

Guardian
Capital Group
Limited

Annual Report
1984

Guardian Capital Group Limited

Annual Report 1984

To the Shareholders

The year 1984 was quite a difficult one in the North American markets. The bond market was very weak up to June and quite strong thereafter; the stock market, as a whole, was weak in January-February, and strong in August — otherwise it meandered about rather indecisively for most of the year. Relatively few investors achieved spectacular results in 1984.

The year 1984 was an eventful year in political terms. In Canada we saw the defeat of the Liberal government and the election victory of Brian Mulroney and the Progressive Conservative Party. In the U.S., President Reagan was re-elected for a second term, although his personal popularity did not extend as much as expected into Senate and Congressional Republican seats. In Canada since the election, two clear changes in thrust have been implemented; the first is to make quite clear that Canadian economic friendship and co-operation with the U.S. is a high priority; the second is the dismantling of the National Energy Program and a return to a more private enterprise oriented oil & gas industry environment. In both countries, the issues of fiscal deficits and of tax simplification remain unresolved so far.

Guardian's main activity continues to be its fiduciary money management business with pension fund management being, in total assets managed, the major part of this business. Results in 1984 were quite good on the Canadian equity side but we made insufficient use of the significant bond market rally that occurred in the third quarter of the year, and this lack of participation caused our total pension fund results in 1984 to be less satisfactory than they otherwise would have been.

During the year 1984, Guardian-Morton Shulman Precious Metals Inc., our joint venture with Dr. Morton Shulman, performed relatively well in spite of a very weak gold market by virtue of having a very substantial portion of assets in short-term U.S. dollar denominated fixed income securities. The Company also participated in certain specific security opportunities which added substantially to results. During 1984 also, we created in combination with several major investment dealers, a company called Guardian Pacific Rim Corporation, which invests in Japan and other Far Eastern economies which have favourable economic promise.

For the future, we continue to place major emphasis on our pension fund management activities, since this is a large and growing business which offers good potential in return for good results in the years ahead. In combination with this, we expect in 1985 and in subsequent years to place somewhat more emphasis than we have in the past on our mutual fund sales and management activities. It is in tune with the philosophy of the times that there should be more opportunity for individuals to do their own retirement saving on an individual basis, as well as or in addition to their participation in corporate and institutionalized pension fund activities. Mutual funds are an ideal way for individuals to implement their investment management decisions in their own tax-sheltered or other retirement savings plans. We think it is important that Guardian should have a well-rounded range of mutual fund products. Therefore, from time to time, we expect to create new mutual funds which fill a particular niche. In this regard, we are currently launching a "timing" fund we call Guardian Computer Trend Fund. This approach demonstrates a very attractive return over the rather choppy markets of the last fifteen years. We believe that there is inherent validity in the approach which will make the return offered by Guardian Computer Trend Fund attractive in the future also.

As this letter is being written, we are just about to participate with our partners in Guardman, Dr. Morton Shulman, Andrew Sarlos and Fred McCutcheon, and the Hume organization (who are responsible for the creation of the "MoneyLetter" investment advisory letter and various other investment management courses) in the management of a new group of mutual funds called the "Hume Growth and Income Funds". Market needs in the investment area have been very carefully researched by Hume over the last many months and they have concluded that there is substantial demand for a fund which, while basically safe and income earning as is a bank account or trust company savings account, also offers the potential for some additional growth to help build capital and to offset inflationary influences. The Hume organization has designed the Hume Growth and Income Funds very carefully to meet their researched market needs and has appointed Guardman, in which company Guardian owns a 35% equity interest, to be the advisor to these funds. The direct mail marketing launch of these funds is due to commence quite shortly and both Hume and Guardman have high expectations for substantial growth from these new investment vehicles.

On behalf of the Board,
Your sincerely,



Norman Short

May 1, 1985

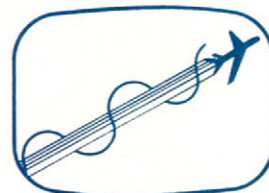


The
Guardian
Group
of Funds

Guardian
Growth Fund
Limited

Guardian Pension
Fund

Guardian U.S.
Equity Fund



GUARDIAN-MORTON SHULMAN
PRECIOUS METALS INC.

GUARDIAN COMPUTER TREND FUND

Guardian Capital Group Limited and Subsidiary Companies

Financial Highlights

December 31st:	1980	1981	1982	1983	1984
Year-end shares outstanding	1,142,090	1,099,449	1,042,767	1,003,643	999,293
Value of Fiduciary Assets Managed and Advised (\$ Millions)	564.2	616.1	917.4	1,150.9	1,178.2
Value of Company's Owned Assets (\$ Millions)	12.4	11.7	13.8	15.1	15.9
Per share outstanding	\$ 10.85	\$ 10.66	\$ 13.25	\$ 15.00	\$ 15.96
Revenues and Earnings					
Gross revenues	\$3,522,912	\$4,045,247	\$5,145,564	\$6,631,231	\$9,036,053
Operating earnings	1,266,394	1,406,927	1,586,536	2,247,953	2,478,216
Net gain on investments	2,303,098	450,672	470,304	496,600	431,731
Earnings before tax and equity in other companies	3,569,492	1,857,599	2,056,840	2,744,553	2,909,947
Net earnings	3,003,572	1,714,478	1,397,634	1,844,499	2,274,334
Net earnings per average share outstanding	\$ 2.76	\$ 1.52	\$ 1.30	\$ 1.83	\$ 2.27
Dividends paid per share outstanding	\$ 0.70	\$ 0.50	\$ 0.62	\$ 0.65	\$ 0.75

Consolidated Balance Sheet

as at December 31, 1984

	1984	1983
Assets		
Investments —		
Companies — at equity (Note 3)	\$ 4,676,074	\$ 4,219,279
Portfolio — at cost	6,503,004	4,127,907
Tax shelters —		
Films — at cost, less accumulated amortization	500,000	4,354,166
Oil and gas — at cost	105,600	110,000
Cash and short-term deposits	3,112,621	3,238,439
Receivables	948,180	805,397
Prepaid expenses	61,943	46,080
Fixed assets (Note 4)	300,841	280,171
Goodwill — at cost	2,759,736	2,759,736
	\$18,967,999	\$19,941,175
Liabilities		
Accounts payable and accrued liabilities	\$ 666,739	\$ 973,896
Income taxes —		
Currently payable	1,643,470	113,385
Deferred	525,680	1,482,815
Deferred gains	59,198	66,969
Long-term debt (Note 5)		
Current	21,284	23,984
Long-term	—	3,035,374
	2,916,371	5,696,423
Shareholders' Equity		
Capital stock (Note 6)		
Authorized —		
2,216,909 shares without par value;		
(1983 — 2,300,619 shares)		
Issued and fully paid —		
999,493 shares;		
(1983 — 1,083,203 shares)	5,328,714	5,774,888
Unrealized foreign exchange gain	411,000	61,000
Retained earnings	10,314,855	9,425,972
	16,054,569	15,261,860
Less: 200 shares owned by the Company		
(1983 — 79,560 shares)	2,941	1,017,108
	16,051,628	14,244,752
	\$18,967,999	\$19,941,175

The accompanying notes are an integral part of this financial statement.

Signed on behalf of the Board
Norman J. Short, Director
Gurston I. Rosenfeld, Director

Guardian
Capital Group
Limited
and Subsidiary
Companies

Consolidated
Statement
of Earnings

for the year ended
December 31, 1984

	1984	1983
Income		
Basic management fees	\$4,294,589	\$4,308,291
Supplementary management fees	416,231	387,156
Investment income	4,325,233	1,935,784
	<u>9,036,053</u>	<u>6,631,231</u>
Expenses		
Expenses exclusive of undernoted items	3,325,328	3,004,296
Depreciation and amortization	3,072,360	1,261,596
Interest on long-term debt	160,149	117,386
	<u>6,557,837</u>	<u>4,383,278</u>
	2,478,216	2,247,953
Net gain on investments	<u>431,731</u>	<u>496,600</u>
	2,909,947	2,744,553
Income taxes		
Current	2,042,422	1,085,409
Deferred	(802,681)	271,342
	<u>1,239,741</u>	<u>1,356,751</u>
	1,670,206	1,387,802
Equity in net earnings of other companies	<u>604,128</u>	<u>456,697</u>
Net earnings for the year	<u>\$2,274,334</u>	<u>\$1,844,499</u>
Net earnings per share (Note 8)	<u>\$2.27</u>	<u>\$1.83</u>

The accompanying notes are an integral part of this financial statement.

Consolidated
Statement
of Retained
Earnings

for the year ended
December 31, 1984

	1984	1983
Balance — Beginning of year	\$9,425,972	\$8,266,298
Add:		
Net earnings for the year	2,274,334	1,844,499
	<u>11,700,306</u>	<u>10,110,797</u>
Deduct:		
Dividends	749,620	677,785
Loss on cancellation of Company's capital stock acquired from shareholders (Note 6)	635,831	7,040
	<u>1,385,451</u>	<u>684,825</u>
Balance — End of year	<u>\$10,314,855</u>	<u>\$ 9,425,972</u>

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Changes in Net Assets

for the year ended
December 31, 1984

	1984	1983
Net assets — Beginning of year	\$14,244,752	\$13,757,706
Increased by —		
Net earnings for the year	2,274,334	1,844,499
Proceeds from issue of capital stock	—	323,648
Unrealized foreign exchange gain	350,000	14,000
	2,624,334	2,182,147
Decreased by —		
Acquisition of Company's capital stock (Note 6)	67,838	1,017,316
Dividends	749,620	677,785
	817,458	1,695,101
	1,806,876	487,046
Net assets — End of year	\$16,051,628	\$14,244,752

The accompanying notes are an integral part of this financial statement.

Auditors' Report to the Shareholders of Guardian Capital Group Limited

We have examined the consolidated balance sheet and the consolidated statement of portfolio investments of Guardian Capital Group Limited as at December 31, 1984 and the consolidated statements of earnings, retained earnings and changes in net assets for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1984 and the results of its operations and the changes in its net assets for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change as explained in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

Toronto, March 14, 1985

Smith Nixon & Co.
Chartered Accountants

Guardian
Capital Group
Limited
and Subsidiary
Companies

Consolidated
Statement
of Portfolio
Investments

as at December 31, 1984

	Number of Shares or Units	Cost	Market Value
Securities having a quoted market value			
Guardian Pacific Rim Corporation — "A"	100,000	\$1,000,000	\$ 787,500
— warrants	100,000	16,781	76,000
International Business Machines Corp. — 7.875% Conv. Sub. Debenture	\$ 500,000	660,933	662,502
International Business Machines Corp.	2,500	387,051	406,836
Avatar Holdings Inc.	27,078	467,819	572,624
Avatar Holdings Inc. — 8% Sr. Debenture	\$ 66,200	49,290	48,123
Tyndall-Guardian Investments Ltd. — "B"	17,365	515,952	556,111
Tyndall-Guardian Wall Street Fund Ltd.	15,563	366,710	528,228
Barrick Resources Corporation	300,368	122,321	459,563
GAC Units of Stub Interest	41,720	—	275,707
GAC Liquidating Trust Units of Beneficial Interest	38,699	139,876	182,200
Tyndall-Guardian Commodity Fund Ltd.	5,284	120,050	161,607
Diceon Electronics Inc.	10,000	198,272	155,300
Wang Labs Inc. "B"	4,500	189,137	153,895
Philips Gloeilampenfabriken N.V. ADR	7,000	140,866	144,561
Guardian Computer Trend Fund	10,000	100,000	101,671
Syntrex Inc.	20,000	198,784	99,127
The Sarlos & Zuckerman Fund	100	90,700	97,300
Sensormatic Canada Ltd.	8,000	98,450	80,624
Pioneer Systems Inc.	10,000	122,254	77,650
Echo Bay Mines Ltd.	5,000	54,375	58,125
Computer Communications Corp.	25,000	70,823	53,694
Lescarden Ltd.	25,000	55,823	37,173
Geddes Resources Limited — Warrants	7,500	—	75
		5,166,267	\$5,776,238
Securities not having a quoted market value			
Robert Cooper Productions Inc. — Common	1,750,000	297,500	
Class B pref.	30,000	300,000	
International Imaging Materials Inc. "A"	94	383,881	
Cooper Rosenfeld Productions Inc. (22.2%)	50	150,000	
The Cats Company of Canada	4	100,000	
Miscellaneous		105,356	
		1,336,737	
		\$6,503,004	

The accompanying notes are an integral part of this financial statement.

Notes to Consolidated Financial Statements

for the year ended
December 31, 1984

1. Summary of significant accounting policies

(a) Principles of Consolidation

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

(b) Investments

Investments in companies in which the Company has significant influence are accounted for by the equity method.

Portfolio investments are carried at cost.

The investment in films is amortized on a straight-line basis over three years or less, depending upon the estimated period during which any significant income from them can be anticipated.

Oil and gas investments are carried at cost.

(c) Fixed Assets

Computer hardware and software are depreciated on the straight-line basis at 20% per annum.

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 term of the lease.

(d) Goodwill

Goodwill which arose prior to March 31, 1974, does not, in the opinion of management, require amortization at this time.

(e) Income Taxes

The companies have deferred to future periods the income taxes resulting from claiming deductions for tax purposes in excess of the amounts charged in the accounts.

(f) Deferred Gains

The Company has deferred to future periods the gains on disposition of assets to companies which are accounted for by the equity method. The recognition of these gains is deferred until such assets are sold to third parties.

(g) Translation of foreign currency

I. Accounts in foreign currencies have been translated into Canadian dollars as follows:

- (i) cash, short-term deposits and receivables at the year-end exchange rate;
- (ii) purchases and sales of investments and income and expenses at the rate of exchange prevailing on the respective dates of such transactions; and
- (iii) The resulting foreign exchange gains or losses have been included in the statement of earnings.

II. Accounts of a self-sustaining foreign subsidiary have been translated into Canadian dollars as follows:

- (i) assets and liabilities at the year-end exchange rate;
- (ii) income, expenses and equity earnings at average monthly rates; and
- (iii) The resulting foreign exchange gains or losses have been excluded from the statement of earnings until realized and are accumulated as a separate component of Shareholders' Equity.

(h) Management Fees

The companies provide management, investment advisory and transfer agency services to mutual funds and investors on a contract basis in consideration for management fees.

Under some contracts the companies are entitled to earn supplementary fees if the managed portfolio outperforms certain stock market averages.

2. Change in Accounting Policy

In accordance with the accounting recommendation issued by the Canadian Institute of Chartered Accountants, the Company revised its method of foreign currency translation with respect to self-sustaining foreign operations. This change, effective January 1, 1984, has been applied retroactively and the resulting restatement of the comparative figures has had no material effect on the financial statements previously reported on.

Guardian Capital Group Limited and Subsidiary Companies

Notes to Consolidated Financial Statements

for the year ended
December 31, 1984

3. Investments

Investments in companies accounted for by the equity method are:

	1984	1983
Tyndall-Guardian Limited — shares — Common — (34.74%; 1983 — 34.74%)	\$4,357,306	\$4,056,424
Guardman Investment Management Services Inc. — shares — Special (37.2%; 1983 — 35.7%)	178,194	129,263
Common (30.8%; 1983 — 25.0%)	140,574	33,592
	\$4,676,074	\$4,219,279

4. Fixed Assets

	1984			1983
	Cost	Accumulated Depreciation and Amortization	Net	Net
Computer hardware and software	\$282,980	\$144,546	\$138,434	\$138,434
Furniture and equipment	352,555	194,419	158,136	133,104
Leasehold improvements	114,312	110,041	4,271	8,901
	\$749,847	\$449,006	\$300,841	\$280,171

5. Long-term debt

	Outstanding at December 31,	
	1984	1983
14.25% note payable due July 14, 1984 secured by the film investment	\$ 21,284	\$ 23,984
15% note payable due December 31, 1986	—	135,374
12% note payable due November 30, 1987	—	2,900,000
	21,284	3,059,358
Less: current portion	21,284	23,984
	\$ —	\$3,035,374

Repayment of these notes has been accelerated to the extent that revenue from the films has been applied against the outstanding balances.

6. Capital stock

During the year the Company acquired 4,350 of its own shares for \$67,838 cash and cancelled 83,710 shares, of which 79,560 had been acquired in 1983. Such cancellation, which reduced the number of authorized and issued shares accordingly, gave rise to a loss of \$635,831, which was charged to retained earnings. The 200 shares held at December 31, 1984 have been cancelled subsequent to the year-end.

7. Income Taxes

The income tax expense of \$1,239,741 represents an effective tax rate of 42.6%. This rate differs from the combined federal and provincial tax rate of 51% since one-half of capital gains is taxable and dividend income is non-taxable.

8. Earnings per share

The earnings per share calculations are based on the weighted average number of shares outstanding during the year.

Notes to Consolidated Financial Statements

for the year ended December 31, 1984

9. Long-term lease commitment

The minimum annual rental under a lease agreement for premises which terminates on December 31, 1986 is estimated at \$124,000.

10. Statutory information

The aggregate remuneration of directors and senior officers for the year ended December 31, 1984 was \$999,296 (1983 — \$861,153).

11. Business segments

Operations and identifiable assets by industry segment for the year ended December 31, 1984 are as follows:

	1984			1983		
	Management Services	Investment Activity	Consolidated	Management Services	Investment Activity	Consolidated
Income	\$4,710,820	\$4,325,233	\$ 9,036,053	\$4,695,447	\$1,935,784	\$ 6,631,231
Net gain on investments	—	431,731	431,731	—	496,600	496,600
	4,710,820	4,756,964	9,467,784	4,695,447	2,432,384	7,127,831
Operating Expenses						
Expenses	3,187,947	24,024	3,211,971	2,894,018	17,289	2,911,307
Depreciation and amortization	72,360	3,000,000	3,072,360	67,996	1,193,600	1,261,596
Interest on long-term debt	—	160,149	160,149	—	117,386	117,386
	3,260,307	3,184,173	6,444,480	2,962,014	1,328,275	4,290,289
Segment operating profit	\$1,450,513	\$1,572,791	3,023,304	\$1,733,433	\$1,104,109	2,837,542
General corporate expenses			113,357			92,989
			2,909,947			2,744,553
Income taxes			1,239,741			1,356,751
			1,670,206			1,387,802
Equity in net earnings of other companies			604,128			456,697
Net earnings for the year			\$ 2,274,334			\$ 1,844,499
Identifiable assets:						
Management services			\$ 4,048,563			\$ 3,660,881
Investment activity			10,151,500			11,944,533
Corporate			91,862			116,482
Equity investments			4,676,074			4,219,279
			\$18,967,999			\$19,941,175

Guardian Capital Group Limited

48 Yonge Street, Toronto, Ontario M5E 1H3

Officers and Directors

John Bak, *Director*

John Christodoulou, *Director*

James F. Cole, *Director*

Catherine A. Delaney, *Director*

William Filipiuk, *Director*

Robert L. Miller, *Director*

Brian Pepperall, *Director*

Gurston Rosenfeld, *Vice-President & Director*

Norman J. Short, *President & Director*

Bernice Wade, *Director*

Donald C. Webster, *Director*

Roger D. Wilson, *Director*

C. Verner Christensen, *Secretary-Treasurer*

Elinor Crighton, *Assistant Secretary*

Registrar and Transfer Agent

The Canada Trust Company
110 Yonge Street, Toronto, Ontario

Banker and Custodian of Securities

The Canadian Imperial Bank of Commerce
7 King Street East, Toronto, Ontario

Auditors

Smith, Nixon & Co.
365 Bay Street, Toronto, Ontario

Legal Counsel

Day, Wilson, Campbell
33 Yonge Street, Toronto, Ontario