# PERSPECTIVE

// ANNUAL REPORT 2001

GUARDIAN
CAPITAL GROUP LIMITED

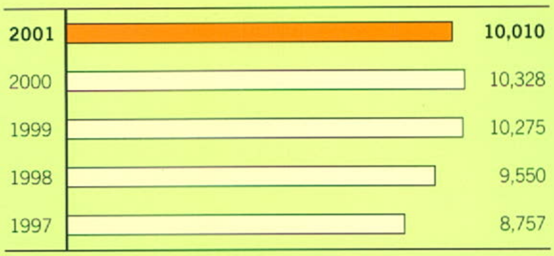
## / MISSION STATEMENT

Our mission is to develop and manage complementary businesses in the financial services sector that offer clients tailored investment products and services.

# / FINANCIAL HIGHLIGHTS

### // ASSETS UNDER MANAGEMENT

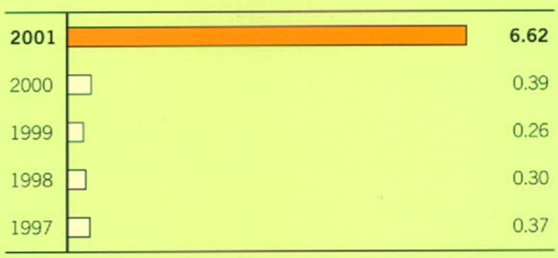
As at December 31 ($ in millions)




Assets under management in 2001 reflect the loss of some institutional assets, the loss of a portion of the Guardian Group of Funds Ltd. ("GGOF") assets and an increase in high net worth assets.

### // EARNINGS PER SHARE DILUTED

For the years ended December 31 (in $)




Earnings per share in 2001 were substantially higher due to the gain on the sale of GGOF.

### // CORPORATE HOLDINGS OF SECURITIES PER SHARE

As at December 31 (in $)


Corporate holdings of securities per share increased significantly as a result of the Bank of Montreal shares received on the sale of GGOF.

# / REPORT TO SHAREHOLDERS

Our core strategy is to manage the development and growth of relatively autonomous but complementary businesses in the financial services sector.

In the early nineties, our focus was on growth in the institutional sector through Guardian Capital Inc. ("GCI") and in the mutual fund area through Guardian Group of Funds Ltd. ("GGOF"). In the late nineties, Guardian began to develop the high net worth business through Guardian Capital Advisors Inc. ("GCA").

Last year, in a transaction with the Bank of Montreal, we exchanged all of our shares in GGOF for 4.9 million common shares of the Bank of Montreal. Over the previous eight years, GGOF had been built into a successful and profitable mutual fund company, with a ten-fold increase in assets under management that exceeded $2 billion. The main reason for the transaction was our belief that the rate of growth that GGOF could attain with the Bank of Montreal, because of its resources, was substantially higher than if GGOF had remained a subsidiary of Guardian. In addition, we will be able to better focus our resources on developing an integrated approach to wealth management going forward.

Over the past decade, Guardian has enhanced shareholder value utilizing its financial and human resources to create and develop businesses in the financial services sector. This enhancement to shareholder value has taken the form of substantial increases in revenue, earnings, and ultimately the share price of Guardian during this period.

Some significant developments during the past year are highlighted below:

**// GCI, our Canadian institutional investment management business, continued to achieve strong relative performance in its key Canadian equity products and is receiving recognition from clients and consultants for the consistency of its investment style over the past several years.**

**// GCA, our high net worth business, realized significant growth in client assets under management and management fee revenue during 2001, a trend which is continuing in 2002.**

**// In 2001, we re-emphasized a commitment to develop our financial advisory business within Worldsource. In addition to continuing with our efforts to grow the assets under administration in our mutual fund dealer, CMG-Worldsource Financial Services Inc., we are establishing a securities dealer, which we expect to be operational in 2002.**

Our financial resources increased substantially in 2001 and our balance sheet is strong. This capital strength enhances our ability to attract both clients and Associates to our organization. It provides the security that is needed to move forward and the ability to expand our operations. The year 2002 will be one of building the institutional and wealth management segments of our business. To accomplish this, we are making a commitment of financial resources through our operating cash flow to position Guardian to achieve a sustainable growth in earnings and an enhancement of shareholder value.

The Board of Directors is pleased to declare a dividend this year of $0.13 per share, an increase of 8% over last year.

As always, our success is a direct result of the support and confidence of our clients and the continued dedication and hard work of our Associates, to whom we offer our thanks.

Warmest regards to all,

John Christodoulou
Chairman and Chief Executive Officer
March 21, 2002

# / WHO WE ARE

Guardian Capital Group Limited is a financial services company with four main businesses, each of which offers a range of tailored investment products and services to clients in its sector.

### // GUARDIAN CAPITAL INC.

Institutional investment management of segregated portfolios, pooled funds, and mutual funds; marketing and servicing of institutional investment products and services.

Ownership: 100%

### // WORLDSOURCE HOLDING CORP.

Supervises and provides services to financial advisors in mutual fund dealership which distributes mutual funds to investors.

Ownership: 94%

### // GUARDIAN CAPITAL ADVISORS INC.

Investment management and advisory services to high net worth investors, foundations, and endowments.

Ownership: 100%

**CLIENTS**

### // ALEXANDRIA BANCORP LIMITED

International investment management and advisory services, administration of trusts and corporations, and other services to international clients.

Ownership: 100%

# / REVIEW OF OPERATIONS

Guardian has operating businesses in the investment management and the wealth management and advisory services sectors. The largest business unit is Guardian Capital Inc., which provides investment management services. The remaining business units, which are in various stages of development, are in wealth management and advisory services comprising Guardian Capital Advisors Inc., which serves high net worth clients; Worldsource Holdings Corp., Guardian's financial advisory, mutual fund and securities dealer platform; and Alexandria Bancorp Limited, which serves international clients.

## // GUARDIAN CAPITAL INC.

Guardian Capital Inc. is the 9th largest Canadian-owned, independent investment counselling firm in the country, as reported by Benefits Canada. Through its investment managers in Toronto, and its strategic relationships with leading global investment managers, Guardian Capital Inc. provides a comprehensive range of domestic and global investment management services to pension plan sponsors, operating and endowment funds, insurance companies, mutual funds and other retail clients. It has one of the broadest product ranges among Canadian institutional investment managers spanning equity, fixed-income, and balanced investment mandates.

Over the past several years, there have been a number of challenges facing Canadian investment counselling firms. Among these are the mergers and acquisitions of investment counselling firms in Canada and the increase of the foreign property limit for pension assets from 20% to 30%. As a result, there are now more foreign-owned investment counsellors in Canada with an increased market share of institutional assets.

The above factors and weaker performance in the late nineties led to some lost client assets under management in 2001. However, strong performance in the Canadian equity and fixed income products over the past two years attracted new assets under management, partially offsetting lost client assets during the same period.

Guardian Capital Inc. undertook a number of initiatives in 2001, including the development of innovative new products, the strengthening of its management, and the implementation of a new portfolio management and accounting system.

# REVIEW OF OPERATIONS

The next several years offer promising prospects for Guardian Capital Inc. The discipline in underweighting the technology sector due to high valuations and the corresponding consistency of investment style has resulted in strong performance in the past two years and in positive recognition from clients and the consultant community. Another strength is the stability of its Canadian equity and fixed income portfolio management teams.

Guardian Capital Inc. is positioned to continue to deliver dependable investment performance, to create innovative products and services in response to the needs of clients and changes in the markets, and to achieve sustained growth in client assets under management.

## // GUARDIAN CAPITAL ADVISORS INC.

Guardian Capital Advisors Inc. provides investment management and asset management services to high net worth clients, directly and through their intermediaries, as well as to foundations and endowments. Services are provided on a fully discretionary basis and emphasize a highly personalized and sophisticated approach to asset management.

Assets under management and supervision by Guardian Capital Advisors Inc. grew to $394 million at the end of 2001, from $188 million at the end of 2000.

Guardian Capital Advisors Inc. completed several significant initiatives during 2001. With the opening of an office in Ottawa, Guardian Capital Advisors Inc. has improved its presence as a national firm with offices in Toronto, Vancouver and Ottawa. The firm's quantitative capabilities have been enhanced and a global investment management platform has been developed. Also, the systems, administration and client service platforms were strengthened during the year.

In the fourth quarter of 2001, Guardian Capital Advisors Inc. announced "The Evolution of Personal Investing: ETFolios", a trademarked Internet-based service to investors that utilizes exchange-traded funds ("ETFs") to provide individual clients with tailored investment solutions. This is the first service of its kind to be offered over the Internet.

Guardian Capital Advisors Inc. will substantially complete its objective of establishing a national network of offices with the opening of a Calgary office early in 2002. At that point, the firm will focus on creating greater depth in its existing offices, primarily through the addition of portfolio managers.

Revenue has risen substantially over the past several years but has been exceeded by the outlays incurred in establishing the firm's business model. By the end of 2002, it is anticipated that the majority of the elements in the business model will be in place and that growth in revenue will exceed the increase in operating expenses. Guardian Capital Advisors Inc. is positioned to be a significant positive contributor to the overall financial performance of Guardian Capital Group Limited in the future.

### // WORLDSOURCE HOLDINGS CORP.

Worldsource Holdings Corp. supervises and provides services to financial advisors. In 2001, Guardian commenced a multi-year program to develop Worldsource into a horizontally integrated platform which currently has a mutual fund dealership and will include a securities dealer.

The mutual fund dealership is CMG-Worldsource Financial Services Inc., which had approximately 800 financial advisors and $2.4 billion in assets under administration at the end of 2001. Over the next several years, CMG-Worldsource is being positioned to achieve substantial growth in assets under administration through the development of enhanced services for financial advisors and through selective recruiting.

Worldsource is currently in the process of establishing a securities dealer. The intent is to implement a flexible business model with an emphasis on fee-based and asset-based advisory services. It will offer unique products and services and a strong administrative platform to attract financial advisors with substantial books of business.

### // ALEXANDRIA BANCORP LIMITED

Alexandria Bancorp Limited is a small, high-quality business that serves international corporations, trusts, and investors by providing trust and corporate services as well as investment management services. Alexandria also manages the Alexandria Fund, which is a global family of fixed-income and equity mutual funds, utilizing leading international sub-advisors including Lazard Asset Management, Mathews International Capital Management and Vontobel. In 2001, Alexandria continued to make a positive contribution to Guardian's overall financial performance. It is focused on continuing the trend of prudent growth in the international financial services sector.

### // A LOOK AHEAD

Guardian's strategy remains focused on the creation of sustainable value through the development and growth of diversified businesses in the financial services sector. Guardian is also committed to maintaining its strong capital base in order to better attract clients and Associates to the organization and to expand its activities. The outlook for each of the operating businesses is encouraging. Over the short term, Guardian will be investing in the institutional and wealth management businesses, each of which is expected to yield tangible results over the next few years.

# / MANAGEMENT'S DISCUSSION AND ANALYSIS

## // OVERVIEW

The Board of Directors of Guardian Capital Group Limited consists of five members, four of whom are unrelated to the Company. There are three committees of the Board of Directors, with mandates in the areas of audit, compensation, and governance.

As at December 31, 2001, the Company had approximately $10.0 billion in assets under management, $2.4 billion in assets under administration, and corporate holdings of securities valued at approximately $247.0 million.

## // SALE OF GUARDIAN GROUP OF FUNDS LTD.

In July 2001, Guardian completed the exchange of shares of its former mutual fund management subsidiary, Guardian Group of Funds Ltd. ("GGOF"), for 4,960,140 common shares of the Bank of Montreal, valued at $180.0 million. After recording expenses related to the sale, and taking into account the book value of the GGOF shares, a gain of $160.3 million was recorded on the sale, which was reduced by $34.1 million of future income taxes, resulting in a net gain of $126.2 million. As part of the transaction, the management of the GGOF mutual funds previously managed by Guardian Capital Inc. was retained, but not those managed by external sub-advisors. The results of GGOF, for the year 2001, are included only to July 19, 2001.

## // ASSETS UNDER MANAGEMENT AND ADMINISTRATION

| AS AT DECEMBER 31 | | 2001 | | 2000 |
|---|---|---|---|---|
| ($ IN MILLIONS) | | | | |
| Assets under management | | | | |
| Guardian Capital Inc. and GGOF | $ | **9,474** | $ | 10,007 |
| Guardian Capital Advisors Inc. | | **394** | | 188 |
| Other | | **142** | | 133 |
| Total assets under management | $ | **10,010** | $ | 10,328 |
| Assets under administration | $ | **2,369** | $ | 2,069 |

Assets under management as at December 31, 2001 of $10.0 billion reflected a slight decrease from the $10.3 billion in assets under management as at December 31, 2000. The decline was due to the loss of some institutional assets and to the loss of mutual fund assets for which there were external sub-advisors.

Assets under administration in Worldsource increased to $2.4 billion at the end of 2001, compared to $2.1 billion at the end of 2000. The increase related mainly to the addition of financial advisors in CMG-Worldsource Financial Services Inc.

## // OPERATING REVENUE AND EXPENSES

| YEARS ENDED DECEMBER 31 | | **2001** | | 2000 |
|---|---|---|---|---|
| ($ IN THOUSANDS) | | | | |
| Operating revenues<br>(total revenue excluding gain on sale of GGOF) | **$** | **44,665** | $ | 61,723 |
| Operating expenses<br>(total expenses excluding income taxes and goodwill writeoff) | **$** | **41,164** | $ | 51,972 |

Revenues arise mainly from management fees received from clients, which vary as a result of changes in the amounts of assets managed and variations in the rates of management fees charged for various product lines. Operating revenues in 2001 were $44.7 million, a decline of 28% on a year-over-year basis while operating expenses were $41.2 million, a decline of 21% on a year-over-year basis. In both instances, the decline was primarily as a consequence of the GGOF transaction.

Institutional management fees declined from $18.7 million to $17.4 million, caused substantially by the loss of institutional assets early in the year, which was partially offset by the addition of new client assets in the later part of the year. High net worth management fee revenue increased by $0.5 million, or 42%, to $1.7 million in 2001, reflecting the increase in the high net worth assets under management. The decline in redemption fee revenue to $1.2 million from $3.0 million was attributable to the GGOF transaction. Sales commission revenue of $3.7 million in Worldsource in 2001 remained substantially the same as in 2000 despite the increase in assets under administration, reflecting the general downturn in market activity in the fall, which had recovered by year end. Net income from securities declined to $1.3 million in 2001, compared to $3.2 million in 2000, due to a loss on the sale of securities of $1.9 million in 2001 compared with a gain of $2.6 million in 2000. This was partially offset by an increase in dividend and interest income in 2001 compared to 2000.

Operating expenses in 2001 include certain expenses relating to the investment in the development of an integrated wealth management platform in both the high net worth and the financial advisor businesses. The decline in financing fees and in the amortization of deferred sales charges is attributable entirely to the GGOF transaction.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

### // GOODWILL WRITEOFF

It has been determined that the goodwill relating to the purchases of certain investment management businesses over fifteen years ago no longer has any significant value. Therefore, the unamortized balance of the goodwill amounting to $4.0 million, has been written off in 2001.

### // EBITDA

Earnings before income taxes, depreciation, amortization, interest expense and financing fees ("EBITDA") has become a benchmark measure for comparing financial services companies, by eliminating from their earnings the effects of different approaches to financing their operations, and their different tax structures. In 2001, the gain on the sale of GGOF is removed from EBITDA for comparison purposes:

| YEARS ENDED DECEMBER 31 ($ IN THOUSANDS) | | 2001 | | 2000 |
|---|---|---|---|---|
| EBITDA from: | | | | |
| Business units | $ | 11,582 | $ | 21,329 |
| Corporate holdings of securities | | 1,275 | | 3,199 |
| Total | $ | 12,857 | $ | 24,528 |
| Total as % of revenue | | 28.8 | | 39.7 |

EBITDA from the business units in 2001 was $11.6 million compared to $21.3 million in the year 2000, reflecting the GGOF transaction and costs relating to the development of the wealth management businesses. EBITDA from corporate holdings of securities declined from 2000 as a result of the impact on investment income of losses recorded on the sale of securities in 2001.

### // NET EARNINGS

The figures below show the adjustments from EBITDA to arrive at net earnings for the years 2001 and 2000.

| YEARS ENDED DECEMBER 31 ($ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) | | 2001 | | 2000 |
|---|---|---|---|---|
| EBITDA | $ | 12,857 | $ | 24,528 |
| Less: | | | | |
| Amortization | | 5,060 | | 7,366 |
| Interest | | 1,610 | | 1,839 |
| Financing fees | | 2,686 | | 5,572 |
| Income taxes (recovery) | | | | |
| (excluding future income taxes on sale of GGOF) | | (4,013) | | 2,312 |
| Earnings before gain on sale of GGOF and goodwill writeoff | | 7,514 | | 7,439 |
| Net gain on sale of GGOF | | 126,256 | | – |
| Goodwill writeoff | | (3,954) | | – |
| Net earnings | $ | 129,816 | $ | 7,439 |
| Earnings per share diluted | $ | 6.62 | $ | 0.39 |

Net income for the year was $129.8 million, or $6.62 per share, diluted. Excluding the net gain on the sale of GGOF and the writeoff of goodwill, net income for the year was $7.5 million, compared with $7.4 million in 2000.

## // OPERATING CASH FLOW PER SHARE

The following were the net earnings and operating cash flow per share, for the years 2001 and 2000:

| YEARS ENDED DECEMBER 31 | | 2001 | | 2000 |
|---|---|---|---|---|
| (DILUTED) | | | | |
| Net earnings per share | $ | **6.62** | $ | 0.39 |
| Operating cash flow per share | $ | **0.55** | $ | 0.55 |

There is a significant difference between net earnings per share and operating cash flow per share. The main differences between earnings and operating cash flow are that depreciation and amortization reduce earnings, while the gains on sales of securities increase earnings, and neither impact operating cash flow. In 2001, the gain on the sale of GGOF and the writeoff of goodwill both impacted earnings but not operating cash flow.

## // LIQUIDITY AND CAPITAL RESOURCES

The financial resources of Guardian increased substantially in 2001 and, as a result, the balance sheet is strong. The depth of our financial resources is a positive consideration in building the client base and attracting Associates and financial advisors to the Company. It provides the security that is needed to expand operations.

## // CORPORATE HOLDINGS OF SECURITIES

| | CARRYING VALUE | | REALIZABLE VALUE | | | |
|---|---|---|---|---|---|---|
| AS AT DECEMBER 31 | | 2001 | | 2001 | | 2000 |
| ($ IN THOUSANDS) | | | | | | |
| Short-term securities | $ | **14,193** | $ | **18,376** | $ | 17,575 |
| Other marketable securities | | **221,017** | | **224,289** | | 52,493 |
| Unquoted securities | | **4,328** | | **4,551** | | 4,414 |
| | | **239,538** | | **247,216** | | 74,482 |
| Less: Applicable debt obligations | | **(243)** | | **(243)** | | (253) |
| Net securities | $ | **239,295** | $ | **246,973** | $ | 74,229 |

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Guardian's holdings of securities are managed independently of our clients' assets, except for those assets that are in the pooled funds or mutual funds that Guardian manages. The corporate holdings are diversified, from both an asset class and geographical perspective, thereby limiting the risk of capital loss. As at December 31, 2001, the realizable value of corporate holdings of securities was $247.0 million, or $12.60 per share, diluted, compared to $74.2 million or $3.88 per share at the end of 2000.

Guardian manages its cash flows through an operating line of credit facility. As at December 31, 2001, Guardian was in an overdraft position by $23.6 million. The Company is currently negotiating a five-year credit facility with a major bank, which would result in the bank overdraft being converted into a fixed term loan.

As at December 31, 2000, Guardian had long-term borrowings of $16.1 million, representing limited-recourse financing of deferred load mutual funds by GGOF. As these borrowings were made directly by GGOF, they were eliminated with the sale of GGOF.

## // RISK FACTORS

Managing risk is a critical element in any business in that risk can provide opportunity or cause adversity. Market volatility has an impact on the investment management business as well as on the corporate holdings of securities. It directly affects the value of client assets under management and administration and therefore, the revenue stream of the Company. Product risk is related both to the investment performance and the adequacy of the range of products available. Together, these risks can affect client confidence and the prospects for new business development. Risk also relates to the ability to anticipate and address shifts in client preferences and market forces. Competition exists in varying degrees in every market in which Guardian operates. In addition, although regulation helps protect the integrity of the financial services sector, as well as providing consumer confidence in the industry, changes to tax laws and other regulations may adversely affect the behaviour of investors and clients, thereby impacting the prospects for the Company.

Guardian strives to minimize the negative effects of risk through business diversification. Guardian operates in several market sectors to protect against undue exposure to any one sector, while at the same time, positioning the Company to take advantage of growth opportunities.

## / QUARTERLY STATISTICS

| | 2001 | | | | 2000 | | | |
|---|---|---|---|---|---|---|---|---|
| ($ IN THOUSANDS) | **Q1** | **Q2** | **Q3** | **Q4** | Q1 | Q2 | Q3 | Q4 |
| Gross revenues | **14,152** | **13,596** | **168,764** | **8,480** | 16,005 | 14,846 | 15,030 | 15,842 |
| Net earnings | **447** | **–** | **124,911** | **4,458** | 1,956 | 1,322 | 1,136 | 3,025 |
| Shareholders' equity | **63,149** | **59,488** | **186,825** | **192,886** | 54,958 | 55,030 | 57,234 | 60,322 |
| Per average common and Class A share (in $) | | | | | | | | |
| Net earnings | | | | | | | | |
| Basic | **0.02** | **–** | **6.47** | **0.22** | 0.10 | 0.07 | 0.06 | 0.16 |
| Diluted | **0.02** | **–** | **6.38** | **0.22** | 0.10 | 0.07 | 0.06 | 0.16 |
| Shareholders' equity | | | | | | | | |
| Basic | **3.30** | **3.08** | **9.59** | **9.78** | 2.89 | 2.90 | 3.01 | 3.17 |
| Diluted | **3.25** | **3.04** | **9.46** | **9.65** | 2.89 | 2.90 | 3.01 | 3.15 |

## / TEN YEAR REVIEW

| ($ IN MILLIONS) | **2001** | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|---|---|---|---|---|
| Value of client assets managed | **10,010** | 10,328 | 10,275 | 9,550 | 8,757 | 5,456 | 3,800 | 4,001 | 3,634 | 2,585 |

| ($ IN THOUSANDS) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross revenues | **44,665** | 61,723 | 58,566 | 62,805 | 57,095 | 36,273 | 23,727 | 24,681 | 14,715 | 9,877 |
| Operating expenses* | **31,808** | 37,195 | 35,095 | 39,419 | 33,636 | 22,792 | 19,145 | 16,495 | 12,401 | 8,400 |
| EBITDA | **12,857** | 24,528 | 23,471 | 23,386 | 23,457 | 13,481 | 4,582 | 8,186 | 2,314 | 1,477 |
| Earnings before taxes and goodwill written off | **163,827** | 9,751 | 8,477 | 8,639 | 11,760 | 5,059 | 2,428 | 6,868 | 1,119 | 383 |
| Gain on sale of subsidiary | **160,326** | – | – | – | – | – | – | – | – | – |
| Goodwill written off | **3,954** | – | – | – | – | – | – | – | – | – |
| Net earnings | **129,816** | 7,439 | 4,966 | 5,617 | 7,191 | 3,383 | 2,288 | 5,859 | 1,129 | 425 |
| Shareholders' equity | **192,886** | 60,322 | 53,075 | 53,606 | 46,307 | 37,917 | 31,192 | 32,204 | 25,456 | 24,512 |
| Corporate holdings of securities (at market value) | **247,216** | 74,482 | 79,567 | 63,175 | 58,710 | 53,694 | 47,366 | 47,673 | 40,035 | 32,026 |

*Before interest, financing fees, income taxes, and amortization.

| (IN DOLLARS) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Per average common and Class A share | | | | | | | | | | |
| Net earnings for the year | | | | | | | | | | |
| Basic | **6.71** | 0.39 | 0.26 | 0.30 | 0.39 | 0.20 | 0.14 | 0.35 | 0.07 | 0.02 |
| Diluted | **6.62** | 0.39 | 0.26 | 0.28 | 0.37 | 0.18 | 0.12 | 0.29 | 0.06 | 0.02 |
| Per common and Class A share | | | | | | | | | | |
| Dividends paid | **0.12** | 0.12 | 0.10 | 0.08 | 0.06 | 0.04 | 0.03 | 0.03 | 0.02 | 0.02 |
| Shareholders' equity | | | | | | | | | | |
| Basic | **9.78** | 3.17 | 2.80 | 2.81 | 2.46 | 2.06 | 1.94 | 1.94 | 1.53 | 1.43 |
| Diluted | **9.65** | 3.15 | 2.80 | 2.70 | 2.37 | 2.00 | 1.63 | 1.62 | 1.31 | 1.23 |
| Share prices | | | | | | | | | | |
| Common high | **13.00** | 13.00 | 15.50 | 23.00 | 17.28 | 4.17 | 3.96 | 4.00 | 2.54 | 1.58 |
| low | **9.00** | 8.75 | 7.50 | 12.60 | 4.00 | 3.42 | 3.50 | 2.33 | 2.13 | 1.50 |
| Class A high | **13.15** | 9.50 | 9.95 | 14.33 | 16.08 | 4.17 | 3.33 | 3.42 | 2.54 | 1.58 |
| low | **8.10** | 4.25 | 4.90 | 6.50 | 3.92 | 2.95 | 2.75 | 2.38 | 2.00 | 1.20 |

| (IN THOUSANDS) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year end common and Class A shares outstanding | | | | | | | | | | |
| Basic | **19,720** | 19,110 | 18,941 | 19,080 | 18,839 | 18,426 | 16,083 | 16,617 | 16,626 | 17,112 |
| Diluted | **19,994** | 19,178 | 18,941 | 19,823 | 19,502 | 18,974 | 19,182 | 19,908 | 19,523 | 19,912 |

Comparative figures reflect the June 1998 3-for-1 stock split.

# / FINANCIAL STATEMENTS

## // 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 19 to 20. 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.

KPMG LLP, the Company's independent auditors, have audited the accompanying financial statements. Their report follows.

The Audit Committee of the Board of Directors, composed of independent directors, meets regularly with management and KPMG LLP to review their activities and to discuss the external audit program, internal controls, accounting policies, and financial reporting matters. The Board of Directors reviews interim financial statements prior to their release. KPMG LLP 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 M. Christodoulou
Chairman and Chief Executive Officer
March 21, 2002

## // AUDITORS' REPORT

We have audited the consolidated balance sheets of Guardian Capital Group Limited as at December 31, 2001 and 2000 and the consolidated statements of operations, retained earnings and cash flows 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 Canadian 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, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

KPMG LLP

Toronto, Canada
March 6, 2002

# / CONSOLIDATED BALANCE SHEETS

| AS AT DECEMBER 31<br>($ IN THOUSANDS) | 2001 | 2000 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and short-term securities | $ 2,925 | $ 3,663 |
| Accounts receivable (note 4) | 14,111 | 13,626 |
| Income taxes recoverable | 1,232 | – |
| Prepaid expenses | 98 | 244 |
| Future income taxes (note 13) | – | 827 |
| Deposits | 26,880 | 16,236 |
| | 45,246 | 34,596 |
| Securities holdings (note 6) | 239,538 | 60,422 |
| Capital assets (note 7) | 3,358 | 5,559 |
| Deferred sales commission (note 8) | – | 26,616 |
| Deferred charges | 283 | – |
| Goodwill and other intangible assets (note 5) | 3,835 | 6,589 |
| Future income taxes (note 13) | 4,058 | 2,092 |
| | $ 296,318 | $ 135,874 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Bank overdrafts (note 4) | $ 23,562 | $ 13,232 |
| Accounts payable and accrued expenses | 12,632 | 13,597 |
| Income taxes payable | – | 2,883 |
| Leasehold inducements (note 10) | 336 | 336 |
| Client deposits | 29,482 | 16,154 |
| | 66,012 | 46,202 |
| Limited Recourse Secured Note (note 9) | – | 13,663 |
| Participation Certificates (note 9) | – | 2,414 |
| Leasehold inducements (note 10) | 452 | 1,523 |
| Long-term debt (note 11) | 243 | 253 |
| Future income taxes (note 13) | 36,725 | 11,497 |
| | 103,432 | 75,552 |
| **Shareholders' Equity** | | |
| Capital stock (note 12) | 20,637 | 18,050 |
| Foreign currency translation adjustment | 8,112 | 5,390 |
| Retained earnings | 164,137 | 36,882 |
| | 192,886 | 60,322 |
| | $ 296,318 | $ 135,874 |

See accompanying notes to consolidated financial statements.

On behalf of the Board

James W. McCutcheon
Director

John M. Christodoulou
Director

# / CONSOLIDATED STATEMENTS OF OPERATIONS

| FOR THE YEARS ENDED DECEMBER 31<br>($ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) | | 2001 | | 2000 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Management fees | $ | 35,871 | $ | 50,068 |
| Sales commissions, net | | 3,707 | | 3,782 |
| Income from securities | | 1,275 | | 3,199 |
| Administrative services | | 2,618 | | 1,687 |
| Redemption fees | | 1,194 | | 2,987 |
| | | 44,665 | | 61,723 |
| **Expenses** | | | | |
| Expenses, exclusive of undernoted items | | 31,808 | | 37,195 |
| Financing fees | | 2,686 | | 5,572 |
| Amortization | | 1,685 | | 2,070 |
| Amortization of deferred sales commission | | 3,375 | | 5,296 |
| Interest on secured note (note 9) | | 352 | | 750 |
| Other interest | | 1,258 | | 1,089 |
| | | 41,164 | | 51,972 |
| Earnings before the undernoted | | 3,501 | | 9,751 |
| Gain on sale of subsidiary (note 3) | | 160,326 | | – |
| Writeoff of goodwill (note 5) | | (3,954) | | – |
| Earnings before income taxes | | 159,873 | | 9,751 |
| Provision for income taxes (note 13) | | 30,057 | | 2,312 |
| Net earnings | $ | 129,816 | $ | 7,439 |
| Earnings per Class A and common share (note 15): | | | | |
| Basic | $ | 6.71 | $ | 0.39 |
| Diluted | | 6.62 | | 0.39 |
| Weighted average number of Class A and common shares outstanding (in thousands): | | | | |
| Basic | | 19,333 | | 19,037 |
| Diluted | | 19,607 | | 19,101 |

See accompanying notes to consolidated financial statements.

# / CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

| YEARS ENDED DECEMBER 31 ($ IN THOUSANDS) | 2001 | 2000 |
|---|---|---|
| **Retained earnings, beginning of year** | **$ 36,882** | $ 32,170 |
| Change in accounting policy | – | 147 |
| Net earnings | **129,816** | 7,439 |
| | **166,698** | 39,756 |
| **Less:** | | |
| Dividends paid | **2,296** | 2,273 |
| Excess of purchase price over issue price on Company's capital stock and options acquired (note 12) | **265** | 601 |
| | **2,561** | 2,874 |
| **Retained earnings, end of year** | **$ 164,137** | $ 36,882 |

See accompanying notes to consolidated financial statements.

# / CONSOLIDATED STATEMENTS OF CASH FLOWS

| YEARS ENDED DECEMBER 31 ($ IN THOUSANDS) | | 2001 | | 2000 |
|---|---|---|---|---|
| **Cash from operations** | | | | |
| Net earnings | $ | 129,816 | $ | 7,439 |
| Add (deduct) items not involving cash: | | | | |
| Amortization of leasehold inducements | | (218) | | (290) |
| Amortization | | 1,685 | | 1,930 |
| Amortization of deferred sales commission | | 3,375 | | 5,296 |
| Writeoff of goodwill | | 3,954 | | 140 |
| Future income taxes | | 30,465 | | (1,379) |
| Net loss (gain) on sale of securities | | 1,953 | | (2,647) |
| Gain on sale of subsidiary | | (160,326) | | – |
| | | 10,704 | | 10,489 |
| Change in non-cash working capital | | | | |
| Accounts receivable | | (485) | | (729) |
| Prepaid expenses | | 146 | | 233 |
| Income taxes recoverable | | (1,232) | | – |
| Deposits | | 2,684 | | (59) |
| Accounts payable and accrued expenses | | (965) | | 2,521 |
| Income taxes payable | | (2,883) | | 2,701 |
| | | 7,969 | | 15,156 |
| **Financing activities** | | | | |
| Net decrease in Limited Recourse Secured Note | | (1,279) | | (3,150) |
| Leasehold inducements received | | (853) | | – |
| Stock options exercised | | 2,595 | | 1,036 |
| Acquisition of capital stock and options | | (274) | | (738) |
| Deferred charges | | (283) | | – |
| Capital lease obligation | | – | | (110) |
| Dividends paid | | (2,296) | | (2,273) |
| Decrease in long-term debt | | (10) | | (17) |
| | | (2,400) | | (5,252) |
| **Investing activities** | | | | |
| Working capital associated with sale of subsidiary | | (10,196) | | – |
| Purchase of subsidiary's minority shares | | – | | (1,083) |
| Acquisition of securities | | (7,739) | | (13,443) |
| Commission paid | | (4,806) | | (6,342) |
| Proceeds on sale of securities | | 6,670 | | 11,954 |
| Purchase of capital assets | | (2,088) | | (1,035) |
| Acquisition of other intangible assets | | (1,200) | | – |
| Foreign currency translation adjustment | | 2,722 | | 1,636 |
| | | (16,637) | | (8,313) |
| Net change in cash and short-term securities, net of bank loan and overdrafts | | (11,068) | | 1,591 |
| Cash and short-term securities, net of bank overdrafts, beginning of year | | (9,569) | | (11,160) |
| **Cash and short-term securities, net of bank overdrafts, end of year** | $ | (20,637) | $ | (9,569) |
| **Represented by** | | | | |
| Cash and short-term securities | $ | 2,925 | $ | 3,663 |
| Bank overdrafts | | (23,562) | | (13,232) |
| | $ | (20,637) | $ | (9,569) |
| **Supplemental cash flow information:** | | | | |
| Interest paid | $ | 1,639 | $ | 1,857 |
| Income taxes paid | | 904 | | 1,707 |
| Dividends paid | | 2,296 | | 2,273 |

See accompanying notes to consolidated financial statements.

# / NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. SIGNIFICANT ACCOUNTING POLICIES

**(a) Principles of consolidation**

The consolidated financial statements include the accounts of Guardian Capital Group Limited (the "Company") and its subsidiaries. All intercompany transactions and balances have been eliminated.

**(b) Corporate holdings of securities**

Securities, apart from investments in corporations over which the Company has significant influence, are carried at cost with the exception of one subsidiary, which is an investment dealer. For regulatory purposes, securities held by this subsidiary are required to be disclosed at market value, and this presentation is retained on consolidation. Securities are written down to the lower of cost and market value if there is a loss of value which is considered to be other than temporary. The trade date is used for purposes of calculating gains and losses on sale of marketable securities. The full amount of gains and losses on disposal of securities and adjustments to record any impairment in value that is other than temporary are included in income from securities in the year of disposal or impairment.

**(c) Cash and short-term securities**

Cash and short-term securities include liquid short-term instruments. Cash and short-term securities are recorded at cost, which approximates net realizable value.

**(d) Capital assets**

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

**(e) Leasehold inducements**

Leasehold inducements provided by the lessor for refurbishment of new premises are amortized over the period of the lease.

**(f) Goodwill and other intangible assets**

Goodwill represents the excess of the purchase price over the fair value of tangible net assets acquired and is being amortized on a straight-line basis over forty years. Goodwill is written down when it is considered that an impairment in value that is other than temporary has occurred. Other intangible assets are intangible assets other than goodwill that represent the Company's right to a future benefit, such as revenue. Other intangible assets are amortized over their useful life. The Company reviews the amortization method and estimate of useful life of other intangible assets annually.

**(g) Deferred sales commission**

The commission paid on the sale of deferred load mutual fund units is capitalized and amortized over seven years, which is the period over which the income stream associated with the underlying assets is expected to extend (notes 3 and 8).

**(h) Participation Certificates**

Guardian Group of Funds Ltd. ("GGOF") had sold the right evidenced by Participation Certificates, under a Participation Agreement to Multi-Fund Income Trust (the "Trust") such that the Trust receives a portion of the management fees and redemption charges from GGOF's mutual funds or "Participation Fees," as described in note 9. The amount received from the sale of Participation Certificates had been deferred on the balance sheet to be amortized to income over the period from commencement of payment of Participation Fees to the end of the life of the Trust, estimated to be on or about April 30, 2013 (notes 3 and 9).

**(i) Revenue recognition**

The Company provides management, investment advisory and transfer agency services to mutual funds, corporations, endowment funds, individuals and pension funds on a contract basis in consideration for management fees which are recorded when earned. Net sales commissions earned are recorded on a trade date basis. Management fees are recorded net of trailer fees.

**(j) Translation of foreign currencies**

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

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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.

**(k) Stock option plan**

The Company has a stock option plan, which is described in note 12(e). No compensation expense is recognized for this plan when stock options are issued to employees. Any consideration paid by employees for the exercise of stock options is credited to share capital.

**(l) Income taxes**

The Company follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those assets and liabilities are expected to be recovered or settled.

**(m) Use of estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting year. Actual results could differ from those estimates.

**(n) Financial instruments**

The book values of financial instruments other than those described in notes 6 and 9, such as cash and short-term securities, accounts receivable, deposits, bank overdrafts and accounts payable and accrued expenses are considered to approximate fair values.

## 2. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2001, the Company adopted the new accounting recommendations of The Canadian Institute of Chartered Accountants ("CICA") on Earnings Per Share, on a retroactive basis. The new standard requires the use of the treasury stock method for calculating earnings per share. In prior years, the imputed earnings method was used. The adoption of the new standard had no material effect on earnings per share in the current or prior year.

## 3. SALE OF GUARDIAN GROUP OF FUNDS LTD. ("GGOF")

On May 15, 2001, the Company entered into an agreement to sell all the issued and outstanding shares of its mutual fund subsidiary, GGOF, to Bank of Montreal ("BMO"). On July 19, 2001, the Company closed the sale for proceeds amounting to 4,960,140 BMO common shares valued at $180.0 million. After recording expenses related to the sale, a gain on sale of $160.3 million was recorded. Included in these expenses are bonuses in the amount $6.6 million paid to various employees of the Company at the time of the sale. The Company has recorded future income taxes of $34.1 million relating to this transaction, which further reduced the gain to $126.2 million. The results of the operation of GGOF for the period to July 19, 2001 are included in these consolidated financial statements.

## 4. ACCOUNTS RECEIVABLE

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

## 5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill from the purchase of investment management businesses, over 15 years ago, in the amount of $3,954,000 has been determined to have no continuing value and was written off during the year.

During the year, the Company recorded an intangible asset of $1,234,000 for the purchase of the right to future revenues relating to management contracts.

## 6. SECURITIES HOLDINGS

| AS AT DECEMBER 31 ($ IN THOUSANDS) | 2001 | | 2000 | |
|---|---|---|---|---|
| | MARKET VALUE | CARRYING VALUE | MARKET VALUE | CARRYING VALUE |
| Securities having a quoted market value: | | | | |
| Short-term securities | $ **18,376** | $ **14,193** | $ 17,575 | $ 13,853 |
| Mutual funds | **43,677** | **38,449** | 50,254 | 40,144 |
| Common shares | **180,612** | **182,568** | 2,239 | 2,232 |
| | **242,665** | **235,210** | 70,068 | 56,229 |
| Securities not having a quoted market value | **4,551** | **4,328** | 4,414 | 4,193 |
| | $ **247,216** | $ **239,538** | $ 74,482 | $ 60,422 |

The estimated fair value of securities having a quoted market value is the market value as shown above. The estimated fair values of securities not having a quoted market value are generally assumed to equal carrying values unless there is a decline in value that is considered to be other than temporary, in which case, the securities are written down to expected net realizable value. Short-term securities include securities in mutual funds that hold short-term securities as well as short-term instruments that are continually reinvested by the Company and are therefore included in securities holdings. Certain mutual funds are managed by subsidiaries of the Company. Certain of the above investments have been pledged as collateral security for the outstanding mortgages payable (note 11).

## 7. CAPITAL ASSETS

| AS AT DECEMBER 31 ($ IN THOUSANDS) | | | 2001 | 2000 |
|---|---|---|---|---|
| | COST | ACCUMULATED AMORTIZATION | NET BOOK VALUE | NET BOOK VALUE |
| Computer hardware and software | $ **2,655** | $ **1,026** | $ **1,629** | $ 2,210 |
| Furniture and equipment | **1,445** | **704** | **741** | 1,035 |
| Leasehold improvements | **1,957** | **969** | **988** | 2,314 |
| | $ **6,057** | $ **2,699** | $ **3,358** | $ 5,559 |

The net book value of GGOF capital assets sold was $2,604,000 (note 3).

## 8. DEFERRED SALES COMMISSION

| AS AT DECEMBER 31 ($ IN THOUSANDS) | 2001 | 2000 |
|---|---|---|
| Total commission paid | $ **–** | $ 40,150 |
| Less accumulated amortization | **–** | 13,534 |
| | $ **–** | $ 26,616 |

The deferred sales commission was an asset of GGOF, which was sold during the year (note 3).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 9. LIMITED RECOURSE SECURED NOTE AND PARTICIPATION CERTIFICATES

The Secured Note and Participation Certificates are payable to the Multi-Fund Income Trust (the "Trust"). The Secured Note and Participation Certificates were used to finance the commission costs relating to the sale of mutual funds under the deferred load option (the "financed units"). The Trust financed the commission payable to the dealers and the Company. Of the amount financed by the Trust, 90% is repayable as a Limited Recourse Secured Note which bears interest at 5% per annum, and is repayable monthly out of the portion of the management fee relating to the financed units, and all fees received on redemption of the financed units through a retention account, being applied first to interest and then to principal. Interest is accrued daily and payable monthly in arrears. During the year, $352,000 (2000 - $750,000) of interest was payable. The remaining 10% of the amount financed represents the sale of Participation Fees to the Trust through the Participation Certificates, such that on the complete repayment of the Secured Note the Participation Agreement becomes effective, whereby the Trust receives the same income stream as that paid on the Secured Note, until such time as the financed units are all redeemed or April 30, 2013, if earlier. Both the Secured Note and the Participation Certificates are secured by the retention account, and the Trust has no recourse to any other assets of the Company. The fair values of the Limited Resource Secured Note and Participation Certificates are not readily determinable.

The Limited Resource Secured Note and Participation Certificates were in respect of GGOF, which was sold during the year (note 3).

## 10. LEASEHOLD INDUCEMENTS

During 1994, the Company moved substantially all of its operations into new premises. Leasehold inducements received are being amortized over the period of the lease. In 1998, an option in the original lease was exercised to substantially increase the size of premises leased. Additional leasehold inducements received are also being amortized over the remaining period of the lease.

Leasehold inducements in the amount of $853,000 were in respect of GGOF, which was sold during the year (note 3).

## 11. LONG-TERM DEBT

| AS AT DECEMBER 31 ($ IN THOUSANDS) | | 2001 | | 2000 |
|---|---|---|---|---|
| Mortgages payable | $ | **243** | $ | 253 |

The mortgages payable bear interest at 7.3% and are due on March 1, 2003. The mortgages are in connection with an investment in a condominium, the assets of which are pledged as security.

## 12. CAPITAL STOCK

### (a) Authorized

Unlimited preferred shares, without par value, may be issued in an unlimited number of series, the designation, rights, privileges, restrictions, conditions and other provisions of which are to be determined by the Board of Directors.

Unlimited Class A non-voting shares, without par value, are convertible into common shares at the option of holders of Class A shares on a one-for-one basis, under certain terms and conditions, the highlights of which are as follows:

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

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

| | 2001 | | | 2000 | | |
|---|---|---|---|---|---|---|
| | SHARES | | AMOUNT | SHARES | | AMOUNT |

(b) **Issued and outstanding**

AS AT DECEMBER 31 ($ AND SHARES IN THOUSANDS)

| | 2001 SHARES | | 2001 AMOUNT | 2000 SHARES | | 2000 AMOUNT |
|---|---|---|---|---|---|---|
| Class A (c) | **16,810** | **$** | **19,212** | 16,161 | $ | 16,602 |
| Common (d) | **2,910** | | **1,425** | 2,949 | | 1,448 |
| | **19,720** | **$** | **20,637** | 19,110 | $ | 18,050 |

(c) **Class A shares**

($ AND SHARES IN THOUSANDS)

| | 2001 SHARES | | 2001 AMOUNT | 2000 SHARES | | 2000 AMOUNT |
|---|---|---|---|---|---|---|
| Outstanding, beginning of year | **16,161** | **$** | **16,602** | 15,989 | $ | 15,701 |
| Options exercised | **619** | | **2,595** | 317 | | 1,036 |
| Acquired and cancelled (f) | **–** | | **–** | (145) | | (135) |
| Converted from common | **30** | | **15** | – | | – |
| Outstanding, end of year | **16,810** | **$** | **19,212** | 16,161 | $ | 16,602 |

(d) **Common shares**

($ AND SHARES IN THOUSANDS)

| | 2001 SHARES | | 2001 AMOUNT | 2000 SHARES | | 2000 AMOUNT |
|---|---|---|---|---|---|---|
| Outstanding, beginning of year | **2,949** | **$** | **1,448** | 2,952 | $ | 1,450 |
| Acquired and cancelled (f) | **(9)** | | **(8)** | (3) | | (2) |
| Converted to Class A | **(30)** | | **(15)** | – | | – |
| Outstanding, end of year | **2,910** | **$** | **1,425** | 2,949 | $ | 1,448 |

(e) **Stock Option Plan**

The Company maintains a Stock Option Plan for designated Officers, Directors and employees. Each stock option entitles the holder to purchase one Class A share. A summary of the status of the Company's Stock Option Plan as at December 31, 2001 and changes during the year is presented below (shares in thousands):

| FIXED OPTIONS | 2001 SHARES | | 2001 WEIGHTED AVERAGE EXERCISE PRICE | 2000 SHARES | | 2000 WEIGHTED AVERAGE EXERCISE PRICE |
|---|---|---|---|---|---|---|
| Outstanding, beginning of year | **1,911** | **$** | **6.89** | 2,271 | $ | 7.26 |
| Granted | **226** | | **8.58** | 427 | | 7.76 |
| Cancelled | **(326)** | | **4.88** | (470) | | 11.90 |
| Exercised | **(619)** | | **4.19** | (317) | | 3.27 |
| Outstanding, end of year | **1,192** | | **8.42** | 1,911 | | 6.89 |

The Company currently has reserved for the grant of options a maximum of 1,783,000 Class A shares. 619,000 stock options were exercised during the current year for cash of $2,595,000, which was credited to share capital. 104,000 stock options were purchased for cancellation for $167,000, which was charged to retained earnings and an additional 222,000 stock options were cancelled in accordance with their terms.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes information about fixed stock options outstanding:

AS AT DECEMBER 31 (SHARES IN THOUSANDS)

| 2001<br>RANGE OF EXERCISE PRICES | NUMBER OUTSTANDING | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS) | | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER EXERCISABLE | | WEIGHTED AVERAGE EXERCISE PRICE |
|---|---|---|---|---|---|---|---|
| $ 4.95 – 9.00 | 900 | 3.25 | $ | 7.07 | 331 | $ | 6.14 |
| $ 10.00 – 14.00 | 292 | 2.46 | | 12.54 | 202 | | 12.61 |
| | 1,192 | | $ | 8.42 | 533 | $ | 8.5 |

| 2000<br>RANGE OF EXERCISE PRICES | NUMBER OUTSTANDING | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS) | | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER EXERCISABLE | | WEIGHTED AVERAGE EXERCISE PRICE |
|---|---|---|---|---|---|---|---|
| $ 1.50 – 4.95 | 355 | 1.25 | $ | 2.62 | 345 | $ | 2.55 |
| $ 5.00 – 9.00 | 1,174 | 3.78 | | 6.48 | 365 | | 5.56 |
| $ 10.00 – 14.00 | 382 | 3.14 | | 12.13 | 268 | | 12.18 |
| | 1,911 | | $ | 6.89 | 978 | $ | 6.31 |

(f) During 2001, the Company acquired 9,000 (2000 - 3,000) of its common shares for $106,000 (2000 - $23,000), of which $98,000 (2000 - $21,000) was charged directly to retained earnings. During 2000, the Company acquired 145,000 of its Class A shares for $715,000, of which $580,000 was charged directly to retained earnings.

## 13. INCOME TAXES

| ($ IN THOUSANDS) | | 2001 | | 2000 |
|---|---|---|---|---|
| The components of the total income tax provision are as follows: | | | | |
| Current income taxes: | | | | |
| Federal | $ | (272) | $ | 2,433 |
| Provincial | | (136) | | 1,258 |
| | | (408) | | 3,691 |
| Future income taxes: | | | | |
| Federal | | 20,450 | | (909) |
| Provincial | | 10,015 | | (470) |
| | | 30,465 | | (1,379) |
| | $ | 30,057 | $ | 2,312 |
| The components of the future income tax balance are as follows: | | | | |
| Future income tax assets: | | | | |
| Loss carryforwards | $ | 3,893 | $ | 2,788 |
| Deferred items | | 656 | | 1,739 |
| Corporate minimum tax carryforwards | | – | | 751 |
| | | 4,549 | | 5,278 |
| Less valuation allowance | | 231 | | 188 |
| Net future income tax assets | | 4,318 | | 5,090 |
| Future income tax liabilities: | | | | |
| Deferred capital gains | | 34,070 | | – |
| Deferred sales commissions | | – | | 10,875 |
| Capital assets | | 698 | | 574 |
| Partial repatriation of earnings from foreign subsidiaries | | 2,217 | | 2,219 |
| Future income tax liabilities | | 36,985 | | 13,668 |
| Net future income tax liability | $ | 32,667 | $ | 8,578 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company and its subsidiaries have total non-capital loss carryforwards which expire as follows:

| | | |
|---|---|---|
| 2004 | $ | 132,000 |
| 2005 | | 728,000 |
| 2006 | | 678,000 |
| 2007 | | 1,344,000 |
| 2008 | | 7,337,000 |

The benefit of $9,629,000 (2000 - $6,431,000) of these non-capital loss carryforwards has been recognized in the consolidated financial statements.

The total provision for income taxes in the consolidated statements of operations is at a rate less than the combined federal and provincial statutory income tax rate of the current year for the following reasons:

| ($ IN THOUSANDS) | | 2001 | | 2000 |
|---|---|---|---|---|
| Tax at the combined federal and provincial statutory income tax rate for the current year | $ | **67,147** | $ | 4,290 |
| Increase (decrease) in rate due to: | | | | |
| Lower average tax rate applicable to foreign subsidiaries | | **829** | | (489) |
| Tax-exempt income from securities | | **(1,196)** | | (42) |
| Non-taxable portion of capital gains | | **(34,920)** | | (283) |
| Non-deductible expenses | | **1,524** | | 164 |
| Non-capital loss carryforwards not recognized | | **–** | | 49 |
| Non-capital loss carryforwards previously not recognized | | **–** | | (93) |
| Adjustment to future tax assets and liabilities for substantively enacted changes in tax rates | | **(3,376)** | | (948) |
| Increase (reduction) in valuation allowance | | **43** | | (416) |
| Large Corporations Tax and Corporate Minimum Tax | | **–** | | 89 |
| Other | | **6** | | (9) |
| Effective income tax | $ | **30,057** | $ | 2,312 |

## 14. WORLDSOURCE HOLDINGS CORP.

During 2000, the Company increased its ownership of Worldsource Holdings Corp. to 93.6% from 81.5% through the purchase of shares from minority shareholders. Worldsource Holdings Corp. is the holding company of CMG-Worldsource Financial Services Inc., a mutual fund dealership. Minority interest is not recorded until all losses which have been borne by the Company are eliminated by subsequent earnings.

## 15. EARNINGS PER SHARE

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

## 16. COMMITMENTS AND CONTINGENCIES

The Company has leases which expire on various dates after 2001. The Company has also signed equipment maintenance and information services contracts. Future minimum payments required under these operating leases and contracts that have initial terms in excess of one year as at December 31, 2001 are as follows:

| | | |
|---|---|---|
| 2002 | $ | 1,349,000 |
| 2003 | | 1,232,000 |
| 2004 | | 1,193,000 |
| 2005 | | 1,193,000 |
| 2006 | | 1,061,000 |
| 2007 and thereafter | | 509,000 |
| | $ | 6,537,000 |

The Company has guaranteed secured bank loans made to certain senior employees, of which the amount outstanding as at December 31, 2001 was $1,300,000.

In 1996, the Company set up an employees' profit-sharing trust. The Company guarantees a loan to this trust of up to a maximum of $6,000,000 for a third party lender.

From time to time in connection with its operations, the Company is named as defendant in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, the Company does not believe that it will incur any significant additional loss or expense in connection with such actions. Should additional loss result from the resolution of these claims, such loss would be accounted for as a charge to income in the year in which the resolution occurs.

## 17. BUSINESS SEGMENTS

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

| | CANADA | | REST OF THE WORLD | | CONSOLIDATED | |
|---|---|---|---|---|---|---|
| ($ IN THOUSANDS) | **2001** | 2000 | **2001** | 2000 | **2001** | 2000 |
| Total assets | **$ 220,988** | $ 74,823 | **$ 75,330** | $ 61,051 | **$ 296,318** | $ 135,874 |
| Revenues | **$ 43,826** | $ 58,541 | **$ 839** | $ 3,182 | **$ 44,665** | $ 61,723 |
| Expenses: | | | | | | |
| General | **33,290** | 42,536 | **2,814** | 2,070 | **36,104** | 44,606 |
| Amortization | **4,928** | 7,366 | **132** | – | **5,060** | 7,366 |
| | **38,218** | 49,902 | **2,946** | 2,070 | **41,164** | 51,972 |
| Earnings before income taxes | **5,608** | 8,639 | **(2,107)** | 1,112 | **3,501** | 9,751 |
| Income taxes | **4,013** | (2,312) | **–** | – | **4,013** | (2,312) |
| Gain on sale of subsidiary | **126,256** | – | **–** | – | **126,256** | – |
| Writeoff of goodwill | **(3,954)** | – | **–** | – | **(3,954)** | – |
| Net earnings | **$ 131,923** | $ 6,327 | **$ (2,107)** | $ 1,112 | **$ 129,816** | $ 7,439 |

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

## 18. PENSION EXPENSE

The Company has a defined contribution pension plan which is registered under the Pension Benefits Act of Ontario. During 2001, contributions were made to the plan by the Company in the amount of $226,000 (2000 - $246,000).

# / DIRECTORS AND OFFICERS

## // BOARD OF DIRECTORS

John M. Christodoulou*
Dr. F. D. Barrett**
Peter Stormonth Darling**
James W. McCutcheon**
Michel Sales**

## // COMMITTEES

**Governance**
Dr. F. D. Barrett***
John M. Christodoulou
James W. McCutcheon**
Michel Sales**

**Compensation**
Michel Sales***
John M. Christodoulou
Dr. F. D. Barrett**

**Audit**
James W. McCutcheon***
Michel Sales**
Dr. F. D. Barrett**

* Chairman
** Unrelated Directors

## // PRINCIPAL OFFICERS

**Guardian Capital Group Limited**

John M. Christodoulou
Chairman and Chief Executive Officer

Sam K. Greiss
Senior Vice-President, Operations and Corporate Development

C. Verner Chistensen
Vice-President, Finance and Secretary

Norman R. Fust
Vice-President, Human Resources

Anthony Stockley
Vice-President, Technology Services

Michael Denuzzo
Controller

**Guardian Capital Inc.**

J.J. Woolverton
Managing Director and Chief Operating Officer

Gary C. Chapman
Managing Director

Robert K. Hammill
Managing Director

Peter A. Hargrove
Managing Director

D. Edward Macklin
Managing Director

John G. Priestman
Managing Director

Michael P. Weir
Managing Director

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

C. Verner Christensen
Senior Vice-President, Compliance and Secretary

Isabelle Butler
Vice-President, Account Management

Brian P. Holland
Senior Vice-President, Investment Services

Stephen T. Dennis
Vice-President, Investment Services

Nadi Naderi
Vice-President, Investment Services

Norman Kerr
Vice-President, Investment Services

Michael Denuzzo
Controller

**Guardian Capital Advisors Inc.**

Mark S. Yamada
Managing Director

Douglas G. Farley
Senior Vice-President

G. Wayne Anderson
Senior Vice-President, Wealth Management Services

Michael G. Frisby
Senior Vice-President

Graham A. Mayes
Senior Vice-President

Adam G. Pion
Vice-President, Investment Advisory Services

Jerry Olynuk
Vice-President, Portfolio Manager

Suresh Sharma
Vice-President, Wealth Management Services

Darryl M. Workman
Vice-President, Administration

C. Verner Christensen
Vice-President, Compliance and Secretary

Michael Denuzzo
Controller

# / CORPORATE INFORMATION

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### // AUDITORS
KPMG LLP

### // REGISTRAR AND TRANSFER AGENT
Computershare Trust Company of Canada

### // TORONTO STOCK EXCHANGE LISTING

| **Shares** | **Symbol** |
|---|---|
| Common | GCG |
| Class A | GCG.A |

### // ANNUAL MEETING
May 17, 2002
11:00 a.m.
The Ontario Club
Commerce Court South, Fifth Floor
30 Wellington Street West
Toronto, Ontario

// DESIGN
Smith-Boake Designwerke Inc.

GUARDIAN
Capital Group Limited