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ANNUAL REPORT
GUARDIAN CAPITAL GROUP LIMITED



50 YEARS
Our history.
Your future.

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Message from the Chairman of the Board

Dear Fellow Shareholders,

On behalf of your Board of Directors, I am pleased to report to you that your company completed its 50th anniversary year with much success. This achievement did not take place overnight, but has been the culmination of planning, patience and execution with excellent leadership.

Of particular note, during 2012 the company returned to its shareholders \$13.2 million, consisting of dividends of \$5.4 million and share repurchases of \$7.8 million. Additionally, we invested \$7.4 million to build upon our profitable life insurance agency business.

In relation to the fiscal year 2012, we have declared a \$0.20 per share dividend, payable in March, a 17.6% increase from the \$0.17 paid last year. The Board has also decided to transition the Company's dividend policy from an annual payment to a quarterly payment schedule, beginning with the first quarterly dividend, which is anticipated to be made payable in July, 2013.

Your Board of Directors is confident in the strength and resilience of Guardian's business model, and the team which continues to build upon the brand. This remarkable team, headed by George Mavroudis, President and Chief Executive Officer, exemplifies our company's values of Trustworthiness, Integrity and Stability, together with care for our business and clients. The Directors have approved Management's updated Strategic Plan for the company, which is based upon its vision of being the most respected independent investment management firm in Canada.

Peter Stormonth Darling has been a dedicated member of our Board for 15 years, but has advised us that he will not be standing for re-election to the Board at the upcoming Annual Meeting. We wish to thank Peter for his generous counsel and contributions to Guardian.

I also thank the other members of the Board for their counsel and efforts throughout the past year. Additionally, we wish to recognize and thank the management and associates of each of our subsidiary companies for an outstanding year.

On behalf of the Board, we thank you for your continued support and trust, and look forward to discussing our progress further with you at our 2013 Annual Meeting, and continuing to work on your behalf in the year ahead.

Respectfully,



James Anas
Chairman of the Board



March 1, 2013

To Our Shareholders

Dear Shareholder,



This past year marked a significant milestone for Guardian Capital, as we celebrated our 50th year in business. Associates across the company exhibit a great sense of pride knowing they are part of a successful independent financial institution, steeped in the history of serving the best interests of our clients, associates and shareholders. The total commitment of our associates, and the privileges bestowed by our clients, has allowed Guardian, in its 50th year in business, to set historical highs for such key financial metrics as assets under management, assets under administration, net revenues, operating earnings, cash flow from operations and shareholders' equity.

Guardian's investment management business grew assets under management by more than 18%, or approximately \$2.9 billion, to \$18.8 billion at year end, compared to \$15.9 billion at the end of 2011. Worldsource Wealth Management, our financial advisory business serving independent advisors across Canada, also experienced double digit growth, with assets under administration ending the year at \$9.9 billion, compared to \$8.7 billion at the end of 2011.

The growth in assets under management and administration, in itself, is impressive. However, it is important to highlight some of the key drivers to this success. Over the last few years, we have had a strategic focus on improving our relations with the investment consultant community and with key personnel at pension, endowment, foundation and financial intermediary institutions, as well as expanding our geographical coverage. In 2012, our focus on these business development efforts led to historical highs in requests for proposals, finalist pitches and new client wins, across both our institutional pension and financial intermediary distribution channels. The success in new client acquisition was a major driver to growth in assets under management for the year.

The foundation supporting our strong net new sales has been our continued success in fostering a stable environment for our investment professionals, allowing them to pursue the ultimate goal of adding value above our clients' goals and benchmarks. Several of our equity and fixed income strategies delivered relatively strong performance over the year and, more importantly, over 3, 5 and 10-year investment horizons ending in 2012. The company's broad range of investment solutions, with multi-year track records available across domestic and global equities, fixed income and balanced mandates, positions our institutional investment management business for continued growth in the years ahead.

Guardian Capital Advisors LP, our private wealth management business, has been a steady and growing part of the company's investment management business. In 2012, our private wealth business unit grew the number of clients we serve by more than 12% to over 700 families, with total assets under management of \$1.4 billion. Through patient organic growth, Guardian has built one of the largest independent private wealth management

firms, representing clients across Canada, and with a growing list of referring advisors who value our partnership in serving their high net worth clients.

Worldsource Wealth Management, our financial advisory business, continues to develop improved efficiencies and revenue growth, which have led to more than a \$2 million reduction in operating losses in 2012, and position the business to contribute to Guardian's profitability in 2013. A large part of this success is due to our leading position as a Managing General Agency (MGA), serving the needs of top independent insurance advisors selling life insurance, critical illness insurance and segregated funds. In November, 2012, we completed the acquisition of Strategic Brokerage Services, a strong regional MGA in Western Canada, which strengthens significantly the firm's national presence. We expect to see continued consolidation in the MGA sector, and believe we are well positioned to play a leading role in that consolidation.

As we have stated in recent years, we are focused on converting the scale of both our investment management and financial advisory businesses into operating businesses that generate meaningful and repeatable operating profits. In 2012, we began to see the potential growth in profitability from these operating businesses, and will be increasingly supportive toward reallocating portions of our corporate investment portfolio into investments that will aid the growth in these operating businesses.

The improved results of our operating businesses generated net earnings available to shareholders in 2012 of \$0.71 per share, diluted, compared with \$0.31 per share, diluted in 2011. We believe there are other meaningful financial measures of our progress. Our operating earnings in 2012 were \$20.1 million, \$3.0 million greater than in 2011 and steadily growing since the lows of 2008, and adjusted cash flow from operations available to shareholders, which returned \$0.66 per share in 2012, diluted, versus \$0.60 in 2011.

In 2013, we look forward to building on the gains made over the past year, and have a strategy in place to generate meaningful operating profits that are repeatable. The trust which clients place in our services, and the hard work, passion and loyalty of our associates, are sincerely appreciated, as is the patience of our shareholders, to allow us the time to build a successful independent financial institution.

Warmest regards,



George Mavroudis,

President and Chief Executive Officer

March 1, 2013

1960s



Norman Short, Alan Grieve and Ralph Horner launched Guardian in 1962, as Gdn. Management Ltd., to serve as the management company for Guardian Growth Fund Limited, which had been formed two years earlier.

Guardian Growth Fund, with a "Free-to-Roam" mandate, becomes one of the top-performing Canadian mutual funds in the 1960's.



Norman Short & Associates Ltd. is formed, planting the seeds for the group's investment management business. Later renamed Guardian Capital Investment Counsel Ltd. (GCIC), it is the direct predecessor to today's Guardian Capital LP (GCLP).

Jim Cole joins GCIC as a senior executive and investment manager, holding senior positions with GCIC and the parent company for over 25 years.

Gdn. Management Ltd. completes its IPO, and begins trading on the Toronto Stock Exchange.



1970s

Gdn. Management Ltd. is renamed Guardian Capital Group Limited.

Other senior executives were Hunter Thompson and Gurston Rosenfeld. Hunter builds Guardian's outstanding collection of Canadian aboriginal art; Gurston is instrumental in Guardian's financing of movies, including "The Terry Fox Story".



Guardian occupies offices at 48 Yonge Street in Toronto for most of its first quarter century.

Guardian forms pooled funds to serve smaller pension clients, and takes over other public mutual fund groups, broadening its investment offering to include Canadian and US Equity and Fixed Income mandates.

Tyndall-Guardian, a joint venture between Guardian and Tyndall, a UK firm, builds a mutual fund management firm in Bermuda.

Vern Christensen joins Guardian, in charge of legal and finance, and is involved with the development of the mutual fund and financial advisory businesses, continuing as Chief Financial Officer today.

1980s

John Christodoulou joins Guardian's Board of Directors.



All of Guardian's domestic mutual fund administration brought in-house, and Guardian Group of Funds Limited (GGOFL) formed. Fund offering broadened to include World Equities, Money Market and International Fixed Income, among others.

Through mergers with two other firms, Ruggles & Crysdale and Fiscal Consultants, broader mandates and significant AUM added to Guardian's investment counseling business.

Guardian has public offerings of specialty closed-end funds, including Precious Metals, Pacific Rim and specialty Fixed Income, listed on the Toronto Stock Exchange, using in-house expertise and partnerships with international specialists.

Sale of Tyndall-Guardian to Guardian's joint venture partner provides Guardian with the start of its corporate investment portfolio.

Norman Short retires as President and CEO of Guardian, and is replaced by John Christodoulou, who had been taking on more senior positions with Guardian.

1990s

Former closed-end funds now all merged into current open-end funds. Broad range of mutual funds results in asset growth to over \$2 billion.

GGOFL forms mutual fund dealer Worldsource Financial, sponsoring life insurance sales force as mutual fund agents.

Alexandria Bancorp formed as bank, mutual fund manager, trust and corporate administrator in Cayman Islands. Later added Alexandria Trust in Barbados.



Private Wealth investment manager formed, predecessor to Guardian Capital Advisors, which eventually expands to Calgary and Vancouver.



Merged Worldsource Financial with Capital Management Group, to form CMG-Worldsource Financial Services, in Markham, Ontario.

AUM reaches \$10 billion, and AUA at Worldsource reaches \$2 billion.



2000s

GGOFL sold to Bank of Montreal for \$180 million in BMO shares, adding to corporate portfolio of securities. Guardian continues to sub-advise significant assets for the funds.

Worldsource financial advisory business is expanded to include a securities dealer, with the launch of Worldsource Securities Inc.

The purchase of Trowbridge Financial results in the formation of Worldsource Insurance Network (WIN), a life insurance managing general agent located in Vancouver.

Guardian Ethical Management, a Socially-Responsible Investment joint venture, founded.

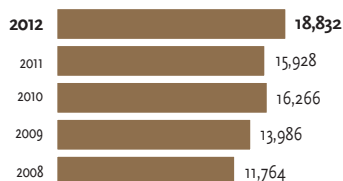
John Christodoulou passes away, and George Mavroudis, who joined Guardian several years earlier, is appointed President and CEO of Guardian, and a member of the Board of Directors.

Guardian Capital LP builds an in-house Global investment management division, with client assets greater than \$1 billion.

Through purchase of IDC in Eastern Canada, and SBS in Alberta and BC, WIN builds a national presence as IDC Worldsource.

Guardian Capital celebrates the 50th Anniversary of its founding, with its total AUM at almost \$19 billion and its total AUA at almost \$10 billion.

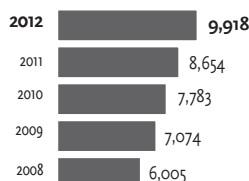
Financial Highlights



Assets Under Management

As at December 31 (\$ in millions)

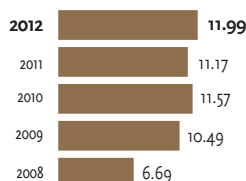
Assets under management increased in 2012, largely as a result of net new monies received from new and existing institutional clients.



Assets Under Administration

As at December 31 (\$ in millions)

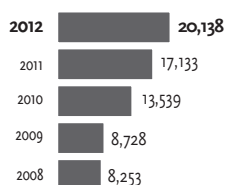
Assets under administration (AUA) increased significantly in 2012, as a result of additional insurance AUA provided by the purchase of a Western Canada MGA, plus additional mutual fund AUA provided by new advisor teams joining the Company.



Fair Value of the Company's Securities, per share, diluted^{1,2}

As at December 31 (in \$)

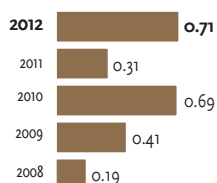
The fair value of the Company's Securities per share increased in 2012, reflecting the growth in the fair value of the Company's investments, substantially the Bank of Montreal shares.



Operating Earnings^{1,2}

For the years ended December 31 (\$ in thousands)

Operating Earnings improved significantly in 2012, reflecting a full year's contribution from a 2011 Financial Advisory purchase, plus continuing improvements in the Company's Investment Management business.



Net Earnings available to shareholders, per share, diluted^{1,2}

For the years ended December 31 (in \$)

Net earnings per share increased dramatically in 2012, reflecting improved Operating Earnings and significant Gains on Securities Held For Sale.



Adjusted Cash Flow From Operations available to shareholders, per share, diluted^{1,2}

For the years ended December 31 (in \$)

Adjusted cash flow from operations increased in 2012, reflecting improved Operating Earnings.

- (1) 2010 to 2012 numbers are in accordance with IFRS; 2009 and previous years are as reported under previous Canadian GAAP.
- (2) Numbers for 2010 and 2011 have been amended retrospectively to reflect the 2012 adoption of new IFRS standards, as disclosed in note 3a to the 2012 Consolidated Financial Statements.

Review of Operations

INSTITUTIONAL INVESTMENT MANAGEMENT

Institutional investment management services are provided by Guardian Capital LP (“GCLP”), which serves pension plan sponsors, broker dealer third-party platforms, closed-end funds and mutual funds, operating and endowment funds, and foundations. GCLP’s capabilities span a range of asset classes, geographic regions, and specialty mandates. GCLP, one of the largest, independent investment management firms in Canada, is the successor to our investment management business, which was founded in 1962, and celebrated its 50th anniversary in 2012.

Assets under management (“AUM”) in GCLP were \$17.3 billion at the end of 2012, up from \$14.5 billion at the end of 2011. The increase in assets under management was due mainly to strong net new monies from clients across both the institutional and retail intermediary client base. The S&P/TSX Composite benchmark rose 8.2% and provided the balance of growth in AUM for 2012. Relative to many of our peers, GCLP experienced a strong year of growth due to strong relative performance across several asset classes, continued stability in the investment team and organization, and strong client service and business development efforts.

Canadian Equity

In 2012, most of our Canadian equity strategies experienced strong returns, which will provide support for further growth in 2013. As indicated last year, we experience continued investor interest in our Canadian Growth Equity strategy, to the point of having to decline new client appointments starting in 2013. With over \$3 billion in this strategy, we felt that it was in the best interests of our existing clients to limit future growth in assets to the investment needs of those clients. We have also witnessed a growing trend among institutional investors to seek strategies that are biased toward income generation and lower portfolio volatility. This speaks to Guardian’s leading expertise in managing such strategies for well over 15 years, and resulted in significant new appointments for our Equity Income and Growth & Income strategies. We believe this theme will continue to remain popular with both institutions and retail investors, and should support further growth in 2013. At times when many institutional investors are shrinking their allocation to Canadian equities, we are proud to have experienced continued growth in this area, and intend to continue providing the solutions that investors desire. Finally, at the end of 2012, we added to our investment bench strength with the hire of a senior analyst,

who has extensive experience focused on Canadian companies. Guardian has one of the deepest Canadian Equity investment teams in the industry, with nine investment professionals who have an average of 27 years of experience overseeing a total of approximately \$10 billion in assets under management.

Global Equity

As we reported in last year’s review of operations, the strong 5 year performance history of our Global Dividend Equity strategy at the end of 2011 provided us with strong cash inflow momentum into 2012, and was a large contributor to the growth in assets under management for the global equity team this past year. This Global Dividend Equity strategy surpassed \$750 million under management by year end. The team reached an important milestone in our building of the global equity platform, reporting total global equity AUM of over \$1 billion, representing growth of over 100% during the year. We continue to expand the firm’s product offering, with the launch of similar regional lower-volatility strategies for International and Emerging Equity Markets. The early performance results for these strategies are encouraging, and provide the seed for further growth in the years to come. In addition to our product development initiatives in this area, we continued our investment in personnel by adding to our investment team at the end of 2012, with the hire of a Senior Research Director/Portfolio Manager, who joined Guardian with more than 20 years of quantitative investing experience. This brings the total number of investment professionals within our global equity team to eight, which represents roughly one-third of our investment professional staff in GCLP.

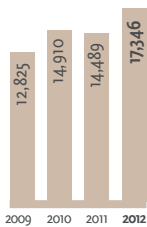
As investors gain greater confidence in the equity markets, stronger equity markets bring the risk that our “lower-volatility” strategies may lag the general markets. However, we believe that the structural needs for income by investors will support the long-term demand for our strategies which, by design, generate above-market dividend yield for their investors at below-market risk.

Fixed Income

Again, in 2012, the fixed income team produced solid, consistent investment returns across the spectrum of strategies it manages on behalf of clients, ranging from core bond to high yield bond strategies. Our conservative style of management continues to appeal to investors seeking safety in their bond allocations. As well, the ongoing investor appetite for higher-yielding securities supported

\$17.3B

2012
Institutional
AUM



Institutional
Assets Under
Management
as at Dec. 31
(\$ mil)

continued growth in our high yield bond strategies. This resulted in a 25% growth in fixed income AUM in 2012. Looking ahead, we expect bond yields to rise eventually. This will be a challenging environment for many strategies that have performed well over the last 20 to 30 years. As a result, we have initiated new strategies in 2012, including a short-duration bond strategy focusing on high-quality corporate issues, and a variation of this strategy incorporating an allocation to high yield bonds. We continue to investigate new approaches to fixed income management for the next decade, and will introduce additional new strategies in 2013. We intend to be well-prepared to meet investor needs in a changing fixed income landscape.

Balanced Funds

Balanced strategies have historically been a relatively small component of our AUM, but have witnessed increased momentum in 2012. Investors have started recognizing Guardian's ability to customize balanced funds by selecting strategies from its wide range of Canadian and foreign equity solutions, combined with a solid fixed income offering. We have acquired eight balanced fund clients in 2012, and expect the momentum to remain strong in 2013.

Investment Client Distribution

The composition of our client base remains broadly diversified, with approximately 50% of assets from institutional corporate and pension accounts, and 50% from retail intermediary clients. Retail intermediary include sub-advisory relationships with mutual funds and closed-end funds, and our leading position in the separately-managed wrap account programs with the top broker dealers in the country. The separately-managed wrap account assets continued to deliver excellent growth in net new assets over the 2012 calendar year, as we finished the year with more than \$3 billion in AUM in this channel. Many of our existing broker dealer partners, in particular the big six Canadian banks, consider us as a preferred provider of core investment solutions on their managed account platforms. Our independence as a wholesaler of diversified investment solutions that deliver consistent returns and strong investment team continuity, coupled with our excellence in servicing the advisors in these large broker dealer distribution channels, positions us as a strong partner for their fast-growing managed fee-based programs.

Building on our positive momentum in institutional pension and endowment searches in 2011, we experienced our highest levels of requests for proposals and finalist opportunities in a single calendar year in 2012. We improved on our closure rate in finalist presentations, along with expanding our client base beyond Canada with mandates secured from an international sovereign wealth client and a major US pension plan. We look to maintain this momentum in 2013, through continued strong

relative investment returns across the spectrum of equity and fixed income solutions, and building on our relationships and communications with the investment consulting community. Success in the institutional investment market still relies heavily on winning over that community, as they are involved in some shape or form in greater than 80% of the institutional searches and placements. Among them, awareness of our capabilities is strong, and our expanded coverage over the last couple of years from the top tier consultant community to the regional and smaller consultants across Canada and into the US, will position us well going into fiscal 2013.

Growth prospects across Guardian Capital LP's existing investment capabilities are good. However, we have historically demonstrated that long term relevance as an investment management firm comes from the ability to constantly foster new investment products and re-invest in existing and new investment professional teams. We have done both over the past year. In addition to our recent hires and the launches of new strategies for the Canadian and global equity investment teams, we have also attracted an experienced and talented investment team to lead our effort in building a direct real estate offering. In early 2013, we expect to launch a core balanced direct real estate fund, using a combination of Guardian Capital's corporate funds and funds allocated by a select group of third party clients.

Fostering a stable investment environment for professionals to meet their value-added targets over full cycles is of paramount importance. We shall complement this effort with our ongoing search to deepen our investment teams and diversify our strategies, so as to meet our goal of building a stable but growing pool of assets and revenues.

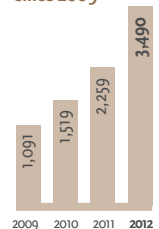
PRIVATE WEALTH MANAGEMENT

Guardian Capital Advisors LP ("GCA") provides portfolio management services across Canada and beyond to private wealth clients, foundations and endowments. We are focused on assisting private wealth clients in achieving their investment objectives, by constructing tailored and tax-efficient investment solutions through fully-discretionary segregated accounts and investment funds. Our investment process combines a proprietary global equity screening process with the experience of dedicated private wealth client portfolio managers.

GCA provides comprehensive portfolio management services to meet clients' individual investment needs. Through the dedicated assignment of an experienced portfolio manager, we bring the vast intellectual resources of the firm to construct custom-designed solutions for each client. We work not only with the clients themselves, but also with their legal, accounting and other advisors,

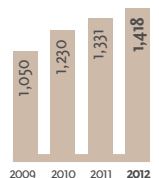
**220%
GROWTH**

in Wrap assets since 2009



Wrap Assets Under Management as at Dec. 31 (\$ mil)

**\$1.4 B
2012
Private Wealth AUM**



Private Wealth Assets Under Management as at Dec. 31 (\$ mil)

to ensure that the services we provide properly integrate with the overall financial objectives of our clients. Through offices in Vancouver, Calgary and Toronto, clients and their advisors have local direct access to experienced investment professionals, supported by a strong administrative team.

GCA's assets under management and supervision were \$1.4 billion at the end of 2012, compared to \$1.3 billion at the end of 2011. We believe that a focus on risk management, as well as on enhanced returns over the long term, will provide the desired benefits to our client base, which are protection against short-term volatility, long-term growth and tax-efficient cash flows. GCA continues to attract new clients, both directly and through referrals from financial advisors. The majority of our client base arises from domestic clients, split roughly equally between Eastern and Western Canada.

In 2012, we added staff to expand our portfolio management and administrative capabilities in order to prepare for future growth. Our business development efforts will continue to focus on delivering awareness in the legal, accounting, family office and financial advisory communities.

FINANCIAL ADVISORY

Worldsource Wealth Management Inc. ("Worldsource") is an integrated financial advisory platform, with independent financial advisors offering mutual funds, securities and life insurance products to Canadians from coast to coast. Assets under administration ("AUA") totaled \$9.9 billion at December 31, 2012, compared to \$8.7 billion at the end of 2011.

Worldsource is committed to being an independent dealership platform for financial advisors who sell a variety of financial products. Worldsource promotes an open architecture, and thus provides advisors with the independence to choose the best available solutions for their clients. The advisors are further supported with quality reporting and administration, and a professional approach to sales compliance and product suitability.

Worldsource Financial Management Inc. ("WFM") is a national mutual fund dealer with AUA of \$6.7 billion at December 31, 2012, compared to \$6.1 billion at the end of 2011. The increase in assets was attributable to successful recruiting programs, including the recruitment of the advisors from the Independent Accountants' Investment Group, and higher client portfolio valuations due to market appreciation for both equities and bonds. WFM's commission revenues continue to trend lower in 2012, due to a general move by advisors away from deferred sales charge ("rear-load") funds to lower initial commission rate "front-load" funds.

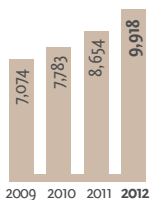
The lower commission rate funds generally have higher continuing or "trailer" fees, so that future periods will benefit from the build-up of these continuing commissions. Additionally, the increase in continuing commissions was offset by some movement toward lower commission products such as fixed income or balanced income strategies, rather than the higher commissions generated from long-term equity strategies. We believe that the move toward greater trailer fee revenue better aligns the advisor's business with the client's interests. It also improves the advisor's and the dealership's business models, by providing for recurring revenue as opposed to the historical reliance on active sales commission activity. Despite a significant recovery in the equity markets since the lows of 2009, WFM advisors and their clients remain cautious, as they continue to allocate a disproportionate amount of their investments into cash equivalent, fixed income and balanced income strategies. As investor sentiment becomes more confident, we expect to see an increase in commission and trailer revenues, with higher allocations toward equity products.

In 2013, WFM plans to work closely with its independent advisors, to create an investment solutions program where Guardian's in-depth investment management capabilities will be leveraged to convert more AUA into AUM. WFM believes that developing best practice management programs and customized portfolio solutions for its advisors can grow both the dealership and the advisor's revenues, as they improve their productivity in servicing the needs of their clients and in building their books of business.

Worldsource Securities Inc. ("WSI") is Worldsource's investment dealer or securities brokerage. WSI operates its branch network on the Agency Model, under which investment advisors are permitted a higher degree of independence than traditionally afforded. WSI is focused on providing the highest possible level of technological and administrative support to its branch network. In 2012, WSI continued to attract new financial advisors, adding branches in Toronto, Calgary and Moncton, and finishing the year with greater than \$1 billion in AUA. In 2013, management expects that WSI will continue its success in recruiting advisors and adding new branches to its growing network of brokers across the country.

IDC Worldsource Insurance Network Inc. ("IDC WIN") is a Managing General Agency ("MGA"), which is 67% owned by Worldsource and which provides sales, marketing and administrative support to licensed insurance advisors nationwide. IDC WIN experienced strong growth in 2012, including the completion, near the end of the year, of the acquisition of Strategic Brokerage Services ("SBS"), a strong regional MGA in Western Canada, which gives the firm a national footprint, with offices in

\$9.9B
2012 AUA



Total Assets Under Administration as at Dec. 31 (\$ mil)

Western, Central and Eastern Canada available to provide local service to its advisors. IDC WIN is a leader in the MGA market in Canada, and has a significant competitive advantage for meaningful growth and profitability, as the industry continues to consolidate. Segregated fund and accumulation annuity AUA surpassed \$2.2 billion as of December 31, 2012, up from \$1.6 billion as of the end of 2011, largely driven by the SBS purchase. The growth in the IDC WIN business in the past two years has increased its insurance commission revenue to \$10.4 million in 2012, from \$2.3 million in 2010. IDC WIN will continue to build on the strong practice management and recognition programs it offers to its advisors, and focus on sales growth through selective advisor recruitment and increasing advisor productivity in 2013.

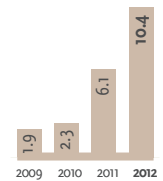
INTERNATIONAL PRIVATE BANKING

Alexandria Trust Corporation (“ATC”) is a licensed and regulated domestic trust company based in Barbados. ATC provides fiduciary and corporate administration services to international clients.

Alexandria Bancorp Limited (“ABL”) is a private bank based in the Cayman Islands, which was established in 1990. ABL is licensed and regulated by the Cayman Islands Monetary Authority to provide investment management, fiduciary and banking services to international clients. ABL has substantial investment management capabilities, both through its own Alexandria Fund and its managed segregated account platform. In 2012, administrative services income improved due to higher banking transaction activity and increased referral activity with regional centers of influence. In 2013, ABL plans to continue to strengthen its international referral network and to improve its pooled investment alternatives.



Insurance Assets Under Administration as at Dec. 31 (\$ mil)



Insurance Commission Revenue for the years ended Dec. 31 (\$ mil)¹

¹) Note: results for 2010 to 2012 are in accordance with IFRS; 2009 is as reported under previous Canadian GAAP.

Management's Discussion and Analysis

In accordance with securities regulatory requirements, the discussion and analysis which follows for Guardian Capital Group Limited ("Guardian") pertains to the year ended December 31, 2012, with comparatives for the year 2011 and, in some cases, the year 2010. Readers are encouraged to refer to the discussions and analyses contained in the 2011 Annual Report and the First, Second and Third Quarter 2012 Reports. This discussion and analysis has been prepared as of March 1, 2013.

Additional information relating to Guardian and its business, including Guardian's Annual Information Form, is available on "SEDAR" at www.sedar.com.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Guardian may, from time to time, make "forward-looking statements" in annual and quarterly reports, and in other documents prepared for shareholders or filed with securities regulators. These statements, characterized by such words as "goal", "outlook", "intends", "expects", "plan", "prospects", "are confident", "believe" and "anticipate", are intended to reflect Guardian's objectives, plans, expectations, estimates, beliefs and intentions.

By their nature, forward-looking statements involve risks and uncertainties. There is a risk that these forward-looking statements will not be achieved. Undue reliance should not be placed on these statements, as a number of factors could cause actual results to differ from Guardian's objectives, plans, expectations and estimates reflected in the forward-looking statements.

OVERVIEW OF GUARDIAN'S BUSINESS

Guardian is a diversified financial services company, which serves the wealth management needs of a range of clients through its various business segments. The areas in which Guardian operates are: institutional and private client investment management; financial advisory; and corporate activities and investments. As at December 31, 2012, Guardian had \$18.8 billion of assets under management ("AUM") and \$9.9 billion of assets under administration ("AUA"). In addition, Guardian has a diversified portfolio of securities which, together with its investment in Bank of Montreal shares, had a fair value of approximately \$380 million at the end of the year.

MATERIAL EVENTS

Acquisition of Managing General Agency Business

Effective November 30, 2012, Guardian's subsidiary IDC Worldsource Insurance Network Inc. ("IDC WIN"), a life insurance managing general agency ("MGA"), acquired the business of Strategic Brokerage Services Limited Partnership ("SBS") for a purchase price of \$5.3 million. The transaction will enhance Guardian's presence in the Prairie Provinces as it continues the strong growth of its MGA business. As a result of this transaction, Guardian's life insurance AUA has increased to over \$2.2 billion by year end. IDCWIN ended the year with \$10.4 million in insurance revenues for 2012. It is expected that the acquisition will increase the insurance revenues to over \$13 million in 2013.

Changes in accounting policies

As disclosed in note 3a to the Consolidated Financial Statements contained in Guardian's 2012 Annual Report, on a retrospective basis, during the year Guardian "early adopted" the following International Financial Reporting Standards ("IFRS"): IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, and IFRS 12, Disclosure of Interest in Other Entities. The adoption of IFRS 10 requires Guardian to consolidate certain mutual funds which it is deemed to control. However, Guardian has not consolidated these mutual funds, as they meet the criteria to be classified as assets held for sale. As a result, Guardian has recorded these mutual funds as Securities held for sale on its Consolidated Balance Sheets and has recorded the changes in the fair value of those mutual funds in its net earnings for the current and comparative periods. As a result of the adoption of IFRS 11, Guardian has changed its accounting for its investment in a joint venture, from proportionate consolidation to the equity method, for the current and comparative periods. The effects of those changes in accounting policies on Guardian's Statements of Operations and Balance Sheets are disclosed in note 3a to Guardian's 2012 Consolidated Financial Statements. Where appropriate, such effects are also described in this discussion and analysis, and all comparative figures have been amended accordingly.

USE OF NON-IFRS MEASURES

Guardian's management uses certain measures to evaluate and assess the performance of its business. One of the measures that Guardian uses is not in accordance with IFRS. Non-IFRS measures do not have standardized meanings prescribed by IFRS, and are therefore unlikely to be strictly comparable

to similar measures presented by other companies. However, Guardian's management believes that most shareholders, creditors, other stakeholders and investment analysts prefer to include the use of this measure in analyzing Guardian's results.

Guardian management measures the performance of Guardian's business by using "Adjusted cash flow from operations available to shareholders", which is disclosed

in the table under "Consolidated Financial Results", below. This non-IFRS measure is used by management to indicate the amount of cash either provided by or used in Guardian's operating activities which is available to shareholders, and many companies similar to Guardian use this measure in a similar manner. The most comparable IFRS measure is "Net cash from operating activities", which is disclosed on Guardian's Statements of Cash Flows.

The following is a reconciliation of this non-IFRS measure to the IFRS measure:

For the years ended December 31 (\$ in thousands)	2012	2011 (amended)
Net cash from operating activities, as reported	\$ 23,900	\$ 21,201
Net change in non-cash working capital items	(1,697)	(929)
Cash flow from operations before changes in non-cash working capital items	22,203	20,272
Less: Available to non-controlling interests	(923)	(933)
Adjusted cash flow from operations available to shareholders	\$ 21,280	\$ 19,339

CONSOLIDATED FINANCIAL RESULTS

The comparative financial results of Guardian on a consolidated basis are summarized in the following table:

For the years ended December 31 (\$ in thousands, except per share amounts)	2012	2011 (amended)	% change
Net revenue	\$ 85,030	\$ 73,693	+ 15 %
Expenses	64,892	56,560	+ 15 %
Operating earnings	20,138	17,133	+ 18 %
Net gains (losses)	1,337	(131)	+ - %
Earnings before income taxes and gains (losses) on securities held for sale	21,475	17,002	+ 26 %
Income tax expense	3,275	774	+ 323 %
Net earnings before net gains (losses) on securities held for sale	18,200	16,228	+ 12 %
Net gains (losses) on securities held for sale	4,559	(5,493)	+ - %
Net earnings	\$ 22,759	\$ 10,735	+ 112 %
Net earnings available to shareholders	\$ 22,556	\$ 10,003	+ 125 %
Adjusted cash flow from operations available to shareholders	\$ 21,280	19,339	+ 10 %
Diluted per share amounts			
Net earnings available to shareholders	\$ 0.71	\$ 0.31	+ 129 %
Adjusted cash flow from operations available to shareholders	\$ 0.66	\$ 0.60	+ 10 %
As at December 31 (\$ in millions, except per share amounts)			
Assets under management	\$ 18,832	\$ 15,928	+ 18 %
Assets under administration	\$ 9,918	\$ 8,654	+ 15 %
Value of corporate holdings of securities	\$ 380	\$ 364	+ 4 %
Value of corporate holdings of securities per share, diluted	\$ 11.99	\$ 11.17	+ 7 %

The increase of \$3 million in operating earnings in 2012 compared to 2011 is largely due to an increase in net revenue, partially offset by an increase in expenses. A more detailed discussion is provided under "Revenues and Expenses" below.

The net gains of \$1.3 million recorded in 2012 substantially resulted from the \$1.0 million gain on the repayment of the promissory note by the

issuer, plus gains of \$0.2 million realized on the repayments of partially-amortized intangible assets. In 2011, the net loss of \$0.1 million was composed of realized losses on both directly-held securities and consolidated mutual funds, partially offset by a gain of \$0.7 million on a debt restructuring by the issuer.

The higher income tax expense in 2012 is the result of legislative changes which increased the provincial



1) Note: results for 2010 to 2012 are in accordance with IFRS; 2009 is as reported under previous Canadian GAAP.

tax rates applicable to future periods, plus the income taxes on the increased operating earnings.

The net earnings before net gains (losses) on securities held for sale, which are comparable to the net earnings reported in previous years, were approximately \$18.2 million in 2012, \$2.0 million higher than in 2011. With the exception of the effect of the additional deferred taxes referred to above, Guardian's management believes that this is a more directly comparable measure of the historical representation of Guardian's operating results than net earnings, which include the effect of the changes in the fair values of the mutual funds classified as held for sale.

The net gains (losses) on securities held for sale represent the net changes in the fair value and the net realized

gains (losses) on those securities during each year. These securities held for sale are the result of the changes in the accounting policies and adoption of new accounting standards, as previously described under "Changes in accounting policies" above. Net gains on these securities in 2012, compared to significant net losses in 2011, contributed to the increase in net earnings for the year to \$22.8 million, from \$10.7 million in 2011.

Adjusted cash flow from operations for the year amounted to \$21.3 million, compared to \$19.3 million in 2011. The differences between earnings per share and cash flow per share arise primarily due to the impact of future income taxes, amortization expenses and stock-based compensation, as well as the exclusion of gains or losses on securities from the calculation of cash flow from operations.

REVENUES AND EXPENSES

Investment Management Revenues

The largest source of revenue at Guardian is management fees received from clients, which vary as a result of changes in the amounts of assets managed, and variations in the rates of management fees charged.

The following is a summary of the assets under management:

Years ended December 31 (\$ in millions)	2012	2011
Assets under management, beginning of year	\$ 15,928	\$ 16,266
Net additions (reductions) from clients during year	1,855	(57)
Market appreciation (depreciation)	1,049	(281)
Assets under management, end of year	\$ 18,832	\$ 15,928
Composed of:		
Institutional	\$ 17,346	\$ 14,489
Private client	1,418	1,331
International	68	108
Total	\$ 18,832	\$ 15,928

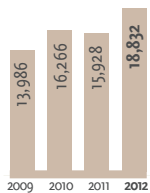
Guardian's total AUM was \$18.8 billion at December 31, compared to \$15.9 billion in the prior year, an 18% increase. The increase in AUM was largely due to successful marketing efforts which resulted in new monies from new and existing institutional clients.

Management fees, net of referral fees paid, for the year 2012 were \$42.4 million, 14% higher than the \$37.2 million for 2011. Institutional management fees increased 17% to \$33.0 million in 2012 from \$28.3 million in 2011, as a result of increases in AUM and the continuing conversion to higher-margin AUM. A performance fee of \$1.4 million was included in the 2012 fees, whereas a performance fee of \$0.4 million was earned in 2011. Private client management fees, net of referral fees paid, increased 10% during the year to \$6.9 million from \$6.3 million in 2011, reflecting the continuing increase in the actual and average AUM in this area. Management fees earned from international clients during the year, at \$2.5 million, were substantially unchanged from the \$2.6 million a year earlier.

Financial Advisory Commission Revenues

Total AUA at Guardian at the end of 2012 amounted to \$9.9 billion, 15% higher than the \$8.7 billion at the end of 2011. The increase in AUA was largely due to the addition of segregated fund AUA from the acquisition of the SBS managing general agency in November, plus successes in recruiting other new advisors into the financial advisory subsidiaries.

Net sales commission revenue earned from the financial advisory business is generated from the sale of mutual funds, other securities and insurance, as well as from continuing fees related to AUA and in force life insurance policies, net of commissions paid to advisors. This revenue amounted to \$18.9 million in 2012, 36% higher than the \$13.8 million in 2011. This increase is largely due to the inclusion of the full year's results of IDC Financial, which was acquired in July of 2011, and successful recruitment efforts in the mutual fund and securities dealers.



Total Assets Under Management as at Dec. 31 (\$ mil)



Management Fee Income, net for the years ended Dec. 31 (\$ mil)¹

¹) Note: results for 2010 to 2012 are in accordance with IFRS; 2009 is as reported under previous Canadian GAAP.

Administrative Services Income

Administrative services income in 2012 was composed of \$5.4 million of registered plan and other fees earned in the financial advisory area, and \$1.8 million of trust, corporate administration and other fees earned mainly

in the international area, for a total of \$7.2 million, compared with \$5.4 million in 2011. The increase resulted from planned rate increases in the financial advisory area, and fees from additional client activities in the international area. These fees are not directly impacted by fluctuations in the financial markets.

Dividend and Interest Income

The following is a summary of Guardian's dividend and interest income:

For the years ended December 31 (\$ in thousands)	2012	2011 (amended)	% change
Dividend income	\$ 15,292	\$ 15,879	- 4 %
Interest income	1,315	1,412	- 7 %
Total dividend and interest income	\$ 16,607	\$ 17,291	- 4 %

Dividend income decreased by 4% in the year compared to the year 2011, due to the non-consolidation of certain mutual funds in 2012, which had been consolidated in the prior year. Interest income decreased from 2011, as a result of the investment in promissory notes being fully repaid by the issuer in the third quarter of 2012.

Expenses

Guardian's operating expenses, excluding commissions, referral fees, amortization and interest, were \$60.1 million in 2012, compared with \$52.1 million in 2011, an increase of 15%. Included in the expenses for 2012 were approximately \$2.9 million of additional expenses due to the inclusion of the full year of expenses relating to the IDC Financial business acquired in 2011, compared to only six months included in 2011. Excluding this variance, the increase in these expenses in 2012 would have been 10%.

The increase in amortization in 2012, from \$3.0 million to \$3.5 million, was largely a result of the full year's amortization of the intangible assets acquired as part of the IDC business compared to only six months in 2011. Interest expense reduced to \$1.3 million in 2012, compared to \$1.4 million in 2011, a reduction of 7%, as a result of lower interest rates renegotiated during the year.

The net income tax expense recorded in 2012 was \$3.3 million, compared with \$0.8 million in 2011. The increase was due in part to the recording of \$1.1 million of deferred income taxes during the year, resulting from an increase in the provincial income tax rate enacted during the year, and the income tax expense on the increase in the operating earnings in Guardian's subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

The strength of Guardian's balance sheet has enabled Guardian to attract Associates, provide clients

with a high comfort level, make appropriate use of borrowings, and develop its businesses. It has also allowed Guardian to maintain the appropriate levels of working capital in each of its areas of operations. The strong cash flow enables Guardian to meet all of its financial commitments, to finance the expansion of its businesses and to purchase the capital assets necessary for the development of those businesses.

During the year, Guardian made payments totalling \$7.4 million, which were due on the purchases of MGA businesses in 2011 and 2012. Additionally, under its Issuer Bid, Guardian purchased and cancelled 0.8 million of its Class A shares, for a total cost of \$7.8 million. As well, Guardian's dividend payment amounted to \$5.4 million in 2012.

In 2012, Guardian renegotiated its borrowings with its major bank lender, to increase the amounts available for general corporate purposes to \$50 million, and the amount available to the EPSP Trust to \$20 million, both of which may be availed under bankers' acceptances at attractive rates. With the operating line of credit of \$11 million also available, the total amounts available under Guardian's credit arrangements were increased to \$81 million from \$66 million. The total amounts borrowed under these arrangements at the end of the year amounted to \$52.2 million, compared with \$45.5 million at the end of 2011.

We are confident that the strength of Guardian's balance sheet will continue to provide benefits in the future. Guardian's holdings of securities as at December 31, 2012 had a fair value of \$380 million, or \$11.99 per share, diluted, compared with \$364.2 million, or \$11.17 per share, diluted, as at December 31, 2011. The increase in the fair value of the securities holdings was primarily due to the increase in the market value of the shares of the Bank of Montreal during the year.

The following is a summary of Guardian's securities holdings:

SECURITIES HOLDINGS

As at December 31 (\$ in thousands, except per share amounts)	2012	2011 (amended)
Securities at fair value:		
Short-term securities	\$ 2,187	\$ 3,166
Bonds	2,007	–
Mutual funds	8,729	13,355
Bank of Montreal common shares	301,626	276,925
Other equity securities	39,389	22,530
Total securities at fair value	353,938	315,976
Promissory notes at amortized cost	–	2,366
Total securities holdings	353,938	318,342
Securities held for sale	26,018	45,840
Total securities	\$ 379,956	\$ 364,182
Total securities per share, diluted	\$ 11.99	\$ 11.17

CONTRACTUAL OBLIGATIONS

Guardian has contractual commitments for the payment of certain obligations over a period of time. A summary of those commitments, including a summary of the periods during which they are payable, is shown in the following table:

As at December 31, 2012 (\$ in thousands)	Total	Payments due by period			
		Within one year	One to three years	Three to five years	After five years
Bank loans and borrowings	\$ 52,235	\$ 52,235	\$ –	\$ –	\$ –
Client deposits	3,884	3,884	–	–	–
Accounts payable and other	21,821	21,821	–	–	–
Payable to clients	36,820	36,820	–	–	–
Operating lease obligations	16,645	1,897	2,890	2,298	9,060
Total contractual obligations	\$ 131,405	\$ 116,657	\$ 2,890	\$ 2,298	\$ 9,060

Guardian's contractual commitments are supported by its strong financial position, including its securities holdings, referred to above under the heading "Liquidity and Capital Resources". The Payable to Clients, in Guardian's securities dealer

subsidiary, is offset by the Receivable from Clients and Broker, and the Client Deposits, in the offshore banking subsidiary, are supported by the Interest-Bearing Deposits with Banks.

SELECTED ANNUAL INFORMATION

Years ended December 31 (\$ in thousands, except per share amounts)	2012	2011 (amended)	2010 (amended)
Net revenue	\$ 85,030	\$ 73,693	\$ 64,928
Net earnings available to shareholders	22,556	10,003	23,015
Per share			
Net earnings			
Basic	\$ 0.72	\$ 0.31	\$ 0.70
Diluted	0.71	0.31	0.69
Dividends paid	0.17	0.16	0.15

As at December 31	2012	2011 (amended)	2010 (amended)
Total assets	\$ 510,752	\$ 469,508	\$ 467,250

The fluctuations in Total Assets over the past two years substantially reflect the changes in the value of the corporate holdings of securities, and the additional assets received on the purchases of MGAs in 2011 and 2012.

SUMMARY OF QUARTERLY RESULTS

The following table summarizes Guardian's financial results for the past eight quarters.

Quarters ended (\$ in thousands)	Dec.31, 2012	Sep 30, 2012	Jun 30, 2012 (amended)	Mar 31, 2012 (amended)	Dec.31, 2011 (amended)	Sep 30, 2011 (amended)	Jun 30, 2011 (amended)	Mar 31, 2011 (amended)
Net revenue	\$ 23,799	\$ 20,858	\$ 20,251	\$ 20,122	\$ 19,824	\$ 18,871	\$ 17,431	\$ 17,567
Operating earnings	5,791	4,647	4,860	4,840	5,324	4,344	3,317	4,148
Net gains (losses)	(144)	2,045	(548)	(16)	1,576	(2,013)	(478)	784
Net earnings before net gains (losses) on securities held for sale	4,938	6,045	2,838	4,379	6,658	2,136	2,802	4,632
Net gains (losses) on securities held for sale	1,084	2,849	(2,961)	3,587	2,236	(8,410)	(576)	1,257
Net earnings (loss) available to shareholders	5,915	8,750	(114)	8,005	7,745	(5,876)	2,280	5,854
Shareholders' equity (in \$)	353,756	336,362	323,690	340,096	322,618	331,718	344,374	351,998
Per average Class A and Common Share								
Net earnings before net gains (losses) on securities held for sale:								
- Basic	\$ 0.16	\$ 0.19	\$ 0.09	\$ 0.14	\$ 0.17	\$ 0.08	\$ 0.09	\$ 0.14
- Diluted	0.15	0.19	0.09	0.14	0.17	0.08	0.09	0.14
Net earnings (loss):								
- Basic	\$ 0.19	\$ 0.28	\$ (0.00)	\$ 0.25	\$ 0.24	\$ (0.18)	\$ 0.07	\$ 0.18
- Diluted	0.19	0.27	(0.00)	0.25	0.24	(0.18)	0.07	0.18
Shareholders' equity								
- Basic	\$ 11.44	\$ 10.78	\$ 10.29	\$ 10.72	\$ 10.12	\$ 10.40	\$ 10.67	\$ 10.85
- Diluted	11.16	10.54	10.06	10.48	9.90	10.18	10.45	10.63

Management fees earned in the investment management segment are generally not subject to seasonal fluctuations. There is a degree of seasonality in the financial advisory segment, with some concentration of commission revenue in the first quarter of each year, relating to the traditional "RSP season". However, the increase in net revenue in the second half of 2011 and in 2012 came in part from the additional net revenue earned from the IDC WIN subsidiary, as a result of acquisitions of MGAs completed in July, 2011 and November, 2012. Additionally, increases in management fees have occurred, including the earning of a performance fee of \$1.4 million in December, 2012.

The net earnings available to shareholders for the quarter ended June 30, 2012 were reduced because of the net losses on securities held for sale, and the increase

in deferred income taxes resulting from increased Ontario income taxes substantively enacted in June, 2012. This increase in taxes amounted to \$1.1 million (\$0.03 per share, diluted). The quarterly fluctuations in shareholders' equity shown above have been largely caused by changes in the value of Guardian's investment in the Bank of Montreal common shares, less this provision for future income taxes.

Since gains and losses are recorded on disposal of available for sale securities or other assets when realized, and on changes in the value of held for trading securities, and such amounts can vary from quarter to quarter, the amounts included in "Net gains (losses)" each quarter can fluctuate, as shown in the quarterly results shown above. The significant net gains recorded in the third quarter of 2012 and

the fourth quarter of 2011 were largely responsible for the increases in “Net earnings before net gains (losses) on securities held for sale” in those quarters. The net gains recorded in the third quarter of 2012 include a one-time gain of \$1.0 million on the repayment to Guardian of the full face value of the investment in promissory notes.

The “Net gains (losses) on securities held for sale” reflect changes in the fair value of investments in mutual funds which are categorized as held for sale, and are directly related to movements in the financial markets.

RISK FACTORS

Guardian applies many of the same risk management principles to its business as a whole, as it does to the management of risks on behalf of its clients. One of the principles is that risk can pose challenges, as well as provide opportunities, depending upon the effectiveness of the way in which it is managed. Readers are encouraged to refer to note 21 to the Consolidated Financial Statements, contained in Guardian's 2012 Annual Report, for additional information on financial risk management.

Market Risk

Market fluctuations can have a significant effect on the value of both clients' portfolios and our earnings, since management fees are generally based on market values. Additionally, market fluctuations have a significant impact on the amounts being invested by the clients of our financial advisory businesses, increasing or reducing our commission revenues. We manage the risk of market fluctuations by having a diversified client base with different investment needs, and by having a variety of products and services, which may be attractive in different market environments and which have different correlations to equity and other financial markets and to each other. Guardian's holdings of securities are managed independently of clients' assets, except for those of our assets that are invested in Guardian's investment funds.

Portfolio Value and Concentration Risk

Guardian's corporate holdings of securities are subject to price fluctuation risk. Guardian manages this risk through professional third-party portfolio managers or in-house expertise, each of whom takes a disciplined approach to investment management. All securities are held by well-known independent custodians chosen by Guardian. With the exception of the investment of \$301.6 (2011 - \$276.9) million in the Bank of Montreal shares, which is a significant portion of Guardian's securities holdings, the holdings are diversified, from both an asset class and a geographical perspective. Guardian has accepted the concentration risk associated with its holding of Bank of Montreal shares, as the bank is a diversified company, with a history of steady dividend payments.

Foreign Currency Risk

Guardian's investments in its foreign subsidiaries are subject to the risk of foreign currency exchange rate fluctuations. The effects of changes in foreign currency exchange rates on the values of these investments are not included in Net Earnings, but are recorded as changes in the “Foreign Currency Translation Adjustment” in Guardian's Statements of Comprehensive Income, and the cumulative effect is included in Accumulated Other Comprehensive Income in the Shareholders' Equity section of the Consolidated Balance Sheets. This foreign currency exposure is not actively managed, due to the long-term nature of these investments, but is closely monitored by the Company.

Credit Risk

Guardian's credit risk is generally considered to be low. Because of the nature of Guardian's business, receivables are mainly from large institutions, which are considered to pose a relatively low credit risk, or from individuals, which are secured by marketable securities. On an ongoing basis, Guardian reviews the financial strength of all of its counterparties, and reduces its exposure where appropriate.

Interest Rate Risk

Guardian manages interest rate risk in its international banking operations, through matching the interest rates and maturity dates of client deposit liabilities with the assets, interest-bearing deposits with banks.

Liquidity Risk

Guardian manages liquidity risk through the monitoring and managing of cash flows from various segments of the business, and by establishing sufficient cash borrowing facilities with major Canadian banks, which currently total \$81 million through three credit facilities. The maturities of Guardian's contractual commitments are outlined under “Contractual Commitments” in this discussion and analysis. The combination of the cash flows from operations and the borrowing facilities provides sufficient cash resources to manage its liquidity risk.

Regulatory Change Risk

Changes to government regulations, including those related to income taxes, can have an effect on Guardian's business. Examples are the changes in future income tax rates, which have had significant effects on Guardian's income tax expense, and net earnings, in 2006, 2007, 2009 and 2012. Because there had been a downward trend in income tax rates prior to 2012, the effects on earnings in earlier years had been positive, but they were negative in 2012, and further negative effects could result if tax rates increase again in the future. Another area in which regulation affects Guardian's business is in the regulatory requirements of the government and self-regulatory agencies under which our regulated

subsidiaries operate. Through a combination of in-house expertise and external advisors, when appropriate, these subsidiaries are able to react to changes in these regulatory requirements.

Performance Risk

Product performance presents another risk. It is a relative, as well as an absolute measure, because the risk is that we will not perform as well as the market, our peers, or in line with our clients' expectations. We manage this risk by having a disciplined approach to investment management, and by ensuring that our compliance capabilities are strong. With respect to clients' expectations, we also ensure that we are fully aware of all of those expectations, and that we properly communicate with our clients to develop, report on and comply with client mandates on a continuous basis.

Financial Advisory Risk

Because of the number of agents who publicly represent each of the Worldsource operating entities, there are risks associated in their dealings with their clients. These risks are mitigated by the strong compliance and product review capabilities of the Worldsource organization, significant management oversight and insurance coverage carried by both Worldsource and the agents.

Competition Risk

Another risk is competition. Our ability to compete is enhanced by the high quality of our management team, the substantial depth in personnel and resources and a strong balance sheet, which provide us with the flexibility to make the changes necessary to be competitive. In addition, we manage competition risk by tailoring our product and service offerings to market conditions and client needs.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

Management is responsible for establishing and maintaining adequate internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There have been no changes in Guardian's internal control over financial reporting during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, Guardian's internal control over financial reporting.

Management of Guardian has evaluated the effectiveness of its disclosure controls and procedures and internal controls over financial reporting (as defined under National Instrument 52-109) as of December 31, 2012, under the supervision of the Chief Executive Officer and the Senior Vice-President,

Finance, who is the Chief Financial Officer. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the design and operation of those disclosure controls and procedures and internal controls over financial reporting were effective.

OUTLOOK

Over the past year, equity markets continued to oscillate with no clear directional trend, caught in a tug-of-war between, on the one hand, European fears, perceived weakness in China and concern about a slowing U.S. recovery, and, on the other hand, inexpensive markets, in both historical terms and relative to interest rates, and favourable monetary ease on a global basis. We believe that, despite these global macro and geopolitical concerns, the overall trend for the equity markets will be toward the upside, as investors continue to accept greater equity risk allocation in their portfolios.

Guardian's assets under management increased over the past year by almost three billion dollars, ending the year with approximately \$18.8 billion, due in part to the positive Canadian and global equity markets and our relative value add across several of our equity and fixed income strategies. Even more significantly, in the past year we witnessed strong growth from very large net new client inflows from both institutional and retail intermediary distribution channels. The pipeline of new business opportunities in the year ahead remains promising, as we look to continue the success of attracting new assets across various mandates managed by Guardian.

Guardian's financial advisory business, through its subsidiary Worldsource Wealth Management, reduced operating losses over the prior year by greater than \$2 million, due to strong commission growth from new life insurance sales at its Managing General Agency, and better revenue and expense management in its Mutual Fund and Securities dealerships. We expect to continue our efforts toward improving operating earnings from our financial advisory business, with the delivery of strong life insurance net sales, and the recruitment of additional independent advisors across our Worldsource platform. The improvements in the day to day operations of our financial advisory business, coupled with greater equity risk appetite from the retail investor, are expected to result in the financial advisory business turning an operating profit in 2013.

We will continue to focus our efforts on creating more meaningful and repeatable operating profits from both our investment management and financial advisory businesses. A successful improvement in operating profits will be instrumental in the company's efforts to deliver consistent growth in dividends and shareholders' equity.

Ten Year Review

Notes 1, 7, 8	2012	2011 (amended)	2010 (amended)	2009	2008	2007	2006	2005	2004	2003
(\$ in millions)										
Assets under management	18,832	15,928	16,266	13,986	11,764	16,885	17,305	18,444	16,085	13,444
Assets under administration	9,918	8,654	7,783	7,074	6,005	6,303	5,677	4,837	3,708	2,731
(\$ in thousands)										
Net revenue	85,030	73,693	64,928	61,147	66,918	69,607	66,247	58,908	49,585	38,323
Operating expenses ²	64,892	56,560	51,389	52,419	58,665	51,617	48,159	44,162	38,930	32,971
Operating earnings	20,138	17,133	13,539	8,728	8,253	17,990	18,088	14,746	10,655	5,352
Net gains (losses)	1,337	(131)	2,982	1,217	(4,484)	4,215	4,134	1,597	1,236	(120)
Net gains (losses) on securities held for sale	4,559	(5,493)	6,443	-	-	-	-	-	-	-
Net earnings available to shareholders	22,556⁶	10,003	23,015	14,274 ³	7,299 ⁴	26,492 ³	22,959 ³	12,821	10,559	6,653
Shareholders' equity ⁵	353,756	322,618	331,856	317,784	204,051	334,696	212,016	192,240	196,273	192,332
Securities holdings (at fair value)	379,956	364,182	383,604	362,512	241,549	380,433	443,108	407,117	364,318	335,205
(In dollars)										
Per average common and Class A share										
Net earnings available to shareholders for the year										
Basic	0.72⁶	0.31	0.70	0.41 ³	0.19 ⁴	0.69 ³	0.60 ³	0.33	0.27	0.17
Diluted	0.71⁶	0.31	0.69	0.41 ³	0.19 ⁴	0.68 ³	0.58 ³	0.32	0.26	0.17
Per common and Class A share										
Dividends paid										
Shareholders' equity ⁵	0.17	0.16	0.150	0.150	0.150	0.135	0.120	0.105	0.0875	0.075
Basic	11.44	10.12	10.16	9.37	5.69	8.79	5.48	5.04	4.98	4.86
Diluted	11.16	9.90	10.01	9.19	5.65	8.67	5.36	4.87	4.89	4.78
Share prices										
Common high	11.65	12.75	9.75	9.97	11.10	15.50	14.00	13.00	11.01	8.00
low	9.41	9.49	7.90	4.65	4.26	10.65	11.25	9.63	7.37	5.70
Class A high	10.55	11.63	9.00	8.25	11.02	13.50	13.13	12.13	12.00	7.25
low	9.00	8.70	7.35	3.00	3.02	10.33	10.12	9.00	6.75	5.15
(In thousands)										
Year end common and Class A shares outstanding										
Basic	30,917	31,890	32,652	33,932	35,874	38,095	38,669	38,149	39,552	39,568
Diluted	31,696	32,604	33,162	34,563	36,104	38,605	39,576	39,492	40,538	40,284

NOTES:

- Comparative figures reflect the May, 2006 2-for-1 stock split.
- Excluding commissions paid, referral fees and income taxes.
- Net earnings available to shareholders reflect a reduction in future income taxes, resulting from the reduced income tax rates enacted during the year, as follows: 2009 - \$2.0 million, \$0.06 per share diluted; 2007 - \$6.6 million, \$0.16 per share diluted; 2006 - \$3.3 million, \$0.08 per share diluted.
- Net earnings available to shareholders in 2008 reflect a \$1.3 million (\$0.03 per share) reduction in future income taxes, resulting from the reversal of future income taxes relating to Guardian's foreign subsidiaries, as well as the recording of restructuring costs of \$2.3 million (\$0.06 per share).
- Shareholders' equity in 2007 and subsequent years reflects the recording of the corporate holdings of securities at fair value, in accordance with required new accounting policies adopted effective January 1, 2007.
- Net earnings available to shareholders in 2012 reflect a \$1.1 million (\$0.03 per share) increase in future income taxes, resulting from increased income tax rates enacted during the year.
- Results in 2010 to 2012 are in accordance with IFRS; 2009 and previous years are as reported under previous Canadian GAAP.
- Comparative figures in 2011 and 2010 have been amended to reflect the 2012 adoption of new IFRS standards, as disclosed in note 3a to the Consolidated Financial Statements contained in Guardian's 2012 Annual Report. 2009 and previous years are as reported under previous Canadian GAAP.

Management's Statement on Financial Reporting

The following financial statements, which consolidate the financial results of Guardian Capital Group Limited, its subsidiaries and other controlled entities, and the Company's interest in a joint venture, and all other information in this annual report, are the responsibility of management.

The financial statements have been prepared in accordance with International Financial Reporting Standards. Financial information presented elsewhere in this annual report is consistent with that in the financial statements.

In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized on pages 28 to 32. Management maintains a system of internal controls over the financial reporting process designed to provide reasonable assurance that relevant and reliable financial information is produced. Management also administers a program of ethical business conduct compliance.

KPMG LLP, the Company's independent auditors, have audited the accompanying financial statements. Their report follows. The Audit Committee of the Board of Directors, composed of independent directors, meets regularly with management and KPMG LLP to review their activities and to discuss the external audit process, internal controls, accounting policies and financial reporting matters. KPMG LLP has unrestricted access to the Company, the Audit Committee and the Board of Directors.

The Audit Committee has reviewed the financial statements and Management's Discussion and Analysis and recommended their approval to the Board of Directors. Based on this recommendation, the financial statements and Management's Discussion and Analysis have been approved by the Board of Directors.



George Mavroudis,
President and Chief Executive Officer



C. Verner Christensen,
Senior Vice-President, Finance

March 1, 2013

Independent Auditors' Report

To the Shareholders of Guardian Capital Group Limited

We have audited the accompanying consolidated financial statements of Guardian Capital Group Limited, which comprise the consolidated balance sheets as at December 31, 2012, December 31, 2011 and January 1, 2011, the consolidated statements of operations, comprehensive income, equity and cash flow for the years ended December 31, 2012 and December 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Guardian Capital Group Limited as at December 31, 2012, December 31, 2011 and January 1, 2011, and its consolidated financial performance and its consolidated cash flow for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.



Chartered Accountants,
Licensed Public Accountants

Toronto, Canada

March 1, 2013

Consolidated Balance Sheets

As at (\$ in thousands)	December 31, 2012	December 31, 2011 (note 3a)	January 1, 2011 (note 3a)
Assets			
Current Assets			
Cash	\$ 26,993	\$ 5,514	\$ 4,492
Interest-bearing deposits with banks	3,884	8,033	12,356
Accounts receivables and other	23,547	19,141	15,448
Loans receivable	—	6,410	6,462
Receivables from clients and broker	36,820	32,044	27,676
Prepaid expenses	1,419	1,128	1,133
	92,663	72,270	67,567
Securities (note 4)			
Securities holdings	353,938	318,342	334,243
Securities held for sale	26,018	45,840	49,361
	379,956	364,182	383,604
Other Assets			
Deferred tax assets (note 11c)	3,835	3,480	3,105
Intangible assets (note 5)	19,594	15,297	5,521
Equipment (note 6)	2,464	2,068	1,869
Goodwill (note 7)	11,111	11,111	5,249
Investment in associate (note 23d)	333	333	335
Other	796	767	—
	38,133	33,056	16,079
Total Assets	\$ 510,752	\$ 469,508	\$ 467,250
Liabilities			
Current liabilities			
Bank loans and borrowings (note 8)	\$ 52,235	\$ 45,467	\$ 46,500
Client deposits	3,884	7,432	11,984
Accounts payable and other	21,821	24,390	15,487
Income taxes payable	818	773	127
Payable to clients	36,820	32,044	27,676
Due on securities sold short	—	—	664
	115,578	110,106	102,438
Other liabilities			
Deferred tax liabilities (note 11c)	37,424	32,394	31,920
Total Liabilities	153,002	142,500	134,358
Equity			
Shareholders' Equity			
Capital stock (note 12)	22,113	22,717	22,934
Treasury stock (note 13a)	(17,750)	(16,063)	(11,443)
Contributed surplus	8,636	7,491	6,549
Retained earnings	231,040	221,053	216,157
Accumulated other comprehensive income	109,717	87,420	97,659
	353,756	322,618	331,856
Non-Controlling Interests	3,994	4,390	1,036
Total Equity	357,750	327,008	332,892
Total Liabilities and Equity	\$ 510,752	\$ 469,508	\$ 467,250

See accompanying notes to consolidated financial statements.

On behalf of the Board:


Barry J. Myers,
Director


George Mavroudis,
Director

Consolidated Statements of Operations

For the years ended December 31 (\$ in thousands, except per share amounts)	2012	2011 (note 3a)
Revenue		
Gross commission revenue	\$ 71,926	\$ 67,906
Commissions paid to advisors	(53,071)	(54,086)
	18,855	13,820
Management fee income, net (note 14)	42,397	37,212
Administrative services income	7,171	5,370
Dividend and interest income (note 15)	16,607	17,291
Net revenue	85,030	73,693
Expenses		
Employee compensation and benefits (note 16)	41,912	35,771
Amortization	3,478	3,039
Interest	1,283	1,432
Other expenses	18,219	16,318
	64,892	56,560
Operating earnings		
Net gains (losses) (note 17)	20,138	17,133
Earnings before income taxes and net gains (losses) on securities held for sale	1,337	(131)
Income tax expense (note 11a)	21,475	17,002
	3,275	774
Net earnings before net gains (losses) on securities held for sale	18,200	16,228
Net gains (losses) on securities held for sale (note 17)	4,559	(5,493)
Net earnings	\$ 22,759	\$ 10,735
Net earnings before net gains (losses) on securities held for sale, available to:		
Shareholders	\$ 17,997	\$ 15,496
Non-controlling interest	203	732
Net earnings before net gains (losses) on securities held for sale	\$ 18,200	\$ 16,228
Net earnings before net gains (losses) on securities held for sale, available to shareholders per Class A and Common share (note 18):		
Basic	\$ 0.57	\$ 0.48
Diluted	0.57	0.48
Net earnings available to:		
Shareholders	\$ 22,556	\$ 10,003
Non-controlling interest	203	732
Net earnings	\$ 22,759	\$ 10,735
Net earnings available to shareholders per Class A and Common share (note 18):		
Basic	\$ 0.72	\$ 0.31
Diluted	0.71	0.31

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31 (\$ in thousands)	2012	2011 (note 3a)
Net earnings	\$ 22,759	\$ 10,735
Other comprehensive income		
Available for sale securities:		
Net change in fair value	28,475	(11,831)
Income tax provision (recovery)	4,148	(1,129)
	24,327	(10,702)
Transfer to net earnings of unrealized losses (gains) upon disposal	(546)	40
Reversal of income taxes	134	9
	(412)	49
	23,915	(10,653)
Changes in foreign currency translation adjustment on foreign subsidiary	(1,618)	414
Other comprehensive income (loss)	22,297	(10,239)
Comprehensive income	\$ 45,056	\$ 496
Comprehensive income (loss) available to:		
Shareholders	\$ 44,853	\$ (236)
Non-controlling interests	203	732
Comprehensive income	\$ 45,056	\$ 496

See accompanying notes to consolidated financial statements.

Consolidated Statements of Equity

For the years ended December 31 (\$ in thousands)	2012	2011 (note 3a)
Total equity, beginning of year	\$ 327,008	\$ 332,892
Shareholders' equity, beginning of year	322,618	331,856
Capital stock		
Balance, beginning of year	22,717	22,934
Acquired and cancelled	(604)	(217)
Capital stock, end of year	22,113	22,717
Treasury stock		
Balance, beginning of year	(16,063)	(11,443)
Acquired	(1,687)	(4,620)
Treasury stock, end of year	(17,750)	(16,063)
Contributed surplus		
Balance, beginning of year	7,491	6,549
Stock-based compensation expense	1,145	942
Contributed surplus, end of year	8,636	7,491
Retained earnings		
Balance, beginning of year	221,053	216,157
Net earnings available to shareholders	22,556	10,003
Dividends declared and paid	(5,392)	(5,202)
Excess of purchase price over issue price of Company's capital stock acquired (note 12c)	(7,177)	(2,595)
Excess of fair value over carrying value of interest in subsidiary transferred to non-controlling interests (note 24b)	–	2,690
Retained earnings, end of year	231,040	221,053
Accumulated other comprehensive income		
Balance, beginning of year	87,420	97,659
Unrealized gains on available for sale securities, net of income taxes		
Balance, beginning of year	91,157	101,810
Net change during year	23,915	(10,653)
Balance, end of year	115,072	91,157
Foreign currency translation adjustment on a self-sustaining foreign subsidiary		
Balance, beginning of year	(3,737)	(4,151)
Net change during year	(1,618)	414
Balance, end of year	(5,355)	(3,737)
Accumulated other comprehensive income, end of year	109,717	87,420
Shareholders' equity, end of year	353,756	322,618
Non-controlling interests		
Balance, beginning of year	4,390	1,036
Net earnings available to non-controlling interests	203	732
Net subscriptions to mutual fund subsidiaries	108	9,243
De-consolidation of mutual fund subsidiaries	(707)	(10,196)
Increase in non-controlling interests due to an acquisition of a subsidiary	–	3,575
Non-controlling interests, end of year	3,994	4,390
Total equity, end of year	\$ 357,750	\$ 327,008

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flow

For the years ended December 31 (\$ in thousands)	2012	2011 (note 3a)
Operating activities		
Net earnings	\$ 22,759	\$ 10,735
Adjustments for:		
Income taxes (paid)	(2,558)	(842)
Income tax expense	3,275	774
Net (gains) losses	(5,896)	5,624
Amortization of intangible assets	2,826	2,448
Amortization of equipment	652	591
Stock-based compensation	1,145	942
	22,203	20,272
Net change in non-cash working capital items (note 20)	1,697	929
Net cash from operating activities	23,900	21,201
Investing activities		
Acquisition of securities	(86,378)	(130,953)
Proceeds from sale of securities	80,211	123,736
Acquisition of securities held for sale	(2,640)	(5,749)
Proceeds from sale of securities held for sale	25,247	3,740
Acquisition of intangible assets	(2,825)	(1,986)
Proceeds from disposition of intangible assets	1,040	-
Acquisition of equipment	(956)	(297)
Acquisition of subsidiaries (note 24)	(7,388)	(4,271)
Net cash from (used in) investing activities	6,311	(15,780)
Financing activities		
Dividends	(5,392)	(5,202)
Acquisition of capital stock	(7,781)	(2,812)
Acquisition of treasury stock	(1,687)	(4,620)
Proceeds of bank loans and borrowings	500	1,487
Net subscriptions from non-controlling interests in mutual fund subsidiaries	108	9,243
Disposition of mutual fund subsidiary	(707)	-
Net cash (used in) financing activities	(14,959)	(1,904)
Foreign exchange		
Net effect of foreign exchange rate on changes on cash balances	(41)	57
Net change in net cash	15,211	3,574
Net cash, beginning of year	3,010	(564)
Net cash, end of year	\$ 18,221	\$ 3,010
Net cash represented by:		
Cash	\$ 26,993	\$ 5,514
Bank indebtedness	(8,772)	(2,504)
	\$ 18,221	\$ 3,010

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. REPORTING ENTITY

These consolidated financial statements include the accounts of Guardian Capital Group Limited and its subsidiaries (the "Company"). The Company is incorporated under the laws of the Province of Ontario, and its principal business office is located at Suite 3100, 199 Bay Street, Toronto, Ontario. The Company provides investment management and financial advisory services to a wide range of clients in Canada and abroad, and maintains and manages a proprietary investment portfolio.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprises standards and interpretations approved by either the International Accounting Standards Board ("IASB"), the IFRS Interpretations Committee or their predecessors.

These financial statements were authorized for issuance by the Board of Directors of the Company on March 1, 2013.

(b) Basis of presentation

These consolidated financial statements have been prepared on a going concern basis and the historical cost basis, except for certain financial instruments that have been measured at fair value.

These financial statements are presented in Canadian dollars, which is the Company's functional currency. In these notes, all dollar amounts and numbers of shares are stated in thousands. Per share amounts and option exercise prices are stated in dollars and cents.

(c) Estimates and judgments

The preparation of these consolidated financial statements necessitates the use of judgments, estimates and assumptions, which affect the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. Management believes that the significant areas where judgment is necessarily applied are those which relate to the:

- (i) Determination of when control of another entity exists;
- (ii) Valuation of certain securities that do not have quoted market prices;
- (iii) Assessment of goodwill and available for sale securities for impairments;
- (iv) Assessment of provisions; and
- (v) Measurement of share-based payments.

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of the other entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

The Company considers several factors in determining whether it has power over another entity which it will be able to use to obtain benefits.

When voting rights are relevant in determining power over an entity, the Company considers its: existing voting rights; potential voting rights that are currently exercisable and have no substantive barriers to exercise; agreements with other vote holders; rights from other contractual arrangements; economic interests; or a combination of the foregoing. Offsetting these factors, the Company considers matters which prevent it from the exercise of power.

When voting rights are not relevant in determining power over an entity the Company considers: evidence of its practical ability to direct the activities of the entity for the Company's benefit; indications of a special relationship between it and the entity; and whether it has a significant exposure to variability of returns. In evaluating these three factors, the Company gives greater weight to evidence of its ability to direct the activities of the entity.

The Company from time to time has seed capital investments in a number of funds where it controls those funds. These funds are consolidated unless they meet the criteria set out in the accounting policy in respect of non-current assets held for sale to be categorized as being held for sale, in which case they are classified and accounted for in accordance with that policy.

(ii) Transactions eliminated on consolidation

All inter-company transactions, balances, income and expenses between the consolidated entities are eliminated on consolidation. Non-controlling interests in the equity of subsidiaries are shown as a component of the equity section of the consolidated balance sheet.

(e) Joint ventures

Joint ventures are those entities over which the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Joint ventures are accounted for using the equity method. The investments are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Company's share of the net assets of the joint venture.

(f) Foreign currency translation

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

(i) Foreign currency denominated monetary items and non-monetary items measured at fair value are translated at the reporting date exchange rates, and purchases and sales of securities and revenues and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions. Foreign exchange gains and losses, if any, resulting from the foregoing, are included in the statements of operations.

(ii) The accounts of certain subsidiaries of the Company are maintained in foreign currencies. Assets and liabilities have been translated into Canadian dollars at exchange rates prevailing at the reporting date and revenues and expenses at average monthly rates. Adjustments resulting from the exchange gains and losses on the translation of balance sheets of the Company's foreign operations are recorded as a foreign currency translation adjustment in the statements of comprehensive income, and the cumulative balance is included in accumulated other comprehensive income in the shareholders' equity section of the consolidated balance sheets.

(g) Financial instruments

The Company's financial assets may be classified as held-for-trading ("Held for Trading"), available for sale ("Available for Sale") or loans and receivables ("Loans & Receivables"). Financial liabilities are classified as either Held for Trading or other financial liabilities ("Other Financial Liabilities").

(i) Measurement of financial instruments

All of the Company's financial instruments are initially measured at fair value. Subsequent to initial recognition, financial instruments classified as Held for Trading or Available for Sale are measured:

- a. at fair value using quoted market prices in an active market;
- b. where there is no active market, but the fair value can be reliably measured, the fair value is determined using valuation techniques; or
- c. otherwise, they are measured at cost.

(ii) Changes in fair value

During each reporting period, changes in the fair value of financial assets classified as Available for Sale are reflected in other comprehensive income, and changes in fair value of financial assets classified as Held for Trading are reflected in net earnings. All other financial instruments, which include Loans & Receivables and Other Financial Liabilities, are measured at amortized cost using the effective interest rate method.

(iii) Classification of the Company's financial instruments

The Company's financial instruments are classified as follows:

- a. Interest-bearing deposits with banks, accounts receivable and other, loans receivable, receivables from clients and broker and securities at amortized cost are classified as Loans & Receivables.
- b. Substantially all of the securities holdings are classified as Available for Sale.
- c. Cash, equity and debt securities held by mutual funds which are consolidated, due on securities sold short by consolidated mutual funds, securities meeting the criteria of non-current assets held for sale, and derivative contracts, if any, held directly by the Company, are classified as Held for Trading.
- d. Bank loans and borrowings, client deposits, accounts payable and other, and payable to clients are classified as Other Financial Liabilities.

(iv) Fair value hierarchy

Financial assets and liabilities measured at fair value are classed using a fair value hierarchy which reflects the significance of the inputs used in making the fair value measurements. The fair value hierarchy is as follows:

- a. Level 1 – Quoted market prices: financial instruments with quoted prices for identical instruments in active markets.
- b. Level 2 – Valuation technique using observable inputs: financial instruments with quoted prices or similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- c. Level 3 – Valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

(v) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(h) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale or deemed sale transaction, rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The Company must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of the classification, except for circumstances beyond management's control. Non-current are classified as held for sale and measured at the lower of their carrying value and fair value less costs to sell.

(i) Impairment of securities and other financial assets

For securities and other financial assets other than those classified as Held for Trading, an assessment is made each period by management as to whether there is any objective evidence of impairment. Factors considered in determining whether an objective evidence of impairment exists include the length of time and the extent of unrealized loss, the financial condition and near-term prospects of the issuer and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If it is determined that the security is impaired, the carrying value of the security is written down to its fair value, and any cumulative loss amount recognized in other comprehensive income is reclassified to net income.

For securities and other financial assets carried at amortized cost, if, in subsequent periods, the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the loss is reversed in the statement of operations. The reversal is limited to what the amortized amount of the security or financial asset would have been if no impairment loss had been recognized in a prior period.

(j) Intangible assets

Intangible assets represent new business costs (costs pertaining to new advisors and branches joining the Company's mutual fund dealer and securities dealer subsidiaries, and account transfer costs), computer software and the Company's rights to future revenues (substantially in the Company's life insurance managing general agency subsidiary). Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. They are amortized on a straight-line basis over their estimated useful lives, as outlined below:

- (i) New business costs – Where there is a commitment by advisors to stay with the Company for a specified number of years, they are amortized over that number of years, which is generally three to five years;
- (ii) Computer software – The initial cost of the main computer processing system used by the mutual fund dealer subsidiary is amortized over ten years, with subsequent improvements to this system being amortized over five years, and other computer software being amortized over three to five years; and
- (iii) Rights to future revenues – These are amortized over fifteen years.

Amortization methods and useful lives of the intangible assets are reviewed annually and adjusted, if appropriate. Intangible assets are derecognized upon disposal or when they are fully amortized and no longer in use.

(k) Equipment

Equipment is carried at cost less accumulated amortization, and accumulated impairment losses, and is amortized over its expected useful life, as outlined below:

- (i) Computer hardware – The majority of computer hardware is amortized on a straight-line basis over three years;
- (ii) Furniture and equipment – The majority of furniture and equipment is amortized on a diminishing balance basis at a rate of 20% per annum, and works of art included within furniture and equipment are not amortized; and
- (iii) Leasehold improvements – Leasehold improvements are amortized on a straight-line basis over the remaining terms of the leases.

Amortization rates and the useful life of equipment is reviewed annually and adjusted, if appropriate. Equipment is derecognized upon disposal or when it no longer has any residual value.

(l) Goodwill

Goodwill represents the excess of the cost of acquisition of a consolidated entity over the fair value of the net identifiable tangible and intangible assets of the subsidiary at the date of acquisition. Goodwill is not amortized, but is carried at cost less accumulated impairment losses. Goodwill is allocated to the appropriate cash-generating units for the purpose of impairment testing.

(m) Impairment of non-financial assets

The Company reviews non-financial assets, including intangible assets, equipment and goodwill, annually for impairment. If the net carrying amount of an asset which is considered impaired exceeds the estimated recoverable amount, the excess is charged to the statement of operations as an impairment loss.

Management also assesses annually whether there is any indication that an impairment loss recognized in a prior period may no longer exist or may have decreased. If such indication exists, the estimated recoverable amount is compared to the carrying amount and, if the recoverable amount exceeds the carrying amount, the prior impairment loss is reversed, to bring the carrying amount to a maximum of the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized in a prior period.

(n) Bank loans and borrowings

(i) Bank indebtedness

Bank indebtedness is a financial liability owed on lines of credit to banks. Bank indebtedness may also consist of bank indebtedness net of cash in bank, when the Company has a legal right of offset and intends to settle on a net basis or realize the asset and settle the liability simultaneously.

(ii) Bank loan and bankers' acceptances payable

Bank loan and bankers' acceptances are financial liabilities and are initially recorded at fair value and subsequently at amortized cost, which approximates fair value.

(o) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the obligation at the reporting date. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Where some or all of the expenditure is expected to be reimbursed by insurance or some other party, and it is virtually certain, the reimbursement is recognized as a separate asset on the balance sheet, and the net amount is recorded in the statements of operations. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic benefits will be required to settle the obligation, the provision is reversed.

(p) Treasury stock

The Company provides stock-based entitlements to certain senior employees through an Employee Profit Sharing Plan Trust (the "EPSP Trust"). The EPSP Trust purchases shares of the Company, which are allocated to senior employees and are financed by a bank loan facility with a major chartered bank, which is secured by the shares held by the EPSP Trust and guaranteed by the Company. The Company consolidates the EPSP Trust in these financial statements, and accounts for the shares owned by the EPSP Trust as treasury stock.

(q) Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The various types of revenues and the associated accounting policies adopted by the Company are as follows:

- (i) Gross commission revenue earned and commissions paid to advisors are recorded on a trade date basis.
- (ii) Management fees – The Company provides investment management and investment advisory services to clients, in consideration for management fees, which are generally calculated based on the fair value of the assets managed, in accordance with the agreements with the clients. The fees are earned over the time during which the assets are managed or advised on by the Company. Certain clients also pay performance fees, if the performance of such clients' assets under management exceeds that of certain performance benchmarks by an agreed level over a stated time period. Such fees are recorded when the services have been provided, the amount of the fees can be reliably measured, and it is probable that the fees will be received. Management fees are presented net of referral fees paid to third party agents.
- (iii) Administrative services income – The Company earns income from certain clients and advisors, associated with the maintenance of accounts with the Company, and the provision of general corporate, trust or other services. Such income is recognized, on an accrual basis, as the services continue to be performed on an ongoing basis, all as based on agreements with the clients or advisors. When the Company holds assets or liabilities on a fiduciary basis in providing these services, those assets and liabilities and the income and expenses associated with them are excluded from these consolidated financial statements.
- (iv) Dividend and interest income is recorded as follows:
 - a. Dividends are recognized when the Company's right to receive payment is established.
 - b. Interest is recorded as earned over the period of time during which the interest-paying investment is held, on an effective yield basis.

(r) Employee compensation and benefits

Wages, salaries, profit sharing, bonuses, payroll taxes and levies and paid annual leaves are accrued in the year in which the associated services are rendered by employees and when a reliable estimate of the obligation can be made.

(s) Stock-based compensation

Stock-based compensation is accounted for under the fair value method, under which compensation cost is measured at the fair value of equity instruments granted and is expensed over the vesting period of the equity instruments. Fair value is determined on the grant date using appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted.

Vesting conditions are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognized for services received as consideration for the equity instruments granted is based on the estimated number of equity instruments that eventually vest.

Where a grant has been modified, as a minimum the expense of the original grant continues to be recognized as if it had not been modified. Where the effect of the modification is to increase the fair value of a grant or increase the number of equity instruments, the incremental fair value of the grant or incremental fair value of the additional equity instruments is recognized in addition to the value of the original grant, measured at the date of the modification, over the modified vesting period.

(t) Interest expense

Interest expense comprises interest payable on borrowings recognized using the effective interest rate method.

(u) Pensions

The Company operates a defined contribution pension plan and a group registered retirement savings plan. Payments to the plans are charged as expenses as they are incurred. The Company has no legal or constructive obligation to pay further contributions if the plans do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(v) Net gains or losses

Gains or losses include any gains or losses related to changes in the fair value of Held for Trading securities, or on disposal of Available for Sale securities or other assets, and adjustments to record any impairment in value, recognized on a trade date basis.

(w) Income tax

Income tax on net earnings for the year comprises current tax and deferred tax. Income tax is recognized in the statements of operations, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case it is also recognized in other comprehensive income or directly in equity.

Current tax is the tax expected to be payable on the taxable net earnings for the year, calculated using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Company intends to settle on a net basis and the legal right of offset exists.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax is calculated using the tax rates expected to apply in the periods in which assets will be realized or the liabilities settled. Deferred tax assets and liabilities are offset when they arise in the same tax reporting entities, relate to income taxes levied by the same taxation authority and a legal right to set off exists.

(x) Earnings per share

The calculation of basic earnings per share is based on the weighted average of Class A and common shares outstanding during the year and on earnings available to the holders of the Class A and common shares. Diluted earnings per share are calculated by adjusting for the effect of outstanding dilutive instruments, such as stock options or stock-based entitlements, using the treasury stock method.

(y) Related parties

For the purposes of these financial statements, a party is considered related to the Company if such party or the Company has the ability to, directly or indirectly, control or exercise significant influence over the other entity's financial and operating decisions, or if the Company and such party are subject to common significant influence. Related parties may be individuals or other entities. All material transactions with related parties are recorded at fair value.

3. CHANGES IN ACCOUNTING POLICIES

A number of new standards, and amendments to existing standards, have been issued by IASB, which are effective for the Company's consolidated financial statements either in the current year or in certain future periods. The following is a description of these new standards and amendments, with indications of how they may affect the Company's consolidated financial statements.

(a) Current changes in accounting policies

In May, 2011, the IASB issued IFRS 10, Consolidated Financial Statements ("IFRS 10"), IFRS 11, Joint Arrangements ("IFRS 11") and IFRS 12, Disclosure of Interest in Other Entities ("IFRS 12"), all of which were required to come into effect for the Company's financial year beginning on January 1, 2013, but with early adoption allowed. Upon early adoption of any of these standards, contemporaneous adoption of the others was required.

(i) IFRS 10

IFRS 10 replaced the current consolidation standards in IAS 27, Consolidated and Separate Financial Statements and SIC 12, Consolidation – Special Purpose Entities, and introduces a single, principle-based, control model where control is deemed to exist when an investor has: power over an investee; exposure to variable returns from the investee; and the ability to use its power to affect its returns from the investee. The Company has opted to early adopt this standard in the current year.

In conjunction with the adoption of IFRS 10, the Company has also amended its policy on non-current assets held for sale, to incorporate the provisions of IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations. Under the amended policy, the Company does not consolidate entities which it controls, or is deemed to control, provided they meet certain criteria set out in the policy, allowing them to be classified as "held for sale", in which case they are classified and accounted for in accordance with that policy. The most significant of these criteria are the following: i) the carrying value of the entity is expected to be recovered through a sale transaction, rather than through continuing use; ii) the sale is highly probable and the asset is available for immediate sale in its present condition; iii) management is committed to the sale; and iv) the sale is expected to be completed within one year of the date of classification, except for certain conditions beyond management's control.

In applying the new consolidation policy retrospectively, the Company determined that it controls certain mutual funds, which it manages and in which it invests, which were not previously consolidated. However, the Company has a committed plan in place to reduce its ownership level sufficiently to not be deemed to have control of the mutual funds. Accordingly, the Company has retrospectively reclassified the investment in these mutual funds from "available for sale" securities to "held for sale" securities. The accumulated changes in the fair value of these investments, which had previously been recognized in Accumulated Other Comprehensive Income, have therefore been transferred to Retained Earnings. The effects of these changes have been reflected, as appropriate, in these financial statements, and the resulting balance sheet as at January 1, 2011 has been provided.

The following table summarizes the effects of adoption of IFRS 10 and the new policies on the Company's consolidated financial statements:

As at	December 31, 2012	December 31, 2011	January 1, 2011
Increase (decrease) in previously reported amounts and effect in current period:			
Consolidated balance sheets			
Retained earnings	\$ 17,055	\$ 24,324	\$ 30,778
Accumulated other comprehensive income	(17,055)	(24,324)	(30,778)
Shareholders' equity	\$ –	\$ –	\$ –
For the periods ended December 31		2012	2011
Increase (decrease) to previously reported amounts and effect in current period:			
Consolidated statements of operations			
Net gains (losses)		\$ (11,828)	\$ (960)
Net earnings before net gains (losses) on securities held for sale		(11,828)	(960)
Net gains (losses) on securities held for sale		4,559	(5,494)
Net earnings (loss) available to shareholders		(7,269)	(6,454)
Net earnings available to shareholders per class A and Common shares:			
Basic		\$ (0.23)	\$ (0.20)
Diluted		(0.23)	(0.19)
Consolidated statements of comprehensive income			
Other comprehensive income		\$ 7,269	\$ 6,454
Comprehensive income (loss)		Nil	Nil
Comprehensive income available to shareholders		Nil	Nil

(ii) IFRS 11

IFRS 11 replaces IAS 31, Interests in Joint Ventures (“IAS 31”), and the Company early adopted this standard during the year. IFRS 11 eliminates proportionate consolidation as one of the alternatives for accounting for Joint ventures. As a result, during the year, the Company changed its accounting for its investment in a joint venture from proportionate consolidation to the equity method, on a retrospective basis.

The following table summarizes the effects of IFRS 11 on the Company’s consolidated financial statements:

As at	December 31 2012	December 31 2011	January 1 2011
Increase (decrease) to previously reported amounts and effect in current period:			
Consolidated balance sheets			
Investment in associate	\$ 333	\$ 333	\$ 335
Assets, excluding investment in associate	(871)	(948)	(1,087)
Current and total liabilities	(538)	(615)	(752)
Shareholders’ equity	\$ Nil	\$ Nil	\$ Nil
For the periods ended December 31		2012	2011
Increase (decrease) to previously reported amounts and effect in current period:			
Consolidated statements of operations			
Net revenue		\$ (244)	\$ (468)
Expenses		(244)	(468)
Net earnings (loss)		\$ Nil	\$ Nil
Net earnings (loss) available to shareholders		\$ Nil	\$ Nil

(iii) IFRS 12

IFRS 12 combines in a single standard the disclosure requirements for interests in subsidiaries, associates and joint arrangements, as well as unconsolidated structured entities, and the Company early adopted this standard in the current year. The Company has incorporated the requirements of IFRS 12 in its annual disclosures in these financial statements.

(b) Future changes in accounting policies

(i) Fair value measurement

IFRS 13, Fair Value Measurement (“IFRS 13”) was issued by IASB in May 2011, and establishes a framework for measuring fair value and sets out related disclosure requirements when fair value measurement is required or permitted under other standards. IFRS 13 will be effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on the fair value measurements in its consolidated financial statements.

(ii) Financial instruments

The initial installments of IFRS 9, Financial Instruments (“IFRS 9”) were issued by IASB in November, 2009 and October, 2010. These installments represent the first phase in IASB’s planned phased replacement of IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”) with an improved standard for financial instruments that is principle-based and less complex.

The main changes to the requirements of IAS 39 that may have an effect on the Company’s consolidated financial statements are as follows:

- All financial assets that are currently within the scope of IAS 39 will be classified as either amortized cost or fair value. The Available for Sale and Loans & Receivables categories will no longer exist.
- The above classification will be based on an entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Reclassifications between amortized cost and fair value will be prohibited, unless there is a change in the entity’s business model.
- Changes in the fair value of financial assets classified at fair value are recorded in net earnings, except that an entity may choose to designate certain equity securities at fair value to be recorded in other comprehensive income. If this option is chosen, all subsequent changes in those securities must be recorded in other comprehensive income, and no transfer to net earnings of gains or losses on disposal will be permitted.

The next phases in IASB’s project is expected to address the impairment of financial assets measured at amortized cost, and hedge accounting.

IFRS 9 is expected to be effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements, particularly with regard to the recording of its securities.

4. SECURITIES

An analysis of the Company's securities is as follows:

As at December 31	2012	2011 (note 3a)
Securities holdings		
Available for sale securities		
Short-term securities (a)	\$ 2,187	\$ 3,166
Bonds	2,007	–
Mutual funds	8,729	13,355
Bank of Montreal common shares	301,626	276,925
Other equity securities	38,389	16,980
	352,938	310,426
Held for trading securities		
Equity securities (b)	1,000	5,550
Total securities holdings at fair value	353,938	315,976
Securities at amortized cost (c)	–	2,366
Total securities holdings	353,938	318,342
Securities held for sale (d)	26,018	45,840
Total securities	\$ 379,956	\$ 364,182

(a) Short-term securities shown above include securities of non-controlled mutual funds that hold short-term securities, as well as directly held short-term securities that are continually reinvested by the Company and therefore are included in securities holdings.

(b) Held for trading equity securities consist of securities held by consolidated mutual funds which meet the criteria for this classification. Changes in fair value are included in net gains.

(c) The securities at amortized cost were comprised of promissory notes, which resulted from the restructuring of existing debt securities in 2011, and the recognition of a gain of \$731 in that year. During the current year, the issuer of the promissory notes exercised its option and repaid the full face value of the notes, resulting in the recognition of an additional gain of \$963.

(d) Securities held for sale are the Company's interest in mutual funds which the Company controls but does not consolidate, as it intends to dispose of control through either sale or dilution within 12 months. These securities are carried at fair value, with subsequent changes in fair value recognized in the consolidated statements of operations.

(e) The Company's securities have been categorized based upon a fair value hierarchy, as follows:

As at December 31	2012	2011 (note 3a)
Level 1	\$ 375,865	\$ 358,439
Level 2	–	–
Level 3	4,091	3,377
Total securities at fair value	379,956	361,816
Securities at amortized cost	–	2,366
Total securities	\$ 379,956	\$ 364,182

An analysis of the movement in Level 3 securities is as follows:

For the years ended December 31	2012	2011 (note 3a)
Level 3 securities, beginning of year	\$ 3,377	\$ 3,952
Additions	30	107
Increase (decrease) in estimated fair value, recognized in other comprehensive income	684	(682)
Level 3 securities, end of year	\$ 4,091	\$ 3,377

During 2012 and 2011, there have been no transfers between Levels 1 and 3 securities.

5. INTANGIBLE ASSETS

For the years ended December 31	2012				2011			
	New business costs	Computer software	Rights to future revenue	Total	New business costs	Computer software	Rights to future revenue	Total
Cost:								
Balance, beginning of year	\$ 7,533	\$ 2,865	\$ 13,978	\$ 24,376	\$ 7,798	\$ 2,095	\$ 2,257	\$ 12,150
Purchases	531	487	1,807	2,825	964	768	254	1,986
Arising on acquisition of subsidiaries (note 24)	—	—	5,150	5,150	—	—	10,238	10,238
Reclassifications (a)	—	—	—	—	(1,229)	—	1,229	—
Disposals	—	—	(935)	(935)	—	—	—	—
Foreign exchange translation adjustments	—	(1)	—	(1)	—	2	—	2
Balance, end of year	8,064	3,351	20,000	31,415	7,533	2,865	13,978	24,376
Accumulated amortization:								
Balance, beginning of year	4,904	1,479	2,696	9,079	4,119	1,198	1,312	6,629
Amortization expense	1,419	421	986	2,826	1,417	279	752	2,448
Reclassifications (a)	—	—	—	—	(632)	—	632	—
Disposals	—	—	(83)	(83)	—	—	—	—
Foreign exchange translation adjustments	—	(1)	—	(1)	—	2	—	2
Balance, end of year	6,323	1,899	3,599	11,821	4,904	1,479	2,696	9,079
Carrying value, end of year	\$ 1,741	\$ 1,452	\$ 16,401	\$ 19,594	\$ 2,629	\$ 1,386	\$ 11,282	\$ 15,297

(a) In conjunction with the 2011 acquisition of the Managing General Agency subsidiary as described in note 24b, the Company reassessed certain new business costs held by its existing subsidiary. As a result of this reassessment, it was determined that these costs qualify as rights to future revenues, and their cost and accumulated amortization were therefore reclassified accordingly, as of the date of the acquisition. As a result of this reclassification, amortization expense in the year 2012 was reduced by \$186 (2011 - \$131).

6. EQUIPMENT

For the years ended December 31	2012			2011		
	Office equipment	Leasehold improvements	Total	Office equipment	Leasehold improvements	Total
Cost:						
Balance, beginning of year	\$ 4,968	\$ 1,668	\$ 6,636	\$ 4,563	\$ 1,274	\$ 5,837
Purchases	795	161	956	197	100	297
Arising on acquisition of subsidiaries (note 24)	102	—	102	191	292	483
Foreign exchange translation adjustments	(18)	(2)	(20)	17	2	19
Balance, end of year	5,847	1,827	7,674	4,968	1,668	6,636
Accumulated amortization:						
Balance, beginning of year	3,353	1,215	4,568	2,947	1,021	3,968
Amortization expense	409	243	652	399	192	591
Foreign exchange translation adjustments	(8)	(2)	(10)	7	2	9
Balance, end of year	3,754	1,456	5,210	3,353	1,215	4,568
Carrying value, end of year	\$ 2,093	\$ 371	\$ 2,464	\$ 1,615	\$ 453	\$ 2,068

7. GOODWILL

For the years ended December 31	2012	2011
Balance, beginning of year	\$ 11,111	\$ 5,249
Arising on acquisition	—	5,862
Balance, end of year	\$ 11,111	\$ 11,111

Goodwill acquired in a business acquisition is allocated to the cash generating units ("CGUs") that are expected to benefit from that business acquisition. The carrying amount of goodwill has been allocated to the relevant CGUs as follows:

As at December 31	2012	2011
Financial advisory:		
Mutual fund distributor	\$ 4,227	\$ 4,227
Managing general agency	6,884	6,884
Total goodwill	\$ 11,111	\$ 11,111

Goodwill is not amortized, but is subject to annual impairment testing, as described below.

Impairment tests were performed upon the goodwill associated with each CGU in 2012 and 2011, in each year based upon each of the CGU's estimated fair value, less estimated costs to sell. Management used a multi-factor model to determine fair value, with the principal assumptions being values assigned as multiples of key business analytics pertaining to each CGU. Management considers that the key business analytics are client assets under administration in both CGUs and annual net service fees and net first year commissions in the Life Insurance Managing General Agent CGU. It is management's opinion that estimating fair value based on these analytics is in accordance with established industry practice, and that the multiples used are consistent with market transactions. Based on the results of this testing, there were no indications that the goodwill was impaired in 2012 or 2011.

The most sensitive assumptions used in the above testing were:

As at December 31	2012	2011
Mutual fund distributor:		
Multiple of assets under administration	1.25%	1.25%
Managing general agency:		
Multiple of annual net service fee revenue	6	6

The following table shows for each CGU the amount by which the fair value less the estimated costs to sell referred to above exceeds its carrying value.

As at December 31	2012	2011
Mutual fund distributor	\$ 69,849	\$ 62,294
Managing general agency	10,688	7,905

The following table shows the percentage that the most sensitive assumption in each test would be required to change individually in order for the estimated fair value less costs to sell to be equal to the carrying amount of the CGU.

As at December 31	2012	2011
Mutual fund distributor:		
Multiple of assets under administration	(90)%	(87)%
Managing general agency:		
Multiple of annual net service fee revenue	(50)%	(44)%

8. BANK LOANS AND BORROWINGS

As at December 31	2012	2011
Bank indebtedness (a)	\$ 8,772	\$ 2,504
Bank loan (b)	14,963	14,963
Bankers' acceptances payable (b)	28,500	28,000
Total bank loans and borrowings	\$ 52,235	\$ 45,467

(a) Bank indebtedness

Bank indebtedness consists of overdraft borrowing under a line of credit from a major Canadian chartered bank, which is available to a maximum of \$11,000 (2011 - \$11,000), due on demand, secured by a General Security Agreement and securities valued at \$48,648 (2011 - \$44,644), and bearing interest at the bank prime rate plus 0.25%.

(b) Bank loan and bankers' acceptances payable

Under written loan agreements, the Company has \$70,000 (2011 - \$55,000) in lending facilities from a major Canadian chartered bank. Borrowings under these facilities may be in the form of either demand loans bearing a rate of bank prime plus 0.25% (2011 - 0.25%) or bankers' acceptances for periods ranging from 30 to 270 days, at rates negotiated in the bankers' acceptance market plus 0.50% (2011 - 0.75%). These facilities are secured by the deposit of treasury stock held by the EPSP Trust valued at \$22,113 at December 31, 2012 (2011 - \$18,766), and other securities valued at \$77,536 at December 31, 2012 (2011 - \$8,207).

9. PROVISIONS

From time to time in connection with its operations, the Company is named as a defendant in actions for damages and costs allegedly sustained by the plaintiffs. While it is often not possible to estimate the outcome of the various proceedings at any time, the Company has made provisions, where possible, for the estimated outcome of such proceedings. As at December 31, 2012 and 2011, there were no material provisions recorded. Should any additional loss result from the resolution of such claims, such loss will be accounted for as a charge to income in the year in which it is identified.

10. OPERATING LEASES

The Company has non-cancellable operating leases for premises and equipment with initial terms in excess of one year and which expire on various dates after year end. Future minimum payments required under these non-cancellable operating leases are as follows:

As at December 31	2012	2011
Payable within one year	\$ 1,897	\$ 1,347
Payable after one year and within five years	5,688	1,404
Payable after five years	9,060	–
Total lease obligations	\$ 16,645	\$ 2,751

During the year ended December 31, 2012, the Company recognized \$1,597 (2011 - \$1,242) of base rental costs in respect of these non-cancellable leases.

11. INCOME TAXES

(a) The components of the income tax expense are as follows:

For the years ended December 31	2012	2011
Current tax expense		
Tax on profits for the current year	\$ 2,599	\$ 1,656
Adjustments in respect of prior periods	15	139
	2,614	1,795
Deferred tax expense		
Origination and reversal of temporary differences	(454)	(1,058)
Adjustments in respect of prior periods	28	37
Change in future periods' income tax rates	1,087	–
	661	(1,021)
Income tax expense	\$ 3,275	\$ 774

(b) The income tax expense in the consolidated statements of operations is less than the combined Federal and Provincial statutory income tax rates of 26.50% (2011 – 28.25%) of the current year for the following reasons:

For the years ended December 31	2012	2011
Tax at the combined Federal and Provincial statutory income tax rate for the current year	\$ 5,691	\$ 4,803
Increase (decrease) in the expense due to:		
Tax exempt income from securities	(3,699)	(4,293)
Lower average tax rate applicable to foreign subsidiaries	(250)	(135)
Adjustments to deferred tax assets and liabilities for changes in temporary differences	(2)	(259)
Non-taxable portion of capital losses (gains)	(83)	5
Non-deductible expenses	387	423
Change in future periods' income tax rates	1,087	–
Other	144	230
Income tax expense	\$ 3,275	\$ 774

The combined statutory income tax rate is the aggregate of the Federal income tax rate of 15.00% (2011 – 16.50%) and the Provincial income tax rate of 11.50% (2011 – 11.75%). During 2012, the province of Ontario enacted legislation which reversed previously enacted rate reductions and set the income tax rate applicable to future periods at 11.50%.

(c) Deferred tax assets and liabilities are recognized as follows:

For the year ended December 31	2012					
	Securities	Capital losses carryforwards	Non-capital loss carryforwards	Equipment and intangibles	Other temporary differences	Total
Deferred tax assets						
Balance at beginning of year	\$ –	\$ –	\$ 2,559	\$ 597	\$ 324	\$ 3,480
Recognized in operating earnings	–	–	409	(106)	52	355
Balance at end of year	\$ –	\$ –	\$ 2,968	\$ 491	\$ 376	\$ 3,835
Deferred tax liabilities						
Balance at beginning of year	\$ 31,254	\$ (156)	\$ –	\$ 2,199	\$ (903)	\$ 32,394
Recognized in operating earnings	1,290	(71)	(13)	(69)	(121)	1,016
Recognized in other comprehensive income	4,014	–	–	–	–	4,014
Balance at end of year	\$ 36,558	\$ (227)	\$ (13)	\$ 2,130	\$ (1,024)	\$ 37,424
For the year ended December 31						
2011						
	Securities	Capital losses carryforwards	Non-capital loss carryforwards	Equipment and intangibles	Other temporary differences	Total
Deferred tax assets						
Balance at beginning of year	\$ –	\$ –	\$ 1,770	\$ 1,115	\$ 220	\$ 3,105
Recognized in operating earnings	–	–	789	(518)	104	375
Balance at end of year	\$ –	\$ –	\$ 2,559	\$ 597	\$ 324	\$ 3,480
Deferred tax liabilities						
Balance at beginning of year	\$ 32,483	\$ (47)	\$ –	\$ 206	\$ (722)	\$ 31,920
Recognized in operating earnings	(91)	(109)	–	(265)	(181)	(646)
Recognized in other comprehensive income	(1,138)	–	–	–	–	(1,138)
Arising on business combinations	–	–	–	2,258	–	2,258
Balance at end of year	\$ 31,254	\$ (156)	\$ –	\$ 2,199	\$ (903)	\$ 32,394

(d) The aggregate amount of temporary differences between costs for accounting purposes and costs for income tax purposes because of earnings accumulated in certain subsidiaries is \$84,370 (2011 - \$74,112), which amount may be subject to income tax if such subsidiaries are disposed of or the earnings are otherwise distributed. Deferred tax has not been provided on these temporary differences, as the Company does not intend to dispose of such subsidiaries or distribute such earnings.

12. CAPITAL STOCK

(a) Authorized

- i) Unlimited preferred shares, without par value, may be issued in an unlimited number of series, the designation, rights, privileges, conditions and other provisions of which are to be determined by the Board of Directors.
- ii) Unlimited Class A non-voting shares without par value, convertible into common shares on a one-for-one basis, under certain terms and conditions, the highlights of which are as follows: if any person other than an insider of the Company acquires ownership, control or direction over in excess of 50% of the common shares, or makes an offer to all common shareholders to buy common shares, the Class A shares may be converted into common shares, unless holders of over 50% of the outstanding common shares do not accept the offer, or an equivalent offer is made to the holders of Class A shares.
- iii) Unlimited common shares, without par value, convertible on a one-for-one basis into Class A non-voting shares.

(b) Issued and Outstanding

For the years ended December 31	2012		2011	
	Shares	Amount	Shares	Amount
i) Class A shares				
Outstanding, beginning of year	28,872	\$ 21,517	28,815	\$ 21,650
Acquired and cancelled	(800)	(604)	(288)	(217)
Converted from Common	–	–	345	84
Outstanding, end of year	28,072	20,913	28,872	21,517

ii) Common shares				
Outstanding, beginning of year	4,971	1,200	5,316	1,284
Converted from Common	–	–	(345)	(84)
Outstanding, end of year	4,971	1,200	4,971	1,200
Total outstanding, end of year	33,043	\$ 22,113	33,843	\$ 22,717

(c) Issuer Bid

Under its Normal Course Issuer Bid, the Company purchased 800 (2011 – 288) of its class A shares for \$7,781 (2011 – \$2,812) of which \$7,177 (2011 – \$2,595), the excess of the purchase price over the average issue price, was charged directly to retained earnings.

(d) Stock Option Plan

The Company maintains a Stock Option Plan for designated officers, directors and employees. Each stock option entitles the holder to purchase one class A share, subject to certain predetermined vesting arrangements and other conditions. A summary of the changes in the Company's outstanding stock options is as follows:

For the years ended December 31	2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	36	\$ 10.50	36	\$ 10.50
Expired	(36)	10.50	–	–
Outstanding, end of year	–	\$ –	36	10.50

The following table summarizes information about options outstanding.

Range of purchase prices	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options vested	Weighted average exercise price
As at December 31, 2011	36	0.10	\$ 10.50	36	\$ 10.50

(e) Dividends

During the year 2012, dividends of \$0.17 per share (2011 - \$0.16 per share) were declared and paid on the common and class A shares outstanding. Subsequent to year end, a dividend of \$0.20 per share was declared, payable in 2013 on the outstanding common and class A shares.

13. TREASURY STOCK

The Company purchases and holds shares in its capital stock through the EPSP Trust, which are accounted for as treasury stock. These shares are deposited as collateral against a bank loan, which is used to finance the purchase of the shares.

(a) A summary of the changes in the Company's treasury stock is as follows:

For the years ended December 31	2012		2011	
	Shares	Amount	Shares	Amount
Balance, beginning of year	1,954	\$ 16,063	1,479	\$ 11,443
Acquired	172	1,687	475	4,620
Balance, end of year	2,126	\$ 17,750	1,954	\$ 16,063

As at December 31, 2012, the treasury stock was composed of 63 common shares (2011 – 63) and 2,063 class A shares (2011 – 1,891 shares).

(b) EPSP Trust – Stock-based entitlements

The stock-based entitlements provided by the Company to certain employees through the EPSP Trust are in the form of either an option-like entitlement or an equity-based entitlement, as described below.

i) Option-like entitlements

The option-like entitlements allow the employees to purchase shares from the EPSP Trust at prices equal to the amount of the bank loan per share pertaining to those shares, subject to predetermined vesting arrangements and other conditions. Due to the nature of these entitlements and the conditions attached to them, the contractual life of the entitlement is indeterminable.

A summary of the changes in the option-like entitlements is as follows:

For the years ended December 31	2012		2011	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Option-like entitlements, beginning of year	1,402	\$ 8.76	954	\$ 8.32
Entitlements provided	150	9.78	448	9.71
Option-like entitlements, end of year	1,552	\$ 8.86	1,402	\$ 8.76

As at December 31, 2012, there were outstanding option-like entitlements for 63 common shares (2011 – 63) and 1,489 class A shares (2011 – 1,339).

Option-like entitlements provided during the year had a fair value of \$420 (2011 - \$1,697). Because these entitlements have option-like characteristics, they are accounted for as options and valued using the Black-Scholes option pricing model. The value of the entitlements provided is recorded as compensation cost over the vesting period of the entitlements, and is credited to contributed surplus. On exercise of an entitlement, treasury stock is reduced for the value of the entitlement exercised. The following are the key assumptions used in the valuation of the entitlements granted during the year:

For the years ended December 31	2012	2011
Average purchase price per share	\$ 9.78	\$ 9.71
Vesting period in years	5.00	5.00
Average expected term to exercise in years	10.00	10.00
Risk-free interest rate	2.45%	3.41%
Expected price volatility	23.17%	26.09%
Expected dividends per share, per annum	\$ 0.17	\$ 0.16

The following table summarizes information about option-like entitlements outstanding.

	Number of shares	Weighted average exercise price	Number of shares vested	Weighted average exercise price
As at December 31, 2012				
\$2.51 - \$5.00	20	\$ 2.62	20	\$ 2.62
\$5.01 - \$7.50	355	6.15	339	6.18
\$7.51 - \$10.00	913	9.33	363	8.92
\$10.01 - \$12.50	264	11.36	246	11.31
	1,552	\$ 8.86	968	\$ 8.43
As at December 31, 2011				
\$2.51 - \$5.00	20	\$ 2.62	20	\$ 2.62
\$5.01 - \$7.50	355	6.15	334	6.19
\$7.51 - \$10.00	763	9.24	253	8.71
\$10.01 - \$12.50	264	11.36	226	11.25
	1,402	\$ 8.76	833	\$ 8.24

ii) Equity-based entitlements

Equity-based entitlements allow the employees to purchase shares from the EPSP Trust at zero cost, subject to predetermined vesting arrangements and other conditions. When such purchases by employees occur, the Company pays to the EPSP Trust the amount of the bank loan attributable to the shares purchased. Due to the nature of these entitlements and the conditions attached to them, the contractual life of the entitlement is indeterminable.

A summary of the changes in the number of shares under equity-based entitlements is as follows:

For the years ended December 31	2012	2011
Equity-based entitlements, beginning of year	552	525
Entitlements provided	22	27
Equity-based entitlements, end of year	574	552

Equity-based entitlements are valued at the fair market value of the shares purchased by the EPSP Trust on the date of the provision of the entitlement. This value is recorded by the Company as compensation cost over the vesting period, and is credited to contributed surplus. On exercise of an entitlement, treasury stock and contributed surplus are reduced for the value of the entitlement exercised.

Equity-based entitlements provided during the year ended December 31, 2012 had a fair value of \$220 (2011 - \$266).

14. MANAGEMENT FEE INCOME, NET

Management fee income is presented net of referral fees which are paid to referring agents, amounting to \$2,078 for the year ended December 31, 2012 (2011 - \$1,695).

15. DIVIDEND AND INTEREST INCOME

Dividend and interest income is composed of the following:

For the years ended December 31	2012	2011
Dividend income	\$ 15,292	\$ 15,879
Interest income	1,315	1,412
Total dividend and interest income	\$ 16,607	\$ 17,291

16. EMPLOYEE COMPENSATION AND BENEFITS

Employee compensation and benefits are composed of the following:

For the years ended December 31	2012	2011
Salaries and other compensation, payroll taxes and benefits	\$ 40,257	\$ 34,429
Contributions to defined contribution pensions plans	510	400
Stock-based compensation	1,145	942
	\$ 41,912	\$ 35,771

17. NET GAINS (LOSSES)

Net gains (losses) are composed of the following:

For the years ended December 31	2012	2011
Held for trading securities (a)	\$ (163)	\$ (305)
Available for sale securities	348	(557)
Securities at amortized cost (b)	963	731
Net gains (losses) on securities	1,148	(131)
Gains on disposition of intangible assets	189	-
Net gains (losses)	\$ 1,337	\$ (131)
Net gains (losses) on securities held for sale (c)	\$ 4,559	\$ (5,493)

(a) Net losses on held for trading securities include net gains or losses on securities both owned and sold short by consolidated mutual funds.

(b) During the year, the issuer of the promissory notes recorded at amortized cost exercised its option and repaid the full face value of the notes, which resulted in the recognition of a gain.

(c) Net gains (losses) on securities held for sale are the net changes in the fair value of the Company's investment in mutual funds which the Company controls but does not consolidate, as it intends to dispose of control through either sale or dilution.

18. NET EARNINGS PER SHARE

The calculations of net earnings per share are based on the following number of shares and net earnings.

For the years ended December 31	2012	2011
Weighted average number of class A and common shares outstanding		
Basic	31,496	32,278
Effect of outstanding entitlements and options from stock based compensation plans	713	204
Diluted	32,209	32,482
Net earnings available to shareholders of class A and common shares		
Basic	\$ 22,556	\$ 10,003
Effect of outstanding entitlements and options from stock based compensation plans	317	30
Diluted	\$ 22,873	\$ 10,033

The effects of 1,388 (2011 – 1,584) entitlements and options from the Company's stock based compensation arrangements were excluded from the calculation of the diluted number of shares, as those entitlements and options were anti-dilutive.

19. BUSINESS SEGMENTS

The Company operates in the following three main business segments: a) the investment management segment, which involves the earning of management fees relating to investment management services provided to clients; b) the financial advisory segment which relates to the earning of sales commissions and administrative services revenue from assets under administration; and c) the corporate activities and investments segment, which relates substantially to the investment of the Company's securities holdings, as well as corporate management and development activities. The allocation of costs to individual business segments is undertaken to provide management information on the cost of providing services and a tool to manage and control expenditures. The Company's business segments do not have any material intra-segment revenues. The following table discloses certain information about these segments:

For the years end December 31	Investment Management		Financial Advisory		Corporate Activities and Investments		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011
Revenue								
Gross commission revenue	\$ –	\$ –	\$ 71,926	\$ 67,906	\$ –	\$ –	\$ 71,926	\$ 67,906
Commissions paid to advisors	–	–	(53,071)	(54,086)	–	–	(53,071)	(54,086)
Management fee income, net	42,397	37,212	18,855	–	–	–	42,397	37,212
Administrative services income	1,789	1,369	5,382	4,001	–	–	7,171	5,370
Dividend and interest income	154	357	507	482	15,946	16,452	16,607	17,291
Net revenue	44,340	38,938	24,744	18,303	15,946	16,452	85,030	73,693
Expenses								
Employee compensation and benefits	22,975	18,659	12,184	9,821	6,753	7,291	41,912	35,771
Amortization	104	112	2,945	2,610	429	317	3,478	3,039
Interest	281	207	74	69	928	1,156	1,283	1,432
Other expenses	10,570	9,914	10,429	8,821	(2,780)	(2,417)	18,219	16,318
	33,930	28,892	25,632	21,321	5,330	6,347	64,892	56,560
Operating earnings	10,410	10,046	(888)	(3,018)	10,616	10,105	20,138	17,133
Net gains (losses)	–	–	189	–	1,148	(131)	1,337	(131)
Earnings before income taxes and net gains (losses)								
on securities held for sale	10,410	10,046	(699)	(3,018)	11,764	9,974	21,475	17,002
Income tax expense (recovery)	2,416	2,398	7	(476)	852	(1,148)	3,275	774
	7,994	7,648	(706)	(2,542)	10,912	11,122	18,200	16,228
Net gains (losses) on securities held for sale	–	–	–	–	4,559	(5,493)	4,559	(5,493)
Net earnings	\$ 7,994	\$ 7,648	\$ (706)	\$ (2,542)	\$ 15,471	\$ 5,629	\$ 22,759	\$ 10,735
Net earnings available to:								
Shareholders	\$ 7,994	\$ 7,648	\$ (1,032)	\$ (2,635)	\$ 15,594	\$ 4,990	\$ 22,556	\$ 10,003
Non-controlling interests	–	–	326	93	(123)	639	203	732
	\$ 7,994	\$ 7,648	\$ (706)	\$ (2,542)	\$ 15,471	\$ 5,629	\$ 22,759	\$ 10,735
Capital expenditures on segment assets:								
Intangible assets	\$ –	\$ –	\$ 7,688	\$ 11,806	\$ 287	\$ 418	\$ 7,975	\$ 12,224
Equipment	8	47	287	582	772	151	1,067	780
Goodwill	–	–	–	5,862	–	–	–	5,862
As at December 31								
Segment assets and liabilities:								
Assets	\$ 43,538	\$ 29,896	\$ 85,652	\$ 76,319	\$ 381,562	\$ 363,293	\$ 510,752	\$ 469,508
Liabilities	25,987	28,394	49,819	39,579	77,196	74,527	153,002	142,500

The following table discloses certain information about the Company's activities, segmented geographically

For the years end December 31	Canada		Rest of the World		Consolidated	
	2012	2011	2012	2011	2012	2011
Net revenue	\$ 79,827	\$ 68,480	\$ 5,203	\$ 5,213	\$ 85,030	\$ 73,693
As at December 31						
Segment non-current assets						
Intangible assets	\$ 19,593	\$ 15,269	\$ 1	\$ 28	\$ 19,594	\$ 15,297
Equipment	1,995	1,567	469	501	2,464	2,068
Goodwill	11,111	11,111	—	—	11,111	11,111

20. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

For the years ended December 31	2012	2011
Decrease (increase) in non-cash working capital assets		
Interest-bearing deposits with banks	\$ 4,027	\$ 4,121
Accounts receivable and other	(4,422)	(3,670)
Loan receivable	6,349	205
Receivables from clients and broker	(4,776)	(4,367)
Prepaid expenses	(281)	9
Increase (decrease) in non-cash working capital liabilities		
Client deposits	(3,523)	(4,357)
Accounts payable and other	(453)	4,621
Payable to clients	4,776	4,367
Net change	\$ 1,697	\$ 929

21. FINANCIAL RISKS MANAGEMENT

The Company's goal in managing financial risk is to evaluate the risks being taken against the benefits that are targeted to be achieved and, where those risks are deemed acceptable, to mitigate those risks, where practicable. A discussion on the Company's risk management practices is included under the heading "Risk Factors" in the Management's Discussion and Analysis, on pages 18 and 19 of the Company's 2012 Annual Report. The following are the more significant risks associated with financial instruments to which the Company is subject:

(a) Concentration Risk

The Company is exposed to concentration risk associated with the \$301,626 (2011 - \$276,925) investment in the Bank of Montreal shares, which is a significant portion of the Company's securities holdings. The Company monitors the investment in the Bank of Montreal shares on a continuous basis. A change in the price of the Bank of Montreal shares by 10% would result in an unrealized gain or loss of \$30,163 (2011 - \$27,693) being recorded in other comprehensive income.

(b) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: price risk, currency risk, and interest rate risk.

(i) Price Risk

The Company is exposed to price risk with its securities. Unrealized changes in the values of its securities are recognized in net earnings (for held for trading securities and securities held for sale) and in other comprehensive income (for available for sale securities). This risk is managed through the use of professional in-house portfolio management expertise, which takes a disciplined approach to investment management. The securities holdings, excluding the Bank of Montreal shares, are also diversified by asset class and, as shown in the chart below, by geographical region. The chart also indicates the gain or loss which would be recognized in net earnings and other comprehensive income as a result of a 10% change in the market prices:

	Fair value of held for trading securities and securities held for sale	Unrealized gain or loss recognized in net earnings from 10% market change in region	Fair value of available for sale securities, excluding Bank of Montreal shares, short-term securities and bonds	Unrealized gain or loss recognized in other comprehensive income from 10% market change in region
As at December 31, 2012				
Canada	\$ 5,905	±\$ 590	\$ 4,838	±\$ 484
United States	4,458	446	3,579	358
Rest of the World	16,655	1,666	38,701	3,870
	\$ 27,018	±\$ 2,702	\$ 47,118	±\$ 4,712
As at December 31, 2011				
Canada	\$ 18,653	±\$ 1,865	\$ 7,480	±\$ 748
United States	6,347	635	2,916	292
Rest of the World	26,390	2,639	19,939	1,994
	\$ 51,390	±\$ 5,139	\$ 30,335	±\$ 3,034

(ii) Currency Risk

The Company's main exposure to currency risk is on its investments in its foreign subsidiaries, amounting to \$82,096 as at December 31, 2012 (2011 - \$73,832). Changes in the values of these investments caused by changes in the US dollar exchange rate are reflected in other comprehensive income in the period in which the change occurs.

(iii) Interest Rate Risk

The Company is exposed to interest rate risk through its bank loans and borrowings of \$52,235 (2011 - \$45,467). The interest rates on these borrowings are short-term and, if short-term rates increase, the Company's interest expense would increase and net earnings would decrease. If interest rates had been 2% higher throughout 2012, with all other variables held constant, the Company's interest expense would have increased by approximately \$1,020 (2011 - \$969). The Company is also exposed to interest rate risk in its international banking operation, through the assets interest-bearing deposits with banks of \$3,884 (2011 - \$8,033), and the client deposits liability of \$3,884 (2011 - \$7,432). This risk is low, as it is managed through the matching of interest rates and maturities on these balances.

(c) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's total credit risk exposure, without consideration of any collateral or other credit enhancements, is as outlined below:

As at December 31	2012	2011
Cash	\$ 26,993	\$ 5,514
Interest-bearing deposits with banks	3,884	8,033
Accounts receivable and other	23,547	19,141
Loan receivable	–	6,410
Receivable from clients and broker	36,820	32,044
Securities at amortized cost – promissory notes	–	2,366
Short-term securities	2,187	3,166
Bonds	2,007	–
Loan guarantee	482	482
	\$ 95,920	\$ 77,156

The Company considers its credit risk to be low. The interest-bearing deposits with banks and the majority of the accounts receivable are due from major institutions. The Company reviews the credit worthiness of any banks with which it places deposits, and does not deal with a bank if it is not satisfied with the bank's financial strength. The credit exposure on receivables from clients and loan receivable is offset with securities, which are held in the client margin accounts of the securities dealer subsidiary, and by the offshore bank subsidiary, respectively. There are controls on the amounts that these clients may borrow, depending upon the securities that are pledged. The short-term securities and bonds are short-duration investment quality securities. Offsetting the credit exposure on the loan guarantee are marketable securities pledged by the borrower, the market values of which the Company actively monitors on a continuous basis.

(d) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities, which are substantially all due within one year. The Company manages this financial risk by maintaining a portfolio of securities, and by arranging for significant borrowing facilities with major Canadian banks, at attractive rates.

22. CAPITAL MANAGEMENT

The Company considers the following to be its capital: capital stock, contributed surplus, retained earnings, accumulated other comprehensive income and bankers' acceptances payable. The Company's objectives in managing its capital are to:

- (a) maintain a strong capital base to provide investor, creditor, regulator and client confidence; and
 - (b) provide returns to shareholders by the payment of dividends, the repurchase of the Company's shares, and the enhancement of long-term value.
- The allocation of capital to, and the return from, the Company's businesses are monitored by senior management. Certain of the Company's operating subsidiaries are subject to various types of capital requirements imposed by the regulatory authorities to which they report. During the year, and at year end, the subsidiaries complied with those requirements. As at December 31, 2012, the Company's regulated businesses had total regulatory capital amounting to \$92,461 (2011 - \$64,823). These amounts are, in all cases, in excess of the regulatory requirements, and are adjusted by the Company as necessary from time to time. The Company's borrowing facility, through which bankers' acceptances are issued, is subject to certain terms and conditions. During the year, and at year end, the Company complied with those terms and conditions.

23. RELATED PARTIES

(a) Parent company

Minic Investments Limited ("Minic") is a corporation of which A. Michael Christodoulou, a director and officer of the Company, is currently President. Minic is owned by The Christodoulou 2004 Family Trust, a discretionary trust of which the children of the late John Christodoulou are possible beneficiaries. As at December 31, 2012, Minic beneficially owned 48.2% (2011 - 48.2%) of the Company's outstanding common shares. In 2012 and 2011, there were no transactions between Minic and the Company.

(b) Key management personnel

Key management personnel are persons having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly. The Company has determined that its key management personnel include the Board of Directors of the Company and certain senior executives of the Company. The following summarizes transactions with key management personnel:

For the years ended December 31	2012	2011
Short-term employment benefits	\$ 2,929	\$ 2,969
Post-employment benefits	14	10
Stock-based compensation	501	280
	3,444	3,259

The Company provides investment management services to key management personnel at reduced fee rates, which are available to all employees of the Company. The following is a summary of the fees paid for these services.

For the years ended December 31	2012	2011
Investment management services	\$ 32	\$ 41

(c) The Company's significant subsidiaries are as follows:

As at December 31	Country of organization	2012	2011
		Voting ownership interest	
Guardian Capital LP	Canada	100%	100%
Guardian Capital Advisors LP	Canada	100%	100%
Guardian Capital Enterprises Ltd.	Canada	100%	100%
Worldsource Wealth Management Inc.	Canada	100%	100%
Worldsource Financial Management Inc.	Canada	100%	100%
Worldsource Securities Inc.	Canada	100%	100%
IDC Worldsource Insurance Network Inc. (i)	Canada	67%	67%
Guardian Capital International Ltd.	Bermuda	100%	100%
Alexandria Bancorp Ltd.	Cayman Islands	100%	100%
Alexandria Global Investment Management Ltd.	Cayman Islands	100%	100%
Alexandria Trust Corporation	Barbados	100%	100%
Guardian Capital Group Limited Employee Profit Sharing Plan (ii)	Canada	0%	0%
Guardian Canadian Value Equity Fund (iii)	Canada	n/a	87%
Guardian Global Dividend Growth Fund (iii)	Canada	7%	40%
Guardian Growth & Income Fund	Canada	100%	n/a
The Alexandria Fund Ltd. (iv)	Cayman Islands	40%	40%

(i) The principal place of business for IDC Worldsource Insurance Network Inc. ("IDC WIN"), the Company's primary managing general agency subsidiary, is located at Suite 700, 625 Cochrane Drive, Markham, Ontario. The non-controlling interests have a 33% ownership and voting interests in IDC WIN.

The accumulated non-controlling interest in the Company's accounts related to IDC WIN is as follows:

For the years ended December 31	2012	2011
Non-controlling interest, beginning of year	\$ 3,668	\$ –
Arising on acquisition	–	3,575
Net earnings available to non-controlling interests	326	93
Non-controlling interest, end of year	\$ 3,994	\$ 3,668

The following is summarized financial information about IDC WIN before consolidation adjustments:

As at December 31	2012	2011
Cash	\$ 482	\$ 184
Other current assets	1,689	1,474
Intangible assets	8,548	2,299
Other non-current assets	906	1,192
	\$ 11,625	\$ 5,149
Current liabilities	\$ 6,244	\$ 1,672
For the year ended December 31, 2012 and the six months ended December 31, 2011	2012	2011
Revenue	\$ 11,567	\$ 5,237
Net earnings	1,905	584
Comprehensive income	1,905	584

(ii) The Company does not hold any ownership interest in Guardian Capital Group Limited Employee Profit Sharing Plan (the "EPSP Trust"). However, the EPSP Trust is consolidated because the Company has power over the activities of the EPSP Trust, which are conducted on behalf of the Company, and the Company remains exposed to the risks of the EPSP Trust, which are described in note 8, Bank Loans and Borrowings, and note 13, Treasury Stock.

(iii) The Company disposed of its interest in Guardian Canadian Value Equity Fund during the year. The Company ceased to consolidate Guardian Global Dividend Growth Fund effective December 31, 2011, as new business commitments sufficiently diluted the Company's interest. The Company did not recognize a gain or loss as a consequence of losing control of either of these subsidiaries.

(iv) The Company does not control The Alexandria Fund Ltd., as the Company intends to dispose of control of the fund either through a sale or dilution transaction, which meets the criteria as established under its policy for Non-current assets held for sale. As at December 31, 2012, the Company's holdings in the fund, through investments in certain of its sub-funds, were valued at \$26,018 (2011 – \$45,580) and the fund's total net asset value was \$68,455 (2011 – \$106,313).

(d) The Company's significant joint venture is as follows:

As at December 31	Country of organization	2012	2011
		Voting ownership interest	
Guardian Ethical Management Inc.	Canada	50%	50%

Guardian Ethical Management Inc. ("GEM") is an investment fund manager specializing in socially responsible investing mandates, which complements the Company's existing investment management businesses. Management of GEM is shared equally with the other partner in the joint venture. The Company accounts for its investment in GEM using the equity method. The following is summarized financial information about GEM:

As at December 31	2012	2011
Cash	\$ 1,167	\$ 1,693
Other current assets	574	739
	\$ 1,741	\$ 2,432
Current liabilities	\$ 1,077	\$ 1,769
For the years ended December 31	2012	2011
Net revenue	\$ 2,140	\$ 2,793
Net earnings	–	–
Comprehensive income	\$ –	\$ –

(e) Interest in unconsolidated structured entities

The Company sponsors and manages a number of collective investment vehicles for the purpose of efficiently investing monies on behalf of the Company's clients, who are the primary investors in these vehicles. These collective investment vehicles, which are separate legal entities, are financed by investments made by clients and, to a limited extent, the Company. The Company is paid for the investment management services it provides to the vehicles either directly from the vehicles or from the investors. The following tables summarize the size of the unconsolidated collective investment vehicles managed by the Company, and the Company's interests in and transactions with those collective investment vehicles:

As at December 31	2012	2011
Net assets of unconsolidated collective investment vehicles	\$ 1,156,885	\$ 979,829
Company's interests in unconsolidated investment vehicles		
Securities holdings	\$ 8,331	\$ 12,991
Securities held for sale	26,019	45,840
	\$ 34,350	\$ 58,831
For the years ended December 31	2012	2011
Net revenues earned directly from unconsolidated collective investment vehicles	\$ 986	\$ 1,187

The Company's maximum exposure to loss from its interest in these collective investment vehicles is limited to the amount of its investment.

24. ACQUISITIONS**(a) Strategic Brokerage Services LP ("SBS")**

On November 30, 2012, the Company acquired the operating net assets of the life insurance Managing General Agency (an "MGA") business of SBS through its MGA subsidiary, IDC Worldsource Insurance Network Inc. ("IDC WIN"). The acquisition of SBS augments IDC WIN's existing business by providing greater scale and strengthening its presence in Western Canada. The cash consideration paid by the Company for the acquisition is \$5,261, \$3,157 on closing and the balance due over a period of one year after closing.

The accounting for the consideration paid for the acquisition is as follows:

Fair value of consideration paid:		
Cash on closing		\$ 3,157
Cash to be paid over a period of one year after closing		2,104
Total consideration paid		5,261
Fair value of identifiable net assets acquired:		
Intangible assets, rights to future revenue		5,150
Equipment		102
Other		9
Net value of net assets acquired		5,261
Goodwill	\$	Nil

Subsequent to its acquisition, SBS has contributed net revenue of \$302 and net earnings of \$87 to the Company's 2012 results. If the acquisition had occurred on January 1, 2012, management estimates that SBS would have earned net revenue of \$2,800 and net earnings of \$330 and, as a result, the Company's reported net revenue and net earnings for the year ended December 31, 2012 would have been approximately \$87,830 and \$23,089, respectively. In determining these amounts, management has assumed that the fair value adjustments determined above, which arose on the date of acquisition, would have been the same if the acquisition had occurred on January 1, 2012. Management has also assumed the amortization of intangible assets of \$340 and a provision for income taxes of \$130 for the year 2012.

(b) IDC Financial Inc. ("IDC")

On July 1, 2011, the Company acquired a 67% interest in IDC, a life insurance MGA, through an amalgamation of IDC with the Company's existing MGA subsidiary, Worldsource Insurance Network Inc. ("WIN"), to form IDC WIN, and a subsequent share purchase. The consideration paid by the Company to the vendors consisted of a 33% of the ownership of WIN and \$8,558, \$4,271 on closing and the balance due over a period of one year after closing. The acquisition of IDC increased the operating leverage of, and created a national presence for, the Company's MGA business.

Goodwill, which is not expected to be deductible for income tax purposes, represents expectations that IDC WIN will be able to maximize the value of the contracts with major insurance carriers, and that synergies will be able to be achieved, to maximize the profitability of the combined entity.

The accounting for the consideration paid for the acquisition was as follows:

Fair value of consideration:	
Cash on closing	\$ 4,271
Cash paid over a period of one year after closing	4,287
Ownership interest of WIN	3,308
Total consideration paid	11,866
Fair value of identifiable net assets acquired:	
Intangible assets, rights to future revenue	10,238
Accounts receivable and other	1,671
Equipment	483
Accounts payable and other liabilities	(1,140)
Bank loans and borrowings	(33)
Deferred tax liability	(2,258)
	8,961
Less: fair value of identifiable net assets retained by non-controlling interests	(2,957)
Net value of net assets acquired	6,004
Goodwill	\$ 5,862

The non-controlling interests in IDC WIN are measured at their proportionate share of the fair value of the net identifiable assets of the acquired business. In addition, the carrying value of the 33% interest in WIN which was transferred to the vendors was credited to non-controlling interests. As a result, non-controlling interests in the Company's subsidiaries changed as follows:

Ownership interest in fair value of IDC	\$ 2,957
Ownership interest in carrying value of WIN transferred to non-controlling interests	618
Increase in non-controlling interests due to the acquisition of IDC	\$ 3,575

As a result of this transaction, the Company's retained earnings were increased as follows:

Fair value of ownership interest in WIN transferred to non-controlling interests	\$ 3,308
Less: Carrying value of ownership interests transferred	(618)
Excess of fair value over carrying value, credited to retained earnings	\$ 2,690

Subsequent to its acquisition, IDC contributed net revenue of \$3,383 and net earnings of \$280 to the Company's 2011 results. If the acquisition had occurred on January 1, 2011, management estimates that IDC would have earned net revenue of \$6,366 and net earnings of \$446 and, as a result, the Company's reported net revenue and net earnings for the year ended December 31, 2011 would have been approximately \$76,676 and \$10,901 respectively. In determining these amounts, management has assumed that the fair value adjustments determined above, which arose on the date of acquisition, would have been the same if the acquisition had occurred on January 1, 2011. Management has also assumed the amortization of intangible assets of \$720 and a provision for income taxes of \$235 for the year 2011.

Directors

BOARD OF DIRECTORS

James S. Anas •*
A. Michael Christodoulou
Harold W. Hillier •
George Mavroudis
Barry J. Myers •
Michel Sales •
Peter Stormonth Darling •

Committees

Governance

Barry J. Myers •
A. Michael Christodoulou
Michel Sales •*

Compensation

James S. Anas •
Harold W. Hillier •*
Michel Sales •

Audit

James S. Anas •
Harold W. Hillier •
Barry J. Myers •*

* *Chairman*

• *Unrelated Directors*

Principal Executives

GUARDIAN CAPITAL GROUP LIMITED

George Mavroudis
*President and
Chief Executive Officer*

C. Verner Christensen
*Senior Vice-President,
Finance and Secretary*

A. Michael Christodoulou
*Senior Vice-President,
Strategic Planning
and Development*

Matthew D. Turner
*Senior Vice-President
and Chief Compliance
Officer*

Leslie Lee
*Vice-President,
Human Resources*

Donald Yi
Risk Management Officer

Ernest B. Dunphy
Controller

GUARDIAN CAPITAL LP

George Mavroudis
Chief Executive Officer

C. Verner Christensen
*Senior Vice-President
and Secretary*

Robert G. Broley
*Senior Vice-President,
Investment Services*

Brian P. Holland
*Senior Vice-President,
Client Service*

Hugh M. MacFarlane
*Senior Vice-President,
Investment Services*

Spyro Carayannis
*Vice-President,
Investment Services*

Greg Chai
*Vice-President,
Client Service*

Joyce Hum
*Vice-President,
Consultant Relations*

Patrick Milot-Daignault
*Vice-President,
Investment Services*

Patrick E. Poulin
*Vice-President,
Investment Services*

Rocco Vessio
*Vice-President,
Investment Services*

Chris Winchell
*Vice-President,
Investment Services*

Darryl M. Workman
*Vice-President,
Operations and
Administration*

Matthew D. Turner
Chief Compliance Officer

Ernest B. Dunphy
Controller

Portfolio Managers:

Denis Larose
Chief Investment Officer

Gary M. Chapman
Managing Director

Kevin R. Hall
Managing Director

Robert K. Hammill
Managing Director

Peter A. Hargrove
Managing Director

Srikanth G. Iyer
Managing Director

Stephen D. Kearns
Managing Director

D. Edward Macklin
Managing Director

John G. Priestman
Managing Director

Michele J. Robitaille
Managing Director

Michael P. Weir
Managing Director

GUARDIAN CAPITAL
ADVISORS LP

J.J. Woolverton
Chairman

A. Michael Christodoulou
Managing Director

C. Verner Christensen
*Vice-President
and Secretary*

Simon Bowers
*Vice-President,
Private Client Trading*

Steven W. Thode
*Vice-President,
Private Client Services*

Darryl M. Workman
*Vice-President,
Operations and
Administration*

Matthew D. Turner
Chief Compliance Officer

Ernest B. Dunphy
Controller

Private Client
Portfolio Managers:

Michael E. Barkley
Senior Vice-President

George E. Crowder
Senior Vice-President

Douglas G. Farley
Senior Vice-President

Michael G. Frisby
Senior Vice-President

J. Matthew Baker
Vice-President

Thierry Di Nallo
Vice-President

Christie F. Rose
Vice-President

WORLDSOURCE
WEALTH
MANAGEMENT INC.

Paul Brown
Managing Director

John T. Hunt
Managing Director

Andy Mitchell
Managing Director

Linda Kenny
Chief Financial Officer

Paige Wadden
Head of Compliance

Areef Samji
Controller

ALEXANDRIA
BANCORP LIMITED

Robert F. Madden
General Manager

ALEXANDRIA TRUST
CORPORATION

Robert F. Madden
Director

Corporate Offices

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Investor Relations

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email: info@guardiancapital.com*

Auditors

KPMG LLP

Bankers

*Canadian Imperial Bank of Commerce
Bank of Montreal*

Toronto Stock Exchange Listing

<i>Shares</i>	<i>Symbol</i>
<i>Common</i>	<i>GCG</i>
<i>Class A</i>	<i>GCG.A</i>

Annual Meeting

*May 23, 2013
11:00 a.m.
King Gallery,
The Suites at One King West
1 King Street West
Toronto, Ontario*

Custodian and Fund Administrator

RBC Investor Services Trust

Registrar and Transfer Agent

Computershare Investor Services Inc.



50 YEARS
Our history.
Your future.