Guardian Capital Group Limited

Annual Report 1991

Guardian's objective is to provide global investment management services of the highest quality. We are fully dedicated to contributing to the investment success of our clients.

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Financial Highlights

December 31	1987	1988	1989	1990	1991
($ in millions)					
Value of client assets managed	$1,624	$1,501	$1,558	$1,707	$2,328
($ in thousands)					
Gross revenues	16,930	10,647	9,793	6,663	8,893
Earnings (loss) from operations	8,235	3,124	2,316	(1,248)	1,813
Earnings (loss) before taxes and goodwill written off	**5,928**	**2,140**	**141**	**(2,846)**	**407**
Goodwill written off	—	—	—	—	(6,322)
Net earnings (loss)					
- before extraordinary items	**4,043**	**1,581**	**568**	**(2,118)**	**(5,847)**
- for the year	11,005	2,334	568	(2,118)	(5,847)
Shareholders' equity	33,619	33,725	32,512	28,916	22,586
(in dollars)					
Per Common and Class A share					
Net earnings (loss) before extraordinary items					
- basic	0.70	0.27	0.10	(0.36)	(1.01)
- fully diluted	0.60	0.25	0.09	(0.36)	(1.01)
Net earnings (loss) for the year					
- basic	1.92	0.40	0.10	(0.36)	(1.01)
- fully diluted	1.52	0.36	0.09	(0.36)	(1.01)
Dividends paid	0.15	0.16	0.16	0.00	0.00
Book value at year end					
- basic	5.84	5.87	5.73	4.93	3.93
- excluding goodwill	3.64	3.72	3.62	2.91	3.01
(in thousands)					
Year-end Common and Class A shares outstanding					
- basic	5,753	5,742	5,665	5,858	5,750
- fully diluted	7,670	7,740	7,716	7,387	6,970

Gross Revenues by Source

($ in thousands)	1990	**1991**	% change
Management fees	$5,515	**$5,989**	+ 8.6 %
Net investment income	328	**2,340**	+ 613.4
All other revenues	820	**564**	- 31.2
Total	$6,663	**$8,893**	+ 33.5 %

Directors' Report to Shareholders

As we begin the year of Guardian's 30th Anniversary, it is a pleasure to report that your Company achieved notable progress on a number of fronts in 1991:

- Revenues increased by 33.5%.
- Year over year, total institutional client assets under management increased by $611 million, or 42%, to $2.1 billion; including mutual funds, total client assets reached $2.3 billion.
- Tax-exempt client assets increased by 57% during the year to $1.1 billion.
- Operating costs were reduced by 10.5%.
- Pre-tax earnings before goodwill written off represented a positive swing of $3.4 million from the previous year's loss.
- A special write-down of goodwill of $6.3 million did not affect your Company's cash resources, and will reduce the amount of goodwill amortized annually against future earnings.
- The development of mutual fund distribution channels was further advanced.
- A plan to expand our client base, through the introduction of financial services for domestic and international high net worth investors, was implemented.
- The value of your Company's securities holdings at December 31, 1991 was $31.7 million, or $4.55 per share fully diluted.

Financial Results

Your Company's revenues increased by 33.5% in 1991 to $8,893,000, up from $6,663,000 in 1990. The main contributor to revenue growth was a $2,012,000 increase in net investment income.

Revenues from management fees in 1991 increased by 8.6%, to $5,989,000 from $5,515,000, with growth in fees from institutional clients being partly offset by a decline in mutual fund management fees. Revenues from all other sources were $564,000, compared with $820,000 in the previous year.

Operating earnings in 1991 were $1,813,000, compared with a loss of $1,248,000 in 1990. This positive swing of $3,061,000 was achieved through a combination of the revenue growth noted above and a 10.5% reduction in operating costs, to $7,080,000 from $7,911,000.

Before goodwill written off, all other pre-tax expenses - depreciation and amortization, interest on long term debt and other interest - declined in 1991 to $1,422,000 compared with $1,711,000 in the previous year.

As a result of the foregoing, pre-tax earnings before goodwill written off and equity earnings were $391,000 in 1991, compared with a loss of $2,959,000 in 1990, a positive swing of $3,350, 000.

A special write-down of goodwill of $6,322,000 was made in 1991. This write-off, which does not affect the cash resources of your Company, reduced goodwill on the balance sheet by 55% to $5,286,000 at December 31, 1991, compared with $11,841,000 at the previous year end. In addition to more appropriately reflecting the value of a number of acquisitions made in earlier years, this write-down will reduce the amount of goodwill amortized against earnings in future years.

As a result of the $6,322,000 goodwill written off, a loss of $5,847,000 was recorded in 1991, compared with a loss of $2,118,000 in 1990. The goodwill written off represented $1.09 per share. The reported loss in 1991 was $1.01 per share compared with a loss of $0.36 per share in the year before.

Your Company's Directors estimate that the value of Guardian's securities holdings, net of applicable debt obligations, was $31,749,000 at December 31, 1991, or $4.55 per share fully diluted. This compared with an estimated value, on the same basis, of $27,679,000, or $3.76 per share at the previous year end.

At December 31, 1991, the number of Common and Class A shares outstanding on full dilution was 6,970,000, compared with 7,387,000 at the previous year end.

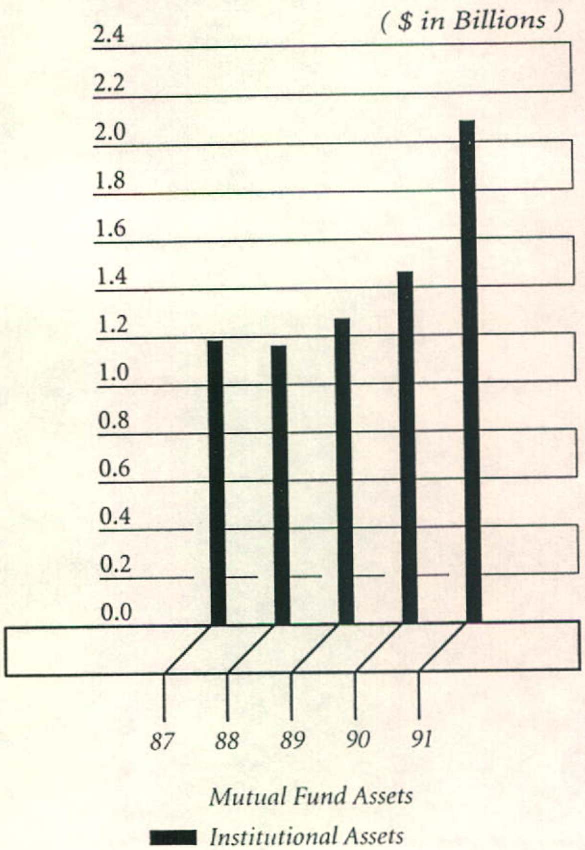
Client Assets Managed

At year end 1991, total client assets managed by your Company amounted to $2.3 billion. This was 36% higher than the $1.7 billion under management at the previous year end, and represented a 43% increase over the past four years.

During 1991, institutional clients' assets - comprising government, corporate, university and other pension and endowment funds, and funds of taxable corporations - increased by 42% to $2.1 billion, compared with $1.5 billion at the previous year end. Most of the growth in institutional assets was attributable to new clients added during the year. A significant portion was also due to other clients adding to the funds already managed by Guardian.

The mutual fund subsidiary recorded a small gain in client assets, marking a reversal of the downtrend of the past five years. Assets of mutual funds and a closed end fund amounted to $244 million at December 31, 1991.

Client Assets Under Management



Investment Performance

In an era when investors are as concerned with getting a return *of* capital as they are in getting a return *on* capital, risk control in investment management is receiving increased attention. Indeed, with the prospect of continued market volatility over at least the next few years, the ability of a manager to minimize the risk of capital losses is more important than ever.

We have, therefore, presented two portraits of the return/risk histories of Guardian's managers for measuring periods ended December 31, 1991. In both charts that follow, the points locate the return/risk performance of Guardian's managers compared with a broad universe of managers, as compiled by a leading independent performance measurement organization.

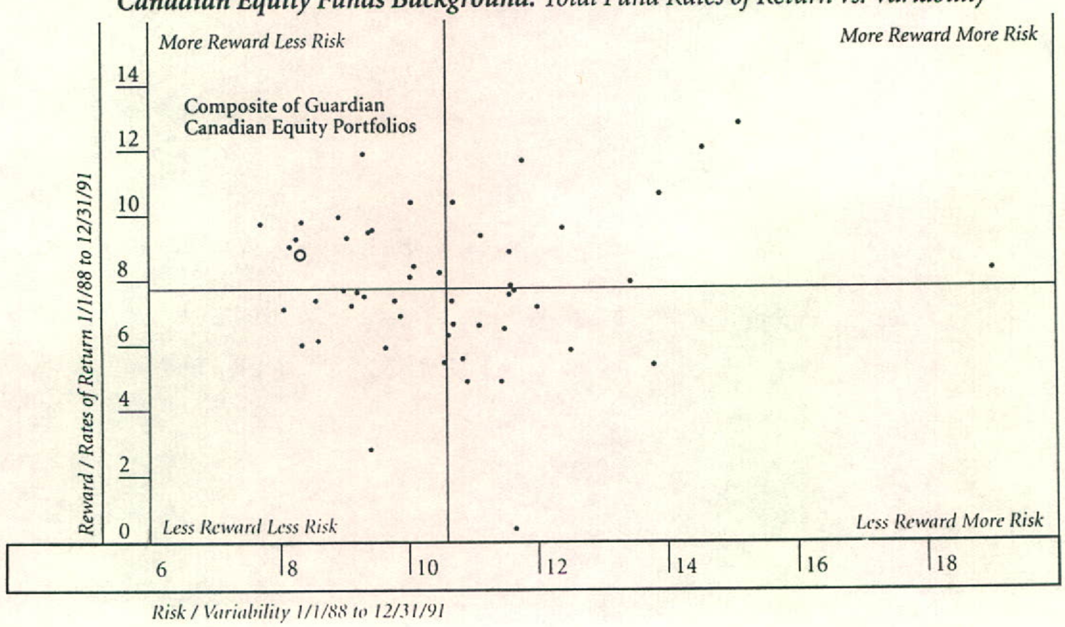
The points plot the cumulative return of each of a number of managers against the standard deviation of returns (a measure of volatility or risk) of that manager over the measurement period shown. The charts compare the skills of managers in minimizing risk while maximizing returns. The vertical and horizontal lines in the middle of the charts locate the position of the median manager. Very simply, the "best" managers are those with points plotted closest to the top left corner.

Guardian's return/risk results are for composites of stock and bond portfolios comprising securities and cash. The measuring periods are for the longest available histories of continuous management of portfolios in the composite (10 years for bond managers); or for the longest available manager team history (4 years for Canadian equity management).

Canadian Equities

The chart below indicates that a composite of portfolios managed by Guardian's Canadian equity manager team produced one of the lowest risk profiles among managers having above median returns.

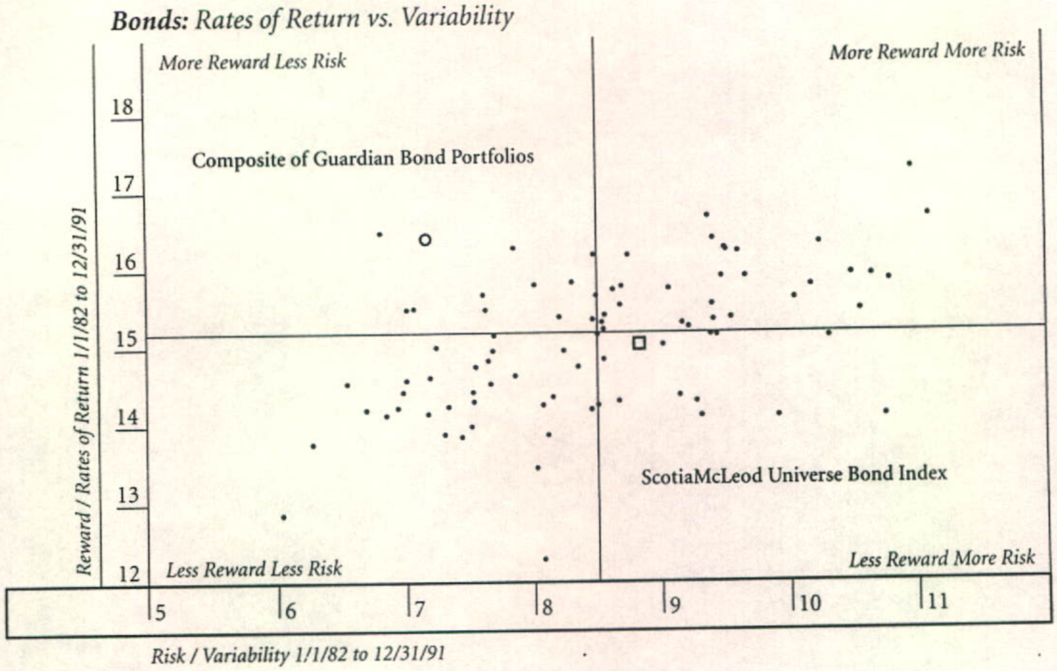
***Canadian Equity Funds Background:** Total Fund Rates of Return vs. Variability*



Fixed Income Management

The chart below indicates that a composite of portfolios managed by Guardian's bond management team achieved virtually the strongest high return/low risk 10 year performance of any manager. Guardian's return/risk performance was also highly favourable compared with the relevant market benchmark, the ScotiaMcLeod Universe Bond Index.

***Bonds:** Rates of Return vs. Variability*



Investment Outlook for 1992

For Canadian investors, the past year produced a notable divergence between market prices and value. All major asset classes produced positive returns, particularly bonds. However, the investment fundamentals to support rising markets in 1992 worsened, most notably: Canada's record current account deficits, record government budget deficits and record foreign indebtedness, along with a battered corporate sector having little near term rebound potential and a profoundly disturbing constitutional crisis with a short deadline for resolution.

Liquidity - the gasoline powering today's stock and bond markets - has been created in abundance by two developments: a surge of funds into the stock market from both individual and institutional investors, and a substantial flow of funds into Canada's bond market from foreign investors.

The past year's collapse of returns earned by investors in money market instruments drove many of them to turn to stocks in the hopes of better returns, despite valuation ratios which, in the past, have reliably signalled market tops. Institutional investors also played a role in pushing stock prices higher and, by year end, had run down cash reserves to the lowest ratios we have seen in many years.

For Canada's bond market, liquidity was provided by foreign investors on an unprecedented scale. With foreign investors choosing lower yielding Canadian bonds rather than the higher yields offered in major foreign bond markets, a big

bet was made that the difference would be more than made up by a rising Canadian dollar. As the new year began, and with the dollar beginning to slide, this bet seemed less than promising and the prospect of a large scale disinvestment by foreign investors did not seem far fetched.

While there can be much debate about the merits of buying stocks at historically high valuation ratios, and of participating in an overheated bond market, we believe that no prudent investor should be overly exposed to long term bonds in Canada ahead of the Quebec referendum. This exceptional risk could lead to losses that would be difficult for bond investors to recover; and a severe decline in the bond market would inevitably wash into the stock market as well.

In managing the funds entrusted to us by our clients, we followed defensive investment strategies in 1991, and will continue to do so in 1992 until better market bargains return.

Dividend

Over the past year, your Company has achieved important progress in a number of areas. Its client asset base has expanded by 36% to \$2.3 billion. The value of its holdings of securities and cash equivalents increased by \$4.1 million to \$31.7 million. Operating costs were reduced by 10.5% and there was a positive swing of \$3.1 million in operating earnings.

In view of these positive developments, your Directors have declared a dividend of \$0.05 per Common and Class A share outstanding of record May 13, 1992, payable on May 27, 1992.

Directors

Mr. Michel Sales is proposed as a nominee for election as a Director at the Annual Shareholders' Meeting. He is a highly experienced executive with an extensive background in the life and casualty reinsurance business, and is well qualified to make a valuable contribution to the Board.

Our Thanks

All of us at Guardian are fully committed to giving the best possible service to our clients. We wish to thank our clients for their support and to thank all our staff for their enthusiastic and dedicated efforts.

Anthony G.S. Griffin
Chairman of the Board

John M. Christodoulou
President &
Chief Executive Officer

Mark A. F. Golding
Vice Chairman,
Corporate Development

March 31, 1992, Toronto, Canada

Your Company's core competence is its investment management capability. Its investment expertise is employed (i) to achieve growth in client assets under management while maintaining appropriate cost controls; and (ii) to achieve attractive risk-controlled returns on its own substantial portfolio of investment resources. The long term corporate goal is to achieve sustainable growth in profit and shareholder values.

The shareholders, directors and officers of the Company share similar interests in the achievement of increased shareholder value. Directors and officers of the Company collectively own about 62% of the Common shares and 44% of all the Common and Class A shares outstanding upon full conversion of all options and convertible debentures.

Business Activities

In its investment counselling and mutual funds management business, management's main task is to expand the amount of client assets under management. This is achieved by both attracting and retaining clients, and by expanding client 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 expertise, and of (ii) controlling operating costs, a large proportion of which are fixed. Most of the revenue increase from client asset growth therefore tends to accrue to the advantage of shareholders.

The ownership and organization of Guardian's operating businesses are shown in the following chart:

*Guardian Capital Group Limited** — *Holding Company*

Guardian Capital Inc.	Kleinwort Guardian Overseas Limited	Guardian Dietche Field Inc.	The Guardian Group of Funds Limited	Alexandria Bancorp Limited (Formerly Alexandria Fiduciare S.A.)	Guardian Global Bancorp Inc.
100%	50%	51%	100%	100%	100%

Investment Counselling	Mutual Fund Distribution	Financial and Trust Services	Investment Services
Pension Plans, Endowments, Corporate Investors, Guardian Mutual Funds and Pooled Funds	Brokers, Financial Planners, Transamerica Agents, Verity Financial Centres	International Investors	Individual Investors

* *Listed on the Toronto Stock Exchange*

Guardian seeks to expand its operating businesses by capitalizing on its strengths in four main areas:

Guardian Capital Inc.

Investment Counselling

Guardian is a multispecialist investment counsellor offering client-tailored services. Its products span a global range of investment services provided by manager teams in Toronto and, through its joint venture associates, in New York and London.

Its clients are tax-exempt investors, such as government, corporate, university and union pension funds, endowments and foundations. Taxable corporate investors are also served.

Guardian also manages the assets of its family of mutual funds and of a limited number of high net worth individual investors.

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 and Marketing

Guardian offers twelve public mutual funds by prospectus, nine of which are fully RRSP eligible. These funds offer a sufficient variety of domestic and foreign funds - including balanced, stock, bond and money funds - to serve the asset mix and currency exposure strategies of most investors.

The investment management, sales and service functions of Guardian's mutual fund business are well supported by sophisticated administrative systems. These systems meet the most demanding requirements of individual and Group Plan investors and their personal investment consultants.

Alexandria Bancorp Limited

Overseas Financial Services for International Investors

The managers of Alexandria in the Cayman Islands offer a comprehensive variety of global financial and trust services to international investors who have substantial assets to invest. Personalized service is supported by sophisticated administrative systems and client service specialists.

Alexandria's services enable investors to choose from a global selection of Alexandria's commingled stock, bond and money market funds, including a number of currency funds. These funds provide a combination of portfolio diversification and professional management by investment advisors located in the Cayman Islands, Toronto, New York and London. Used in combination, the funds can be assembled into whichever asset mix best suits each client.

Guardian Global Bancorp Inc.

Investment Services for High Net Worth Individual Canadians

Guardian Global was formed in 1992 to expand on Guardian's present investment services to high net worth Canadian investors, their trusts and personal corporations. This wholly owned subsidiary of the Company is in the process of applying for registration as an investment counsellor. Clients of Guardian Global can expect exceptional levels of service from Toronto based client service specialists.

The cornerstone of Guardian Global's service is personalized service, particularly in providing expert advice for each investor on the most appropriate overall investment strategy and asset allocation. Implementation of client investment programs is through the allocation of client assets in Guardian commingled funds in proportions that exactly fit each client's longer term investment strategy.

Investment Banking and Other Financial Activities

Your Company's investment banking and other financial activities are conducted through Guardian Capital Enterprises Limited and other wholly owned subsidiaries.

The securities held by Guardian's subsidiaries at December 31, 1991 had a realizable value, net of applicable debt obligations, of $31.7 million, or $4.55 per share fully diluted. These resources are dedicated to exploiting a variety of investment banking opportunities and "special situations" in publicly quoted securities, and for the development and growth of the Company's operating subsidiaries.

Strict controls ensure that the corporation's activities do not conflict with the day to day management of our clients' pension and mutual fund 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 securities held are highly liquid (cash equivalent) assets.

Risks

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 fund management companies face each of the above risks, with the particular risk of competition in funds distribution. The mutual fund industry of the future will likely be characterized by the growing dominance of large-scale organizations with powerful distribution systems. To prosper, smaller mutual fund 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.

Report on Operations

Investment Counselling

During 1991, Guardian's investment counselling business made several important advances.

- A record number of major pension plan sponsors chose Guardian for a variety of new balanced and specialized assignments. Tax-exempt client assets increased by 57% during the year to \$1.1 billion.
- Existing clients added \$ 36 million to funds already managed by Guardian, an indication of continued client satisfaction.
- Year over year, total institutional assets managed increased by \$611 million, or 42%, to \$2.1 billion.
- Guardian received a record number of invitations from plan sponsors and their pension consultants to submit investment management proposals and to attend final presentations.

In management's opinion, these are indications of a healthy business with promising growth prospects.

Mutual Funds Management and Marketing

Mutual fund assets increased to \$244 million at year end 1991, compared with \$240 million a year earlier, the first year of increase in the past five years.

Over the past five years, your Company has (i) clarified the long term role it is to play in serving Canadian investors by creating a family of twelve well differentiated, well managed funds; (ii) designed its dual front/back load commission structure to provide a competitive incentive package to appeal to professional investment advisors; and (iii) upgraded its service capability to investors through major improvements in administrative systems.

A key success factor in the mutual fund business is to establish strength in distribution. In 1991, more than ever, the emphasis shifted to development of Guardian's mutual fund distribution systems. During the year, further gains were made in the program to enroll Transamerica life insurance salespersons and brokers to complement their life insurance business by becoming registered by Guardian to sell mutual funds. After a slow start, the pace of the program is picking up and, as we enter 1992, the prospects look promising.

International Financial Services

Alexandria Bancorp Limited was incorporated as an independent operating entity in 1990. It spent 1991 developing its product lines and administrative systems. Early in 1992, it expanded its administrative and client services staff. Its primary focus in 1992 will be to establish a client base of international investors seeking a variety of global trust and investment services supported by knowledgeable and personalized attention from Cayman Islands based client services specialists.

Investment Services for High Net Worth Individual Canadians

Guardian Global Bancorp Inc. was activated in 1992, following the recruitment of fully dedicated Toronto based senior management and client service specialists. This new Guardian unit is now expanding its global range of products and will, during 1992, begin the task of introducing its services to Canadian high net worth investors.

Investments

Summary of Securities Holdings *as at December 31, 1991* *($ in thousands)*

Canadian Dollar Investments	**Cost**	**Realizable Value**	**% of Total**
Cash and short term investments	$ 4,099	$ 4,159	13%
Cash equivalent securities	1,861	1,885	6
Marketable Securities	5,113	9,306	29
Unquoted Securities	2,315	2,489*	8
Total Canadian Dollar Investments	13,388	17,839	56%
Non-Canadian Dollar Investments			
Cash and short term investments	6,034	5,960	18
Cash equivalent securities	4,038	4,355	13
Marketable Securities	3,003	3,085	10
Unquoted Securities	710	958*	3
Total Non-Canadian Dollar Investments	13,785	14,358	44%
Total Cash and Securities	27,173	32,197	100
Less: Applicable debt obligations	(448)	(448)	(1)
Net Cash and Securities	$26,725	$31,749	99%

* *As valued by the Directors*

Liquidity and Capital Requirements

Guardian is well financed. Its capital structure includes $22.6 million of shareholders' equity and $6.9 million of convertible debentures. It has no plans to raise any long term equity capital or debt. Short term bank financing is used as and when needed.

At year end 1991, working capital was $9,069,000, compared with a working capital deficit of $2,262,000 a year earlier.

Financial Results of Operations

Revenue increased by 33.5% from $6,663,000 to $8,893,000. The main components of revenue are presented in the table on page 1. The two largest contributors to revenue growth were investment income and management fees.

- Improved market conditions led to a $2 million increase in net investment income which included net realized capital gains. Unrealized gains at year end amounted to $5 million.
- Growth in management fees of 8.6% was less than the year over year increase in client assets, because a large proportion of the new business was achieved in the second half of the year.

Total operating expenses, including interest, depreciation and amortization, were reduced by 11.6% to $8,502,000 in 1991 compared with $9,622,000 in the preceding year. This reduction mainly reflects management cost containment initiatives adopted in the year as part of a consolidation and restructuring in the Company mutual fund organization.

Earnings for the Company for 1991, before tax recoveries, equity earnings and the write-off of goodwill were $391,000, compared to a loss of $2,959,000 in 1990, a positive swing of $3,350,000.

In the current year, management wrote down $6,322,000 of goodwill that it considered did not represent a continuing value to the Company. The main elements of goodwill written off were (i) $4,329,000 relating to the acquisition of Ruggles & Crysdale, Inc. and (ii) $1,809,000 relating to mutual fund management rights and contracts. The result was a 55% reduction in goodwill to $5,286,000 at year end 1991, compared with $11,841,000 at the previous year end.

The Company reported a net loss in 1991 of $5,847,000 compared with $2,118,000 in 1990. The 1991 loss amounted to $1.01 per share on a basic and fully diluted basis, compared with a loss in the previous year of $0.36 per share.

Total assets declined to $35,235,000 at December 31, 1991 from $43,379,000 at December 31, 1990. This decline in assets was primarily due to the write down in goodwill of $6,322,000. Total liabilities declined to $12,649,000 from $14,463,000, due mainly to the reduction in bank overdraft and loans of $2,526,000.

Shareholders' equity was $22,586,000 at December 31, 1991, down $6,330,000 from $28,916,000 at the previous year end, due almost entirely to the above noted write down of goodwill.

To the Shareholders of Guardian Capital Group Limited:

We have audited the consolidated balance sheets of Guardian Capital Group Limited as at December 31, 1991 and 1990 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 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, 1991 and 1990 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
February 28, 1992

Consolidated Balance Sheets

as at December 31, 1991 and 1990 — *($ in thousands)*

	1991	1990
Assets		
Current Assets		
Cash and short-term investments	$ 10,133	$ —
Accounts receivable	1,953	1,797
Investment income receivable	115	990
Prepaid expenses	49	90
	12,250	2,877
Investments (note 2)	17,040	27,141
Note Receivable (note 3)	—	502
Fixed Assets (note 4)	545	882
Unamortized Debenture Issue Costs	114	136
Goodwill (note 5)	5,286	11,841
	$ 35,235	$ 43,379
Liabilities		
Current Liabilities		
Bank loan and overdrafts	$ —	$ 2,526
Accounts payable and accrued liabilities	1,662	1,513
Income taxes payable	235	81
Deferred income (note 11)	1,284	1,019
	3,181	5,139
Long Term Debt (note 6)	6,948	6,937
Deferred Income Taxes	2,520	2,387
	12,649	14,463
Shareholders' Equity		
Capital Stock (note 7)	10,354	10,557
Foreign Currency Translation Adjustment	(2,119)	(2,063)
Retained Earnings	14,351	20,422
	22,586	28,916
	$ 35,235	$ 43,379

Signed on behalf of the board:

Anthony Griffin,
Director

John Christodoulou,
Director

Consolidated Statements of Retained Earnings

For the years ended December 31, 1991 and 1990 *($ in thousands)*

	1991	1990
Balance, beginning of year	$ 20,422	$ 23,334
Loss	(5,847)	(2,118)
	14,575	21,216
Less:		
Excess of purchase price over issue price on Company's capital stock acquired (notes 7(e) and (f))	224	794
Balance, end of year	$ 14,351	$ 20,422

Consolidated Statements of Operations

For the years ended December 31, 1991 and 1990 ($ in thousands, except per share amounts)

	1991	1990
Revenue		
Management fees	$ 5,989	$ 5,515
Redemption fees	210	396
Net investment income	2,340	328
Other income	82	67
Sales commission	272	357
	8,893	6,663
Expenses		
Expenses exclusive of undernoted items	7,080	7,911
Depreciation and amortization	684	706
Interest on long term debt	553	652
Other interest	185	353
	8,502	9,622
Earnings (loss) before the undernoted	391	(2,959)
Goodwill written off (note 5)	6,322	—
Loss before income taxes	(5,931)	(2,959)
Recovery of income taxes (note 8)	68	728
Loss before the undernoted	(5,863)	(2,231)
Equity in earnings of an investment	16	113
Loss for the Year	$ (5,847)	$ (2,118)
Loss per Common and Class A share (note 9)		
- basic	$ (1.01)	$ (0.36)
- fully diluted	$ (1.01)	$ (0.36)
Weighted average number of Common and Class A shares outstanding (in thousands)		
- basic	5,776	5,895
- fully diluted	6,994	7,538

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 1991 and 1990 *($ in thousands)*

	1991	1990
Cash from Operations		
Loss for the Year	$ (5,847)	$ (2,118)
Add (deduct) items not involving cash -		
Depreciation and amortization	684	706
Goodwill written off	6,322	—
Deferred income taxes	133	(482)
Equity earnings, net of dividends received	103	36
Net (gain) loss on investments	(498)	75
Write-down of investments	—	1,921
	897	138
Net change in working capital excluding cash	1,294	(609)
	2,191	(471)
Financing Activities		
Acquisition of Company's capital stock	(427)	(1,279)
Redemption of Company's capital stock	—	(220)
Increase in long-term debt, net of current portion	11	11
Repayment (advance) of note	502	(502)
	86	(1,990)
Investment Activities		
Capitalization of costs as Goodwill	(94)	(152)
Acquisition of investments	(12,414)	(3,314)
Proceeds on sale of investments	22,910	4,890
Purchase of fixed assets	(20)	(143)
	10,382	1,281
Net change in cash and short-term investments net of bank loan and overdrafts, during the year	12,659	(1,180)
Bank loan and overdrafts, beginning of year	(2,526)	(1,346)
Cash and short-term investments net of bank loan and overdrafts, end of year	$ 10,133	$ (2,526)

For the years ended December 31, 1991 and 1990

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 tangible 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 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.

(iii) Realized gains and losses on forward foreign exchange contracts are recognized on expiration of the contract. Unrealized losses on forward foreign exchange contracts are recognized at the balance sheet date.

(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. 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, 1991 and 1990* *($ in thousands)*

	Market value		Carrying value	
(see note 1(b))	**1991**	1990	**1991**	1990
(a) Securities having a quoted market value				
Cash equivalents	**$ 6,240**	$15,881	**$ 5,899**	$15,536
Investments in equity mutual funds managed by a subsidiary	**4,887**	2,523	**4,764**	2,867
Diversified common share holdings	**7,504**	7,313	**3,352**	5,552
	$18,631	$25,717	**14,015**	23,955
(b) Company at equity				
Guardman			**388**	491
(c) Securities not having quoted market value				
Private corporations and limited partnerships			**2,637**	2,695
Total portfolio of investments			**$17,040**	$27,141

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

3. Note Receivable

The note was receivable from Citadel Entertainment Inc., secured, interest free and due and payable on April 1, 1992. The note was repaid early during the current year.

4. Fixed Assets

	1991	1990
		($ in thousands)
Computer hardware and software	$ 1,111	$ 1,094
Furniture and equipment	546	543
Leasehold improvements	355	355
	2,012	1,992
Less accumulated depreciation and amortization	1,467	1,110
	$ 545	$ 882

5. Goodwill Written Off

In the current year, goodwill of $4,329,000 relating to the acquisition of Ruggles and Crysdale, Inc. was written off, as management considered this goodwill did not represent continuing value to the Company. In addition, goodwill of $1,809,000 relating to mutual fund management rights and contracts was also written off as it no longer had any value. Included also is $184,000 write off of goodwill relating to the startup costs of Alexandria Bancorp Limited, the group's offshore banking operation. Amortization of goodwill for the year amounted to $327,000 ($326,000 in 1990).

6. Long Term Debt

	1991	1990
		($ in thousands)
Convertible debentures ((a) below)	$ 6,500	$ 6,500
Mortgages payable ((b) below)	316	319
Notes payable ((b) below)	132	118
	$6,948	$6,937

(a) The 8½% 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) The mortgages payable bear interest at 11¼% 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.

7. 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.

				(in thousands)
		1991		1990
(b) Issued and fully paid	**Shares**	**Amount**	Shares	Amount
Class A ((c) below)	4,751	$ 8,877	4,859	$ 9,080
Common	999	1,477	999	1,477
		$10,354		$10,557
(c) Class A shares				
Outstanding, beginning of year	4,859	$ 9,080	4,666	$ 7,597
Conversion of Series 2 preferred shares	—	—	467	1,994
Acquired during the year ((e) below)	(108)	(203)	(274)	(511)
Outstanding, end of year	4,751	$ 8,877	4,859	$ 9,080

(d) As at December 31, 1991, 135,000 (446,000 at December 31, 1990) 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 $6.00 per share.

(e) During 1991 the Company acquired 108,300 (273,500 in 1990) of its own Class A shares for $427,000 ($1,279,000 in 1990), of which $224,000 ($768,000 in 1990) 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 shares were converted into 466,588 Class A shares and 193,668 shares were redeemed for cash consideration of $319,753. Of this amount, $26,085 was charged directly to retained earnings.

8. Income Taxes

	1991	1990
		($ in thousands)
(a) The (recovery of) provision for income tax comprises:		
Current tax	$ (201)	$ (246)
Deferred tax	133	(482)
	$ (68)	$ (728)

(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:

	1991	1990
Loss before income taxes	$ (5,931)	$ (2,959)
Tax exempt portion of capital (gains) losses	(135)	229
Non-deductible amortization	327	326
Goodwill written off	6,322	—
Foreign investment income	(1,812)	(516)
Dividend income	(69)	—
Losses not tax effected	2,215	1,215
Difference between tax value and book value of investment sold	(1,208)	—
Other	136	50
	5,776	1,304
	$ (155)	$ (1,655)
At statutory rate of 44% (1990 - 44%)	$ (68)	$ (728)

(c) The group has unutilized non capital tax losses of approximately $2,157,000 ($1,250,000 in 1990) available for utilization against future taxable profits. These losses expire in 1997 and 1998.

9. Loss Per Share

The calculation of basic loss 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 loss 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.

10. Commitments and Contingencies

The Company has leases which expire on various dates between 1992 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, 1991 are as follows:

1992	$ 408,000
1993	390,000
1994	373,000
1995	316,000
1996 and thereafter	1,027,000
	$ 2,514,000

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 counterclaimed 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.

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

The Company sold two foreign exchange contracts of 30 contracts each for a value of $6,000,000. The contracts mature in March, 1992. At December 31, 1991, the company had an unrealized gain on these contracts of $64,500 which has not been recorded.

11. Subsequent Event

Subsequent to the year end, the company repaid $1,041,274 of the deferred income balance as of December 31, 1991.

12. Business Segments

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

	Banking Activity 1991	Banking Activity 1990	Investment Counselling and Mutual Fund Distribution 1991	Investment Counselling and Mutual Fund Distribution 1990	Investment Activities 1991	Investment Activities 1990	Consolidated 1991	Consolidated 1990
Identifiable assets	$18,075	—	$ 7,963	$14,746	$ 9,197	$28,633	$35,235	$43,379
Income	$ 638	—	$ 6,568	$ 6,341	$ 1,687	$ 322	$ 8,893	$ 6,663
Expenses								
General	177	—	6,728	7,450	47	455	6,952	7,905
Interest on long term debt	—	—	—	—	553	652	553	652
Depreciation and amortization	—	—	718	706	—	—	718	706
	177	—	7,446	8,156	600	1,107	8,223	9,263
	$ 461	—	$ (878)	$ (1,815)	$ 1,087	$ (785)	670	(2,600)
General corporate expenses							279	359
Goodwill written off							6,322	—
Loss before income taxes							(5,931)	(2,959)
Income tax recovery							68	728
Loss before equity in earnings of an investment							$ (5,863)	$ (2,231)

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

	Canada 1991	Canada 1990	Rest of World 1991	Rest of World 1990	Consolidated 1991	Consolidated 1990
Identifiable assets	$13,409	$24,261	$21,826	$19,118	$35,235	$43,379
Income	$ 6,640	$ 5,806	$ 2,253	$ 857	$ 8,893	$ 6,663
Expenses						
General	7,526	8,817	258	99	7,784	8,916
Depreciation and amortization	718	706	—	—	718	706
	8,244	9,523	258	99	8,502	9,622
Earnings (loss) before undernoted	(1,604)	(3,717)	1,995	758	391	(2,959)
Goodwill written off	6,139	—	183	—	6,322	—
Earnings (loss) before income taxes	(7,743)	(3,717)	1,812	758	(5,931)	(2,959)
Income tax recovery (provision)	68	1,036	—	(308)	68	728
Earnings (loss) before equity in earnings of an investment	$ (7,675)	$ (2,681)	$ 1,812	$ 450	$ (5,863)	$ (2,231)

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
Michel Sales
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
Controller

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

Natasha B. Cuddy
Vice-President, Fixed Income

Roy J. Jacobson
Controller

The Guardian Group of Funds Limited

Mark A. F. Golding
Chairman & Chief Executive Officer

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

Townsend Haines
Vice-President & National Sales Manager

Richard G. Stone
Vice-President, Product Manager

Stuart J. Freeman
Vice-President, Operations

Roy J. Jacobson
Controller

[1] Nominees proposed for election at the 1992 Annual General Meeting of Shareholders.
[2] Member, Audit Committee.

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Canadian Imperial Bank of Commerce

Legal Counsel
Fasken Campbell Godfrey

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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

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