| **Michael Wekerle** | **Vice Chairman, Institutional Trading** |

### Managing Directors

Martin Charbonneau
Mark Hawkins
Kevin Overstrom
Dan Tsubouchi

### Directors

Chris Bond
Daniel Bruno
Susan Burkman
David Charles
Ed Charron
Mark Christensen
Leo Ciccone
Sandy Edmonstone
Wade Felesky*
Harris Fricker
Patrick Gagnon
Derek Ham
Dayle Hogg
Michelle Lanthier
Timothy Lazaris
Howard Lis
Peter MacDonald
Adina Masson-Crocker
Bruce Minns
Anne Nelson
Marco Ottoni
Steven Ottaway
Marko Pencak
Anoop Prihar
Jason Robertson
Peter Rockandel
Jo-Anne Stansfield
Larry Strauss
Lorne Sugarman
Ken Teslia
Cindy Tripp
Mark Wellings
Mike Wilson

### Senior Vice Presidents

Robert Bastianon
Matthew Frank
Cosme Ordoñez*
Ray Sharma*

### Vice Presidents

Rachel Goldman*
Christopher Graham
Nicolle Irving
Todd Kepler*
Andrew Kiguel
Marc Lustig*
Greg McLeish*
Susanne Puglisi
Leo Purcell
Kevin Reid*
Matt Sobelewski*
Jacques Wortman*
Justin Wu*

**Pending regulatory approval as of April 2004*

# Corporate Information

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Fax: (416) 943-6134
Toll Free: (888) 301-3244
*www.gmpcapitalcorp.com*

## Auditors

KPMG LLP

## Legal Counsel

Goodmans LLP

## Transfer Agent & Registrar

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario, M5C 2W9
Telephone: (416) 643-5500
Toll Free: (800) 387-0825

To change share registration or address or to advise of duplicate mailings, please call our Transfer Agent and Registrar at CIBC Mellon.

## Stock Listing

Toronto Stock Exchange
Symbol: GMP

## CUSIP

362016107

## Fiscal Year End

January 31

## Annual General Meeting

Thursday, May 27, 2004, at 10 a.m. (EST)
TSX Broadcast & Conference Centre (Auditorium)
The Exchange Tower
130 King Street West
Toronto, Ontario

## Subsidiary Companies

GMP Securities Ltd.
*www.gmpsecurities.com*

Griffiths McBurney Corp.

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GRIFFITHS MCBURNEY

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