2013
Annual Report

GUARDIAN CAPITAL GROUP LIMITED

GUARDIAN
CAPITAL

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 Guardian enjoyed another successful year in 2013.

During the year, your Board approved the transition from annual to quarterly dividend payments, starting in July, initially at an annual rate of 20 cents, an increase of 17.6% over the 2012 rate of 17 cents. In the first quarter of 2014, the dividend was again raised by 10% to 5.5 cents per quarter. Guardian returned to its shareholders $17.1 million in 2013, made up of dividends of $9.2 million and share purchases of $7.9 million.

The Board has confidence that Guardian's leadership and strategy will enable its businesses to continue the high level of performance that has been evidenced. Most of all, I want to recognize the dedicated efforts of Guardian's Associates across all of our businesses, who have contributed to our successes. We congratulate all of them for their outstanding efforts and commitment.

Michel Sales has served your Board of Directors for almost 22 years, and has recently advised us that he will not be standing for re-election at the upcoming Annual Meeting of Shareholders. We wish to thank Michel for his wisdom, dedication and guidance to Guardian and the Board. We are very pleased to recommend to the shareholders the election of a new member to the Board, Mr. Hans-Joerg Rudloff, who has several decades of experience as a senior global financial serices executive and recently retired as the Chairman of Barclays Capital. Additional information about Mr. Rudloff is included in the Management Information Circular pertaining to the 2014 Annual Meeting, which will be available shortly.

I also thank the other members of your Board of Directors for their counsel throughout the year.

On behalf of the Board, we thank you for your ongoing support and trust. We look forward to reviewing our progress further with you at the Annual Meeting.

Respectfully,

James Anas
Chairman of the Board

February 27, 2014

Message from the President and Chief Executive Officer

Dear Shareholders,

I am pleased to report that 2013 was another successful year of growth for Guardian Capital. For the second consecutive year, we have set new 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. This annual report will highlight key financial results, which provide evidence of the many areas in which we have achieved success throughout the year. I would like to take just a short moment in this letter to provide some qualitative narrative on the journey we have taken to accomplish these results.

Guardian has always been a company that invests for future growth, by sprinkling seeds across the various business segments in which it operates. The serial yet conservative entrepreneur in Guardian prefers organic growth, but this often requires patience and resolve, as it normally takes longer than most realize to build critical scale and deliver profitability. An important requirement with this approach is that the shareholders understand the balance needed between striving for maximum current earnings and investing for improved future earnings. The last few years of success have been in the making for years, with significant investment across the various disciplines of our core institutional asset management business. Through the recruitment and retention of the highest calibre of investment professional teams, we have created competitive track records in a diversified offering of asset classes and investment solutions. Additionally, by building the business development resources that focus on targeted client segments, we have provided an improved ability to prospect and acquire new clients. Our investment has, however, extended beyond the core institutional asset management business, including our constant commitment to invest in our private client and independent dealership services so that scale and efficiencies would make us competitive. All of these areas, for the first time in our firm's history, have been positive contributors to the overall financial success this year. More importantly, the company is now more diversified and better able to compete in the future.

We plan to largely continue with our preferred philosophy of organic growth. However, we have shown a willingness to, and will continue to, accelerate some of these strategic plans by re-allocating some of our capital invested in securities to acquire operating businesses that will assist in accelerating the growth we wish to achieve. Over the past year, we have initiated a number of new investment capabilities which we believe with time will be additional contributors to our earnings, including our efforts to build a private real estate capability, and our recent announcement related to acquiring an emerging markets equity team in London, UK. With this new presence in a key financial centre such as London, we will be searching to selectively attract other investment professionals to the organization, so that they will further broaden our investment offerings at Guardian. As we work on diversifying our businesses, there will be periods, as has been the case in the past, when growth in earnings may be slower than in the past couple of years. This should be expected when increased expenditures are required in areas of strategic importance which may weigh on earnings in the short term but, from a strategic management perspective, are necessary investments for future growth.

As we succeed in our execution of building our organization, we plan to share the rewards with our shareholders, in the form of sustainable and growing dividend payments. This past year, we have successfully transitioned from an annual dividend to quarterly dividends, and raised the dividend by an additional 10% over the past year to $0.055/share per quarter, effective in January, 2014.

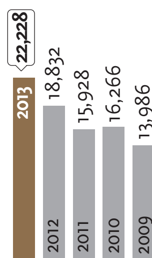
We are always thankful to the many clients who have honoured us with the responsibility to manage or administer their assets, and never assume this privilege lightly. Shareholders have our assurances that the entire management and associates at the Company are completely dedicated to making Guardian a successful, independent and diversified financial services company. Our values of Trustworthiness, Integrity and Stability are embodied by all, who serve with the best intentions our clients and shareholders.

Warmest regards,

George Mavroudis,
President and Chief Executive Officer

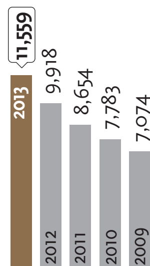
February 27, 2014

Financial Highlights



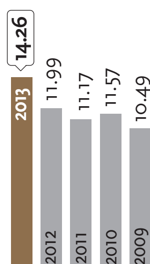
Assets Under Management
As at December 31 ($ in millions)

Assets under management increased 18% in 2013, as a result of a combination of the overall positive performance of the financial markets and net new monies received from new and existing clients.



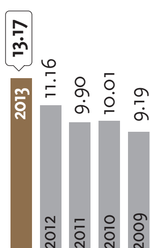
Assets Under Administration
As at December 31 ($ in millions)

Assets under administration increased 17% in 2013, as a result of market performance, the recruitment of new advisors, and additional assets provided by clients, with the additions coming from each of the three financial advisory subsidiaries.



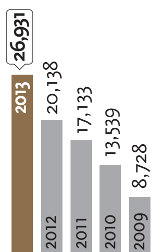
Value of the Company's Corporate Holdings of Securities, per share, diluted[1]
As at December 31 (in $)

The fair value of the Company's Corporate Holdings of Securities, per share increased 18% in 2013, reflecting the growth in the fair value of the Company's investments, substantially the Bank of Montreal shares.



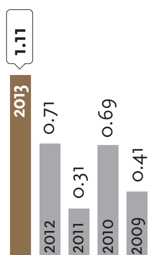
Shareholders' Equity, per share, diluted[1]
As at December 31 (in $)

The Company's Shareholders' Equity per share increased 17% in 2013, providing a broad reflection of the growth in the net value of all of the Company's recorded assets and liabilities, reflecting both the increase in the value of its Securities Holdings and the profitable operations, net of amounts returned to shareholders during the year.



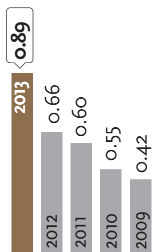
Operating Earnings[1]
For the years ended December 31
($ in thousands)

Operating Earnings increased 34% in 2013, reflecting substantial improvements in the Company's Investment Management and Financial Advisory businesses.



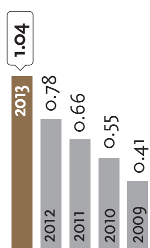
Net Earnings available to shareholders, per share, diluted[1]
For the years ended December 31 (in $)

Net Earnings per share increased 53% in 2013, reflecting the improved Operating Earnings and significant Net Gains on the sale of Securities.



Adjusted Cash Flow From Operations available to shareholders, per share, diluted[1]

For the years ended December 31 (in $)
Adjusted Cash Flow from Operations increased 35% in 2013, reflecting the improvements in Operating Earnings.



EBITDA available to shareholders, per share, diluted[1]
For the years ended December 31 (in $)

EBITDA Available to Shareholders increased 33% in 2013, reflecting the improvements in the Company's operations during the year.

(1) 2010 to 2013 numbers are in accordance with IFRS; 2009 is as reported under previous Canadian GAAP.

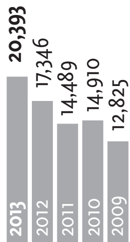
Review of Operations

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.

Assets under management ("AUM") in GCLP were $20.4 billion at the end of 2013, up from $17.3 billion at the end of 2012. The increase in assets under management was due both to strong net new monies from clients across the institutional and retail intermediary client base, and overall positive growth in equity markets. The S&P/TSX Composite benchmark, in which a majority of our assets under management are invested, rose 13.0% and provided a healthy balance of growth in AUM. In addition, continued stability in the investment team and organization, and strong client service and business development efforts, set the stage for overall growth.

$20.4B



Institutional Assets Under Management

as at Dec. 31
($ mil)

Canadian Equity

In 2013, all of our Canadian equity strategies added value relative to the main S&P/TSX Composite benchmark, and this should continue to provide support for further growth in 2014. We have experienced continued investor interest in our Canadian Growth Equity strategy, to the point of having to decline new client appointments in 2013. At the commencement of 2013, we had just over $3 billion in this strategy, and 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. With strong flows of new money from existing clients throughout the year into the strategy and performance of more than 20% in 2013, we now have $4 billion in total assets under management and are close to imposing a hard capacity limit for any new monies. Client demand for strategies with a bias toward income generation continued to prove to be strong in 2013, particularly among the retail investors. Our leading expertise in managing Equity Income and Growth & Income strategies for well over 15 years and our partnership with several leading retail intermediaries resulted in significant net new monies from our retail partners. We believe this theme will continue to remain popular with retail investors, and should support further growth in 2014. 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. Guardian has one of the deepest Canadian Equity investment teams in the industry, with eleven investment professionals who have an average of 25 years of experience overseeing a total of approximately $12.6 billion in assets under management.

Global Equity

The longer-term performance history of our Global Dividend Equity strategy was instrumental in placing us on several key retail intermediary platforms over the past two years. This acquired shelf space, along with a demand by retail investors for strategies with a bias toward income generation and lower volatility, continued to provide us with strong cash inflow momentum in 2013, and was a large contributor to the growth in AUM for the global equity team this past year. As a result of these strong cash inflows for the Global Dividend Equity strategy, the team at the end of 2013 is reporting total global equity AUM of $1.7 billion, representing growth of over 70% during the year. Relative performance for several of our global equity products trailed the strong performance of the main MSCI World Composite this past year, affecting the relative short to medium-term performance history of these products. A return to strong relative value-added performance will be important to regain the confidence within the consultant and institutional client channels. Despite this relative underperformance for the team, we expect to continue benefiting from retail investors' increased appetite for global equities, through the various retail intermediaries who offer our strategies. As investors gain greater confidence in the equity markets, stronger markets may 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 2013, 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 products. 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 continued growth in our high yield bond strategies. However, we expect

bond yields to rise eventually, and therefore the prospects of adding significant absolute returns from core bond investments will be limited. 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 over the last couple of years, including a short-duration bond strategy focusing on high-quality corporate issues, and a variation on this strategy incorporating an allocation to high yield bonds. Earlier in the year, we also launched a more benchmark-free fixed income product, with a focus on producing a reliable income payout of 5.75% per annum, while also attempting to preserve capital in a changing rate environment by allowing the portfolio manager to roam between high yield, investment grade and government bonds, as well as having the ability to both lever and short any of these credits. Early performance has been excellent through some difficult bond markets, and we believe such a strategy will be a compelling choice for investors. The product is being offered through an offering memorandum, and represents our initial efforts to carve a niche in alternative fixed income strategy. 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 over the past two years. 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 continued to add balanced fund clients in 2013, and expect to continue the momentum in 2014, particularly with smaller endowments, foundations and First Nations accounts.

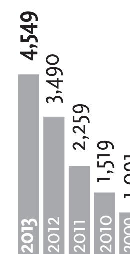
Investment Client Distribution

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 includes 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 2013 calendar year, as we finished the year with more than $4.5 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 our 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.

In 2011 and 2012 we experienced our highest levels of requests for proposals and finalist opportunities for any two year period. Over the past year, we received fewer requests for proposals, partly attributable to a general trend experienced by the overall market and partly because searches that were in demand were in areas that we currently do not serve, such as a host of private assets in equity and infrastructure searches. Search activity also tends to be slower in a relatively strong market environment, as investors are less inclined or pressured to initiate changes in their lists of managers. Much of our growth in institutional assets over the past year came from existing clients, who continue to add net new inflows to their existing mandates with us. We remain committed to serving the institutional pension market and their consultants, as this channel requires a constant connection with the key decision-makers, so that when certain needs arise we are a familiar alternative to meet their needs. Our broad strength in relative performance for our domestic equities is an area where we continue to have respect as a top manager for consideration by the consultant community. Unfortunately, barring any major competitor setbacks, this is an asset class that involves taking away market share from others, rather than a segment of the market that is experiencing overall growth. Global equity searches continue to be an area where we can see overall market demand and growth, once there is a return to strong relative value-added performance.

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. To this end, in 2013 we successfully launched 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. The initial capital raised in the first closing should be substantially invested by the end of Q1 2014, and we plan to target the institutional market for a second round of capital this year, as we are focused on succeeding to build a niche real estate asset management business. This asset class, unlike the domestic equity market, is highly in demand and a growing proportion of institutional investors' asset allocations. In addition to direct real estate, we also announced in late 2013 that we have reached agreement to purchase an emerging markets equity team in London, UK, which we plan to market heavily upon closing in 2014. Despite the headline headwinds in developing markets, this asset class is very much in demand by institutional investors, and is an asset class for which investors have experienced challenges in finding managers with adequate capacity to serve their

$4.5B

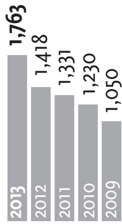


Wrap Assets Under Management
as at Dec. 31
($ mil)

demands. Our institutional business development team and the key decision makers within the consultant community appear to be excited with our foray into this asset class.

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.

$1.8B



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

PRIVATE WEALTH MANAGEMENT

Guardian Capital Advisors LP ("GCA") provides portfolio management services to private wealth clients, foundations and endowments within Canada and abroad. We assist our private clients to achieve their investment objectives, by constructing tax-efficient, fully-discretionary segregated or investment fund solutions that are tailored to the individual client. Our investment process combines a proprietary global equity screening process with the experience of dedicated private wealth client portfolio managers. We work not only with the clients themselves, but also with their financial, legal, accounting and other advisors, to ensure that the services we provide are properly integrated 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 the vast intellectual resources of the firm, to construct custom-designed solutions for each client. A strong administrative and support team ensures that client requirements are met in a timely manner.

GCA's assets under management and supervision were $1.8 billion at the end of 2013, compared to $1.4 billion at the end of 2012. 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, divided almost equally between Eastern and Western Canada. Our business development efforts will continue to focus on promoting awareness in the legal, accounting, family office and financial advisory communities.

INTERNATIONAL PRIVATE BANKING

As an extension of our Private Wealth Management business, our International Private Banking subsidiaries service the wealth management needs of our international clients.

Alexandria Trust Corporation ("ATC") is a licensed and regulated domestic trust company based in Barbados, which provides fiduciary and corporate administration services to international clients. Over the past year, we acquired the net operating assets and client relationships of a corporate management services business, to increase our presence on the island and solidify our offerings to existing and new clients. With enhanced commitment to provide corporate and trust management services to international clients in Barbados, we expect to see immediate gains in new clients who have historically refrained from retaining us due to our limited presence.

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 2014, in coordination with our expanded offering in Barbados through ATC, ABL plans to continue to strengthen its international referral network and to improve its pooled investment alternatives.

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") were $11.6 billion at December 31, 2013, compared to $9.9 billion at the end of 2012.

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 $7.7 billion at December 31, 2013, compared to $6.7 billion at the end of 2012. The increase in assets was attributable to successful recruiting programs and higher client portfolio valuations due largely to market appreciation in equities. WFM's sales commission revenues continue to trend lower in 2013, due to a general move by advisors away from deferred sales charge "rear-load" funds to lower

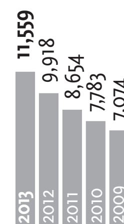
sales commission rate "front-load" funds. The lower commission rate funds generally have higher continuing or "trailer" fees, so that future periods will benefit from the build-up of these continuing commissions. We believe that the move toward greater trailer fee revenue better aligns the advisors' business with the clients' interests. It also improves the advisors' 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 significant 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 we set out to have WFM 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 Worldsource AUA into Guardian AUM. We expect with the recent launch of a dedicated competitive management fee share series, the "W" series, for the family of Guardian funds sold by WFM advisors, and the delivery of customized portfolio solutions for its advisors, will improve our efforts to convert more AUA into AUM and grow both the dealership and the advisors' 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 more independence than traditionally afforded. WSI is focused on providing the highest possible level of technological and administrative support to its branch network. In 2013, WSI continued to attract new financial advisors, adding new branches and finishing the year with $1.4 billion in AUA. In 2014, management expects that WSI will continue its success in recruiting advisors and adding new branches to its growing network of brokers across the country. As with WFM, an additional strategic focus will be to improve the opportunities to assist the advisors with managed solutions which enable a greater degree of conversion of AUA into AUM. In 2013, we launched a managed solution for our investment advisors in WSI, which offers a variety of Guardian managed investments, and plan to continue to work with our advisors to expand this offering going forward.

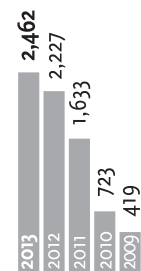
IDC Worldsource Insurance Network Inc. ("IDC WIN") is a Managing General Agency ("MGA"), which is 79% owned by Worldsource and which provides sales, marketing and administrative support to licensed insurance advisors nationwide. IDC WIN experienced strong growth in 2013, including the first full year of results from the 2012 acquisition of Strategic Brokerage Services ("SBS"), a strong regional MGA in Western Canada, giving the firm a national footprint, with offices in Western, Central and Eastern Canada, 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 was $2.5 billion as of December 31, 2013, up from $2.2 billion as of the end of 2012. Led by the growth in premiums on life insurance policies sold, IDC WIN has generated more than 60% of the net commission revenue at Worldsource in 2013, with net revenue of $14.1 million, compared to $10.4 million in 2012 and only $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 2014. In addition, with the successful completion of the integration of SBS this past year, we also feel that further consolidation opportunities may be considered going forward, to extend our leading position as an MGA and leverage the benefits of our current economies of scale.

$11.6B



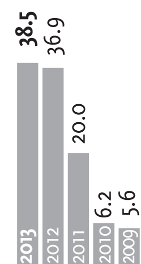
Total Assets Under Administration
as at Dec. 31 ($ mil)

$2.5B



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

$38.5M



Premiums on Life Insurance Policies Sold
for the years ended Dec. 31 ($ mil)

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, 2013, with comparatives for the year 2012. Readers are encouraged to refer to the discussions and analyses contained in the 2013 Annual Report and the First, Second and Third Quarter 2013 Reports. This discussion and analysis has been prepared as of February 27, 2014.

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, which includes a mutual fund dealer, securities dealer and an insurance managing general agency ("MGA"); and corporate activities and investments. As at December 31, 2013, Guardian had $22.2 billion of assets under management ("AUM") and $11.6 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 $449 million at the end of the year.

KEY EVENTS

Changes to executives

In August, 2013, Donald Yi, who had served as Guardian's Risk Management Officer since 2006, was appointed to the position of Chief Financial Officer. Vern Christensen, who had served as the Chief Financial Officer of Guardian since 2001, continues to serve as the Senior Vice-President and Secretary of Guardian.

Changes to securities holdings

During the year, Guardian disposed of 160,000 common shares of Bank of Montreal for net proceeds of $10.8 million, the first disposition by Guardian of its Bank of Montreal investment. The disposition of this investment resulted in the recording of net gains of $5.0 million and a tax expense of $0.2 million. The net proceeds were used to partially fund Guardian's $12.1 million investment in a real estate fund managed by a subsidiary.

Acquisition of an Emerging Markets Equity investment management firm

On November 25, 2013, Guardian entered into an agreement to acquire all of the shares of Zephyr Management (UK) Ltd. an emerging markets equity investment management firm, based in London, UK. This transaction is expected to provide Guardian with approximately $110 million US in additional AUM, and provide a bridge into new markets. Guardian will pay $1 million US upon closing, and make a second payment 4 years after closing, calculated based on the level of AUM then achieved, to a maximum of $2.8 million US. The transaction is expected to close in the first quarter of 2014, subject to certain term and conditions.

USE OF NON-IFRS MEASURES

Guardian's management uses certain measures to evaluate and assess the performance of its business. Two of the measures that Guardian uses, adjusted cash flow from operations available to shareholders and EBITDA available to shareholders, are 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 these measures in analyzing Guardian's results.

Adjusted cash flow from operations available to shareholders

Adjusted cash flow from operations available to shareholders 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 in Guardian's Consolidated Statements of Cash Flow.

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

For the years ended December 31 ($ in thousands)	2013	2012
Net cash from operating activities, as reported	$ 30,669	$ 23,900
Net change in non-cash working capital items	(2,631)	(1,697)
Cash flow from operations before changes in non-cash working capital items	28,038	22,203
Less: Available to non-controlling interests	(416)	(923)
Adjusted cash flow from operations available to shareholders	$ 27,622	$ 21,280

EBITDA available to shareholders

Guardian defines EBITDA as net earnings before interest, income tax, amortization, stock-based compensation, and any net gains or losses. We believe this is an important measure, as it allows us to assess the operating profitability of our business and to compare it with other investment management companies, without the distortion caused by the impact of non-core business items, different financing methods, levels of income taxes, and capital expenditures. The most comparable IFRS measure is "Net earnings", which is disclosed in Guardian's Consolidated Statements of Operations.

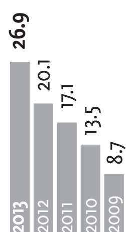
The following is a reconciliation of this non-IFRS measure to this IFRS measure:

For the years ended December 31 ($ in thousands)	2013	2012
Net earnings, as reported	$ 34,743	$ 22,759
Add (deduct):		
Net losses (gains) on securities held for sale	58	(4,559)
Income tax expense	3,767	3,275
Net (gains)	(11,637)	(1,337)
Stock-based compensation	1,247	1,145
Interest expense	1,130	1,283
Amortization	3,706	3,478
EBITDA	33,014	26,044
Less: Available to non-controlling interests	707	861
EBITDA available to shareholders	$ 32,307	$ 25,183

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)	2013	2012	% change
Net revenue	$ 101,278	$ 86,360	+ 17 %
Expenses	74,347	66,222	+ 12 %
Operating earnings	26,931	20,138	+ 34 %
Net gains	11,637	1,337	+ 770 %
Earnings before income taxes and gains (losses) on securities held for sale	38,568	21,475	+ 80 %
Income tax expense	3,767	3,275	+ 15 %
Net earnings before net gains (losses) on securities held for sale	34,801	18,200	+ 91 %
Net gains (losses) on securities held for sale	(58)	4,559	- 101 %
Net earnings	$ 34,743	$ 22,759	+ 53 %
Available to shareholders			
Net earnings	$ 34,432	$ 22,556	+ 53 %
EBITDA	$ 32,307	$ 25,183	+ 28 %
Adjusted cash flow from operations	$ 27,622	$ 21,280	+ 30 %
Available to shareholders, per share, diluted			
Net earnings	$ 1.11	$ 0.71	+ 56 %
EBITDA	$ 1.04	$ 0.78	+ 33 %
Adjusted cash flow from operations	$ 0.89	$ 0.66	+ 35 %
As at December 31 ($ in millions, except per share amounts)			
Assets under management	$ 22,228	$ 18,832	+ 18 %
Assets under administration	$ 11,559	$ 9,918	+ 17 %
Value of corporate holdings of securities	$ 449	$ 380	+ 18 %
Shareholders' equity	$ 415	$ 354	+ 17 %
Per share, diluted			
Value of corporate holdings of securities	$ 14.26	$ 11.99	+ 19 %
Shareholders' equity	$ 13.17	$ 11.16	+ 18 %



Operating Earnings

for the years ended Dec. 31 ($ mil)[1]

1) Note: results for 2010 to 2013 are in accordance with IFRS; 2009 is as reported under previous Canadian GAAP.

The operating earnings for 2013 were $26.9 million, compared to $20.1 million in 2012, a 34% increase. Each operating unit contributed positively to the increase in Guardian's operating earnings. A more detailed discussion is provided under "Revenues and Expenses" below.

The net gains for the year increased significantly, with approximately one-half of the net gains being from the sale of a portion of the Bank of Montreal shares.

Higher income tax expense in 2013 was the result of higher operating income and higher net gains realized during the year, compared to 2012.

The reduction in net gains on securities held for sale was due to a reclassification of certain mutual funds from the held for sale category to securities holdings during the year. This resulted in subsequent changes in unrealized gains or losses being recorded in other comprehensive income, rather than as net gains from securities held for sale.

Net earnings available to shareholders for 2013 were $34.4 million, compared to $22.6 million in 2012, a 53% increase. The higher net earnings available to shareholders is largely due to significantly higher operating earnings and net gains in 2013, offset by the reduction in net gains on securities held for sale.

EBITDA available to shareholders for 2013 was $32.3 million, compared to $25.2 in 2012, a 28% increase. The increase was caused by improvement in operating results from all of Guardian's operating segments.

Adjusted cash flow from operations available to shareholders for the year amounted to $27.6 million, compared to $21.3 million in 2012. The differences between net earnings and adjusted cash flow from operations available to shareholders 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 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 client 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)		2013		2012
Assets under management, beginning of year	$	**18,832**	$	15,928
Net additions from clients during year		**1,699**		1,855
Market appreciation		**1,697**		1,049
Assets under management, end of year	$	**22,228**	$	18,832
Composed of:				
Institutional	$	**20,393**	$	17,346
Private client		**1,763**		1,418
International		**72**		68
Total	$	**22,228**	$	18,832
Institutional AUM is composed of:				
Canadian equities	$	**12,556**	$	10,317
Global equities		**1,720**		1,009
Fixed Income		**6,117**		6,020
Total institutional AUM	$	**20,393**	$	17,346

Guardian's total AUM was $22.2 billion at December 31, compared to $18.8 billion in the prior year, an 18% increase. The increase in AUM was due to a combination of continued success in attracting new inflows of client assets and market appreciation.

Management fees, net of referral fees paid, for the year 2013 were $50.9 million, 20% higher than the $42.4 million for 2012. Institutional management fees increased 22% to $40.3 million in 2013 from $33.0 million in 2012, as a result of increases in AUM and the continuing growth in higher-margin AUM, offset by a reduction of $1.2 million in performance fees. Private client management fees, net of referral fees paid, increased 18% during the year to $8.2 million from $6.9 million in 2012, reflecting the continuing increase in AUM in this area. Management fees earned from international clients during the year, at $2.4 million, were substantially unchanged from the $2.5 million a year earlier.

Financial Advisory Commission Revenues

Net commission revenue earned from the financial advisory business is generated from the sale of mutual funds, other securities and life insurance products, as well as from continuing fees related to AUA and life insurance policies, net of commissions paid to advisors.

Total AUA at Guardian at the end of 2013 amounted to $11.6 billion, 17% higher than the $9.9 billion at the end of 2012. The increase in AUA was due to successes in recruiting new advisors into the financial advisory subsidiaries, together with the positive effects of market performance.

The total premiums on life insurance policies sold in 2013 by the life insurance MGA subsidiary were $38.5 million, compared to $36.9 million in 2012. The policies sold generate sales commissions in the year they are sold, and add continuing service fees in subsequent years.

Net sales commission revenue amounted to $23.1 million in 2013, 22% higher than the $18.9 million in 2012. This increase is due to the inclusion of the full year's results of SBS Brokerage Services LP ("SBS"), which was acquired in November of 2012, successful recruitment efforts in the mutual fund and securities dealers and continued growth from our existing advisors.

Administrative Services Income

Administrative services income in 2013 was composed of $6.2 million of registered plan and other fees earned in the financial advisory area, $2.0 million in fund administration revenue earned from Guardian's proprietary mutual funds and $1.5 million of trust, corporate administration and other fees earned mainly in the international area, for a total of $9.7 million, compared with $8.5 million in 2012. The increase resulted from growth in the number of client accounts in the financial advisory area and in the AUM in our mutual funds, offset by a reduction in client activities offshore.

Dividend and Interest Income

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

For the years ended December 31 ($ in thousands)	2013	2012	% change
Dividend income	$ 16,720	$ 15,292	+ 9 %
Interest income	840	1,315	- 36 %
Total dividend and interest income	$ 17,560	$ 16,607	+ 6 %

Dividend income increased by 9% in the year, due to increased investments in the corporate portfolio of securities and the effects of the increased dividend rates on the Bank of Montreal shares. The decrease in interest income resulted from the disposition of promissory notes during the second half of 2012.

Expenses

Guardian's operating expenses, excluding commissions, referral fees, amortization and interest, were $69.5 million in 2013, compared with $61.5 million in 2012, an increase of 13%. Included in the increased expenses for 2013 were $1.8 million of additional expenses due to the inclusion of the full year of expenses relating to the SBS acquisition in late 2012. Excluding the expenses related to SBS, the increase in the operating expenses in 2013 would have been 10%. Increased operating expenses also resulted from additional business development costs incurred in bringing on the additional AUM during the year and additional investment professionals added, to provide for the management and servicing of this additional AUM.

The increase in amortization in 2013, from $3.5 million to $3.7 million, was largely a result of the full year's amortization of the intangible assets acquired as part of the SBS aquisition, offset by certain intangible assets being fully amortized in the second quarter of 2013. Interest expense reduced to $1.1 million in 2013, compared to $1.3 million in 2012, a reduction of 12%, as a result of lower interest rates renegotiated in late 2012.

NET GAINS

For the years ended December 31 ($ in thousands)	2013	2012
Net gains (losses) in consolidated mutual funds	$ 137	$ (196)
Net gains on securities directly held	11,939	348
Net gains on repayment of promissory notes	–	963
Net gains on securities	12,076	1,115
Net gains on disposal of intangible assets	312	189
Net foreign exchange (losses) gains	(751)	33
Net gains	$ 11,637	$ 1,337
Net gains (losses) on securities held for sale	$ (58)	$ 4,559

Net gains in 2013 increased significantly compared to 2012, with approximately one-half of the gains for the year realized on the sale of 160,000 of the Bank of Montreal shares. The net losses on foreign exchange mainly relate to exchange losses on Canadian dollars held by the international subsidiary whose functional currency is the US dollar. On translation of this subsidiary's results to Canadian dollars upon consolidation, Guardian recorded equal but offsetting gains in other comprehensive income.

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 operation. 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.

Guardian's total bank borrowings at December 31, 2013 amounted to $55.9 million, compared with $52.2 million at December 31, 2012. The bulk of the bank borrowings have been converted to bankers' acceptances at attractive borrowing rates. The total credit available, under three borrowing arrangements, amounts to $81 million.

As mentioned under "Key Events" above, during the year, Guardian disposed of 160,000 common shares of

Bank of Montreal for net proceeds of $10.8 million. These proceeds funded the bulk of the $12.1 million investment in a real estate fund managed by a subsidiary. Guardian's borrowing facilities plus its strong cash flow from operations allowed Guardian, during 2013, to repurchase shares under its issuer bid for $7.9 million, make its annual and two quarterly dividend payments in the total amount of $9.2 million, purchase additional shares in a subsidiary for $4.3 million, and make payments on other business acquisitions of $2.4 million.

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, 2013 had a fair value of $449 million, or $14.26 per share, diluted, compared with $380 million, or $11.99 per share, diluted, as at December 31, 2012.

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

SECURITIES HOLDINGS

As at December 31 ($ in thousands, except per share amounts)	**2013**	2012
Securities at fair value:		
Short-term securities	**$ 1,850**	$ 2,187
Bonds	**1,030**	2,007
Mutual funds	**34,441**	8,729
Bank of Montreal common shares	**339,754**	301,626
Other equity securities	**54,187**	39,037
Real estate funds	**12,492**	352
Total securities holdings	**443,754**	353,938
Securities held for sale	**5,425**	26,018
Total securities	**$ 449,179**	$ 379,956
Total securities per share, diluted	**$ 14.26**	$ 11.99

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:

		Payments due by period			
As at December 31, 2013 ($ in thousands)	Total	Within one year	One to three years	Three to five years	After five years
Bank loans and borrowings	$ 55,929	$ 55,929	$ –	$ –	$ –
Client deposits	57,312	57,312	–	–	–
Accounts payable and other	28,500	28,500	–	–	–
Payable to clients	42,215	42,215	–	–	–
Investment commitment – real estate fund	12,864	12,864	–	–	–
Operating lease obligations	18,027	1,683	3,905	2,992	9,447
Total contractual obligations	$ 214,847	$ 198,503	$ 3,905	$ 2,992	$ 9,447

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, which can fluctuate with client activities, is offset by the Receivable from clients and broker. Client deposits, which grew by $53 million in the past year from new banking clients in the offshore banking subsidiary, are supported by Interest-bearing deposits with banks. Guardian has committed to invest $25 million into a real estate limited partnership which is managed by a subsidiary, of which $12.1 million has been invested to date. The balance is expected to be invested as appropriate real estate product becomes available to the limited partnership, at which time Guardian's management will decide on the appropriate strategy for funding this commitment.

Not included in the above table is a conditional commitment of $1 million US to make the initial payment on the purchase of a London, UK-based investment management company, as described under "Key Events".

SELECTED ANNUAL INFORMATION

Years ended December 31 ($ in thousands, except per share amounts)	2013	2012	2011
Net revenue	$ 101,278	$ 86,360	$ 73,693
Net earnings available to shareholders	34,432	22,556	10,003
Per share			
Net earnings			
Basic	$ 1.13	$ 0.72	$ 0.31
Diluted	1.11	0.71	0.31
Dividends paid	0.30	0.17	0.16

As at December 31	2013	2012	2011
Total assets	$ 645,060	$ 510,752	$ 469,508

The increases in Total assets over the past two years substantially reflect the changes in the value of the corporate holdings of securities, increases in interest-bearing deposits and the additional assets received on the purchase of an MGA in 2012.

SUMMARY OF QUARTERLY RESULTS

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

Quarters ended ($ in thousands)	Dec.31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec.31, 2012	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012
Net revenue	$ 27,907	$ 25,173	$ 25,041	$ 23,157	$ 24,146	$ 21,370	$ 20,415	$20,429
Operating earnings	8,564	6,898	6,390	5,079	5,791	4,647	4,860	4,840
Net gains	7,218	3,183	666	570	(144)	2,045	(548)	(16)
Net earnings before net gains (losses) on securities held for sale	14,879	8,602	6,255	5,065	4,938	6,045	2,838	4,379
Net gains (losses) on securities held for sale	238	432	(1,243)	515	1,084	2,849	(2,961)	3,587
Net earnings (loss) available to shareholders	14,980	8,946	4,963	5,543	5,915	8,750	(114)	8,005
Shareholders' equity	414,985	393,670	354,622	366,519	353,756	336,362	323,690	340,096
(in $)								
Per average Class A and Common Share								
Net earnings before net gains (losses) on securities held for sale:								
- Basic	$ 0.48	$ 0.28	$ 0.20	$ 0.16	$ 0.16	$ 0.19	$ 0.09	$ 0.14
- Diluted	0.47	0.27	0.20	0.16	0.15	0.18	0.09	0.14
Net earnings (loss) available to shareholders:								
- Basic	$ 0.49	$ 0.29	$ 0.16	$ 0.18	$ 0.19	$ 0.28	$ (0.00)	$ 0.25
- Diluted	0.48	0.29	0.16	0.18	0.19	0.27	(0.00)	0.25
Shareholders' equity								
- Basic	$ 13.68	$ 12.94	$ 11.64	$ 11.97	$ 11.44	$ 10.78	$ 10.29	$ 10.72
- Diluted	13.17	12.51	11.27	11.59	11.16	10.54	10.06	10.48

Management fees earned in the investment management segment are highly correlated to the growth in AUM and generally not subject to seasonal fluctuations. The seasonality which in the past existed in the financial advisory segment, with some concentration of commissions in the traditional "RSP season" in the first quarter of each year, has now largely dissipated. This change is due to the overriding influence of worldwide market movements, which can affect client and advisor behavior throughout the year, together with the increasing significance of life insurance sales in Guardian's financial advisory business, and the continuing move toward "trailer" fees and away from "front-load" commissions.

The steady increase in net revenue during the periods shown above have generally resulted from two influences. Firstly, reflecting the growth in AUM, management fees in the investment management business have increased steadily and substantially throughout 2012 and 2013, including the earning of a performance fee of $1.4 million in December, 2012. Secondly, there has been significant growth in commissions earned in the financial advisory business, as a result of the life insurance MGA business purchases made in 2011 and 2012, together with continuing growth in the traditional mutual fund and securities dealerships.

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" and "Net gains (losses) on securities held for sale" each quarter have fluctuated, as shown in the quarterly results above. The significant net gains and net gains on securities held for sale recorded in the first and third quarters of 2012, and the third and fourth quarters of 2013 were largely responsible for the increases in Net earnings in those quarters.

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 caused largely by changes in the value of Guardian's investment in the Bank of Montreal common shares, less this provision for future income taxes.

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 2013 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 in-house investment management expertise, which 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 $339.8 (2012 - $301.6) 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, which use US dollars as their functional currency, 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. From time to time, the foreign subsidiaries hold unhedged Canadian dollars, which can result in foreign exchange gains or losses being recorded by the subsidiaries. Upon translation of their results on consolidation, Guardian recognizes equal and offsetting gains or losses in Other comprehensive income. This is not considered to be a currency risk as there is no economic risk to Guardian.

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 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 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, substantial depth in personnel and resources and a strong balance sheet, which provides 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.

As a result of this risk related to its clients, Guardian has the risk of a reduction in its revenue due to the possible loss of clients, including the possible loss of Worldsource advisors, who could bring their clients to another mutual fund or securities dealer. This risk is managed by having strong marketing efforts to replace lost revenue with new client revenues, and by continuing to offer competitive benefits to advisors.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the reported amounts of assets, liabilities, contingencies, revenues and expenses. These estimates and assumptions are listed in note 2 (c) to Guardian's 2013 Consolidated Financial Statements. The most significant accounting estimates are related to the annual impairment assessment of goodwill and the determination of fair value of securities classified as level 3 within the fair value hierarchy.

The annual impairment assessment of goodwill includes a comparison of the carrying value and the recoverable amount of each business unit to verify that the recoverable amount of the business unit is greater than its carrying value. In 2013 and 2012, the recoverable amounts were estimated using the fair value less cost method for each of the business units. Guardian used valuation approaches based on a multiple of AUA and a multiple of annual service fee revenues to determine fair value. These multiples are developed by management based on recent transactions and research reports by independent research analysts. These valuation approaches are most sensitive to the levels of AUA and annual service fees.

A financial instrument is classified as level 3 when the fair value of the instrument is determined using valuation techniques based on inputs which are not observable in the market. The fair values of securities classified as level 3 in note 4 (e) to Guardian's 2013 Consolidated Financial Statements were based on a valuation approach using a multiple of AUM. The multiple was developed based on recent research reports by independent research analysts for similar types of business. This valuation approach is most sensitive to the level of AUM.

CHANGES IN ACCOUNTING POLICIES

As disclosed in note 3 to the Consolidated Financial Statements contained in Guardian's 2013 Annual Report, Guardian has adopted IFRS 13, Fair Value Measurement ("IFRS 13"), which establishes a framework for measuring fair value, sets out related disclosure requirements when fair value measurement is required or permitted under other standards, and replaces the requirements which had been previously contained in several other standards. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Guardian has incorporated the measurement requirements of IFRS 13 in the 2013 Consolidated Financial Statements. The measurement requirements of IFRS 13 did not have a significant effect on its Consolidated Financial Statements.

INTERNAL CONTOL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROL

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, 2013 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, 2013, under the supervision of the Chief Executive Officer and 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

In last year's annual report, we indicated that we believed that, despite global macro and geopolitical concerns, the overall trend for equity markets in 2013 would be toward the upside, as investors would continue to accept greater equity risk allocation in their portfolios. As it turned out, in 2013 equity markets did deliver broadly positive returns, due largely to the continued program of bond buying by the Federal Reserve. This quantitative easing continued at a slightly slower pace in the fourth quarter as the Fed attempted to prepare the markets for an eventual withdrawal of these purchases. However, we don't see a complete withdrawal occurring until 2015. Developing markets delivered solid results in 2013, with investors moving back into risk assets. The major economies of the developed world – the U.S., Euro-zone, Japan and the U.K. – all appear to be experiencing some level of growth, while emerging economies appear to be facing some headwinds. All in all, this is good news for the global economy. There is definitely still a lot of fragility in the system – U.S. growth is weak by historical standards; the Euro-zone is hardly growing and exposed to potential derailment from weak countries on the periphery; Japan's growth is the result of massive liquidity injection and could be short-lived; and China continues to have its structural issues. Markets overall have nevertheless welcomed the subtle economic improvements, even if they are humble and fragile.

In 2014, we expect global monetary easing to continue, although a continuously improving economy in the U.S. will limit the need for the relatively high levels of accommodating quantitative easing by the Fed, and there will eventually be calls for greater level of tightening by the Fed. The rest of the developed world's growth is still too low for other large central banks to quickly follow suit. The only significant tightening activity currently taking place is limited to some emerging economies that are fighting the flight of capital triggered by rising yields in the U.S. and the depreciation pressure on their currencies. With global central banks continuing their coordinated commitment to further monetary easing in the near term, and any interest rate increases likely to take longer to materialize, investors are likely to continue increasing their equity risk appetites, and thus we expect positive support for global equity markets. Guardian is highly geared toward the equity markets, across its main business segments and its corporate investment portfolio. An environment which will reward greater equity risk will be positive for Guardian's overall performance, as our largest revenue sources, commission revenue and management fees, are aligned toward higher levels of AUM and AUA.

Guardian's AUM increased over the past year by $3.4 billion dollars, ending the year with approximately $22.2 billion, due in part to the positive Canadian and global equity markets and our relative value-added performance across several of our equity and fixed income strategies. We continued to witness strong growth with very large net client inflows from both institutional and retail intermediary distribution channels. The year ahead may prove to be more challenging regarding strong growth from client net inflows, as one of our most successful strategies, Canadian Growth Equity, is no longer taking any new monies from new clients and is getting closer to limiting all new inflows from existing clients. Although relative returns in 2013 were strong across our equity strategies, there

is one exception with our systematic equity team, where several of the global and international equity strategies lagged their benchmarks. This may limit near-term new business opportunities, particularly in the institutional segment. However, we still believe that asset inflows will be positive in 2014 for these strategies, as our success in being included in certain retail intermediary shelf space provides us the opportunity to capture some increased flows into this asset class.

Guardian's financial advisory business, through its subsidiary Worldsource Wealth Management, reported its first annual positive contribution to operating earnings in 2013, with a positive total of $1.7 million, compared to the prior year's operating loss of $0.9 million. The improved operating earnings were due to continued strong commission growth from new life insurance sales in its Managing General Agency, particularly in the second half of the year, and multi-year efforts to improve 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 continued delivery of strong life insurance sales and the recruitment of additional independent advisors across our Worldsource platform. The improved synergies we have driven among our various financial advisory businesses, coupled with greater equity risk appetite from the retail investor, are expected to result in further improvements to operating profits in 2014.

We are pleased to have delivered more meaningful overall operating profits in the past year. However, in order to improve the likelihood of repeatable improved operating earnings, we expect to continue to invest in new initiatives, which will be a trade-off by management of some current earnings for expected greater future earnings. We are planning to continue to invest in the development of our Real Estate investment team, as we gather more assets under management and a greater number of properties to be acquired and managed. As such, this unit will likely be operating at a loss for the near term. The same can be said for our efforts to build out broader investment capabilities in our new presence in the UK, the purchase of which is expected to close in the first quarter of 2014. It is important, with the stronger operating platform that Guardian has achieved over the past few years, that we leverage our positive momentum to attract new talent and capabilities where we expect client demand to be structurally strong in the future.

A successful execution of these growth plans will be instrumental to Guardian's efforts to deliver consistent growth in dividends and shareholders' equity.

Ten Year Review

Notes (a), (g)	**2013**	2012	2011	2010	2009	2008	2007	2006	2005	2004
($ in millions)										
Assets under management	**22,228**	18,832	15,928	16,266	13,986	11,764	16,885	17,305	18,444	16,085
Assets under administration	**11,559**	9,918	8,654	7,783	7,074	6,005	6,303	5,677	4,837	3,708
($ in thousands)										
Net revenue	**101,278**	86,360	73,693	64,928	61,147	66,918	69,607	66,247	58,908	49,585
Operating expenses (b)	**74,347**	66,222	56,560	51,389	52,419	58,665	51,617	48,159	44,162	38,930
Operating earnings	**26,931**	20,138	17,133	13,539	8,728	8,253	17,990	18,088	14,746	10,655
Net gains (losses)	**11,637**	1,337	(131)	2,982	1,217	(4,484)	4,215	4,134	1,597	1,236
Net gains (losses) on securities held for sale	**(58)**	4,559	(5,493)	6,443	–	–	–	–	–	–
Net earnings available to shareholders	**34,432**	22,556 [f]	10,003	23,015	14,274 [c]	7,299 [d]	26,492 [c]	22,959 [c]	12,821	10,559
Shareholders' equity (e)	**414,985**	353,756	322,618	331,856	317,784	204,051	334,696	212,016	192,240	196,273
Securities holdings (at fair value)	**449,179**	379,956	364,182	383,604	362,512	241,549	380,433	443,108	407,117	364,318
(In dollars)										
Per average common and Class A share										
Net earnings available to shareholders for the year										
Basic	**1.13**	0.72 [f]	0.31	0.70	0.41 [c]	0.19 [d]	0.69 [c]	0.60 [c]	0.33	0.27
Diluted	**1.11**	0.71 [f]	0.31	0.69	0.41 [c]	0.19 [d]	0.68 [c]	0.58 [c]	0.32	0.26
Per common and Class A share										
Dividends paid	**0.300**	0.170	0.160	0.150	0.150	0.150	0.135	0.120	0.105	0.0875
Shareholders' equity(e)										
Basic	**13.68**	11.44	10.12	10.16	9.37	5.69	8.79	5.48	5.04	4.98
Diluted	**13.17**	11.16	9.90	10.01	9.19	5.65	8.67	5.36	4.87	4.89
Share prices										
Common high	**18.00**	11.65	12.75	9.75	9.97	11.10	15.50	14.00	13.00	11.01
Common low	**11.50**	9.41	9.49	7.90	4.65	4.26	10.65	11.25	9.63	7.37
Class A high	**16.82**	10.55	11.63	9.00	8.25	11.02	13.50	13.13	12.13	12.00
Class A low	**10.40**	9.00	8.70	7.35	3.00	3.02	10.33	10.12	9.00	6.75
(In thousands)										
Year end common and Class A shares outstanding										
Basic	**30,333**	30,917	31,890	32,652	33,932	35,874	38,095	38,669	38,149	39,552
Diluted	**31,510**	31,696	32,604	33,162	34,563	36,104	38,605	39,576	39,492	40,538

NOTES:

(a) Comparative figures reflect the May, 2006 2-for-1 stock split.
(b) Excluding commissions paid, referral fees and income taxes.
(c) 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.
(d) 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).
(e) 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.
(f) 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.
(g) Results in 2010 to 2013 are in accordance with IFRS; 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 29 to 33. 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

Donald Yi,
Chief Financial Officer

February 27, 2014

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, 2013 and December 31, 2012, the consolidated statements of operations, comprehensive income, equity and cash flow for the years ended December 31, 2013 and December 31, 2012, 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' RESPONIBILITY

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, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flow for the years ended December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards.

Chartered Professional Accountants,
Licensed Public Accountants,
Toronto, Canada

February 27, 2014

Consolidated Balance Sheets

As at December 31 ($ in thousands)	2013	2012
Assets		
Current Assets		
Cash	$ 28,446	$ 26,993
Interest-bearing deposits with banks	57,285	3,884
Accounts receivable and other	25,986	23,547
Receivables from clients and broker	42,215	36,820
Prepaid expenses	1,577	1,419
	155,509	92,663
Securities (note 4)		
Securities holdings	443,754	353,938
Securities held for sale	5,425	26,018
	449,179	379,956
Other Assets		
Deferred tax assets (note 11c)	3,757	3,835
Intangible assets (note 5)	20,611	19,594
Equipment (note 6)	3,674	2,464
Goodwill (note 7)	11,111	11,111
Investment in associate (note 23d)	333	333
Other	886	796
	40,372	38,133
Total Assets	$ 645,060	$ 510,752
Liabilities		
Current liabilities		
Bank loans and borrowings (note 8)	$ 55,929	$ 52,235
Client deposits	57,312	3,884
Accounts payable and other	27,408	21,821
Income taxes payable	1,092	818
Payable to clients	42,215	36,820
	183,956	115,578
Other liabilities		
Deferred tax liabilities (note 11c)	43,316	37,424
Total Liabilities	227,272	153,002
Equity		
Shareholders' Equity		
Capital stock (note 12)	21,679	22,113
Treasury stock (note 13a)	(18,700)	(17,750)
Contributed surplus	9,583	8,636
Retained earnings	245,961	231,040
Accumulated other comprehensive income	156,462	109,717
	414,985	353,756
Non-Controlling Interests	2,803	3,994
Total Equity	417,788	357,750
Total Liabilities and Equity	$ 645,060	$ 510,752

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)	2013	2012
Revenue		
Gross commission revenue	$ 84,824	$ 71,926
Commissions paid to advisors	(61,735)	(53,071)
	23,089	18,855
Management fee income, net (note 14)	50,940	42,397
Administrative services income	9,689	8,501
Dividend and interest income (note 15)	17,560	16,607
Net revenue	101,278	86,360
Expenses		
Employee compensation and benefits (note 16)	46,758	41,912
Amortization	3,706	3,478
Interest	1,130	1,283
Other expenses	22,753	19,549
	74,347	66,222
Operating earnings	26,931	20,138
Net gains (note 17)	11,637	1,337
Earnings before income taxes and net gains (losses) on securities held for sale	38,568	21,475
Income tax expense (note 11a)	3,767	3,275
Net earnings before net gains (losses) on securities held for sale	34,801	18,200
Net gains (losses) on securities held for sale (note 17)	(58)	4,559
Net earnings	$ 34,743	$ 22,759
Net earnings before net gains (losses) on securities held for sale, available to:		
Shareholders	$ 34,490	$ 17,997
Non-controlling interest	311	203
Net earnings before net gains (losses) on securities held for sale	$ 34,801	$ 18,200
Net earnings before net gains (losses) on securities held for sale, available to shareholders per Class A and Common share (note 18):		
Basic	$ 1.13	$ 0.57
Diluted	1.11	0.57
Net earnings available to:		
Shareholders	$ 34,432	$ 22,556
Non-controlling interest	311	203
Net earnings	$ 34,743	$ 22,759
Net earnings available to shareholders per Class A and Common share (note 18):		
Basic	$ 1.13	$ 0.72
Diluted	1.11	0.71

See accompanying notes to consolidated financial statements.

FINANCIAL STATEMENTS

Consolidated Statements of Comprehensive Income

For the years ended December 31 ($ in thousands)	2013	2012
Net earnings	**$ 34,743**	$ 22,759
Other comprehensive income		
Available for sale securities:		
Net change in fair value	**57,660**	28,475
Income tax provision	**6,478**	4,148
	51,182	24,327
Transfer to net earnings of unrealized (gains) upon disposal	**(10,793)**	(546)
Reversal of income taxes	**150**	134
	(10,643)	(412)
	40,539	23,915
Changes in foreign currency translation adjustment on foreign subsidiary	**6,206**	(1,618)
Other comprehensive income	**46,745**	22,297
Comprehensive income	**$ 81,488**	$ 45,056
Comprehensive income available to:		
Shareholders	**$ 81,177**	$ 44,853
Non-controlling interests	**311**	203
Comprehensive income	**$ 81,488**	$ 45,056

See accompanying notes to consolidated financial statements.

Consolidated Statements of Equity

For the years ended December 31 ($ in thousands)	2013	2012
Total equity, beginning of year	**$ 357,750**	$ 327,008
Shareholders' equity, beginning of year	**353,756**	322,618
Capital stock		
Balance, beginning of year	**22,113**	22,717
Acquired and cancelled (note 12c)	**(434)**	(604)
Capital stock, end of year	**21,679**	22,113
Treasury stock		
Balance, beginning of year	**(17,750)**	(16,063)
Acquired	**(1,644)**	(1,687)
Disposed	**694**	–
Treasury stock, end of year	**(18,700)**	(17,750)
Contributed surplus		
Balance, beginning of year	**8,636**	7,491
Stock-based compensation expense	**1,247**	1,145
Equity-based entitlements redeemed	**(300)**	–
Contributed surplus, end of year	**9,583**	8,636
Retained earnings		
Balance, beginning of year	**231,040**	221,053
Net earnings available to shareholders	**34,432**	22,556
Dividends declared and paid (note 12e)	**(9,211)**	(5,392)
Capital stock acquired and cancelled (note 12c)	**(7,464)**	(7,177)
Acquisition of non-controlling interests (note 25)	**(2,831)**	–
Other	**(5)**	–
Retained earnings, end of year	**245,961**	231,040
Accumulated other comprehensive income		
Balance, beginning of year	**109,717**	87,420
Unrealized gains on available for sale securities, net of income taxes		
Balance, beginning of year	**115,072**	91,157
Net change during year	**40,539**	23,915
Balance, end of year	**155,611**	115,072
Foreign currency translation adjustment on a self-sustaining foreign subsidiary		
Balance, beginning of year	**(5,355)**	(3,737)
Net change during year	**6,206**	(1,618)
Balance, end of year	**851**	(5,355)
Accumulated other comprehensive income, end of year	**156,462**	109,717
Shareholders' equity, end of year	**414,985**	353,756
Non-controlling interests		
Balance, beginning of year	**3,994**	4,390
Net earnings available to non-controlling interests	**311**	203
Net subscriptions to mutual fund subsidiaries	**–**	108
De-consolidation of mutual fund subsidiaries	**–**	(707)
Acquisition of non-controlling interests (note 25)	**(1,502)**	–
Non-controlling interests, end of year	**2,803**	3,994
Total equity, end of year	**$ 417,788**	$ 357,750

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flow

For the years ended December 31 ($ in thousands)	2013	2012
Operating activities		
Net earnings	$ 34,743	$ 22,759
Adjustments for:		
Income taxes paid	(3,966)	(2,558)
Income tax expense	3,767	3,275
Net gains	(11,637)	(1,337)
Net loss (gains) on securities held for sale	178	(4,559)
Amortization of intangible assets	2,819	2,826
Amortization of equipment	887	652
Stock-based compensation	1,247	1,145
	28,038	22,203
Net change in non-cash working capital items (note 20)	2,631	1,697
Net cash from operating activities	30,669	23,900
Investing activities		
Net acquisition of securities	(371)	(6,167)
Acquisition of securities held for sale	(9,970)	(2,640)
Proceeds from sale of securities held for sale	4,126	25,247
Acquisition of intangible assets	(4,378)	(2,825)
Proceeds from disposition of intangible assets	1,798	1,040
Acquisition of equipment	(2,109)	(956)
Business acquisitions (note 24)	(356)	(7,388)
Net cash from (used in) investing activities	(11,260)	6,311
Financing activities		
Dividends	(9,211)	(5,392)
Acquisition of capital stock	(7,898)	(7,781)
Acquisition of treasury stock	(1,644)	(1,687)
Disposition of treasury stock	760	–
Net proceeds of bank loans and borrowings	11,737	500
Acquisition of non-controlling interest (note 25)	(4,333)	–
Net subscriptions from non-controlling interests in mutual fund subsidiaries	–	108
Disposition of mutual fund subsidiary	–	(707)
Net cash (used in) financing activities	(10,589)	(14,959)
Foreign exchange		
Net effect of foreign exchange rate changes on cash balances	676	(41)
Net change in net cash	9,496	15,211
Net cash, beginning of year	18,221	3,010
Net cash, end of year	$ 27,717	$ 18,221
Net cash represented by:		
Cash	$ 28,446	$ 26,993
Bank indebtedness	(729)	(8,772)
	$ 27,717	$ 18,221

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 February 27, 2014.

(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.

Certain reclassifications have been made to the 2012 comparative financial information in order to conform to the current year's presentation.

(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 bid 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 classified 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 of 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 assets 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 mainly 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 – They are amortized over a number of years, ranging from three to ten 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 – They 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 to five 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, 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
Fair Value Measurements
IFRS 13, Fair Value Measurements, ("IFRS 13") as issued by IASB, establishes a framework for measuring fair value, sets out related disclosure requirements when fair value measurement is required or permitted under other standards, and replaces the requirements which had been previously contained in several other standards. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company has incorporated the measurement and disclosure requirements of IFRS 13 in these consolidated financial statements. The measurement requirements of IFRS 13 did not have a significant effect on these consolidated financial statements.

(b) Future changes in accounting policies
Financial instruments
The IASB has issued several installments of IFRS 9, Financial Instruments ("IFRS 9"). IFRS 9 is to replace 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 issued installments of IFRS 9 do not currently have a mandatory effective date. When the entire IFRS 9 project is closer to completion, the IASB will decide on a mandatory effective which will allow entities sufficient time to prepare to apply the new standard. The Company continues to evaluate 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	**2013**	2012
Securities holdings		
Available for sale securities		
Short-term securities (a)	$ **1,850**	$ 2,187
Bonds	**1,030**	2,007
Mutual funds	**34,441**	8,729
Bank of Montreal common shares	**339,754**	301,626
Other equity securities	**52,931**	38,037
Real estate funds (b)	**12,492**	352
	442,498	352,938
Held for trading securities		
Equity securities (c)	**1,256**	1,000
Total securities holdings	**443,754**	353,938
Securities held for sale (d)	**5,425**	26,018
Total securities (e)	**449,179**	379,956

(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) During the year, the Company made a commitment to invest $25,000 in real estate, through a real estate limited partnership managed by a subsidiary of the Company. As at December 31, 2013, the Company had invested $12,136.

(c) 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.

(d) Certain of the securities of mutual funds, which were previously deemed to be controlled by the Company, had been classified as securities held for sale. During the year, the Company reassessed its investment in these securities and concluded that it no longer controls certain of these mutual funds. As a result, these securities have been reclassified from securities held for sale to securities holdings.

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

As at December 31	**2013**	2012
Level 1	**$ 431,133**	$ 375,865
Level 2	**12,136**	–
Level 3	**5,910**	4,091
Total securities	**$ 449,179**	$ 379,956

During 2013 and 2012, there have been no transfers of securities between Levels.

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

For the years ended December 31	**2013**	2012
Level 3 securities, beginning of year	**$ 4,091**	$ 3,377
Additions	**–**	30
Increase in estimated fair value, recognized in other comprehensive income	**1,819**	684
Level 3 securities, end of year	**$ 5,910**	$ 4,091

The valuation methods the Company uses and the factors incorporated into those methods are the same methods and factors that market participants would use in valuing the various securities. The Company reviews and updates the methods and factors for new information on at least an annual basis.

5. INTANGIBLE ASSETS

For the years ended December 31	**2013**				2012			
	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	**$ 8,064**	**$ 3,351**	**$20,000**	**$ 31,415**	$ 7,533	$ 2,865	$ 13,978	$24,376
Purchases	**1,740**	**304**	**2,334**	**4,378**	531	487	1,807	2,825
Arising on acquisition (note 24)	**863**	**–**	**–**	**863**	–	–	5,150	5,150
Disposals	**(158)**	**–**	**(1,540)**	**(1,698)**	–	–	(935)	(935)
Foreign exchange translation adjustments	**40**	**4**	**–**	**44**	–	(1)	–	(1)
Balance, end of year	**10,549**	**3,659**	**20,794**	**35,002**	8,064	3,351	20,000	31,415
Accumulated amortization:								
Balance, beginning of year	**6,323**	**1,899**	**3,599**	**11,821**	4,904	1,479	2,696	9,079
Amortization expense	**1,068**	**470**	**1,281**	**2,819**	1,419	421	986	2,826
Disposals	**(10)**	**–**	**(245)**	**(255)**	–	–	(83)	(83)
Foreign exchange translation adjustments	**2**	**4**	**–**	**6**	–	(1)	–	(1)
Balance, end of year	**7,383**	**2,373**	**4,635**	**14,391**	6,323	1,899	3,599	11,821
Carrying value, end of year	**$ 3,166**	**$ 1,286**	**$ 16,159**	**$ 20,611**	$ 1,741	$ 1,452	$ 16,401	$19,594

6. EQUIPMENT

For the years ended December 31	2013			2012		
	Office equipment	**Leasehold improvements**	**Total**	Office equipment	Leasehold improvements	Total
Cost:						
Balance, beginning of year	**$ 5,847**	**$ 1,827**	**$ 7,647**	$ 4,968	$ 1,668	$ 6,636
Purchases	**548**	**1,561**	**2,109**	795	161	956
Arising on acquisition of subsidiaries (note 24)	**–**	**–**	–	102	–	102
Disposals	**(143)**	**(310)**	**(453)**	–	–	–
Foreign exchange translation adjustments	**57**	**5**	**62**	(18)	(2)	(20)
Balance, end of year	**6,309**	**3,083**	**9,392**	5,847	1,827	7,674
Accumulated amortization:						
Balance, beginning of year	**3,754**	**1,456**	**5,210**	3,353	1,215	4,568
Amortization expense	**712**	**175**	**887**	409	243	652
Disposals	**(117)**	**(293)**	**(410)**	–	–	–
Foreign exchange translation adjustments	**26**	**5**	**31**	(8)	(2)	(10)
Balance, end of year	**4,375**	**1,343**	**5,718**	3,754	1,456	5,210
Carrying value, end of year	**$ 1,934**	**$ 1,740**	**$ 3,674**	$ 2,093	$ 371	$ 2,464

7. GOODWILL

For the years ended December 31	2013	2012
Balance, beginning and 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	2013	2012
Financial advisory:		
Mutual fund distributor	**$ 4,227**	$ 4,227
Life insurance 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 both 2013 and 2012, in each year based upon each of the CGU's estimated fair value, less estimated cost 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 agency 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 2013 or 2012.

The most sensitive assumptions used in the above testing were:

As at December 31	2013	2012
Mutual fund distributor:		
Multiple of assets under administration	**1.00%**	1.25%
Life insurance 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	2013	2012
Mutual fund distributor	**$ 63,445**	$ 69,849
Life insurance managing general agency	**23,727**	10,688

The fair value estimated above would be considered to be Level 3 under the fair value hierachy as defined in accounting policy note 2 (g) (iv).

Management believes that a reasonable possible change in key assumptions would not cause the carrying value in either CGUs to exceed its estimated fair value.

8. BANK LOANS AND BORROWINGS

As at December 31		2013		2012
Bank indebtedness (a)	$	**729**	$	8,772
Bankers' acceptances payable (b)		**55,100**		28,500
Bank loan (b)		**100**		14,963
Total bank loans and borrowings	$	**55,929**	$	52,235

(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 (2012 - $11,000), due on demand, secured by a General Security Agreement and securities valued at $56,624 (2012 - $48,648), 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 (2012 - $70,000) 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 (2012 – bank prime) or bankers' acceptances for periods ranging from 30 to 270 days, at rates negotiated in the bankers' acceptance market plus 0.50% (2012 – 0.50%). These facilities are secured by the deposit of treasury stock held by the EPSP Trust valued at $33,043 at December 31, 2013 (2012 - $22,113), and other securities valued at $90,174 at December 31, 2013 (2012 - $77,536).

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, 2013 and 2012, 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		2013		2012
Payable within one year	$	**1,683**	$	1,897
Payable after one year and within five years		**6,897**		5,688
Payable after five years		**9,447**		9,060
Total lease obligations	$	**18,027**	$	16,645

During the year ended December 31, 2013, the Company recognized $2,043 (2012 - $1,597) 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		2013		2012
Current tax expense				
Tax on profits for the current year	$	**4,190**	$	2,599
Adjustments in respect of prior periods		**(28)**		15
		4,162		2,614
Deferred tax expense				
Origination and reversal of temporary differences		**(370)**		(454)
Adjustments in respect of prior periods		**(27)**		28
Change in future periods' income tax rates		**2**		1,087
		(395)		661
Income tax expense	$	**3,767**	$	3,275

(b) The income tax expense in the consolidated statements of operations is less than the combined Federal and Provincial statutory income tax rates of 26.5% (2012 – 26.50%) of the current year for the following reasons:

For the years ended December 31		2013		2012
Tax at the combined Federal and Provincial statutory income tax rate for the current year	$	10,221	$	5,691
Increase (decrease) in the expense due to:				
Tax exempt income from securities		(3,880)		(3,699)
Lower average tax rate applicable to foreign subsidiaries		(1,313)		(250)
Adjustments to deferred tax assets and liabilities for changes in temporary differences		2		(2)
Non-taxable portion of capital gains		(1,271)		(83)
Non-deductible expenses		254		387
Change in future periods' income tax rates		–		1,087
Other		(246)		144
Income tax expense	$	3,767	$	3,275

The combined statutory income tax rate is the aggregate of the Federal income tax rate of 15.0% (2012 – 15.0%) and the Provincial income tax rate of 11.5% (2012 – 11.5%). 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 11.5%.

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

For the year ended December 31, 2013

	Securities Bank of Montreal shares	Securities Other	Capital loss carryforwards	Non-capital loss carryforwards	Equipment and intangibles	Other temporary differences	Total
Deferred tax assets							
Balance at beginning of year	$ –	$ –	$ –	$ 2,968	$ 491	$ 376	$ 3,835
Recognized in net earnings	–	–	–	92	16	(186)	(78)
Balance at end of year	$ –	$ –	$ –	$ 3,060	$ 507	$ 190	$ 3,757
Deferred tax liabilities							
Balance at beginning of year	$ 36,371	$ 187	$ (227)	$ (13)	$ 2,130	$ (1,024)	$ 37,424
Recognized in net earnings	–	(50)	9	–	(208)	(187)	(436)
Recognized in other comprehensive income	6,298	30	–	–	–	–	6,328
Balance at end of year	$ 42,669	$ 167	$ (218)	$ (13)	$ 1,922	$ (1,211)	$ 43,316

For the year ended December 31, 2012

	Securities Bank of Montreal shares	Securities Other	Capital loss 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 net earnings	–	–	–	409	(106)	52	355
Balance at end of year	$ –	$ –	$ –	$ 2,968	$ 491	$ 376	$ 3,835
Deferred tax liabilities							
Balance at beginning of year	$ 31,224	$ 30	$ (156)	$ –	$ 2,199	$ (903)	$ 32,394
Recognized in net earnings	1,220	70	(71)	(13)	(69)	(121)	1,016
Recognized in other comprehensive income	3,927	87	–	–	–	–	4,014
Balance at end of year	$ 36,371	$ 187	$ (227)	$ (13)	$ 2,130	$ (1,024)	$ 37,424

(d) Analysis of tax recognized on securities held for sale:

For the years ended December 31		2013		2012
Net gains (losses) on securities held for sale before tax	$	28	$	4,559
Current tax expense		49		–
Deferred tax expense		37		–
Net gains (losses) on securities held for sale after tax	$	(58)	$	4,559

The difference between the Company's statutory income tax rate and the effective tax rate on securities held for sale in the current year is due to the combination of the non-taxable portion of net gains and the lower average tax rate applicable to foreign subsidiaries and in the prior year entirely due to the lower average tax rate applicable to foreign subsidiaries.

e) 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 $105,204 (2012 - $84,370), 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	**2013**		2012	
	Shares	**Amount**	Shares	Amount
i) Class A shares				
Outstanding, beginning of year	**28,072**	**$ 20,913**	28,872	$ 21,517
Acquired and cancelled	**(574)**	**(434)**	(800)	(604)
Converted from Common	**36**	**8**	–	–
Outstanding, end of year	**27,534**	**20,487**	28,072	20,913
ii) Common shares				
Outstanding, beginning of year	**4,971**	**1,200**	4,971	1,200
Converted from Common	**(36)**	**(8)**	–	–
Outstanding, end of year	**4,935**	**1,192**	4,971	1,200
Total outstanding, end of year	**32,469**	**$ 21,679**	33,043	$ 22,113

(c) Issuer Bid

A summary of the Company's activity under its Normal Course Issuer Bid is as follows:

For the years ended December 31	**2013**	2012
Class A shares purchased and cancelled	**574**	800
Consideration paid	**$ 7,898**	$ 7,781
Average issue price, charged to share capital	**434**	604
Excess consideration charged to retained earnings	**$ 7,464**	$ 7,177

(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	**2013**		2012	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding, beginning of year	**–**	**$ –**	36	$ 10.50
Expired	**–**	**–**	(36)	10.50
Outstanding, end of year	**–**	**$ –**	–	$ –

(e) Dividends
During the year, dividends of $0.30 per share (2012 - $0.17 per share) were declared and paid on the common and class A shares outstanding. The Company also declared dividends of $0.055 per share payable on January 17, 2014 on the common and class A shares outstanding. This dividend, which will be recognized on the record date, has not been reflected in these financial statements.

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	**2013**		2012	
	Shares	**Amount**	Shares	Amount
Balance, beginning of year	**2,126**	**$ 17,750**	1,954	$ 16,063
Acquired	**121**	**1,644**	172	1,687
Disposed	**(111)**	**(694)**	–	–
Balance, end of year	**2,136**	**$ 18,700**	2,126	$ 17,750

During the year the Company disposed of 81 (2012 – nil) of its class A shares and 30 (2012 – nil) of its common shares, for net proceeds of $760 (2012 - nil). The shares disposed of had a total cost of $694 (2012 – nil), and the excess has been credited to retained earnings.

As at December 31, 2013, the treasury stock was composed of 63 common shares (2012 – 63) and 2,073 class A shares (2012 – 2,063 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	**2013**		2012	
	Number of shares	**Weighted average exercise price**	Number of shares	Weighted average exercise price
Option-like entitlements, beginning of year	**1,552**	**$ 8.86**	1,402	$ 8.76
Entitlements provided	**–**	**–**	150	9.78
Entitlements exercised	**55**	**6.50**	–	–
Option-like entitlements, end of year	**1,497**	**$ 8.95**	1,552	$ 8.86

As at December 31, 2013, there were outstanding option-like entitlements for 33 common shares (2012 – 63) and 1,464 class A shares (2012 – 1,489).

Option-like entitlements provided during 2012 had a fair value of $420. 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 year ended December 31	2012
Average purchase price per share	$ 9.78
Vesting period in years	5.00
Average expected term to exercise in years	10.00
Risk-free interest rate	2.45%
Expected price volatility	23.17%
Expected dividends per share, per annum	$ 0.17

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, 2013				
$5.01 - $7.50	**355**	**$ 6.15**	**344**	**$ 6.17**
$7.51 - $10.00	**878**	**9.35**	**471**	**9.10**
$10.01 - $12.50	**264**	**11.36**	**265**	**11.36**
	1,497	**$ 8.95**	**1,080**	**$ 8.72**
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

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	**2013**	2012
Equity-based entitlements, beginning of year	**574**	552
Entitlements provided	**121**	22
Entitlements exercised	**(47)**	–
Entitlements forfeited	**(9)**	–
Equity-based entitlements, end of year	**639**	574

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, 2013 had a fair value of $1,644 (2012 - $220).

14. MANAGEMENT FEE INCOME, NET

Management fee income is presented net of referral fees which are paid to referring agents, amounting to $2,549 for the year ended December 31, 2013 (2012 - $2,078).

15. DIVIDEND AND INTEREST INCOME

Dividend and interest income is composed of the following:

For the years ended December 31	**2013**	2012
Dividend income	**$ 16,720**	$ 15,292
Interest income	**840**	1,315
Total dividend and interest income	**$ 17,560**	$ 16,607

16. EMPLOYEE COMPENSATION AND BENEFITS

Employee compensation and benefits are composed of the following:

For the years ended December 31	**2013**	2012
Salaries and other compensation, payroll taxes and benefits	**$ 44,937**	$ 40,257
Contributions to defined contribution pensions plans	**574**	510
Stock-based compensation	**1,247**	1,145
	$ 46,758	$ 41,912

17. NET GAINS

Net gains are composed of the following:

For the years ended December 31		2013		2012
Held for trading securities (a)	$	**137**	$	(196)
Foreign exchange (b)		**(751)**		33
Available for sale securities (c)		**11,939**		348
Securities at amortized cost (d)		**–**		963
Net gains on securities		**11,325**		1,148
Gains on disposition of equipment and intangible assets		**312**		189
Net gains	$	**11,637**	$	1,337

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

(b) Net losses on foreign exchange in the current year mainly relates to exchange losses on Canadian dollars held by the international banking subsidiary which uses US dollars as its functional currency. On translation of this subsidiary results to Canadian dollars for the purpose of consolidating it to the Company's results an equal and offsetting gain is recorded in other comprehensive income.

(c) Included in net gains on available for sale securities are gains of $5,049 from the sale of 160 shares of Bank of Montreal. A tax expense of $188 was recorded in income tax expenses in the Consolidated statements of operations.

(d) During 2012, 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.

Net gains (losses) on securities held for sale are composed of the following:

For the years ended December 31		2013		2012
Net increase (decrease) in fair value	$	**(178)**	$	4,559
Other income		**206**		–
Income tax expense		**86**		–
Net gains (losses) on securities held for sale	$	**(58)**	$	4,559

Net gains (losses) on securities held for sale include the net change in fair value of those securities, income and expenses from the mutual funds held in this category.

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		2013		2012
Weighted average number of class A and common shares outstanding				
Basic		**30,532**		31,496
Effect of outstanding entitlements and options from stock based compensation plans		**1,050**		713
Diluted		**31,582**		32,209
Net earnings available to shareholders of class A and common shares				
Basic	$	**34,432**	$	22,556
Effect of outstanding entitlements and options from stock based compensation plans		**494**		317
Diluted	$	**34,926**	$	22,873

The effects of 1,111 (2012 -1,388) 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:

	Investment Management		Financial Advisory		Corporate Activities and Investments		Consolidated	
For the years end December 31	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Revenue								
Gross commission revenue	**$ –**	$ –	**$ 84,824**	$ 71,926	**$ –**	$ –	**$ 84,824**	$ 71,926
Commissions paid to advisors	**–**	–	**(61,735)**	(53,071)	**–**	–	**(61,735)**	(53,071)
	–	–	**23,089**	18,855	**–**	–	**23,089**	18,855
Management fee income, net	**50,940**	42,397	**–**	–	**–**	–	**50,940**	42,397
Administrative services income	**3,509**	3,119	**6,180**	5,382	**–**	–	**9,689**	8,501
Dividend and interest income	**–**	154	**715**	507	**16,845**	15,946	**17,560**	16,607
Net revenue	**54,449**	45,670	**29,984**	24,744	**16,845**	15,946	**101,278**	86,360
Expenses								
Employee compensation and benefits	**25,810**	22,975	**13,786**	12,184	**7,162**	6,753	**46,758**	41,912
Amortization	**213**	104	**2,744**	2,945	**749**	429	**3,706**	3,478
Interest	**282**	281	**163**	74	**685**	928	**1.130**	1,283
Other expenses	**14,621**	11,900	**11,575**	10,429	**(3,443)**	(2,780)	**22,753**	19,549
	40,926	35,260	28,268	25,632	**5,153**	5,330	**74,347**	66,222
Operating earnings	**13,523**	10,410	**1,716**	(888)	**11,692**	10,616	**26,931**	20,138
Net gains	**–**	–	**312**	189	**11,325**	1,148	**11,637**	1,337
Earnings before income taxes and net gains (losses) on securities held for sale	**13,523**	10,410	**2,028**	(699)	**23,017**	11,764	**38,568**	21,475
Income tax expense	**3,076**	2,416	**553**	7	**138**	852	**3,767**	3,275
	10,447	7,994	**1,475**	(706)	**22,879**	10,912	**34,801**	18,200
Net gains (losses) on securities held for sale	**–**	–	**–**	–	**(58)**	4,559	**(58)**	4,559
Net earnings (loss)	**$ 10,447**	$ 7,994	**$ 1,475**	$ (706)	**$ 22,821**	$ 15,471	**$ 34,743**	$ 22,759
Net earnings available to:								
Shareholders	**$ 10,447**	$ 7,994	**$ 1,164**	$ (1,032)	**$ 22,821**	$ 15,594	**$ 34,432**	$ 22,556
Non-controlling interests	**–**	–	**311**	326	**–**	(123)	**311**	203
	$ 10,447	$ 7,994	**$ 1,475**	$ (706)	**$ 22,821**	$ 15,471	**$ 34,743**	$ 22,759
Capital expenditures on segment assets:								
Intangible assets	**$ 821**	$ –	**$ 4,267**	$ 7,688	**$ 174**	$ 287	**$ 5,262**	$ 7,975
Equipment	**18**	8	**1,970**	287	**121**	772	**2,109**	1,067
As at December 31								
Segment assets and liabilities:								
Assets	**$ 102,292**	$ 43,538	**$ 97,494**	$ 85,652	**$ 445,274**	$ 381,562	**$ 645,060**	$ 510,752
Liabilities	**68,654**	25,987	**55,844**	49,819	**102,774**	77,196	**227,272**	153,002

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

	Canada		Rest of the World		Consolidated	
For the years end December 31	**2013**	2012	**2013**	2012	**2013**	2012
Net revenue	**$ 96,007**	$ 81,157	**$ 5,271**	$ 5,203	**$ 101,278**	$ 86,360
As at December 31						
Segment non-current assets						
Intangible assets	**$ 19,778**	$ 19,593	**$ 833**	$ 1	**$ 20,611**	$ 19,594
Equipment	**3,219**	1,995	**455**	469	**3,674**	2,464
Goodwill	**11,111**	11,111	**–**	–	**11,111**	11,111

20. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

For the years ended December 31	2013	2012
Decrease (increase) in non-cash working capital assets		
Interest-bearing deposits with banks	$ (51,311)	$ 4,027
Accounts receivable and other	(2,158)	(4,422)
Loan receivable	–	6,349
Receivables from clients and broker	(5,395)	(4,776)
Prepaid expenses	(200)	(281)
Increase (decrease) in non-cash working capital liabilities		
Client deposits	51,344	(3,523)
Accounts payable and other	4,956	(453)
Payable to clients	5,395	4,776
Net change	$ 2,631	$ 1,697

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 17 to 18 of the Company's 2013 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 $339,754 (2012 - $301,626) 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 $33,975 (2012 - $30,163) 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, 2013				
Canada	$ 6,682	±$ 668	$ 28,046	±$ 2,805
United States	–	–	11,222	1,122
Rest of the World	–	–	60,596	6,059
	$ 6,682	±$ 668	$ 99,864	±$ 9,986
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

(ii) Currency Risk

The Company's main exposure to currency risk is on its investments in its foreign subsidiaries, amounting to $97,688 as at December 31, 2013 (2012 - $82,096). 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. From time to time, the foreign subsidiaries hold unhedged Canadian dollars, which can result in foreign exchange gains or losses being recorded by the subsidiaries. Upon translation of their results on consolidation, the Company recognizes equal and offsetting gains or losses in other comprehensive income. This is not considered to be a currency risk as there is no economic risk to the Company.

(iii) Interest Rate Risk

The Company is exposed to interest rate risk through its bank loans and borrowings of $55,929 (2012 - $52,235). 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 2013, with all other variables held constant, the Company's interest expense would have increased by approximately $1,082(2012 - $1,020). The Company is also exposed to interest rate risk in its international banking operation, through the assets interest-bearing deposits with banks of $57,285 (2012 - $3,884), and the client deposits liability of $57,312 (2012 – $3,884). 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	2013	2012
Cash	$ 28,446	$ 26,993
Interest-bearing deposits with banks	57,285	3,884
Accounts receivable and other	25,986	23,547
Receivable from clients and broker	42,215	36,820
Short-term securities	1,850	2,187
Bonds	1,030	2,007
Loan guarantee	–	482
	$ 156,812	$ 95,920

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 is offset with securities, which are held in the client margin accounts of the securities dealer subsidiary. 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, 2013, the Company's regulated businesses had total regulatory capital amounting to $106,925 (2012 - $92,461). 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, 2013, Minic beneficially owned 48.2% (2012 – 48.2%) of the Company's outstanding common shares. In 2013 and 2012, 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		2013		2012
Short-term employment benefits	$	3,167	$	2,929
Post-employment benefits		14		14
Stock-based compensation		575		501
		3,756		3,444

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		2013		2012
Investment management services	$	35	$	32

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

As at December 31		2013	2012
	Country of organization	Voting ownership interest	
Guardian Capital LP	Canada	100%	100%
Guardian Capital Advisors LP	Canada	100%	100%
Guardian Capital Enterprises Limited	Canada	100%	100%
Guardian Capital Real Estate Inc.	Canada	75%	n/a
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	79%	67%
Guardian Capital International Limited	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 Growth & Income Fund	Canada	97%	100%
Guardian Strategic Income Fund (iii)	Canada	63%	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 managing general agency subsidiary, is located at Suite 700, 625 Cochrane Drive, Markham, Ontario. The non-controlling interests have a 21% ownership and voting interest 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		2013		2012
Non-controlling interest, beginning of year	$	3,994	$	3,668
Arising on acquisition		–		–
Acquisition of non-controlling interests		(1,502)		–
Net earnings available to non-controlling interests		311		326
Non-controlling interest, end of year	$	2,803	$	3,994

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

As at December 31		2013		2012
Cash	$	1,623	$	482
Other current assets		2,775		1,689
Intangible assets		9,590		8,548
Other non-current assets		1,726		906
	$	15,714	$	11,625
Current liabilities	$	2,559	$	6,244

For the years ended December 31		2013		2012
Revenue	$	14,104	$	11,567
Net earnings		2,309		1,905
Comprehensive income		2,309		1,905

(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 does not control Guardian Strategic Income Fund, as the Company intends to dispose of control of the fund either through a sale or deemed sale transaction, which meets the criteria as established under its policy for Non-current assets held for sale. As at December 31, 2013, the Company's holdings in the fund, were valued at $5,425 (2012 – $nil) and the fund's total net asset value was $8,645 (2012 – $nil).

(iv) The Company disposed of control of The Alexandria Fund Ltd. during the year through a deemed sale transaction. 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 and the fund's total net asset value was $68,455.

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

As at December 31		**2013**	2012
	Country of organization	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	**2013**	2012
Cash	**$ 1,123**	$ 1,167
Other current assets	**526**	574
	$ 1,649	$ 1,741
Current liabilities	**$ 983**	$ 1,075

For the years ended December 31	**2013**	2012
Net revenue	**$ 1,819**	$ 2,140
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	**2013**	2012
Net assets of unconsolidated collective investment vehicles	**$ 1,578,474**	$ 1,156,885
Company's interests in unconsolidated investment vehicles		
Securities holdings	**$ 45,521**	$ 8,331
Securities held for sale	**5,425**	26,019
	$ 50,946	$ 34,350

For the years ended December 31	**2013**	2012
Net revenues earned directly from unconsolidated collective investment vehicles	**$ 3,215**	$ 2,440

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) Purchase of corporate management services business ("ATC")

On March 31, 2013, the Company, through its Barbados subsidiary Alexandria Trust Corporation "ATC", acquired the net operating assets and client relationships of a corporate management services business (the "Acquiree") located in Barbados. This acquisition provides greater scale to ATC's existing business and strengthens ATC's presence as a provider of corporate and trust management services to international clients in Barbados. The consideration paid by the

Company for the acquisition was $884, consisting of a cash payment of $356 on closing, with the balance due over a period of five years. The future payments may be reduced based on revenues earned from the client relationships acquired. The Company has determined, based on the nature of the relationships acquired, that the maximum payment will be made.

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

Fair value of consideration paid:		
Cash on closing	$	356
Payment to be made over a period of five years after closing		528
Total consideration paid		884
Fair value of identifiable net assets acquired:		
Intangible assets		863
Accounts receivable and other		29
Accounts payable and other		(8)
Net value of net assets acquired		884
Goodwill	$	Nil

Subsequent to its acquisition, the Acquiree has contributed net revenue of $310 and net earnings of $125 to the Company's 2013 results. If the acquisition had occurred on January 1, 2013, management estimates that the Acquiree would have earned net revenue of $407 and net earnings of $160 and, as a result, the Company's reported net revenue and net earnings for the year ended December 31, 2013 would have been approximately $101,375 and $34,778, 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, 2013. Management has also assumed the amortization of intangible assets of $66 and a provision for income taxes of $nil for the year 2013.

(b) 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 augment 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, of which $3,157 was paid on closing and the balance was paid in 2013.

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

Fair value of consideration paid:		
Cash on closing	$	3,157
Cash 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.

(c) Zephyr Management UK Ltd. ("Zephyr")

On November 25, 2013, the Company entered into an agreement to acquire all the shares of a London, UK based emerging markets equity investment firm, Zephyr. This transaction is expected to add approximately $110,000 US in AUM and provide a bridge into new markets. The consideration to be paid is expected to be $1,000 US on closing, and a second payment in 4 years after closing, calculated based on the level of AUM achieved then to a maximum of $2,750 US. The transaction is expected to close by the end of the first quarter in 2014, subject to certain terms and conditions.

25. ACQUISITION OF NON-CONTROLLING INTERESTS

On April 1, 2013, the Company purchased, for cash consideration of $4,333, a portion of the non-controlling interest in its MGA subsidiary, thereby increasing the Company's interest from 67% to 79.3%. As this transaction is between owners, this payment has been recognized in the equity accounts as follows:

Consideration paid	$	4,333
Carrying value of non-controlling interests		1,502
Excess consideration charged to retained earnings	$	2,831

Directors

BOARD OF DIRECTORS

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Harold W. Hillier •
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Barry J. Myers •
Michel Sales •
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A. Michael Christodoulou
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Harold W. Hillier •*
Michel Sales •
Edward T. McDermott •

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

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* *Chairman*
• *Unrelated Directors*

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President and Chief Executive Officer

C. Verner Christensen
Senior Vice-President and Secretary

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

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

Donald Yi
Chief Financial Officer

Leslie Lee
Vice-President, Human Resources

Ernest B. Dunphy
Vice -President and Controller

GUARDIAN CAPITAL LP

George Marvoudis
Chief Executive Officer

C. Verner Christensen
Senior Vice-President and Secretary

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Senior Vice-President, Investment Services

Brian P. Holland
Senior Vice-President, Client Service

Hugh M. MacFarlane
Senior Vice-President, Investment Services

Darryl M. Workman
Vice-President, Operations and Administration

Matthew D. Turner
Chief Compliance Officer

Ernest B. Dunphy
Controller

Portfolio Managers:

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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
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Managing Director

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Managing Director

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Simon Bowers
Vice-President, Private Client Trading

Darryl M. Workman
Vice-President, Operations and Administration

Matthew D. Turner
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Controller

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Senior Vice-President

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Senior Vice-President

Michael G. Frisby
Senior Vice-President

J. Matthew Baker
Vice-President

Thierry Di Nallo
Vice-President

Christie F. Rose
Vice-President

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Managing Director

John T. Hunt
Managing Director

Linda Kenny
Chief Financial Officer

Paige Wadden
Head of Compliance

Katharine Baran
Vice-President, Head of Operations and Technology

Areef Samji
Controller

Ronald Madzia
President, IDC Worldsource Insurance Network Inc.

ALEXANDRIA BANCORP LIMITED

Robert F. Madden
General Manager

ALEXANDRIA TRUST CORPORATION

Robert F. Madden
Director

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Auditors

KPMG LLP

Bankers

Canadian Imperial Bank of Commerce
Bank of Montreal

Toronto Stock Exchange Listing

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

Annual Meeting

May 22, 2014
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.

GUARDIAN
CAPITAL

Our history. Your future.