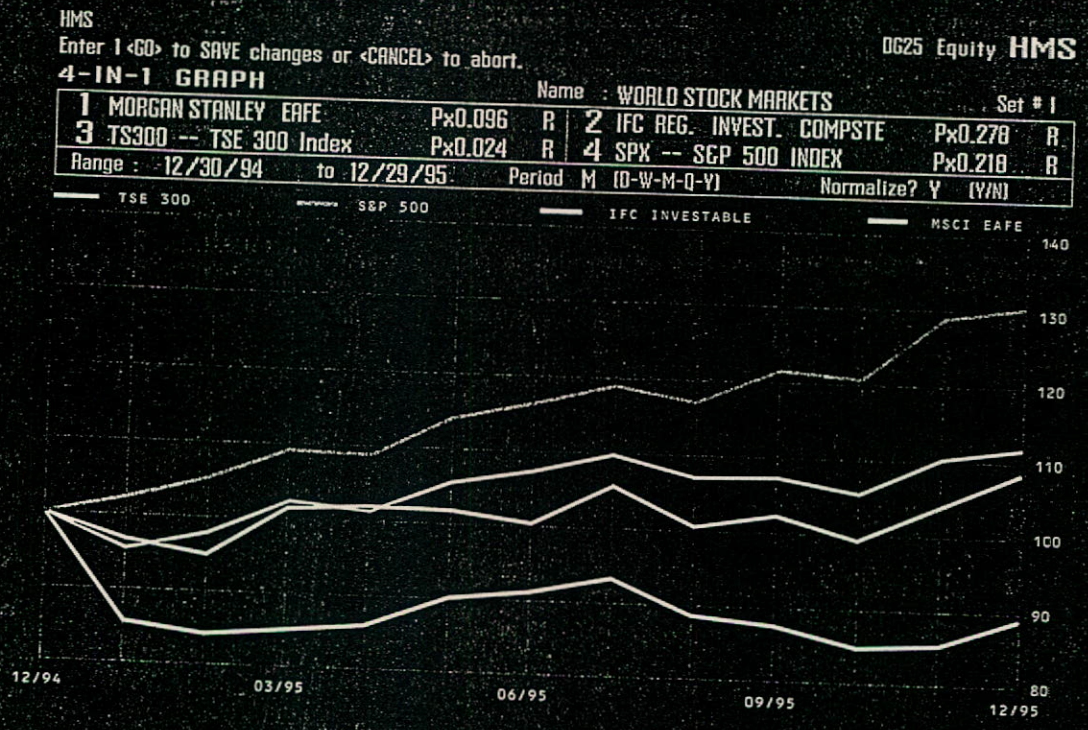
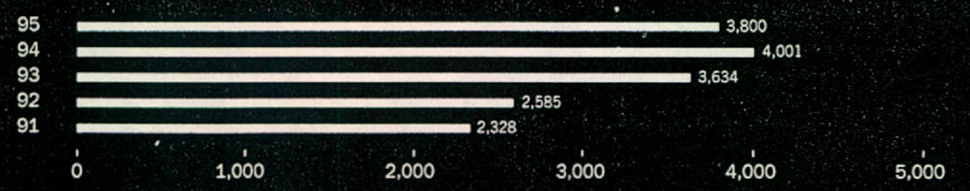
Guardian Capital Group Limited Annual Report 1995



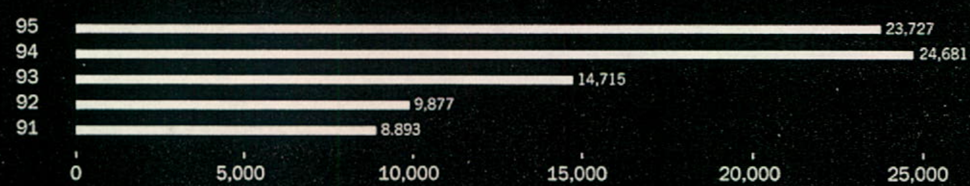
Contents

Financial Highlights

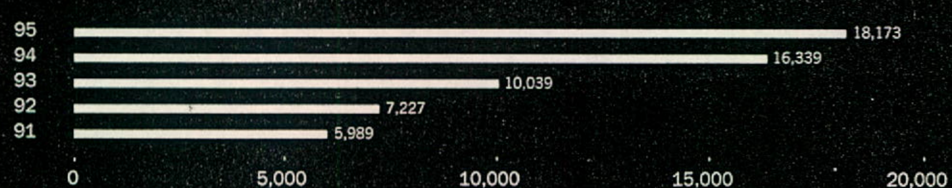
Client Assets Managed $ in millions, years ended December 31



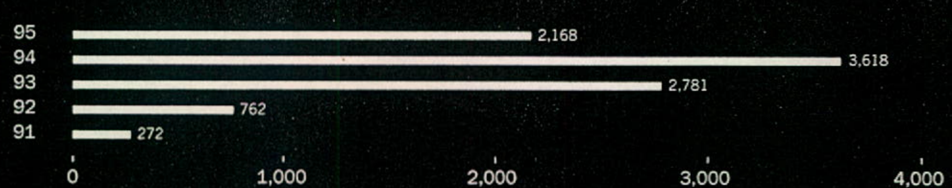
Gross Revenues $ in thousands, years ended December 31



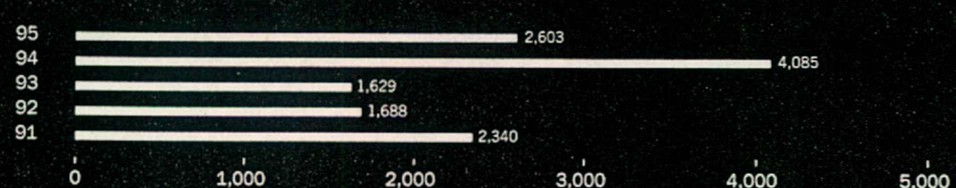
Investment Management Fees $ in thousands, years ended December 31



Sales Commissions $ in thousands, years ended December 31



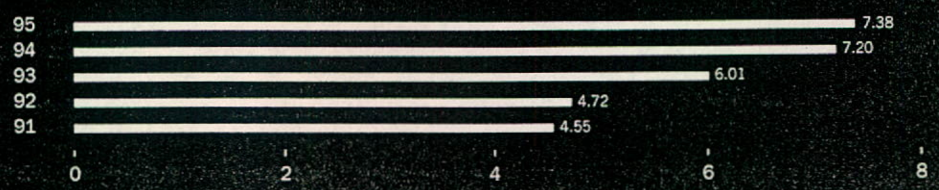
Net Income From Securities $ in thousands, years ended December 31



Per Share

Earnings (Loss) Per Share – Fully Diluted $ in dollars, years ended December 31

Cash and Net Securities Per Share $ in dollars, years ended December 31

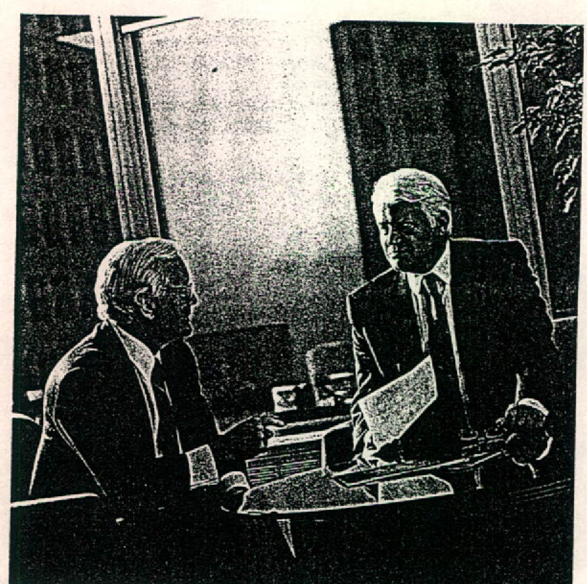


December 31	1994	1995	% Change
($ in millions)			
Value of client assets managed	$ 4,001	$ 3,800	(5.0)
($ in thousands)			
Gross revenue	24,681	23,727	(3.9)
Earnings before interest, depreciation, amortization and income taxes			
Investment management services	4,657	2,487	(46.6)
Financial asset management	3,529	2,095	(40.6)
	8,186	4,582	(44.0)
Net earnings for the year	5,859	2,288	(60.9)
Cash and securities	47,673	47,366	(0.64)
(in dollars)			
Per common and class A share – fully diluted			
Net earnings for the year	0.89	0.39	(56.1)
Cash and securities	7.20	7.38	2.5
(in thousands)			
Year-end Common and Class A shares outstanding – fully diluted	6,857	6,680	(2.6)

In 1995, we recorded the highest management fee revenues ever, rebounded successfully from the decision by a client to move its $1 billion account to in-house management, added more depth and strength to the organization, ranked among the fastest-growing active managers of pension assets, broke the $1 billion barrier in mutual fund assets managed, and continued to develop our key strategy of diversifying our revenue base. We begin 1996 with a positive view for all of our strategic business units.

We are pleased to report that all of our strategic business units performed successfully in 1995. Here are some highlights:

[illegible] 11.2% – rebounding [illegible] from [illegible] -year decision by a life insurance [illegible] to move its $1 billion corporate assets account [illegible] in-house management. The account loss was largely offset by robust growth in higher-fee assets under management in our pension and mutual fund management businesses.



Mark A.F. Golding
President and
Chief Operating Officer

John M. Christodoulou
Chairman and
Chief Executive Officer

2/ We finished the year with client assets under management of $3.8 billion, down only moderately from the $4.0 billion total the year before, despite the aforementioned account loss. The rebound was due to growth of assets under management of $856 million, $420 million of which was attributable to net new business, and the balance to growth in market value.

3/ We ranked among the fastest-growing active managers of pension assets, in terms of increased assets under management. Pension and other tax-exempt assets at year-end 1995 were $2.6 billion, a gain of 33.1% over the previous year-end total of $1.9 billion.

4/ We gained market share within the mutual fund industry, achieved positive net sales in each of 11 months of the year and, for the first time, broke the $1 billion barrier in terms of fund assets managed.

5/ We added important depth and strength to the organization by attracting eleven portfolio managers and business and sales professionals to our operations in Toronto, Vancouver and the West Indies.

6/ We continued to develop our key strategy of diversifying our client and revenue base.

7/ Our diversification strategy included the further development of Worldsource Financial Services, a mutual fund dealership specializing in serving 250 life insurance professionals and their clients across Canada.

8/ We expanded our multi-service West Indies financial services operation by adding an office in the British Virgin Islands. We also increased the range of financial services it offers to international clients. These initiatives strengthen our program of international diversification.

9/ An extensive overhaul of our mutual fund administration systems, due for full completion in mid-1996, has brought about a further elevation in standards of customer satisfaction and client service.

10/ We closed the year enjoying considerable strength in our financial position, with cash and securities of $47.4 million. This amounted to $7.38 per share, up from $7.20 per share at year-end 1994.

Revenues

Consolidated revenues declined to $23.7 million in 1995, compared with $24.7 million in 1994. This was due to a decline in sales commissions and income from securities.

Revenues from management fees increased to $18.2 million, up from $16.3 million in 1994, despite the loss of the insurance company account. Mutual fund sales commissions declined by $1.4 million to $2.2 million from $3.6 million in the previous year, reflecting an industry-wide slowdown in mutual fund sales in 1995. Income from securities was $2.6 million in 1995, down $1.5 million compared with 1994, when an unusually large capital gain of $2.2 million was realized.

Operating Expenses

Operating expenses grew to $19.2 million in 1995, up from $16.5 million in 1994.

Increased expenses were due primarily to Guardian's success in attracting additional high-calibre investment and business professionals, an essential strategy to improve service to clients and to enhance future earning power.

Operating Earnings

Earnings before interest, depreciation, amortization and income taxes were $4.6 million in 1995. The comparable figure for 1994 was $8.2 million.

In 1995, the investment management and financial services subsidiaries contributed $2.5 million to operating earnings, compared with $4.7 million in 1994. This decline underlines the sensitivity of earnings to changes in mutual fund sales commissions, which declined by $1.4 million in 1995. It also reflects the cost increases attributable to the continued expansion of our investment and business professional resources.

In addition, lower operating earnings were due to the $1.5 million decline in net income from securities noted above.

Net Earnings

Net earnings were $2.3 million in 1995, compared with $5.9 million in the previous year. Earnings per share, fully diluted, were $0.39, compared with 1994 results of $0.89 per share.

The 1994 results included an unusually large capital gain of $0.32 and the benefits of a boom year in mutual fund sales which led to exceptional levels of sales commissions.

Liquidity and Capital Resources

Except for short-term bank loans, operations in 1995 were generally financed by internally generated funds. The realizable value of cash and securities, net of associated obligations, was $47.4 million at December 31, 1995, down slightly from $47.7 million at the previous year-end. Per share, fully diluted, the values were $7.38 and $7.20 respectively in 1995 and 1994.

These assets are highly liquid and well diversified by currency exposure. Of the 1995 year-end total, 94.8% consisted of cash and marketable securities. Canadian dollar denominated assets represented 28.2% of the total, with the balance being diversified between U.S., European and Asia/Pacific currencies.

Other Developments

Corporate Governance: Today's investors demand higher standards of corporate governance than ever, a trend which, as a firm of investment managers, we wholeheartedly endorse. In keeping with this trend, the Board of Directors has adopted a more formalized approach to its governance responsibilities, and a Corporate Governance Committee has been formed. The committee structure of the Board is set out later in this report under "Board of Directors and Committees".

Share Buy-Back: We have long had a share buy-back policy which has the objective of improving per-share values for Guardian shareholders. The buy-back policy is implemented under the prevailing normal course issuer bid rules. These rules allow us to purchase, for cancellation, up to 5% of the outstanding Class A shares in any single year, or 10% of the public float.

In 1995, we purchased 227,000 Class A shares at an average price of $9.18 per share. Over the past nine years, a total of 1,047,000 Class A shares have been purchased for cancellation at an average price of $6.17 per share.

Business Outlook

We begin 1996 with a positive view for all of our strategic business units. We base this view on two assumptions: a benign financial market environment, at least during the early part of the year; and positive results from a variety of management initiatives which have further strengthened the organization.

We expect the year to be characterized by a slow growth world economy, low inflation and ample liquidity. Central bankers must successfully manage the trade-off between (i) the risk of deflation, debt collapse and fragility among financial institutions; and (ii) the risk that over-reaction on their part to deflationary concerns could backfire, resulting in a reacceleration of inflation, which would drive up interest rates and disrupt financial markets. Failure to manage this trade-off is not priced into the markets.

Slow economic growth is a less than ideal scenario for producing job growth, for improving the buying mood of financially stressed consumers, for corporate profit growth and for increasing revenues for tax-hungry governments. However, this kind of scenario sometimes works well for financial markets, at least until the next surprise.

Our positive view of the business outlook is also based on the following developments within our organization:

- Steps were taken in 1995 to significantly strengthen our professional and marketing resources, and to deliver improved services to clients through better systems.
- Guardian has expanded its already extensive menu of competitive investment products with new products for pension clients.
- Our mutual fund organization now has the critical mass to be a strong competitor, and early indications are that 1996 will be one of the better years for mutual fund sales.
- Our fund dealership business, after its formal launch last year, should also be able to make an improved contribution.
- New products and penetration of new markets should help our West Indies business to grow.

- A more detailed discussion of financial market trends is presented in the section "International Investment Perspectives", which follows. Our strategic business units are reviewed in "Management's Discussion and Analysis".

Dividends

In view of Guardian's healthy financial condition and positive prospects for future growth, the Directors have declared a dividend of $0.12 per Common and Class A share. This dividend will be payable on April 22, 1996, to shareholders of record as of April 15, 1996. This represents an increase in the dividend over 1995, when $0.10 per share was paid, and is the fourth consecutive year of dividend payments.

Directors

After many years of service, Paul Dietche resigned from the Board in late 1995. His decision was in keeping with his plans for a much reduced level of active involvement in the investment industry. Paul has been closely associated with Guardian for over fifteen years. His contributions over that time, and his friendship, have been greatly valued.

During the year, we appointed F. Dermot Barrett to the Board, and he offers himself for re-election to the Board at the Annual General Meeting of the shareholders. Dr. Barrett has a distinguished background in both the business world and in academe. He has served as Professor of Management at Queen's and York Universities, and held executive positions in major Canadian corporations. He is the author of several books and numerous papers on a variety of business management topics. In recent years, he has advised international business organizations on strategic thinking, managing change and technology management.

Our Thanks

We are an organization of over 150 associates who strive to take the best possible care of our clients. According to an independent survey of industry standards of client service, we achieved notable success in doing so during 1995.

Many suppliers of services have added to Guardian's ability to serve clients well and to more efficiently operate our business. Ultimately, our success in 1995 depended, as always, on the confidence and support of our clients, which we constantly strive to earn.

Warmest thanks to all.

John Christodoulou

John M. Christodoulou
Chairman & Chief Executive Officer

M. A. F. Golding

Mark A. F. Golding
President & Chief Operating Officer

The world equity markets and bond markets performed well in 1995. The only exceptions were the Japanese equity market, which ended the year slightly down, and the emerging markets (mainly Mexico and Brazil) which, in aggregate, were negative by just over 10%.

The strength of the U.S. domestic economy assisted Europe and Japan in providing improving export growth from the depressed levels of 1994. Deflationary trends remained in place throughout the world, allowing central banks to lower interest rates. Improving corporate profits, lower interest rates and a weaker dollar resulted in the U.S. stock market having one of its best years ever.

Liquidity was the major theme for 1995. U.S. households invested in the equity market at their heaviest pace of the last twenty years. As well, corporations were retiring their own stock at record levels. This combination of increased demand and reduced supply boosted share prices.

Within Canada, long-term fixed income securities proved to be the place to be. After recovering from Quebec Referendum jitters, the Canadian bond and stock markets turned in a year of robust gains. The ScotiaMcLeod Universe Bond Index, a proxy for Canadian fixed income returns for the institutional market, rose by 20.7% – proving Canada to be one of the best fixed income markets of the major developed countries. The Canadian dollar strengthened slightly (up 2.8%), reversing the trend of the previous three years, and demonstrating the best improvement since 1989.

In 1995, the Canadian stock market also had a good year, with the Toronto Stock Exchange 300 Index producing a total return of 14.5%. Stocks with large market capitalizations (as measured by the TSE 35) were up 14.7%, while small cap stocks (as measured by the Nesbitt Burns SmallCap Index) were up 12.5%. As a result, the performance proved fairly uniform across cap size. As well, value-type securities (as measured by the Russell 300 Value Index) rose 14.6%, while growth-type securities rose by 14.0%, showing no real advantage of one investment style over the other.

The range to remember for real GDP growth in 1996 is 2% to 3%. Most of the major developed countries of the world will likely fall within this range. Japan will not quite make the lower end of this range, while most emerging markets will exceed the higher end. U.S. GDP will slow from its 3.5% annual pace over the previous four years, resulting in reduced levels of imports from Europe and Asia.

Inflation rates within most of the major industrial nations will also place within this 2% to 3% range. Deflationary pressure around the world will continue throughout most of 1996, although recent labour settlements in the U.S. imply that the inflation outlook for 1997 may be less favourable.

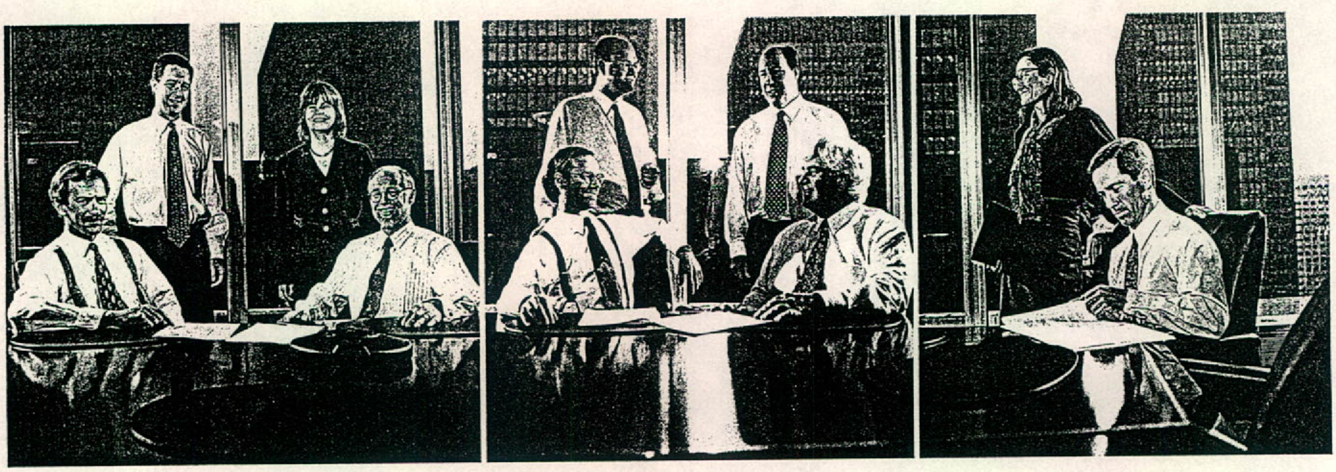
We expect bond and stock markets in North America to continue their positive momentum for the early part of the year. As the year unfolds, inflationary concerns will begin to emerge, putting upward pressure on interest rates. Rising rates will have a dampening effect on the equity market. The main focus in 1996 will be on corporate earnings. The share prices of those companies which report earnings below market expectations will be particularly vulnerable in this environment.

With this as background, several positive developments are in prospect. The Canadian equity market, after significantly underperforming the U.S. market for more than a decade, is entering a favourable valuation range, based on current earnings and on an improving economic environment. Sounder government fiscal policies will also help. In particular, there is a need for policies which recognize the powerful contribution which higher corporate profits could make toward easing Canada's deep-seeded economic problems. Barring the kind of national political upheavals which test the nerves of Canada's foreign lenders, some combination of these factors could result in Canada becoming one of the most attractive stock markets in the world over the next five years.

While we expect the U.S. equity market to take a breather in 1996 after its exceptional performance in 1995, we have become more positive on the emerging markets of the world.

In summary, we expect the positives (i.e., improved liquidity, an improving fiscal environment and improving corporate earnings) to outweigh the negatives (i.e., slightly rising interest rates, a relatively high valuation level for the U.S. stock market and relatively high debt levels) in 1996.

The Investment Team of Guardian Capital Inc. is pictured below:



Standing, left to right:

Stephen D. Kearns
Vice-President,
Portfolio Manager,
Fixed Income Investments

Nairn J. Cutten
Vice President, Fixed Income

A. Michael Christodoulou
Investment Research Analyst

Bob Hammill
Managing Director

Christine Girvan
Vice-President,
International Investments

Seated, left to right:

Peter A. Hargrove
Managing Director

Larry T. Kennedy
[illegible]

Gary Chapman
Vice-President,
Senior Portfolio Manager,
Canadian Equity Investments

John G. Priestman
Managing Director

Marc A. Noble
Vice-President,
North American Investments

Aims and Objectives

GUARDIAN CAPITAL GROUP LIMITED INVESTMENT MANAGEMENT SERVICES SUBSIDIARIES

INSTITUTIONAL ASSET MANAGEMENT			RETAIL ASSET MANAGEMENT		
GUARDIAN CAPITAL INC.	KLEINWORT GUARDIAN OVERSEAS LIMITED	GUARDIAN DIETCHE FIELD INC.	GUARDIAN GROUP OF FUNDS LTD.	GUARDIAN CAPITAL ADVISORS	ALEXANDRIA BANCORP LIMITED
100%	50%	51%	100%	100%	100%

CLIENTS SERVED

PENSION FUNDS CORPORATE INVESTORS GUARDIAN RETAIL ASSET MANAGEMENT SUBSIDIARIES ENDOWMENTS POOLED FUNDS FOUNDATIONS	MUTUAL FUND INVESTORS FINANCIAL INTER-MEDIARIES WORLDSOURCE FINANCIAL SERVICES	HIGH NET WORTH CANADIAN INVESTORS	INTERNATIONAL INVESTORS

Organization

Founded in 1962, Guardian Capital Group Limited is structured as a globally-capable, multi-specialist financial services company. We provide premium-quality investment management services to institutional and retail investors. We also provide trust and corporate administration services and selected banking services to international clients.

Service to clients is delivered by one or more of our five strategic business units:

- Institutional client services are provided by Guardian Capital Inc.
- Mutual fund services are provided by Guardian Group of Funds Ltd.
- Fund dealership services are provided to selected insurance brokers and agents by Worldsource Financial Services.
- High net worth investors are served by Guardian Capital Advisors.
- Alexandria Bancorp Limited serves international clients.

Business Strategy

Our core competence lies in our ability to deliver premium-quality investment management in world financial markets. To achieve success, we employ seven broad business approaches:

- Our business perspective is long-term and entrepreneurial. We encourage creativity, flexibility and decisiveness in reacting and adapting quickly to changing business circumstances.
- We maintain a "clients first" culture throughout the organization, through compensation incentives, training and development.
- We conduct our business through strategic business units, each committed to building a competitively strong, growing and profitable franchise in targeted segments of the Canadian and international markets.
- We are developing the organization to create a revenue base that is well diversified by type of client, products and services, and geographic region.
- We invest in organizational excellence, by operating a business that is entrepreneurially managed, and able to attract exceptional individuals who meet the highest professional and ethical standards, through performance bonus compensation and a stimulating professional work environment.
- We employ strategic alliances with other well regarded product suppliers to complement our ability to provide our clients with a global choice of premium-quality investment products.
- We manage the capital assets of the firm in a manner that ensures that all of our anticipated business projects can be financed with internally generated funds.

Ownership

Management and other insiders share an important common interest with public shareholders in achieving sustainable growth in profit and shareholder value. This common interest arises from management's significant equity ownership in the Company. At December 31, 1995, management and other insiders of the Company collectively controlled 57.5% of the Common shares. Upon full conversion of all outstanding options and convertible debentures, management and other insiders would have held or controlled 32.5% of Common and Class A shares outstanding at December 31, 1995.

Personnel

Guardian employed 158 full-time associates at December 31, 1995, compared with 148 at the previous year-end.

The firm is organized and managed to operate as a mutually supportive network of teams. The Company's employment and employee relations policies are designed to encourage a high level of employee commitment and morale, and to ensure compliance with all regulatory requirements.

Compensation

Compensation policy is determined by the Compensation Committee. Staff compensation comprises a base salary plus a year-end bonus which is linked to an employee's individual performance. A formal policy and procedure has been established to ensure that written performance appraisals are completed annually and reviewed by the management of each strategic business unit.

Management compensation comprises a base salary supplemented by a measurable, results-driven performance bonus and, in some cases, by profit sharing and stock options. For Guardian's senior investment professionals, the performance bonus is tied directly to a four-year moving average of investment returns achieved for an all-inclusive composite of each manager's designated client portfolios.

Development

Given the quantum changes in areas such as information technology, market conditions and competition levels, we have moved away from the traditional approach to Human Resources management to embrace a built-in system that continually assesses and re-assesses the people who work within our organization. Management believes that it is essential that we have the right strategy, the right action plan to achieve that strategy and, most importantly, the right human resources to make the plan work. Organizational career development is a significant competitive strategy within Guardian. As a result of our training and development initiatives, we are helping our organization's response-rate to change by providing resilient employees with a supportive environment that encourages readiness for change.

Investment Management Services

Guardian managed $3.8 billion of client assets at December 31, 1995, for two main groups of clients:

- Institutional asset management: pension funds of governments, corporations, universities and unions; foundations and endowment funds; segregated funds of a major life insurance company; and mutual fund assets of another mutual fund organization.
- Retail asset management: mutual fund assets of investors who are clients of stockbrokers, financial planners and life insurance brokers and agents; and high net worth investors and their trusts, estates and personal corporations.

For our clients, Guardian's investment management services deliver three main benefits:

- A prudent style of management appropriate to the goal of achieving above-average returns per unit of risk with a high degree of long-term consistency.
- A global choice of investment options, giving our clients access to the major stock and bond markets of the world, as well as equity markets of developing and emerging countries.
- Enhanced returns due to portfolio management by expert local-market specialized manager teams, which are located in all the major world financial centres, and which have substantial professional depth and experience.

Our investment management services are provided by three teams of investment managers:

- Specialized Canadian balanced, bond and equity portfolio management is provided by our Toronto-based team of investment professionals at wholly owned Guardian Capital Inc.
- U.S. equity management is provided by Guardian Dietche Field Inc., which is jointly owned by Guardian and our New York-based associates, Dietche & Field Advisers, Inc. Dietche & Field manages over C$6.1 billion of assets for a blue-chip list of U.S. institutional investors, as well as the U.S. equity assets of Guardian's clients. Guardian is the exclusive supplier of Dietche & Field services in Canada.
- Non-North American balanced, bond and equity management is provided by Kleinwort Guardian Overseas Limited, which is jointly owned by Guardian and Kleinwort Benson Investment Management Limited. This association gives Guardian's clients access to powerful global investment resources. Kleinwort Benson is one of the leading merchant banks in the U.K. Founded over 200 years ago, its investment management organization has over 50 years of experience in global investment management and manages over C$30.5 billion of assets for an international list of clients. Guardian is the exclusive supplier of Kleinwort Benson's services in Canada.

Institutional Investment Management Services

The largest single category of client assets under management is pension accounts. Pension asset management provides Guardian with market-share growth opportunities in a maturing industry. While overall industry asset growth is moderating, the

pension management industry is evolving in directions which favour firms such as Guardian.

Chief among these trends are (i) the restructuring of larger pension plans toward specialized management assignments, at the expense of balanced management assignments, which represent the bulk of the client assets of many of Guardian's larger competitors; (ii) the increased weighting of pension portfolios in non-Canadian investments, a trend which favours Guardian's global investment manager network; and (iii) the growth of specialized assignments to external managers by major public sector funds, a market which Guardian is well positioned to serve with its specialist manager structure.

Through its Toronto-based team of investment professionals, and through its London and New York-based associates, Guardian offers its clients access to investment expertise in the major stock and bond markets of the world. This global team of investment managers offers an exceptionally broad choice of investment options shown in the Table below.

J.J. Woolverton
Managing Director and Chief Operating Officer, Guardian Capital Inc.

Investment Performance

Equity and bond markets in major countries around the world produced strong double-digit results in 1995. The exception was Japan, where the economy continued its dismal performance of the previous three years. The U.S. equity market was the most robust – providing one of its best performances

INSTITUTIONAL INVESTMENT MANAGEMENT SERVICES

CANADIAN	UNITED STATES	INTERNATIONAL
BALANCED DISCRETIONARY OR CLIENT-MANDATED ASSET MIX **EQUITIES** CORE SMALL/MID-CAP PREMIUM GROWTH **FIXED INCOME** ACTIVE DURATION STRUCTURED INDEX ENHANCED PREFERRED STOCKS	**EQUITIES** CORE: RELATIVE VALUE	**BALANCED** DISCRETIONARY OR CLIENT-MANDATED ASSET MIX **EQUITIES** CORE GROWTH REGIONAL MARKETS EMERGING MARKETS **FIXED INCOME** GLOBAL INTERNATIONAL

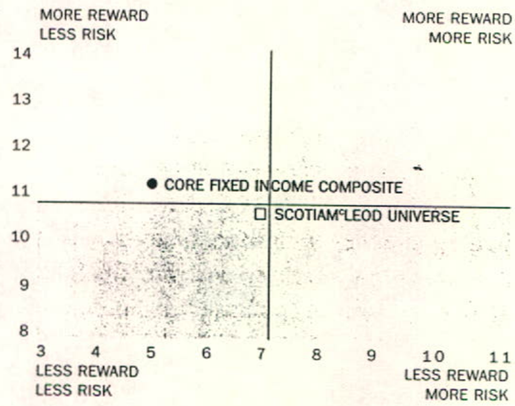
ever. The emerging markets area, in aggregate, provided negative returns, reflecting the fallout from the Mexican crisis in late 1994. The Table below highlights the total returns (in C$) for selected indices:

	1995 Total Returns (%)
Canadian 30-Day T-Bills	7.0
ScotiaMcLeod Universe Bond Index	20.7
TSE 300 Index	14.5
S&P 500 Index	33.8
MSCI EAFE Index *	8.2
MSCI World Index	17.4
IFC Emerging Markets Index	-10.9

* Europe, Australasia and Far East stock markets

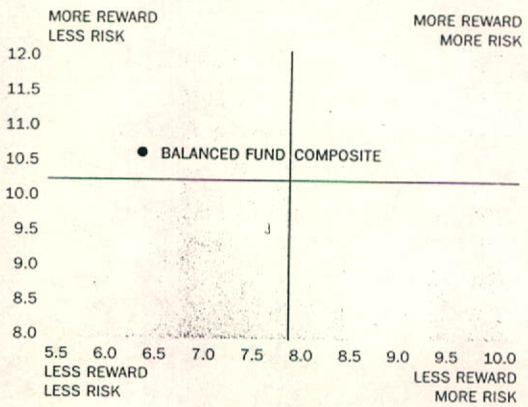
Fixed Income Funds:

RATES OF RETURN VERSUS VARIABILITY
4 YEARS ENDED 31 DECEMBER 1995



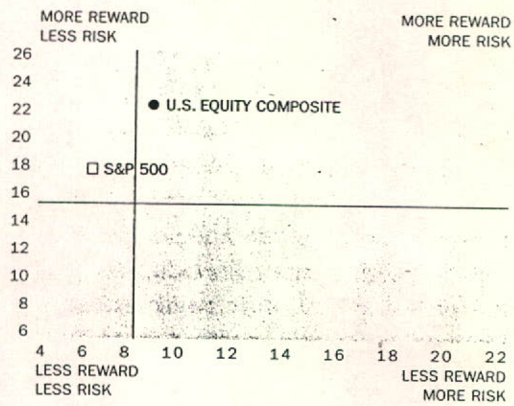
Balanced Funds:

RATES OF RETURN VERSUS VARIABILITY
9 YEARS ENDED 31 DECEMBER 1995



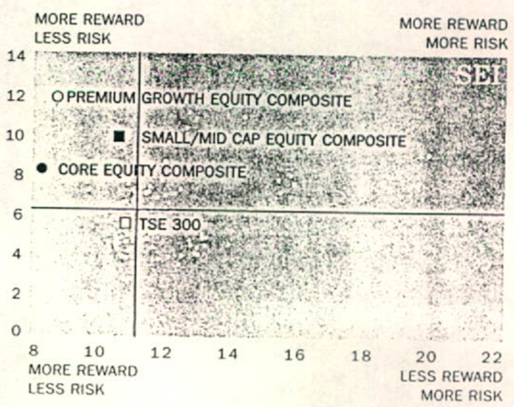
U.S. Equities:

RATES OF RETURN VERSUS VARIABILITY
6 YEARS ENDED 31 DECEMBER 1995



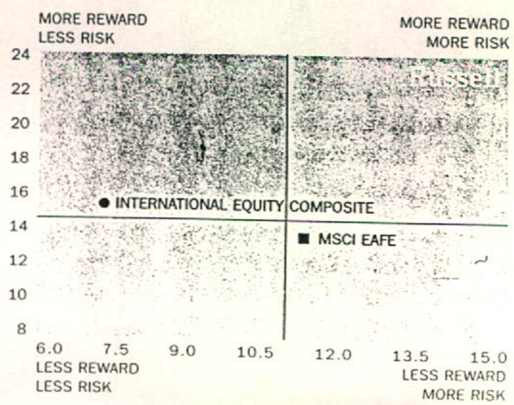
Canadian Equities:

RATES OF RETURN VERSUS VARIABILITY
6 YEARS ENDED 31 DECEMBER 1995



International Equities:

RATES OF RETURN VERSUS VARIABILITY
4 YEARS ENDED 31 DECEMBER 1995



The Charts on page 14 reflect the returns of a Composite of accounts for the specific mandates shown. These Composites have been created according to the Level II Standards set out by the Association of Investment Management and Research (AIMR). The time horizon reflects the longest period for which returns are available. Results are favourable in all cases and reflect our objective of achieving above-average returns at below-average risk. The Table below highlights the total returns achieved for 1995 for the Guardian Composites for a number of our investment mandates:

Guardian Composites	1995 Returns (%)
Balanced	16.2
Canadian Equity	
Core	16.8
Premium Growth	11.1
Small/Mid Cap	34.0
U.S. Equity	29.9
International Equity	11.2
Canadian Fixed Income	16.7

John Boeckh
Senior Vice-President,
Sales and Marketing,
Guardian Group of Funds Ltd.

Harold Hillier
President and Chief Operating Officer,
Guardian Group of Funds Ltd.

Mutual Funds Management and Marketing

Guardian Group of Funds Ltd. is the Company's mutual fund management and marketing organization. Its business is to serve Canadian mutual fund investors through two main distribution channels, stockbrokers and financial planners. Services to mutual fund dealers are provided from Guardian sales offices in Toronto, Montreal and Vancouver.

GUARDIAN MUTUAL FUNDS

CANADA	UNITED STATES	INTERNATIONAL
FIXED INCOME	**FIXED INCOME**	**FIXED INCOME**
CANADIAN MONEY MARKET	U.S. MONEY MARKET	INTERNATIONAL INCOME
CANADIAN INCOME		FOREIGN INCOME
MONTHLY DIVIDEND		
BALANCED	**EQUITIES**	**BALANCED**
CANADIAN BALANCED	AMERICAN EQUITY	INTERNATIONAL BALANCED
EQUITIES		**EQUITIES**
GROWTH EQUITY		GLOBAL EQUITY
ENTERPRISE		ASIA PACIFIC
		EMERGING MARKETS

Guardian offers fourteen public mutual funds by prospectus. Ten are fully RRSP eligible. The remaining four funds are eligible wihin the 20% RRSP limit on foreign investments. These funds offer an exceptional variety of domestic and foreign investment options, including money market, bond, balanced and stock funds. The variety of Guardian's mutual funds amply serves the asset allocation and currency exposure strategies of most investors.

Sophisticated administrative systems are needed to meet the demanding requirements of investors and their professional financial consultants. Guardian has continued to invest in training and development, and in systems to improve its capabilities, with the goal of delivering the highest levels of client service. Guardian has the critical mass to participate in the growth of the mutual fund industry. Its success factors include professional investment resources; an attractive family of mutual funds; newly enhanced marketing resources; upgraded service quality; and growing acceptance among stockbrokers, financial planners and Worldsource life insurance agents.

Investment Performance

Guardian Group of Funds enjoyed another successful year in 1995. The major developed equity markets of the world demonstrated very positive returns in 1995 versus the rather lacklustre performance of 1994. We are pleased to report that 10 out of 14 of the Guardian family of funds outperformed the average fund within its peer group.

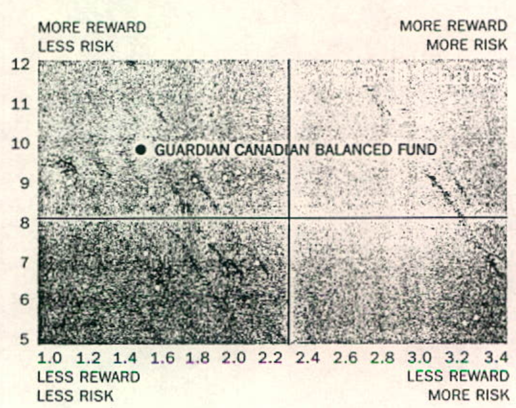
Guardian Enterprise Fund was one of the best perform ing funds during the year. While the Canadian equit market was up 14.5%, Guardian Enterprise Fund posted a return of 31.4% (16.9% above the TSE 300 and 16.5% above the median fund). This Fund is well diversified by industry and company and bene fited from superior stock selection.

The U.S. equity market was the best performing marke of the major industrial countries. Within the Guardia family of funds, Guardian American Equity Fund Ltd was the main beneficiary of this strong market, pro ducing a year-over-year return of 26.1% (3.5% above the average fund). As with Guardian Enterprise Fun security selection was the most significant contribu ing factor to high performance.

The return for the international bond market was also quite positive for 1995. Our overweighting of European bonds, and underweighting of Japanese fixed income securities, resulted in both Guardian International Income Fund and Guardian Foreign Income Fund substantially outperforming their peer group average. Our two new international fund (Guardian Asia Pacific Fund and Guardian Emergin

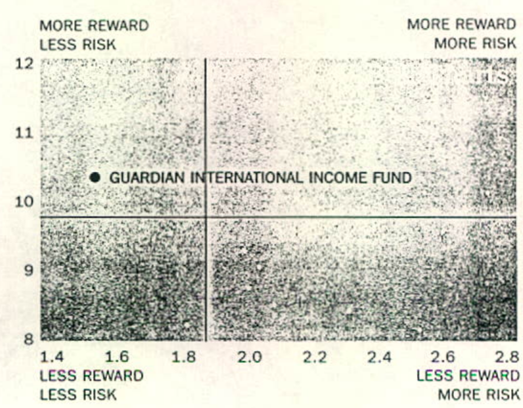
Guardian Canadian Balanced Fund:

RATES OF RETURN VERSUS VARIABILITY
10 YEARS ENDED 31 DECEMBER 1995



Guardian International Income Fund:

RATES OF RETURN VERSUS VARIABILITY
3 YEARS ENDED 31 DECEMBER 1995



Markets Fund) had an excellent start, with 1995 being their first full year under management. Our Asia Pacific Fund outperformed the average by 7.5%, while our Emerging Markets Fund outperformed the average by 15.6%.

As we seek to achieve above-average returns for all our funds, we also place a high emphasis on risk management, with the goal of reducing the overall volatility of the funds we offer. For our funds with a three-year track record, we provided lower volatility in seven of our nine funds than the average of the designated peer group.

Fund Dealership Services

Worldsource Financial Services is a division of Guardian Group of Funds Ltd. Its mission is to serve the special needs of life insurance professionals who are sponsored by Worldsource to sell mutual funds. At year-end 1995, there were 250 representatives sponsored by Worldsource, a mutual fund retailer dealing in over 300 Guardian and non-Guardian mutual funds. Its Toronto office provides order processing, compliance, client account administration and reporting, and administrative client services.

International Financial Services

Alexandria Bancorp Limited, in the Cayman Islands and the British Virgin Islands, currently offers a comprehensive variety of global investment management products, trust and corporate administrative services and selected banking services. These services are offered to offshore financial institutions, expatriate pension funds, professional organizations and international investors with substantial assets to invest. Personalized service is supported by fully capable administrative systems and experienced client service specialists.

Private Client Services

Investors with substantial personal net worth have many of the same needs for prudent, cost-effective investment services as institutional investors. Guardian Capital Advisors, a division of Guardian Capital Inc., serves such investors with client-specific investment counsel. Its services bring to the high net worth individual virtually the same full range of global investment options and client-specific services which Guardian provides to its institutional clients.

Market Risk

Earlier in this report, we noted the probability of a benign market environment for much of 1996. Should our assumption about benign markets prove optimistic, and markets go into decline, management fee revenues will be less than assumed in this year's budget. However, Guardian's prudent management style of investing places great emphasis on risk management, and this may result in a degree of downside protection to the portfolios we manage. Declines in stock and bond markets, as well as volatility in currency markets, may also impact Guardian's capital management activities.

Another market-related risk is the impact of market trend changes on the buying preferences of mutual fund investors. The phenomenal growth of the mutual fund industry in recent years has been largely due to a portfolio shift by individual investors. As interest rates declined, investors in search of higher returns switched from low risk, fixed income instruments to higher risk investments in equity and bond mutual funds. An uptrend in interest rates,

Kevin Whitten
Managing Director,
Alexandria Bancorp Limited

and a downtrend in stock and bond prices, could result in a reduced flow of money into mutual funds.

Competition: Another risk faced by all investment managers is that of failing to be fully competitive in responding to the changing needs of a constantly evolving marketplace, whether in products, pricing, promotion or distribution methods.

With the continuing proliferation in the number of competitor organizations, including large organizations with extensive resources, the intensity of competition is on an upward curve. Guardian faces the added challenge of having to be fully competitive simultaneously in several different markets in both Canada and the West Indies.

Management believes that Guardian is well up to meeting its competitive challenges, not the least because of its entrepreneurial character, competitive spirit, capacity for innovation, contemporary products and strong financial position.

In all our business segments, we generally compete on the basis of product differentiation, product quality control and variety, meet-the-competition pricing, and highly capable sales and service resources. We also believe that our business strategy of developing a well diversified revenue base, combined with disciplined cost controls, reduces the risk of being overly exposed to excessive competition in any one segment of the business.

Regulation: Regulation of the investment industry is an essential foundation for the confidence of investors in financial markets. Guardian wishes to be a leader in adopting forward-thinking policies and client services without necessarily waiting for regulation to be put in place.

A key risk for all investment management companies is that, in the interests of increased protection for investors, the cost of compliance, already a significant business cost which management can do little to control, will continue to grow.

Guardian operates within the regulatory framework of different jurisdictions across Canada, the U.S.A., the U.K. and the West Indies, and of a variety of regulatory agencies. We are also subject to the rules and guidelines for common industry practices of The Toronto Stock Exchange and The Investment Funds Institute of Canada.

Changes in regulation can create both opportunity and risk. Increases to the foreign content limits for registered retirement plans, for example, have created attractive growth opportunities for suppliers of foreign investment products, such as Guardian. Regulatory changes can also create costly changes to the business environment. For example, the Stromberg Report has outlined a path that could lead to improved service to mutual fund investors at reduced cost. However, reduced costs to investors will mean reduced overall revenues to the mutual fund companies and their distributors. The challenge for the various participants in the industry will be to resolve how to share a smaller revenue pie.

Client Assets Under Management As at December 31

($ millions)	1994	1995	Change $	Change %
Institutional client assets				
Tax-exempt and others	1,941	2,584	643	33.1
Insurance company assets	1,057	–	(1,057)	–
	2,998	2,584	(414)	(13.8
Retail client assets	1,003	1,216	213	21.2
Total client assets	4,001	3,800	201	(5.0

Guardian's success in 1995 in attracting new client assets, and in achieving strong portfolio performance, combined to add $856 million of client assets. Of this $420 million was attributable to new business and $436 million to growth in market value. This gain went a long way toward offsetting the account loss described below, and resulted in a year-over-year decline in total assets under management of only 5% to $3.8 billion.

Institutional Asset Management: Guardian's institutional assets under management declined to $2.6 billion at December 31, 1995, down 13.8% from the previous year-end total of $3.0 billion. The decline was due to the decision by a life insurance company client to move $1 billion of its corporate assets account to its own in-house investment managers. The resulting decline in assets under management was partly offset by the growth in pension assets during 1995.

Assets of tax-exempt clients – pension funds, foundations and endowment funds – showed a year-over-year increase of 33.1% to $2.6 billion from $1.9 billion. According to a survey by a pension industry journal, Guardian was among the fastest-growing active management investment counsellors in terms of pension assets under management.

Retail Asset Management: 1995 produced continued growth for Guardian's retail asset management business. Growth was concentrated in your Company's mutual fund organization, which achieved positive net sales in eleven out of twelve months of 1995 and gradually increased its share of the Canadian mutual fund market. Mutual fund client assets increased by 21.3%, starting the year with $977 million and ending with $1,184 million.

Gross mutual fund sales, which are the main factor driving your Company's sales commission revenue, amounted to $481 million in 1995, down from $613 million in 1994, despite a slight improvement in market share relative to overall mutual fund industry assets, as measured by The Investment Funds Institute of Canada.

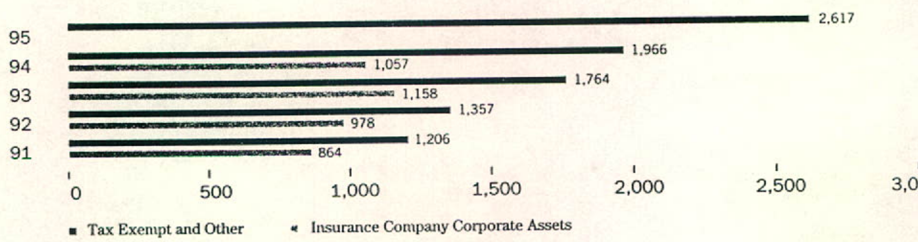
Corporate Financial Assets

One of Guardian's fundamental business strategies is to maintain and enhance its financial strength. This is the key to having the flexibility to meet a variety of capital investment requirements without becoming vulnerable to the vagaries of external financing. Financial strength also supports the confidence of clients, employees and suppliers in Guardian's ability to operate confidently throughout all stages of the business cycle, and to achieve its long-term goals for business success in a variety of markets.

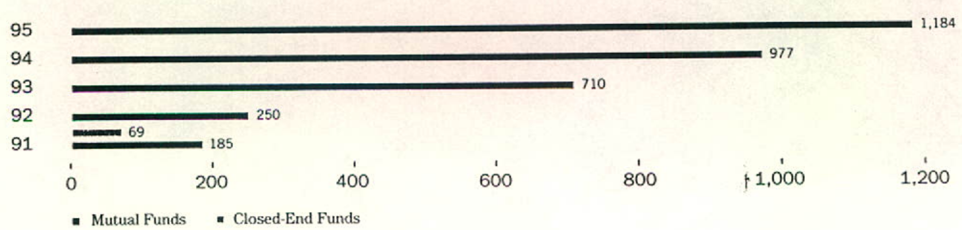
			Change	
($ thousands)	1994	1995	$	%
Corporate holdings of securities and cash*				
Total	47,673	47,366	(307)	(0.6)
Per Share (fully diluted)	7.20	7.38	0.18	2.5

* Net of associated obligations.

Institutional Client Assets $ in millions, years ended December 31



Mutual Fund and Closed-End Fund Assets $ in thousands, years ended December 31



Guardian has a substantial portfolio of financial assets, which include both marketable and non-marketable securities. Except for corporate assets which may, from time to time, be invested in mutual or pooled funds managed by Guardian, our investments are managed separately from those of Guardian's clients. Operating procedures and controls ensure that our corporate investment activities do not conflict with the responsible management of client assets.

Risk controls include extensive diversification by asset class and by holdings. Close attention is also given to currency diversification. For the past several years, we have limited our exposure to market risk by maintaining high cash reserves. At December 31, 1995, cash and cash equivalent securities represented 39.4% of the realizable value of Guardian's securities holdings. A defensive strategy has been consistent with management's continuing concern about the high risk nature of financial markets and the need to focus on the goal of capital preservation. This cautious approach is expected to continue until a more favourable investment environment materializes.

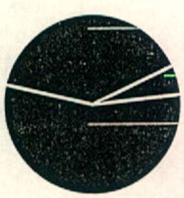
Summary of Securities Holdings as at December 31, 1995

	Cost	Realizable Value	% of Total
Canadian Dollar Securities			
Cash equivalent securities	$ 1,460	$ 1,569	11.7
Marketable securities	7,266	10,407	77.8
Unquoted securities*	1,515	1,701	12.7
Less: Applicable debt obligations	(295)	(295)	(2.2)
Net Canadian Dollar Securities	9,946	13,382	100.0
Non-Canadian Dollar Securities			
Cash equivalent securities	14,527	17,090	50.3
Marketable securities	11,195	15,839	46.6
Unquoted securities*	1,074	1,055	3.1
Total Non-Canadian Dollar Securities	26,796	33,984	100.0
All Securities			
Cash equivalent securities	15,989	18,659	39.4
Marketable securities	18,461	26,246	55.4
Unquoted securities*	2,589	2,756	5.8
Total cash and securities	37,039	47,661	100.6
Less: Applicable debt obligations	(295)	(295)	(0.6)
Net Cash and Securities	$ 36,744	$ 47,366	100.0

* As valued by the Directors

Asset Allocation as at December 31, 1995

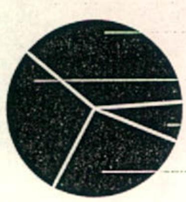
(in thousands)



	$	%
Cash and Cash Equivalents	$ 18,659	39.4
Unquoted Equities and Limited Partnerships, Net of Debt	$ 2,461	5.2
Marketable Securities	$ 26,246	55.4
Total	$ 47,366	100.0

Currency Diversification as at December 31, 1995

(in thousands)



	$	%
Europe	$ 17,851	37.7
Canada	$ 13,382	28.2
Asia/Pacific	$ 3,392	7.2
U.S.A.	$ 12,741	26.9
Total	$ 47,366	100.0

Results of Operations

Gross Revenues: In the year ended December 31, 1995, gross revenues declined to $23,727,000. This represents a 3.9% decline when compared with 1994 revenues of $24,681,000. The year-over-year trends in the components of revenue can be seen in the following Table:

Years ended December 31

($ in thousands)	1994	1995	Change $	Change %
Management fees	$ 16,339	18,173	1,834	11.2
Sales commissions	3,618	2,168	(1,450)	(40.1)
Other income	639	783	144	22.5
	20,596	21,124	528	2.6
Income from securities	4,085	2,603	(1,482)	(36.3)
Gross Revenue	24,681	23,727	(954)	(3.9)
Management fees as % of average client assets	0.43	0.47		

Management fees have tripled over the past five years. In 1995, management fees increased by $1,834,000 to $18,173,000, and accounted for 76.6% of total revenues, compared with 66.2% in 1994. Institutional management fee revenues increased to $7.5 million in 1995 from $6.7 million in 1994, despite the loss of the $1 billion account referred to elsewhere.

As an indication of trends developing for 1996, management fees during the fourth quarter of 1995 reached an annualized rate of $19.4 million. Institutional management fees, as a percentage of average institutional assets, improved to an annualized rate of 0.31% in the fourth quarter of 1995, compared with 0.24% in the fourth quarter of 1994.

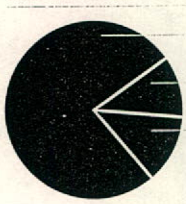
Revenues from sales commissions arose mainly from Guardian's dealership activities, now conducted through Worldsource. The dealership generates commissions from the sale of both Guardian and non-Guardian mutual funds. Commissions are also generated by limited partnerships which finance deferred-load sales of Guardian mutual funds. Sales commissions declined by $1,450,000 in 1995, to $2,168,000 from $3,618,000, due primarily to weaker overall sales in the mutual fund industry.

Other income was derived primarily from administration fees earned by the offshore trust and corporate administrative services of Alexandria Bancorp Limited.

Income from securities in 1995 of $2,603,000 comprised $1,994,000 of realized gains, and $609,000 of interest and dividend income. The 1995 results represented a decline of $1,482,000, compared with 1994, when an unusually large capital gain of $2,218,000 was realized from the sale of a single security. At December 31, 1995, unrealized gains in Guardian's holdings of securities amounted to $10.6 million, or about $1.88 per share.

Gross Revenues Year ended December 31, 1995

(in thousands)



	$	%
Investment Management Fees	$ 18,173	76.6
Commissions and Other Revenues	$ 2,951	12.4
Net Investment Income	$ 2,603	11.0
Total	$ 23,727	100.0

Operating Expenses Years ended December 31

($ thousands)	1994	1995	Change $	Change %
Operating expenses*	16,495	19,145	2,650	16.1
As % of:				
Total revenues	66.8	80.7		
Management fees and commissions	82.6	94.1		
Average client assets	0.43	0.49		

* Expenses before depreciation, amortization, interest expense and income taxes.

Operating expenses increased by 16.1% in 1995 due to growth-related expansion of Guardian's personnel and administrative infrastructure. This expansion is intended to improve service to clients and to create the capacity needed to accommodate Guardian's future growth. As noted earlier, we were successful in attracting eleven investment and business professionals to Guardian during the year. We also continued to invest in an extensive overhaul of our mutual fund administration systems. In 1995, 53% of operating expenses were attributable to personnel costs, compared with 52% in 1994.

Operating Earnings Years ended December 31

($ thousands)	1994	1995	Change $	Change %
Operating earnings*	8,186	4,582	(3,604)	(44.0)
As % of revenues	33.2	19.3		

* Earnings before depreciation, amortization, interest expense and income taxes.

Operating earnings in 1995 declined by $3.6 million, reflecting a $2.9 million decline in combined revenues from sales commissions and income from securities, and the $2.7 million increase in operating expenses noted earlier.

Operating earnings from the investment management and financial services subsidiaries declined to $2.5 million, compared with $4.7 million in 1994, primarily due to a $1.5 million decline in sales commissions.

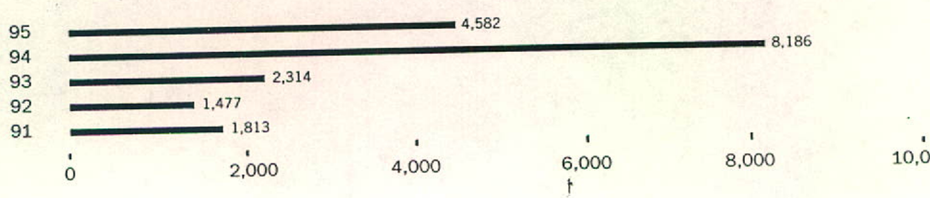
Net Earnings Years ended December 31

($ thousands)	1994	1995	Change $	Change %
Pre-tax earnings	6,868	2,428	(4,440)	(64.6)
Less: Income taxes	1,009	140	(869)	(86.1)
Net earnings	5,859	2,288	(3,571)	(60.9)
Effective tax rate	14.7	5.8		
Net earnings as % of revenues	23.7	9.6		
Return on average equity	20.3	7.2		

Net income from securities, after related expenses, contributed $2.1 million in 1995, compared with $3.5 million in the previous year, when an unusually large capital gain of $2.2 million was realized.

Earnings per share, fully diluted, were $0.39 in 1995 (on an average of 6,824,000 shares outstanding on full dilution), compared with $0.89 in 1994 (on an average of 6,949,000 shares outstanding). Results in 1994 included a larger contribution from capital gains than in other recent years, with realized gains from the sale of a single security amounting to $2,218,000, or $0.32 per share.

Operating Earnings $ in thousands, years ended December 31



Liquidity and Capital Resources As at December 31

($ thousands)	1994	1995	Change $	Change %
Working capital	(4,523)	(4,091)	432	9.55
Investments, at net realizable value	47,673	47,366	(307)	(0.6)

Guardian's holdings of securities are highly liquid and well diversified by currency exposure. Of the year-end 1995 total of $47.4 million, about 95% was represented by cash and marketable securities.

During 1995, your Company paid $554,000 in dividends to its Common and Class A shareholders, and paid $2,082,000 to repurchase Class A shares. The corresponding figures in 1994 were $448,000 and $1,353,000 respectively.

The Company has guaranteed loans made to Guardian Limited Partnerships 1993, 1994 and 1995. At year-end, the amounts outstanding were $500,000, $3.1 million and $5.5 million respectively, which were fully secured by the partnerships' rights to receive redemption fees and financing fees.

Except for short-term bank financing, used as and when needed, no external financing was needed in 1995, and none is contemplated for the foreseeable future.

Total Assets and Shareholders' Equity As at December 31

($ thousands)	1994	1995	Change $	Change %
Total assets	54,059	63,864	9,805	18.1
Shareholders' equity				
Total	32,204	31,192	(1,012)	(3.1)
Per share	4.94	4.95	0.01	0.2

The consolidated balance sheet, under current assets and current liabilities, shows substantial increases in outstanding deposits. In current assets, outstanding deposits increased by $10,217,000 to $12,428,000 at year-end 1995; in current liabilities, outstanding deposits increased by $10,213,000 to $12,424,000. These changes reflect increased banking activities in our West Indies operations where client assets on deposit are placed with third party financial institutions. This accounts for the increase in total assets in the year.

Shareholders' equity declined by $1,012,000 in 1995. Shareholders' equity was increased by net earnings of $2,288,000, and the exercise of stock options of $220,000; and reduced by a decline in the foreign currency translation adjustment of $884,000, repurchases of Class A shares of $2,082,000, and dividends paid to shareholders of $554,000.

Guardian's capital structure at December 31, 1995 included debentures with a par value of $5.6 million convertible into 933,333 Class A shares at $6.00. The conversion value of these debentures, which mature on December 15, 1996, was substantially "in the money" relative to the market price of the underlying Class A shares during 1995. We expect that this segment of long-term debt will convert to shareholders' equity before year-end 1996.

Quarterly Statistics

(in thousands)	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2	1995 Q3	1995 Q4
Gross revenue	$ 6,008	$ 5,427	$ 5,292	$ 7,954	$ 5,045	$ 5,998	$ 5,982	$ 6,702
Net earnings (loss)	930	881	840	3,208	216	717	572	783
Shareholders' equity	27,602	28,228	28,090	32,204	32,343	32,080	30,629	31,192
Per Average Common and Class A Share (in dollars)								
Net earnings (loss)								
Basic	0.17	0.15	0.15	0.58	0.04	0.13	0.10	0.15
Fully diluted	0.15	0.14	0.13	0.47	0.04	0.12	0.10	0.13
Per Common and Class A Share								
Shareholders' equity								
Basic	4.95	5.02	5.00	5.81	5.84	5.76	5.63	5.82
Fully diluted	4.07	4.15	4.14	4.94	4.98	4.90	4.77	4.95

Seven-Year Review

Years ended December 31	1989	1990	1991	1992	1993	1994	1995
($ in millions)							
Value of client assets managed	$ 1,558	$ 1,707	$ 2,328	$ 2,585	$ 3,634	$ 4,001	$ 3,800
($ in thousands)							
Gross revenues	9,793	6,663	8,893	9,877	14,715	24,681	23,727
Operating expenses (excl. depreciation, amortization and interest)	7,477	7,911	7,080	8,400	12,379	16,495	19,145
Earnings (loss) from operations	2,316	(1,248)	1,813	1,477	2,314	8,186	4,582
Earnings (loss) before taxes and goodwill written off	141	(2,846)	407	383	1,119	6,868	2,428
Goodwill written off	–	–	(6,322)	–	–	–	–
Net earnings (loss)	568	(2,118)	(5,847)	425	1,129	5,859	2,288
Shareholders' equity	32,512	28,916	22,586	24,512	25,456	32,204	31,192
(in dollars)							
Per average Common and Class A share							
Earnings (loss) from operations							
Basic	$ 0.41	$ (0.21)	$ 0.31	$ 0.24	$ 0.41	$ 1.46	$ 0.83
Fully diluted	0.37	(0.21)	0.31	0.24	0.41	1.27	0.67
Net earnings (loss) before extraordinary items							
Basic	0.10	(0.36)	(1.01)	0.07	0.20	1.05	0.42
Fully diluted	0.09	(0.36)	(1.01)	0.07	0.20	0.89	0.39
Net earnings (loss) for the year							
Basic	0.10	(0.36)	(1.01)	0.07	0.20	1.05	0.42
Fully diluted	0.09	(0.36)	(1.01)	0.07	0.20	0.89	0.39
Per Common and Class A share							
Dividends paid	0.16	0.00	0.00	0.05	0.05	0.08	0.10
Shareholders' equity							
Basic	5.73	4.93	3.93	4.30	4.59	5.81	5.82
Fully diluted	4.21	3.91	3.24	3.47	3.63	4.70	4.67
Share price							
Common High	6.75	6.00	6.00	5.75	7.63	12.00	11.88
Common Low	5.63	4.90	4.30	4.50	6.38	7.00	10.50
Class A High	5.75	5.25	4.25	4.75	7.63	10.25	10.00
Class A Low	4.20	4.00	3.60	3.60	6.00	7.13	8.25
(in thousands)							
Year-end Common and Class A shares outstanding							
Basic	5,665	5,858	5,750	5,704	5,542	5,539	5,361
Fully diluted	7,716	7,387	6,970	7,062	7,010	6,857	6,680

Financial Section

Management's Statement on Financial Reporting

The following financial statements, which consolidate the financial results of Guardian Capital Group Limited and its subsidiaries, and all other information in this annual report, are the responsibility of management. The financial statements and Management's Discussion and Analysis have been approved by the Board of Directors.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. 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 on page 30. 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.

Coopers & Lybrand, the company's independent auditors, have audited the accompanying finar cial statements. Their report follows.

The Audit Committee of the Board of Directors, composed of independent directors, meets reg ularly with management and Coopers & Lybrand to review their activities and to discuss the external audit program, internal control, accounting policies and financial reportin matters. The Board of Directors reviews interim financial statements prior to their release. Coopers & Lybrand has unrestricted access to the Company, the Audit Committee and the Board of Directors. The Audit Committee has reviewed the financial statements and Manage ment's Discussion and Analysis and recommended their approval to the Board of Directors

John Christodoulou

John M. Christodoulou
Chairman & Chief Executive Officer
April 15, 1996

Auditors' Report

To the Shareholders of Guardian Capital Group Limited:

We have audited the consolidated balance sheets of Guardian Capital Group Limited as at December 31, 1995 and 1994, and the consolidated statements of operations, retained earnings and changes in financial position 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 generally accepted auditing standards. 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 mad by management, as well as evaluating the ove all financial statement presentation.

In our opinion, these consolidated financial state ments present fairly, in all material respects, the financial position of the company as at December 31, 1995 and 1994, and the results (its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Coopers & Lybrand

Chartered Accountants
Toronto, Canada
February 23, 1996

Consolidated Balance Sheets As at December 31

($ in thousands)	1995	1994
Assets		
Current Assets		
Cash and short-term securities	$ 6,212	$ 7,933
Accounts receivable (note 2)	5,748	4,508
Securities income receivable	345	167
Prepaid expenses	144	59
Outstanding deposits	12,428	2,211
	24,877	14,878
Financial Assets (note 3)	30,827	30,591
Loans Receivable (note 4)	321	544
Capital Assets (note 5)	3,152	3,180
Unamortized Debenture Issue Costs	24	47
Goodwill	4,663	4,819
	$ 63,864	$ 54,059
Liabilities		
Current Liabilities		
Bank overdrafts	$ 4,849	$ 3,134
Accounts payable and accrued liabilities	4,598	4,096
Income taxes payable	885	1,693
Lease termination	–	334
Current portion of long-term debt (note 6)	5,600	–
Outstanding deposits	12,424	2,211
	28,356	11,468
Lease Inducements (note 7)	1,845	2,036
Long-Term Debt (note 6)	295	5,891
Deferred Income Taxes	2,176	2,460
	32,672	21,855
Shareholders' Equity		
Capital Stock (note 8)	10,342	10,577
Foreign Currency Translation Adjustment	1,742	2,626
Retained Earnings	19,108	19,001
	31,192	32,204
	$ 63,864	$ 54,059

Signed on behalf of the board:

M. A. F. Golding

John Christodoulou

Mark A. F. Golding,
Director

John M. Christodoulou,
Director

Consolidated Statements of Retained Earnings Years ended December 31

($ in thousands)	1995	1994
Balance, beginning of year	$ 19,001	$ 14,655
Net earnings	2,288	5,859
	21,289	20,514
Less		
Dividends paid	554	448
Excess of purchase price over issue price on Company's capital stock acquired (note 8)	1,627	1,065
	2,181	1,513
Balance, end of year	$ 19,108	$ 19,001

Consolidated Statements of Operations Years ended December 31

($ in thousands, except per share amounts)	1995	1994
Revenue		
Management fees	$ 18,173	$16,339
Net income from securities	2,603	4,085
Other income	783	639
Sales commissions	2,168	3,618
	23,727	24,681
Expenses		
Expenses exclusive of undernoted items	19,145	16,495
Depreciation	944	434
Amortization	179	178
Interest on long-term debt	475	475
Other interest	556	231
	21,299	17,813
Earnings before income taxes	2,428	6,868
Provision for income taxes (note 9)	140	1,009
Net earnings for the year	$ 2,288	$ 5,859
Net earnings per Common and Class A share (note 10)		
Basic	$ .42	$ 1.05
Fully diluted	.39	0.89
Weighted average number of Common and Class A shares outstanding (in thousands)		
Basic	5,505	5,596
Fully diluted	6,824	6,949

Consolidated Statements of Changes in Financial Position Years ended December 31

($ in thousands)	1995	1994
Cash from Operations		
Net earnings for the year	$ 2,288	$ 5,859
Add (deduct) items not involving cash		
Leasehold inducements written off	(191)	(62)
Depreciation	944	434
Amortization	179	178
Deferred income taxes	(284)	(183)
Net gain on sale of securities	(1,994)	(3,525)
	942	2,701
Net change in working capital excluding cash	(2,147)	1,752
	(1,205)	4,453
Financing Activities		
Lease inducements received	–	2,098
Issue of capital stock	220	900
Acquisition of Company's capital stock	(2,082)	(1,353)
Dividend paid	(554)	(448)
Increase (decrease) in long-term debt	4	(1,085)
Loan repayment	223	686
	(2,189)	798
Financial Asset Activities		
Acquisition of securities	(3,699)	(8,222)
Proceeds on sale of securities	4,831	6,787
Purchase of capital assets	(916)	(2,896)
	216	(4,331)
Net change in cash and short-term securities net of bank overdrafts, during the year	(3,178)	920
Foreign currency translation adjustment on cash	(258)	573
Cash and short-term securities net of bank overdrafts, beginning of year	4,799	3,306
Cash and short-term securities net of bank overdrafts, end of year	$ 1,363	$ 4,799

1. Summary of Significant Accounting Policies

a. Principles of consolidation
The consolidated financial statements include the accounts of the Company and its subsidiaries.

b. Financial assets
Securities are carried at cost and are written down below cost if there is a loss of value which is considered to be other than temporary.

c. Capital assets
Capital assets are recorded at cost less accumulated depreciation and amortization. Computer hardware and software are depreciated on the straight-line basis over three years. The majority of the furniture and equipment is depreciated on the diminishing balance method at the rate of 20% per annum. Leasehold improvements are amortized on the straight-line basis over the terms of the leases.

d. Goodwill
Goodwill represents the excess of the purchase price over the fair value of tangible net assets acquired and is being amortized on a straight-line basis over forty years. Goodwill is written down when it is considered that a permanent impairment in ongoing value has occurred.

e. Translation of foreign currency
Amounts in foreign currencies included in the consolidated financial statements are translated into Canadian dollars as follows:

i) For foreign currency balances and financial assets — at the year-end exchange rate; purchases and sales of securities and income and expenses at the rate of exchange prevailing on the respective dates of such transactions; equity earnings at average monthly rates. Foreign exchange gains and losses resulting from the foregoing are included in the consolidated statements of operations.

ii) The accounts of certain subsidiaries of the Company are maintained in foreign currencies and represent self-sustaining foreign operations. Assets and liabilities have been translated into Canadian dollars at exchange rates prevailing at the end of the year and income and expenses at average monthly rates. Adjustments resulting from the exchange gains and losses on the translation of the balance sheets of the Company's self-sustaining foreign operations are deferred and recorded as a foreign currency translation adjustment in the shareholders' equity section of the consolidated balance sheets.

f. Marketable securities
The trade date is used for purposes of calculating gains and losses on sale of marketable securities.

g. Management fees and deferred income
The Company provides management, investment advisory and transfer agency services to mutual funds, corporations, endowments, individuals and pension funds on a contract basis in consideration for management fees which are recorded when earned.

2. Accounts Receivable

A general assignment of accounts receivable has been provided as security for bank overdrafts.

3. Financial Assets As at December 31

Securities ($ in thousands) (note 1b)	Market Value 1995	1994	Carrying Value 1995	1994
a. Securities having a quoted market value				
Short-term securities	$ 12,400	$ 12,713	$ 9,777	$ 11,448
Capital in equity mutual funds	11,992	11,587	8,453	8,908
Diversified common share holdings	14,254	13,162	10,008	7,918
	$ 38,646	$ 37,462	28,238	28,274
b. Securities not having a quoted market value				
Private corporations and limited partnerships			2,589	2,317
Total			$ 30,827	$ 30,591

Certain of the above securities have been pledged as collateral security for the outstanding bank loan and mortgages payable (note 6).

4. Loan Receivable

The loan receivable is due from Guardian Limited Partnership 1991. The loan bears interest at the prime bank rate and is repayable out of excess funds of the partnership.

5. Capital Assets As at December 31

($ in thousands)	1995	1994
Computer hardware and software	$ 3,138	$ 2,249
Furniture and equipment	734	763
Leasehold improvements	1,260	1,260
	5,132	4,272
Less accumulated depreciation and amortization	1,980	1,092
	$ 3,152	$ 3,180

6. Long-Term Debt As at December 31

($ in thousands)	1995	1994
Convertible debentures (a. below)	$ –	$ 5,600
Mortgages payable (b. below)	295	291
	$ 295	$ 5,891
Current portion of long-term debt (a. below)	$ 5,600	$ –

a. The $8^1/_2$% convertible subordinated debentures mature on December 15, 1996 and are convertible into 933,000 Class A non-voting shares at a price of $6 per share.
During 1994, part of the debenture was converted into 150,000 Class A non-voting shares.

b. The mortgages payable bear interest at 8% and are due August 1, 1998.
These mortgages are in connection with an investment in a limited partnership, the assets of which are pledged as security.

7. Lease Inducements

During 1994, the Company moved substantially all of its operations into new premises. Leasehold inducements received are being amortized over the period of the lease.

8. Capital Stock

a. Authorized – unlimited number

Preferred shares, without par value, in an unlimited number of series, the designation, rights, privileges, restrictions, conditions and other provisions of each series to be determined by the Board of Directors.

Non-voting Class A shares, without par value, convertible into Common shares at the option of holders of Class A shares on a one-for-one basis, under terms and conditions described in the Special Resolution of the Company dated May 25, 1994. Highlights of terms and conditions:

- If in excess of 50% of the Common shares are acquired by any person other than an insid of the Corporation, the Class A shares may be converted to Common shares;
- If holders of over 50% of the outstanding Common shares agree to accept an offer to purchase Common shares which is made to all Common shareholders, the Class A shares may b converted into Common shares for the purposes of the offer.

Common shares, without par value, convertible on a one-for-one basis into Class A non-voting shares.

	1995		199	
(in thousands)	Shares	Amount	Shares	Amou
b. Issued and outstanding				
Class A (d. below)	4,375	$ 8,885	4,553	$ 9,12
Common (c. below)	986	1,457	986	1,45
		$ 10,342		$ 10,57
c. Common shares				
Outstanding, beginning of year	986	$ 1,457	999	$ 1,47
Acquired during year (g. below)	–	–	(13)	(2
Outstanding, end of year	986	$ 1,457	986	$ 1,45
d. Class A shares				
Outstanding, beginning of year	4,553	$ 9,120	4,542	$ 8,48
Debentures converted during the year	–	–	150	90
Options exercised during the year	49	220	–	
Acquired during the year (f. below)	(227)	(455)	(139)	(26
Outstanding, end of year	4,375	$ 8,885	4,553	$ 9,12

e. As at December 31, 1995, 386,000 (385,000 at December 31, 1994) Class A shares were reserved for issuance to key employees of the Company and its subsidiaries under the term of the Company's stock option plan. These options are exercisable at the rate of 20% each year on a cumulative basis to August 15, 2000, at amounts ranging from $4.50 to $9.00 per share.

f. During 1995, the Company acquired 227,000 (139,000 in 1994) of its own Class A shares for $2,082,000 ($1,205,000 in 1994), of which $1,627,000 ($937,000 in 1994) was charged directly to retained earnings.

g. During 1994, the Company acquired 13,000 of its own Common shares for $148,000, of whic $128,000 was charged directly to retained earnings.

9. Income Taxes

($ in thousands)	1995	1994
a. The provision for income tax comprises:		
Current tax	$ 424	$ 1,192
Deferred tax recovery	(284)	(183)
	$ 140	$ 1,009

b. The Company's effective income tax rate on the earnings before income taxes has been affected by the following increases (decreases) in taxable income:

Earnings before income taxes	$ 2,428	$ 6,868
Tax-exempt portion of capital gains	(126)	(54)
Non-deductible amortization	156	156
Foreign income	(1,764)	(3,615)
Dividend income	(46)	(26)
Decrease in non-deductible reserve	(334)	–
Non-deductible expenses	77	–
Use of losses carried forward	(99)	(1,026)
Other	26	(10)
	(2,110)	(4,575)
	$ 318	$ 2,293
Effective income tax at statutory rate of 44% (1994–44%)	$ 140	$ 1,009

10. Net Earnings Per Share

The calculation of basic net earnings per share is based on Common and Class A shares outstanding during each year and on earnings available to the holders of the Common and Class A shares.

Fully diluted net earnings per share is calculated by dividing the adjusted earnings for each year by the weighted average of outstanding Common and Class A shares and the shares which would have been issued upon exercise of options and conversion of all outstanding debentures, effective at the beginning of each year. Adjusted earnings comprise net earnings adjusted for the after-tax effect of interest on outstanding debentures and imputed after-tax earnings at the same interest rate on the proceeds of option conversion.

11. Commitments and Contingencies

The Company has leases which expire on various dates after 1995. The Company has also signed equipment and maintenance leases. Minimum future payments required under these operating leases that have initial terms in excess of one year as at December 31, 1995 are as follows:

1996	$ 484,000
1997	484,000
1998	467,000
1999	380,000
2000 and thereafter	2,162,000
	$ 3,977,000

The Company continues to guarantee a secured loan on behalf of a related company to a maximum of $1,350,000.

The Company guaranteed loans made to Guardian Limited Partnership 1993, Guardian Limited Partnership 1994 and Guardian Limited Partnership 1995 to a maximum of $9,500,000, $17,000,000 and $13,000,000, respectively. At the year-end, the outstanding amounts of these loans were $491,000, $3,117,000 and $5,482,000, respectively.

12. Subsequent Events

Subsequent to the year-end, the Company has provided guarantees for $10,000,000 and $500,000 respectively for the obligations of Guardian Limited Partnership 1996 and Guardian Capital Employees Profit Sharing Trust to a third party lender.

13. Business Segments

The Company operates in the investment management and financial services industry. Identifiable assets and operations by geographic location are as follows:

	Canada		Rest of World		Consolidated	
($ in thousands)	1995	1994	1995	1994	1995	1994
Identifiable assets	$ 16,701	$ 19,580	$ 47,163	$ 34,479	$ 63,864	$ 54,059
Revenue	$ 20,019	$ 19,782	$ 3,708	$ 4,899	$ 23,727	$ 24,681
Expenses						
General	18,583	16,017	1,617	1,184	20,200	17,201
Depreciation and amortization	1,099	612	–	–	1,099	612
	19,682	16,629	1,617	1,184	21,299	17,813
Earnings before income taxes	337	3,153	2,091	3,715	2,428	6,868
Income tax provision	140	1,009	–	–	140	1,009
Earnings	$ 197	$ 2,144	$ 2,091	$ 3,715	$ 2,288	$ 5,859

Board of Directors and Committees

		Related Directors	Unrelated Directors
Board of Directors		John M. Christodoulou* Mark A.F. Golding Lesley M.S. Knox	F. Dermot Barrett George N.M. Currie Anthony G.S. Griffin Michel Sales
Committees	Governance		F. Dermot Barrett* Anthony G.S. Griffin
	Audit		George N.M. Currie* Anthony G.S. Griffin Michel Sales
	Compensation	John M. Christodoulou	George N.M. Currie Anthony G.S. Griffin Michel Sales*
	Ethics	John M. Christodoulou	Anthony G.S. Griffin*

* Chairman

Principal Officers

Guardian Capital Group Limited

John M. Christodoulou
Chairman & Chief Executive Officer

Mark A.F. Golding
President & Chief Operating Officer

C. Verner Christensen
Vice-President & Secretary

Norman R. Fust
Vice-President, Human Resources

Barry C. Goldsmith
Vice-President, Administration & Chief Information Officer

Roy J. Jacobson
Vice-President, Operations and Controller

Guardian Capital Inc.

Mark A.F. Golding
Chairman & Chief Executive Officer

J.J. Woolverton
Managing Director & Chief Operating Officer

Robert K. Hammill
Managing Director

Peter A. Hargrove
Managing Director

Larry T. Kennedy
Managing Director

John G. Priestman
Managing Director

Gary C. Chapman
Vice-President, Senior Portfolio Manager, Canadian Equity Investments

C. Verner Christensen
Senior Vice-President & Secretary-Treasurer

Nairn J. Cutten
Vice-President, Fixed Income

Christine Girvan
Vice-President, International Investments

Stephen D. Kearns
Vice-President, Portfolio Manager, Fixed Income Investments

Nadi Naderi
Vice-President, Servicing

Marc A. Noble
Vice-President, North American Investments

Roy J. Jacobson
Controller

Guardian Group of Funds Ltd.

Mark A.F. Golding
Chairman & Chief Executive Officer

Harold W. Hillier
President & Chief Operating Officer

John L. Boeckh
Senior Vice-President, Sales and Marketing

C. Verner Christensen
Senior Vice-President & Secretary-Treasurer

Stuart J. Freeman
Vice-President, Operations

R. Cameron Grout
Vice-President, Sales, Western Ontario & Atlantic Canada

Ross F. Kappele
Vice-President, Sales, Toronto

Dianna L. Price
Vice-President, Sales, Western Canada

Roy J. Jacobson
Controller

Guardian Capital Advisors

Mark A. F. Golding
Chairman

Gareth S. Seltzer
Vice-President, Private Wealth Management

Alexandria Bancorp Limited

Francis O. Flanagan
Chairman

Kevin F. Whitten
Managing Director

Paul T. Bushell
Deputy Managing Director

Adrian R. Cleaver
Director

J. David M. Dobson
Secretary

Lesley J. Scott
Treasurer

Corporate Information

Bankers and Principal Custodian

Canadian Imperial Bank of Commerce

Corporate Offices

Commerce Court West
Suite 3100, P.O. Box 201
Toronto, Ontario
M5L 1E8

Telephone

(416) 364-8341

Facsimile:

(416) 947-0601

Auditors

Coopers & Lybrand

Registrar and Transfer Agent

Montreal Trust Company of Canada

Toronto Stock Exchange Listing

Shares	Symbol
Common:	GCG
Class A:	GCG.A

Annual Meeting

11:00 a.m., May 23, 1996
The Canadian Room
The Ontario Club
Commerce Court South, Fifth Floor
30 Wellington Street West