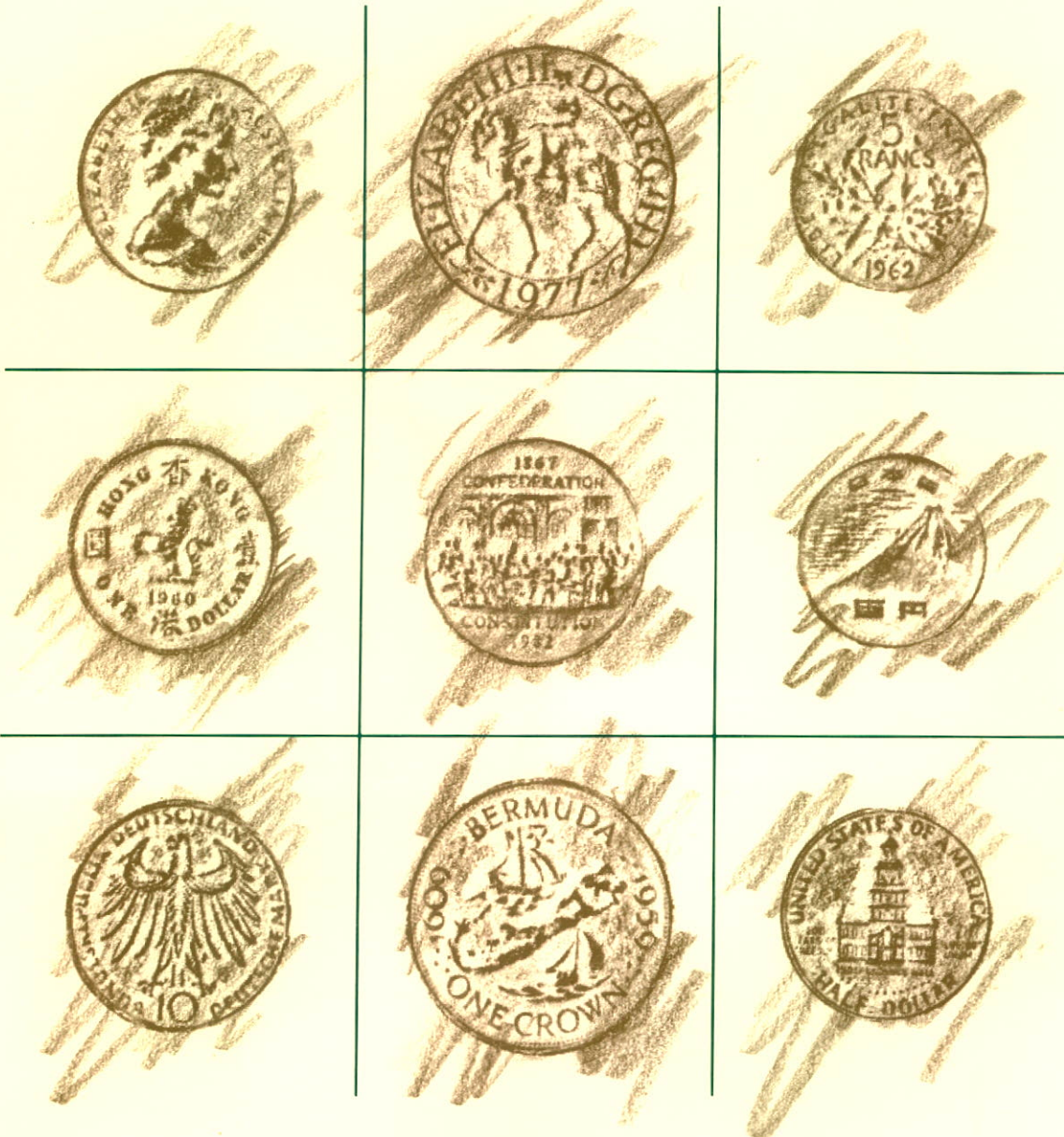


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CAPITAL GROUP  
LIMITED



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GUARDIAN CAPITAL GROUP LIMITED
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May 15, 1987

TO: The Shareholders of Guardian Capital Group Limited

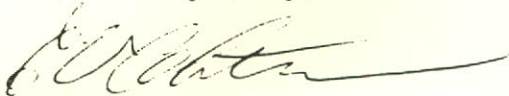
You will find enclosed our 1986 Annual Report, together with the Notice and other material pertaining to our Annual Meeting, to be held on June 11, 1987.

As you may know, our Company's shares were "split" last year, so that each former share now represents one Common Share and four non-voting Class A Shares. As a result of this change, the proxy or proxies included in your mailing will take one of the following forms:

1. If you have not forwarded your old share certificates for splitting to our Transfer Agent, Canada Trust, your old certificates entitle you to one Common Share and four Class A Shares for each share you previously held, and we have sent to you both a Common proxy (blue) and a Class A proxy (pink). Because one matter at the meeting requires separate approval by each group of shareholders, please sign and return both proxies to Canada Trust.
2. If you have forwarded your old share certificates for splitting (or have purchased both classes of shares since the split occurred), and therefore now hold both Common and Class A certificates, we have also included both proxies with your mailing, and you are again requested to sign and return both proxies (blue and pink) to Canada Trust.
3. If you have had your shares split, but have since sold one class of shares, or if you have purchased one class of shares since the split occurred, we have included the proxy for the class of shares you now hold, and we hope you will sign and return that proxy to Canada Trust as soon as possible.

For your convenience, an envelope addressed to Canada Trust is enclosed.

Yours very truly,



C.V. Christensen  
Vice-President and  
Secretary-Treasurer

P.S. If you have not had your old share certificates split into Common and Class A certificates, you may arrange to do so by forwarding by registered mail your request for new certificates, together with your old share certificates, unsigned, to: Corporate Trust Department, Canada Trust, 110 Yonge Street, Toronto, Ontario M5C 1T4



GUARDIAN  
CAPITAL GROUP  
LIMITED

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual and Special Meeting of Shareholders of Guardian Capital Group Limited (the "Company"), will be held on Thursday, the 11th day of June, 1987, at the hour of 4:30 o'clock in the afternoon (Toronto time), at the Company's office, 19th Floor, North Tower, Royal Bank Plaza, Toronto, Ontario, for the following purposes:

- (a) to receive the consolidated financial statements of the Company for the year ended December 31, 1986, together with the report of the auditors thereon;
- (b) to elect directors;
- (c) to appoint auditors and to authorize the directors to fix their remuneration;
- (d) to consider and, if deemed advisable to pass, with or without modification, a special resolution amending the share issuance and share conversion provisions in the Articles of the Company. A copy of the special resolution is attached as Schedule "A" to the Management Information Circular accompanying this notice of meeting;
- (e) to consider and, if deemed advisable to pass, with or without modification, a resolution authorizing an amendment to the Company's stock option plan for senior officers who are full-time employees of the Company and its subsidiaries. A copy of the resolution is attached as Schedule "B" to the Management Information Circular accompanying this notice of meeting; and
- (f) to transact such further or other business as may properly come before the meeting or any adjournment thereof.

A copy of the annual report for the year ended December 31st, 1986 including the consolidated financial statements of the Company, a form of proxy and a management information circular accompany this notice.

A shareholder who dissents with respect to the special resolution referred to in (d) above, is entitled to be paid the fair value of his shares in accordance with Section 184 of the Business Corporations Act, 1982. Reference should be made to the accompanying management information circular for further particulars.

Shareholders who are unable to attend the meeting in person are requested to complete, date and sign the enclosed form of proxy and return the same in the envelope provided for that purpose.

DATED at Toronto, Ontario, the 15th day of May, 1987.

By Order of the Board



Norman J. Short,  
Co-Chairman and President



GUARDIAN  
CAPITAL GROUP  
LIMITED

MANAGEMENT INFORMATION CIRCULAR

**Proxy Solicitation**

This circular is being mailed to all shareholders of Guardian Capital Group Limited (the "Company") accompanying the attached Notice of the Annual and Special Meeting of Shareholders to be held on June 11, 1987 (the "Meeting"). Proxies for the Meeting are being solicited by the Company's management. Solicitations will be made by regular employees, officers and directors of the Company, by mail, telephone or other personal contact. All costs of the solicitation are being borne by the Company.

**Revoking of Proxies**

Proxies may be revoked at any time prior to their use, by the shareholder indicating in writing his wish to revoke the proxy, or by completing and signing another proxy form. This written revocation, or substitute proxy form, must be signed by the registered shareholder, or a properly authorized attorney or officer, and must reach the office of the Company in Toronto, prior to its use at the Meeting, or any adjournment thereof.

**Voting of Proxies**

The Common shareholder proxy form attached provides for the Common shareholder to instruct the proxyholder to vote for or to vote against the special resolution of the Company authorizing an amendment to the Company's Articles and the resolution authorizing an amendment to the Company's stock option plan, and to vote for or withhold from voting in the election of directors and the appointment and remuneration of auditors. The Class A shareholder proxy form provides for the Class A shareholder to instruct the proxyholder to vote for or to vote against the special resolution of the Company authorizing an amendment to the Company's Articles. Subject to Section 114(3) of the Business Corporations Act, 1982 (Ontario), shares represented by proxies received will be voted as instructed on the proxies. If no instruction is given on the proxy with regard to a specific matter, the shares will be voted in favour of that matter.

**Shares Entitled to Vote**

As of May 11, 1987, the authorized capital consisted of an unlimited number of common shares, an unlimited number of non-voting Class A shares and an unlimited number of preferred shares, of which 1,117,882 common shares ("Common Shares"), 4,616,688 non-voting Class A shares ("Class A Shares"), 100,000 Series 1 preferred shares and 2,188,000 Series 2 preferred shares were

issued and outstanding. Each holder of Common Shares at the time of the Meeting is entitled to one vote per share in respect of all items to be voted upon at the Meeting, except for the separate vote by the holders of Class A Shares on the special resolution authorizing an amendment to the Articles of the Company, referred to in Item (d) on page 4 of this Management Information Circular. Each holder of Class A Shares at the time of the Meeting is entitled to attend and to speak at the Meeting, and to **one vote per share thereat in respect only of the separate vote by the holders of Class A Shares on the special resolution authorizing an amendment to the Articles of the Company.** These rights to vote may be exercised by being present at the Meeting or by completing, signing and returning the attached, or any other similar, forms of Proxy.

The only persons or companies owning, directly or indirectly, more than 10% of the issued and outstanding Common Shares are:

Name	Type of Ownership	Number of Common Shares	Percentage of Outstanding Common Shares
John Christodoulou	Beneficial	209,200	18.7 %
Roy-L Capital Inc. (1)	Of Record	112,290	10.0 %
Robert T. Ruggles	Beneficial	118,589	10.6 %
Norman John Short	Beneficial	153,480	13.7 %

(1) 100% of the voting shares of Roy-L Capital Inc. are beneficially owned by Joseph L. Rotman.

#### **Matters to be Considered at the Meeting**

##### **(a) Presentation of the 1986 Financial Statements**

The Annual Report of the Company, including the consolidated financial statements of the Company and subsidiaries for the year ended December 31, 1986 and the auditors' report thereon, is being mailed to the shareholders with this circular.

##### **(b) Election of Directors**

The Board of Directors consists of twelve directors who are elected annually by the holders of Common Shares. The management does not contemplate that any of the proposed nominees will be unable to serve as a director if elected, but if that should occur for any reason prior to the meeting, the persons named in the enclosed form of Common Share proxy reserve the right to vote in their discretion for another nominee as director, unless authority to vote the proxy in the election of directors is withheld. Each director elected will hold office until the next annual meeting or until his successor is duly elected, unless his office is earlier vacated in accordance with the by-laws of the Company.

The following information is furnished by the persons proposed to be nominated for election as directors:



Name	Office Held with the Company	Principal Occupation	Date Became Director	Number of Common Shares owned, or over which Control is Exercised
C. Verner Christensen	Vice-President, Secretary-Treasurer and Director	Executive	June 1986	--
(1) John Christodoulou	Co-Chairman and Director	Executive	June 1981	209,200
James F. Cole	Director	Financial Analyst	Feb. 1985	2,400
William Filipiuk	Director	Solicitor	April 1972-1974; May, 1976	10
(2) F. Douglas Gibson	Director	Solicitor	June 1985	10
(2) Robert L. Miller	Director	Executive	May 1974	100
(1) Joseph L. Rotman	Director	Executive	Dec. 1985	112,290
(1) Mark A.F. Golding	Vice-Chairman, Corporate Development and Director	Executive	Mar. 1987	--
(1) John J. Ruffo	Vice-Chairman, Chief Operating Officer and Director	Executive	Dec. 1985	--
(1) Robert T. Ruggles	Vice-Chairman and Director	Executive	Dec. 1985	118,589
(1) Norman J. Short (2)	Co-Chairman, President and Director	Executive	Jan. 1962	153,480
Bernice Wade	Vice-President and Director	Executive	June 1980	2,500

- (1) Member of the Company's Executive Committee.  
(2) Member of the Company's Audit Committee.

C. Verner Christensen is Vice-President and Secretary-Treasurer, Mark A.F. Golding is Vice-Chairman, Corporate Development, John J. Ruffo is Vice-Chairman and Chief Operating Officer, Norman J. Short is Co-Chairman President and Chief Executive Officer, and Bernice Wade is Vice-President, of the Company. Mr. Christensen has been an employee of the Company since July, 1977. Mark A.F. Golding was Manager, Toronto Institutional Sales, with Loewen, Ondaatje, McCutcheon & Co., from January, 1970 to February, 1987.

James F. Cole is Vice-Chairman, and Robert T. Ruggles is Co-Chairman of the Company's subsidiary, Guardian Ruggles Crysedale Inc.

John Christodoulou is President of SwissRe Management Limited.

William Filipiuk is a partner of Day, Wilson, Campbell, Barristers and Solicitors.

F. Douglas Gibson is a partner of Fasken & Calvin, Barristers and Solicitors.

Robert L. Miller is President of Robert L. Miller Management Ltd., Marketing Consultants.

Joseph L. Rotman is the Chairman and President of The Roy-L Group.

Messrs. John Christodoulou, Robert T. Ruggles and Norman J. Short have each agreed to vote for the election of the others of them as directors, pursuant to a shareholders' agreement dated as of November 21, 1986, to which they and others are parties.

#### **(c) Appointment of Auditors**

Unless instructed to refrain from voting, management intends to vote for the appointment of Coopers & Lybrand, Chartered Accountants, as auditors of the Company to hold office until the next annual meeting of shareholders, at a remuneration to be fixed by the directors. Smith, Nixon & Co., the present auditors of the Company, are not standing for reappointment as auditors. Reference is made to Schedule "C" to this Management Information Circular. Holders of Common Shares only are entitled to vote on this matter.

#### **(d) Special Resolution**

Shareholders are requested to consider and, if deemed advisable, to pass the Special Resolution authorizing an amendment to the Articles of the Company, which is attached as Schedule "A" to this Management Information Circular. This resolution provides that no additional Common Shares will be issued without the approval of the Common shareholders. It is also proposed that the "coattail" provisions, which were added to the Company's Articles in August of 1986, be elaborated upon. Accordingly, the resolution provides that, in the events set forth therein, each outstanding Class A Share shall be convertible, at the option of the holder, into one Common Share. In essence, if an offer to purchase Common Shares is made and the offer is required by law or stock exchange requirements to be made to all holders of Common Shares, the Class A Shares will be convertible into Common Shares if such offer is completed in accordance with its terms. Reference is made to the Special Resolution for complete details of the circumstances under which Class A Shares may become convertible into Common Shares.

In order for the special resolution to become effective, it must be passed by at least 66-2/3% of the votes cast at the Meeting by the holders of the Common Shares and the Class A Shares voting separately as a class.

#### (e) Employee Stock Option Plan

Subject to regulatory and shareholder approval, it is considered desirable to amend the Company's Stock Option Plan, described in sub-paragraph 3. below, to cover non-voting Class A shares, which were created subsequent to the adoption of the Plan, and to limit the discount from market price at which options could be granted. To bring about this amendment, holders of Common Shares are requested to pass the resolution attached as Schedule "B" to this Management Information Circular.

In order for the resolution to become effective, it must be passed by a simple majority of the votes cast by the holders of Common Shares at the Meeting.

#### Dissenting Rights

Each holder of Common Shares and Class A Shares has the right to dissent in respect of the Special Resolution referred to above. Under the provisions of Section 184 of the Business Corporations Act, 1982 (the "Act") any dissenting shareholder who (a) sends to the Company, at or before the meeting, a written objection to the Special Resolution; (b) within 20 days after he receives notice from the Company or otherwise learns that the Special Resolution has been adopted, sends to the Company a written notice of his demand for payment of the fair value of his shares; and (c) within 30 days thereafter sends his share certificate or certificates to the Company or its transfer agent, will be entitled, unless the action approved by this Special Resolution does not become effective, to require that the fair value of his shares be paid to him by the Company. If the Company and the dissenting shareholder do not agree as to the fair value of the shares held by such shareholder, such value may be judicially determined. The execution or exercise of a proxy against the passing of the Special Resolution does not constitute the sending of written objection pursuant to Section 184 of the Act. Reference is made to Section 184 of the Act for a full description of the procedure to be followed.

#### Directors' and Executive Officers' Remuneration from the Company and its Subsidiaries - Year Ended December 31, 1986

- |  |                    |
|--|--------------------|
| 1. Number of Executive Officers of the Company,<br>as defined in the Regulations under the<br>Securities Act (Ontario) | <u>10</u>          |
| 2. Aggregate cash compensation paid to Executive<br>Officers   | <u>\$1,104,963</u> |
| 3. <u>Stock Option Plan</u>  |                    |

The Company operates a stock option plan (the "Plan") for senior officers who are full-time employees of the Company and subsidiaries. Under the Plan, options to purchase shares of the Company are granted by a committee of independent directors of the Company, based upon their

judgment of the relative merit of the employees. Options granted are exercisable at the rate of 20% per annum, over a period of five years. The aggregate number of Company shares reserved for issuance under the Plan will not exceed 10% of the total number of Common Shares and Class A Shares issued and outstanding, and the aggregate number of shares reserved for issuance to any one employee will not exceed 5% of such total number of issued and outstanding shares.

All of the options outstanding at December 31, 1986 were granted during the year ended on that date. Of such options, 372,000 were granted to Executive Officers, to purchase Class A Shares at \$6.25 per share.

It is proposed that the shareholders approve an amendment to the Plan, in the form of the resolution attached as Schedule "B" to this Management Information Circular, described in sub-paragraph (e) above.

#### 4. Directors' Fees

Independent directors of the Company and subsidiaries are each paid \$400.00 for attending a meeting of the Board, or a Committee of the Board held on a day on which the Board does not meet.

#### **Other Matters**

The management does not know of any matters to come before the Meeting, except the matters referred to in the Notice of Meeting. However, if such should properly come before the meeting or any adjournment thereof, the persons named in the enclosed form of proxy will vote the same in accordance with their best judgement.

The information in this circular is provided as of May 11, 1987. The contents and the sending of this circular have been approved by the Board of Directors of the Company.



Norman J. Short,  
Co-Chairman  
and President

May 15, 1987

SPECIAL RESOLUTION  
OF  
GUARDIAN CAPITAL GROUP LIMITED

(the "Corporation")

RESOLVED as a special resolution that:

- (1) The Articles of the Corporation are hereby amended to:
- (a) provide that no common shares in the capital of the Corporation shall be issued, nor shall options, warrants or rights to acquire common shares be granted, nor shall securities, other than non-voting Class A shares, which are convertible into or exchangeable for common shares be issued, after the date of the Certificate of Amendment giving effect to this special resolution without the prior approval of the holders of common shares signified by a resolution passed at a meeting of such shareholders duly called for that purpose;
  - (b) delete subclauses 1(d)(iii) and 1(d)(iv) of the Articles of Amendment of the Corporation which were effective August 1, 1986, and substitute therefor the following:
    - 1(d)(iii) In the event that any person, other than an insider of the Corporation, acquires beneficial ownership, direct or indirect, of, or control or direction over, an aggregate number of common shares of the Corporation in excess of 50% of the outstanding common shares of the Corporation pursuant to an offer which does not, by reason of applicable securities' legislation or the requirements of a stock exchange on which the common shares are listed, require an offer on the same terms and conditions to be made to all or substantially all common shareholders residing in a province or territory of Canada, each outstanding non-voting Class A share shall be convertible, at the option of the holder, into one common share as hereinafter provided. For the purposes of this subclause 1(d)(iii) a person shall be deemed to own beneficially common shares of the Corporation beneficially owned by or over which control or direction is exercised by:
      - (A) an associate or affiliate of such person; or
      - (B) a person who acts jointly or in concert with such person.

Forthwith after the occurrence of the event described herein the Corporation shall give notice thereof to the holders of the non-voting Class A shares. From and after the date of such notice the

holders of non-voting Class A shares may convert their shares into common shares by delivery to the transfer agent of the Corporation or to the Secretary of the Corporation of the share certificate or certificates representing the non-voting Class A shares which the holder desires to convert accompanied by a written notice duly executed by such holder or his attorney duly authorized in writing, which notice shall specify the number of non-voting Class A shares which the holder desires to have converted. The holder shall pay any governmental or other tax imposed on or in respect of such conversion. Upon receipt by the transfer agent or Secretary of such notice and share certificate or certificates, the Corporation shall issue a share certificate representing fully paid common shares into which such non-voting Class A shares have been converted. If less than all of the non-voting Class A shares represented by any share certificate are to be converted, the holder shall be entitled to receive a new share certificate representing in the aggregate the number of non-voting Class A shares represented by the original share certificate which were not converted to common shares.

- 1(d)(iv) In the event that an offer (the "Offer") to purchase common shares is made, and such Offer must by reason of applicable securities' legislation or the requirements of a stock exchange on which the common shares are listed be made to all or substantially all common shareholders residing in a province or territory of Canada, each outstanding non-voting Class A share shall be convertible, at the option of the holder, to be exercised during the Conversion Period, into one common share as hereinafter provided; provided however, that the conversion right shall not come into effect if:
- (A) an offer to purchase non-voting Class A shares, which is identical in terms of price per share, percentage of shares to be purchased and other essential terms with the Offer and which has no condition attached thereto other than the right not to take up and pay for non-voting Class A shares tendered pursuant thereto if no common shares are purchased pursuant to the Offer, is made to the holders of the non-voting Class A shares concurrently with the Offer;
  - (B) within six business days after the date of the Offer a certificate or certificates signed by or on behalf of one or more shareholders of the Corporation who beneficially own, directly

or indirectly, or exercise control or direction over in the aggregate not less than 50% of the outstanding common shares of the Corporation is delivered to the transfer agent of the Corporation or to the Secretary of the Corporation confirming

- I. the identity of each of such shareholders and the number of common shares owned by each of them;
- II. that such shareholders did not make the Offer or act jointly or in concert with the person or persons making the Offer;
- III. that such shareholders have determined that they will not accept the Offer; and provided further that upon any variation of the Offer including an increase in price, such shareholders of the Corporation shall be deemed not to have accepted the Offer as varied and the certificate(s) delivered by or on behalf of them as described above shall be deemed to continue to apply and no further certificate need be filed for the purposes of these provisions unless and until one or more of such shareholders determine to accept the Offer as varied, and the result of such acceptance would be to reduce the number of common shares beneficially owned, directly or indirectly, or over which control or direction is exercised by the remaining shareholders who delivered such certificate(s) to less than 50% of the outstanding common shares, in which case a certificate to that effect signed by or on behalf of such shareholders who determine to accept the Offer as varied shall be delivered to the transfer agent forthwith after such determination and, in any event, not less than five business days prior to termination of the Conversion Period;
- IV. that, without giving prior notice thereof to the transfer agent and the Secretary, such shareholders shall not transfer or cease to have control or direction over any common shares if the result of such transfer or change in control or direction would be to reduce the number of common shares owned, directly or indirectly, or over which control or

direction is exercised by the remaining shareholders who delivered such certificate(s) to less than 50% of the outstanding common shares; or

(C) within six business days after the date of the Offer the Secretary of the Corporation delivers to the transfer agent a certified copy of a resolution of the board of directors of the Corporation determining that the Offer is not bona fide or is made primarily for the purposes of causing the conversion right provided for in this clause 1(d)(iv) to come into effect and not primarily for the purpose of acquiring the common shares and stating the reason for such determination.

1(d)(v)

As soon as reasonably possible after receipt by the transfer agent or the Secretary of a certificate under subclause 1(d)(iv)(B) or a certified copy of the resolution under subclause 1(d)(iv)(C), the Corporation shall send to the holders of non-voting Class A shares notice of and a brief description of the effect of such certificate or resolution as the case may be. If the certificate or certified copy of a resolution described in subclause 1(d)(iv)(B) or 1(d)(iv)(C) hereof shall not have been delivered within six business days after the date of the Offer or if an amended certificate as described in subclause 1(d)(iv)(B)III or a notice as described in subclause 1(d)(iv)(B)IV which has the effect of rendering such subclause inapplicable shall have been delivered, the Corporation shall send as soon as reasonably possible to the holders of non-voting Class A shares a notice containing a brief description of the rights of such holders hereunder and a copy of the Offer and all material sent to holders of common shares;

1(d)(vi)

The conversion of non-voting Class A shares pursuant to clause 1(d)(iv) shall be subject to the provisions of this clause and the Corporation shall make all arrangements with the transfer agent necessary or desirable to give effect to this clause. Holders of non-voting Class A shares may convert their shares by delivery during the Conversion Period to the transfer agent of the Corporation or to the Secretary of the Corporation of the share certificate or certificates representing the non-voting Class A shares which the holder desires to convert accompanied by a written notice duly executed by such holder or his attorney duly authorized in writing, which notice shall specify the number of non-voting Class A shares which the holder desires to have converted.



The holder shall pay any governmental or other tax imposed on or in respect of such conversion. Further, holders of non-voting Class A shares who wish to tender the common shares resulting from the conversion of such non-voting Class A shares to the Offer shall by notice in writing duly executed by the holder or his duly authorized attorney instruct the transfer agent or Secretary to tender the common shares specified in such notice and not to exercise any right of withdrawal under the Offer unless the holder or his duly authorized attorney instructs the transfer agent or Secretary to the contrary in writing. The transfer agent shall comply with such instructions and the Corporation shall issue and the transfer agent shall tender under the Offer a certificate representing the common shares into which the non-voting Class A shares have been converted and in respect of which the transfer agent shall have received instructions to tender such shares pursuant to the Offer. No share certificates for common shares into which non-voting Class A shares have been tendered for conversion and which have not been tendered pursuant to the Offer shall be issued unless and until the Offer is completed in accordance with its terms. If the Offer is completed in accordance with its terms all non-voting Class A shares which have been delivered to the transfer agent for conversion shall be deemed to have been converted into common shares immediately prior to the completion of the Offer and forthwith after the completion of the Offer the Corporation shall issue share certificates representing fully paid common shares into which non-voting Class A shares have been converted and which have not been tendered pursuant to the Offer and shall deliver such certificates to the holders thereof and the transfer agent shall deliver to the holders who have elected to have their common shares tendered under the Offer, their proportionate share of the consideration paid pursuant to the Offer. If less than all of the common shares are taken up pursuant to the Offer the Corporation shall issue and the transfer agent shall deliver to the holders of non-voting Class A shares whose shares have been converted but not fully taken up, share certificates representing the common shares which have not been taken up and paid for pursuant to the Offer. If less than all of the non-voting Class A shares represented by any share certificate have been converted, the holder shall be entitled to receive a new share certificate representing in the aggregate the number of non-voting Class A shares represented by the original share certificates which were not converted to common shares. If the Offer is not

completed in accordance with its terms, all non-voting Class A shares shall be deemed not to have been converted and the transfer agent shall return to the holders thereof certificates representing such non-voting Class A shares which have been tendered for conversion;

1(d)(vii) In the event that non-voting Class A shares shall be converted into common shares pursuant to clause 1(d)(iii) or clause 1(d)(iv) hereof the number of issued non-voting Class A shares shall be decreased, and the number of issued common shares shall be increased, by a number equal to that number of non-voting Class A shares converted into common shares;

1(d)(viii) The terms "affiliate", "associate", "business day", "insider", "offeror" and "person" have the meanings ascribed to them in the Securities Act (Ontario) as at the date of the Certificate of Amendment giving effect to this Special Resolution, and the term "Conversion Period" means, with respect to an Offer, the period of time commencing on the seventh business day after the date of the Offer and terminating on the last date upon which holders of common shares may accept the Offer.

(2) The directors and proper officers of the Corporation are hereby severally authorized to do such things and to execute and deliver and/or file for and on behalf of the Corporation such documents as they consider necessary or desirable to give effect to this special resolution, at such time as the directors may determine provided that the directors may in their sole discretion revoke this special resolution before it is acted upon without further approval of the shareholders of the Corporation.

RESOLUTION  
OF  
GUARDIAN CAPITAL GROUP LIMITED  
  
(the "Corporation")

RESOLVED that the stock option plan to give incentives to senior officers who are full-time employees of the Corporation and subsidiary companies, adopted by a resolution of the shareholders of the Corporation on June 4, 1985, be amended to provide that the options to be granted thereunder will be options to purchase Class A non-voting shares, and to further provide that such options may be granted at a price no lower than the current market price less a discount of 10%.

GUARDIAN  
CAPITAL GROUP  
LIMITED

Schedule "C" (a)

May 12, 1987

Smith Nixon & Co.  
6th Floor  
365 Bay Street  
Toronto, Ontario  
M5H 2V1

Dear Sirs:

This letter will confirm that you will not be standing for reappointment as auditors of Guardian Capital Group Limited at its annual meeting of shareholders on June 11, 1987 and that Coopers & Lybrand will stand for appointment in your place. Our audit committee has approved this change.

We would also confirm with you that there have been no reportable disagreements between us as defined in National Policy No. 31 of the Canadian securities regulatory authorities and there has been no adverse or qualified opinion or denial of opinion contained in your reports on our financial statements for the past two fiscal years or similar reservation in any auditors' report or comments on our interim financial information since then.

Yours very truly,

GUARDIAN CAPITAL GROUP LIMITED



C.V. Christensen  
Vice-President and  
Secretary-Treasurer

CVC/ws

c.c. Ontario Securities Commission

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**SMITH, NIXON & Co.**

REPRESENTED NATIONALLY  
AND INTERNATIONALLY

CHARTERED ACCOUNTANTS

---

SUITE 600 365 BAY STREET TORONTO, CANADA M5H 2V1  
TEL. (416) 361-1622 TELEX 06-23931

Schedule "C" (b)

May 12, 1987

Ontario Securities Commission  
18th Floor  
Cadillac Fairview Tower  
20 Queen Street West  
Toronto, Ontario  
M5H 3S8

Dear Sirs:

We refer to the letter dated May 12, 1987 from Guardian Capital Group Limited to us concerning the termination of our appointment as auditors. In accordance with National Policy No. 31 we confirm that we agree with the statements contained in the said letter.

Yours very truly,

*Smith, Nixon & Co.*



2	FINANCIAL HIGHLIGHTS
3	MESSAGE FROM THE PRESIDENT
5	CORPORATE ORGANIZATION
6	INVESTMENT COUNSELLING
8	FUNDS
9	INTERNATIONAL
10	DIRECT INVESTMENTS
10	ADMINISTRATION
11	FINANCIAL STATEMENTS

## P R O F I L E O F T H E C O M P A N Y

GUARDIAN CAPITAL GROUP LIMITED is a financial services and investment company with a growth record spanning a quarter of a century. At the time of the Company's inception in 1962, the assets managed and advised totalled \$316,000; by 1976 they had reached \$200 million; and since then they have grown more than tenfold.

Through Canadian and international affiliates, subsidiaries and advisors, the Company manages portfolios for pension funds, private clients and publicly registered investment funds, and provides consulting, administrative and other financial services.

Revenue sources are balanced between management fees from institutional and individual clients, and income derived from the Company's direct investments. Upon completion of transactions now underway, direct investments will total approximately \$30 million.

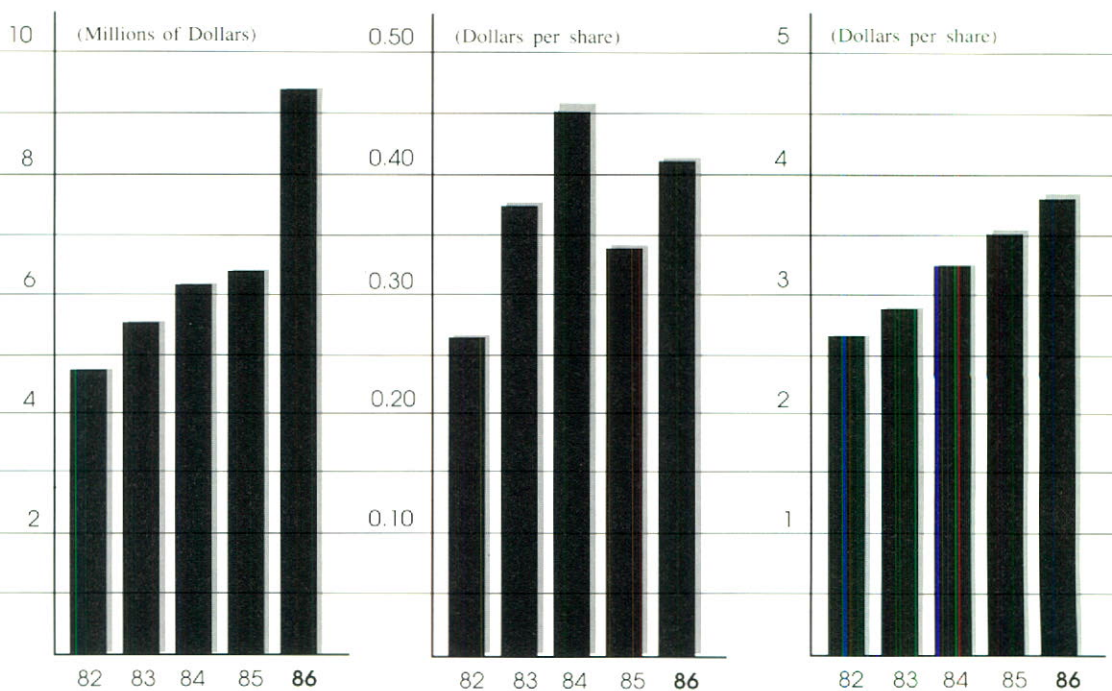
### **The Company's objectives are:**

1. To provide real long-term growth in the value of the shareholders' investments as measured by earnings per share, dividends and book value per share.
2. To provide long-term growth in the real value of assets for our clients.
3. To offer an optimum working environment and a performance-related reward system for our employees.
4. To conduct all of the Company's activities with integrity, professionalism and good citizenship.

December 31st	1982	1983	1984	1985	1986
Value of fiduciary assets managed and advised (\$ millions)	\$1,095	\$1,443	\$1,495	\$2,194	<b>\$2,364</b>
Gross revenues (\$ thousands)	\$4,717	\$5,437	\$6,036	\$6,397	<b>\$9,212</b>
Net earnings (\$ thousands)	\$1,397	\$1,845	\$2,274	\$1,754	<b>\$2,165</b>
Net earnings per average share outstanding	\$0.26	\$0.37	\$0.45	\$0.34	<b>\$0.41</b>
Dividends paid per share outstanding	\$0.12	\$0.13	\$0.15	\$0.15	<b>\$0.15</b>
Book Value per share outstanding	\$2.64	\$2.84	\$3.21	\$3.50	<b>\$3.75</b>
Year-end shares outstanding (thousands)	5,214	5,018	4,996	5,309	<b>5,306</b>

**Note:**

The figures for shares outstanding and the per share figures have been restated to reflect the 5-for-1 split which occurred in August, 1986.



**5-Year Gross Revenues**  
Gross revenues have increased 95% since 1982.

**5-Year Net Earnings Per Share**  
Net earnings per share in 1986 were 57.7% higher than in 1982.

**5-Year Book Value Per Share**  
Book value per share has increased at a compound rate of 8.7% per year over the past five years.



1986 WAS A SUCCESSFUL AND EVENTFUL year. Guardian's earnings per share increased by 21% from 34 cents to 41 cents; gross revenues rose from \$6,397,000 to \$9,212,000, an increase of 44%, and book value per share went up from \$3.50 to \$3.75.

Norman J. Short is Co-Chairman and President of Guardian Capital Group.



It was a building year. We consolidated our offices into one location, thus improving the efficiency of our operations. We strengthened our organization by adding highly-qualified people to our staff; and we continued to emphasize a strong divisional and market focus in our activities.

An important event occurred in August 1986, when each of the Company's shares was split into 1 Common (voting) share plus 4 Class A (non-voting) shares. This will allow us to retain greater control over those fiduciary responsibilities requiring extreme confidentiality and sensitivity. It has broadened the market potential for the Company's shares, while providing protection for all shareholders in the event of a change in control of the Company.

We implemented stock option plans during the year, permitting key personnel to share in the benefits of achieving your Company's objectives and providing additional rewards to them.

Since the end of the fiscal year, Guardian has continued to solidify the foundations for future growth. In January 1987, \$7,500,000 was raised through a private placement of convertible debentures. The proceeds were used to increase our ownership in Guardian Ruggles Crysedale Inc. and Tyndall Guardian Limited, and to acquire Fiscal Consultants Inc.

Shortly thereafter, we received an attractive offer regarding our interests in Tyndall

Guardian from Tyndall Holdings PLC (formerly Brint Investments PLC), an investment holding company listed on the London Stock Exchange. The offer was accepted by your Board of Directors on March 6, 1987. The total consideration involved approximately \$20,700,000, comprising \$2,925,000 in convertible notes, 273,273 shares of Tyndall Holdings (valued at \$1,525,000 as at the date of acceptance ) and \$16,250,000 cash.

We purchased Fiscal Consultants Inc. to reinforce our capabilities in fixed income management. This Toronto-based group, with client assets in excess of \$500,000,000, has an excellent track record in managing fixed income portfolios.

The effect of these post year-end transactions is indicated in the "Pro Forma" column on the Balance Sheet shown later in this report.

We have also augmented our international investment expertise by accessing various reputable, successful advisory services in major financial centres throughout the world.

Your Company's own investment portfolio, managed through Guardian Growth Financial Services Limited, produced significant capital gains during 1986.

Looking to 1987, we believe that financial markets should be approached with a moderately aggressive outlook, but with a sharp watch for any signs of a major change. Your Company will continue to seek,

evaluate, and implement those new ideas and techniques which will enable us to build further on our solid base of steady growth.

We would like to thank our shareholders, clients and associates for their support. On behalf of your management and shareholders, we would also like to extend our thanks and gratitude to our staff for their invaluable contributions to the Company, and together, we look forward to a successful 1987.



N O R M A N J . S H O R T  
*President*

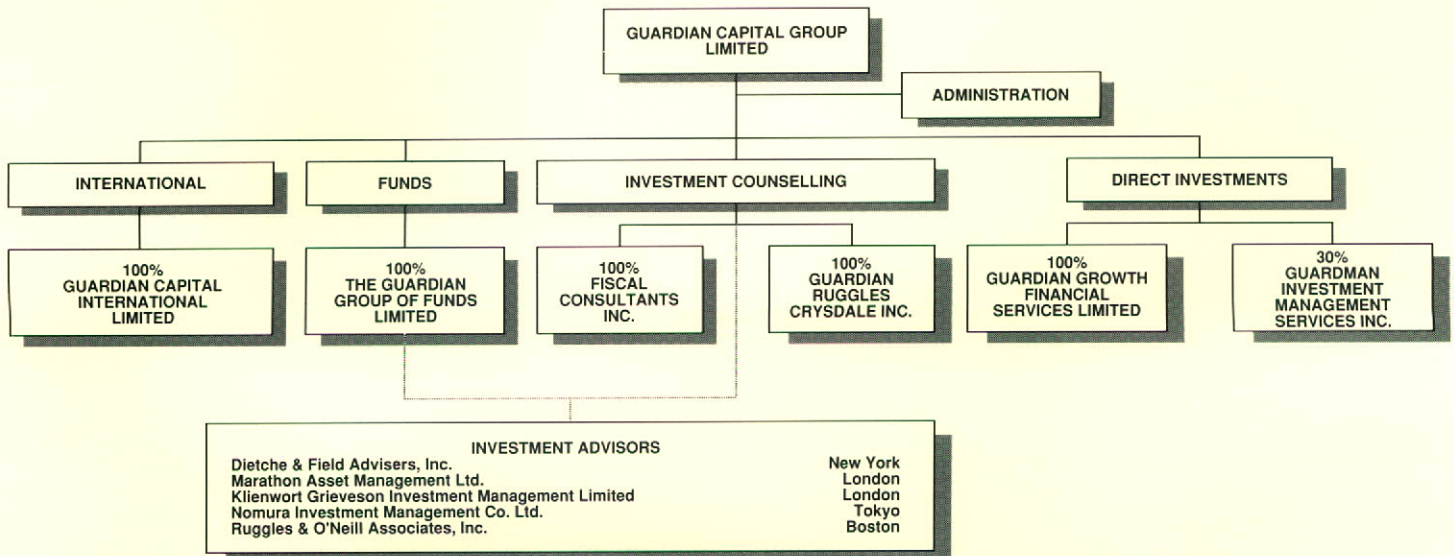
*April 6, 1987*



The Executive Committee of Guardian Capital Group.  
From left to right:  
Joseph L. Rotman, Director;  
John J. Ruffo, Vice-Chairman;  
Norman J. Short, Co-Chairman  
and President;  
John Christodoulou,  
Co-Chairman;  
Robert T. Ruggles,  
Vice-Chairman.

OVER THE YEARS GUARDIAN CAPITAL Group Limited evolved from a small, private company into a publicly-held corporation listed on the Toronto Stock Exchange with Canadian and international subsidiaries and affiliates.

In 1986, steps were taken to develop a market-focused divisional structure with clearly defined responsibility and accountability within each operating component. The following chart illustrates the company's basic organization:



Money Managers-  
Guardian Ruggles Crysdale.  
From left to right:  
Frank Mersch,  
Senior Vice-President,  
Canadian Equities;  
Ian H. Ainsworth, Vice-President,  
Corporate Services;  
James F. Cole, Vice-Chairman;  
John Priestman, President  
and Chief Operating Officer;  
Larry T. Kennedy, President,  
Fixed Income Group.



### **Guardian Ruggles Crysdale Inc.**

GUARDIAN RUGGLES CRYSDALE INC. was created in 1985 with the merger of two well-established financial management firms—Guardian Capital Investment Counsel Limited and Ruggles & Crysdale, Inc. With the complementary skills and experience of these two dedicated and seasoned teams, GRC has become one of Canada's foremost investment counsellors.

GRC manages investment portfolios for pension funds, institutions, individuals and mutual fund holders across Canada. Total assets under management now exceed \$2 billion. This is a performance-oriented firm, with everyone in the organization being compensated based on the results achieved. The group strives for competitive superiority through its skilled staff, operating methods,

information systems and research.

The primary objective of GRC is the preservation of its clients' assets during difficult markets and the achievement of above-average returns (with due regard to risk) during more ebullient markets. GRC has taken a leadership role in the development of specialty products to enhance returns and capitalize on specific opportunities and needs in the marketplace. GRC was one of the first companies to introduce international diversification into Canadian pension funds and individual clients' portfolios.

In 1987, GRC will continue its innovative role with the introduction and development of new investment management products and techniques.

**Fiscal Consultants Inc.**

IN ORDER TO FURTHER STRENGTHEN the Company's fixed income expertise, Guardian acquired Fiscal Consultants Inc. in January 1987. Fiscal Consultants is an investment counsel company specializing in the management of fixed income portfolios. This well respected and extremely successful fixed income team will further enhance the Company's overall money management operations.

At the time of acquisition, Fiscal had in excess of \$500 million under management, with a sound client base.

Robert T. Ruggles,  
Co-Chairman,  
Guardian Ruggles Crysedale,  
in the trading area.

**Investment Advisors**

TO SUPPLEMENT THE CAPABILITIES of its in-house money management team, GRC has established a global network of advisory relationships with superior organizations having expertise in specialized areas of the international investment market.



### The Guardian Group of Funds Limited

THE GUARDIAN GROUP OF FUNDS Limited was incorporated with the specific goal of concentrating on the marketing of open and closed-end mutual funds through investment dealers and brokers across Canada.

The Marketing team of  
The Guardian Group of Funds.  
G. Gail Kennedy, Vice-President;  
Peter A. Brieger,  
Senior Vice-President.  
(Absent) William Van Huisstede,  
Vice-President, Sales.

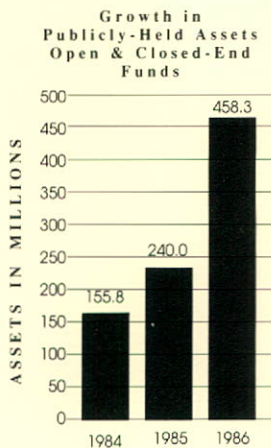


### Open-End Mutual Funds

THE GUARDIAN MUTUAL FUNDS offer one of the widest ranges of specialty funds in Canada, all of which are valued daily. Some feature Canadian investments and are eligible for RSPs, while others emphasize U.S. and international markets. The funds are designed to address a wide spectrum of investment goals—from security and current income, to long-term capital appreciation. Innovations among the Canadian funds include chequing privileges in the Guardian Short Term Money Fund and the ability to exchange Canadian preferred shares directly for shares of Guardian Preferred Dividend Fund Ltd. Guardian World Equity Fund provides access to investment markets outside Canada and the United States for both individuals and pension plans.

### Closed-End Funds

IN RECENT YEARS, THE GUARDIAN Group of Funds has been active in filling specific market niches, through the formation of closed-end funds whose shares or units are listed on major stock exchanges. For example, the Canada Income Plus Funds are designed to provide high current income by investing in Government of Canada bonds, augmented by an options programme.



1986 saw the introduction of the Guardian International Income Fund, which invests in the highest quality Canadian government and corporate bonds which are floated on foreign markets. This provides a unique source of international income.

## INTERNATIONAL

AS PART OF THE AGREEMENT concerning the Company's holdings in Tyndall Guardian Limited, we acquired an interest in Tyndall Holdings PLC. through our subsidiary, Guardian Capital International Limited (Bermuda). Tyndall Holdings (formerly Brint Investments) was founded in 1897 and has evolved into a large, experienced holding company that is steadily developing in the international financial services field. Listed on the London Stock Exchange, it has holdings in banks and trust companies,

Guardian plans to continue to develop and introduce closed-end funds, particularly in the field of fixed income investment.

The fund area has been one of significant growth for the Company, as indicated in the chart at left.

as well as providing financial management services to investment funds and corporations. The global expansion of the financial services sector, coupled with the effects of the "Big Bang" in the London market, presents an excellent opportunity to develop private banking, investment management and trustee services on a world-wide basis.

Guardian's active participation in Tyndall Holdings will include membership on the Board of Directors by Mr. Norman Short, our President, and Mr. Tony Clift, our colleague and the General Manager of Tyndall Guardian. Through our involvement, we will continue to contribute to the development of Tyndall in the international field.



International group. From left to right: D. Anthony Robinson, Vice-President & Corporate Economist; Anthony B. Clift, General Manager, Tyndall Guardian; Bernice Wade, Vice-President; Norman J. Short, Co-Chairman and President.

### **Guardian Growth Financial Services Limited**

GUARDIAN GROWTH FINANCIAL Services Limited is a wholly-owned subsidiary through which the Company holds most of its portfolio investments. The assets of GGFS are used to fund and participate in Guardian's mutual funds; partly to make specific complementary investments in securities which are not competitive with those purchased for our clients; and partly to make private placement investments in interesting companies judged as having a very good intermediate future.

The investments of GGFS, together with investments held directly by the Company and other subsidiaries, totalled approximately \$10 million at the end of

1986, and as a result of the Tyndall Guardian transaction will increase to approximately \$30 million by mid-1987.

### **Guardman Investment Management Services Inc.**

GUARDIAN HAS A 30% OWNERSHIP IN Guardman, which provides investment and administrative services to a group of funds with assets of \$193.6 million under management, as of December 31, 1986.

## **A D M I N I S T R A T I O N**

THE COMPANY OPERATES A CENTRAL financial, accounting, systems and personnel group to provide support for the various subsidiaries and affiliates. This enables the money management and marketing teams to concentrate on their areas of expertise.

Administration,  
Guardian Capital Group.  
From left to right:  
Rory R. Petticrew,  
Vice-President and Controller;  
C. Verner Christensen,  
Vice-President  
and Secretary-Treasurer;  
Dorothy J. Pearson,  
Personnel Director.





**CONSOLIDATED  
BALANCE  
SHEET**

As at December 31  
(in thousands of \$)

**GUARDIAN CAPITAL GROUP LIMITED**

	<b>Pro Forma 1986</b>	<b>1986</b>	<b>1985</b>
	(Note 2)		
<b>Current assets</b>			
Cash and short-term deposits	\$17,825	\$ 2,508	\$ 1,986
Receivables	2,243	2,243	1,825
Prepaid expenses	201	201	97
	20,269	4,952	3,908
Investments (Note 3)	12,694	20,121	12,654
Fixed assets (Note 4)	680	680	402
Deferred charges	225	—	—
Goodwill—at cost, less accumulated amortization	12,996	6,952	6,818
<b>Total assets</b>	<b>\$46,864</b>	<b>\$32,705</b>	<b>\$23,782</b>
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 1,708	\$ 1,708	\$ 1,109
Income taxes payable	184	184	161
Current portion of long-term debt	799	3,806	—
	2,691	5,698	1,270
Long-term debt (Note 5)	9,640	1,970	—
Deferred income taxes	3,548	1,309	128
Minority interest	—	3,857	3,780
<b>Shareholders' equity</b>			
Capital stock (Note 6)	11,379	6,574	6,578
Unrealized foreign exchange gain	—	621	708
Retained earnings	19,606	12,676	11,318
	30,985	19,871	18,604
<b>Total liabilities and shareholders' equity</b>	<b>\$46,864</b>	<b>\$32,705</b>	<b>\$23,782</b>

See accompanying notes to the consolidated financial statements.

Approved by the Directors:

Norman J. Short, Director  
John Christodoulou, Director

**CONSOLIDATED  
STATEMENT OF  
RETAINED  
EARNINGS**

for the year ended  
December 31  
(in thousands of \$)

	<u>1986</u>	<u>1985</u>
<b>Balance at beginning of the year</b>	\$11,318	\$10,315
Net earnings for the year	2,165	1,754
	13,483	12,069
Dividends	(796)	(749)
Loss on cancellation of Company's capital stock acquired from shareholders	(11)	(2)
<b>Balance at end of the year</b>	<b>\$12,676</b>	<b>\$11,318</b>

**CONSOLIDATED  
STATEMENT OF  
EARNINGS**

for the year ended  
December 31  
(in thousands of \$,  
except per share amounts)

	<u>1986</u>	<u>1985</u>
<b>Income</b>		
Management fees	57,794	55,513
Investment and other income (Note 7)	1,418	884
	9,212	6,397
<b>Expenses</b>		
Expenses exclusive of undernoted items	6,667	4,715
Depreciation and other amortization	234	106
Interest	23	5
	6,924	4,826
	2,288	1,571
Net gain on investments	605	330
<b>Earnings before income taxes</b>	2,893	1,901
Provision for income taxes (Note 8)	1,629	877
	1,264	1,024
<b>Equity in earnings of other companies</b>		
Tyndall Guardian Limited	1,281	709
Guardman Investment Management Services Inc.	175	116
	1,456	825
Net earnings before minority interest	2,720	1,849
Minority interest	555	95
<b>Net earnings</b>	<b>\$2,165</b>	<b>\$1,754</b>
Net earnings per common and Class A share (Note 9)	\$0.41	\$0.34
Weighted average number of common and Class A shares outstanding (in thousands)	5,308	5,093

See accompanying notes to the consolidated financial statements.

**CONSOLIDATED  
STATEMENT OF  
CHANGES IN  
FINANCIAL  
POSITION**

for the year ended  
December 31  
(in thousands of \$)

	<u>1986</u>	<u>1985</u>
<b>Cash from operations</b>		
Net earnings	\$ 2,165	\$ 1,754
Items not involving cash—		
Amortization of film investment	—	500
Amortization of goodwill	104	18
Deferred income taxes	1,181	(398)
Depreciation and other amortization	130	88
Equity earnings, net of dividends received	(1,194)	(709)
Minority interest	555	95
Net gain on investments	(605)	(330)
	<hr/> 2,336	<hr/> 1,018
Net change in working capital excluding cash	3,906	(2,032)
Dividends	(796)	(749)
	<hr/> 5,446	<hr/> (1,763)
<b>Financing Activities</b>		
Acquisition of Company's capital stock	(15)	—
Issue of capital stock	—	1,250
Issue of capital stock by subsidiary company	—	3,685
Issue of long-term debt, net of current portion	1,970	—
	<hr/> 1,955	<hr/> 4,935
<b>Investment Activities</b>		
Acquisition of investments	(10,802)	(4,737)
Business combination, less net assets acquired	(716)	(4,076)
Proceeds on sale of investments	5,047	4,704
Purchase of fixed assets	(408)	(189)
	<hr/> (6,879)	<hr/> (4,298)
<b>Net change in cash and short-term deposits during the year</b>	522	(1,126)
<b>Cash at beginning of the year</b>	1,986	3,112
<b>Cash at end of the year</b>	<hr/> <b>\$ 2,508</b>	<hr/> <b>\$ 1,986</b>

See accompanying notes to the consolidated financial statements.

**AUDITORS'  
REPORT**

**To the Shareholders of Guardian Capital Group Limited**

We have examined the consolidated balance sheet of Guardian Capital Group Limited as at December 31, 1986 and the consolidated statements of earnings, retained earnings and changes in financial position 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, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, March 13, 1987

Smith, Nixon & Co.  
Chartered Accountants

**NOTES TO THE  
CONSOLIDATED  
FINANCIAL  
STATEMENTS**

December 31, 1986

**1. Summary of significant accounting policies**

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries as follows:

Guardian Capital International Limited  
Guardian Growth Financial Services Limited  
Guardian Ruggles Crysdale Inc.

(b) Investments

The Company follows the equity method of accounting for its interests in companies over which it exercises significant influence. Portfolio investments are carried at cost. Investments in films are generally 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

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

(d) Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill which arose prior to March 31, 1974 does not, in the opinion of management, require amortization at this time. Goodwill acquired subsequently is being amortized on a straight-line basis over forty years.

(e) Income taxes

Deferred income taxes are provided for revenue and expense items reported for tax purposes in periods different from those in which they have been reported for financial statement purposes.

(f) Translation of foreign currency

- I. Accounts in foreign currencies and of integrated foreign operations are 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; (iii) equity earnings at average monthly rates; and (iv) the resulting foreign exchange gains and losses are included in the consolidated statement of earnings.
- II. Accounts of self-sustaining foreign operations are translated into Canadian dollars as follows: (i) assets and liabilities at the year-end exchange rate; (ii) income and expenses at average monthly rates; and (iii) the resulting foreign exchange gains or losses are excluded from the consolidated statement of earnings until realized and are accumulated as a separate component of shareholders' equity.

(g) 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.

(h) Reclassification of amounts

Certain comparative figures have been reclassified to conform with the current year's presentation. Net earnings previously reported has not been affected by this reclassification.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2. Subsequent events and pro forma information

Subsequent to the year-end the following significant transactions occurred. The pro forma consolidated balance sheet at December 31, 1986 gives effect to these transactions as if they had occurred at December 31, 1986.

- (a) The Company issued 8½% convertible debentures for net proceeds of \$7,275,000 (Note 5(a)).
- (b) The remaining 44.5% of the outstanding shares of Guardian Ruggles Crysdale Inc. ("GRC") was acquired for total consideration of \$5,524,000. The purchase price was satisfied by the payment of \$2,600,000 cash, the issue of 317,515 Class A non-voting shares and 56,089 common shares of the Company and a note payable in the amount of \$683,000 (Note 5(e)).
- (c) Effective January 31, 1987, the Company acquired 100% of Fiscal Consultants Inc. ("Fiscal"), an investment counselling company, for total consideration of \$4,376,000. The purchase price was satisfied by the payment of \$1,813,000 cash and by the issue of 55,000 Class A non-voting shares, 100,000 Series 1 Preferred shares and 2,188,000 Series 2 Preferred shares of the Company.
- (d) An additional 9.8% of Tyndall Guardian Limited ("TGL"), a Bermuda based company, was acquired for cash of \$2,906,000 which increased the Company's interest in TGL to 45.1%.
- (e) Film revenue in the amount of \$2,078,000 was received. This was combined with \$1,442,000 cash and the 11% note payable (Note 5(c)) was repaid in full. The Company intends to amortize \$2,386,000 related to this film revenue in accordance with its accounting policy.
- (f) On March 6, 1987, the Company accepted an offer from Tyndall Holdings PLC (formerly Brint Investments PLC), a London Stock Exchange company, for the purchase of the Company's holdings in TGL. The Company will receive proceeds of approximately \$20,700,000 composed of \$16,250,000 cash, 273,273 Tyndall Holdings common shares valued at \$1,525,000 and convertible notes valued at \$2,925,000, and will record a gain of approximately \$7,200,000 after deferred taxes assumed on the eventual repatriation of the proceeds. The transaction is expected to be completed in the second quarter of 1987.

### 3. Investments

	Pro forma 1986 (Note 2)	1986	1985
		(in thousands)	
Companies—at equity			
Tyndall Guardian Limited ((a) below)	\$ —	\$ 9,491	\$ 5,363
Guardman Investment Management Services Inc. (1986—29.8%; 1985—34.0%)	347	347	320
Portfolio investments—at cost ((b) below)	9,130	4,680	6,868
Tax shelters			
Films—at cost, less accumulated amortization	3,114	5,500	—
Oil and gas—at cost	103	103	103
	<b>\$12,694</b>	<b>\$20,121</b>	<b>\$12,654</b>

- (a) During 1986, the Company's interest in TGL increased from 27.2% to 35.3% mainly as the result of a \$2,960,000 cash purchase of shares from another shareholder. Subsequent to December 31, 1986 the Company further increased its interest to 45.1% (Note 2(d)), and announced an agreement to sell its entire holdings in TGL (Note 2(f)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. Investments (cont.)

(b) Portfolio investments as at December 31, 1986:

	Pro forma Cost (Note 2)	Cost	Market Value
(in thousands)			
Securities having a quoted market value			
American Barrick Resources Corporation	\$ 109	\$ 109	\$ 830
American Sector Equities—Fully Managed Sector	103	103	101
Continental Bank of Canada	396	396	403
Corrections Corp. of America	203	203	222
GAC Liquidating Trust Units	140	140	230
Guardian Pacific Rim Corporation	1,051	1,051	1,875
The Sarlos & Zukerman Fund	87	87	100
Tyndall Guardian Wall Street Fund Ltd.	353	353	695
Tyndall Holdings PLC—common	1,525	—	—
Wilshire Energy Resources	280	280	250
Other	23	23	93
	4,270	2,745	<b>\$4,799</b>
Securities not having a quoted market value			
International Imaging Materials Inc. "A"	384	384	
Productivity Software International Inc.	204	204	
Robert Cooper Productions Inc. "A"	1,168	1,168	
Tyndall Holdings PLC—convertible unsecured loan notes, due June 30, 1989	2,925	—	
Other	179	179	
	4,860	1,935	
	<b>\$9,130</b>	<b>\$4,680</b>	

### 4. Fixed assets

	1986		1985	
	Cost	Accumulated Depreciation and Amortization	Net	Net
(in thousands)				
Computer hardware and software	\$ 540	\$298	\$242	\$127
Furniture and equipment	512	241	271	247
Leasehold improvements	172	5	167	28
	<b>\$1,224</b>	<b>\$544</b>	<b>\$680</b>	<b>\$402</b>

**NOTES TO THE  
CONSOLIDATED  
FINANCIAL  
STATEMENTS**

**5. Long-term debt**

	<b>Pro forma 1986</b>	<b>1986</b>	<b>1985</b>
	(Note 2)	(in thousands)	
Convertible debentures ((a) below)	\$ 7,500	\$ —	\$ —
Interest-free note payable ((b) below)	1,540	1,540	—
Note payable, 11% ((c) below)	—	3,520	—
Note payable, at prime ((d) below)	716	716	—
Note payable, at prime plus 1% ((e) below)	683	—	—
	10,439	5,776	—
Included in current liabilities	(799)	(3,806)	—
	<b>\$9,640</b>	<b>\$1,970</b>	<b>\$ —</b>

- (a) The Company issued, on January 8, 1987, 8½% convertible subordinated debentures maturing December 15, 1996. The debentures are convertible into 1,250,000 Class A non-voting shares (Note 2(a)).
- (b) The interest-free note payable is secured by the film investment and is due December 30, 1990. Repayment may be accelerated to the extent that revenue from the film is required to be applied against the outstanding balance.
- (c) The 11% note payable was originally due December 31, 1990, and was secured by the film investment. The note was repaid in full subsequent to December 31, 1986 (Note 2(e)). The Company paid \$241,000 of interest on this note in 1986.
- (d) The note payable, due in equal installments to September 30, 1990, bears interest at prime with annual principal repayments of \$143,000.
- (e) The note payable was issued January 8, 1987 in conjunction with the purchase of the remaining shares of GRC (Note 2(b)). The note bears interest at prime plus one percent and is repayable quarterly to January 8, 1988.

**6. Capital stock**

- (a) On July 31, 1986, the shareholders approved an amendment to the articles of the Company to provide for an unlimited number of common shares; to create an unlimited number of Class A non-voting shares and Preferred shares; and to sub-divide the 1,061,793 issued common shares into 1,061,793 common shares and 4,247,172 Class A non-voting shares. Accordingly, all references to share classes and per share amounts in these consolidated financial statements reflect the effect of the amendment to the articles and the share subdivision.
- (b) During the year the Company acquired and cancelled 3,000 of its Class A non-voting shares. Such cancellation gave rise to a loss of \$11,000 which was charged to retained earnings.
- (c) Authorized—unlimited number

Preferred shares, without par value, in an unlimited number of series, the designation, rights, privileges, restrictions, conditions and other provisions of each series to be determined by the Board of Directors.

Class A non-voting shares, without par value, dividends and liquidation privileges on the same basis as common shares.

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

- (d) Issued and fully paid-

	<b>Pro forma 1986</b>		<b>1986</b>		<b>1985</b>	
	Shares	Amount	Shares	Amount	Shares	Amount
	(Note 2)		(in thousands)			
Preferred ((f) below)						
Series 1	100	\$ 100	—	\$ —	—	\$ —
Series 2	2,188	2,188	—	—	—	—
Class A	4,617	7,438	4,244	5,258	4,247	5,262
Common	1,118	1,653	1,062	1,316	1,062	1,316
	<b>\$11,379</b>		<b>\$6,574</b>		<b>\$6,578</b>	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- (e) As at December 31, 1986, 516,000 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, 1991, at \$6.25 per share.
- (f) Subsequent to the year-end (Note 2(c)), two classes of Preferred shares, without par value were created as follows:
- (i) 100,000 Series 1 non-voting Preferred shares with a stated capital of \$100,000, redeemable at the option of the holder or the issuer on or after January 2, 1988, at \$1.00 per share; and
  - (ii) 2,188,000 Series 2 non-voting Preferred shares with a stated capital of \$2,188,000, convertible into Class A non-voting shares at any time after December 31, 1989 and before June 30, 1990. The conversion value is the stated capital of the Preferred shares adjusted by a factor based on the annualized fees from Fiscal's clients as at December 31, 1989, convertible at the then current market price of the Class A non-voting shares.

### 7. Investment and other income

	1986	1985
	(in thousands)	
Investment income		
Film revenue, net of amortization and other direct expenses	\$ 101	\$ (41)
Interest, dividends and other	364	499
Consulting fees	332	16
Administration and accounting fees	304	200
Other	317	210
	<b>\$1,418</b>	<b>\$ 884</b>

Film revenue is net of amortization of nil in 1986 (1985—\$500,000).

### 8. Income taxes

The Company's income tax provision (recovery) is made up of:

	1986	1985
	(in thousands)	
Current income taxes	\$ 448	\$1,275
Deferred income taxes	1,181	(398)
	<b>\$1,629</b>	<b>\$ 877</b>

The difference between the expected income tax provision using combined federal and provincial rates and the actual income tax rate is as follows:

	1986	1985
Expected tax rate	53.3%	51.9%
	(in thousands)	
Expected tax provision	\$1,542	\$ 987
One-half of capital gains not taxable	(161)	(86)
Non-deductible expenses	101	20
Other	147	(44)
Effective tax provision	<b>\$1,629</b>	<b>\$ 877</b>

### 9. Earnings per share

The computation of basic earnings per common and Class A share are based on the weighted average number of shares outstanding during the years. As at December 31, 1986, no dilution of earnings would result from the potential exercise of share options (Note 6(e)).

### 10. Commitments and contingencies

The Company leases office space and equipment under operating leases which expire on various dates between 1986 and 1990. 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, 1986 are as follows: (in thousands) 1987—\$286; 1988—\$286; 1989—\$109; 1990—\$50; 1991—\$50.



**NOTES TO THE  
CONSOLIDATED  
FINANCIAL  
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**11. Business segments**

Operations and identifiable assets by industry segment are as follows:

	1986			1985		
	Management Services	Investment Activity	Consolidated	Management Services	Investment Activity	Consolidated
	(in thousands)					
Income	\$8,747	\$ 465	\$ 9,212	\$5,939	\$ 458	\$ 6,397
Net gain on investments	—	605	605	—	330	330
	8,747	1,070	9,817	5,939	788	6,727
Operating Expenses						
Expenses	6,171	25	6,196	4,540	35	4,575
Depreciation and other amortization	234	—	234	106	—	106
	6,405	25	6,430	4,646	35	4,681
	<b>\$2,342</b>	<b>\$1,045</b>	3,387	<b>\$1,293</b>	<b>\$ 753</b>	2,046
General corporate expenses			494			145
			2,893			1,901
Income taxes			1,629			877
			1,264			1,024
Equity in net earnings of other companies			1,456			825
			2,720			1,849
Minority interest			555			95
Net earnings			<b>\$ 2,165</b>			<b>\$ 1,754</b>
Identifiable assets:						
Management services			\$10,924			\$ 9,001
Investment activity			11,845			9,007
General			98			91
Equity investments			9,838			5,683
			<b>\$32,705</b>			<b>\$23,782</b>

**OFFICERS  
AND  
DIRECTORS**

<b>C. Verner Christensen, C.A.</b> —Vice-President & Secretary-Treasurer	<b>Director</b>
<b>John Christodoulou</b> —Co-Chairman	<b>Director</b>
<b>James F. Cole</b> —Vice-Chairman, Guardian Ruggles Crysedale Inc.	<b>Director</b>
<b>William Filipiuk</b> —Barrister & Solicitor, Day, Wilson, Campbell	<b>Director</b>
<b>F. Douglas Gibson, Q.C.</b> —Barrister & Solicitor, Fasken & Calvin	<b>Director</b>
<b>Mark A.F. Golding</b> —Vice-Chairman, Corporate Development	<b>Director</b>
<b>Robert L. Miller</b> —General Manager, Corporate Investment Business Brokers	<b>Director</b>
<b>Joseph L. Rotman</b> —President, Roy-L Capital Inc.	<b>Director</b>
<b>John J. Ruffo</b> —Vice-Chairman and Chief Operating Officer	<b>Director</b>
<b>Robert T. Ruggles</b> —Vice-Chairman	<b>Director</b>
<b>Norman J. Short</b> —Co-Chairman, President & Chief Executive Officer	<b>Director</b>
<b>Bernice Wade</b> —Vice-President	<b>Director</b>
<b>Rory R. Petticrew, C.A.</b> —Vice-President & Controller	
<b>D. Anthony Robinson</b> —Vice-President & Corporate Economist	
<b>Wanda K. Szostak</b> —Assistant Secretary	

**Registrar and  
Transfer Agent**  
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110 Yonge Street,  
Toronto, Ontario

**Banker and  
Custodian of Securities**  
The Canadian Imperial  
Bank of Commerce  
7 King Street East,  
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**Auditors**  
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**Legal Counsel**  
Day, Wilson, Campbell  
33 Yonge Street,  
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