Guardian

Guardian Capital Group Limited
Report to Shareholders

Third Quarter 2017

TO OUR SHAREHOLDERS:

We present below a summary of the Company's operating results for the three and nine months ended September 30, 2017. All per share figures disclosed below are stated on a diluted basis.

For the periods ended September 30	**Three months**		**Nine months**	
($ in thousands, except per share amounts)	**2017**	2016	**2017**	2016
Net revenue	**$ 36,315**	$ 35,185	**$ 112,141**	$ 104,446
Operating earnings	**10,505**	10,646	**35,123**	32,296
Net gains	**10,987**	10,057	**39,359**	27,863
Net earnings available to shareholders	**17,987**	17,353	**62,377**	50,058
EBITDA [(1)]	**$ 11,811**	$ 12,065	**$ 38,587**	$ 36,150
Adjusted cash flow [(1)]	**4,785**	9,293	**20,061**	28,311
Per share:				
Net earnings available to shareholders	**$ 0.61**	$ 0.58	**$ 2.13**	$ 1.67
EBITDA [(1)]	**0.40**	0.40	**1.32**	1.21
Adjusted cash flow [(1)]	**0.17**	0.31	**0.69**	0.95

As at	**2017**	**2016**	
($ in millions, except per share amounts)	**September 30**	December 31	September 30
Assets under management	**$ 26,335**	$ 27,280	$ 27,269
Assets under administration	**17,271**	16,489	16,134
Shareholders' equity	**608**	580	545
Fair value of corporate holdings of securities	**621**	620	571
Per share:			
Shareholders' equity [(1)]	**$ 20.67**	$ 19.62	$ 18.07
Fair value of corporate holdings of securities [(1)]	**21.12**	20.97	18.94

Summary

The Company's operating earnings for the quarter ended September 30, 2017 were $10.5 million, substantially the same as the $10.6 million in the same period a year earlier.

Net gains in the current quarter were $11.0 million, compared to $10.1 million in the same period a year earlier. Of the net gains in the current quarter, approximately $6.0 million were from the sale of 100,000 bank of Montreal shares, and the remainder were recognized within the investment funds consolidated by the Company.

Net earnings available to shareholders for the current quarter increased to $18.0 million, or $0.61 per share, compared to $17.4 million, or $0.58 per share a year earlier, resulting from the increased net gains, as described above.

The Company's assets under management ("AUM") as at September 30, 2017 were $26.3 billion, a decrease of 3% from $27.3 billion at the end of 2016 and at September 30, 2016. Assets under administration at the end of the current quarter were $17.3 billion, a 5% increase from $16.5 billion at the end of 2016 and up 7% from $16.1 billion at September 30, 2016.

EBITDA[(1)] for the current quarter was $11.8 million, or $0.40 per share, compared to $12.1 million, or $0.40 per share in 2016. Adjusted cash flow from operations[(1)] for the current quarter was $4.8 million, or $0.17 per share, compared to $9.3 million, or $0.31 per share in 2016. The decrease in adjusted cash flow from operations was due to a significantly larger tax installment being paid in the current quarter than in the prior year.

The Company's shareholders' equity as at September 30, 2017 was $608 million, or $20.67 per share, compared to $580 million, or $19.62 per share as at December 31, 2016 and $545 million, or $18.07 per share as at September 30, 2016. The Company's securities as at September 30, 2017 were valued at $621 million, or $21.12 per share, compared to $620 million, or $20.97 per share, as at December 31, 2016 and $571 million, or $18.94 per share, as at September 30, 2016.

[(1)]These terms do not have standardized measures under International Financial Reporting Standard ("IFRS"). These non-IFRS measures used by the Company are defined in the quarterly Management's Discussion and Analysis, including a reconciliation of these measures to their most comparable IFRS measures.

Commentary and Outlook

During the third quarter, the S&P/TSX Composite had a return of 3.7%, with a cumulative return of 9.2% for the trailing twelve month period. Contrary to last quarter, this performance was aided by positive returns in energy and materials sectors. The S&P 500 had a return of 4.5% during the quarter, with a cumulative return of 18.6% for the trailing twelve month period (measured in US dollars). Globally, most major markets in the developed world performed well, generating returns comparable to those in the US and Canada.

Our belief that the global economy is experiencing a period of synchronized expansion seems to be confirmed. Most major economies have been reporting strong economic numbers, and strong leading indicators. While strong economic growth is likely to provide support to equity markets, some central banks are slowly withdrawing stimulus, causing upward pressure in bond yields. We will be monitoring the pace of tightening, whether other central banks start to tighten, whether global synchronized growth continues and how strong this growth is, and re-evaluate our expectations accordingly.

As at September 30, 2017, the Company's AUM were $26.3 billion, down roughly 3% year over year, and a similar amount since the end of 2016. The decrease in AUM were due largely to the redemption of Canadian equity assets by our institutional clients and by retail investors from certain sub-advised mandates, offset partially by the positive performance of the equity markets wordwide. The decline in AUM over the past 12 months, has led to marginal reduction in investment management revenues versus both the third quarter of 2016 and the fourth quarter of 2016.

Most of the 7% growth in AUA over the past year is market related; however, growth has been aided by modest success in recruiting new advisors and some organic growth from existing advisors. The growth in the Financial Advisory Segment's net revenues in the current quarter compared to the same period in the prior year is largely due to the increase in recurring service commissions and trailer commission revenue earned on in-force life insurance policies and AUA. Within this segment, our life insurance Managing General Agency ("MGA") had strong net sales commissions on insurance products. Management continues to be pleased by the results of this business, whose current quarter net commission revenue was 7% higher than the comparable period in 2016. Year to date revenue has increased 13%, versus 2016, reflecting in part, strong sales in the first quarter of the current year driven by the changes to tax rules.

Net revenue and operating earnings for the current quarter were up 3% and down 1%, respectively, on a year over year basis. Operating earnings for the three months ended September 30, 2017 were $10.5 million, compared to $10.6 million in the same period in 2016. The net commission revenue in the Financial Advisory Segment continues to grow which provided a lift to our net revenue compared to the prior year. The decline in management fee revenue, driven by the lower AUM and the planned increases in operating expenses related to technology and marketing and promotions, resulted in a slight decrease in operating earnings this quarter compared to the prior year. The strategic decision to invest in technology, in particular to convert to a new platform in the Financial Advisory Segment, is progressing on track and has contributed to the increased expenses this quarter compared to the prior year.

In the 3rd quarter, the Company sold 100,000 shares of its Bank of Montreal ("BMO") holdings, for proceeds of $9.6 million, realizing a capital gain of $6.0 million. We have, in the past demonstrated a high conviction for our investment capabilities and reinvested our capital into other early stage offerings. Our plan is to continue this, and therefore promote potentially earlier third-party adoption of these products. Over time, we expect to continue a strategy of partial redeployment of our investment portfolio from BMO to these or other internally managed diversified strategies, with the objective of continuing to grow the business and diversifying our investment portfolio. It is important to recognize however, that, selling BMO and redeploying the proceeds into proprietary strategies has introduced some volatility in dividend income earned, due to varying levels of income earned and the timing of quarterly dividends earned on BMO compared to semi-annual dividends earned on global securities.

In the Financial Advisory Segment, we have added additional human resources and increased investments in technology, marketing and other operating expenses over the past few quarters, as we also prepare this business segment for the next stage of future growth. Over the near term, we expect the expenses in this segment to continue to grow before stabilizing, as the segment is preparing for a technology platform conversion in the new year. Significant regulatory changes and disruptive technologies pose serious threats but also offer significant opportunities for companies such as ours, with the scale and financial resources to strategically invest and adapt to an ever-changing business environment. These additional investments are expected to continue to have a dampening effect on earnings over the short term. However, over the course of time, a successful execution of our strategy is expected to translate into greater growth for the Company.

The Company's securities represent a substantial proportion of the total assets on our balance sheet, with a market value of approximately $621 million at September 30, 2017. BMO shares remain a significant, but declining, proportion of the overall corporate securities portfolio, as we re-allocate funds to other investments. As at September 30, we owned 3,800,000 shares with a market value of $359 million, representing approximately 58% of the total fair market value of the Company's securities portfolio. A significant proportion of our remaining investments are in equity funds and other investment products that are invested in global securities with unhedged US dollar exposure. Net gains will continue to be lumpy, as gains or losses can be triggered either by a rebalancing of our investment portfolio or due to market fluctuations, which can result in large gains or losses within investment funds consolidated on our balance sheet. Net gains were $10.9 million this quarter, of which $6.0 million related to the sale of BMO shares and the remainder was primarily unrealized net gains recorded within the consolidated investment funds managed by the Company.

Our operating businesses can rely on the financial strength of the Company's balance sheet and earnings to support their patient, long-term, strategic business objectives of becoming ever more meaningful contributors to the Company's operating profit. With improved operating fundamentals and its cash flows, the Company continues to share these rewards with its shareholders. In October of this year, the Company paid to shareholders a quarterly dividend of $0.10 per share, or $2.9 million and the Board is pleased to report that we have declared the next quarterly dividend of $0.10 per share, payable on January 18, 2018 to shareholders of record on January 11, 2018.

On behalf of the Board, November 9, 2017

(signed) "James Anas"

Chairman of the Board

(signed) "George Mavroudis"

President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS (Unaudited)

As at *($ in thousands)*	**September 30 2017**	December 31 2016
ASSETS		
Current assets		
Cash	$ 73,888	$ 37,974
Interest-bearing deposits with banks	51,642	77,268
Accounts receivable and other	40,903	36,370
Receivables from clients and broker	64,426	60,672
Securities backing third party investor liabilities (note 3)	164,700	99,452
	395,559	311,736
Securities (note 4)	621,361	620,218
Other assets		
Deferred tax assets	1,481	1,618
Intangible assets	28,046	29,386
Equipment	4,188	3,957
Goodwill	15,014	15,014
Investment in associate (note 15)	--	333
	48,729	50,308
Total assets	$ 1,065,649	$ 982,262
LIABILITIES		
Current liabilities		
Bank loans and borrowings (note 5)	$ 80,100	$ 62,664
Client deposits	51,638	77,364
Accounts payable and other	36,017	37,829
Income taxes payable	4,934	6,300
Payable to clients	64,426	60,672
Third party investor liabilities (note 3)	164,700	99,452
	401,815	344,281
Other liability	--	699
Deferred tax liabilities	49,517	51,812
Total liabilities	451,332	396,792
EQUITY		
Shareholders' equity		
Capital stock (note 6a and 6b)	20,173	20,268
Treasury stock (note 7a)	(24,208)	(22,342)
Contributed surplus	15,388	13,972
Retained earnings	378,730	327,669
Accumulated other comprehensive income	217,930	240,610
	608,013	580,177
Non-controlling interests	6,304	5,293
Total equity	614,317	585,470
Total liabilities and equity	$ 1,065,649	$ 982,262

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

For the periods ended September 30	Three months		Nine months	
($ in thousands, except per share amounts)	**2017**	2016	**2017**	2016
Revenue				
Gross commission revenue	**$ 33,144**	$ 30,692	**$ 100,389**	$ 89,903
Commissions paid to advisors	**(22,947)**	(21,634)	**(68,805)**	(62,480)
	10,197	9,058	**31,584**	27,423
Management fee income, net (note 8)	**17,323**	17,660	**52,972**	50,333
Administrative services income	**3,347**	3,341	**10,459**	10,893
Dividend and interest income (note 9)	**5,448**	5,126	**17,126**	15,797
Net revenue	**36,315**	35,185	**112,141**	104,446
Expenses				
Employee compensation and benefits	**15,601**	15,629	**47,239**	45,023
Amortization	**1,051**	1,040	**3,129**	3,115
Interest	**191**	192	**586**	633
Other expenses	**8,967**	7,678	**26,064**	23,379
	25,810	24,539	**77,018**	72,150
Operating earnings	**10,505**	10,646	**35,123**	32,296
Net gains (note 10)	**10,987**	10,057	**39,359**	27,863
Net earnings before income taxes	**21,492**	20,703	**74,482**	60,159
Income tax expense	**3,260**	3,228	**11,094**	9,443
Net earnings	**$ 18,232**	$ 17,475	**$ 63,388**	$ 50,716
Net earnings available to:				
Shareholders	**$ 17,987**	$ 17,353	**$ 62,377**	$ 50,058
Non-controlling interests	**245**	122	**1,011**	658
	$ 18,232	$ 17,475	**$ 63,388**	$ 50,716
Net earnings available to shareholders per Class A and Common share (note 11)				
Basic	**$ 0.65**	$ 0.61	**$ 2.25**	$ 1.75
Diluted	**0.61**	0.58	**2.13**	1.67

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

For the periods ended September 30	**Three months**		**Nine months**	
($ in thousands)	**2017**	2016	**2017**	2016
Net earnings	**$ 18,232**	$ 17,475	**$ 63,388**	$ 50,716
Other comprehensive income (loss)				
Available for sale securities, net of taxes:				
Net change in fair value	**(808)**	22,073	**1,350**	39,540
Income tax provision (recovery)	**(432)**	2,447	**(970)**	4,413
	(376)	19,626	**2,320**	35,127
Transfer to net earnings of unrealized (gains) loss upon disposal	**(6,111)**	(5,638)	**(13,664)**	(18,389)
Reversal of income taxes	**810**	734	**1,804**	2,451
	(5,301)	(4,904)	**(11,860)**	(15,938)
Net change in available for sale securities, net of taxes	**(5,677)**	14,722	**(9,540)**	19,189
Net change in foreign currency translation on foreign subsidiaries	**(5,363)**	2,424	**(13,140)**	(10,091)
Other comprehensive income (loss)	**(11,040)**	17,146	**(22,680)**	9,098
Comprehensive income	**$ 7,192**	$ 34,621	**$ 40,708**	$ 59,814
Comprehensive income available to:				
Shareholders	**$ 6,947**	$ 34,499	**$ 39,697**	$ 59,156
Non-controlling interests	**245**	122	**1,011**	658
Comprehensive income	**$ 7,192**	$ 34,621	**$ 40,708**	$ 59,814

CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

For the periods ended September 30 ($ in thousands)	Three months 2017	Three months 2016	Nine months 2017	Nine months 2016
Total equity, beginning of period	$ 609,487	$ 518,668	$ 585,470	$ 508,526
Shareholders' equity, beginning of period	603,428	513,939	580,177	504,255
Capital stock				
Balance, beginning of period	20,173	20,668	20,268	20,929
Acquired and cancelled (note 6c)	--	(73)	(95)	(334)
Capital stock, end of period	20,173	20,595	20,173	20,595
Treasury stock				
Balance, beginning of period	(24,208)	(23,576)	(22,342)	(21,563)
Acquired (note 7a)	--	--	(2,300)	(2,200)
Disposed of (note 7a)	--	1,222	434	1,409
Treasury stock, end of period	(24,208)	(22,354)	(24,208)	(22,354)
Contributed surplus				
Balance, beginning of period	14,868	13,072	13,972	12,280
Stock-based compensation expense	520	463	1,468	1,270
Redemption of equity-based entitlements	--	(11)	(52)	(26)
Contributed surplus, end of period	15,388	13,524	15,388	13,524
Retained earnings				
Balance, beginning of period	363,625	310,531	327,669	291,317
Net earnings available to shareholders	17,987	17,353	62,377	50,058
Dividends declared and paid (note 6d)	(2,882)	(2,495)	(8,219)	(7,231)
Capital stock acquired and cancelled (note 6c)	--	(2,205)	(3,107)	(10,777)
Acquisition of non-controlling interests	--	--	--	(183)
Net gain on treasury stock	--	--	10	--
Retained earnings, end of period	378,730	323,184	378,730	323,184
Accumulated other comprehensive income				
Balance, beginning of period	228,970	193,244	240,610	201,292
Unrealized gains on available for sale securities, net of income taxes:				
Balance, beginning of period	214,727	174,213	218,590	169,746
Net change during period	(5,677)	14,722	(9,540)	19,189
Balance, end of period	209,050	188,935	209,050	188,935
Foreign currency translation on foreign subsidiaries:				
Balance, beginning of period	14,243	19,031	22,020	31,546
Net change during period	(5,363)	2,424	(13,140)	(10,091)
Balance, end of period	8,880	21,455	8,880	21,455
Accumulated other comprehensive income, end of period	217,930	210,390	217,930	210,390
Shareholders' equity, end of period	608,013	545,339	608,013	545,339
Non-controlling interests				
Balance, beginning of period	6,059	4,729	5,293	4,271
Net earnings available to non-controlling interests	245	122	1,011	658
Acquisition of non-controilling interests	--	--	--	(78)
Non-controlling interests, end of period	6,304	4,851	6,304	4,851
Total equity, end of period	$ 614,317	$ 550,190	$ 614,317	$ 550,190

CONSOLIDATED STATEMENTS OF CASH FLOW (Unaudited)

For the periods ended September 30		**Three months**				**Nine months**		
($ in thousands)		**2017**		2016		**2017**		2016
Operating activities								
Net earnings	**$**	**18,232**	$	17,475	**$**	**63,388**	$	50,716
Adjustments for:								
Income taxes paid		**(6,779)**		(2,680)		**(18,409)**		(7,679)
Income tax expense		**3,260**		3,228		**11,094**		9,443
Net (gains)		**(10,987)**		(10,057)		**(39,359)**		(27,863)
Amortization of intangible assets		**855**		856		**2,563**		2,560
Amortization of equipment		**196**		184		**566**		555
Stock-based compensation		**520**		463		**1,468**		1,270
Other non-cash expenses		**(17)**		(15)		**61**		118
		5,280		9,454		**21,372**		29,120
Net change in non-cash working capital items (note 13)		**6,644**		475		**(998)**		(1,447)
Net cash from operating activities		**11,924**		9,929		**20,374**		27,673
Investing activities								
Net (acquisition) disposition of securities		**5,225**		(2,822)		**13,985**		7,503
Net acquisition of securities backing third party investor liabilities		**(24,247)**		(19,020)		**(60,316)**		(57,935)
Acquisition of intangible assets		**(809)**		(2,278)		**(1,940)**		(4,131)
Acquisition of equipment		**(282)**		(92)		**(832)**		(613)
Disposition of intangible assets		**284**		506		**1,197**		1,611
Other (note 15)		**--**		--		**425**		--
Net cash used in investing activities		**(19,829)**		(23,706)		**(47,481)**		(53,565)
Financing activities								
Dividends		**(2,882)**		(2,495)		**(8,219)**		(7,231)
Acquisition and cancellation of capital stock		**--**		(2,278)		**(3,202)**		(11,111)
Acquisition of treasury stock		**--**		--		**(2,300)**		(2,200)
Disposition of treasury stock		**--**		1,222		**444**		1,409
(Net repayment) draw of bank loan and bankers acceptances		**(10,021)**		4,837		**(22,427)**		(1,643)
Net subscriptions from third party investors		**24,247**		19,020		**60,316**		57,935
Acquisition of non-controlling interests		**--**		--		**--**		(261)
Net cash from financing activities		**11,344**		20,306		**24,612**		36,898
Foreign exchange								
Net effect of foreign exchange rate changes on cash balances		**(635)**		(369)		**(1,453)**		(1,136)
Net change in net cash		**2,804**		6,160		**(3,948)**		9,870
Net cash, beginning of period		**31,222**		24,384		**37,974**		20,674
Net cash, end of period	**$**	**34,026**	$	30,544	**$**	**34,026**	$	30,544
Net cash represented by:								
Cash					**$**	**73,888**	$	30,544
Net bank indebtedness						**(39,862)**		--
					$	**34,026**	$	30,544

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. REPORTING ENTITY

Guardian Capital Group Limited ("Guardian") is a publicly traded company with its common and class A shares listed on the Toronto Stock Exchange. Guardian 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. Guardian, through its subsidiaries, 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. ACCOUNTING POLICIES

(a) Basis of Preparation

These unaudited consolidated interim financial statements include the accounts of Guardian and its subsidiaries (together, the "Company") and have been prepared under International Financial Reporting Standards ("IFRS"), in compliance with International Accounting Standard 34, *Interim Financial Reporting*, using the same accounting policies as those used in the Company's consolidated financial statements for the year ended December 31, 2016. Accordingly, certain information and disclosure normally included in annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed in these consolidated interim financial statements. These consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016, which are included in the Company's 2016 annual report.

These consolidated interim financial statements are presented in Canadian dollars, which is Guardian'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 2016 comparative financial information in order to conform to the current period's presentation.

These consolidated interim financial statements were authorized for issuance by the Board of Directors of Guardian on November 9, 2017.

(b) Future Changes in Accounting Policies

On July 24, 2014, the IASB issued its fourth and final version of IFRS 9 *Financial Instruments* ("IFRS 9"), which is to replace IAS 39 *Financial Instruments: Recognition and Measurement,* with revised guidance on classification and measurement of financial instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. IFRS 9 introduces classifications into which financial instruments may be designated which replace those currently under IAS 39. Based on the Company's assessment to date, it is expected that substantially all of the Company's securities will be designated into fair value through profit or loss. This will result in changes in the value of all of the Company's securities, net of the income tax effect of such changes, being recorded in the calculation of Net Earnings, whereas such changes for available for sale securities were previously recorded in Other Comprehensive Income. The reclassification from Other Comprehensive Income to Net Earnings will not result in changes to Shareholders' Equity. This could lead to increased volatility in the Net Earnings of the Company. The Company will commence its implementation phase of this standard in the fourth quarter of 2017.

On May 28, 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), which establishes a new framework for the recognition of revenue from contracts with customers and replaces several other standards and interpretations. The core principle of IFRS 15 is that an entity recognizes revenue upon the transfer of services to customers, which reflects the payments to which it expects to be entitled. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Based on the Company's initial assessment of IFRS 15, it is anticipated that there will be no significant impact to the manner in which the Company recognizes revenues. However, there will be some changes to the Company's accounting for incremental costs incurred in securing new revenue streams ("Contract Costs"). IFRS 15 requires the capitalization of Contract Costs and amortization of them over the expected life of the revenue streams. Currently, the Company expenses Contract Costs over the period in which the obligation to pay them arises, usually one year. Under IFRS 15, Contract Costs would be recognized at inception of the revenue stream and amortized over the expected life, which may be longer than one year. In addition, Contract Costs, like other similar assets, will be subject to review for impairment. As Contract Costs are mainly comprised of sales incentives paid to employees, the adoption of IFRS 15 will result in a decrease in employee compensation and benefits, offset by an increase in amortization. Compared to the Company's current accounting for Contract Costs, the adoption of IFRS 15 will result in higher operating earnings in the early years of the revenue stream, but reducing in the later years. The Company expects to complete its assessment and commence the implementation phase in the fourth quarter of 2017.

On January 13, 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16"), which is to replace IAS 17 *Leases*. The standard provides a single lease accounting model, requiring lessees to recognize assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact IFRS 16 will have on its consolidated financial statements.

3. SECURITIES BACKING THIRD PARTY INVESTOR LIABILITIES AND THIRD PARTY INVESTOR LIABILITIES

Securities backing third party investor liabilities represent the third party investors' proportionate interest in the assets of the consolidated investment funds. These securities are classified as held for trading and are categorized as Level 1, based upon the fair value hierarchy.

Third party investor liabilities represent third party investors' proportionate ownership interest in the consolidated funds. The liabilities are payable on redemption of the units of the funds by the third party investors and will be settled with the proceeds from the disposition of securities backing third party investor liabilities. The value of the liabilities is equal to and varies with the value of the securities backing third party investor liabilities. These liabilities are classified as held for trading and are categorized as Level 1, based upon the fair value hierarchy.

4. SECURITIES

(a) Classification of securities

An analysis of the Company's securities by available for sale and held for trading classifications and by the type of security is as follows:

As at	September 30 2017	December 31 2016
Available for sale securities:		
Short-term securities (i)	$ 9,777	$ 12,567
Fixed-income securities (i)	15,313	10,484
Bank of Montreal common shares (ii)	358,606	386,240
Other equity securities (i)	58,385	43,358
Real estate fund (iii)	11,480	23,759
	453,561	476,408
Held for trading securities (iv):		
Equity securities	167,800	143,810
	$ 621,361	$ 620,218

(i) These securities may include units of investment funds.

(ii) Details of the sales of Bank of Montreal common shares during the periods ended September 30, including gains and other details, are disclosed in note 10.

(iii) During the third quarter, the Company disposed of its investment in the fund by a net amount of $6,072. The Company's uninvested commitment to invest in the fund was increased to $24,279.

(iv) Held for trading securities consist of the Company's proportionate share of securities held by investment funds which the Company controls and consolidates.

(b) Fair value hierarchy

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

As at	September 30 2017	December 31 2016
Level 1	$ 551,538	$ 548,424
Level 2	55,186	59,427
Level 3	14,637	12,367
	$ 621,361	$ 620,218

During 2017 and 2016, there have been no transfers of securities between Levels.

(c) Changes in Level 3 securities

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

For the periods ended September 30	Three months 2017	Three months 2016	Nine months 2017	Nine months 2016
Securities categorized as Level 3, beginning of period	$ 14,616	$ 12,970	$ 12,367	$ 12,918
Increase (decrease) in fair value, recognized in other comprehensive income	21	726	2,270	778
Securities categorized as Level 3, end of period	$ 14,637	$ 13,696	$ 14,637	$ 13,696

5. BANK LOANS AND BORROWINGS

Bank loans and borrowings are composed of the following:

As at	September 30 2017	December 31 2016
Bank indebtedness (i)	$ 39,862	$ --
Bankers' acceptances payable	40,200	62,400
Bank loan	38	264
	$ 80,100	$ 62,664

i) On February 3, 2017, certain of the Company's borrowing facilities were amended, to increase the borrowing limit to $45,000 from $11,000, bringing the total borrowing facility available to $137,000. The amendment also enables the Company to offset certain cash balances against bank indebtedness for the calculation of interest. As at September 30, 2017 the cash balance of $34,423 was offset against bank indebtedness in calculating interest.

6. 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 three months ended September 30	2017		2016	
	Shares	**Amount**	Shares	Amount
Class A shares				
Outstanding, beginning of period	**26,554**	**$ 19,335**	26,990	$ 19,742
Acquired and cancelled	**--**	**--**	(100)	(73)
Outstanding, end of period	**26,554**	**19,335**	26,890	19,669
Common shares				
Outstanding, beginning of period	**3,469**	**838**	3,839	926
Acquired and cancelled	**--**	**--**	--	--
Outstanding, end of period	**3,469**	**838**	3,839	926
Total outstanding, end of period	**30,023**	**$ 20,173**	30,729	$ 20,595

For the nine months ended September 30	2017		2016	
	Shares	**Amount**	Shares	Amount
Class A shares				
Outstanding, beginning of period	**26,686**	**$ 19,430**	26,979	$ 19,878
Acquired and cancelled	**(132)**	**(95)**	(382)	(281)
Converted from Common	**--**	**--**	293	72
Outstanding, end of period	**26,554**	**19,335**	26,890	19,669
Common shares				
Outstanding, beginning of period	**3,469**	**838**	4,349	1,051
Acquired and cancelled	**--**	**--**	(217)	(53)
Converted from Common	**--**	**--**	(293)	(72)
Outstanding, end of period	**3,469**	**838**	3,839	926
Total outstanding, end of period	**30,023**	**$ 20,173**	30,729	$ 20,595

(c) Issuer bid

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

For the periods ended September 30	Three months		Nine months	
	2017	2016	**2017**	2016
Shares purchased and cancelled				
Class A	**--**	100	**132**	382
Common	**--**	--	**--**	217
Consideration paid	**$ --**	$ 2,278	**$ 3,202**	$ 11,111
Less average issue price, charged to share capital	**--**	73	**95**	334
Excess consideration charged to retained earnings	**$ --**	$ 2,205	**$ 3,107**	$ 10,777

Under the current NCIB, which commenced on November 21, 2016 and expires on November 20, 2017, the Company may purchase up to 192 common shares and 1,960 class A shares. Under this NCIB, the Company has purchased and cancelled 190 common shares and 132 class A shares.

(d) Dividends

The dividends the Company declared and paid on the common and Class A shares outstanding are as follows:

For the periods ended September 30	Three months		Nine months	
	2017	2016	**2017**	2016
Dividends declared and paid, per share	**$ 0.100**	$ 0.085	**$ 0.285**	$ 0.245

The Company has also declared dividends of $0.10 per share payable on October 18, 2017 and January 18, 2018, on the common and class A shares outstanding. These dividends, which will be recognized on the record dates, have not been reflected in these financial statements.

7. TREASURY STOCK

The Company provides stock-based entitlements to certain senior employees of the Company through an Employee Profit Sharing Plan Trust (the "EPSP Trust"). The EPSP Trust purchases and holds shares of the Company related to the stock-based entitlements, which are in the form of either equity-based entitlements or option-like entitlements, and the shares are accounted for as treasury stock. The purchases are financed by a bank loan facility from a major chartered bank, which is secured by the shares held by the EPSP Trust and a guarantee issued by the Company.

(a) Changes in treasury stock

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

For the three months ended September 30	2017		2016	
	Shares	**Amount**	Shares	Amount
Balance, beginning of period	**2,223**	**$ 24,208**	2,396	$ 23,576
Disposed of	**--**	**--**	(202)	(1,222)
Balance, end of period	**2,223**	**$ 24,208**	2,194	$ 22,354

For the nine months ended September 30	2017		2016	
	Shares	**Amount**	Shares	Amount
Balance, beginning of period	**2,192**	**$ 22,342**	2,299	$ 21,563
Acquired	**92**	**2,300**	130	2,200
Disposed of	**(61)**	**(434)**	(235)	(1,409)
Balance, end of period	**2,223**	**$ 24,208**	2,194	$ 22,354

During the three and nine months ended September 30, 2017, the Company disposed of nil and 61 (2016 – 202 and 235) shares of the treasury stock.

As at September 30, 2017, the treasury stock was composed of 32 common shares (2016 – 32) and 2,191 class A shares (2016 – 2,162).

(b) Equity-based entitlements

Equity-based entitlements allow the employees to purchase shares of the Company from the EPSP Trust at zero cost, subject to predetermined vesting arrangements and other conditions.

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

For the periods ended September 30	Three months		Nine months	
	2017	2016	**2017**	2016
Equity-based entitlements, beginning of period	**1,015**	931	**928**	803
Provided	**--**	--	**92**	130
Exercised	**--**	(2)	**(4)**	(4)
Forfeited	**--**	--	**(1)**	--
Equity-based entitlements, end of period	**1,015**	929	**1,015**	929

Equity-based entitlements provided during the current year had a fair value of $2,300 (2016 - $2,200).

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.

(c) Option-like entitlements

The option-like entitlements allow the employees to purchase shares of the Company from the EPSP Trust for an amount that is equal to the amount of borrowings 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 three months ended September 30	2017		2016	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Option-like entitlements, beginning of period	**1,208**	**$ 9.63**	1,465	$ 8.95
Exercised	**--**	**--**	(200)	6.03
Option-like entitlements, end of period	**1,208**	**$ 9.63**	1,265	$ 9.02

For the nine months ended September 30	2017		2016	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Option-like entitlements, beginning of period	**1,264**	**$ 9.49**	1,496	$ 8.95
Exercised	**(56)**	**6.57**	(231)	5.97
Option-like entitlements, end of period	**1,208**	**$ 9.63**	1,265	$ 9.02

No option-like entitlements were provided during 2017 or 2016.

These entitlements 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.

8. MANAGEMENT FEE INCOME, NET

Management fee income, net is composed of the following:

For the periods ended September 30	Three months		Nine months	
	2017	2016	2017	2016
Management fee income, gross	**$ 18,498**	$ 18,689	**$ 56,330**	$ 53,218
Less: fees paid to referring agents	**(1,175)**	(1,029)	**(3,358)**	(2,885)
	$ 17,323	$ 17,660	**$ 52,972**	$ 50,333

9. DIVIDEND AND INTEREST INCOME

Dividend and interest income is composed of the following:

For the periods ended September 30	Three months		Nine months	
	2017	2016	2017	2016
Dividends on Bank of Montreal shares	**$ 3,420**	$ 3,602	**$ 10,372**	$ 10,927
Other dividends	**1,637**	1,117	**5,526**	3,656
Dividend income	**5,057**	4,719	**15,898**	14,583
Interest income	**391**	407	**1,228**	1,214
	$ 5,448	$ 5,126	**$ 17,126**	$ 15,797

10. NET GAINS

Net gains (losses) are composed of the following:

For the periods ended September 30	Three months		Nine months	
	2017	2016	2017	2016
Held for trading securities (i)	**$ 4,948**	$ 4,438	**$ 24,851**	$ 8,372
Available for sale securities (ii)	**6,180**	5,571	**13,998**	18,658
Net gains on securities	**11,128**	10,009	**38,849**	27,030
Gains on disposal of intangible assets	**149**	292	**531**	824
Foreign exchange (iii)	**(290)**	(244)	**(21)**	9
	$ 10,987	$ 10,057	**$ 39,359**	$ 27,863

(i) Net gains on held for trading securities include net gains on the Company's proportionate share of the securities held by consolidated investment funds, the securities backing third party investor liabilities, and the third party investor liabilities.

(ii) Included in net gains on available for sale securities are gains on the sale of Bank of Montreal common shares. Information pertaining to these sales is as follows:

For the periods ended September 30	Three months		Nine months	
	2017	2016	**2017**	2016
Shares sold	**100**	102	**200**	444
Proceeds of sales	**$ 9,591**	$ 8,852	**$ 19,885**	$ 34,920
Gains	**5,961**	5,156	**12,630**	18,792
Income tax expense	**790**	683	**1,673**	2,490

(iii) Foreign exchange gains/losses arise from monetary assets and liabilities denominated in currencies which are different from the functional currency of the Company or its individual subsidiaries.

11. EARNINGS PER SHARE

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

For the periods ended September 30	Three months		Nine months	
	2017	2016	**2017**	2016
Weighted average number of Class A and common shares outstanding:				
Basic	**27,801**	28,482	**27,723**	28,556
Effects of outstanding entitlements from stock-based compensation plans	**1,635**	1,577	**1,637**	1,544
	29,436	30,059	**29,360**	30,100
Net earnings available to shareholders:				
Basic	**$ 17,987**	$ 17,353	**$ 62,377**	$ 50,058
Effects of outstanding entitlements from stock-based compensation plans	**75**	54	**197**	175
	$ 18,062	$ 17,407	**$ 62,574**	$ 50,233

12. BUSINESS SEGMENTS

The Company operates in the following three main business segments: a) Investment Management, which primarily involves earning management fees relating to investment management services provided to clients; b) Financial Advisory, which relates to the earning of commissions from the sale of life insurance products, mutual funds and other securities, and the continuing service commissions related to these products; and c) Corporate Activities and Investments, 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.

(a) Business segments

The following tables disclose certain information about the Company's operations by business segment:

For the three months ended September 30	Investment Management		Financial Advisory		Corporate Activities and Investments		Inter-Segment Transactions		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue										
Gross commission revenue	$ --	$ --	$ 33,368	$ 30,877	$ --	$ --	$ (224)	$ (185)	$ 33,144	$ 30,692
Commissions paid to advisors	--	--	(22,947)	(21,634)	--	--	--	--	(22,947)	(21,634)
	--	--	10,421	9,243	--	--	(224)	(185)	10,197	9,058
Management fee income, net	17,349	17,879	--	--	--	--	(26)	(219)	17,323	17,660
Administrative services income	1,383	1,435	1,953	1,906	13	--	(2)	--	3,347	3,341
Dividend and interest income	12	117	226	168	5,188	4,847	22	(6)	5,448	5,126
Net revenue	18,744	19,431	12,600	11,317	5,201	4,847	(230)	(410)	36,315	35,185
Expenses										
Employee compensation and benefits	8,956	9,163	4,536	4,272	2,109	2,194	--	--	15,601	15,629
Amortization	90	94	841	833	120	113	--	--	1,051	1,040
Interest	13	53	--	45	178	133	--	(39)	191	192
Other expenses	4,943	4,803	4,496	3,633	(242)	(387)	(230)	(371)	8,967	7,678
	14,002	14,113	9,873	8,783	2,165	2,053	(230)	(410)	25,810	24,539
Operating earnings	4,742	5,318	2,727	2,534	3,036	2,794	--	--	10,505	10,646
Net gains (losses)	212	(402)	146	292	10,629	10,167	--	--	10,987	10,057
Net earnings before income taxes	4,954	4,916	2,873	2,826	13,665	12,961	--	--	21,492	20,703
Income tax expense	1,358	1,641	839	841	1,063	746	--	--	3,260	3,228
Net earnings	$ 3,596	$ 3,275	$ 2,034	$ 1,985	$ 12,602	$ 12,215	$ --	$ --	$ 18,232	$ 17,475
Net earnings available to:										
Shareholders	$ 3,596	$ 3,275	$ 1,789	$ 1,863	$ 12,602	$ 12,215	$ --	$ --	$ 17,987	$ 17,353
Non-controlling interests	--	--	245	122	--	--	--	--	245	122
	$ 3,596	$ 3,275	$ 2,034	$ 1,985	$ 12,602	$ 12,215	$ --	$ --	$ 18,232	$ 17,475
Capital expenditures on segment assets:										
Intangible assets	$ --	$ --	$ 809	$ 2,187	$ --	$ 91	$ --	$ --	$ 809	$ 2,278
Equipment	3	16	203	3	76	73	--	--	282	92

For the nine months ended September 30	Investment Management		Financial Advisory		Corporate Activities and Investments		Inter-Segment Transactions		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue										
Gross commission revenue	$ --	$ --	$ 101,045	$ 90,432	$ --	$ --	$ (656)	$ (529)	$ 100,389	$ 89,903
Commissions paid to advisors	--	--	(68,805)	(62,480)	--	--	--	--	(68,805)	(62,480)
	--	--	32,240	27,952	--	--	(656)	(529)	31,584	27,423
Management fee income, net	53,088	50,283	--	--	--	--	(116)	50	52,972	50,333
Administrative services income	4,423	5,137	6,000	5,756	38	--	(2)	--	10,459	10,893
Dividend and interest income	224	259	576	503	16,249	15,050	77	(15)	17,126	15,797
Net revenue	57,735	55,679	38,816	34,211	16,287	15,050	(697)	(494)	112,141	104,446
Expenses										
Employee compensation and benefits	26,925	25,962	13,572	12,858	6,742	6,203	--	--	47,239	45,023
Amortization	278	249	2,516	2,504	335	362	--	--	3,129	3,115
Interest	37	161	20	149	549	446	(20)	(123)	586	633
Other expenses	15,698	14,322	12,651	11,348	(1,608)	(1,920)	(677)	(371)	26,064	23,379
	42,938	40,694	28,759	26,859	6,018	5,091	(697)	(494)	77,018	72,150
Operating earnings	14,797	14,985	10,057	7,352	10,269	9,959	--	--	35,123	32,296
Net gains	391	48	526	818	38,442	26,997	--	--	39,359	27,863
Net earnings before income taxes	15,188	15,033	10,583	8,170	48,711	36,956	--	--	74,482	60,159
Income tax expense	4,185	4,439	3,012	2,378	3,897	2,626	--	--	11,094	9,443
Net earnings	$ 11,003	$ 10,594	$ 7,571	$ 5,792	$ 44,814	$ 34,330	$ --	$ --	$ 63,388	$ 50,716
Net earnings available to:										
Shareholders	$ 11,003	$ 10,594	$ 6,560	$ 5,134	$ 44,814	$ 34,330	$ --	$ --	$ 62,377	$ 50,058
Non-controlling interests	--	--	1,011	658	--	--	--	--	1,011	658
	$ 11,003	$ 10,594	$ 7,571	$ 5,792	$ 44,814	$ 34,330	$ --	$ --	$ 63,388	$ 50,716
Capital expenditures on segment assets:										
Intangible assets	$ --	$ 25	$ 1,940	$ 3,947	$ --	$ 159	$ --	$ --	$ 1,940	$ 4,131
Equipment	29	326	243	9	560	278	--	--	832	613

As at September 30, 2017 and December 31, 2016	Investment Management 2017	Investment Management 2016	Financial Advisory 2017	Financial Advisory 2016	Corporate Activities and Investments 2017	Corporate Activities and Investments 2016	Inter-Segment Transactions 2017	Inter-Segment Transactions 2016	Consolidated 2017	Consolidated 2016
Assets and liabilities:										
Assets	$ 92,575	$ 109,371	$ 140,714	$ 132,095	$ 868,284	$ 795,683	$ (35,924)	$ (54,887)	$ 1,065,649	$ 982,262
Liabilities	69,399	94,991	128,873	127,826	288,984	228,862	(35,924)	(54,887)	451,332	396,792

(b) Geographic segments

The Company also operates in various geographic regions. The following tables disclose certain information about the Company's operations by geography:

	Canada 2017	Canada 2016	Rest of the World 2017	Rest of the World 2016	Inter-Segment Transactions 2017	Inter-Segment Transactions 2016	Consolidated 2017	Consolidated 2016
For the three months ended September 30								
Net revenue	$ 32,616	$ 33,511	$ 3,517	$ 1,904	$ 182	$ (230)	$ 36,315	$ 35,185
For the nine months ended September 30								
Net revenue	$ 100,976	$ 98,512	$ 11,414	$ 6,547	$ (249)	$ (613)	$ 112,141	$ 104,446
As at September 30, 2017 and December 31, 2016								
Non-current assets:								
Intangible assets	$ 27,111	$ 28,268	$ 935	$ 1,118	$ --	$ --	$ 28,046	$ 29,386
Equipment	3,495	3,184	693	773	--	--	4,188	3,957
Goodwill	13,826	13,826	1,188	1,188	--	--	15,014	15,014

13. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

Net change in non-cash working capital items is comprised of the following:

For the periods ended September 30	Three months 2017	Three months 2016	Nine months 2017	Nine months 2016
Decrease (increase) in non-cash working capital assets:				
Interest-bearing deposits with banks	$ (2,046)	$ 4,015	$ 21,258	$ (65,120)
Accounts receivable and other	1,723	(4,578)	1,832	(4,019)
Receivables from clients and broker	1,382	(7,601)	(3,754)	(8,433)
Increase (decrease) in non-cash working capital liabilities:				
Client deposits	2,046	(3,969)	(21,354)	65,059
Accounts payable and other	4,921	5,007	(2,734)	2,463
Payable to clients	(1,382)	7,601	3,754	8,603
	$ 6,644	$ 475	$ (998)	$ (1,447)

14. 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. 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 $358,606 (December 31, 2016 – $386,240) investment in the Bank of Montreal shares, which represents 58% (2016 – 62%) of the Company's securities. 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 $35,861 (December 31, 2016 - $38,624) 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 investment in equity securities. Unrealized changes in the values of its securities are recognized in net earnings, for held for trading securities, and in other comprehensive income, for available for sale securities. This risk is managed through the use of professional in-house expertise, which takes a disciplined approach to investment management. The securities holdings, excluding the Bank of Montreal shares, are 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	Unrealized gain or loss recognized in net earnings from a 10% change in market value	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 a 10% change in market value
As at September 30, 2017				
Canada	**$ 1,424**	**±$ 142**	**$ 31,487**	**±$ 3,149**
Rest of World	**166,376**	**16,638**	**38,377**	**3,838**
	$ 167,800	**±$ 16,780**	**$ 69,864**	**±$ 6,987**
As at December 31, 2016				
Canada	$ 2,752	±$ 275	$ 34,898	±$ 3,490
Rest of World	141,058	14,106	32,107	3,211
	$ 143,810	±$ 14,381	$ 67,005	±$ 6,701

The price risk associated with Securities backing third party investor liabilities are equal and offsetting with the price risk associated with the Third party investor liabilities. As a result, they have been excluded from the above analysis.

ii) Currency risk
The Company's main exposure to currency risk is on its investments in its foreign subsidiaries, amounting to $179,278 (December 31, 2016 - $158,503). Changes in the value of these investments caused by changes in the US dollar and UK pound exchange rates are reflected in other comprehensive income in the period in which the change occurs. These foreign currency exposures are monitored by management but not actively managed, due to the long-term nature of these investments. From time to time, certain foreign subsidiaries, whose functional currencies are not the Canadian dollar, may 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 the following interest sensitive financial instruments:

As at	**September 30 2017**	December 31 2016
Interest rate sensitive assets:		
Interest-bearing deposits with banks	**$ 51,642**	$ 77,268
Fixed-income securities	**15,313**	10,484
	$ 101,378	$ 87,752
Interest rate sensitive liabilities:		
Bank loans and borrowings	**$ 80,100**	$ 62,664
Client deposits	**51,638**	77,364
	$ 131,738	$ 140,028

The interest rate risk associated with the Company's investments in fixed-income securities are managed by monitoring the activities of the portfolio managers who manage this risk by positioning the investments for various interest rate environments. The interest rate risk on interest-bearing deposits with banks and the client deposits liability, both of which arise in the international banking operation, is considered to be low, as the risk is managed through the matching of interest rates and maturities. The bank loans and borrowings are short-term in nature and are subject to interest rate risks. The risk associated with these balances are partially offset by the bank balances which offset the indebtedness for interest calculation purposes. If interest rates increase, the Company's interest expense associated with the net indebtedness will increase and net earnings will decrease.

(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	September 30 2017	December 31 2016
Cash	$ 73,888	$ 37,974
Interest-bearing deposits with banks	51,642	77,268
Accounts receivable and other	40,903	36,370
Receivables from clients and broker	64,426	60,672
Short-term securities	9,777	12,567
Fixed-income securities	15,313	10,484
	$ 255,949	$ 235,335

The cash and 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. From time to time, receivables may also include amounts arising from advances or commission reversals due from financial advisors of the Company's financial advisory segment. Management mitigates the credit risk associated with these receivables by reviewing and monitoring the advisors' ability to repay these amounts before and after they are advanced. The credit exposure on receivables from clients is offset with securities, which are held in the client margin accounts of the securities dealer subsidiary, and there are controls on the amounts that these clients may borrow, depending upon the securities that are pledged as collateral. The credit risk associated with the Company's investments in fixed-income securities are managed by monitoring the activities of the portfolio managers who, through diversification and credit quality reviews of the investments, manage the credit risk. The short-term securities are investment-quality securities.

(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 monitoring and managing cash flows from various segments, maintaining a portfolio of securities and by arranging for significant borrowing facilities with major Canadian banks, which currently total $137,000.

15. INVESTMENT IN ASSOCIATE

On January 1, 2017, the Company acquired the remaining 50% of the voting interest not previously held in a joint venture, Guardian Ethical Management Inc. ("GEM") for consideration of $333. The consideration paid was equal to 50% of net working capital of GEM, which consisted of cash and a net current liability. As a result of this transaction, the Company derecognized the investment in an associate and recognized the assets and liabilities of GEM, upon consolidation. This resulted in net cash inflow of $425, which was composed of $758 of cash held by GEM, less the $333 paid to the vendor.

16. FINANCIAL STATEMENT REVIEW

These interim consolidated financial statements have not been reviewed by the Company's auditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In accordance with securities regulatory requirements, the discussion and analysis which follows for Guardian Capital Group Limited and its subsidiaries and other controlled entities ("Guardian") pertains to the periods ended September 30, 2017 and the comparative period in the year 2016, as well as to certain other prior quarterly periods. Readers are encouraged to refer to the discussions and analyses contained in the 2016 Annual Report. This discussion and analysis has been prepared as of November 9, 2017.

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 the expectations reflected in such forward-looking statements will not be achieved. Undue reliance should not be place on these statements, as a number of factors could cause actual results to differ materially from Guardian's objectives, plans, expectations and estimates reflected in the forward-looking statements. Factors which could cause actual results to differ from expectations include, among other things, general economic and market conditions, including interest rates, business competition, changes in government regulations or in tax laws, and other factors.

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 wealth investment management; financial advisory, which includes an insurance managing general agency ("MGA"), a mutual fund dealer and a securities dealer (together, the "Dealers"); and corporate activities and investments. Guardian is headquartered and operates in Canada and also operates through its subsidiaries GuardCap Asset Management Limited ("GuardCap") in the United Kingdom, Guardian Capital LLC ("GCLLC") in the United States and Alexandria Bancorp Limited ("Alexandria") in the Caribbean. As at September 30, 2017, Guardian had $26.3 billion of investment management assets under management ("AUM") and $17.3 billion of financial advisory assets under administration ("AUA"). In addition, Guardian has a diversified portfolio of securities which had a fair value of approximately $621 million at the end of the quarter.

USE OF NON-IFRS MEASURES

Guardian uses certain measures to evaluate and assess the performance of its business, which not defined within International Financial Reporting Standards ("IFRS"). These measures are EBITDA, EBITDA per share, adjusted cash flow from operations, adjusted cash flow from operations per share, equity per share, and securities per share. Non-IFRS measures do not have standardized meanings prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other companies. However, Guardian believes that most shareholders, creditors, other stakeholders and investment analysts prefer to include the use of these measures in analyzing Guardian's results. On page 25 of this report, a description of how these measures are defined by Guardian is provided, with reconciliations to their most comparable IFRS measures.

CONSOLIDATED FINANCIAL RESULTS

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

For the periods ended September 30	Three months		Nine months	
($ in thousands, except per share amounts)	**2017**	2016	**2017**	2016
Net revenue	**$ 36,315**	$ 35,185	**$ 112,141**	$ 104,446
Expenses	**25,810**	24,539	**77,018**	72,150
Operating earnings	**10,505**	10,646	**35,123**	32,296
Net gains	**10,987**	10,057	**39,359**	27,863
Net earnings before income taxes	**21,492**	20,703	**74,482**	60,159
Income tax expense	**3,260**	3,228	**11,094**	9,443
Net earnings	**$ 18,232**	$ 17,475	**$ 63,388**	$ 50,716
Net earnings available to shareholders	**$ 17,987**	$ 17,353	**$ 62,377**	$ 50,058
EBITDA	**11,811**	12,065	**38,587**	36,150
Adjusted cash flow from operations	**4,785**	9,293	**20,061**	28,311
Diluted per share amounts				
Net earnings available to shareholders	**$ 0.61**	$ 0.58	**$ 2.13**	$ 1.67
EBITDA	**0.40**	0.40	**1.32**	1.21
Adjusted cash flow from operations	**0.17**	0.31	**0.69**	0.95

CONSOLIDATED FINANCIAL RESULTS (continued)

As at	2017	2016	
($ in millions, except per share amounts)	**September 30**	December 31	September 30
Shareholders' equity	**$ 608**	$ 580	$ 545
Fair value of corporate holding of securities	**621**	620	571
Diluted per share			
Shareholders' equity	**$ 20.67**	$ 19.62	$ 18.07
Fair value of corporate holding of securities	**21.12**	20.97	18.94

RESULTS OF OPERATIONS

For the quarter ended September 30, 2017, Guardian's operating earnings were $10.5 million, substantially unchanged from $10.6 million reported for the same quarter in 2016. The operating earnings in the current quarter were dampened mainly due to the lower average AUM resulting in reduced operating earnings in the Investment Management Segment, offset partially by increased operating earnings in the Financial Advisory and the Corporate Activities and Investments Segments.

The Investment Management Segment's operating earnings in the current quarter were $4.7 million, a $0.5 million decrease from $5.3 million in the same quarter in the prior year. The rebalancing out of Canadian equities by our clients during the previous quarters resulted in lower average AUM, management fee revenue and operating earnings this quarter.

The Financial Advisory Segment's operating earnings in the current quarter were $2.7 million, $0.2 million higher than the same quarter in the prior year. The growth was driven by continued growth in insurance commissions, offset partially by the increased technology expenditures, in particular those costs associated with our planned current technology platform conversion, and increased marketing and promotional expenditures.

The Corporate Activities and Investments Segment's operating earnings for the current quarter were $3.0 million, $0.2 million higher than the same quarter in the prior year. The increase substantially resulted from higher dividend income earned from a growing portfolio of securities.

Net gains for the current quarter were $11.0 million, compared to a net gain of $10.1 million in 2016. The net gains during the current quarter were related to gains realized on global equity securities within the consolidated investment funds and from the sale of 100,000 shares of the Bank of Montreal.

Net earnings available to shareholders were $18.2 million in the current quarter, compared to $17.4 million in the same quarter in the prior year. The increase was due largely to the increase in net gains.

EBITDA for the quarter was $11.8 million, compared to $12.1 million in the same period in 2016. The adjusted cash flow from operations for the quarter was $4.8 million, compared to $9.3 million in the same period in 2016, largely due to the payment of significant tax installments made this quarter.

ASSETS UNDER MANAGEMENT AND ADMINISTRATION

The following is a summary of the assets under management and administration:

As at	2017	2016	
($ in millions)	**September 30**	December 31	September 30
Assets under management			
Institutional			
Canadian equities	**$ 12,006**	$ 13,294	$ 13,141
Global equities	**3,636**	3,306	3,346
Fixed income	**7,864**	7,780	7,724
	23,506	24,380	24,211
Private client	**2,829**	2,900	3,058
Total assets under management	**$ 26,335**	$ 27,280	$ 27,269
Assets under administration	**$ 17,271**	$ 16,489	$ 16,134

The AUM as at September 30, 2017 was $26.3 billion, a decrease of 3% from $27.3 billion at September 30, 2016, and December 31, 2016. The lower AUM in the current quarter compared to the prior periods was largely related to, as reported in prior periods, the rebalancing away from Canadian equities and internalization of co-advised funds by clients within the institutional investment management business and large partial withdrawals in our private wealth business resulting from client estate planning activities.

The AUA at September 30, 2017 was $17.3 billion, a 5% increase from $16.5 billion at December 31, 2016, and $16.1 a 7% increase from billion at September 30, 2016.

REVENUES AND EXPENSES

Management Fee Income, Net

Management fee income earned by the Investment Management Segment is generated by providing continuing investment management services to client AUM.

Management fee income, net of referral fees paid, for the quarter ended September 30, 2017 were $17.3 million, a 3% decrease from $17.7 million in the same quarter in the prior year. Both the institutional and private wealth units within the Investment Management Segment had some reduction in their management fees as a result of the lower average AUMs compared to the same quarter in 2016. Institutional management fees earned in the current quarter were $13.3 million, compared to $13.4 million a year earlier. Private wealth and international private banking management fees, net of referral fees paid, earned in the current quarter amounted to $4.0 million, compared to $4.3 million a year earlier.

Financial Advisory Commission Revenue

Net commission revenue earned by the Financial Advisory Segment is generated from the sale of life insurance products, mutual funds and other securities, as well as from continuing trailer and servicing commissions related to AUA and in-force life insurance policies, net of commissions paid to advisors.

The net commission revenue for the current quarter was $10.2 million, an increase of 13% compared to $9.1 million a year earlier. Net commission revenue contributed by the Dealers business in the current quarter was $3.3 million, equal to the same quarter in the prior year. The net commission revenue contributed by the MGA business in the current quarter was $6.9 million, compared to $5.8 million in the same quarter in the prior year. Included in the current quarter MGA revenue were $2.7 million in life insurance service commissions, compared to $2.4 million in the same quarter in the prior year, driven by higher premiums on in-force life insurance policies. The Premiums Sold in the current quarter were $14.2 million and $59.4 million for the nine months ended September 30, 2017, compared to $19.1 million during the same quarter in the prior year and $53.1 million for the nine months ended September 30, 2016. While Premiums Sold in the current quarter were lower, higher margins allowed for sales commission revenue to increase.

Administrative Services Income

Administrative services income is comprised of registered plan administration and other fees earned in the Financial Advisory Segment, trust and corporate administration and other related fees earned in the International Private Banking business, and fund administration fees earned from managed investment funds. This income amounted to $3.3 million for the current quarter, no change from the same quarter a year earlier.

Dividend and Interest Income

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

For the periods ended September 30	Three months		Nine months	
($ in thousands)	**2017**	2016	**2017**	2016
Dividends on Bank of Montreal shares	**$ 3,420**	$ 3,602	**$ 10,372**	$ 10,927
Other dividends	**1,637**	1,117	**5,526**	3,656
Dividend income	**5,057**	4,719	**15,898**	14,583
Interest income	**391**	407	**1,228**	1,214
	$ 5,448	$ 5,126	**$ 17,126**	$ 15,797

The increase in dividend income in the current quarter compared to the same quarter in the prior year is due to higher dividends being earned on a larger portfolio of equity securities.

Expenses

Guardian's expenses increased to $25.8 million in the current quarter, compared with $24.5 million in the same quarter of 2016, largely as a result of our planned increased expenditures on technology, in particular the ongoing costs associated with the upcoming technology platform conversion in accordance with our strategic plan in the Financial Advisory Segment, and increased marketing and promotional expenditures in the MGA business.

NET GAINS

For the periods ended September 30	Three months		Nine months	
($ in thousands)	**2017**	2016	**2017**	2016
Held for trading securities	**$ 4,948**	$ 4,438	**$ 24,851**	$ 8,372
Available for sale securities	**6,180**	5,571	**13,998**	18,658
Net gains on securities	**11,128**	10,009	**38,849**	27,030
Gains on disposal of intangible assets	**149**	292	**531**	824
Foreign exchange losses	**(290)**	(244)	**(21)**	9
Net gains	**$ 10,987**	$ 10,057	**$ 39,359**	$ 27,863

Net gains in the current quarter were $11.0 million compared to $10.1 million in the same quarter in 2016. The net gains in the current quarter were largely realized on global securities within the consolidated investment funds and on the sale of an additional 100,000 shares of Bank of Montreal common shares.

LIQUIDITY AND CAPITAL RESOURCES

The strength of Guardian's balance sheet has enabled Guardian to attract Associates; provide clients with a high comfort level; maintain appropriate levels of working capital in each of its areas of operation; make the necessary capital expenditures and investments to develop its businesses; and make appropriate use of borrowings, including financing the expansion of its businesses. We are confident that the strength of Guardian's balance sheet will continue to provide benefits in the future. Guardian's balance sheet is supported by the substantial securities portfolio, as presented below:

As at	2017	2016	
($ in thousands, except per share amounts)	**September 30**	December 31	September 30
Securities			
Proprietary investment strategies			
Short-term securities	**$ 9,777**	$ 12,567	$ 9,002
Fixed-income securities	**15,313**	10,484	10,189
Canadian equities	**20,948**	13,507	18,952
Global equities	**190,462**	161,153	146,405
Real estate	**11,480**	23,759	19,646
	247,980	221,470	204,194
Bank of Montreal common shares	**358,606**	386,240	351,312
Other securities	**14,775**	12,508	15,891
Securities	**$ 621,361**	$ 620,218	$ 571,397
Total securities per share, diluted	**$ 21.12**	$ 20.97	$ 18.94

Guardian's securities as at September 30, 2017 had a fair value of $621 million, or $21.12 per share, diluted, compared with $620 million, or $20.97 per share, diluted, at the end of 2016. As at September 30, 2017, the securities were invested 58% in BMO shares and 42% largely in proprietary investment funds and strategies, compared with 62% and 38%, respectively, at the end of 2016. At the end of the current quarter, the non-Canadian equity exposure in the securities portfolio increased to 33%, compared to 28% at the end of 2016.

Guardian's shareholders' equity as at September 30, 2017 amounted to $608 million, or $20.67 per share, diluted, compared to $580 million, or $19.62 per share, diluted, at the end of 2016.

During the year, Guardian amended one of its credit facilities and increased its borrowing capacity from $11.0 million to $45.0 million. The amendment also enables the Company to offset certain cash balances against bank indebtedness for the calculation of interest. At the end of the current quarter, the total credit available, under various borrowing arrangements, amounted to $137.0 million. Guardian's total bank borrowings at September 30, 2017 amounted to $80.1 million, compared with $62.7 million at the end of 2016; however, the debt balance for the purpose of calculating interest was offset by the cash held in certain of its operations, to a net balance of $45.7 million.

Guardian's adjusted cash flow from operations for the current quarter was $4.8 million, compared to $9.3 million in the same quarter in 2016. The large decrease was largely the result of the payment of significant installments of the current year's taxes, which are expected to return to more normal levels in the next quarter. During the current quarter, Guardian made additional catchup tax installments. We expect the installment payments to return to more normal levels in the next quarter. Guardian primarily uses its adjusted cash flow from operations to fund its working capital, payment of quarterly dividends, share repurchases under its Normal Course Issuer Bid, redemption of equity based entitlements granted by the Employee Profit Sharing Plan and capital expenditures. Any excess adjusted cash flow from operations is used to either reduce debt or increase its investment in securities, while any shortfall is offset by either an increase in debt or the disposals of securities.

CONTRACTUAL OBLIGATIONS

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

As at September 30, 2017 *($ in thousands)*	Total	Within one year	One to three years	Three to five years	After five years
Bank loans and borrowings	$ 80,100	$ 80,100	$ --	$ --	$ --
Third party investor liabilities	164,700	164,700	--	--	--
Client deposits	51,638	51,638	--	--	--
Accounts payable and other	40,951	40,951	--	--	--
Payable to clients	64,426	64,426	--	--	--
Investment commitment - real estate fund	24,279	24,279	--	--	--
Operating lease obligations	16,806	2,027	4,231	4,328	6,220
Total contractual obligations	$ 442,900	$ 428,121	$ 4,231	$ 4,328	$ 6,220

Guardian's contractual commitments are supported by its strong financial position, including its securities, 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 in the offshore banking subsidiary are supported by the interest-bearing deposits with banks. The third party investor liabilities are supported by securities backing third party investor liabilities.

SUMMARY OF QUARTERLY RESULTS

The following chart summarizes Guardian's financial results for the past eight quarters:

Three months ended *($ in thousand, except per share amounts)*	**Sep 30, 2017**	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015
Net revenue	**$ 36,315**	$ 37,208	$ 38,618	$ 38,240	$ 35,185	$ 34,191	$ 35,070	$ 34,353
Operating earnings	**10,505**	12,160	12,458	12,371	10,646	10,300	11,350	10,256
Net gains (losses)	**10,987**	10,783	17,589	10,754	10,057	1,028	16,778	9,658
Net earnings	**18,232**	19,638	25,518	19,859	17,475	9,169	24,072	17,362
Net earnings available to shareholders	**17,987**	19,387	25,003	19,417	17,353	8,887	23,818	17,138
Shareholders' equity	**608,013**	603,428	605,039	580,177	545,339	513,939	497,656	504,255
Net earnings available to shareholders per Class A and Common share								
Basic	**$ 0.65**	$ 0.70	$ 0.91	$ 0.69	$ 0.61	$ 0.31	$ 0.83	$ 0.59
Diluted	**0.61**	0.67	0.86	0.65	0.58	0.30	0.79	0.56
Shareholders' equity per Class A and Common share								
Basic	**$ 21.87**	$ 21.75	$ 21.81	$ 20.75	$ 19.11	$ 18.08	$ 17.51	$ 17.37
Diluted	**20.67**	20.54	20.58	19.62	18.07	17.10	16.63	16.55
Dividends paid	**$ 0.100**	$ 0.100	$ 0.085	$ 0.085	$ 0.085	$ 0.085	$ 0.075	$ 0.075

Management fees earned in the investment management segment and net trailer commissions earned in the financial advisory segment are highly correlated to the level of average AUM and AUA, respectively, and generally not subject to seasonal fluctuations. However, some seasonality exists in the commission revenues in the MGA business, where the last quarter of the year sees an increase in revenues from "volume bonuses" earned from the life insurance companies as certain volume thresholds are achieved. These volume bonuses are increasing each year and are becoming more significant as the business continues to grow. The capital reallocation activities, including dispositions of Bank of Montreal shares, investments in the UCITS fund and changes in the investment in the real estate fund, have had the effect of changing the level and the frequency of dividend income earned on the corporate holding of securities. In addition, as Guardian continues to increase its non-domestic exposure within the securities portfolio, we are seeing an increase in dividend income in the second and the fourth quarters of each year, due to dividends from foreign equities being paid semi-annually during those periods.

The quarterly net revenue during the periods shown above has generally been affected by the following influences: firstly, the general growth trend in average AUM and improved margins has resulted in higher management fees in the investment management business, other than in the third quarter of 2017 where the lower average AUM reduced the management fee revenue for the quarter; secondly, there has been a significant growth in commissions earned in the financial advisory segment due to the strong growth in the life insurance MGA business as a result of the acquisitions made in recent years and continued success in recruitment of advisors, together with continuing growth in the Dealers; thirdly, the growth in net revenue during the quarters ended March 31, 2017 and December 31, 2016 reflected the significant increased sales of life insurance products by the MGA business; and finally a spike in net revenue during the first quarter of 2016 was due largely to an increase in fee revenue earned from increased transactional activities in the International Private Banking business.

Operating earnings have been influenced by the growth in revenues described above, offset by the additional expenditures associated with Guardian's strategic plan to invest in the business in the form of additional resources, technology investments and other expenditures.

Net gains (losses) can fluctuate from quarter to quarter for several reasons. Net gains (losses) on held for trading securities, mainly the securities held within the consolidated mutual funds, can fluctuate depending on the level of investment activities and the movements in equity markets. On available for sale securities, they can fluctuate based on the timing of the disposition of securities. The more significant disposals of available for sale securities occurred in the quarters ended September 30, 2017, March 31, 2017, December 31, 2016, September 30, 2016, March 31, 2016 and December 31, 2015, when Guardian disposed of some of its holdings of BMO shares. In addition, net gains (losses) may fluctuate due to the exchange rate movements on non-functional currencies held.

The quarterly fluctuations in Shareholders' equity shown above have been largely caused by changes in the value of securities, including the investment in the BMO common shares, less the provision for deferred income taxes and the effects of changes in foreign currency rates on the net assets of foreign subsidiaries.

RISK FACTORS

The largest business segment at Guardian is investment management, in which clients look to Guardian to manage risks within their portfolios. Guardian applies many of the same risk management principles to its business as a whole. One of these 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 14 to Guardian's third quarter Consolidated Financial Statements 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. In the financial advisory business, market fluctuations can have a significant impact on the amounts being invested by the clients, 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 security holdings are managed independently of clients' assets, except for those of our assets that are invested in Guardian's investment funds.

Portfolio Value and Concentration Risks

Guardian's securities are subject to price risk. The potential impact of market fluctuations on the value of the securities is provided in note 14 to Guardian's third quarter 2017 Consolidated Financial Statements. Guardian manages this risk through professional in-house investment management expertise, which takes a disciplined approach to investment management. Guardian currently holds $359 million in Bank of Montreal shares, which represents 58% (December 31, 2016 – 62%) of Guardian's securities. Guardian has accepted this concentration risk, as the bank is a diversified company with a history of steady and growing dividend payments. However, Guardian has been reducing its exposure over time, disposing over 1.1 million shares of the bank since the second quarter of 2013. With the exception of the investment in the Bank of Montreal shares, the securities are diversified from both an asset class and a geographical perspective. At the end of the current quarter, the corporate holding of securities consisted of 63% (December 31, 2016 - 68%) Canadian equities, consisting mainly of the Bank of Montreal shares, 33% (December 31, 2016 – 28%) non-Canadian equities and 3% (December 31, 2016 – 4%) fixed income securities. All securities are held by well-known independent custodians chosen by Guardian.

Foreign Currency Risk

Guardian's investments in its foreign subsidiaries are subject to the risk of foreign currency exchange rate fluctuations. The effects of changes in foreign currency exchange rates on the values of these investments are not included in Net earnings, but are recorded as changes in the "foreign currency translation adjustment" in Guardian's Statements of Comprehensive Income, and the cumulative effect is included in Accumulated Other Comprehensive Income in the Shareholders' Equity section of the Consolidated Balance Sheets. In addition, the operating results of these subsidiaries can fluctuate with the change in the foreign currency exchange rates against the Canadian dollars. These foreign currency exposures are not actively managed, due to the long-term nature of these investments, but is closely monitored by management. 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, its 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. Guardian periodically reviews the financial strength of all of its counterparties, and if the circumstances warrant it Guardian takes appropriate action to reduce its exposure to certain counterparties. The credit risk associated with Guardian's investment in fixed-income mutual funds is managed by the monitoring of the activities of the portfolio manager who, through diversification and credit quality reviews of the funds' investments, manage the funds' credit risk. From time to time, advisors in the Financial Advisory segment may owe to the Dealers or the MGA, advances received or amounts resulting from reversal of commissions. The credit risk associated with these amounts are mitigated by management's review of the advisors' ability to repay the advances or the potential commission reversals, particularly in the MGA business, before amounts are paid to the advisors.

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. The interest rate risks associated with Guardian's investment in fixed-income mutual funds and bonds are managed by monitoring the activities of the portfolio manager, who manages this risk by positioning the portfolio for various interest rate environments.

Liquidity Risk

Guardian manages liquidity risk through the monitoring and managing of cash flows from operations, by establishing sufficient cash borrowing facilities with major Canadian banks, which currently total $137 million through three credit facilities, and leveraging the support of its significant security portfolio. 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, the securities holdings and the borrowing facilities provide sufficient cash resources to manage its liquidity risk.

Regulatory and Legal Risk

Guardian and its subsidiaries operate in an environment subject to various laws and regulations. Given the nature of certain of Guardian's subsidiaries, they may, from time to time, be subject to claims or complaints from investment clients and sanctions from governing bodies. These risks are mitigated by maintaining relevant in-house competence in laws and regulations, compliance and product review oversight, adequate insurance coverage and, where appropriate, utilizing assistance from external advisors.

Financial Advisory Risk

Because of the number of advisors 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 advisors.

Information Technology and Cybersecurity Risk

Guardian uses information technology and the internet to streamline business operations and to improve client and advisor experience. However, with the use of information technology, including the use of mobile devices, and the use of internet, such as emails and other online capabilities, Guardian is exposed to information security and other technology disruptions risks that could potentially have an adverse impact on its business. Guardian actively monitors this risk and continues to develop controls to protect against such threats that are becoming more sophisticated and pervasive.

Competition Risk

Guardian operates in a highly competitive environment, with competition based on a variety of factors including investment performance, the type and quality of products offered, business reputation and financial strength. Loss of client assets to competition will result in losses of revenue and earnings to Guardian. Guardian attempts to mitigate this risk by developing and maintaining a competitive product line and competitive relative performance of its products, through the recruitment and retention of high quality investment professionals and a high quality management team. Our ability to compete is also enhanced by our large capital base, which provides Guardian with the financial strength to invest in the development or acquisition of businesses. It also provides existing and future clients with comfort which allows Guardian to better compete in winning and retaining these clients.

FUTURE CHANGES IN ACCOUNTING POLICIES

A number of new standards, and amendments to existing standards, have been issued by the International Accounting Standards Board ("IASB"), which are effective for Guardian's consolidated financial statements in future periods. Two standards in particular are effective for Guardian's annual periods beginning on January 1, 2018, IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.

Guardian's initial review and assessment of the potential impact of adopting these two standards are provided in the notes to the Consolidated Financial Statements contained in Guardian's Third Quarter 2017 Report to Shareholders. The review and assessment phase for these two standards is expected to be completed in early fourth quarter of this year and the implementation phase to commence in the same quarter.

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 December 31, 2016, Consolidated Financial Statements. The most significant accounting estimates are related to the impairment assessment of goodwill and the determination of fair value of securities which are classified as level 3 within the fair value hierarchy. These valuation approaches are most sensitive to the levels of AUA and annual service fees for goodwill and the level of AUM for the determination of fair value of level 3 securities. No changes to the valuation methodologies were made during the current quarter.

NON-IFRS MEASURES

EBITDA and EBITDA per share

Guardian defines EBITDA as net earnings before interest, income tax, amortization, stock-based compensation, and net gains or losses, less amounts attributable to non-controlling interests. EBITDA per share is calculated using the same average shares outstanding as are used in calculating net earnings available to shareholders per share. Guardian believe these are important measures, as it allows management 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, the amounts of net earnings available to non-controlling interests and the level of capital expenditures. The most comparable IFRS measures are "Net earnings" and "Net earnings available to shareholders per share, diluted", which are disclosed in Guardian's Consolidated Statements of Operations.

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

For the periods ended September 30	Three months		Nine months	
($ in thousands)	**2017**	2016	**2017**	2016
Net earnings, as reported	**$ 18,232**	$ 17,475	**$ 63,388**	$ 50,716
Add (deduct):				
Income tax expense	**3,260**	3,228	**11,094**	9,443
Net losses (gains)	**(10,987)**	(10,057)	**(39,359)**	(27,863)
Stock-based compensation	**520**	463	**1,468**	1,270
Interest expense	**191**	192	**586**	633
Amortization	**1,051**	1,040	**3,129**	3,115
Non-controlling interests	**(456)**	(276)	**(1,719)**	(1,164)
EBITDA	**$ 11,811**	$ 12,065	**$ 38,587**	$ 36,150

Adjusted cash flow from operations and adjusted cash flow from operations per share

Adjusted cash flow from operations and the per share amount are used by management to measure the amount of cash either provided by or used in Guardian's operating activities available to shareholders, without the distortions caused by fluctuations in its working capital. The most comparable IFRS measure is "Net cash from operating activities", which is disclosed in Guardian's Consolidated Statements of Cash Flow. Adjusted cash flow from operations per share is calculated using the same average shares outstanding as are used in calculating net earnings available to shareholders per share.

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

For the periods ended September 30	Three months		Nine months	
($ in thousands)	**2017**	2016	**2017**	2016
Net cash from operating activities, as reported	**$ 11,924**	$ 9,929	**$ 20,374**	$ 27,673
Add (deduct):				
Net change in non-cash working capital items	**(6,644)**	(475)	**998**	1,447
Non-controlling interests	**(495)**	(161)	**(1,311)**	(809)
Adjusted cash flow from operations	**$ 4,785**	$ 9,293	**$ 20,061**	$ 28,311

Shareholders' equity per share

Shareholders' equity per share, diluted, is used by management to indicate the retained value per share available to shareholders which is created by Guardian's operations. The most comparable IFRS measure is Shareholders equity, which is disclosed in Guardian's Consolidated Balance Sheet. Shareholders' equity per share is calculated by dividing shareholders' equity by the number of shares and dilutive shares outstanding as at period end.

Securities per share

Securities per share is used by management to indicate the value available to shareholders created by Guardian's investment in securities, without the netting of debt or deferred income taxes associated with the unrealized gains. The most comparable IFRS measure is Securities which is disclosed in Guardian's Consolidated Balance Sheet. Securities per share is calculated by dividing securities by the number of shares and dilutive outstanding as at period end.

OUTLOOK

According to the International Monetary Fund (IMF), real GDP growth has accelerated globally in 2017, the first uptick in the rate of expansion of the world economy since the initial, post crisis snapback, in 2010 and the momentum is projected to be sustained into 2018. A big reason for this upward trajectory is the fact that, just as this economic expansion finishes celebrating its eighth birthday, more countries are joining the growth party. All 45 major economies tracked by the Organisation for Economic Co-operation and Development are projected to grow in 2017, the first time there has been such a degree of synchronized growth in a decade. Moreover, of the 191 economies tracked by the IMF, 179 are projected to expand this year, also the highest share in a decade, and that tally is expected to continue to increase next year. Expansions are stronger when they are broadly-based because such an environment can help create a "virtuous cycle" of growth, rising demand in one economy creates rising demand for another country's exports, which in turn supports domestic demand there and further supports more exports. It is no coincidence that this breadth of synchronized economic improvement comes at a time when growth in global trade flows are accelerating. However, the rate of acceleration in global growth is likely going to be fairly tepid by historical standards. Absent some sort of catalyst to drive a productivity surge, it is highly unlikely that we will return to growth rates that will rival the Tech Boom of the 1990s in the foreseeable future. This is because, while the breadth of growth is improving, not all growth is created equal. Thanks to the rapid maturation of the major Emerging Market economies (China and India, in particular), the world is no longer getting the lift from 10% annual growth rates from countries that carry enough weight to really significantly improve growth rates. Globally, most asset classes appear expensive relative to their historical norms, but in a period of very low interest rates and inflation it is to be expected that valuations can appear high. Central banks are starting to look to withdraw from the emergency monetary stimulus brought on by the housing crash, and the various crises that followed, the Bank of Canada, the Federal Reserve and the Bank of England have started slowly increasing rates while the European Central Bank is hinting they will start removing accommodation as well. Fortunately, prevailing low rates of inflation, and a fear on the part of central banks of making big mistakes, means not much urgency and expectations that there are still good returns available to investors who are able to pick their spots wisely. Risks certainly remain with potential friction on trade between the USA, its NAFTA partners and even China. Analysts and the public are also worried about geopolitical risks, particularly concerning North Korea, and to a lesser extent, Iran. Absent any problems in these areas, we continue to expect reasonable stability in the markets.

The performance of the S&P/TSX Composite Index remains the external factor having the greatest effect on Guardian's performance, as the majority of our AUM or AUA are exposed to it. Guardian's efforts to diversify its investment solutions by building its systematic global investment capabilities over the past decade have served to offset a portion of its current high concentration on Canadian equity solutions. We are also investing in additional global capabilities, with the presence of our UK-based fundamental investment team which, together with our global systematic capabilities, reflect our desire to establish new abilities, outside of our existing specialty in managing Canadian assets. The establishment of our UK office and the hiring of a distribution team in the US reflects our desire to tap into new markets for our next phase of growth. To support these growth plans we have also invested over $200 million of our own capital into our proprietary strategies to give them greater scale and better align our interests with those of our clients and prospective clients, with the expectation that it will accelerate the growth in those strategies. Although we continue to incur operating losses with our business in the UK, we are encouraged by the frequent and high quality discussions we are having with existing and prospective clients, and the steady trickle of new assets into these investment capabilities.

As we continue to increase our exposure to Global equities in both our underlying AUM and corporate securities portfolio, Guardian's performance will increasingly be better diversified from the concentrated risks and economic variables impacting the Canadian equity market, towards the broader characteristics of the overall global equity market.

The Canadian equity markets are also a significant factor for Guardian's Financial Advisory Segment and its AUA. However the segment's financial contribution from its Managing General Agency, which has lower correlation to the equity markets than our Dealers business, and the generally balanced allocation of AUA throughout the advisor books of business, better positions this segment to absorb negative impacts, should Canadian markets suffer a decline.

Both the Investment Management and Financial Advisory businesses have the financial strength of Guardian's balance sheet to support their patient, long-term strategic business objectives of becoming even more meaningful contributors to operating profit for Guardian. As we succeed in executing our operating business growth plans, we also intend to continue rewarding our shareholders, by paying out cash in the form of both dividends and share buybacks.

GUARDIAN
CAPITAL

Our history. Your future.

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