Guardian Capital Group Limited

ANNUAL REPORT

1992

Corporate Profile

Guardian's overall strength lies in the depth and experience of its investment manager team. Its business focuses on activities which can profit from this expertise.

Guardian operates in two primary businesses: (i) investment management services, and (ii) investment banking and other financial activities. Its longer term strategic objective of sustainable growth in profit and shareholder value is based on the achievement of two missions:

- Serving as a premier supplier of a global range of investment services and products to a well diversified client base.
- Prudent management of its own substantial financial resources.

Investment management services comprise investment counselling, mutual fund management and distribution and other financial services. Clients of Guardian's investment management services include pension funds of governments, corporations, unions and universities; foundations and endowment funds; mutual funds; and individual investors having substantial personal wealth.

Its investment services and products are supported by extensive expertise in world financial markets. This expertise is based on its own professional resources and those of its international strategic partners.

Client service is personalized and knowledgeable. It is committed to meeting the highest expectations of clients and, whenever possible, exceeding them.

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Financial Highlights

December 31	1992	1991	% Change
($ in millions)			
Value of client assets managed	**$ 2,585**	$ 2,328	+11.0%
($ in thousands)			
Gross revenue	**9,877**	8,893	+11.1
Earnings before interest, depreciation, amortization and income taxes			
Investment Management Services	**148**	173	-14.5
Investment Banking Activities	**1,329**	1,640	-19.0
	1,477	1,813	-18.4
Net earnings (loss) for the year	**425**	(5,847)*	—
Net cash and securities	**32,026**	31,749	+0.9
(in dollars)			
Per Common and Class A share–fully diluted			
Net earnings (loss) for the year	**0.07**	(1.01)*	—
Net cash and securities	**4.72**	4.55	+3.7
(in thousands)			
Year-end Common and Class A shares outstanding–fully diluted	**7,062**	6,970	+1.3

* Included in the net loss is goodwill written off of $6,322 ($1.09 per average Common and Class A share outstanding–fully diluted).

Directors' Report to Shareholders

Your Company made continued progress during 1992 and begins 1993 on a positive note. The main events of the past year were as follows:

- Client assets under management increased to $2.6 billion by year end 1992, compared with $2.3 billion at the previous year end, representing growth of over 70% since December 31, 1988.
- Consolidated gross revenues increased by 11.1% to $9.9 million, compared with $8.9 million in the preceding year.
- Investment management fees increased by 20.7% to $7.2 million, compared with $6.0 million in the year before.
- Total revenues from investment management services increased to $8.3 million, up 15.3% from $7.2 million in 1991.
- Revenues from investment banking activities were $1.6 million in 1992, compared with $1.7 million in the previous year.
- Earnings before interest, depreciation, amortization and income taxes, were $1.5 million, compared with $1.8 million in the previous year, reflecting an increased contribution in 1992 from investment management services and a lower contribution from investment banking and other financial activities.
- After providing $2.7 million for dividends, interest, share repurchase programs and working capital for the investment management business, the net realizable value of your Company's investments amounted to $32.0 million at year-end, or $4.72 per share, fully diluted.
- Net earnings in 1992 were $425,000, compared with a loss of $5.8 million in the preceding year, when $6.3 million of goodwill was written off.
- Fully diluted earnings were $0.07 per share in 1992 compared with a profit of $0.08 per share before goodwill written off in 1991 and compared with a loss of $1.01 per share in 1991 after goodwill written off.
- A dividend of $0.05 per share was paid to Common and Class A shareholders, the first such payment in two years.

Your Directors are satisfied that your Company's operating businesses are progressing well. The investment counselling operation continues its positive uptrend. The mutual fund operation is steadily improving its competitive strength in an industry which has exceptional growth potential. Recently launched businesses to serve high net worth investors are presently in a development mode and also show much promise. Your Directors can also report that your Company's investment resources have been managed with the high degree of care and attention to risk control that has been appropriate, given the high-risk character of financial markets in recent years.

All of Guardian's chosen areas of business activities are linked to its core competence of investment management. Together, they will contribute to the attainment of your Company's longer term strategic objective: sustainable growth in profit and shareholder value.

A comprehensive review of your Company's operating businesses and investment activities can be found in the Management Discussion and Analysis presented later in this report.

Financial Results Your Company's consolidated gross revenues rose by 11.1% in 1992 to $9,877,000, up from $8,893,000 in 1991. Expenses before interest, depreciation and income taxes were $8,400,000 in 1992, compared with $7,080,000 in the preceding year. As a result, operating earnings in 1992 were $1,477,000, compared with $1,813,000 in 1991.

Revenues from investment management services increased in 1992 to $8,302,000, up 15.3% from $7,206,000 in the year before. Of these revenues, $7,227,000 were from investment management fees, which increased by 20.7% compared with $5,989,000 in 1991. Expenses before interest, depreciation, amortization and income taxes attributable to investment management services rose to $8,154,000, up from $7,033,000 in 1991. Operating earnings from investment management services were $148,000, compared with earnings of $173,000 in the preceding year.

One factor contributing to higher costs in investment management services was increased mutual fund sales. This led to higher commissions paid to mutual fund sales representatives, offset by increased commissions received. Other factors contributing to higher expenses included the start-up costs of Guardian's two businesses serving high net worth investors, Guardian Capital Advisors (a division of Guardian Capital Inc.) and Alexandria Bancorp Limited.

Revenues from investment banking activities amounted to $1,575,000 in 1992, down from $1,687,000 in 1991. After attributable expenses, before interest, depreciation, amortization and income taxes, operating earnings were $1,329,000 in 1992, compared with $1,640,000 in the preceding year.

Amortization decreased in 1992 due to the write-off of goodwill in 1991. Depreciation also decreased as no major fixed assets have been acquired during the past 3 years. In 1992, depreciation and amortization amounted to $378,000, down from $684,000 in 1991.

Net earnings in 1992 were $425,000, compared with a loss of $5,847,000 in 1991, when there was a write-off of goodwill amounting to $6,322,000. Earnings per share were $0.07 in 1992, compared with a profit of $0.08 in 1991 before goodwill written off and a loss of $1.01 in 1991 after goodwill written off.

Your Company's Directors estimate that the realizable value of Guardian's holdings of securities and cash, net of applicable debt obligations, was $32,026,000 at December 31, 1992, compared with $31,749,000 at the previous year end. These holdings represented a realizable value of $4.72 per share, fully diluted, at December 31, 1992, compared with $4.55 per share, fully diluted, at the previous year end.

At December 31, 1992, the number of Common and Class A shares outstanding upon full dilution was 7,062,000, compared with 6,970,000 at the previous year end.

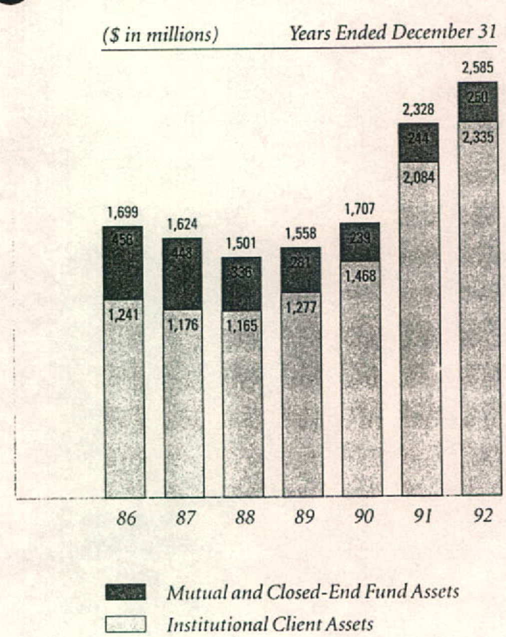
During 1992, 45,600 Class A shares were repurchased for cancellation and, at year end, 275,000 Class A shares were reserved for issuance under stock options.

Client Assets Managed Client satisfaction is the cornerstone of Guardian's investment management businesses. The trend in client assets managed is a function of several factors, including market value changes, changes in net plan contributions of pension clients, net sales or redemptions of mutual funds, new business development, and client retention rates.

Client assets managed at year end 1992 amounted to $ 2.6 billion, compared with $ 2.3 billion a year earlier. Assets managed for institutional clients—tax-exempt organizations and taxable corporations—increased by 12.1% to $2.3 billion. Guardian's mutual fund and closed-end fund assets were little changed on a year-end to year-end basis. However, when one excludes assets of closed-end funds from the 1991 total (there were no closed-end fund assets managed at year end 1992), the mutual fund assets of Guardian's Canadian and international operations grew by 43% to $250 million at year end 1992, compared with $175 million at the previous year end.

A detailed review of the trends in client assets managed is presented in the Management Discussion and Analysis which follows. In the accompanying chart, we show the trend in total client assets managed, which have increased by 72% since 1988, when the uptrend of recent years began.

Total Client Assets Managed



Investment Performance Your Directors are pleased to report that, in virtually every asset class, returns achieved for discretionary client portfolios for the one-year and five-year periods to December 31, 1992 exceeded those of the comparable market indices and of the median manager in the comparable pension manager performance measurement samples. A chart documenting this is presented in the Management Discussion and Analysis.

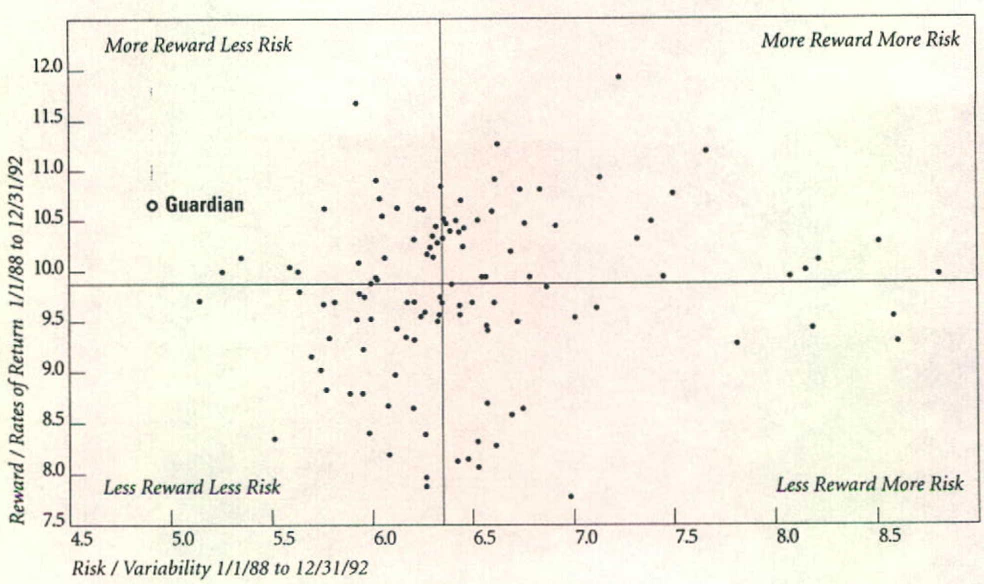
The chart below underlines the characteristic performance profile which Guardian strives to achieve for its clients: high returns "per unit of risk". It presents the five year return/risk performance of a broad sample of Canadian managers of balanced pension accounts, including Guardian.

Balanced funds normally comprise a blend of Canadian bonds, stocks and cash and non-Canadian stocks. The chart is, therefore, a convenient "single picture" comparing the skills of managers in maximizing returns and minimizing risk across all major asset classes.

Data for the chart were prepared by a leading independent performance measurement organization. The points on the chart plot each manager's return against the volatility of that return. The horizontal and vertical lines toward the middle of the chart show the return and risk performance, respectively, of the median managers.

As the "best" managers are those with points located closest to the top left corner, it can be seen that Guardian's return/risk performance profile is highly favourable.

Composite of Guardian Balanced Portfolios



We are also pleased to note the investment performance of Guardian's mutual funds during 1992, in all cases net of management fees.

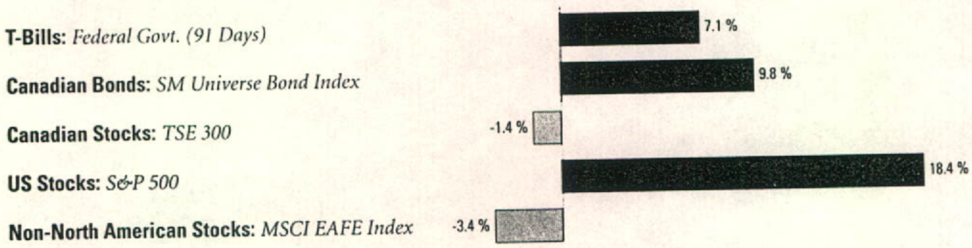
- Guardian Growth Equity Fund produced a total return of 12.1% in a year when the Toronto Stock Exchange 300 Total Return Index declined by 1.4%. Two other Canadian common equity mutual funds, Guardian Enterprise Fund and Guardian Canadian Equity Fund, which produced returns of 5.1% and 1.0% respectively, also outperformed the TSE 300.
- Guardian Balanced Fund achieved an 8.2% return in 1992 from its balanced blend of investments in Canadian bonds, and Canadian and foreign stocks and cash.
- Guardian Preferred Dividend Fund Ltd., which invests only in high quality Canadian preferred shares to produce high after tax income for its shareholders, returned 6.6% in 1992.
- Guardian American Equity Fund Ltd. gained 22.2%, which was 3.8% higher than the return of the Standard & Poors 500 Index (both returns in Canadian dollars).
- Guardian International Income Fund, a bond fund fully eligible for RRSP's which invests entirely in non-Canadian currency denominated fixed income securities, produced a total return in Canadian dollar terms of 17.1%. It was Canada's top performing international bond fund in 1992 and the only such fund in Canada to outperform the Salomon World Government Bond Index.
- Guardian Global Equity Fund, which invests only in non-North American stock markets, was up 5.5%, compared with a decline of 3.4% in the Morgan Stanley Capital International EAFE Index, for an outperformance of 8.9% (both returns in Canadian dollars).

Financial Market Trends Changes in the market value of client assets managed have a direct impact on your Company's revenues, as the investment management fees charged to clients tend to be a relatively fixed percentage of the value of assets managed. While Guardian's investment professionals make every effort to outperform the markets, the overall market trends remain a powerful dynamic affecting your Company's revenues and profits.

The market trends of 1992 are shown in the chart on the following page. The positive returns of the U.S. stock market and the Canadian fixed income markets contrast with the negative returns of the Canadian and non-North American stock markets. Since most of the client assets managed by Guardian are invested in Canadian securities, trends in Canadian stock and bond markets have by far the greatest impact on the value of client assets managed and investment management fees of your Company.

As last year came to a close, there was increasing evidence that the U.S. economy was showing signs of coming to life, after nearly two years of barely noticeable growth. Canada should be a direct beneficiary of this, although the domestic side of the Canadian economy is likely to remain depressed under the burden of increasing

Total Returns of Major Asset Classes *(Year Ended December 31, 1992)**



** All returns in Canadian $*

taxation. Another encouraging trend over the course of last year was a substantially lower Canadian dollar. A somewhat stronger economy and a lower dollar, when combined with an uptick in consumer confidence toward year-end, provide the most hopeful evidence yet of an improved environment for profits in 1993.

However, the sustainability of the economic recovery remains in question. Canada remains mired in a "debt trap", a legacy of the 70's and 80's. Debt levels have risen so high that the compounding of interest on that debt in a slow-growth economy causes the country's debt ratios to continue to deteriorate. Under these circumstances, we believe it is important for investors to gauge the persistence and strength of the structural impediments to growth, and the political response. The weaker the prospects for improved economic performance, the greater the pressure on Governments to "do something". This can lead Governments to aggressively stimulate the economy, increasing the risk that those policy moves will disrupt financial markets.

For Canada, an already volatile financial environment is complicated by its chronic dependence upon the ebb and flow of foreign capital. This dependence on "the kindness of strangers"—foreign lenders—leaves Canada vulnerable to potentially painful upheavals in its currency and capital markets.

We look forward ultimately to some movement toward resolution of these problems, at which time we will shift to a more positive outlook and a less defensive approach to the management of clients' assets. Until then, our cautious investment approach will continue.

Outlook for Guardian in 1993 Your Directors are expecting two important developments in 1993 which will improve shareholder values. Firstly, your Company's mutual fund business and its two businesses serving high net worth investors are expected to be at or close to break even by year end. Combining these with your Company's investment counselling business, which has been profitable for many years, the investment management services group, in aggregate, should make a positive profit contribution in 1993 for the first time in a number of years.

Secondly, in recent years, your Company's investment resources have been a vital source of funding for start-up and development projects in the investment management services group. In 1993, with this group becoming self-funding, the full amount earned by your Company's investment resources—which amounted to $32.0 million of cash and securities at market value at year end 1992—will therefore be available to enhance shareholder values.

Barring exceptional events, the outlook for your Company's growth during 1993 in revenues, profits and shareholder value is positive.

Dividend In recognition of positive trends in your Company's business activities, your Directors declared a dividend of $0.05 per share in 1992, the first such payment in two years. In light of the continued positive outlook for 1993, your Directors have declared a dividend of $0.05 per Common and Class A share outstanding of record May 13, 1993, payable on May 27, 1993.

In Memoriam After a prolonged illness, Norman J. Short died in September, 1992. Mr. Short was a founder of Guardian in 1962. For twenty-five years, he was its principal source of management vision and leadership. Widely regarded as an exceptionally astute investor, he also guided the development and growth of Guardian into an internationally diversified investment management services organization until illness led to his retirement in 1987. Thereafter, he served your Company as Chairman Emeritus and as an advisor on Guardian's corporate investments. His wise counsel and friendship will be greatly missed.

Directors After many years of valuable service, Joseph L. Rotman has retired from the Board, as a result of the pressure of his many other commitments. With the passing of Norman J. Short, the Directors have elected to reduce the number of members of the Board of Directors from eleven to nine, of whom six are non-management Directors.

Our Thanks We wish to thank our clients for their continued support. We also wish to thank our staff for their enthusiasm, effort and dedication to client service.

Anthony G. S. Griffin	**John M. Christodoulou**	**Mark A. F. Golding**
Chairman of the Board	*President &*	*Vice Chairman,*
	Chief Executive Officer	*Corporate Development*

March 31, 1993, Toronto, Canada.

Management's Discussion and Analysis of Business Activities, Financial Condition and Results of Operations

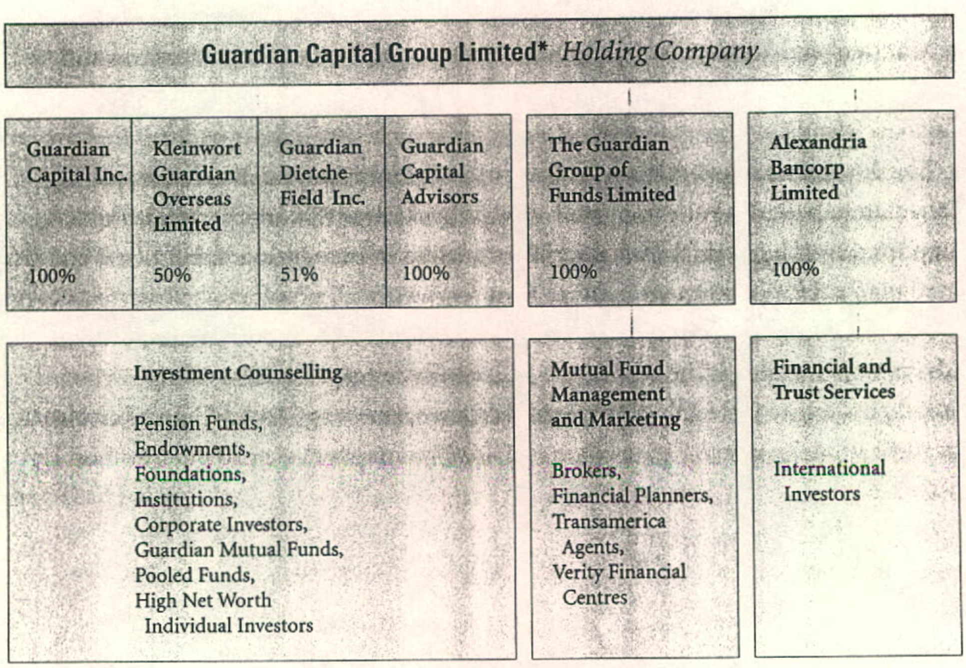
This segment of the Annual Report was prepared with the close assistance of Guardian's senior management. It presents a discussion and analysis of your Company's business activities, its progress and prospects in each business segment, its financial condition, and a comparison of operating results in 1992 with those of the previous year.

Outline of the Business

Corporate Mission Guardian is a well-established supplier of investment management services to institutions and individual investors. Its multi-market approach supports the firm's long term corporate goal of sustainable profit and growth from serving a well diversified client base.

The essence of Guardian's business is the prudent investment management of the savings and retirement funds of hundreds of thousands of Canadians. This service is based on Guardian's investment expertise in a global range of asset classes, supported by an organization that is dedicated to meeting the highest expectations of clients and, whenever possible, exceeding them.

Business Activities The business of your Company has two main components: (i) investment management services to institutional, mutual fund and high net worth individual investors, and (ii) investment banking and other investment activities. The following chart sets out the structure of the organizations providing investment management services.



Listed on the Toronto Stock Exchange

Ownership Management is strongly committed to contributing to long term growth in shareholder values. This commitment is reinforced by significant management ownership of the Company's shares. At December 31, 1992, Directors and officers collectively owned 54% of the Common shares and 33% of all the Common and Class A shares outstanding upon full conversion of all options and convertible debentures.

Personnel Guardian employed 65 full time employees at December 31, 1992, compared with 60 at the previous year end. Four of the new positions are in the two start-up entities, Alexandria Bancorp Limited and Guardian Capital Advisors. Plans are in place to increase the quality of service to clients through further additions to the firm's professional and support staff in the coming year.

The firm is organized to operate as a mutually supportive network of teams. Staff compensation comprises a base salary plus a year-end bonus that is based on annual performance appraisals. Management compensation comprises a combination of base salary, annual performance bonus and, in some cases, profit sharing and stock options. For Guardian's senior investment professionals, the performance bonus is directly linked to the long term investment returns achieved for client assets.

Investment Management Services

Guardian's management of investment portfolios is assigned to teams of specialized investment professionals in Toronto and, through associates, in New York and London. For Canadian investors, client services are provided from the firm's Toronto head office. Services to mutual fund representatives are also provided from offices in Montreal and Vancouver. Foreign institutions, professional organizations and international investors are offered services from the firm's offices in George Town, Cayman Islands.

The Toronto team comprises investment professionals specialized in managing Canadian balanced, equity and fixed-income portfolios. Their expertise is well supported by sales, service and administrative specialists serving institutional and retail markets for investment management services in all provinces.

The New York team comprises the investment professionals of Dietche & Field Advisers, Inc., which is the advisor on U.S. equity management to jointly-owned Guardian Dietche Field Inc. Dietche & Field manages over C$2.5 billion of assets for institutional investors. Its services to Canadian investors are provided exclusively by Guardian.

The London-based team comprises the investment management resources of Kleinwort Benson, plc., one of the leading merchant banks in the U.K. Founded over 200 years ago, Kleinwort Benson has over 50 years of experience in global investment management. It manages over C$25 billion of client assets and is advisor to jointly-owned Kleinwort Guardian Overseas Limited. Its services to Canadian investors are provided exclusively by Guardian.

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 its managers in Toronto, New York-based Guardian Dietche Field Inc., and London-based Kleinwort Guardian Overseas Limited. Its clients include:

- Tax-exempt institutional investors, such as pension funds of governments, corporations, unions and universities, and foundations and endowments.
- Taxable corporations and institutions.
- Mutual funds of The Guardian Group of Funds Limited.
- Mutual funds of Alexandria Bancorp Limited.
- Individual investors having substantial personal wealth.

A number of important industry trends favour Guardian. Chief among these is the shift in preference by pension plan sponsors from balanced to specialized, or asset class specific, management. This industry trend tends to destabilize the client asset base of many traditional firms which mainly depend on balanced assignments; and it promotes the migration of pension assets to specialist firms such as Guardian.

Another favourable trend is the increasing allocation of tax-exempt assets to foreign investments. Increases in the regulated foreign property limits favour companies such as Guardian which, through its associates in New York and London, has well-established expertise in managing non-Canadian assets.

Canada's pension asset management industry is based on client assets estimated to total over $250 billion. With pension client assets of about $1.3 billion at year end 1992, a broad and competitive range of products and highly regarded teams of investment professionals, Guardian is well positioned to expand its market share in the years ahead.

Investment counselling is a profitable business activity for Guardian and is expected to make a growing contribution to future profits. The other operating subsidiaries which benefit from Guardian's investment management resources are described below.

The Guardian Group of Funds Limited

Mutual Funds Management and Marketing

Guardian offers twelve public mutual funds by prospectus, ten of which are fully RRSP eligible. These funds offer a sufficient variety of domestic and foreign funds—including money market, bond, balanced and stock funds—to serve the asset allocation 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 professional financial consultants.

Canada's mutual fund industry offers Guardian attractive opportunities for growth. Ownership of mutual fund assets by Canadians has increased by about 150% over the past five years, reaching over $67 billion at year end 1992. Independent forecasts of industry growth by respected consultants indicate that, by the year 2000, Canadians will own in the order of $250–300 billion of mutual fund assets. A major source of this growth is attributable to the phenomenal increase in popularity of registered retirement savings plans. The size of the RRSP asset pool, a portion of which is invested in mutual funds, has grown from $150 billion in 1988 to an estimated $250 billion in 1993 and is projected to grow to $350 billion in 1998 (Source: Ernst & Young).

Guardian is well-positioned to participate in the growth of this industry, which is growing in importance in meeting the retirement and savings needs of Canadians. Its professional investment resources, attractive family of mutual funds, and growing acceptance among stockbrokers, financial planners and life insurance agents who specialize in mutual fund sales, all bode well for Guardian's future growth in the mutual funds industry.

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. These services are offered to offshore financial institutions, expatriate pension funds, professional organizations and international investors who have substantial assets to invest. Personalized service is supported by fully capable administrative systems and client service specialists.

Alexandria's services enable investors to choose from a global selection of Alexandria's money market, bond and stock 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 allocation structure best suits each client.

Guardian Capital Advisors

Personal Investment Counsel

Investors with substantial personal net worth have many of the same needs for prudent, cost-effective investment services as institutional investors. The business of Guardian Capital Advisors, a division of Guardian Capital Inc., is to serve such investors with client-specific overall counsel on wealth management, as well as personal and estate investment counsel. Its services encompass counsel (in collaboration with each client's other professional advisors) on the legal and tax structure of investment holdings; counsel on client-specific asset allocation in a global range of bonds, stocks and cash; and portfolio management by Guardian and its international associates.

Personalized client services are provided from Guardian's Toronto office by experienced specialists in investment counsel to high net worth individual investors.

Regulation

Government regulations, both Federal and Provincial, have a profound effect on all aspects of your Company's business. Federal regulations, for example, affect the flow of funds into registered retirement plans. Recently, changes to the foreign property rules for registered retirement plans have allowed a substantial increase in the amount permitted for investment in non-Canadian securities, creating additional opportunities for Guardian, which offers a wide range of non-Canadian investment vehicles.

Both Federal and Provincial regulatory activities make an invaluable contribution to maintaining public confidence in the financial system. The rules and scrutiny applied by Provincial securities commissions for public disclosure of fund information and to the licensing of fund sales representatives have particular importance for companies active in the mutual funds business. However, the existence of separate regulatory regimes in all Provinces and Territories results in significant costs to be paid by a company like Guardian, which operates on a national basis, and makes for a challenging task in complying with all of the rules.

In order to meet or exceed all regulatory requirements, your Company makes a significant commitment of financial and other resources, including the services of external legal counsel. This continuing effort to be in full compliance with all regulatory requirements represents a growing and externally driven source of costs over which management has only limited control.

Another external source of influence over Guardian's mutual fund activities is that of the industry's self-regulatory organization, The Investment Funds Institute of Canada. Guardian has been a member of IFIC for many years and maintains compliance with all IFIC guidelines.

Ethics

The Code of Ethics of the Chartered Financial Analysts represents the minimum standards of ethical behaviour of members of the firm. The essence of this Code of Ethics is to place the interests of clients first.

Compliance with the firm's ethical standards is supervised by the firm's non-Executive Chairman, A.G.S. Griffin, who serves as Chairman of the Ethics Committee.

Investment Banking and Other Financial Activities

Guardian's investment banking and other financial activities are conducted through a number of wholly owned subsidiaries, including Guardian Capital Enterprises Limited, Guardian Capital International Limited and Alexandria Bancorp Limited.

Except for corporate assets which may, from time to time, be invested in mutual or pooled funds managed by Guardian, your Company's investments are managed separately from those of Guardian's clients. Operating procedures and controls ensure that its investment activities do not conflict in any way with the responsible management of client assets.

Your Company's investment banking and other financial activities encompass a wide variety of opportunities. Currently, Guardian's financial resources are primarily invested in mutual or pooled funds, including money market funds. Investments are also held in marketable equity securities and in a small number of promising private company investments. Risk controls include extensive diversification by asset class and by holdings. Close attention is also given to currency diversification.

Investments are also made in support of Guardian's investment management services group. These can include bridge financing for limited partnerships created to pay commissions to mutual fund representatives whose clients select Guardian's deferred load funds; and financing the start-up costs of new businesses, such as Alexandria Bancorp Limited.

In recent years, your Company's financial resources have supported significant investment in the enhancement of Guardian's mutual fund subsidiary which, since 1990, has achieved notable growth in open-end mutual fund assets. As a result of this financial support, the mutual funds subsidiary has successfully developed an effective business organization and is expected to become an important contributor to your Company's future profitability.

Your Company's overall investment management services group is expected to achieve profitability during 1993. The investment counselling segment of this group has been profitable for many years. However, the development costs of the mutual

funds business and the start-up costs of the firm's entry into services for high net worth clients have resulted in losses for the investment management services group, as a whole, in recent years. During this time, your Company has, therefore, relied on its investment banking and other financial activities to meet this and a number of other financial requirements. These have included the cost of repurchasing for cancellation Class A shares of the Company and the payment of dividends.

For the past several years, your Company has limited its exposure to market risk by maintaining exceptionally high cash reserves. This approach has been consistent with management's continuing concern about the high-risk nature of financial markets and the need to focus on the goal of capital preservation. This cautious approach is expected to continue until a more favourable investment environment materializes.

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 cause clients to shift funds to asset classes not managed by the counsellor.

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

Mutual fund management companies also 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 mutual funds marketing arrangements with The Transamerica Life Companies, established such a strategic alliance.

Other risks to mutual fund companies include unpredictable future capital funding requirements. The cost of computer system upgrades or replacements would be one example. Another would be the funding requirement, which grows in line with fund sales growth, of commissions paid on sales of deferred load fund products. In Guardian's case, present systems capability is judged to be fully able to process

expected additional volumes of fund transactions and reports; and its funding of deferred load sales commissions will be fully met by financing from the sale to third parties of limited partnerships. This practice may be adversely affected by changes to tax legislation that is under review.

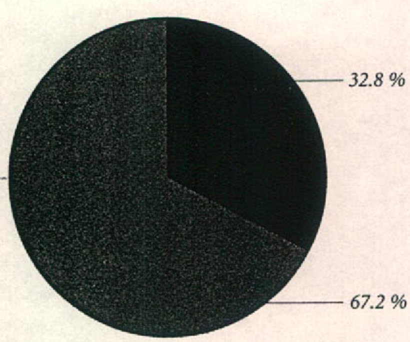
The risks facing Guardian in managing its corporate investment portfolios range from risks in the capital and currency markets generally, to individual security risks particular to investment banking and "special situation" investments. Mindful of these risks, Guardian continuously assesses its investment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

Report on Operations

Business segments The following charts present, by major business activity, your Company's identifiable assets as at December 31, 1992. Also presented are earnings before interest, depreciation, amortization and income taxes by business segment, for the year ended December 31, 1992. Business segment information is presented in detail in the notes to the consolidated financial statements.

Identifiable Assets

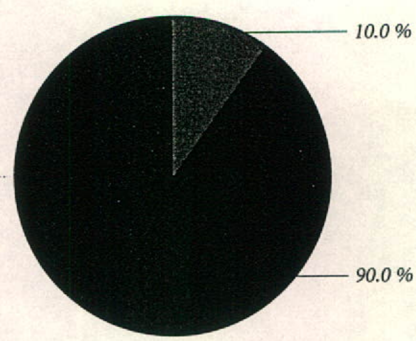
As at December 31, 1992 *($ in thousands)*



Investment Management Services	**$ 25,465**
Investment Banking and Other Financial Activities	**12,444**
	$ 37,909

Earnings Before Interest, Depreciation, Amortization and Income Taxes

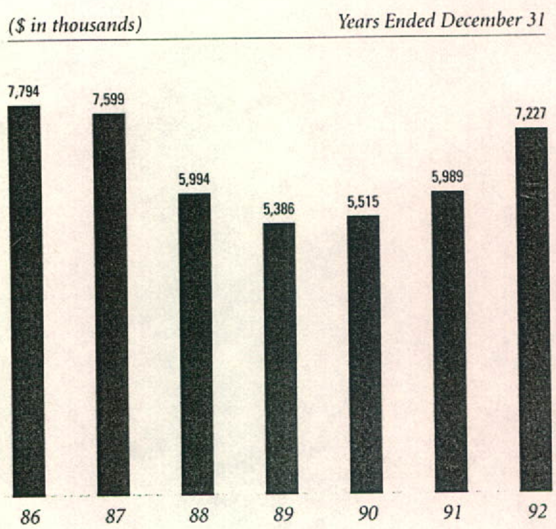
Year Ended December 31, 1992 *($ in thousands)*



Investment Banking and Other Financial Activities	**$ 1,329**
Investment Management Services	**148**
	$ 1,477

Investment Management Fees Investment management fees normally represent most of the revenues from Guardian's business operations. In 1992, investment management fees amounted to $7.2 million, representing 73% of total operating revenues and a 20.7% increase over 1991 fees of $6.0 million. The seven year trend in revenues from investment management fees is shown in the accompanying chart.

Investment Management Fees

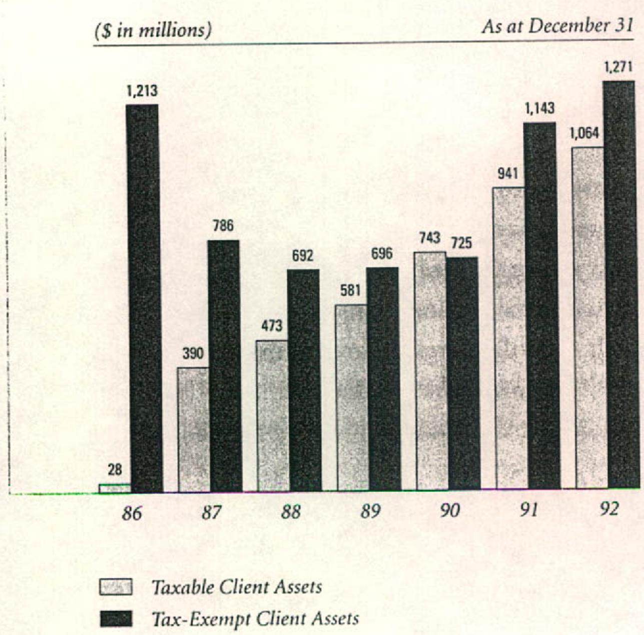


Trends in Client Assets Managed Client assets managed amounted to $2,585,000 at December 31, 1992, up 11.0% compared with $2,328,000 a year earlier and 72% higher than at year end 1988.

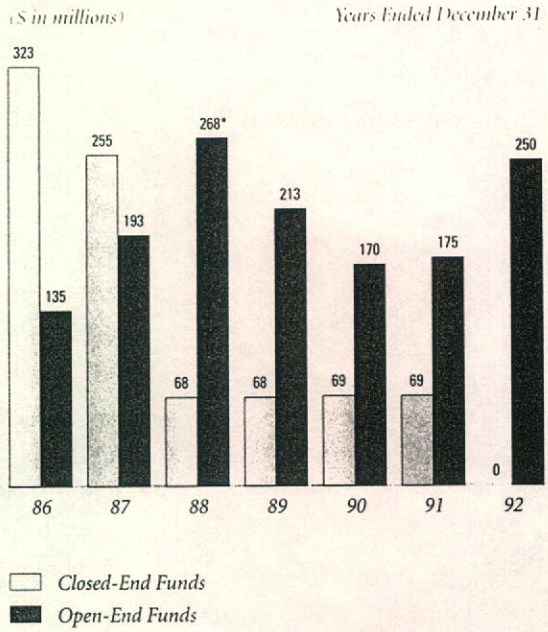
The seven year trend in institutional client assets—comprising (i) tax-exempt government, corporate, university, union and other pension funds, as well as funds of endowments and foundations, and (ii) taxable corporations and individuals, and excluding mutual funds—is shown in the chart below.

The seven year trend in mutual fund assets—comprising (i) the open-end funds of Guardian's Canadian and international organizations, and (ii) closed-end funds— is shown in the chart on page 18.

Institutional Client Assets



Mutual Fund and Closed-End Fund Assets



* *Increase due partly to mutualization of three closed-end funds.*

In October, 1992, Canada Income Plus Fund, a closed-end fund, was terminated as a result of a majority vote by the Fund's unitholders. This led to the distribution of $64 million of assets to unitholders and the reinvestment of $4 million in open-end funds of Guardian. At year end 1992, there were no remaining closed-end funds in the Guardian family of funds and no immediate plans to launch new closed-end funds. All of the firm's mutual fund marketing resources are being focused on supporting the growth of its open-end funds.

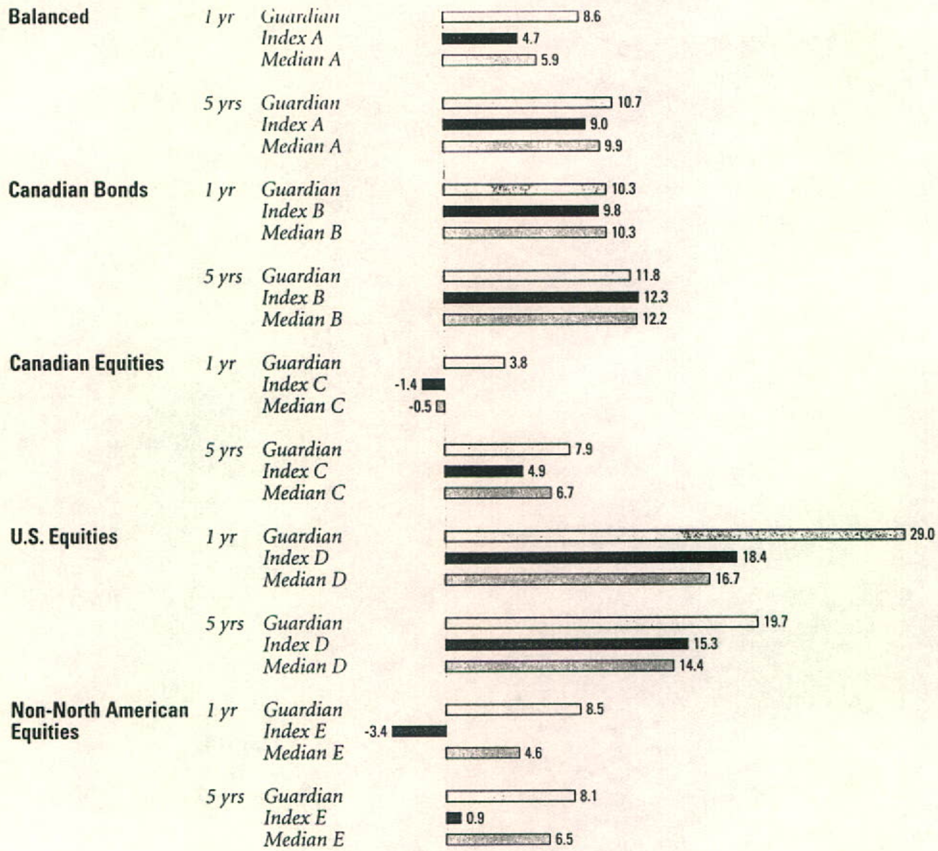
Investment Performance Of the many important ingredients contributing to client satisfaction and to new business development, the most powerful is investment performance. For Guardian, which operates as a multi-specialist manager supplying investment expertise in a global variety of asset classes, investment performance is judged across several "product lines".

Guardian's chosen task is to consistently deliver above-average performance across all asset classes, both in rising and falling markets. In all cases, Guardian endeavours to blend return enhancement with risk control to produce competitively high returns "per unit of risk".

The chart on the following page presents 1-year and 5-year investment results of Guardian's managers in each of the main classes of assignments which Guardian receives from institutional clients. The data shown for Guardian's returns are, in each case, for a composite of portfolios, in line with recommendations of the Association for Investment Management and Research. Guardian's results are compared with those of the relevant market index benchmark and of the "median manager" in the investment manager samples of widely recognized independent performance measurement organizations.

It can be seen that, in virtually every asset class, Guardian's returns were above average over both measurement periods.

Investment Performance *(to December 31, 1992)*



Notes:
All returns in Canadian dollars
All Guardian returns are for composites of portfolios.
Data for asset class components are for securities plus cash.

Indices
A-Composite benchmark comprising 44% Cdn. equities, 16% U.S. equities, 40% Cdn. bonds
B-ScotiaMcLeod Universe Bond Index
C-TSE Total Return Index
D-S&P 500 with Income
E-Morgan Stanley Capital International EAFE Index

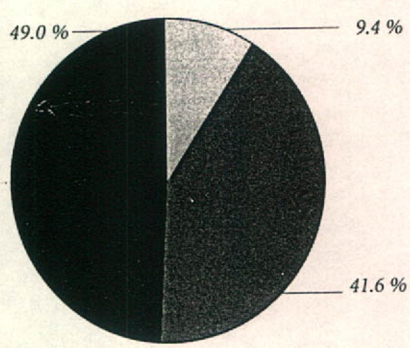
Median manager performance data sources
A-SEI Balanced Universe
B-SEI Fixed Income Funds
C-SEI Canadian Equity Funds
D-SEI U.S. Equities (without cash)
E-SEI Non-North American Equity Funds

Investment Banking and Other Financial Activities Conservative investment, which has characterized the management of your Company's investment resources in recent years, was continued in 1992. These investment resources during 1992 supplied $2.7 million for the payment of dividends, the repurchase for cancellation of Class A shares, interest expense, operating losses and loans advanced to limited partnerships of the mutual funds organization.

At December 31, 1992, the market value of your Company's investment resources—net cash and securities—was $32,026,000, compared with $31.7 million the year before. Unrealized gains, which are not, of course, reflected in reported earnings, amounted to $4.2 million at year end 1992. The holdings are summarized in the charts which follow.

Asset Allocation

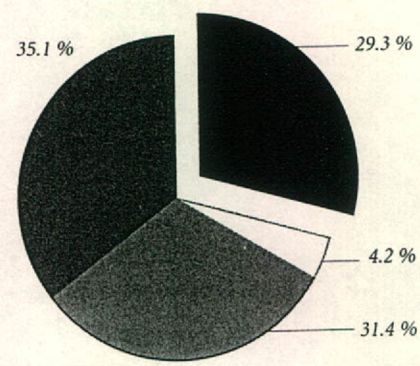
As at December 31, 1992 *($ in thousands)*



Marketable Equities	**$ 15,697**
Cash and Cash Equivalents	**13,330**
Unquoted Equities and Limited Partnerships, net of debt	**2,999**
	$ 32,026

Currency Diversification

As at December 31, 1992 *($ in thousands)*



USA	**$ 11,246**
Europe	**10,056**
Canada	**9,386**
Asia/Pacific	**1,338**
	$ 32,026

Investments

Summary of Securities Holdings *as at December 31, 1992* *($ in thousands)*

Canadian Dollar Investments	**Cost**	**Realizable Value**	**% of Total**
Cash and short-term investments	$ 372	$ 372	1.1%
Cash equivalent securities	1,906	1,886	5.9
Marketable securities	4,444	5,241	16.4
Unquoted securities	2,189	2,348*	7.3
Less: Applicable debt obligations	(461)	(461)	(1.4)
Net Canadian Dollar Investments	8,450	9,386	29.3
Non-Canadian Dollar Investments			
Cash and short-term investments	5,316	5,504	17.2
Cash equivalent securities	5,084	5,568	17.4
Marketable securities	8,174	10,456	32.6
Unquoted Securities	750	1,112*	3.5
Total Non-Canadian Dollar Investments	19,324	22,640	70.7

* As valued by the Directors.

(Cont'd on following page)

Investments *(Cont'd)*

Summary of Securities Holdings *as at December 31, 1992* *($ in thousands)*

All Investments	Cost	Realizable Value	% of Total
Cash and short-term investments	5,688	5,876	18.3
Cash equivalent securities	6,990	7,454	23.3
Marketable securities	12,618	15,697	49.0
Unquoted securities	2,939	3,460	10.8
Total Cash and Securities	28,235	32,487	101.4
Less: Applicable debt obligations	(461)	(461)	(1.4)
Net Cash and Securities	$ 27,774	$ 32,026	100.0%

Liquidity and Capital Resources

Guardian is well financed and has the flexibility and strength to meet all its current and anticipated financing requirements. Except for short term bank financing, used as and when needed, the firm did not require external financing in 1992 and will not for the foreseeable future. The firm's working capital was $4.7 million at December 31, 1992, compared with $9.1 million at the previous year end. The decline was due to an increased allocation of funds to the firm's investment activities. Your Company's liquidity includes the portion of your Company's year-end investment resources represented by $23.1 million of cash equivalents and marketable securities, at market value.

At year-end 1992, your Company's capital structure comprised $24.5 million of shareholders' equity and $6.5 million of convertible debentures. There are no plans to raise long-term debt or equity capital.

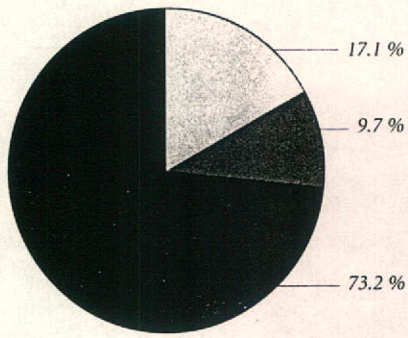
Financial Results of Operations

Revenues Year-over-year trends in gross revenues, and the major components of revenues, were as follows:

($ in thousands)	1992	% of 1992 Total	1991	% Change
Investment management fees	**$7,227**	**73.2%**	$5,989	+20.7%
Fund sales commissions	**762**	**7.7**	272	+180.1
Redemption fees	**130**	**1.3**	210	-38.1
Other revenues	**70**	**0.7**	82	-14.6
Operating revenues	**8,189**	**82.9**	6,553	+25.0
Net investment income	**1,688**	**17.1**	2,340	-27.7
Gross revenues	**$9,877**	**100.0%**	$8,893	+11.1%

Gross Revenues

Year Ended December 31, 1992 ($ in thousands)



Investment Management Fees	**$ 7,227**
Net Investment Income	**1,688**
Commissions and other Revenues	**962**
	$ 9,877

Investment management fees, which accounted for 73% of gross revenues in 1992, rose by 20.7%, primarily due to increased client assets managed.

Fund sales commission growth of 180.1% in 1992 was directly related to increased commissionable fund sales during the year. Commission revenues are received from limited partnerships which finance the commissions paid on deferred-load fund sales, and from front-load commissions paid by mutual fund buyers. These commission revenues are offset in part by commissions paid by Guardian to mutual fund representatives.

Redemption fees arise from the charges paid by unitholders of closed-end funds terminated or mutualized by majority vote of the unitholders on terms which included the payment of a redemption fee.

Net investment income in 1992 comprises approximately $970,000 of realized capital gains, $660,000 of interest income and $60,000 of dividends.

Other revenues were primarily fees earned in the offshore trust operations of Alexandria Bancorp Limited. The chart above summarizes the main components of gross revenues for the year 1992.

Expenses Operating costs increased to $8,400,000, up 18.6% or $1,320,000 from the previous year. Approximately half of operating costs are attributable to personnel costs.

The main component of increased costs was $657,000 of start-up expenses relating to Guardian Capital Advisors and Alexandria Bancorp Limited. Mutual fund commission payments and compensation to professional staff also rose. The increased cost of commission payments was more than offset by an increase in commission revenues.

Cash Flow Cash flow from operations before interest expense and income taxes for 1992 was $1.5 million. This compared with the $1.8 million generated in 1991, and negative cash flow of $1.2 million in 1990.

Earnings Earnings before tax recoveries, equity earnings and goodwill written off were $383,000 in 1992, approximately unchanged from $391,000 in 1991. Results for 1992 represent a positive swing of $3.3 million when compared with the loss of $3.0 million of 1990, and underline the continuing longer term improvement in your Company's business.

Net earnings in 1992 were $425,000, compared with a loss of $5,847,000, when there was a write-off of goodwill amounting to $6,322,000. Earnings per share were $0.07 in 1992, compared with a 1991 earnings of $0.08 before goodwill written off and a loss of $1.01 after goodwill written off.

Total Assets and Shareholders' Equity Total assets increased to $37.9 million at December 31, 1992, up from $35.2 million, after the $6.3 million write off of goodwill at the previous year-end.

Total liabilities were $13.4 million in 1992 versus $12.6 million in 1991. The increase in liabilities was due to the increase in short-term bank overdrafts of $1.8 million, partially offset by the repayment of deferred revenues of $1.3 million to Canada Income Plus Fund, when this closed-end fund was terminated.

Shareholders' equity at December 31, 1992, was $24.5 million compared with $22.6 million at year-end 1991. Shareholders' equity increased mainly due to a positive swing of approximately $2.0 million in the Canadian dollar value of assets stated in foreign currencies.

Quarterly Statistics

	1992				1991			
	Q1	**Q2**	**Q3**	**Q4**	Q1	Q2	Q3	Q4
($ in thousands)								
Gross revenue	**$ 2,512**	**$ 2,263**	**$ 2,802**	**$ 2,300**	$ 2,162	$ 2,065	$ 2,207	$ 2,459
Net earnings (loss)	**237**	**(61)**	**446**	**(197)**	156	70	89	160[1]
Shareholders' equity	**23,438**	**23,182**	**24,614**	**24,512**	28,960	28,404	28,295	22,586[2]
(In dollars)								
Per average Common and Class A share								
Net earnings (loss)								
–Basic	**0.04**	**(0.01)**	**0.08**	**(0.04)**	0.03	0.01	0.01	0.03
–Fully diluted	**0.04**	**(0.01)**	**0.08**	**(0.04)**	0.03	0.01	0.01	0.03
Per Common and Class A share								
Shareholders' equity								
–Basic	**4.08**	**4.03**	**4.29**	**4.30**	4.95	4.93	4.92	3.93
–Excluding Goodwill	**3.29**	**3.25**	**3.46**	**3.47**	3.97	4.01	3.18	3.24

[1] Before goodwill written off.

[2] After goodwill written off of $6,322,000.

Seven Year Review

December 31	1992	1991	1990	1989	1988	1987	1986
($ in millions)							
Value of client assets managed	**$2,585**	$2,328	$1,707	$1,558	$1,501	$1,624	$1,699
($ in thousands)							
Gross revenues	**9,877**	8,893	6,663	9,793	10,647	16,930	9,817
Operating expenses (Excl. depreciation, amortization and interest)	**8,400**	7,080	7,911	7,477	7,523	8,695	6,667
Earnings (loss) from operations	**1,477**	1,813	(1,248)	2,316	3,124	8,235	3,150
Earnings (loss) before taxes and goodwill written off	**383**	407	(2,846)	141	2,140	5,928	3,794
Goodwill written off	—	(6,322)	—	—	—	—	—
Net earnings (loss)							
–before extraordinary items	**425**	(5,847)	(2,118)	568	1,581	4,043	2,165
–for the year	**425**	(5,847)	(2,118)	568	2,334	11,005	2,165
Shareholders' equity	**24,512**	22,586	28,916	32,512	33,725	33,619	19,871
(In dollars)							
Per average Common and Class A share							
Earnings (loss) from operations							
–basic	**0.24**	0.31	(0.21)	0.41	0.53	1.43	0.60
–fully diluted	**0.24**	0.31	(0.21)	0.37	0.49	1.29	0.60
Net earnings (loss) before extraordinary items							
–basic	**0.07**	(1.01)	(0.36)	0.10	0.27	0.70	0.41
–fully diluted	**0.07**	(1.01)	(0.36)	0.09	0.25	0.60	0.41
Net earnings (loss) for the year							
–basic	**0.07**	(1.01)	(0.36)	0.10	0.40	1.92	0.41
–fully diluted	**0.07**	(1.01)	(0.36)	0.09	0.36	1.52	0.41
Per Common and Class A share							
Dividends paid	**0.05**	0.00	0.00	0.16	0.16	0.15	0.15
Shareholders' equity							
–basic	**4.30**	3.93	4.93	5.73	5.87	5.84	3.75
–fully diluted	**3.47**	3.24	3.91	4.21	4.35	4.38	3.75
Share price							
Common –High	**5.75**	6.00	6.00	6.75	7.25	10.50	9.00
–Low	**4.50**	4.30	4.90	5.63	5.88	6.00	3.55
Class A –High	**4.75**	4.25	5.25	5.75	6.25	8.50	6.25
–Low	**3.60**	3.60	4.00	4.20	4.85	4.55	4.60
(In thousands)							
Year-end Common and Class A shares outstanding							
–basic	**5,704**	5,750	5,858	5,665	5,742	5,753	5,306
–fully diluted	**7,062**	6,970	7,387	7,716	7,740	7,670	5,306

Management's Statement on Financial Reporting

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

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in this annual report is consistent with that in the financial statements.

In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized on pages 29 and 30. Management maintains a system of internal controls to meet its responsibilities for the integrity of the financial statements. Management also administers a program of ethical business conduct compliance.

Coopers & Lybrand, the company's independent auditors, have examined the accompanying financial statements. Their report follows.

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

John Christodoulou

John M. Christodoulou
President and Chief Executive Officer
March 31, 1993

Auditors' Report

To the Shareholders of Guardian Capital Group Limited
We have audited the consolidated balance sheets of Guardian Capital Group Limited as at December 31, 1992 and 1991 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, 1992 and 1991 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 26, 1993

Consolidated Balance Sheets

as at December 31, 1992 and 1991

	1992	1991
		($ in thousands)
Assets		
Current Assets		
Cash	$ —	$ 16
Short term investments	5,688	10,117
Accounts receivable	2,449	1,953
Investment income receivable	309	115
Prepaid expenses	81	49
	8,527	12,250
Investments (note 2)	22,547	17,040
Loan Receivable (note 3)	1,023	—
Fixed Assets (note 4)	590	545
Unamortized Debenture Issue Costs	91	114
Goodwill (note 5)	5,131	5,286
	$ 37,909	$ 35,235
Liabilities		
Current Liabilities		
Bank overdrafts	$ 1,793	$ —
Accounts payable and accrued liabilities	1,597	1,662
Income taxes payable	393	235
Deferred income	—	1,284
	3,783	3,181
Long Term Debt (note 6)	6,961	6,948
Deferred Income Taxes	2,653	2,520
	13,397	12,649
Shareholders' Equity		
Capital Stock (note 7)	10,269	10,354
Foreign Currency Translation Adjustment	(141)	(2,119)
Retained Earnings	14,384	14,351
	24,512	22,586
	$ 37,909	$ 35,235

Signed on behalf of the board

Anthony Griffin,
Director

John Christodoulou,
Director

Consolidated Statements of Retained Earnings

For the years ended December 31, 1992 and 1991

($ in thousands)

	1992	1991
Balance, beginning of year	$ 14,351	$ 20,422
Net earnings (loss)	425	(5,847)
	14,776	14,575
Less:		
Dividend paid	288	—
Excess of purchase price over issue price on Company's capital stock acquired (note 7(e))	104	224
	392	224
Balance, end of year	$ 14,384	$ 14,351

Consolidated Statements of Operations

For the years ended December 31, 1992 and 1991($ in thousands, except per share amounts)

	1992	1991
Revenue		
Management fees	$ 7,227	$ 5,989
Redemption fees	130	210
Net investment income	1,688	2,340
Other income	70	82
Sales commission	762	272
	9,877	8,893
Expenses		
Expenses exclusive of undernoted items	8,400	7,080
Depreciation	200	357
Amortization	178	327
Interest on long term debt	553	553
Other interest	163	185
	9,494	8,502
Earnings before the undernoted	383	391
Goodwill written off (note 5)	—	6,322
Earnings (loss) before income taxes	383	(5,931)
Recovery of income taxes (note 8)	42	68
Earnings (loss) before the undernoted	425	(5,863)
Equity in earnings of an investment	—	16
Net earnings (loss) for the year	$ 425	$ (5,847)
Net earnings (loss) per Common and Class A share (note 9)		
–basic	$ .07	$ (1.01)
–fully diluted	$ .07	$ (1.01)
Weighted average number of Common and Class A shares outstanding *(in thousands)*		
–basic	5,743	5,776
–fully diluted	7,126	6,994

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 1992 and 1991

	1992	1991
		($ in thousands)
Cash from Operations		
Net earnings (loss) for the Year	$ 425	$ (5,847)
Add (deduct) items not involving cash-		
Depreciation	200	357
Amortization	178	327
Goodwill written off	—	6,322
Deferred income taxes	133	133
Equity earnings, net of dividends received	—	103
Net gain on sale of investments	(967)	(498)
	(31)	897
Net change in working capital excluding cash	(1,913)	1,294
	(1,944)	2,191
Financing Activities		
Acquisition of Company's capital stock	(189)	(427)
Dividend paid	(288)	—
Increase in long-term debt, net of current portion	13	11
Repayment of note	—	502
Loan advance	(1,023)	—
	(1,487)	86
Investment Activities		
Capitalization of costs as Goodwill	—	(94)
Acquisition of investments	(7,201)	(12,414)
Proceeds on sale of investments	3,849	22,910
Purchase of fixed assets	(245)	(20)
	(3,597)	10,382
Net change in cash and short-term investments net of bank loan and overdrafts, during the year	(7,028)	12,659
Foreign currency translation adjustment	790	—
Cash and short-term investments net of bank loan and overdrafts, beginning of year	10,133	(2,526)
Cash and short-term investments net of bank loan and overdrafts, end of year	$ 3,895	$ 10,133

For the years ended December 31, 1992 and 1991

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.

Summary of Significant Accounting Policies *(Cont'd)*

(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.

Investments

Portfolio of investments *as at December 31, 1992 and 1991* *($ in thousands)*

	Market value		Carrying value	
(see note 1(b))	**1992**	1991	**1992**	1991
(a) Securities having a quoted market value				
Cash equivalents	**$ 7,454**	$ 6,240	**$ 6,990**	$ 5,899
Investments in equity mutual funds managed by a subsidiary	**6,775**	4,887	**6,558**	4,764
Diversified common share holdings	**8,919**	7,504	**6,060**	3,352
	$ 23,148	$ 18,631	**19,608**	14,015
(b) Company at equity				
Guardman			**209**	388
(c) Securities not having a quoted market value				
Private corporations and limited partnerships			**2,730**	2,637
Total portfolio of investments			**$ 22,547**	$ 17,040

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)).

Loan Receivable

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

Fixed Assets

	1992	1991
	($ in thousands)	
Computer hardware and software	$ 1,239	$ 1,111
Furniture and equipment	564	546
Leasehold improvements	223	355
	2,026	2,012
Less accumulated depreciation and amortization	1,436	1,467
	$ 590	$ 545

Goodwill Write Down

In 1991 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 was $184,000 write off of goodwill relating to the start up costs of Alexandria Bancorp Ltd., the group's offshore banking operation.

Long Term Debt

	1992	1991
	($ in thousands)	
Convertible debentures ((a) below)	$ 6,500	$ 6,500
Mortgages payable ((b) below)	316	316
Notes payable ((b) below)	145	132
	$ 6,961	$ 6,948

(a) The 8 1/2% convertible subordinated debentures mature on December 15, 1996 and are convertible into 1,083,333 Class A non-voting shares at a price of $6 per share.

(b) The mortgages payable bear interest at 9% and are due February 1, 1996. 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.

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, no par value shares, dividends and liquidation privileges are 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)

	1992		1991	
(b) Issued and outstanding	Shares	Amount	Shares	Amount
Class A ((c) below)	**4,705**	**$ 8,792**	4,751	$ 8,877
Common	**999**	**1,477**	999	1,477
		$ 10,269		$ 10,354

(c) Class A shares				
Outstanding, beginning of year	**4,751**	**$ 8,877**	4,859	$ 9,080
Acquired during the year ((e) below)	**46**	**(85)**	108	(203)
Outstanding, end of year	**4,705**	**$ 8,792**	4,751	$ 8,877

(d) As at December 31, 1992, 275,000 (135,000 at December 31, 1991) 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 $4.50 to $5.38 per share.

(e) During 1992 the Company acquired 45,600 (108,300 in 1991) of its own Class A shares for $189,000 ($427,000 in 1991), of which $104,000 ($224,000 in 1991) was charged directly to retained earnings.

Income Taxes

	1992	1991
		($ in thousands)
(a) The (recovery of) provision for income tax comprises:		
Current tax	**$ (16)**	$ (201)
Deferred tax	**(26)**	133
	$ (42)	$ (68)

(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:

	1992	1991
Earnings (loss) before income taxes	**$ 383**	$ (5,931)
Tax exempt portion of capital gains	**(56)**	(135)
Non-deductible amortization	**132**	327
Goodwill written off	**—**	6,322
Foreign investment and operating income	**(793)**	(1,812)
Dividend income	**(61)**	(69)
Losses not tax effected	**772**	2,215
Difference between tax value and book value of investment sold	**—**	(1,208)
Use of losses carried forward	**(454)**	—
Other	**(18)**	136
	(478)	5,776
	$ (95)	$ (155)
At statutory rate of 44% (1991–44%)	**$ (42)**	$ (68)

(c) The group has unutilized non capital tax losses of approximately $2,106,000 ($2,157,000 in 1991) available for utilization against future taxable profits. These losses expire in the periods 1997 to 1999.

9 Net Earnings (Loss) Per Share

The calculation of basic net earnings (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 net earnings (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.

Commitments and Contingencies

The Company has leases which expire on various dates between 1993 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, 1992 are as follows:

1993	$ 396,000
1994	380,000
1995	320,000
1996	320,000
1997 and thereafter	720,000
	$ 2,136,000

In October, 1989, a statement of claim for $5,000,000 was issued against the Company and certain of its subsidiaries, 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 matured in March, 1992 and a gain of $206,000 was realized. At December 31, 1991, the Company had an unrealized gain on these contracts of $64,500, which had not been recorded.

Business Segments

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

	1992	1991	1992	1991	1992	1991
	Investment Management Services*		Investment Activities		Consolidated	
Identifiable assets	**$ 25,465**	$ 26,038	**$ 12,444**	$ 9,197	**$ 37,909**	$35,235
Income	**$ 8,302**	$ 7,206	**$ 1,575**	$ 1,687	**$ 9,877**	$ 8,893
Expenses						
General	**7,998**	6,905	**246**	47	**8,244**	6,952
Interest on long term debt	**—**	—	**553**	553	**553**	553
Depreciation and amortization	**378**	718	**—**	—	**378**	718
	8,376	7,623	**799**	600	**9,175**	8,223
Earnings before the undernoted	**$ (74)**	$ (417)	**$ 776**	$ 1,087	**702**	670
General corporate expenses					**319**	279
Goodwill written off					**—**	6,322
Earnings (loss) before income taxes					**383**	(5,931)
Income tax recovery					**42**	68
Earnings (loss) before equity in earnings of an investment					**$ 425**	$ (5,863)

(*) Investment counselling, mutual funds and other financial services.

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

	1992	1991	1992	1991	1992	1991
	Canada		Rest of World		Consolidated	
Identifiable assets	**$ 13,022**	$13,409	**$ 24,887**	$21,826	**$ 37,909**	$35,235
Income	**$ 8,444**	$ 6,640	**$ 1,433**	$ 2,253	**$ 9,877**	$ 8,893
Expenses						
General	**8,476**	7,526	**640**	258	**9,116**	7,784
Depreciation and amortization	**378**	718	**—**	—	**378**	718
	8,854	8,244	**640**	258	**9,494**	8,502
Earnings (loss) before undernoted	**(410)**	(1,604)	**793**	1,995	**383**	391
Goodwill written off	**—**	6,139	**—**	183	**—**	6,322
Earnings (loss) before income taxes	**(410)**	(7,743)	**793**	1,812	**383**	(5,931)
Income tax recovery	**42**	68	**—**	—	**42**	68
Earnings (loss)before equity in earnings of an investment	**$ (368)**	$ (7,675)	**$ 793**	$ 1,812	**$ 425**	$ (5,863)

Directors and Officers

Board of Directors

Guardian Capital Group Limited

Management Directors
C. Verner Christensen
John M. Christodoulou
Mark A.F. Golding

Independent Directors
George N.M. Currie[1]
Paul C. Dietche
F. Douglas Gibson[1]
Anthony G.S. Griffin[1]
Michel Sales
John Seltzer

(1) Member, Audit Committee.

Principal Officers

Guardian Capital Group Limited

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

J.J. Woolverton
Managing Director & Chief Operating Officer

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

Nairn J. Cutten
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

Stuart J. Freeman
Vice-President, Operations

Richard G. Stone
Vice-President, Product Manager

Roy J. Jacobson
Controller

Guardian Capital Advisors

Mark A.F. Golding
Chairman

Gareth S. Seltzer
Vice President, Private Banking

Corporate Information

Bankers and Principal Custodian
Canadian Imperial Bank of Commerce

Legal Counsel
Fasken Campbell Godfrey

Corporate Offices
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Toronto, Ontario,
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Fax: (416) 947-0601

Auditors
Coopers & Lybrand

Registrar and Transfer Agent
Montreal Trust Company of Canada

Toronto Stock Exchange Listing

Shares	Symbol
Common	GCG
Class A	GCG.A

Annual Meeting

11 a.m., June 10, 1993, Corporate Offices