



GUARDIAN

CAPITAL

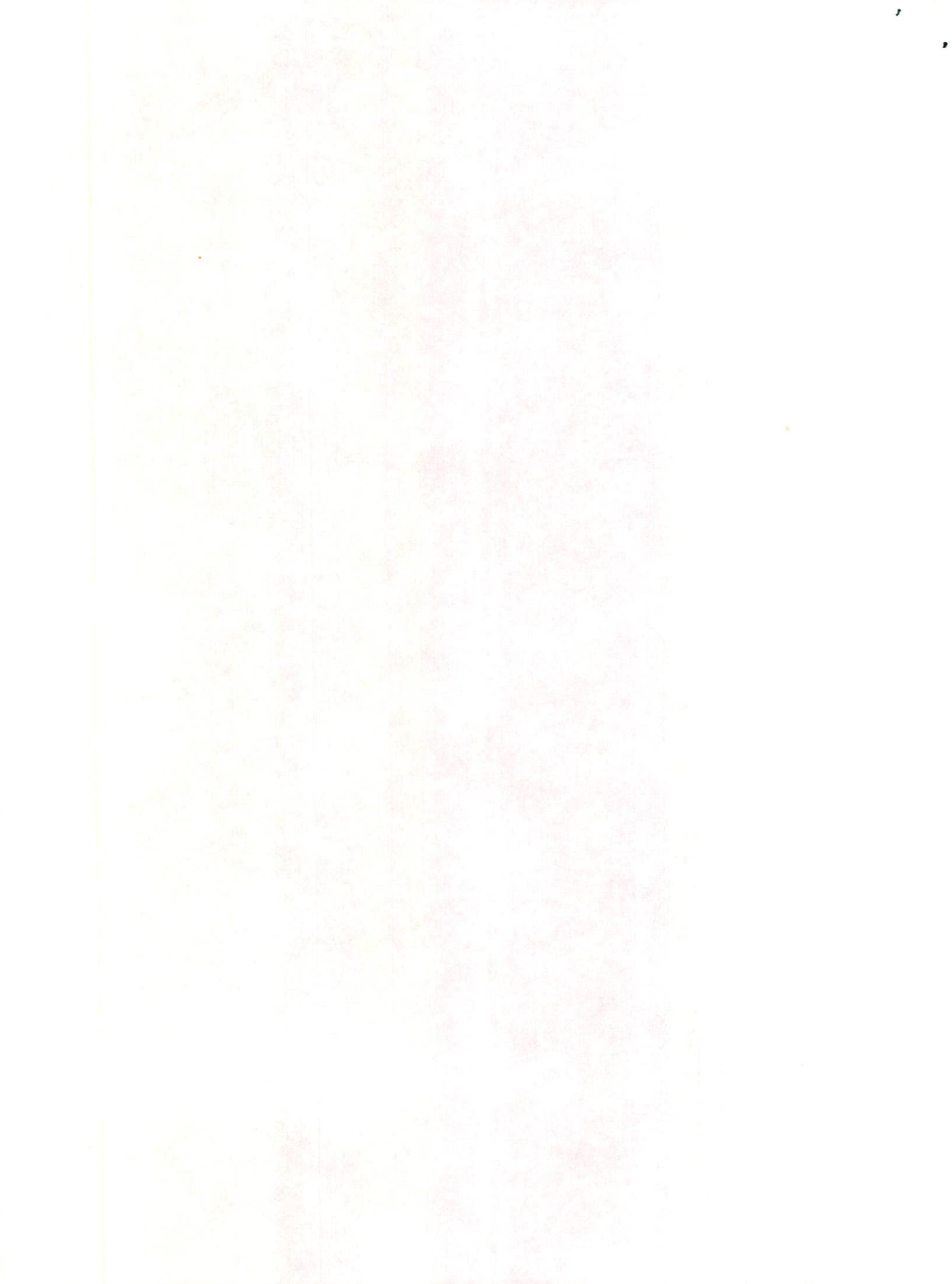
GROUP

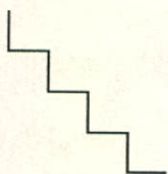
LIMITED

ANNUAL

REPORT

1990





Guardian's focus is to provide money management of the highest quality. We are fully dedicated to the investment success of our clients.

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FINANCIAL HIGHLIGHTS

December 31	1986	1987	1988	1989	1990
Value of client assets managed (\$ in millions)	\$1,699	\$1,624	\$1,501	\$1,558	\$1,707
Gross revenues (\$ in thousands)	9,817	16,930	10,647	9,793	6,663
Net earnings (loss) (\$ in thousands)					
- before extraordinary items	2,165	4,043	1,581	568	(2,118)
- for the year	2,165	11,005	2,334	568	(2,118)
Shareholders' equity (\$ in thousands)	19,871	33,619	33,725	32,512	28,916
Per Common and Class A share (in dollars)					
Net earnings (loss) before extraordinary items					
- basic	0.41	0.70	0.27	0.10	(0.36)
- fully diluted	0.41	0.60	0.25	0.09	(0.36)
Net earnings (loss) for the year					
- basic	0.41	1.92	0.40	0.10	(0.36)
- fully diluted	0.41	1.52	0.36	0.09	(0.36)
Dividends paid	0.15	0.15	0.16	0.16	0.0
Book value at year end	3.75	5.84	5.87	5.73	4.93
Year-end Common and Class A shares outstanding (thousands)	5,306	5,753	5,742	5,665	5,858

GROSS REVENUES BY SOURCE

(\$ in thousands)	1990	1989	% change
Management fees	\$5,515	\$5,386	+2.4%
Net investment income	328	3,031	-89.2%
Redemption fees	396	1,050	-62.3%
All other	424	326	+30.1%
Gross Revenues	\$6,663	\$9,793	-32.0%

DIRECTORS'

REPORT TO

SHAREHOLDERS

Much progress was made during 1990 toward your Company's longer term goal of achieving a soundly based, well balanced corporation through success in its four chosen areas of business activity: investment counselling, mutual funds management, overseas financial services for international investors and management of Guardian's corporate financial resources. Success in all four business activities is founded on Guardian's core competence of investment management expertise.

The main achievements during the year under review were:

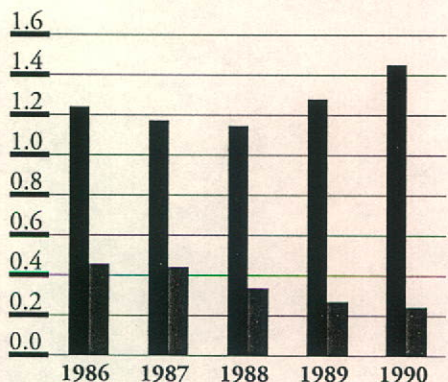
- Investment performance achieved for clients was exemplary across all main product categories in relation both to competitive investment management organizations and to market index benchmarks. (Please see investment performance review on pages 4 and 5).
- Pension and other institutional client assets under management increased by 15.7%, with part of this increase due to existing clients assigning additional assets to Guardian to manage. (Please see chart below).
- The continued development of Guardian's mutual funds organization led, by year-end, to the beginning of a meaningful funds distribution capability which, over the coming year, should expand further to the benefit of future fund sales.

FINANCIAL RESULTS

While positive overall growth was achieved in Guardian's management fees during 1990, and while operating expenses were lower, profitability was affected by significant declines in net investment income and in non-recurring revenues from

Client Assets Under Management

1.8 (\$ in billions)



■ Institutional Assets
■ Mutual Fund Assets

redemption fees. The result was a loss for the year of \$2,118,000 compared with net earnings of \$568,000 in 1989.

Gross revenues in 1990 were \$6,663,000 compared with \$9,793,000 in the previous year. Management fees increased to \$5,515,000 in 1990, up from \$5,386,000. Higher pension and other institutional management fees more than offset lower mutual fund management fees.

The largest component of the \$3,130,000 decline in gross revenue was a \$2,703,000 reduction in net investment income, of which \$1,921,000 resulted

from a decision by the Directors to write down the value of certain investments.

Total operating expenses in 1990 were \$9,622,000, down slightly from \$9,785,000 in 1989, which included \$912,000 of development and start-up expenses associated with mutual fund operations.

Your Company's Directors estimate the value of Guardian's portfolio of investment resources, net of applicable debt obligations, at \$27,679,000 at year end 1990, or \$3.76 per share fully diluted. The corresponding figures for the previous year amounted to \$34,840,000, or \$4.87 per share fully diluted.

At year end 1990, the working capital deficit was \$2,262,000. It should be noted that your Company's investments, which do not form part of working capital, include \$15,536,000 of cash and equivalents, ensuring ample liquidity.

During 1990, all Series 2 preferred shares outstanding were either converted to Class A shares or redeemed and 274,000 Class A shares were repurchased, for a total cash consideration of \$1,500,000, contributing to a decline in shareholders' equity. On a fully diluted basis, book value per share was \$4.70 at year end 1990 compared with \$5.03 per share at the previous year end.

Due to substantial development and start-up expenses associated with the Company's mutual funds organization, the decision was taken to defer dividend payments on the Common and Class A shares.

A more detailed review of your Company's financial results is presented in the Management Discussion and Analysis which follows this Directors' Report to Shareholders.

I N V E S T M E N T M A N A G E M E N T R E S U L T S

Guardian has a "win by controlling risk" investment philosophy, which puts as much emphasis on risk control as on return enhancement. This is reflected in the superior investment performance results achieved for pension and mutual fund clients during 1990, a year in which the stock market declined for the first time since 1984 and the bond market experienced a sharp decline before partially recovering toward the year end.

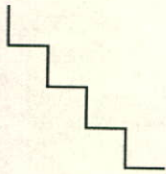
The tables on the following pages illustrate the degree to which Guardian's managers successfully coped with the difficult market conditions of 1990 and produced superior cumulative returns for pension clients for all measuring periods ended December 31, 1990.

Guardian's mutual funds also achieved top rated performance relative to comparable competitive funds during the year, most particularly its balanced, bond and money market funds, but also its Canadian equity funds.

O U T L O O K F O R 1 9 9 1

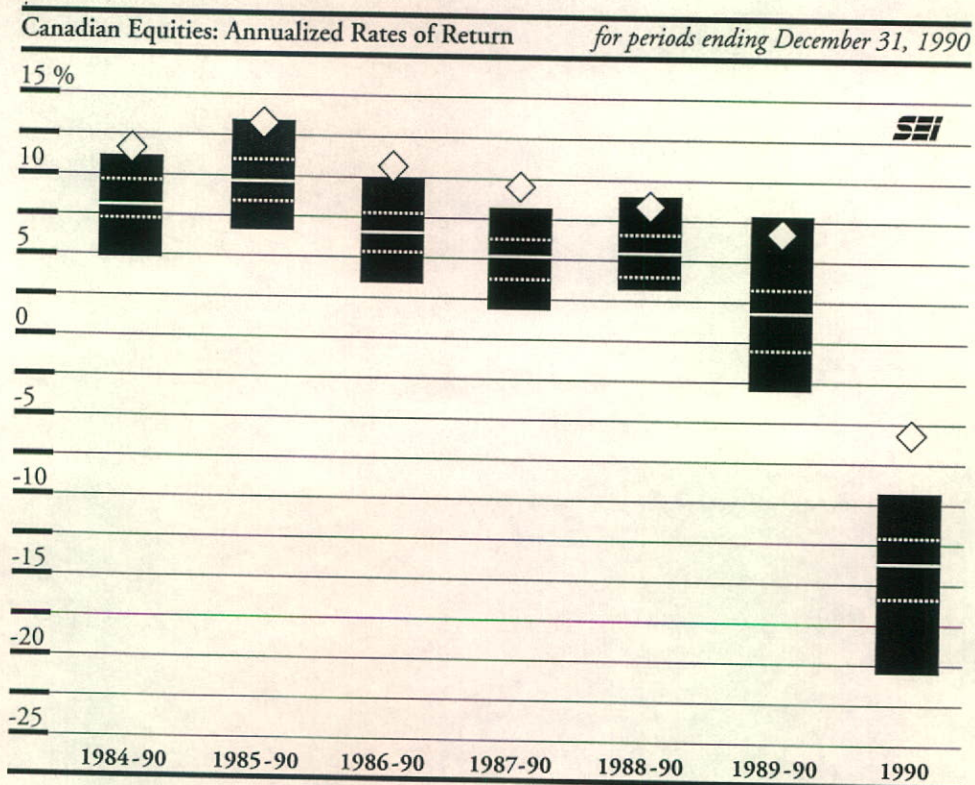
The stock and bond market rallies of the past few months are encouraging, as increases in the value of assets managed by Guardian have a direct bearing on

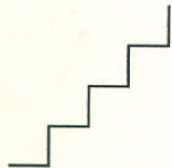
(Directors' Report to Shareholders continued on page 6)



One of the two most important success factors for an investment counselling firm is the investment return it produces for its clients; the other is personalized client service. Particular importance is given to the achievement of superior returns with a high degree of long term consistency. Guardian's managers have a well documented history of producing consistently superior returns.

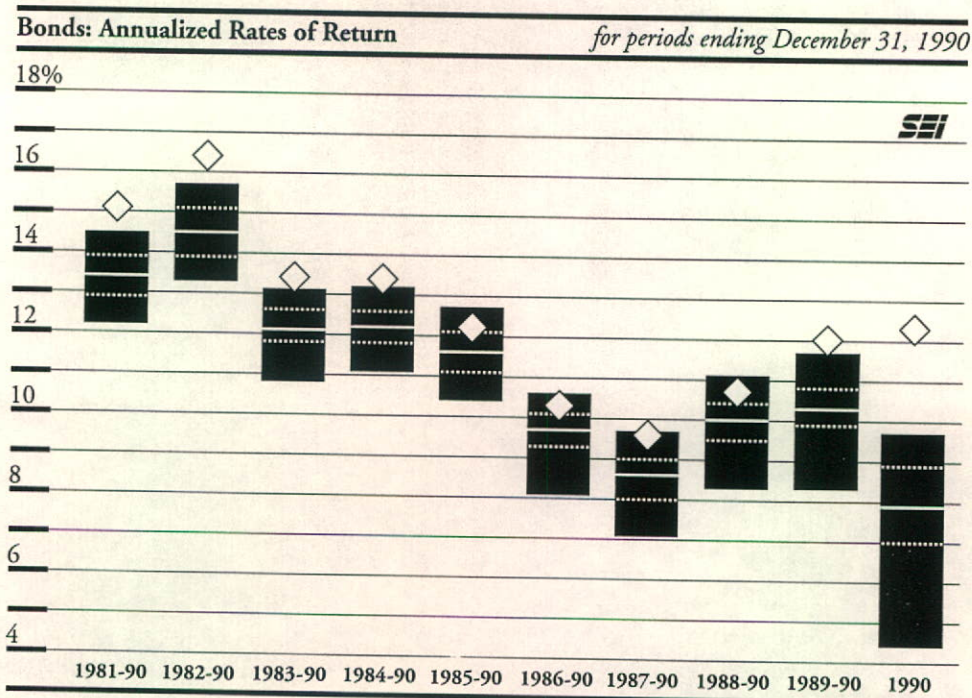
The following charts present the returns achieved for composites of Canadian equity and fixed income pension portfolios managed by Guardian's investment professionals (with cash). Guardian's manager team was formed between 1986 and 1988. To provide a longer term perspective, the charts include results produced by our managers prior to the dates they joined Guardian. Some portfolios included in the composites were continuously managed by Guardian's managers before and after the managers joined the firm, as a number of their clients at their previous firms followed the managers to Guardian.

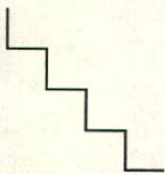




Explanation of charts :

1. The charts recreate those produced by SEI Financial Services Limited, a widely recognized performance measurement organization in the pension industry. They present the cumulative performance of a large universe of pension managers for a series of measuring periods to December 31, 1990. The "boxes" in the charts represent the 5th to the 95th percentile range of cumulative investment returns achieved by all pension managers in the SEI universe for the measuring period shown.
2. Each box is divided by the first quartile or 25th percentile dotted line; median or 50th percentile solid line and third quartile or 75th percentile dotted line.
3. Each diamond positions the Guardian portfolio composite's performance relative to competitors in the SEI pension manager universe, for the period involved.
4. When Guardian's performance diamond appears above the box, it indicates that our managers' performance ranks in the top 5% of all managers for that particular measuring period.





revenues from management fees. However, we are mindful of the underlying weakness in the economy and financial system and view the outlook for 1991 with a high degree of caution.

Recent strength in financial markets reflects an increasingly optimistic popular assessment of the view "across the valley": an early end to the recession and the commencement of the next economic rebound. In contrast, our assessment is that the recession in Canada will be slow to end and that the subsequent recovery will be weaker than generally expected. The modest prospects for corporate profit growth—the main engine driving stock prices — and the necessity for deleveraging an over-extended financial system call for extra care in the selection of stocks and bonds.

The grounds for caution are both global and domestic. Canada, the United States and the United Kingdom are all in recession. Eastern Europe and the Soviet Union are in turmoil. The U.S. financial system is in crisis. Japan is skirting at the edge of its own financial crisis. Events in the Middle East have thrown an extra dose of uncertainty into the path of economic recovery.

Canada is facing its own unique set of challenges: large and growing budget deficits, a deficit-powered debt overhang, Free Trade, constitutional uncertainties, a swing to the political left in Canada's economically largest province, and exchange rate and taxation policies that are driving some of Canada's industrial infrastructure into permanent retreat while leaving much of the rest unable to compete effectively in international markets.

The good news for investors is that periods of financial distress create opportunities. We will remain alert to opportunities, and remain guided by economic and financial fundamentals.

O U R T H A N K S

We wish to acknowledge the outstanding contribution which our staff has made in every way over the past year. Our warmest thanks are extended to them and to our clients for their continued support.

Anthony Griffin
Chairman of the Board

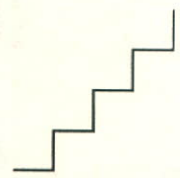
John Christodoulou
*President and Chief
Executive Officer*

Mark A.F. Golding
*Vice Chairman,
Corporate Development*

March 27, 1991, Toronto, Canada

D I S C U S S I O N

A N D A N A L Y S I S



Your Company's core competence is its investment management capability. Its business priority is to deploy its investment expertise to achieve growth in client assets under management while maintaining appropriate cost controls; and to achieve attractive risk-controlled returns on its own substantial portfolio of investment resources.

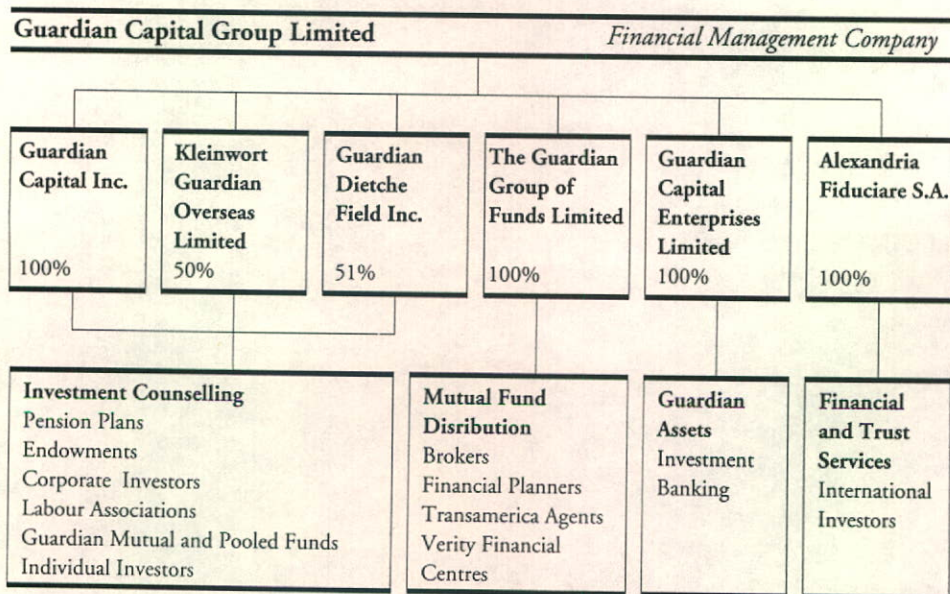
B U S I N E S S A C T I V I T I E S

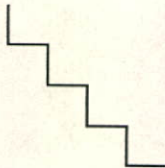
In its investment counselling and mutual funds management businesses, management's main task is to expand client assets. This is achieved both by attracting and retaining client assets under management, and by expanding these assets via investment returns. Since investment management fee schedules tend to remain relatively stable, profit growth becomes mainly a function of (i) asset growth, which is dependent on several factors including investment management expertise, and of (ii) controlling operating costs, a large proportion of which are fixed.

Most of the increase in management fees arising from asset growth tends to go straight to the bottom line. At current operating levels, each 10% increase in pension and mutual fund client assets managed would, in approximate terms, make an additional \$500,000 contribution to pre-tax earnings, or \$0.08 per share.

O R G A N I Z A T I O N

The ownership and organization of Guardian's business activities are shown in the following chart:





Guardian seeks to capitalize on its strengths in four main areas:

Guardian Capital Inc.

Investment Counselling Guardian offers a broad range of domestic and foreign investment products to tax-exempt investors, such as government, corporate, university and union pension funds, endowments and foundations. Taxable investors are also served, including corporations and high net worth individual investors.

Guardian also manages the assets of its mutual fund products. Investment counselling is a profitable business activity for Guardian and is expected to make a growing contribution to future profits.

The Guardian Group of Funds Limited

Mutual Funds Management Guardian offers eleven public mutual funds by prospectus, providing a sufficient variety of balanced funds and stock, bond and money market specialized funds to serve the asset class strategies of most investors. The organization's capabilities include sophisticated administrative systems to meet the needs of the most demanding individual and Group Plan investors. Guardian's funds are distributed through the sales force of The Transamerica Life Companies, stockbrokers, independent financial planners and Guardian fund licensees and sales agents, the latter operating through Verity Financial Centres.

Guardian's mutual fund organization is profitable before accounting for the cost of funding special marketing development programs, which will require another one to two years to produce a positive return.

Guardian Capital Enterprises Limited

Investment Banking and Other Financial Activities Guardian's investment resources at December 31, 1990 had a realizable value, net of applicable debt obligations, of \$27.7 million or \$3.76 per share fully diluted. These resources are dedicated to

Summary of Investment Resources as at December 31, 1990			
	<i>(\$ in thousands)</i>		
Canadian Dollar Investments	Cost	Realizable Value	% of Total
Cash and equivalents	\$15,536	\$15,881	51%
Marketable Securities	5,096	7,547	25
Unquoted Securities	2,462	2,608*	9
Total Canadian Dollar Investments	23,094	26,036	85%
Non-Canadian Dollar Investments			
Marketable Securities	3,325	2,587	8
Unquoted Securities	722	2,019*	7
Total Non-Canadian Dollar Investments	4,047	4,606	15%
Total Investment Resources	27,141	30,642	100
Less: Applicable debt obligations	(2,963)	(2,963)	(10)
Net Investment Resources	\$24,178	\$27,679	90%

**As valued by the Directors*

exploiting opportunities in investment banking and "special situations" in publicly quoted securities and to supporting the development and growth of the Company's operating subsidiaries. Strict controls ensure that the corporation's investment portfolio does not conflict with the day to day management of our clients' pension and mutual funds assets. Examples of investments made by the Company which would not normally appear in client portfolios are private placements and shares of companies having a market float of less than \$100 million.

Approximately half the portfolio is invested in highly liquid (cash equivalent) assets. The allocation of these resources is summarized in the table on page 8.

Alexandria Fiduciare S.A.

Overseas Financial Services for International Investors Guardian incorporated Alexandria Fiduciare S.A. in the Cayman Islands in 1990. Alexandria plans to offer a variety of overseas financial and trust services to international investors. This marks your Company's re-entry into an area of activity in which Guardian previously participated prior to the sale of its holdings of Bermuda-based Tyndall Guardian Limited in 1987.

Alexandria is a low-cost start-up venture which is not expected to contribute to the Company's profits in 1991.

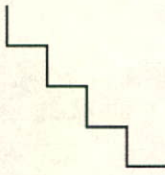
R I S K S

Investment counsellors face common risks. A decline in business activity can typically arise from:

- (i) client dissatisfaction arising from unsatisfactory portfolio performance or service,
- (ii) product deterioration due to various reasons, including undue personnel turnover, particularly among portfolio managers,
- (iii) weakness relative to competitors in distribution or product variety, performance, innovation or pricing, and
- (iv) regulatory changes which stimulate shifts in client preferences to asset classes not managed by the counsellor.

In management's opinion, Guardian is well positioned to address these risks.

Mutual funds management companies face each of the above risks, with the particular risk of competition in funds distribution. The mutual funds industry of the future will likely be characterized by the growing dominance of large-scale organizations with powerful distribution systems. To prosper, smaller mutual funds companies will need to develop strategic alliances with larger organizations. Guardian has, through its association with The Transamerica Life Companies, established such a strategic alliance. It has also developed marketing innovations through its Verity organization.



The risks facing Guardian in managing its corporate investment portfolios range from risks in the capital and currency markets generally to individual security risks particular to investment banking and "special situation" investments. Mindful of these risks, Guardian continuously assesses its investment position and from time to time makes appropriate portfolio adjustments as necessary.

R E P O R T O N O P E R A T I O N S

In management's opinion, the development programs of the past four years have made Guardian a more effective participant in the competition for pension and other institutional asset management. Much the same is true of Guardian's mutual funds organization, except that its distribution system is at an early stage of development and its product range and re-design were not completed until January 1, 1991.

Investment Counselling

During 1990, Guardian's investment counselling business achieved three notable successes:

- (i) Existing clients assigned net additional assets of over \$70 million to Guardian to manage;
- (ii) There was a notable increase toward year-end in the number of invitations received from prospective pension clients to tender for new business; and
- (iii) Guardian improved its ability to provide appropriate administrative services to the growing Group Plan market for investment management.

Mutual Funds Management

The main achievements during 1990 in Guardian's mutual funds organization were as follows:

- (i) A significant advance was made in the program to register Transamerica agents to operate as mutual fund salespersons.
- (ii) Following the consolidation of a number of Verity Financial Centres, a significant cost reduction program was implemented during the final six months of the year.
- (iii) A complex mutual funds product rationalization was implemented at year-end, which should improve marketing focus and improve operating efficiencies. As a result of this rationalization, the number of funds publicly offered by prospectus has been reduced from eighteen to eleven.
- (iv) The market appeal of Guardian's mutual funds was improved by the introduction of a choice of two methods by which investors may purchase all publicly offered funds. Effective January 1, 1991, investors may purchase a Guardian fund upon payment of a sales commission at the time of purchase, or choose not to pay an initial sales charge but, instead, to pay a fee upon subsequent redemption of the fund and pay an annual service fee.

- (v) When an investor chooses the redemption fee or "deferred load" method of fund purchase, the fund sales agent must be paid a commission even though no commission was paid by the investor. To finance the payment of sales commissions for deferred load fund sales after January 1, 1991, Guardian has created a limited partnership which will be publicly offered later in 1991 to investors seeking an attractive after-tax return on investment.

Investments

The book value of investments declined to \$27,141,000 at December 31, 1990, down 11.7% from \$30,745,000 a year earlier. The \$3,604,000 decline was mainly attributable to two factors. One was the decision by the Directors to write down the value of certain investments by \$1,921,000. One of these was a \$780,000 write-down of the value of your Company's position in Tyndall Holdings plc. This position was acquired in 1987 as part of the consideration received that year upon your Company's sale of its interest in Tyndall Guardian Limited, which resulted in a \$9,201,000 capital gain in 1987. The other main factor contributing to the decline in the book value of investments was the decision to switch \$1,500,000 from corporate portfolio investments to the redemption and repurchase respectively of some of the Series 2 preferred shares and 274,000 Class A shares.

L I Q U I D I T Y & C A P I T A L R E Q U I R E M E N T S

Guardian is well financed, with net capital resources of over \$28 million. It has no plans to raise any long term equity capital or loans, but uses short term bank financing as and when needed.

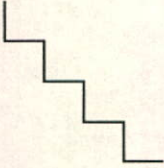
At year end 1990, the working capital deficit was \$2,262,000, including short term bank borrowings which amounted to \$2,526,000. It should be noted that your Company's investment portfolio is not included in the calculation of working capital, and it held cash and equivalents of \$15,536,000 at year end. Subsequent to year end, bank borrowings were substantially reduced by the proceeds from sales of investments.

R E S U L T S O F O P E R A T I O N S

Total client assets managed increased by 9.1% at December 31, 1990 to \$ 1.71 billion, compared with \$1.56 billion at year end 1989. Assets managed for institutional clients rose to \$1.47 billion, up 15.7% from the year earlier total of \$1.27 billion. Mutual fund assets declined to \$240 million at year end 1990 compared with \$280 million a year earlier.

Revenue declined by 20.7% from \$ 9,793,000 to \$6,663,000. The main components of revenue are presented in the table on page 1. The main revenue changes can be explained as follows:

- Growth in management fees was directly tied to growth in client assets under



management. Higher pension and institutional management fees more than offset lower mutual fund management fees.

- The decline in net investment income, which includes realized capital gains and losses, was due to the difficult market conditions which prevailed through the year (unrealized gains amount to about \$3.5 million) and to significant write-downs noted earlier.
- Lower redemption fees were due to the continuing decline in the rate of redemptions of previously closed-end funds which were subsequently mutualized; future redemptions of these funds will continue to generate non-recurring revenues from redemption fees, but likely at a declining rate.

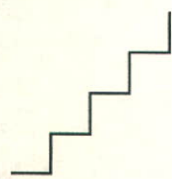
Total operating expenses were reduced slightly, to \$9,622,000 in 1990 compared with \$9,785,000 in the preceding year, which had included \$912,000 of development and start-up expenses associated with mutual fund operations. This reduction mainly reflects management cost containment initiatives adopted in the second half of the year as part of a consolidation and restructuring in the Corporation's mutual funds organization. All costs which relate to the continuing development of the mutual funds organization are expensed as incurred.

The Corporation reported a net loss in 1990 of \$2,118,000 compared with net earnings of \$568,000 in 1989. The 1990 loss amounted to \$0.36 per share on a basic and fully diluted basis. Net earnings in 1989 amounted to \$0.10 per share basic and \$0.09 per share fully diluted.

Total assets declined to \$43,379,000 at December 31, 1990 from \$48,856,000 at December 31, 1989. Total liabilities declined to \$14,463,000 from \$16,344,000, due mainly to the settlement of a note payable of \$1,540,000. To settle this note, the Corporation assigned its rights to a film investment, thus reducing the assets by the same amount.

During 1990, all Series 2 preferred shares outstanding were either converted to Class A shares or redeemed, and 274,000 Class A shares were repurchased, at a total cash consideration of \$1,500,000. This reduction in shares outstanding, and the loss recorded, accounted for much of the decline in shareholders' equity.

Shareholders' equity was \$28,916,000 at December 31, 1990, down \$3,596,000 from \$32,512,000 at the previous year end. Book value per share was \$4.93 at year end 1990 compared with \$5.73 the previous year. On a fully diluted basis, book value per share was \$4.70, compared with \$5.03.



To the Shareholders of Guardian Capital Group Limited

We have audited the consolidated balance sheets of Guardian Capital Group Limited as at December 31, 1990 and 1989 and the consolidated statements of earnings (loss), 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 made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1990 and 1989 and the results of 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

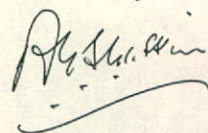
March 1, 1991

FINANCIAL STATEMENTS

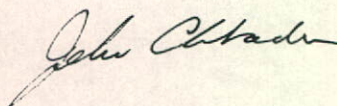
Consolidated Balance Sheets as at December 31, 1990 and 1989 (*\$ in thousands*)

A S S E T S	1990	1989
Current Assets		
Cash and short-term deposits	\$ --	\$ 527
Accounts receivable	1,797	1,224
Investment income receivable	990	734
Income taxes recoverable	--	621
Investment (note 2)	--	1,540
Prepaid expenses	90	195
	2,877	4,841
Investments (note 2)	27,141	30,745
Note Receivable (note 3)	502	--
Fixed Assets (note 4)	882	1,096
Unamortized Debenture Issue Costs	136	159
Goodwill - at cost, less accumulated amortization of \$1,355 (1989 - \$1,029)	11,841	12,015
	\$ 43,379	\$ 48,856
 L I A B I L I T I E S		
Current Liabilities		
Bank loan and overdrafts	\$ 2,526	\$ 1,873
Accounts payable and accrued liabilities	1,513	2,214
Income taxes payable	81	--
Deferred income taxes	--	805
Deferred income	1,019	779
Current portion of long term debt (note 5)	--	1,683
	5,139	7,354
Long Term Debt (note 5)	6,937	6,926
Deferred Income Taxes	2,387	2,064
	14,463	16,344
 S H A R E H O L D E R S ' E Q U I T Y		
Capital Stock (note 6)	10,557	11,262
Foreign Currency Translation Adjustment	(2,063)	(2,084)
Retained Earnings	20,422	23,334
	28,916	32,512
	\$ 43,379	\$ 48,856

Signed on behalf of the board:



Anthony Griffin,
Director



John Christodoulou,
Director

Consolidated Statements of Retained Earnings		(\$ in thousands)	
For the years ended December 31, 1990 and 1989		1990	1989
Balance, beginning of year		\$ 23,334	\$ 23,896
Net earnings (loss)		(2,118)	568
		<u>21,216</u>	<u>24,464</u>
Less:			
Dividends paid		--	912
Excess of purchase price over issue price on Company's capital stock acquired (note 6(e) and (f))		794	218
		<u>794</u>	<u>1,130</u>
Balance, end of year		<u>\$ 20,422</u>	<u>\$ 23,334</u>

Consolidated Statements of Earnings (Loss) (\$ in thousands, except per share amounts)
For the years ended December 31, 1990 and 1989

	1990	1989
Revenue		
Management fees	\$ 5,515	\$ 5,386
Redemption fees	396	1,050
Net investment income	328	3,031
Other income	67	211
Sales commission	357	115
	<u>6,663</u>	<u>9,793</u>
Expenses		
Expenses exclusive of undernoted items	8,264	7,477
Depreciation and other amortization	706	726
Interest on long term debt	652	670
	<u>9,622</u>	<u>8,873</u>
Earnings (loss) before the undernoted Development and start-up expenses	(2,959)	920
	<u>--</u>	<u>912</u>
Earnings (loss) before income taxes	(2,959)	8
Recovery of income taxes (note 7)	728	427
	<u>(2,231)</u>	<u>435</u>
Earnings (loss) before the undernoted Equity in earnings of an investment	113	133
Net earnings (loss)	<u>\$ (2,118)</u>	<u>\$ 568</u>
Net earnings per Common and Class A share (note 8)		
- basic	\$ (0.36)	\$ 0.10
- fully diluted	<u>\$ (0.36)</u>	<u>\$ 0.09</u>
Weighted average number of Common and Class A shares outstanding (in thousands)		
- basic	5,895	5,704
- fully diluted	<u>7,538</u>	<u>7,754</u>

FINANCIAL STATEMENTS

Consolidated Statements of Changes in Financial Position
For the years ended December 31, 1990 and 1989 (\$ in thousands)

	1990	1989
Cash from Operations		
Net earnings (loss)	\$ (2,118)	\$ 568
Add (deduct) items not involving cash -		
Depreciation and amortization	706	726
Deferred income taxes	(482)	320
Equity earnings, net of dividends received	36	22
Net (gain) loss on investments	75	(1,265)
Write-down of investments	1,921	--
	138	371
Net change in working capital excluding cash	(609)	(6)
	(471)	365
Financing Activities		
Acquisition of Company's capital stock	(1,279)	(343)
Redemption of Company's capital stock	(220)	--
Dividends paid	--	(912)
Increase (reduction) of long term debt, net of current portion	11	(1,673)
Issue of note	(502)	--
	(1,990)	(2,928)
Investment Activities		
Capitalization of costs as goodwill	(152)	--
Acquisition of investments	(3,314)	(19,855)
Proceeds on sale of investments	4,890	19,557
Reclassification of investment to current assets	--	1,540
Deferred income taxes on reclassified investment	--	(805)
Purchase of fixed assets	(143)	(713)
	1,281	(276)
Net change in cash and short-term deposits net of bank loan and overdrafts, during the year	(1,180)	(2,839)
Cash and short-term deposits net of bank loan and overdrafts, beginning of year	(1,346)	1,493
Bank loan and overdrafts, end of year	\$ (2,526)	\$ (1,346)

Notes to Consolidated Financial Statements

For the years ended December 31, 1990 and 1989

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

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

(b) Investments

The Company follows the equity method of accounting for its interest in Guardman Investment Management Services Inc. ("Guardman") over which it exercises significant influence. Investments 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) Fixed assets

Fixed 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 net assets acquired and is being amortized on a straight-line basis over forty years.

(e) Translation of foreign currency

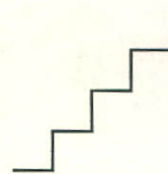
Amounts in foreign currencies included in the consolidated financial statements are translated into Canadian dollars as follows:

i) For foreign currency transactions and portfolio investments - assets at the year end exchange rate; purchases and sales of investments and income and expenses at the rate of exchange prevailing on the respective dates of such transactions; equity earnings at average monthly rates; and foreign exchange gains and losses are included in the consolidated statement of earnings.

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.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Management fees and deferred income

The Companies provide 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. Revenues that may be received prior to being earned are recorded as deferred income on the consolidated balance sheets.

2. INVESTMENTS

Portfolio of investments as at December 31, 1990 and 1989 (see note 1 (b))	Market value		(\$ in thousands) Carrying value	
	1990	1989	1990	1989
(a) Securities having a quoted market value				
Cash equivalents	\$ 15,881	\$ 15,260	\$ 15,536	\$ 14,887
Investments in mutual funds managed by a subsidiary	2,523	3,022	2,867	3,105
Diversified common share holdings	7,313	12,100	5,552	8,238
	<u>\$ 25,717</u>	<u>\$ 30,382</u>	23,955	26,230
(b) Company at equity				
Guardman (note 1(b))			491	527
(c) Securities not having quoted market values				
Private corporations, limited partnerships and film investment			2,695	5,528
Total portfolio of investments			27,141	32,285
Less film investment reclassified to current assets (note 5(b))			<u> --</u>	<u>1,540</u>
Net portfolio of investments			<u>\$ 27,141</u>	<u>\$ 30,745</u>

Certain of the above investments have been pledged as collateral security for the outstanding bank loan and the mortgages and notes payable (note 5(c)).

3. NOTE RECEIVABLE

The note is receivable from Citadel Entertainment Inc., secured, interest free and due and payable on April 1, 1992. The note was repaid after the year end.

FINANCIAL STATEMENTS

4. FIXED ASSETS

<i>(\$ in thousands)</i>	1990	1989
Computer hardware and software	\$ 1,094	\$ 986
Furniture and equipment	543	509
Leasehold improvements	355	354
	1,992	1,849
Less accumulated depreciation and amortization	1,110	753
	\$ 882	\$ 1,096

5. LONG TERM DEBT

<i>(\$ in thousands)</i>	1990	1989
Convertible debentures ((a) below)	\$ 6,500	\$ 6,500
Interest-free note payable ((b) below)	--	1,540
Mortgages payable ((c) below)	319	319
Notes payable ((c) below)	118	107
Notes payable	--	143
	6,937	8,609
Less current portion	--	1,683
	\$ 6,937	\$ 6,926

- (a) The 8 1/2% convertible subordinated debentures mature on December 15, 1996 and are convertible into 1,083,033 Class A non-voting shares at a price of \$6 per share.
- (b) On December 30, 1990 the company assigned its rights to an investment in a film in settlement of the interest free note payable.
- (c) The mortgages payable bear interest at 11 1/4% and are due September 1, 1993. The notes payable bear interest at 14% per annum and are repayable February 1, 1996. These mortgages and notes are in connection with an investment in a limited partnership, the assets of which are pledged as security.

6. 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.

Class A non-voting shares, without par value, dividends and liquidation privileges on the same basis as common shares. If an offer to purchase common shares is made to the holders thereof, and the offer is required by law or stock exchange requirements to be made to all holders of Common shares, and the holders of not less than 50% of the outstanding Common shares do not object to the offer, the Class A shares outstanding will be convertible, at the option of the holder, into Common shares, on a one-for-one basis, if such offer is completed in accordance with its terms.

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

FINANCIAL STATEMENTS

6 . CAPITAL STOCK (CONT'D)

<i>(in thousands)</i>	1990		1989	
(b) Issued and fully paid	Shares	Amount	Shares	Amount
Series 2 preferred	--	\$ --	2,188	\$ 2,188
Class A	4,859	9,080	4,666	7,597
Common	999	1,477	999	1,477
		<u>\$ 10,557</u>		<u>\$ 11,262</u>
(c) Class A shares				
Outstanding, beginning of year	4,666	\$ 7,597	4,743	\$ 7,722
Conversion of Series 2 preferred shares	467	1,994	--	--
Acquired during the year				
((e) below)	(274)	(511)	(77)	(125)
Outstanding, end of year	<u>4,859</u>	<u>\$ 9,080</u>	<u>4,666</u>	<u>\$ 7,597</u>

(d) As at December 31, 1990, 371,000 (501,000 at December 31, 1989) Class A shares were reserved for issuance to key employees of the Company and its subsidiaries under the terms of the Company's stock option plan. These options are exercisable at the rate of 20% each year on a cumulative basis to November 30, 1993 at amounts varying from \$5.38 to \$6.25 per share.

(e) During 1990 the Company acquired 273,500 (76,800 in 1989) of its own Class A shares for \$1,279,000 (\$343,000 in 1989), of which \$768,000 (\$218,000 in 1989) was charged directly to retained earnings.

(f) On March 1, 1990, in accordance with the terms of the Series 2 preferred shares agreement, 1,994,332 were converted into 466,588 Class A shares and 193,668 were redeemed for cash consideration of \$219,753. Of this amount, \$26,085 was charged directly to retained earnings.

7 . INCOME TAXES

<i>(\$ in thousands)</i>	1990		1989	
(a) The recovery of income tax comprises:				
Current tax	\$	(246)	\$	(747)
Deferred tax		(482)		320
		<u>\$ (728)</u>		<u>\$ (427)</u>

7. INCOME TAXES (CONT'D)

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

Earnings (loss) before income taxes	\$ (2,959)	\$ 8
Tax exempt portion of capital (gains) losses	229	(331)
Non-deductible amortization	326	327
Foreign investment income	(516)	(740)
Dividend income	--	(296)
Losses not tax effected	1,215	--
Other	50	66
	<u>1,304</u>	<u>(974)</u>
	<u>\$ (1,655)</u>	<u>\$ (966)</u>
At statutory rate of 44% (1989 - 44%)	<u>\$ (728)</u>	<u>\$ (427)</u>

(c) The group has unutilized non capital tax losses of approximately \$1,250,000 (nil in 1989) available for utilization against future taxable profits. These losses expire in 1997.

8. EARNINGS PER SHARE

The calculation of basic 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 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.

9. COMMITMENTS AND CONTINGENCIES

The Company has leases which expire on various dates between 1990 and 1999. The Company has also signed equipment maintenance and information service contracts. Minimum future payments required under these operating leases and contracts that have initial terms in excess of one year as at December 31, 1990 are as follows: 1991 - \$413,000; 1992 - \$396,000; 1993 - \$355,000; 1994 - \$338,000 and 1995 - \$316,000.

In October, 1989, a statement of claim for \$5,000,000 was issued against the Company and certain of its subsidiaries, as well as some officers, in connection with the mutual fund salesforce operations, by a competitor company. The Company intends to vigorously defend the claim and has counter claimed in the sum of \$5,000,000 for damages for abuse of process. No provision has been made with respect to these claims in the consolidated financial statements as management believes such claims against the Company are frivolous. Any resolution of these claims, in future years, will be treated as a prior period adjustment.

FINANCIAL STATEMENTS

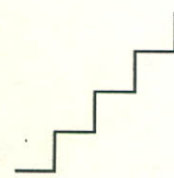
10 . BUSINESS SEGMENTS

(a) Identifiable assets and operations by industry segment are as follows: (*\$ in thousands*)

	1990	1989	1990	1989	1990	1989	1990	1989
	Retail Sales		Investment Counselling & Mutual Fund Distribution		Investment Activities		Consolidated	
Identifiable assets	\$ 522	\$ 529	\$ 14,224	\$ 14,781	\$ 28,633	\$ 33,546	\$ 43,379	\$ 48,856
Income	\$ 314	\$ 115	\$ 6,027	\$ 6,647	\$ 322	\$ 3,031	\$ 6,663	\$ 9,793
Expenses								
General	1,045	241	6,405	6,487	455	407	7,905	7,135
Start-up & development	--	912	--	--	--	--	--	912
Interest on long term debt	--	--	--	--	652	670	652	670
Depreciation and amortization	73	48	633	678	--	--	706	726
	<u>1,118</u>	<u>1,201</u>	<u>7,038</u>	<u>7,165</u>	<u>1,107</u>	<u>1,077</u>	<u>9,263</u>	<u>9,443</u>
	<u>\$(804)</u>	<u>\$(1,086)</u>	<u>\$(1,011)</u>	<u>\$(518)</u>	<u>\$(785)</u>	<u>\$1,954</u>	<u>(2,600)</u>	<u>350</u>
General corporate expenses							359	342
Earnings (loss) before income taxes							(2,959)	8
Income tax recovery							728	427
Earnings (loss) before equity in earnings of an investment							<u>\$(2,231)</u>	<u>\$ 435</u>

(b) Identifiable assets and operations by geographic location are as follows: (*\$ in thousands*)

	1990	1989	1990	1989	1990	1989
	Canada		Rest of World		Consolidated	
Identifiable assets	\$ 24,261	\$ 31,091	\$ 19,118	\$ 17,765	\$ 43,379	\$ 48,856
Income	\$ 5,806	\$ 8,166	\$ 857	\$ 1,627	\$ 6,663	\$ 9,793
Expenses						
General	8,817	8,111	99	36	8,916	8,147
Start-up & development	--	912	--	--	--	912
Depreciation & amortization	706	726	--	--	706	726
	<u>9,523</u>	<u>9,749</u>	<u>99</u>	<u>36</u>	<u>9,622</u>	<u>9,785</u>
Earnings (loss) before income taxes	(3,717)	(1,583)	758	1,591	(2,959)	8
Income taxes (recovery)	(1,036)	(816)	308	389	(728)	(427)
Earnings (loss) before equity in earnings of an investment	<u>\$(2,681)</u>	<u>\$(767)</u>	<u>\$ 450</u>	<u>\$ 1,202</u>	<u>\$(2,231)</u>	<u>\$ 435</u>



BOARD OF DIRECTORS (1)

Guardian Capital Group Limited

Management Directors

C. Verner Christensen
John M. Christodoulou
Mark A.F. Golding
Norman J. Short

Independent Directors

George N. M. Currie (2)
Paul C. Dietche
F. Douglas Gibson (2)

Anthony G. S. Griffin (2)
Joseph L. Rotman
John Seltzer

PRINCIPAL OFFICERS

**Guardian Capital
Group Limited**

Norman J. Short
Chairman Emeritus
Anthony G. S. Griffin
Chairman
John M. Christodoulou
*President &
Chief Executive Officer*
Mark A. F. Golding
*Vice-Chairman,
Corporate Development*
C. Verner Christensen
*Vice-President &
Secretary*
Roy J. Jacobson
Controllor
**Guardian Capital
Enterprises Limited**
John M. Christodoulou
President
Norman J. Short
Vice-President
C. Verner Christensen
Secretary-Treasurer
Roy J. Jacobson
Controllor

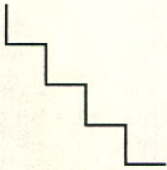
Guardian Capital Inc.

Mark A. F. Golding
*Chairman &
Chief Executive Officer*
Norman J. Short
Deputy Chairman
Robert K. Hammill
Managing Director
Larry T. Kennedy
Managing Director
John G. Priestman
Managing Director
C. Verner Christensen
*Senior Vice-President &
Secretary-Treasurer*
Huntly C. R. Christie
*Vice-President,
Client Services*
Roy J. Jacobson
Controllor

**The Guardian Group
of Funds Limited**

Mark A. F. Golding
*Chairman &
Chief Executive Officer*
C. Verner Christensen
*Senior Vice-President &
Secretary-Treasurer*
Stuart J. Freeman
Vice-President, Operations
Townsend Haines
*Vice-President &
National Sales Manager*
Roy J. Jacobson
Controllor

(1) Nominees proposed for election at the 1991 Annual General Meeting of Shareholders.
(2) Member, Audit Committee



Bankers and Principal Custodians

Canadian Imperial Bank of Commerce

Legal Counsel

Fasken Campbell Godfrey

Corporate Offices

18th Floor,
110 Yonge Street,
Toronto, Ontario,
M5C 1T4
Tel: (416) 364-8341
Fax: (416) 947-0601

Auditors

Coopers & Lybrand

Registrar and Transfer Agent

Montreal Trust Company of Canada

Toronto Stock Exchange Listing

Symbol	Shares
GCG	Common
GCG.A	Class A

A N N U A L M E E T I N G

11 a.m., May 30, 1991, Corporate Offices





GUARDIAN

