

CV

Guardian
Capital Group
Limited

Annual Report
1973



Financial Highlights

| December 31st: | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Value of managed assets | | | | | | |
| Client and fund portfolio assets managed (\$ millions) | \$53.4 | \$52.9 | \$40.5 | \$49.7 | \$164.3 | \$171.9 |
| Per Guardian Capital Group share outstanding | \$74.20 | \$57.50 | \$36.20 | \$45.70 | \$122.00 | \$107.00 |
| Value of owned assets (\$ millions) | | | | | | |
| Gdn. Ventures Limited | \$ — | \$ 1.5 | \$ 4.2 | \$ 4.6 | \$ 5.5 | \$ 4.8 |
| Other | \$ 0.5 | \$ 0.7 | \$ 0.5 | \$ 0.9 | \$ 1.3 | \$ 3.5 |
| Total | \$ 0.5 | \$ 2.2 | \$ 4.7 | \$ 5.5 | \$ 6.8 | \$ 8.3 |
| Per Guardian Capital Group share outstanding | \$ 0.70 | \$ 2.40 | \$ 4.33 | \$ 5.06 | \$ 5.06 | \$ 5.15 |
| Year-end shares outstanding | 720,000 | 920,000 | 1,087,000 | 1,088,610 | 1,346,778 | 1,606,528 |
| Revenues and earnings | | | | | | |
| Gross revenues | \$1,302,524 | \$672,024 | \$502,888 | \$1,217,384 | \$1,760,749* | \$1,843,125* |
| Net earnings from operations | \$ 457,310 | \$211,110 | \$ 53,595 | \$ 337,767 | \$ 263,616* | \$ 505,018* |
| Per share | \$ 0.64 | \$ 0.24 | \$ 0.05 | \$ 0.31 | \$ 0.22* | \$ 0.32* |

*Fully consolidated

To the Shareholders

Introduction

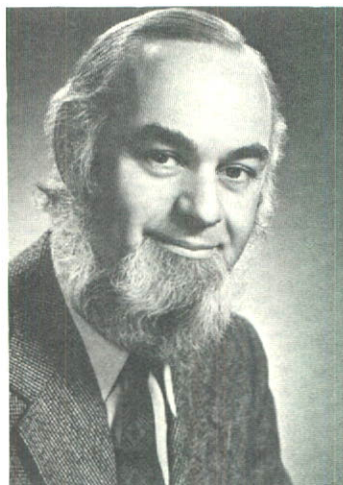
Guardian Capital Group Limited is engaged through subsidiaries in the following main areas of activity:

- 1 Management of investment portfolios for pension funds, mutual funds and private clients.
- 2 Investment of owned and associates' assets in venture capital situations
- 3 Investment of owned assets in merchant banking and "private placement" situations

Each of these areas of activity is managed as a separate and distinct profit centre, and each is the primary responsibility of one member of our management team. Hunter Thompson is primarily responsible for our portfolio management activities; Alan Grieve for our venture capital investments, and Norman Short for our merchant banking investments.

Managed assets of clients rose during the year from \$164.3 million to \$171.9 million, in spite of difficult stock market conditions. Guardian Capital's owned assets increased from \$6.8 million to \$8.3 million (at market value). Consolidated earnings in 1973 were \$505,018, as compared with consolidated earnings of \$263,616 in 1972.

In early 1974 your company paid its first dividend to shareholders of five cents per share. It is our intention that the payout of earnings in dividends will rise until it bears a sensible relationship to reported earnings. From that point on, the dividend should fluctuate in line with earnings, but hopefully in a basically rising trend.



Hunter E. Thompson

Portfolio Management

Guardian Capital Group Limited conducts its portfolio management activities through two wholly-owned subsidiaries. Mutual Funds Management Corporation of Canada Limited sells and manages all our publicly sold mutual funds, whose assets at year-end 1973 totalled \$68.3 million. Norman Short and Associates Limited is registered as an investment counsel and provides investment counsel and management services to all our pension fund and private client portfolios. Assets managed by this subsidiary at year-end 1973 totalled \$103.6 million. This subsidiary will, during the course of 1974, change its name to Guardian Capital Investment Counsel Limited.

The year 1973 was again a rather difficult one for equity and fixed income investors. During the year, the Toronto Stock Exchange Index declined by 3.6%; the Dow-Jones Average declined by 16.6% and long term bonds declined in price on average by about 8%. Broad stock market indexes in both Canada and the U.S. tended to decline more than did the widely-quoted indexes.

In our fixed income portfolio management activities, a rigorous concentration on the short end of the bond market preserved portfolios from erosion of value, and as a result, a comparatively good positive overall investment return was achieved; in equity portfolios, in spite of the holding of substantial cash reserves, and some gold bullion and gold shares, the volatility of securities held, which was further increased by the Arab-Israeli war and the ensuing oil embargo, more than offset the beneficial effects of the reserves and gold, and overall performance was not better than that of the averages. As a result, no significant performance bonuses were earned in 1973.

These results were by no means unique, and did not prevent us from attracting new clients, particularly in the pension fund area. Nevertheless, they were clearly not satisfactory. We decided, during the course of the year, therefore, to further simplify our organizational structure. Jim Cole, working with Rick Major and

Kiki Herrndorf is now therefore responsible for all our pension fund and retirement savings plan portfolios. John Bak, working with Ralph Horner and Gurston Rosenfeld, is now responsible for all portfolios which are not by law geographically restricted in their investments. Hunter Thompson has overall responsibility for our portfolio management business, and co-ordinates the activities of these two teams with our policy and strategy committees.

We believe that responsibility and reward should go together. Each of these two three-man teams, therefore, is responsible for its own area; and each of these two three-man teams can earn bonuses based only on the results achieved in its own area. Concentration on the task at hand is thus greatly increased, since the portfolio management teams do well only if the clients do well.



Alan Grieve

Venture Capital

The year 1973 was a significant one for Gdn. Ventures Limited, our venture capital subsidiary, in that two major Canadian financial institutions became shareholders in the company. In addition, negotiations are continuing that would see significant additional funds being available for the company's venture capital investment activities.

Our long term objective is to continue to attract outside investors by demonstrating superior performance. Success in this pursuit will result in improved earnings for the Guardian Capital Group shareholder as a result of the nature of the management contract for Gdn. Ventures Limited, as well as by the direct increase in the value of Guardian Capital's investment in Ventures.

Operationally 1973 was a year of consolidation, the net asset value per share declining by 17%, mainly reflecting changes in market value of our two publicly held companies — MDS Health Group Limited and IWC Communications. The major events of

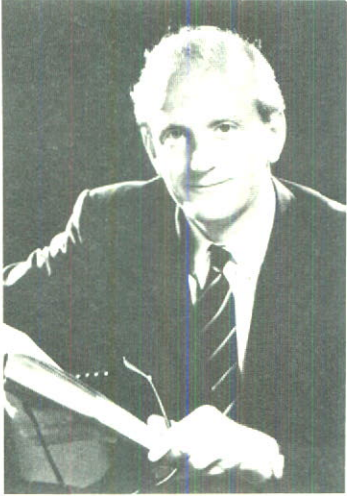
1973 were MDS Health Group's successful underwriting at \$4.35, which allowed Ventures to realize a capital gain of \$275,800, which gain flowed through to Guardian Capital's earnings. During the year also, Ventures increased its holding in Digital Telephone Systems from 17% to 31%, making this company Ventures' largest single investment. Slight Broadcasting successfully merged with IWC Communications to become a public company, and Canapharm Industries was merged into MDS Health Group Limited. At year-end 1973, about 80% of Ventures' assets were in three investments, which are reviewed below.

MDS Health Group Limited (formerly Medical Data Sciences Limited) in which Ventures holds a 20% equity position, had an excellent year reporting earnings of \$667,000 after tax, or 31¢ per share, an increase of 100% over 1972. Future plans encompass further growth in the health care field.

Digital Telephone Systems Inc., in which company we own 31% of the equity, achieved its sales budget of \$5,000,000 and made \$500,000 pre-tax in 1973. The year 1974 sees the introduction of a major new product, its PABX (all electronic digital telephone switching systems for offices using 100 to 500 lines). This new product introduction will squeeze profit margins; budgeted sales and profits indicate, however, that results should be well ahead of 1973. For future years the company is well postured for growth, having technologically superior products aimed at a market of more than \$1 billion annually.

IWC Communications Limited (formerly Slight Broadcasting Limited) achieved in 1973 its merger into IWC Communications. The company now owns and operates radio stations in Toronto, Montreal and Sarnia, and cable TV systems in Mississauga, Barrie and Orillia, all fast growing markets. The company has strong financial backing and has every potential of becoming a major entity in the Canadian communications industry.

For 1974 Ventures is concentrating on the agricultural industry, looking for investment opportunities in those companies that are using new technology to attack the world's food problems. Two specific situations are under active consideration at the present time.



Norman J. Short

Merchant Banking

Guardian's merchant banking and private placement activities are conducted through our wholly-owned subsidiary, Guardian Growth Financial Services Limited. This company was funded with \$2½ million of equity money in the early part of 1973.

It was decided to concentrate the company's investments initially on cash, gold, oil and other natural resources.

The company therefore took a substantial position in gold bullion in the later part of 1973. Part of this holding was sold, somewhat reluctantly, in late February 1974 as a result of the rapid and dramatic increase in the price of gold which took place in the early weeks of 1974. In addition, the company has taken part in public financings and private placements of a number of gold properties which are either shortly coming into production, or offer a very good prospect of so doing. All of these investments have worked out very well, and we believe that this area continues to be one of the most interesting to work in.

Our "oil" holding is Newmark Resources Limited (formerly Speculators Fund Limited). This company has sold virtually all its security holdings, and now, under the leadership of Art Klimchuk, formerly of Quasar Petroleum, is using its cash base of nearly \$3 million to acquire interesting prospective oil and gas acreage. It is the company's plan to raise drilling fund money in the U.S., and to drill the acquired acreage, splitting any discoveries on a 60:40 basis, with a 60% interest going to the drilling fund, and 40% to Newmark. This formula proved to be most successful at Quasar, and we look forward to participating in the company's progress with Art Klimchuk and his management team.

In other natural resources, we are pleased to be working with Jim Booth of Derry Michener and Booth and with his associates. We have purchased a substantial interest in a mining company listed on the Toronto Stock Exchange, called Consolidated

Nicholson Mines Limited. It is our hope that we will be able to build Consolidated Nicholson into a significant mining and exploration company.

While we are currently concentrating on natural resources, we are by no means limited to this field, and will turn our attention to other areas as time and money permits, and as economic prospects indicate.

Outlook and Forecast

The immediate economic outlook is quite difficult. Inflation is rampant; a recession looms in Europe and in the U.S., and at least a slow-down is likely in Canada; and Government and bureaucratic interference in business and personal affairs is consistently increasing, and consistently making matters worse. Eventually the voter will elect a Government committed to a lesser degree of interference in private affairs, and that Government will cut back on the Parkinsonian coral reef called the bureaucracy. But this time is not yet.

At Guardian, we believe that we are well organized to do the tasks we have set ourselves. We are a small group, subdivided into smaller groups, each of which knows its objectives and each of which will only prosper if it makes good progress towards them.

Our plans for 1974 include the opening of an affiliate office in the West, most probably in British Columbia. This has been an idea in the back of our minds for some time. The economic outlook for Canada's West appears to us to be relatively very positive and there are strong regional loyalties in the West which encourage us to the formation of an affiliated enterprise in preference to the opening of a simple branch sales office. It is our current intention therefore that in the fall of this year Norman Short will move to B.C. to establish this new joint venture. He will, however, continue to maintain his close association with Guardian as a member of both the Policy and Strategy Committees, and he will continue to have primary responsibility for Guardian Growth Financial Services Limited.

On behalf of the Board
Yours sincerely

Norman Short
Alan Grieve

Guardian
Capital Group
Limited
and Subsidiary
Companies

Consolidated
Balance Sheet

as at
December 31, 1973

| | 1973 | 1972 |
|--|---------------------|---------------------|
| Assets | | |
| Investments (Notes 4 and 5) – | | |
| Venture capital | \$ 2,888,137 | \$ 2,088,182 |
| Merchant banking | 1,075,628 | 469,205 |
| Other | 120,434 | 220,434 |
| | 4,084,199 | 2,777,821 |
| Cash and short-term deposits | 3,043,440 | 1,135,787 |
| Receivables | 187,541 | 727,589 |
| Prepaid and deferred costs | 154,719 | 40,201 |
| Fixed assets (Note 6) | 90,231 | 99,139 |
| Excess of cost of shares in subsidiaries over net book value at acquisition | 2,759,736 | 2,769,806 |
| | \$10,319,866 | \$ 7,550,343 |
| Liabilities | | |
| Bank loan | \$ – | \$ 350,000 |
| Accounts payable and accrued expenses | 119,693 | 202,426 |
| Dividend payable | 80,326 | – |
| Income taxes – | | |
| Currently payable | 38,140 | 49,063 |
| Deferred (Note 7) | 76,075 | 84,500 |
| Long-term debt (Note 8) | 225,000 | 235,000 |
| | 539,234 | 920,989 |
| Minority shareholders' interest in subsidiary | 390,388 | 102,009 |
| Shareholders' Equity | | |
| Capital stock (Notes 9, 10 and 11): | | |
| Authorized – | | |
| 3,000,000 shares without par value | | |
| Issued and fully paid – | | |
| 1,606,528 shares (1972 – 1,346,778 shares) | 7,468,465 | 5,383,515 |
| Contributed surplus | 413,257 | 60,000 |
| Retained earnings | 1,508,522 | 1,083,830 |
| | 9,390,244 | 6,527,345 |
| | \$10,319,866 | \$ 7,550,343 |

See accompanying notes

Signed on behalf of the Board

Norman J. Short, *Director*

Hunter E. Thompson, *Director*

Guardian
Capital Group
Limited
and Subsidiary
Companies

Consolidated
Statement
of Earnings

for the year ended
December 31, 1973

| | 1973 | 1972 |
|---|-------------------|-------------------|
| Income | | |
| Management fees (Note 12) | \$1,465,271 | \$1,015,346 |
| Performance bonuses (Note 12) | 40,624 | 458,210 |
| Sales charges (Net) | 107,737 | 161,633 |
| Interest and dividends | 229,493 | 125,560 |
| | 1,843,125 | 1,760,749 |
| Expenses | | |
| Management and analysts' salaries and fees | 523,308 | 298,208 |
| Bonuses to management and employees (Note 12) | - | 99,840 |
| Other operating expenses | 756,942 | 612,733 |
| | 1,280,250 | 1,010,781 |
| Gain (Loss) on Sale of Investments | 562,875 | 749,968 |
| | 260,211 | (98,132) |
| | 823,086 | 651,836 |
| Provision for Income Taxes | | |
| Current | 329,430 | 371,222 |
| Deferred | (8,425) | 4,000 |
| | 321,005 | 375,222 |
| Minority Interest | 502,081 | 276,614 |
| | 2,937 | (12,998) |
| Net Earnings for the Year | \$ 505,018 | \$ 263,616 |
| Earnings per Share (Note 14) | 32¢ | 22¢ |

See accompanying notes

Auditors' Report to the Shareholders of Guardian Capital Group Limited

We have examined the consolidated balance sheet and the consolidated statements of merchant banking investments and venture capital investments (other than the column headed "unaudited directors' valuation") of Guardian Capital Group Limited and subsidiary companies as at December 31, 1973 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in net assets for the year the ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements (except for the column in the statement of venture capital investments headed "unaudited directors' valuation") present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the changes in their net assets for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the inclusion of the accounts of Gdn. Ventures Limited as described in Note 2, on a basis consistent with that of the preceding year.

Included in the consolidated statement of venture capital investments are figures described as "unaudited directors' valuation". These figures are not susceptible to substantiation by auditing procedures since they are based on the subjective estimates by the directors of Gdn. Ventures Limited of the value of each investment as explained in Note 5. Accordingly, we are unable to and do not express an opinion on these values.

Smith, Nixon & Co.
Chartered Accountants

Toronto, February 27, 1974

Guardian
Capital Group
Limited
and Subsidiary
Companies

Consolidated
Statement
of Retained
Earnings

for the year ended
December 31, 1973

| | 1973 | 1972 |
|---|--------------------|-------------|
| Balance – Beginning of Year | | |
| As previously reported | \$1,449,865 | \$ 983,345 |
| Adjustment to reflect retroactive inclusion of the accounts of Gdn. Ventures Limited (Note 2) | 366,035 | 163,131 |
| | 1,083,830 | 820,214 |
| Net earnings for the year | 505,018 | 263,616 |
| | 1,588,848 | 1,083,830 |
| Dividend – 5¢ per share | 80,326 | – |
| Balance – End of Year | \$1,508,522 | \$1,083,830 |

See accompanying notes

Guardian
Capital Group
Limited
and Subsidiary
Companies

Consolidated
Statement
of Contributed
Surplus

for the year ended
December 31, 1973

| | 1973 | 1972 |
|--|-------------------|-----------|
| Balance – Beginning of Year | \$ 60,000 | \$ 60,000 |
| Issue of share purchase warrants (Note 10) | 96,600 | – |
| Excess of minority shareholders' investment in subsidiary over their share of the net book value | 256,657 | – |
| Balance – End of Year | \$ 413,257 | \$ 60,000 |

See accompanying notes

Guardian
Capital Group
Limited
and Subsidiary
Companies

Consolidated
Statement
of Changes in
Net Assets

for the year ended
December 31, 1973

| | 1973 | 1972 |
|--|--------------------|--------------------|
| Net Assets – Beginning of Year | \$6,629,354 | \$4,141,617 |
| Increased by – | | |
| Net earnings for the year | 505,018 | 263,616 |
| Minority interest in earnings | (2,937) | 12,998 |
| Issue of company's shares (Note 9) | 2,084,950 | 2,122,112 |
| Minority shareholders' interest in net assets acquired | – | 89,011 |
| Issue of subsidiary's shares to its minority shareholders | 649,982 | – |
| Issue of share purchase warrants (Note 10) | 96,600 | – |
| | 3,333,613 | 2,487,737 |
| Decreased by – | | |
| Dividend | 80,326 | – |
| Acquisition of minority shareholders' interest in subsidiary (Note 3) | 102,009 | – |
| | 182,335 | – |
| Net increase for year | 3,151,278 | 2,487,737 |
| Net Assets – End of Year | \$9,780,632 | \$6,629,354 |
| Represented by: | | |
| Shareholders' equity | \$9,390,244 | \$6,527,345 |
| Minority shareholders' interest in subsidiary | 390,388 | 102,009 |
| | \$9,780,632 | \$6,629,354 |

See accompanying notes

Guardian
Capital Group
Limited
and Subsidiary
Companies

Consolidated
Statement
of Merchant
Banking
Investments

as at
December 31, 1973

| | Number of Shares or Par Value | Average Cost | Quoted Market Value |
|---|-------------------------------------|-----------------|---------------------------|
| Gold | | | |
| Gold certificate (ounces) | 4,785 | \$ 500,505 | \$ 535,920 |
| Bulora Corporation | 100,000 | 100,000 | 140,000 |
| Chibex – Units of \$1,000 conv. S.F. debs. due June 30, 1978 and 100 common shares | 80 | 76,385 | 84,800 |
| Consolidated Professor Mines | 100,000 | 71,400 | 77,000 |
| | | 748,290 | 837,720 |
| Oil, Gas and Energy | | | |
| August Petroleum | 10,000 | 14,886 | 8,400 |
| Newmark Resources | **100,000 | 75,000 | 92,000 |
| Pan Continental Mining | 8,000 | 9,430 | 9,200 |
| | | 99,316 | 109,600 |
| Miscellaneous | | | |
| National Medical Enterprises "A" | 7,300 | 85,389 | 58,400 |
| Ziebart Corporation – 9% conv. debs. due December 1, 1977 | \$100,000 | 100,000 | *100,000 |
| Common shares | 25,000 | 42,633 | 37,500 |
| | | 228,022 | 195,900 |
| Total Merchant Banking Investments | | 1,075,628 | 1,143,220 |
| Cash and other net assets – attributable to merchant banking operation | | 1,442,067 | 1,442,067 |
| Total Merchant Banking Net Assets | | \$2,517,695 | \$2,585,287 |

* This investment has been valued at cost.

**A subsidiary has agreed to purchase 500,000 additional common shares of this company at 80.3¢ per share.

Note:

Comparative net asset figures for 1972 are not shown since the merchant banking operation was not formally organized until 1973 when \$2,500,000 was transferred to a separate merchant banking subsidiary.

The details of the merchant banking investments held at December 31, 1972 were as follows:

| | Number of Shares or Par Value | Average Cost | Quoted Market Value |
|--|-------------------------------------|-----------------|---------------------------|
| Inlet Oil Corporation | 17,500 | \$ 346,688 | Unquoted |
| Ziebart Corporation – Common shares | 15,000 | 22,517 | \$ 33,750 |
| 9% conv. debs. due December 1, 1977 | \$100,000 | 100,000 | Unquoted |
| | | \$ 469,205 | |

See accompanying notes

Guardian
Capital Group
Limited
and Subsidiary
Companies

Consolidated
Statement
of Venture
Capital
Investments

as at
December 31, 1973

| | 1973 | | | 1972 | | |
|---|-------------------------------------|---|--|-------------------------------------|---|--|
| | Number of Shares or Par Value | Average Cost Less Allowance for Losses | Unaudited Directors' Valuation (Note 5) | Number of Shares or Par Value | Average Cost Less Allowance for Losses | Unaudited Directors' Valuation (Note 5) |
| MDS Health Group – | | | | | | |
| Shares | 433,751 | \$ 495,018 | \$1,301,253* | 532,501 | \$ 607,592 | \$2,130,000 |
| Debs. – 10% 1975 | \$ 97,493 | 97,493 | 97,493 | \$ 97,493 | 97,493 | 97,493 |
| Digital Telephone Systems – | | | | | | |
| Shares | 200,647 | 1,485,686 | 2,407,764 | 112,850 | 287,907 | 1,350,000 |
| Warrants | 20,000 | 100,938 | 200,000 | 20,000 | 100,938 | 200,000 |
| Instinet | 16,500 | 227,725 | 82,500 | 16,500 | 227,725 | 227,725 |
| I.W.C. Communications (in exchange for Slaight Broadcasting) | 233,335 | 200,000 | 513,333* | — | — | — |
| Slaight Broadcasting | — | — | — | \$200,000 | 200,000 | 500,000 |
| Keydata Corporation | 20,333 | 163,747 | 96,582* | 20,333 | 163,747 | 220,117 |
| Dicom Systems (exchanged for Digital Telephone Systems on the basis of 1 for 7½) | — | — | — | 58,483 | 117,780 | 117,780 |
| Peyto Oils | — | — | — | 33,333 | 100,000 | 188,330 |
| Canapharm Industries | 125,000 | 62,500 | 62,500 | 125,000 | 125,000 | 125,000 |
| Other | | 55,030 | 44,350 | | 60,000 | 60,000 |
| Total Venture Capital Investments | | 2,888,137 | 4,805,775 | | 2,088,182 | 5,216,445 |
| Cash and other net assets – attributable to venture capital operation | | 566,627 | 566,627 | | 295,786 | 295,786 |
| Total Venture Capital Net Assets | | \$3,454,764 | \$5,372,402 | | \$2,383,968 | \$5,512,231 |

*Equivalent to quoted market value

See accompanying notes

Guardian Capital Group Limited and Subsidiary Companies

Notes to Consolidated Financial Statements

for the year ended
December 31, 1973

1 Change in Name

By articles of amendment dated June 20, 1973 the Company changed its name from Gdn. Management Limited to Guardian Capital Group Limited.

2 Basis of Financial Statement Presentation

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

Since the consolidated figures originally reported for the year ended December 31, 1972 did not include the accounts of one subsidiary, Gdn. Ventures Limited, the 1972 comparative figures have been restated to give effect to the inclusion of the accounts of that company. This restatement has the effect of reducing the originally reported 1972 earnings of \$466,520 (equivalent to \$.39 per share) by \$202,904 to \$263,616 (equivalent to \$.22 per share).

The changes in the consolidated financial position for 1973 have been presented in a "statement of changes in net assets", which was considered to be more appropriate than a "statement of source and application of funds", since a substantial portion of the consolidated net assets at December 31, 1973 consisted of the investments and other net assets of two investment company subsidiaries. The 1972 changes in financial position, which were originally reported in a "statement of source and application of funds", have been reported in these statements to conform to the 1973 presentation.

Certain other figures have been reclassified for comparative purposes.

3 Acquisition of Mutual Funds Management Corporation of Canada Limited

In 1972 the Company acquired approximately 95% of all the issued and outstanding shares of Mutual Funds Management Corporation of Canada Limited (formerly M.G.F. Management Limited).

During 1973 the Company acquired the remaining outstanding shares. The details of the consideration paid for these shares was as follows:

| | |
|---|--------------------|
| 9,050 shares of Guardian Capital Group Limited – at a value ascribed by the directors | \$ 81,450 |
| Cash | 45 |
| Total consideration for 18,109 Class "A" shares | 81,495 |
| Expenses incurred | 10,444 |
| Total cost of shares | 91,939 |
| Net book value of minority interest at date of acquisition | 102,009 |
| Excess of net book value over cost of shares acquired | (\$ 10,070) |

4 Investments

The investments are recorded at average cost less an allowance for losses.

The publicly quoted securities included therein have an aggregate cost of \$1,834,393 and an aggregate market value of \$2,954,388 at December 31, 1973. The aggregate cost and market value of the publicly quoted securities held at December 31, 1972 were not significant.

5 Unaudited Directors' Valuations of Venture Capital Investments

The directors' valuation represents the value as determined by the directors of Gdn. Ventures Limited (the venture capital subsidiary) using the following guidelines:

- (1) Each unquoted security is valued at a figure considered to be fair and reasonable but which in no case exceeds the highest of:
 - (i) Cost
 - (ii) In the case of companies which have had earnings in each of the past two years, at an appropriate multiple of their equity in the average earnings for those years.
 - (iii) The last sale price of the same securities as those held by them when such securities are sold in significant quantity to knowledgeable investors, subsequent to their investment in them.
- (2) Each quoted security is valued at quoted market price which is the closing sale price or, if the stock is not actively traded, the average of the closing bid and asked prices. If the securities owned are not readily marketable due to escrow requirements, size of holding or other restrictions on sale, an appropriate discount is applied.

6 Fixed Assets

The fixed assets at December 31, 1973 were valued at a cost of \$181,348 less accumulated depreciation and amortization of \$91,117. The depreciation and amortization expense for 1973 and 1972 was \$16,038 and \$17,133 respectively.

7 Income Taxes

(a) Deferred Income Taxes

The deferred income taxes arose primarily from claiming certain costs for income tax purposes which will not be expensed in the accounts until future years.

(b) Losses Available for Income Tax Purposes

A subsidiary has unused accumulated losses for income tax purposes of approximately \$195,000, which may be used to reduce taxable income of that subsidiary in future years.

Guardian Capital Group Limited and Subsidiary Companies

Notes to Consolidated Financial Statements

for the year ended
December 31, 1973

8 Long-Term Debt

The long-term debt consists of \$225,000 7½ % subordinated convertible debentures of a subsidiary company, Mutual Funds Management Corporation of Canada Limited, due January 10, 1978.

These debentures are secured by a floating charge on the assets of Mutual Funds Management Corporation of Canada Limited and are convertible at the holders' option into shares of Guardian Capital Group Limited on the basis of \$9.20 per share or, if called for redemption by the company before the due date, on the basis of the lesser of \$9.20 per share or 85% of the quoted market price per share at the date of conversion.

The interest expense with respect to this debt was \$19,610 and \$8,813 in 1973 and 1972 respectively.

9 Capital Stock

By articles of amendment dated June 20, 1973 the Company increased its authorized capital to 3,000,000 shares without par value.

During the year the Company issued treasury shares as follows:

| Number of Shares Issued | Value Ascribed by the Directors | Consideration |
|-------------------------|---------------------------------|--|
| 250,000 | \$2,000,000 | Cash on private placement |
| 700 | 3,500 | Cash on the exercise of employee stock options – See Note 11 |
| 9,050 | 81,450 | Shares of Mutual Funds Management Corporation of Canada Limited – See Note 3 |
| 259,750 | \$2,084,950 | |

10 Share Purchase Warrants

During 1973 the Company issued 77,280 warrants as consideration for the discharge of a liability of \$96,600. Each warrant entitles the holder to purchase one share at \$8.00 per share on or before December 31, 1983.

During 1973 the Company granted to the holders of warrants of a subsidiary company the right to purchase 20,000 shares of the Company at \$7.00 per share on or before April 30, 1977. Formerly such warrant-holders were entitled to purchase 20,000 shares of the subsidiary at \$7.00 per share on or before April 30, 1974.

As at December 31, 1973 107,280 authorized but unissued shares of the Company's capital stock were reserved for issuance upon the exercise of share purchase warrants as follows:

| Number of Warrants | Price per Share | Exercisable on or before |
|--------------------|-----------------|--------------------------|
| 10,000 | \$12.50 | December 31, 1974 |
| 20,000 | 7.00 | April 30, 1977 |
| 77,280 | 8.00 | December 31, 1983 |

11 Employee Stock Options

76,590 authorized but unissued shares of the Company's capital stock are reserved for allotment under the Company's employee stock option plan. As at December 31, 1973 options, exercisable at \$5.00 per share, were outstanding on 56,450 and 20,000 shares expiring December 31, 1979 and December 31, 1982 respectively of which options covering 45,308 shares were exercisable as of December 31, 1973, the remainder becoming exercisable over the next two years.

12 Management Fees and Performance Bonuses

The Company and certain subsidiaries provide management and investment advisory services to mutual funds, pension funds and individual investors on a contract basis in consideration for management fees. Under some contracts the companies are entitled to earn performance bonuses if the managed portfolio outperforms certain stock market averages.

Bonuses are paid to management and employees in those years when performance bonuses are earned.

13 Remuneration of Directors and Senior Officers

The aggregate remuneration of directors and senior officers for the year ended December 31, 1973 was \$295,028 (1972 – \$212,032).

14 Earnings per Share

The earnings per share calculations are based on the weighted average number of shares outstanding during the year. Fully diluted earnings per share would not be materially different from the basic earnings per share.

15 Long-Term Lease Commitment

The future minimum annual rentals, under a lease agreement which terminates on August 31, 1982, are approximately \$54,000 for the years 1974 to 1977 and \$57,000 for the years 1978 to 1982.

Guardian Capital Group Limited

48 Yonge Street, Toronto, Ontario

Officers and Directors

James F. Cole, *Director*
Alan Grieve, *Vice-President and Director*
Ralph Horner, *Vice-President and Director*
Richard E. McConnell, *Director*
Gurston Rosenfeld, *Director*
Norman J. Short, *President and Director*
Hunter E. Thompson, *Director*
William Filipiuk, *Director*
Peter E. Roode, *Secretary-Treasurer*
Bernice Wade, *Assistant Secretary*

Registrar and Transfer Agent

The Canada Trust Company
110 Yonge Street, Toronto, Ontario

Banker and Custodian of Securities

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

Auditors

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

Legal Counsel

Day, Wilson, Campbell
250 University Avenue, Toronto, Ontario