



GMP Capital Corp.

Q2

Second Quarter Report 2006





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Q2

For the Three and Six Months Ended July 31, 2005

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## Fellow Shareholders,

The contribution from our second quarter results has continued our strong growth trend. Again, we took advantage of robust capital markets to post excellent year-over-year gains in our business. Investment banking revenue of \$41.1 million and sales and trading revenue of \$17.3 million represented gains of 40% and 30%, respectively, from the same period last year. Despite an overall downturn in the level of equity underwriting in calendar Q2, we were able to post solid results by gaining market share. We moved to the number two position in value of common equity underwriting, up from number three in the comparable calendar period last year.

Our excellent franchise in the oil and gas patch once again fuelled the majority of the growth. Investment banking revenue from our oil and gas business reached an all-time record high of \$30.4 million, up a remarkable 150% from the prior year. Continued strong commodity prices have fuelled unprecedented levels of underwriting and M&A activity, and our strong and consistent presence in this sector over the past decade has allowed us to capitalize on industry conditions and once again produce exceptional results. In addition, strong growth in our industrial, healthcare and special situations groups allowed us to more than offset revenue declines in the mining sector. The strong performance of these groups, together with our continued strength in the oil and gas sector, allowed us to rank number one in Canada in value of common equity underwriting in the first half of calendar 2005.

Our institutional equities business also enjoyed another excellent quarter. We were able to increase our market share, garnering 10.8% of block trading volume, up from 7.9% in calendar Q2 last year, taking the number two position overall, up from seventh in the comparable period. These market share gains led to a solid increase in our sales and trading revenue to \$17.3 million, from \$13.3 million in the same period last year. We invested in new talent for our already strong trading desk and remain confident in our positive outlook for the balance of the year.

Fiscal Q2 also saw continued solid progress at GMP Private Client. We continue to attract exceptional interest in our unique platform, adding four new investment advisory teams in the quarter and a fifth team subsequent to quarter end. At 12 professionals and approximately \$1.3 billion in assets under management, we are well on our way to meeting or exceeding our previous targets for year end.

We continue to change and improve our business by investing in talented people and new initiatives. We recently announced the appointment of a new Chief Financial Officer, Christine Drake, and look forward to her contribution to our future growth. After quarter end, we also announced that our Board of Directors has approved, in principle, our proposal to pursue the conversion of GMP to an income trust. Given our strong profitability and excess cash generation, we believe that the income trust structure was the best way to deliver on our promise to return cash in excess of our needs to our shareholders. With our excellent first-half earnings of \$59.7 million before tax and our strong balance sheet, we are confident we can accomplish this goal without impeding our future growth in any way. We wish to be clear in saying that in no way will this new structure change our approach to our business or the way we conduct our day-to-day operations.

With another strong quarter; continued robust capital markets; stable, high commodity prices and continued low interest rates, we remain confident in our outlook for the balance of the year. The exceptional work ethic of our talented people and their loyalty over the past 10 years have led us to an enviable level of success. We are making positive strides towards our goal of being top of mind with Canada's top entrepreneurs as we continue to build our business and take our clients from idea generation to wealth creation to wealth preservation.

We look forward to updating you on our progress.



**Kevin Sullivan**  
Chief Executive Officer  
GMP Capital Corp.



# Management's Discussion and Analysis

Q2

For the Three and Six Months Ended July 31, 2005

## About This MD&A

This MD&A for the three and six months ended July 31, 2005, should be read in conjunction with the interim consolidated financial statements for the three and six months ended July 31, 2005, and the audited consolidated financial statements and MD&A for the year ended January 31, 2005.

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. All references to "GMP Securities" refer to GMP Securities Ltd., a subsidiary of the Company. All references to "GMP Private Client" refer to GMP Private Client Ltd., a subsidiary of the Company. 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 2006, fiscal 2005 and fiscal 2004 refer to our fiscal years ended, or the dates, as the context requires, January 31, 2006, January 31, 2005, and January 31, 2004, respectively (e.g., fiscal 2005 refers to the 12 months ended January 31, 2005). Unless specifically stated otherwise, all references to "first quarter," "second quarter," "third quarter" and "fourth quarter" refer to the three months ended April 30, July 31, October 31 and January 31, respectively, in any given fiscal year.

## 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 the results of our 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. These statements are made as of August 19, 2005, 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. For a description of risks that could cause our actual results to materially differ from our current expectations, please see "Description of the Business – Risk Management" and "– Risk Factors" in our Annual Information Form for fiscal 2005.

## Presentation of Financial Information and Non-GAAP Measures

On December 9, 2003, in anticipation of 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 are prepared using the continuity of interests method of accounting. Our financial results prior to December 9, 2003, are those of the Partnership, and results subsequent to December 8, 2003, are those of the Company. Due to the inherent structural differences between the Partnership and the Company, we have presented pro forma information that is intended to reflect the financial results of the Partnership as if it had carried on business as a corporation.

Due to the differences in accounting between the Partnership and the Company, we have presented certain non-GAAP measures, in addition to the financial statements of the Company, to assist in comparing our historical financial performance to our results. 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. These non-GAAP measures are presented as pro forma expenses, pro forma income before pro forma income taxes, pro forma income taxes, pro forma net income and pro forma basic earnings per share before and after taxes.

Most significantly, before the reorganization of the business of the Partnership on December 9, 2003, variable incentive-based compensation paid to partners under the partnership structure was recorded as a current account draw and deducted from partners' equity. Since December 9, 2003, this compensation has been recorded as a salaries and benefits expense on the statement of income. 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."

## Second Quarter and Year-to-Date Highlights

(\$ millions, except % and per share amounts)	Three months ended			Six months ended		
	July 31, 2005	July 31, 2004	Year-over-year increase	July 31, 2005	July 31, 2004	Year-over-year increase
Revenue	\$64.2	\$48.2	33%	\$137.6	\$90.3	52%
Expenses	\$37.0	\$25.6	45%	\$77.9	\$52.0	50%
Pretax income	\$27.2	\$22.6	20%	\$59.7	\$38.2	56%
Net income after tax	\$17.4	\$14.3	22%	\$38.5	\$24.0	60%
Basic earnings per share	\$0.62	\$0.51	22%	\$1.37	\$0.86	59%

Activity in the equity markets remained relatively strong in the second quarter of this year. We delivered strong results for the second quarter and record results for the first half of fiscal 2006. Our performance this quarter was driven by continued market share gains in our equity underwriting and equity sales and trading businesses compared with the same period last year, and robust market conditions in those areas of the market in which we concentrate. Oil and gas remained the strongest performing sector, representing 74.1% of our total investment banking revenue compared with 41.7% in the same period last year and 51.6% in the previous quarter.

Net income for the second quarter of this year increased 21.6% to \$17.4 million (\$0.62 per share) compared with \$14.3 million (\$0.51 per share) in the same period last year. Total revenue increased 33.2% to \$64.2 million in the second quarter of this year, up from \$48.2 million in the same period last year. Expenses for the second quarter increased \$11.4 million (or 44.5%) to \$37.0 million compared with \$25.6 million in the same period last year. Included in expenses this quarter were \$3.0 million related to GMP Private Client, an increase of \$3.0 million over the same

period last year, as GMP Private Client had not been formally launched in the comparable period. For the second quarter of this year, after-tax annualized return on average equity was 40.0%, virtually unchanged from 40.1% in the same period last year due to the growth in our equity base.

Net income for the first half of this year increased 60.4% to a record \$38.5 million (\$1.37 per share) compared with \$24.0 million (\$0.86 per share) in the same period last year. Total revenue reached a record \$137.6 million in the first half of this year, up 52.4% from \$90.3 million in the same period last year. Year to date, after-tax annualized return on average equity was 46.4% compared with 35.0% in the same period last year. Our results in the first half of this year continued to reflect favourable market conditions. For a discussion of market trends and other factors affecting our businesses, see the "Business Environment and Market Outlook" section on page 20.

Starting this quarter, we have categorized our operating results into the following two segments: GMP Securities and GMP Private Client. GMP Securities includes our investment banking, sales and trading, research and principal trading operations. GMP Private Client provides full-service investment brokerage services to high net worth retail clients. This segmentation allows us to better report on progress and growth in both our businesses, but in particular GMP Private Client as we continue to develop this unique platform.

On August 18, 2005, we announced that our Board of Directors approved, in principle, our proposal to pursue the conversion of GMP into an income trust by way of a plan of arrangement under the *Canada Business Corporations Act*. Such an arrangement would be subject to the approval of shareholders, which is intended to be sought at a shareholders' meeting, and a number of other conditions, including the receipt of all necessary regulatory and court approvals. The board and management believe that such a conversion will provide substantial benefits to shareholders and we look forward to providing further details in the information circular. For further information visit SEDAR at [sedar.com](http://sedar.com).

## Corporate Overview

GMP Capital Corp. was incorporated under the *Canadian Business Corporations Act* on October 20, 2003, and went public on the Toronto Stock Exchange (the "TSX") on December 9, 2003. GMP Capital's primary businesses are GMP Securities Ltd., a leading Canadian investment dealer serving corporate clients and institutional investors; GMP Private Client Ltd., a full-service investment firm catering to affluent private clients; and Griffiths McBurney Corp., a broker dealer registered in the United States that services U.S. institutional clients.

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 and income from principal investment activities. Our business has been built on and continues to be driven by the philosophy of providing superior returns for our clients and investors. We went public in December 2003 with the intention of using the capital raised to grow our business and raise our profile in the Canadian marketplace and to further solidify our position in an increasingly competitive market.

Our employees and officers hold a significant interest in the Company. Our strong entrepreneurial culture allows us to respond quickly to the changing demands and opportunities in our business. We believe our unique culture and employee-equity ownership enables us to continue to attract and retain high-quality professionals. We encourage new investment by our employees in the Company through the issuance of stock options and the recent introduction of an executive share loan plan. In addition, GMP Private Client's share ownership plan allows for direct investment in GMP Private Client by its employees.

One of our basic business strategies is to bring value-added investment banking, sales and 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 increasing revenue generation and overall profitability. This cost structure and business philosophy is designed to achieve profits even in difficult market cycles. In addition, we strive to bring a disciplined approach to our operations and maintain very low levels of general and administrative and fixed compensation expenses. We expect we can continue to grow revenue while controlling operating expenses.

Our objective for GMP Private Client is to become Canada's premier full-service independent investment firm serving affluent private clients by bringing together some of the top-performing investment advisors in the country. Our integrated brokerage model allows advisors to participate as equity owners in their own business. GMP Private Client will assist us in achieving our goal to be the firm of choice for members of our target market at every stage of their development. Our strategy for achieving this goal is to offer a full complement of services through operating units that work closely together to build deep and long-term relationships with our clients. Through these strong relationships, exceptional execution and a trusted, independent brand, we will work towards our vision of being top of mind and the top choice among Canada's top entrepreneurs.

We remain extremely well positioned to continue to implement our growth strategies, which are to build new — and enhance existing — relationships with our clients, pursue new business opportunities or market 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, and expand the breadth of our products and services.

We are committed to being an active, responsible and accountable participant in our community. Our charitable support is directed across a variety of areas, including health, education and sports, with a primary focus on children and children's issues.

## Operations of the Company

GMP Capital Corp. has two significant subsidiaries: GMP Securities Ltd. and GMP Private Client Ltd.

### GMP Securities Ltd.

We provide brokerage services in Canada and the United States through two main divisions: investment banking and institutional equities (which comprises sales and trading, and research). These two divisions work together for the financial success of our corporate and institutional clients. One of our most distinctive features is our strategic focus on mid-cap companies (having less than \$1 billion in market capitalization). Our business currently focuses on seven industry groups: mining; oil and gas; industrials and special situations; non-bank financial services; telecommunications, cable and media; technology; and healthcare. During the first half of fiscal 2006, we expanded our core business, adding royalty trusts to our coverage of the oil and gas platform. This area complements our existing strength, as we are already a leader in oil patch financing.

#### Investment Banking

Our investment banking business consists primarily of public and private corporate financing activities and merger and acquisition ("M&A") advisory services. Our team currently focuses on investment banking activities in each of the seven industry sectors in which we specialize. Traditionally, we have focused largely on common equity transactions, but we are now increasing our focus on income trusts in an effort to gain market share in this segment. Our success in investment banking is based on the professionalism and experience of our people, and we have continued to build our team since we went public.

Our corporate finance business focuses primarily on raising financing for public and private businesses in the capital markets. We also provide advisory services to private and public companies in connection with a wide variety of transactions, including mergers, acquisitions, reorganizations and restructurings. We consistently rank as one of the top lead underwriters and advisors on mergers and acquisitions in Canada.

#### Sales and Trading

Our equity sales and trading operations consist primarily of buying and selling securities as agent on behalf of our clients. We earn commissions for executing these trades. We have a strong and experienced sales and trading team. The 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 needs. Our trading desk has maintained a leading position in block trading in Canada. We are the only independent dealer consistently ranked in the top 10 in the TSX block trading volumes.

## Research

A key element of our business strategy is to provide specialized and in-depth research to compete against the larger investment dealers. Our research department has offices in Toronto, Montreal and Calgary and provides research coverage on more than 225 companies across the seven industry sectors on which we focus. The members of each industry team work closely to provide our clients with timely information, to identify and evaluate industry trends, and to uncover investment opportunities with high growth potential. Leveraging the strength of our Calgary team, we initiated research coverage on oil and gas royalty trusts in the first quarter of fiscal 2006. Our approach to researching the trusts relies on sector-based expertise rather than more general expertise in income trusts, and we continue to believe that allows us to deliver to clients a better understanding of the individual company underlying the trust structure in the context of the overall industry in which it operates.

## GMP Private Client Ltd.

GMP Private Client is a full-service investment brokerage focused on serving high net worth private clients. We believe the subsidiary adds to our business mix by expanding the markets that we serve and diversifying the products that we offer. Our unique platform is built on a new best-of-breed technology interface that offers advisors and clients superior technology, client reporting and investment management services. We continue to believe in the integrated brokerage model, which includes the ability for investment advisors to participate as equity owners in their own business while simultaneously deriving benefits from interaction and co-operation with GMP Securities. The efficiencies and benefits inherent in co-operation between the wholesale and private client sides of the business are evident to us in terms of human capital, idea sharing and back-office integration. Similarly, we believe our new technology platform will provide clients with access to an exceptional service offering.

## Summary of Results

### Selected Financial Data

	Three months ended							
	2006 <sup>d</sup>		2005 <sup>d</sup>				2004	
\$000s, except shares and per share amounts								
Fiscal year-end January 31	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	64,151	73,407	58,883	37,706	47,764	42,116	39,560	45,043
Income before taxes	27,206	32,476	25,836	14,101	22,599	15,608	15,226	35,581
Pro forma income before taxes <sup>a, b</sup>	n/a	n/a	n/a	n/a	n/a	n/a	17,668	22,591
Earnings per share before taxes <sup>a, b, c</sup>	0.96	1.15	0.92	0.50	0.81	0.56	0.63	0.81
Net income	17,395	21,107	16,429	8,700	14,267	9,776	9,452	35,540
Pro forma net income <sup>a, b</sup>	n/a	n/a	n/a	n/a	n/a	n/a	11,232	14,340
Basic earnings per share	0.62	0.75	0.58	0.31	0.51	0.35	0.30	n/a
Diluted earnings per share	0.60	0.73	0.58	0.31	0.50	0.34	0.30	n/a
Pro forma basic & diluted earnings per share <sup>a, b, c</sup>	n/a	n/a	n/a	n/a	n/a	n/a	0.40	0.51
Dividends paid per share	0.15	0.15	0.85	0.10	0.10	0.10	n/a	n/a
Book value per share <sup>a</sup>	6.42	5.92	5.30	5.50	5.29	4.87	4.60	n/a

- This data is considered to be non-GAAP earnings measures. See "Presentation of Financial Information and Non-GAAP Measures" and "Pro Forma Net Income Reconciliation."
- 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 the initial public offering of the Company. 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.
- Pro Forma earnings per share have all been calculated assuming 28.0 million shares outstanding, as at the date of the IPO.
- Fiscal 2005 and fiscal 2006 do not require pro forma adjustments because the business was carried on as a corporation from the beginning of the fiscal year.

## Results of Operations

### Three Months Ended July 31, 2005, Compared with Three Months Ended July 31, 2004

#### Revenue

(\$000s)	Three months ended	
	July 31, 2005	July 31, 2004
Investment banking	\$41,052	\$29,267
Sales and trading	17,321	13,294
Wealth management	1,289	—
Principal activities	2,245	3,902
Interest and dividends	2,373	1,693
Other	(129)	62
<b>Total Revenue</b>	<b>\$64,151</b>	<b>\$48,218</b>

Revenue was \$64.2 million for the three months ended July 31, 2005, up 33.2% from \$48.2 million in the comparable period last year and down 12.5% from \$73.4 million in the previous quarter. Revenue for the quarter reflects increased activity in the equity markets together with market share gains, which led to strong revenue in investment banking and sales and trading of \$41.1 million and \$17.3 million, respectively. Market conditions for our investment banking and sales and trading businesses in the second quarter of this year were less favourable than the exceptional results enjoyed in the first quarter. The quarter-over-quarter decrease in revenue was also, in part, due to a slowdown in market activity in April and May. Compared with the first quarter, investment banking in the Canadian markets experienced declines in the value of completed mergers and acquisitions of 47% and total equity underwriting volumes of 15%.

Wealth management commission revenue of \$1.3 million was recognized this quarter resulting from the addition of investment advisors, as the recruiting phase of the GMP Private Client initiative continues.

Revenue from principal activities decreased by 43.6% to \$2.2 million for the second quarter of this year from \$3.9 million in the same period last year. Quarter-over-quarter net revenue from principal activities improved from a loss of \$0.1 million reported in the first quarter.

Interest and dividend income increased by 41.2% to \$2.4 million for the second quarter of this year compared with \$1.7 million for the same period last year. Quarter-over-quarter interest and dividend income improved \$0.3 million (or 14.3%). These increases are due primarily to an increase in client account balances.

## Expenses

Total expenses for the second quarter of this year were \$37.0 million, up \$11.4 million from \$25.6 million for the same period last year. Of this \$11.4 million increase, \$9.5 million was related to an increase in compensation and benefits (including variable incentive-based compensation), while the remaining \$1.9 million increase related to all other expenses including selling, general and administrative ("SG&A"), interest and amortization.

## Employee Compensation and Benefits

(\$000s)	Three months ended	
	July 31, 2005	July 31, 2004
Fixed salaries and benefits	\$3,735	\$2,780
Variable incentive-based compensation	23,993	16,597
Stock-based compensation	548	359
Executive share loan bonus	833	—
Investment advisor transition assistance program	67	—
<b>Total Employee Compensation and Benefits</b>	<b>\$29,176</b>	<b>\$19,736</b>
<b>Ratio of Total Compensation and Benefits to Revenue</b>	<b>45.5%</b>	<b>40.9%</b>

The total compensation and benefits expense was \$29.2 million for the second quarter of this year, up \$9.5 million from \$19.7 million in the same period last year. This increase reflects a \$7.4 million increase in variable incentive-based compensation; a \$1.0 million increase in

fixed salaries and benefits; a \$0.2 million increase in stock-based compensation; an expense of \$0.8 million for the recognition of the bonus expense related to the executive share purchase plan introduced in the last quarter of fiscal 2005; and an expense of \$0.1 million associated with the investment advisor transition assistance program introduced last quarter. As part of the executive share purchase plan the company is obligated under certain conditions to pay cash bonuses to participants in the plan on the second, third and fourth anniversaries of the original loan. The related bonus expense is recognized over the first four years each loan is outstanding. Under the investment advisor transition assistance program, GMP Private Client advances funds to participating investment advisors in the form of an interest-free loan forgivable in equal amounts on the first five anniversaries of the original loan. The associated bonus expense is recognized over the life of the loan.

Variable incentive-based compensation, which totalled \$24.0 million in the second quarter of this year, varies proportionately with changes in revenue and business mix. Variable incentive-based compensation as a percentage of revenue increased to 37% from 34% in the comparable period last year.

The increase in fixed salaries and benefits of \$1.0 million is primarily related to the increase in the number of employees since last year. Included in salaries this quarter are employee costs of \$0.6 million related to GMP Private Client. GMP Private Client had not been formally launched in the comparable quarter last year.

The total number of employees increased by 39 (or 22.5%) to 212 at July 31, 2005, from 173 at July 31, 2004. A large portion of the increase is related to the growth of GMP Private Client, which accounts for 23 of the total increase in employees since last year. The remainder of the increase is due to our ongoing strategy to build on our core competencies, and we continue to believe the addition of talented employees is important to the long-term growth of our business.

The ratio of total compensation and benefits (including fixed compensation) to revenue for the second quarter of this year was 45.5% compared with 40.9% in the same period last year. This is an important industry ratio that we monitor to ensure the success of our business model. This ratio compares favourably to that of our peer group in both Canada and the United States. We expect this ratio to trend higher on a consolidated basis, as we build our private client business, which utilizes an industry standard retail payout grid, and as we encourage new investment in the Company by our growing workforce through our stock-based compensation plans.

Total non-compensation operating expenses for the second quarter of this year increased to \$7.8 million, up \$1.9 million from \$5.9 million in the same period last year, representing a 32.2% increase. GMP Private Client represented \$1.5 million of the total non-compensation expense this quarter, an increase of \$1.5 million over last year as GMP Private Client had not been formally launched in the prior period. GMP Securities experienced higher levels of business activity and an increased workforce, which resulted in higher amounts being spent on travel and promotional expenses, premises costs, communication expenses, exchange fees and ticket processing fees.

Our total operating expenses (excluding variable incentive-based compensation and interest expenses) were \$12.5 million in the second quarter of this year compared with \$8.6 million in the same period last year, an increase of \$3.9 million. Approximately \$2.1 million of the increase was directly related to GMP Private Client. Operating expenses relating to this business are expected to increase as we continue to invest in and build out this business. The remaining \$1.8 million increase in operating expenses was related to GMP Securities. We remain focused on managing costs as we continue to grow to remain competitive throughout all market cycles. We will increase costs only when we believe there will be added benefits to our overall revenue base or where an investment in our future could add substantial shareholder value.

## Net Income

After-tax net income for the second quarter of this year increased 21.7% to \$17.4 million (\$0.62 per share) from \$14.3 million (\$0.51 per share) for the same period last year and declined 17.5% from \$21.1 million (\$0.75 per share) in the previous quarter. Pretax income increased 20.4% to \$27.2 million (\$0.96 per share)<sup>1</sup> for the second quarter of this year compared with \$22.6 million (\$0.81 per share)<sup>1</sup> for the same period last year and decreased 16.3% from \$32.5 million (\$1.15 per share)<sup>1</sup> in the previous quarter. Our dividend yield as at August 19, 2005, stands at approximately 1.80% compared with the TSX non-bank financials group at approximately 2.25%.

## Six Months Ended July 31, 2005, Compared with Six Months Ended July 31, 2004

### Revenue

(\$000s)	Six months ended	
	July 31, 2005	July 31, 2004
Investment banking	\$89,137	\$55,174
Sales and trading	40,539	28,543
Wealth management	1,322	—
Principal activities	2,217	2,573
Interest and dividends	4,402	3,702
Other	(58)	342
<b>Total Revenue</b>	<b>\$137,559</b>	<b>\$90,334</b>

Total revenue was \$137.6 million for the six months ended July 31, 2005, up 52.4% (or \$47.3 million) from \$90.3 million in the comparable period last year, driven largely by increases in investment banking and sales and trading revenue of \$34.0 million and \$12.0 million, respectively. Wealth management commission revenue of \$1.3 million have been recognized during this period. Revenue from principal activities decreased 15.4% to \$2.2 million for the first half of this year, from \$2.6 million in the same period last year. Interest and dividend income increased 18.9% to \$4.4 million for the first half of this year compared with \$3.7 million in the same period last year.

1. This data is considered to be non-GAAP and does not have any standard meaning prescribed by GAAP.

## Expenses

Total expenses for the first half of this year were \$77.9 million, up \$25.9 million from expenses of \$52.0 million for the same period last year. Of this \$25.9 million increase, \$24.3 million was related to an increase in all employee compensation and benefits expenses (including variable incentive-based compensation) and \$1.6 million was related to all other expenses, including SG&A, interest and amortization.

## Employee Compensation and Benefits

(\$000s, except %)	Six months ended	
	July 31, 2005	July 31, 2004
Fixed salaries and benefits	\$7,212	\$5,386
Variable incentive-based compensation	54,221	33,919
Stock-based compensation	1,167	718
Executive share loan bonus	1,666	—
Investment advisor transition assistance program	67	—
<b>Total Employee Compensation and Benefits</b>	<b>\$64,333</b>	<b>\$40,023</b>
<b>Ratio of Total Compensation and Benefits to Revenue</b>	<b>46.8%</b>	<b>44.3%</b>

The total compensation and benefits expense was \$64.3 million for the first half of this year compared with \$40.0 million in the same period last year. Variable incentive-based compensation, totalling \$54.2 million for the six months ended July 31, 2005, varies proportionately with changes in revenue and business mix. The ratio of total compensation and benefits (including fixed compensation) to revenue for the first half of this year was 46.8% compared with 44.3% in the same period last year. This ratio compares favourably to that of our peer group in both Canada and the United States. Variable incentive-based compensation as a percentage of revenue remained relatively consistent at 39.4% compared with 37.5% in the comparable period last year.

The increase in fixed salaries and benefits of \$1.8 million is primarily related to the increase in the number of employees since last year. Included in salaries are employee costs of \$0.9 million related to GMP Private Client for the first half of this year. GMP Private Client had not been formally launched in the comparable period last year.

Total non-compensation operating expenses for the first half of this year increased 13.3% (or \$1.6 million) to \$13.6 million from \$12.0 million in the same period last year. GMP Private Client represented \$1.7 million of total non-compensation expenses for the first half of this year, an increase of \$1.7 million over last year. GMP Securities experienced a decline in non-compensation operating expenses due to a decrease in interest costs of \$0.3 million related to interest we pay to clients on their settlement deposits, and a decrease in soft dollar expenses of \$0.3 million, which is in keeping with our philosophy to avoid or reduce soft dollar relationships whenever possible. Partially offsetting these declines were an increase in consulting expenses, higher communication expenses and higher ticket processing charges. We expect SG&A expenses to remain relatively stable, and to increase only in the context of increased revenue or increases in the size of our workforce.

Our total operating expenses (excluding variable incentive-based compensation and interest expense) were \$22.7 million in the first half of this year compared with \$17.0 million in the same period last year. Approximately \$2.7 million of the increase in operating expenses was directly related to GMP Private Client.

## Net Income

After-tax net income for the first half of this year was \$38.5 million (\$1.37 per share) compared with after-tax net income of \$24.0 million (\$0.86 per share) for the same period last year, representing an increase of 60.4%. Pretax income increased 56.3% to \$59.7 million (\$2.12 per share)<sup>1</sup> for the first half of this year compared with pretax income of \$38.2 million (\$1.36 per share)<sup>1</sup> for the same period last year.

## Results of Business Segments

The Company operates in two industry segments through GMP Securities and GMP Private Client. GMP Securities includes investment banking, sales and trading, research and principal trading. GMP Private Client provides full-service investment brokerage services to high net worth retail clients. Revenue in our segments includes allocations of interest income and interest expense to specific securities and other positions in relation to the cash generated by, or funding requirements of, such underlying positions. Expenses in the private client segment include an allocation of operations and support services provided by GMP Securities.

### GMP Securities

Revenue within the GMP Securities segment is composed primarily of investment banking and sales and trading revenue. GMP Securities also earns revenue from its principal activities and earns interest income on client balances and its own cash position.

(\$000s, except employees)	Three months ended		Six months ended	
	July 31, 2005	July 31, 2004	July 31, 2005	July 31, 2004
Revenue	\$62,664	\$48,218	\$136,027	\$90,334
Expenses	\$33,976	\$25,622	\$74,277	\$52,042
Net income after taxes	\$18,384	\$14,267	\$39,450	\$24,043
Number of employees as at July 31	185	169	185	169

The following tables demonstrate investment banking revenue by sector and sales and trading activity for the three and six months ended July 31, 2005.

### Investment Banking Revenue by Sector

(\$000s)	Three months ended		Six months ended	
	July 31, 2005	July 31, 2004	July 31, 2005	July 31, 2004
Oil and gas	\$30,434	\$12,215	\$55,229	\$21,572
Industrials/special situations	4,755	3,647	6,806	5,207
Technology and healthcare	2,765	1,501	4,545	6,500
Mining	2,478	11,006	20,785	19,709
Telecommunications, cable and media	604	—	970	930
Non-bank financial services	16	898	802	1,256
<b>Total Revenue</b>	<b>\$41,052</b>	<b>\$29,267</b>	<b>\$89,137</b>	<b>\$55,174</b>

1. This data is considered to be non-GAAP and does not have any standard meaning prescribed by GAAP.

## Sales and Trading

(\$000s)	Three months ended		Six months ended	
	July 31, 2005	July 31, 2004	July 31, 2005	July 31, 2004
Commissions	\$17,930	\$17,625	\$43,840	\$37,872
Facilitation trading losses	(609)	(4,331)	(3,301)	(9,329)
<b>Total Revenue</b>	<b>\$17,321</b>	<b>\$13,294</b>	<b>\$40,539</b>	<b>\$28,543</b>

### Three Months Ended July 31, 2005, Compared with Three Months Ended July 31, 2004

Revenue from GMP Securities totalled \$62.7 million in the quarter, up 30.1% from the same period last year. This increase, in part, was due to an increase in activity in the equity markets compared with the same period last year.

Investment banking once again proved to be our strongest performing division in the quarter. Investment banking revenue in the second quarter ended July 31, 2005, increased 40.3% to \$41.1 million from \$29.3 million in the comparable period last year, and declined 14.6% from \$48.1 million in the previous quarter. The increase over last year's results is largely attributable to an increase in our market share in M&A and equity underwriting activity, and to the continued strength in the oil and gas sector.

For the second quarter, we enjoyed continued momentum with gains in market share in equity underwriting and M&A activity and ranked second and fifth, respectively. The Investment Dealers Association (IDA) reported that for the industry, common equity financings were down 32% in the second calendar quarter of 2005 from the same period last year. We ranked number two among Canadian investment dealers in value of common equity issuance in the calendar quarter, up from third position in the same period last year, and our total value of common equity underwriting transactions remained flat.<sup>2</sup>

Sales and trading commission revenue for the second quarter of this year increased 30.1% to \$17.3 million from \$13.3 million in the same period last year. The increase is largely attributable to gains in market share in block trading volume and lower facilitation losses. While trading volume on the TSX index declined marginally by 1% year over year, we were able to increase our market share in block trading volume. For the second calendar quarter this year, we ranked second in Canada (up from seventh position in the same period last year), increasing our market share to 10.8% from 7.9%, achieving block trading volume of approximately 1.2 billion shares (compared with approximately 841.4 million in the second calendar quarter of 2004). In July 2005, we maintained our position in terms of block trade volume on the TSX, achieving a market share of approximately 9.7%.

Net commission revenue for the second quarter of this year declined 25.8% from \$23.3 million in the previous quarter. This decline is largely attributable to a decrease in trading volumes on the TSX in the second calendar quarter of 18% compared with the first quarter of calendar 2005.

2. Source: Financial Post Data Group. Data is ranked by value of transactions and is presented on a "Full Credit to Book" basis whereby the entire transaction value is allocated to the bookrunner. For these purposes, "equity" includes the following: private placements with a \$1.5 million minimum; special warrants, irrespective of whether the issuer has received the total proceeds; common shares and units; convertible debt; and exercise of over-allotment option of original transaction launched during the period reported on. For these purposes, "equity" excludes the following: preferred shares, preferred hybrids, income trusts, rights offerings, and other derivatives.

Sales and trading commission revenue is reported net of facilitation trading losses. In the second quarter, these trading losses were 3.4% of gross commissions generated (down from 24.6% in the same period last year). We were able to achieve a lower loss ratio than our internal benchmark of 20%. Increased market share allowed us to benefit from higher liquidity, which translated into lower-than-normal facilitation trading losses in the second quarter of this year. While we endeavour to limit these losses to as great an extent as possible, we do not believe this 3.4% loss ratio is sustainable. We expect that ratios in future quarters will be closer to our three-year average of 18%.

Revenue from principal activities decreased by 43.6% to \$2.2 million for the second quarter of this year from a profit of \$3.9 million in the same period last year. In the second quarter of this year we recorded overall net gains within the portfolio, representing a combination of realized and unrealized amounts. Last year's results include approximately \$5.1 million in gains attributable to our position of common shares and warrants in Sirit Inc. (SI-TSX). This gain was partially offset by losses last year in other security investments totalling approximately \$1.2 million. Revenue from principal activities of \$2.2 million this quarter improved from a net loss of \$0.1 million recorded in the first quarter of this year. Principal trading activity is not a significant focus in our current operation and consists largely of securities that have been acquired incidental to our core business.

Total expenses for the second quarter of this year were \$34.0 million, up \$8.4 million from \$25.6 million for the same period last year, primarily owing to an increase in all compensation and benefits, including variable incentive-based compensation. SG&A expenses were higher, reflecting higher levels of business activity and an increased workforce. Interest expense, reflecting interest we pay to clients on their settlement deposits, and amortization expense were lower than in the same period last year.

After-tax net income for the second quarter of this year increased 28.7% to \$18.4 million from \$14.3 million for the same period last year.

### **Six Months Ended July 31, 2005, Compared with Six Months Ended July 31, 2004**

Revenue from GMP Securities totalled \$136.0 million in the first six months of the year, up 50.6% from the same period last year. This increase, in part, was due to an increase in activity in the equity markets compared with the same period last year.

Investment banking revenue reached a record \$89.1 million for the six months ended July 31, 2005, up 61.4% from \$55.2 million in the comparable period last year. The increase is largely attributable to market share gains during the first half of this year and to the continued strength in the oil and gas sector. In the first half of calendar 2005, our total value of M&A transactions increased 177.9% to US\$3.7 billion, significantly increasing our market share to 12.1% from 6.9% in the same period last year. The largest contributor to this increase was our role as advisor to Goldcorp Inc. on its US\$2.04-billion acquisition of Wheaton River Minerals Ltd., which was completed in the first quarter of this year.<sup>3</sup> We acted as lead underwriter on

3. Source: Bloomberg, on July 4, 2005. Data contains both announced and completed Canadian transactions in the specified period; includes target or seller and acquirer.

three of the nine largest (transactions valued over \$115 million) common equity underwriting transactions in Canada in the first half of this year.<sup>2</sup> Our involvement in increasingly larger deals is a testament to our growing franchise and distribution capabilities.

Sales and trading revenue for the first half of this year increased 42.1% to \$40.5 million from \$28.5 million in the same period last year. The increase is attributable to gains in market share in block trading volume and lower facilitation losses. Trading volume on the TSX was down 8.0% in the first half of calendar 2005 over the same period in 2004. Although trading volume was down, we were able to increase our market share in block trading volume. For the first half of calendar 2005, we ranked second in Canada (up from sixth position in the same period last year), and increased our market share to 11.0% from 7.7%.

Sales and trading commission revenue is reported net of facilitation trading losses, and in the first half of this year these trading losses fell dramatically to 7.5% of gross commissions generated (from 24.6% in the first half of fiscal 2005). We were able to achieve a lower loss ratio than our internal benchmark of 20.0%.

Principal activities decreased by \$0.4 million to \$2.2 million for the six months ended July 31, 2005, compared with \$2.6 million in the same period last year.

Total expenses for the first half of this year were \$74.3 million, up \$22.3 million from \$52.0 million for the same period last year, primarily owing to an increase in all compensation and benefits, including variable incentive-based compensation. SG&A expenses were higher, reflecting higher levels of business activity and an increased workforce. Interest expense, reflecting interest we pay to clients on their settlement deposits, was lower than in the same period last year, while amortization expense remained consistent with prior-year levels.

After-tax net income for the first half of this year was \$39.4 million compared with after-tax net income of \$24.0 million for the same period last year, representing an increase of 64.2%.

## GMP Private Client

Revenue within the GMP Private Client segment is composed primarily of commission revenue. GMP Private Client also earns interest income on client balances and its own cash position. Revenue for the second quarter of this year was comprised of \$1.3 million in commission revenue and \$0.2 million in interest income.

(\$000s, except employees)	Three months ended July 31, 2005	Six months ended July 31, 2005
Revenue	\$1,487	\$1,532
Expenses	\$2,999	\$3,628
Net loss after taxes	(\$989)	(\$948)
Number of employees as at July 31	27	27
Number of investment advisors as at July 31	10	10

2. Source: Financial Post Data Group. Data is ranked by value of transactions and is presented on a "Full Credit to Book" basis whereby the entire transaction value is allocated to the bookrunner. For these purposes, "equity" includes the following: private placements with a \$1.5 million minimum; special warrants, irrespective of whether the issuer has received the total proceeds; common shares and units; convertible debt; and exercise of over-allotment option of original transaction launched during the period reported on. For these purposes, "equity" excludes the following: preferred shares, preferred hybrids, income trusts, rights offerings, and other derivatives.

In May 2005, we announced the opening of full-service retail branches in Toronto and Calgary with six experienced investment advisors recruited to GMP Private Client, representing five advisory teams. We have since hired five teams, representing six additional investment advisors in these offices. As at August 19, 2005, we have a total of 10 advisory teams in Calgary and Toronto, representing 12 investment advisors. We are in the process of transitioning client assets that are expected to be approximately \$1.3 billion, in total, for our 10 advisory teams. Advisors typically transfer in assets from other institutions over a three-month period.

Investment advisors recognize the tremendous potential in owning a stake in this new enterprise, and we continue to generate exceptional interest among top professionals across the country. We expect to add more key cities across the country, with a target of 15 to 20 advisory teams in total by the end of this fiscal year.

Revenue for the second quarter of this year was \$1.5 million, largely resulting from the addition of investment advisors in the quarter combined with the strong equity markets.

Expenses for the second quarter were \$3.0 million. Total compensation and benefits expenses (including variable incentive-based compensation) were \$1.5 million in the second quarter, while non-compensation operating expenses were \$1.5 million for this same period. Included in non-compensation expenses this quarter were \$0.3 million in amortization expenses related to pre-operating costs incurred by the Company in developing the GMP Private Client business. Prior to this quarter, these expenditures were deferred and recorded as pre-operating costs on the balance sheet. With the pre-operating period now complete, this quarter represented the commencement of amortization of the \$3.2 million in pre-operating costs over a three-year period. Non-compensation expenses also include \$0.3 million in consulting fees relating to the customization and enhancement of our new technology platform designed to offer advisors and clients superior technology, client reporting and investment management services; premises costs of \$0.2 million, which are expected to increase as we add more key cities in the coming year; communication expenses and ticket processing fees of \$0.2 million; and \$0.5 million relating to all other non-compensation expenses. Operating expenses are expected to grow in support of our successful buildout of this business.

A net loss of \$1.0 million after taxes was recorded for the three months ended July 31, 2005, representing our performance in the early execution phase as we continue to implement our aggressive growth strategy for GMP Private Client.

## Liquidity, Capital Resources and Financial Instruments

We believe that our current holdings of cash and cash equivalents, revenue from operations and our 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 dividends will not materially affect future capital or liquidity requirements. Based on our strong earnings per share and cash generation, at year-end, the Board of Directors adopted a dividend policy for fiscal 2006 with the intent to pay a monthly dividend of five cents (\$0.05) per common share. The board reviews the dividend policy periodically in the context of the Company's overall profitability, free cash flow and other business conditions. In the context of the outcome of the proposed conversion of the Company into an income trust, the dividend policy will be reviewed by the board.

During the quarter, GMP Private Client used approximately \$3.6 million in cash in its operating activities. Included in this amount are \$2.0 million in cash outlays related to the investment advisor transition assistance program, which have been capitalized. Over the next fiscal year, this use of cash is expected to increase as we capitalize the acquisition costs of new advisors.

Our business requires capital for operating and for regulatory purposes. Most of 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 recorded at their market value. Total cash and cash equivalents were \$70.7 million at July 31, 2005, compared with \$111.1 million at January 31, 2005. Cash flow from operations, before changes in non-cash operating items, was \$17.7 million for the second quarter of this year compared with \$15.0 million in the same period last year. Non-cash operating items consist of changes in client balances, broker balances and securities owned (mainly consisting of client facilitation positions). These balances are determined on a trade-date basis and include balances related to unsettled trades and may vary significantly on a day-to-day basis, reflecting changes in the volume of trading. Such variances do not necessarily represent any change in our financial position.

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 collateralized 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 enter into foreign currency contracts to minimize regulatory capital requirements and hedge against foreign exchange settlement risk on pending trades. As indicated above, our balance sheet items fluctuate daily. 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 \$260 million. These call loans and daylight overdraft facilities are collateralized by either unpaid client securities and/or securities owned by us. Amounts drawn on these credit facilities will vary from day to day. As at July 31, 2005, nothing had been drawn on these facilities. Other than these facilities, we currently have no material indebtedness.

## Business Environment and Market Outlook

Results in the equity markets remained relatively strong in the second quarter of this year. Resource prices continue to be strong and a stable economic outlook for the remainder of the calendar year is expected. While volume of trades on the S&P/TSX composite index were flat year over year, the total value of trades increased 19.1% in the second calendar quarter of this year compared with the same period last year. Activity continued to be strong in July, up in both volume and value from July 2004, led by higher oil prices. Canadian mergers and acquisitions maintained their robust pace throughout the first half of 2005, despite the slowdown in April and May, with the help of the low interest rate environment, international deal makers and private equity funds, as well as the strong income trusts market. M&A transactions in Canada were valued at approximately US\$51.9 billion, up from the same period last year at US\$38.6 billion, but the number of Canadian M&A deals in the period remained flat compared with the first half of calendar 2004.

Our business performance is closely related to the performance of the capital markets, which are cyclical by nature and affected by both political and economic conditions in Canada and the rest of the world. The markets are currently experiencing an unusually high level of oil and gas investment banking activity compared with historical norms, as a result of record high oil prices. We have been able to benefit from these favourable market conditions given our leadership in oil patch financing. Our business model is based on a sectoral approach with a focus on seven industry groups. We have shown an ability to be profitable through all market cycles, validating the strength of our business model and the flexibility inherent in being an independent investment firm, as we are able to adapt quickly to changes in the markets.

Our outlook for the second half of the year is positive. The Canadian economy remains relatively stable and continues to benefit from strong resource prices. Interest rates remain low, and the Bank of Canada recently announced that its target for the overnight rate is unchanged at 2.5%. These factors, along with a strong Canadian dollar and the continued momentum in market activity, provide us with a favourable economic climate in which to do business.

## Related-Party Transactions

We maintain trading accounts for employees, officers and directors that are included in receivables from and payables to clients. Commission income on such transactions in the aggregate of \$0.1 million for the quarter ended July 31, 2005, is not material in relation to our overall operations. Interest received during the quarter from employees participating in the executive lending program was \$0.04 million on loans of \$3.6 million as at July 31, 2005. These loans are included in other assets and are described in Note 11 of the Notes to the Unaudited Consolidated Interim Financial Statements as at, and for the period ended, July 31, 2005. Included in other assets are loans receivable from employees in connection with the investment advisor transition assistance program as described in Note 12 of the Notes to the Unaudited Consolidated Interim Financial Statements as at, and for the period ended, July 31, 2005. During the quarter, GMP Private Client recorded \$0.1 million in compensation expense on loans of \$2.4 million as at July 31, 2005.

## Critical Accounting Estimates

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. Our significant accounting policies are disclosed in Note 2 of the Audited Consolidated Financial Statements as at, and for the year ended, January 31, 2005. 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, as discussed in Management's Discussion and Analysis for the year ended January 31, 2005.

## Pro Forma Net Income Reconciliation

(\$000s)	Three months ended	
	January 31, 2004	October 31, 2003
Net income – GAAP	9,452	35,540
Partners' variable incentive-based comp. adjustment <sup>a</sup>	2,442	(12,990)
Pro Forma net income before pro forma income taxes	11,894	22,550
Pro Forma income taxes <sup>b</sup>	(662)	(8,210)
Pro Forma net income	11,232	14,340

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. 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 entities. See "Presentation of Financial Information and Non-GAAP Measures." The adjustments are as follows:

- 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.
- To reflect a pro forma tax provision in corporate form at an assumed statutory income tax rate of 36.4% for the 12-month period ended January 31, 2004.

## 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 28.211 million common shares and no preferred shares are issued and outstanding as at the date hereof. As of August 19, 2005, 2.189 million options to acquire common shares on a one-for-one basis are outstanding.

## Other Information

Additional information relating to GMP Capital Corp. is available on our corporate website and on SEDAR at [sedar.com](http://sedar.com). This information includes our unaudited interim consolidated financial statements for the quarters ended April 30, 2005, and July 31, 2005, as well as our annual report, annual information form, and audited consolidated financial statements and MD&A for the year ended January 31, 2005.



# Unaudited Interim Consolidated Financial Statements

Q2

For the Three and Six Months Ended July 31, 2005

## Interim Consolidated Balance Sheet

(\$000s)	As at July 31, 2005	As at January 31, 2005
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	70,668	111,101
Funds deposited in trust	12,902	7,654
Securities owned, at market (note 4)	81,972	107,329
Receivable from		
Clients (note 6)	295,686	246,931
Brokers (note 3)	78,132	88,021
Commission and other assets (note 11)	12,869	9,993
<b>Total Current Assets</b>	<b>552,229</b>	<b>571,029</b>
Pre-operating costs, net	2,908	2,246
Future tax asset	3,335	1,878
Capital assets, net	1,752	1,908
	<b>560,224</b>	<b>577,061</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Bank loan and overdraft	—	1,122
Securities sold short, at market (note 4)	15,378	9,516
Payable to		
Clients (note 6)	245,353	220,438
Brokers (note 3)	11,461	12,845
Issuers	57,693	144,608
Accounts payable and accrued liabilities	41,011	30,403
Income taxes payable	8,238	8,814
<b>Total Current Liabilities</b>	<b>379,134</b>	<b>427,746</b>
Non-controlling interest	107	135
Shareholders' equity		
Share capital (note 7)	123,188	122,544
Contributed surplus (note 7)	2,622	1,505
Retained earnings	55,173	25,131
<b>Total Shareholders' Equity</b>	<b>180,983</b>	<b>149,180</b>
	<b>560,224</b>	<b>577,061</b>

See accompanying "Notes to Unaudited Interim Consolidated Financial Statements."

## Interim Consolidated Statement of Income and Retained Earnings

(\$000s, except per share amounts)	Three months ended		Six months ended	
	July 31, 2005	July 31, 2004	July 31, 2005	July 31, 2004
<b>Revenue</b>				
Investment banking	41,052	29,267	89,137	55,174
Sales and trading	17,321	13,294	40,539	28,543
Wealth management	1,289	—	1,322	—
Principal activities	2,245	3,902	2,217	2,573
Interest and dividends	2,373	1,693	4,402	3,702
Other	(129)	62	(58)	342
	<b>64,151</b>	<b>48,218</b>	<b>137,559</b>	<b>90,334</b>
<b>Expenses</b>				
Employee compensation and benefits	29,176	19,736	64,333	40,023
Selling, general and administrative	6,831	5,234	11,993	10,551
Interest	526	465	966	1,158
Amortization	442	187	613	310
	<b>36,975</b>	<b>25,622</b>	<b>77,905</b>	<b>52,042</b>
Income before the following	27,176	22,596	59,654	38,292
Non-controlling interest, net	30	3	28	(85)
Income before income taxes	27,206	22,599	59,682	38,207
Provision for income taxes	9,811	8,332	21,180	14,164
<b>Net income for the period</b>	<b>17,395</b>	<b>14,267</b>	<b>38,502</b>	<b>24,043</b>
Retained earnings, beginning of period	42,009	15,271	25,131	8,295
Dividends paid	(4,231)	(2,800)	(8,460)	(5,600)
<b>Retained earnings, end of period</b>	<b>55,173</b>	<b>26,738</b>	<b>55,173</b>	<b>26,738</b>
<b>Earnings per common share (note 8)</b>				
Basic	0.62	0.51	1.37	0.86
Diluted	0.60	0.50	1.33	0.84

See accompanying "Notes to Unaudited Interim Consolidated Financial Statements."

## Interim Consolidated Statement of Cash Flow

(\$000s, except per share amounts)	Three months ended		Six months ended	
	July 31, 2005	July 31, 2004	July 31, 2005	July 31, 2004
<b>Operating Activities</b>				
Net income for the period	17,395	14,267	38,502	24,043
Add (deduct) items not involving cash				
Amortization	442	187	613	310
Future income taxes	(704)	173	(1,457)	345
Stock-based compensation	548	359	1,167	718
Non-controlling interest	(30)	(3)	(28)	39
	17,651	14,983	38,797	25,455
Net change in non-cash operating items (note 9)	(40,010)	21,994	(69,123)	(11,456)
<b>Cash used in operating activities</b>	<b>(22,359)</b>	36,977	<b>(30,326)</b>	13,999
<b>Investing Activities</b>				
Purchase of capital assets	(96)	(424)	(193)	(989)
Pre-operating costs	—	—	(926)	—
<b>Cash used in investing activities</b>	<b>(96)</b>	(424)	<b>(1,119)</b>	(989)
<b>Financing Activities</b>				
Decrease in bank loan and overdraft	—	(6,948)	(1,122)	—
Issuance of common shares, net of issue costs	225	—	594	—
Dividends paid	(4,231)	(2,800)	(8,460)	(5,600)
<b>Cash used in financing activities</b>	<b>(4,006)</b>	(9,748)	<b>(8,988)</b>	(5,600)
<b>Net increase (decrease) in cash and cash equivalents during the period</b>				
	(26,461)	26,805	(40,433)	7,410
Cash and cash equivalents, beginning of period	97,129	77,807	111,101	97,202
<b>Cash and cash equivalents, end of period</b>	<b>70,668</b>	104,612	<b>70,668</b>	104,612
<b>Supplemental cash flow information</b>				
Interest paid	618	465	1,114	1,158
Income taxes paid	8,163	4,900	23,573	12,257

See accompanying "Notes to Unaudited Interim Consolidated Financial Statements."

# Notes to Unaudited Interim Consolidated Financial Statements

(\$000s, except shares and per share amounts)

## 1. Incorporation

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 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.

## 2. Summary of Significant Accounting Policies

The interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”). These interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in Note 2 to the Company’s Audited Consolidated Financial Statements as at, and for the year ended, January 31, 2005 (“2005 Audited Financial Statements”). The Company’s interim consolidated financial statements do not include all disclosures required by Canadian GAAP for annual consolidated financial statements and accordingly, should be read in conjunction with the 2005 Audited Financial Statements.

The preparation of interim consolidated financial statements in accordance with Canadian GAAP 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 interim consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## 3. Securities Lending and Borrowing

The Company enters into securities lending and borrowing activities 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 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 interim consolidated balance sheet as receivable from/payable to brokers. The Company manages its credit exposure by establishing and monitoring aggregate limits for clients for these transactions. Interest earned on cash collateral is based on a floating rate.

Securities lending and borrowing activity:

	Cash		Securities	
	Loaned or delivered as collateral	Borrowed or received as collateral	Loaned or delivered as collateral	Borrowed or received as collateral
	\$	\$	\$	\$
July 31, 2005	59,442	—	—	56,376
January 31, 2005	36,739	—	—	36,271

#### 4. Securities Owned and Securities Sold Short

Securities owned and sold short consist of the following:

	July 31, 2005		January 31, 2005	
	Securities owned	Securities sold short	Securities owned	Securities sold short
	\$	\$	\$	\$
Equities and convertible debentures	81,972	15,378	107,329	9,516
	81,972	15,378	107,329	9,516

As at July 31, 2005, the maturities of convertible debentures are in 2010 (January 31, 2005: 2006 to 2010) and have interest rates ranging from 6.5% to 9.875% (January 31, 2005: 6.0% to 9.875%).

Included in equities and convertible debentures are restricted or non-public securities amounting to \$4,475 (January 31, 2005: \$8,484).

#### 5. Financial Instruments

##### Foreign exchange

Financial instruments are entered into to minimize regulatory capital requirements and to manage and hedge foreign exchange risk on pending settlements in foreign currencies. The fair value of these contracts is nominal.

The following table presents notional principal amounts of foreign exchange forward contracts:

	July 31, 2005		January 31, 2005	
	Canadian	U.S.	Canadian	U.S.
	\$	\$	\$	\$
Foreign exchange forward contracts	3,431	(2,800)	7,435	(6,000)

(\$000s, except shares and per share amounts)

## 6. Related-Party Transactions

The Company executes security trades for employees, officers and directors who may also be shareholders. Commission income on such transactions in the aggregate is not material in relation to the overall operations of the Company.

The following balances arose from transactions with related parties:

	As at July 31, 2005 \$	As at January 31, 2005 \$
<b>Current assets</b>		
Receivable from clients	46,559	59,861
<b>Current liabilities</b>		
Payable to clients	50,970	47,936

Included in other assets are loans receivable from employees in connection with the executive lending program (note 11) and loans receivable from employees in connection with the Investment Advisor Transition Assistance Program (note 12).

## 7. Shareholders' Equity

### Share capital

#### Authorized

Unlimited preferred shares, issuable in series

Unlimited common shares

#### Issued

	Common shares #	Capital stock \$	Contributed surplus \$
<b>Balance at January 31, 2005</b>	<b>28,164</b>	<b>122,544</b>	<b>1,505</b>
Issuance on exercise of options	47	644	(50)
Stock-based compensation	—	—	1,167
<b>Balance at July 31, 2005</b>	<b>28,211</b>	<b>123,188</b>	<b>2,622</b>

### Option plan

All directors, officers and employees of the Company and its subsidiaries are eligible to be granted options under the option plan (the "Plan") that has been approved by the Board of Directors.

The aggregate number of shares that may be issued under the Plan is limited to 10% of the outstanding common shares.

(\$000s, except shares and per share amounts)

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 granted under the Plan vest over a four-year period and are non-transferable.

A summary of the status of the Company's share option plan as at July 31, 2005, and the changes during the six-month period then ended are as follows:

	Share options #	Weighted average exercise price \$
<b>Balance at January 31, 2005</b>	2,178	14.51
Options issued	15	21.71
Exercise of stock options	(47)	12.75
Stock option forfeiture	(11)	11.39
<b>Balance at July 31, 2005</b>	<b>2,135</b>	<b>14.62</b>

Stock options outstanding and vested at July 31, 2005:

Range of Exercise Price	Outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life (years)	Vested #
\$11.00 to \$14.00	1,223	11.11	8.39	165
\$15.20 to \$22.00	912	19.32	9.15	58
	<b>2,135</b>			<b>223</b>

### Stock-based compensation and contributed surplus

During the three-month and six-month periods ended July 31, 2005, the Company recorded \$548 and \$1,167, respectively (2004: \$359 and \$718), in stock-based compensation expense for options issued to employees, with a corresponding increase to contributed surplus. The weighted average fair value of options issued during the six-month period ended July 31, 2005, was \$5.39 (2004: \$5.36) per option.

The stock-based compensation related to options granted during the last quarter was calculated using the Black-Scholes option pricing model assuming the following assumptions:

July 31, 2005	
Risk-free interest rate (weighted average)	4.25%
Dividend yield (weighted average)	2.70%
Expected volatility	25%
Expected option life	7 years

(\$000s, except shares and per share amounts)

## 8. Earnings Per Common Share

Earnings per common share are calculated as follows:

	Three months ended		Six months ended	
	July 31		July 31	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Net income available to common shareholders</b>	<b>17,395</b>	<b>14,267</b>	<b>38,502</b>	<b>24,043</b>
<b>Weighted-average number of common shares outstanding</b>				
Basic	28,206	28,000	28,191	28,000
Effect of stock options	762	489	667	548
Diluted	28,968	28,489	28,858	28,548
<b>Earnings per common share</b>				
Basic	\$0.62	0.51	1.37	0.86
Diluted	\$0.60	0.50	1.33	0.84

## 9. Interim Consolidated Statement of Cash Flow

The net change in non-cash operating items consists of the following:

	Three months ended		Six months ended	
	July 31		July 31	
	2005	2004	2005	2004
	\$	\$	\$	\$
Funds deposited in trust	(4,744)	849	(5,248)	(838)
Securities owned and sold short	1,255	15,799	31,219	4,577
Receivable from clients	87,328	(27,136)	(48,755)	(106,211)
Receivable from brokers	(15,819)	(15,705)	9,889	12,788
Commission and other assets	(3,470)	2,293	(2,876)	(168)
Payable to clients	(19,485)	(71,336)	24,915	(40,556)
Payable to brokers	9,878	(24,498)	(1,384)	80
Payable to issuers	(95,961)	139,233	(86,915)	117,885
Accounts payable and accrued liabilities	(1,177)	(674)	10,608	(137)
Income taxes payable	2,185	3,169	(576)	1,124
	(40,010)	21,994	(69,123)	(11,456)

(\$000s, except shares and per share amounts)

## 10. Segmented Information

The Company operates in two industry segment as follows:

**GMP Securities** — includes investment banking, sales and trading, research and principal trading.

**GMP Private Client** — provides full-service investment brokerage services to high net worth retail clients.

	Three months ended July 31, 2005			Six months ended July 31, 2005		
	GMP Securities \$	GMP Private Client \$	Total \$	GMP Securities \$	GMP Private Client \$	Total \$
Revenue	62,664	1,487	64,151	136,027	1,532	137,559
Expenses	(33,976)	(2,999)	(36,975)	(74,277)	(3,628)	(77,905)
Net income (loss)	18,384	(989)	17,395	39,450	(948)	38,502
Total assets	550,957	9,267	560,224	550,957	9,267	560,224

Results of business segments for the three-month and six-month periods ended July 31, 2004, have not been separately disclosed as GMP Private Client became fully operational in the second quarter of fiscal 2006.

Revenue by geographic location is as follows:

	Three months ended July 31		Six months ended July 31	
	2005 \$	2004 \$	2005 \$	2004 \$
Canada	60,484	44,367	127,497	82,117
United States	3,667	3,851	10,062	8,217
	64,151	48,218	137,559	90,334

## 11. Executive Lending Program

In December 2004, management developed an executive lending program designed to encourage share ownership, executive retention and succession planning. Under the program (implemented through the establishment of one or more plans), the Company advances funds to participating executives and arranges for a Schedule I bank to advance funds to such executives, representing, in the aggregate, no more than 80% of the purchase price of common shares of the Company to be acquired in the market under the program or no more than 80% of the purchase price of common shares of the Company then owned by the executives and transferred into the program. Shares acquired using the proceeds of such advances are pledged to the Schedule I bank and/or the Company as collateral for the repayment of the advances and cannot in any event be sold prior to the first anniversary of the relevant advance.

(\$000s, except shares and per share amounts)

Under the terms of the plan, all parties agree that the principal amount of the loan owing to the bank must be repaid in full prior to the Company's loan being repaid. Upon the satisfaction of certain conditions, the Company is obligated to pay cash bonuses to the executives on the second, third and fourth anniversaries of an advance sufficient, in the aggregate and after all applicable income and withholding taxes, to repay 50% of the total loans. The executive must redirect any bonus paid by the Company to the repayment of the bank loan. Included in accounts payable and accrued liabilities is a bonus accrual of \$1,666 in connection with this obligation.

Under the terms of the loan agreement with the Company, the executive is required to repay the loan on the earliest of:

- a. seven years from the date of the advance;
- b. the date the shares are sold (or a portion of the loan if a portion of the shares are sold);
- c. termination of employment.

The loans bear interest at the rate of prime plus 0.5% and interest charged to employees related to these loans for the three-month and six-month periods ended July 31, 2005, was \$43 and \$85, respectively. At July 31, 2005, amounts owing to the Company related to these loans were \$3,592 (January 31, 2005: \$3,049).

## 12. Investment Advisor Transition Assistance Program

A transition assistance program was introduced during the first quarter of fiscal 2006 to provide for retention and transition assistance to investment advisors joining GMP Private Client. Under the program, GMP Private Client advances funds to participating investment advisors in the form of a forgivable interest-free loan upon commencement of employment. Upon the satisfaction of certain conditions, one-fifth of the principal amount of the loan is forgiven on each of the first five anniversary dates. GMP Private Client records a corresponding reduction in the principal loan balance over the term of the loan. All shares of GMP Private Client held by the investment advisor while the loan is outstanding are pledged to GMP Private Client as collateral for the obligations of the investment advisor under the loan. On the occurrence of certain conditions, all obligations of the investment advisor under the loan become immediately due and payable. Interest is charged and accrued on the outstanding principal and unpaid interest. During the three-month and six-month periods ended July 31, 2005, GMP Private Client recorded \$67 in compensation expense for transition assistance provided to investment advisors, with a corresponding reduction to loans outstanding. At July 31, 2005, amounts owing to GMP Private Client related to these loans were \$2,432 (January 31, 2005: nil).

### **13. Subsequent Event**

On August 18, 2005, the Company announced that our Board of Directors has approved in principle the initiation of a process for the conversion of the Company into an income trust by way of arrangement (the Conversion). Pursuant to the Conversion, the current shareholders of the Company would exchange their common shares for units of a newly formed income trust. The Conversion is subject to a number of approvals and consents, including, but not limited to, the approval of the Ontario Superior Court of Justice, the approval of the shareholders of the Company and certain regulatory approvals. The process to convert the Company to an income trust structure is in its initial stages and it is therefore difficult to predict its timing with certainty. Management anticipates at this time that the Conversion will be completed in November 2005. There can be no assurance at this time that all approvals and consents required or desirable to effect the Conversion will be obtained within that timeframe, or at all and, accordingly, there can be no assurance that the Conversion will be completed.

### **14. Reclassification of Comparative Figures**

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current-period consolidated financial statements.

# Shareholder Information

## Transfer Agent and Registrar

CIBC Mellon Trust Company  
PO 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.

## Auditors

Ernst & Young LLP

## Legal Counsel

Goodmans LLP

## Stock Listing

Toronto Stock Exchange  
Symbol: GMP

## CUSIP

362016107

## Fiscal Year End

January 31

## Fiscal Quarter End Dates

<b>Period</b>	<b>End Date</b>
First Quarter	April 30
Second Quarter	July 31
Third Quarter	October 31
Fourth Quarter and Year End	January 31

## Subsidiary Companies

GMP Private Client Ltd.  
GMP Securities Ltd.  
Griffiths McBurney Corp.

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