GUARDIAN BALANCED FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2013

March 28, 2014

Independent Auditor's Report

To the Unitholders and Trustee of
Guardian Balanced Fund (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statement of investment portfolio as at December 31, 2013, the statements of net assets as at December 31, 2013 and 2012 and the statements of operations and changes in net assets for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2013 and 2012 and the results of its operations and the changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Guardian Balanced Fund

Statements of Net Assets

As at December 31		**2013**		**2012**
Assets				
Investments, at fair value*	$	49,734,307	$	38,143,394
Cash		3,069		6,877
Subscriptions receivable		33,035		40,523
		49,770,411		38,190,794
Liabilities				
Redemptions payable		200		200
Accrued expenses		2,437		7,919
		2,637		8,119
Net assets representing unitholders' equity (Note 4)	$	49,767,774	$	38,182,675
Net assets per series				
Series W	$	259,860	$	-
Series I	$	49,507,914	$	38,182,675
Net assets per unit (Note 3)				
Series W	$	9.93	$	-
Series I	$	14.54	$	13.89
*Investments, at average cost	$	48,208,176	$	38,601,248

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Manager,
Guardian Capital LP:

Per: **"George Mavroudis"**

Per: **"Donald Yi"**

Guardian Balanced Fund

Statements of Operations

For the years ended December 31		**2013**		**2012**
Income from underlying funds:				
Dividends	$	954,340	$	531,800
Interest		604,172		446,362
Total income		1,558,512		978,162
Operating Expenses (Note 5):				
Administration fee		20,485		16,164
Management fee		721		-
Independent review committee costs		1,386		2,646
Interest charges		-		9
Total expenses		22,592		18,819
Net investment income		1,535,920		959,343
Realized gain on sale of investments		1,408,175		1,182,635
Change in unrealized appreciation in value of investments		1,983,985		824,317
Increase in net assets from operations	$	4,928,080	$	2,966,295
Increase in net assets from operations				
Series W	$	6,360	$	-
Series I	$	4,921,720	$	2,966,295
Increase in net assets from operations per unit				
Series W	$	0.39	$	-
Series I	$	1.56	$	1.16

The accompanying notes are an integral part of these financial statements.

Guardian Balanced Fund

Statements of Changes in Net Assets

For the years ended December 31	**2013 Series W**	**2012 Series W**	**2013 Series I**	**2012 Series I**	**2013 Total**	**2012 Total**
Net assets, beginning of year	$ -	$ -	$ 38,182,675	$ 34,129,058	$ 38,182,675	$ 34,129,058
Increase in net assets from operations	6,360	-	4,921,720	2,966,295	4,928,080	2,966,295
Distributions to unitholders from:						
Net investment income	(7,798)	-	(1,526,072)	(964,855)	(1,533,870)	(964,855)
Realized gain on sale of investments	(7,497)	-	(1,426,517)	(1,220,112)	(1,434,014)	(1,220,112)
	(15,295)	-	(2,952,589)	(2,184,967)	(2,967,884)	(2,184,967)
Capital transactions:						
Proceeds from sale of units	253,500	-	10,742,378	5,100,808	10,995,878	5,100,808
Reinvested distributions	15,295	-	2,952,589	2,184,967	2,967,884	2,184,967
Redemption of units	-	-	(4,338,859)	(4,013,486)	(4,338,859)	(4,013,486)
	268,795	-	9,356,108	3,272,289	9,624,903	3,272,289
Net assets, end of year	$ 259,860	$ -	$ 49,507,914	$ 38,182,675	$ 49,767,774	$ 38,182,675

Change in units	**2013 Series W**	**2012 Series W**	**2013 Series I**	**2012 Series I**
Units issued and outstanding, beginning of year	-	-	2,749,698	2,513,327
Number of units issued	24,619	-	752,593	359,330
Number of units reinvested	1,540	-	203,067	157,305
	26,159	-	3,705,358	3,029,962
Number of units redeemed	-	-	(300,306)	(280,264)
Units issued and outstanding, end of year	26,159	-	3,405,052	2,749,698

The accompanying notes are an integral part of these financial statements.

Guardian Balanced Fund

Statement of Investment Portfolio
As at December 31, 2013

Number of Units	Security	Average Cost	Fair Value
	Investment Funds - 99.9%		
1,685,227	Guardian Canadian Bond Fund, Series I	$ 18,789,750	$ 17,930,813
134,653	Guardian Canadian Equity Fund, Series I	16,780,637	18,086,591
454,141	Guardian Global Dividend Growth Fund, Series I	5,871,491	6,689,498
807,748	Guardian Global Equity Fund, Series I	6,766,298	7,027,405
		48,208,176	49,734,307
	Total Investments - 99.9%	**48,208,176**	**49,734,307**
	Other Net Liabilitiess -0.1%		**33,467**
	Total Net Assets - 100.0%		**$ 49,767,774**

The accompanying notes are an integral part of these financial statements.

GUARDIAN BALANCED FUND

NOTES TO FINANCIAL STATEMENTS

1. Formation of Fund:

Guardian Balanced Fund (the “Fund”) was formed on July 31, 1995 and Guardian Capital LP (the “Manager”) is the manager and trustee of the Fund. The primary objective of the Fund is the achievement of a balance between long-term growth of capital and reasonable income through diversified investments in equity or equity-related securities and in fixed-income securities, either long-term or short-term. The Fund will invest in mutual or pooled funds managed by the Manager (or an affiliated company) whose investment holdings help meet the primary objective. Pursuant to an amendment to the Fund’s Declaration of Trust, effective September 16, 2013, the existing Series A units were renamed as Series W units. The initial subscription for Series W units was made on September 30, 2013.

2. Significant accounting policies:

a) Basis of presentation:

These financial statements, prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), include estimates and assumptions made by the Manager that may affect the reported amounts of assets, liabilities, income and expenses during the reporting year. Actual results could differ from these estimates. The following is a summary of significant accounting policies followed by the Fund.

b) Valuation of investments:

In accordance with Accounting Guideline 18 – “Investment Companies”, investments are categorized as held for trading. Investment funds are valued at the closing net asset value per unit reported by the administrator of such funds.

c) Investment transactions and income recognition:

Investment transactions are accounted for on the trade date. Income and capital gains from mutual fund investments are recognized when distributed by the underlying fund. Realized gains (losses) from investment transactions and unrealized appreciation (depreciation) in value of investments are determined on an average cost basis.

Expenses are accrued on a daily basis, separately for each series of units, while income and realized and unrealized gains and losses are allocated to each series of units based upon the net asset value of each series.

d) Other assets and liabilities:

For the purposes of categorization in accordance with CPA Canada Handbook Section 3862, “Financial Instruments – Disclosures”, interest and dividends receivable, due from brokers, subscriptions receivable and other net assets are designated as loans and receivables, and recorded at cost or amortized cost. Similarly, due to brokers, redemptions payable, accrued expenses and other liabilities are designated as other financial liabilities and reported at cost or amortized cost. Cost or amortized cost approximates fair value for these assets and liabilities due to their short term nature.

e) Increase (decrease) in net assets from operations per unit:

Increase (decrease) in net assets from operations per unit is calculated as the increase (decrease) in net assets from operations of a series divided by the average number of units of the series outstanding during the year.

2. Significant accounting policies (continued):

f) Comparative disclosure:

Certain disclosures for comparative years have been amended to reflect the disclosures adopted in the current year.

3. Comparison of net asset value:

The value of the Fund's net assets of a series per unit for financial statement presentation purposes ("Net Assets per Unit") is calculated by dividing the net assets of the series, calculated in accordance with GAAP by using the net assets per unit of the investee funds, by the total number of units of the series outstanding. For the net asset value per unit for the purpose of the issuance and redemption of units of a series ("Net Asset Value per Unit"), the series' net assets are valued at the closing net asset value per unit reported by the administrator of such funds. This difference in the valuation of the series' investments account for the difference between Net Assets per Unit and Net Asset Value per Unit.

A comparison of the Net Asset Value per Unit and the Net Assets per Unit is as follows:

	Net Asset Value per Unit	Net Assets per Unit
As at December 31, 2013		
Series W	**$9.93**	**$9.93**
Series I	**$14.54**	**$14.54**
As at December 31, 2012		
Series W	-	-
Series I	**$13.89**	**$13.89**

4. Unitholders' equity:

Unitholders' equity includes the amounts representing the net assets of the Fund, which includes any undistributed net income and realized gain (loss) on sale of investments, and unrealized appreciation (depreciation) in value of investments. The Fund is authorized to issue Series I and Series W units. An unlimited number of the Fund's units of each series may be issued, which are redeemable at Net Asset Value per Unit for the series at the unitholder's option in accordance with the provisions of the Fund's Declaration of Trust. There are certain minimum purchase amounts for Series W and Series I units. The net asset value of the Fund attributable to Series W units is subject to a management fee charged to the Fund and payable to the Manager. The changes in the number of issued units are disclosed in the Statements of Changes in Net Assets. In accordance with the Fund's investment objectives and the risk management policies stated in Note 8, the Fund invests the subscriptions received in appropriate investments, while maintaining sufficient liquidity to meet redemptions.

5. Operating expenses:

The Fund's operating expenses consist of the management fee and administration fee described below, interest costs, fees and expenses of the Independent Review Committee, any new costs related to regulatory or legal requirements imposed upon the Fund, the HST on all of these expenses, and any income taxes to which the Fund may be subject. The Manager charges to the Fund a fixed annual management fee based on the average daily net asset value of the Fund attributable to Series W units of the Fund, which is accrued daily and paid at the end of the month. Effective September 16, 2013, such fee was reduced from 1.80% per annum to a rate of 1.50% per annum. The Manager also charges to the Fund a fixed administration fee of 0.04% of the average daily net asset value of the Fund, in return for the payment by the Manager of certain variable operating expenses of the Fund, including audit, custody, transfer agency, fund accounting, filing, securityholder reporting, legal, other related expenses, and HST on these expenses.

6. Income taxes:

The Fund qualifies as a unit trust under the provisions of the Income Tax Act (Canada) and, as such, is not subject to income taxes on its net taxable capital gains and its net income for the year if it allocates such gains and income (less any applicable losses carried forward) to unitholders. The taxable income of the Fund is allocated and distributed annually to unitholders so as to eliminate any income taxes otherwise payable by the Fund. As at December 31, 2013 and 2012, no capital losses or non-capital losses were available to be carried forward and applied against future capital gains or future income.

7. Concentration of unitholders:

Two unitholders of the Fund at December 31, 2013 held a total of 3,185,873 units, 93% (2012 – 2,564,271 units, 93%) of the outstanding Series I units. The investment activities of these unitholders could have a material impact on the Fund.

The Fund invests in other investment funds which may, from time to time, also have a concentration of unitholders. As at December 31, 2013 and 2012, the Fund held the following percentages of the total net assets of the following investment funds:

As at December 31	**2013**	**2012**
Investment funds	**% of total net assets**	**% of total net assets**
Guardian Canadian Bond Fund	16.2%	15.9%
Guardian Canadian Equity Fund	1.9%	5.4%
Guardian Global Equity Fund	22.3%	1.1%
Guardian Global Dividend Growth Fund	4.2%	2.5%

8. Financial risk management:

The Fund's financial instruments consist principally of investments. As a result, the Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and the markets in which it invests. The most significant risks include market risk which includes currency risk, interest rate risk and other price risk, concentration risk, liquidity risk and credit risk. These risks and related risk management practices employed by the Fund are discussed below:

a) Market risk

(i) Currency risk

The underlying investment funds hold certain assets and liabilities that are valued in currencies other than the Canadian dollar, which is the Fund's functional currency. It is therefore exposed to currency risk, as the value of the net assets valued in other currencies will fluctuate due to changes in exchange rates. The following table summarizes the Fund's indirect exposure to currency risks through the underlying investment funds, calculated based on the proportions of each of the underlying investment funds held by the Fund:

	Currency exposure (in Canadian $)				
As at December 31, 2013	**USD**	**GBP**	**EUR**	**Other**	**Total**
Assets					
Cash	$ 11,709	$ -	$ (1,624)	$ -	$ 10,085
Short-term investments	162,637	-	-	-	162,637
Other net assets (liabilities)	11,349	2,427	-	218	13,994
Total assets	185,695	2,427	(1,624)	218	186,716
Less: hedged by forward contracts	(160,190)	-	-	-	(160,190)
Net currency exposure	**$ 25,505**	**$ 2,427**	**$ (1,624)**	**$ 218**	**$ 26,526**

8. Financial risk management (continued):

As at December 31, 2012	Currency exposure (in Canadian $) USD	GBP	EUR	Other	Total
Assets					
Bank overdraft	$ (18,189)	$ (690)	$ -	$ -	$ (18,879)
Short-term investments	1,143,488	270,997	-	-	1,414,485
Other net assets (liabilities)	10,404	-	(1,099)	(4,849)	4,456
Total assets	1,135,703	270,307	(1,099)	(4,849)	1,400,062
Less: hedged by forward contracts	(1,144,132)	(160,244)	-	-	(1,304,376)
Net currency exposure	**$ (8,429)**	**$ 110,063**	**$ (1,099)**	**$ (4,849)**	**$ 95,686**

At December 31, 2013, if the value of the foreign currencies increased or decreased by 5% in relation to the Canadian dollar, with all other variables held constant, this would have increased or decreased the Fund's net assets by approximately $1,300 or 0.0% of the Fund's net assets (2012 - $5,000, 0.0%).

(ii) Interest rate risk

The Fund is subject to interest rate risk, as it holds investments in investment funds which, in turn, hold investments in certain interest-bearing financial assets. This is due to the fact that fluctuations in the prevailing level of market interest rates could impact the value of the Fund's net assets.

The table below summarizes the Fund's exposure to interest rate risk associated with its investments in fixed-income securities through the underlying investment funds, by remaining term to maturity, calculated based on the proportions of each of the underlying investment funds held by the Fund:

	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	More than 5 years	Total
As at December 31, 2013						
Assets						
Fixed-income securities	$ 416,314	$ 503,827	$ 425,337	$ 5,491,222	$ 11,366,146	$ 18,202,846
Total interest sensitivity value	**$ 416,314**	**$ 503,827**	**$ 425,337**	**$ 5,491,222**	**$ 11,366,146**	**$ 18,202,846**

	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	More than 5 years	Total
As at December 31, 2012						
Assets						
Fixed-income securities	$ 1,389,141	$ 373,232	$ 197,435	$ 4,531,723	$ 9,429,871	$ 15,921,402
Total interest sensitivity value	**$ 1,389,141**	**$ 373,232**	**$ 197,435**	**$ 4,531,723**	**$ 9,429,871**	**$ 15,921,402**

At December 31, 2013, if interest rates increased or decreased by 0.25%, assuming a parallel shift in the yield curve and with all other variables held constant, the decrease or increase in the Fund's net assets would amount to approximately $287,000, or 1.6% of the Fund's net assets (2012 - $267,000, 0.7%). The Fund's sensitivity to interest rate changes was estimated using the weighted average duration of the bonds and short-term notes held by the underlying investment funds.

8. Financial risk management (continued):

(iii) Other price risk

Other price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. The investments of the Fund are subject to market fluctuations and the risks inherent in financial markets. The Manager moderates this risk through a careful selection of investments in funds within specified limits, which funds are each invested in a diversified investment portfolio. The Manager monitors the Fund's, and the underlying investment funds' overall market positions on a daily basis, and positions are maintained within established ranges. At December 31, 2013 and 2012, the Fund's overall investment exposure, indirectly through the underlying investment funds, was as follows, calculated based on the proportions of each of the underlying investment funds held by the Fund:

As at December 31, 2013		**Fair value**	**% of net assets**
Canadian equity fund	$	18,086,591	36.3%
Global equity funds		13,716,903	27.6%
	$	31,803,494	63.9%

As at December 31, 2012		**Fair value**	**% of net assets**
Canadian equity fund	$	13,215,740	34.6%
Global equity funds		9,427,163	24.7%
	$	22,642,903	59.3%

At December 31, 2013, if the bid quotations for the securities held by the underlying investment funds increased or decreased by 5%, with all other variables held constant, this would have increased or decreased the net assets of the Fund by approximately $1,590,000, or 3.2% of the Fund's net assets (2012 - $1,132,000, 3.0%). In practice, the actual trading results could differ, and the difference could be material.

b) Concentration risk

The Fund is exposed to the possible risk inherent in the concentration of the investment portfolio in a small number of industries, investment sectors and countries, through the underlying investment funds. The Manager moderates this risk through a careful selection of securities in several investment sectors in the underlying investment funds. At December 31, 2013 and 2012, the percentages of the Fund's total net assets invested in each type of investment fund were as follows:

Sectors as at December 31	**2013**	**2012**
Candian bond fund	36.0%	40.6%
Canadian equity fund	36.3%	34.6%
Global equity funds	27.6%	24.7%
Other net assets	0.1%	0.1%
Total net assets	100.0%	100.0%

c) Liquidity risk

The Fund is exposed to daily cash needs related to the redemption of units, and to the discharge of financial obligations related to the daily operations of the Fund. To meet these needs, the Manager monitors each underlying investment fund's ability to meet its short-term cash needs by monitoring each underlying investment fund's level of cash and short-term securities held and whether the securities held are considered to be highly liquid and readily realizable. All liabilities of the Fund are short-term in nature and are due within 60 days.

8. Financial risk management (continued):

d) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligations and cause the other party to incur a financial loss. The exposure to the Fund is the credit risk associated with the ability of the issuers of the securities in which the underlying investment funds invest, to discharge their obligations. The Investment Manager limits the Fund's exposure to credit loss through ongoing credit evaluations of the issuers of the securities in which the underlying investment funds invest.

The percentages of the Fund's investments in fixed-income securities held by the underlying investment funds, which have the following ratings, as rated primarily by Standard & Poor's and DBRS as at December 31, 2013 and 2012, were as follows:

Rating category (or equivalent)	% of fixed-income securities by rating category	
As at December 31	**2013**	**2012**
Bonds		
AAA	48.1%	45.6%
AA	19.1%	11.8%
A	24.9%	29.7%
BBB	0.5%	0.5%
Short-term securities		
R-1 (High)	5.6%	11.9%
R-1 (Mid)	1.8%	0.5%
Total	**100.0%**	**100.0%**

9. Fair value disclosure:

Classification for fair value measurements

The Fund's financial instruments recorded at fair value have been categorized based upon a fair value hierarchy. Fair values based on quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3), are provided in the following table, as at December 31, 2013 and 2012. During the years ended December 31, 2013 and 2012, there were no securities classified as Levels 2 or 3.

	Financial Assets at fair value as at December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment funds	$ 49,734,307	$ -	$ -	$ 49,734,307
Total Investments	**$ 49,734,307**	**$ -**	**$ -**	**$ 49,734,307**

	Financial Assets at fair value as at December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment funds	$ 38,143,394	$ -	$ -	$ 38,143,394
Total Investments	**$ 38,143,394**	**$ -**	**$ -**	**$ 38,143,394**

Significant transfers between Levels 1 and 2

There were no significant transfers between Levels 1 and 2 for the years ended December 31, 2013 and 2012.

10. Related party unitholders:

Affiliates of the Manager, or other investment funds managed by the Manager, held the following units of the fund, as at December 31, 2013 and 2012:

As at December 31	**2013**		**2012**	
	Number of units	**Percentage of outstanding units**	**Number of units**	**Percentage of outstanding units**
Series W	106	0.4%	-	-
Series I	-	-	169,856	6%

11. Future changes in accounting standards:

International Financial Reporting Standards (IFRS) have replaced Canadian GAAP for publicly accountable enterprises in Canada, which include investment funds. The Canadian Accounting Standards Board has determined that the effective date of the adoption of IFRS by investment funds will be January 1, 2014.

The Manager has carried out an assessment of the impact on the Fund of the conversion to IFRS. Based on the Manager's current evaluation of the differences between Canadian GAAP and IFRS, and the standards that are in effect at December 31, 2013, the Manager does not anticipate that there will be any changes to the calculation of the Fund's Net Asset Value or Net Asset Value per Unit, which is used for the issuance and redemption of Fund units. The Manager has, however, identified the following areas in which there may be changes in the presentation of the Fund's financial statements:

a) International Accounting Standards 32, "Financial Instruments: Presentation", allows puttable (redeemable) instruments to be classified as equity, only if certain conditions are met. The Manager has assessed the guidance that will apply under IFRS, and has determined that the Fund's units will not meet the conditions which would allow them to be classified as equity. As a result, the Fund's units will be classified as a liability on the Fund's Statement of Net Assets.

b) IFRS 13, "Fair Value Measurements", provides guidance on the measurement of fair value and allows for the use of a price within the bid-ask spread that is most representative of fair value to value investments. Under Canadian GAAP, the fair value of investments for financial statement purposes is currently required to be measured at closing bid prices for long positions and closing asked prices for short positions. The Manager has assessed the guidance that will apply under IFRS and has determined that the use of closing traded prices is appropriate in valuing the Fund's investments. This change will result in the elimination of the difference between the Fund's Net Assets per Unit and Net Asset Value per Unit, as disclosed in note 3 above.

c) A Statement of Cash Flow will be required for IFRS reporting purposes.

d) There will also likely be requirements for additional note disclosures and modifications to existing financial statement presentation.

The Manager's current assessment of the effect of IFRS may change if new standards are issued or if the interpretations of current standards are revised.