

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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 June 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 August 10, 2017.

Additional information relating to Guardian and its business, including Guardian's Annual Information Form, is available on "SEDAR" at [www.sedar.com](http://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 placed 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.

**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 pages 25 to 26 of this report, a description of how these measures are defined by Guardian is provided, with reconciliations to their nearest IFRS measures.

**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 June 30, 2017, Guardian had \$26.4 billion in assets under management ("AUM") and \$17.1 billion of financial advisory assets under administration ("AUA"). In addition, Guardian has a diversified portfolio of securities which had a fair value of approximately \$627 million at the end of the quarter.

**CONSOLIDATED FINANCIAL RESULTS**

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

For the periods ended June 30 (\$ in thousands, except per share amounts)	Three months		Six months	
	2017	2016	2017	2016
Net revenue	\$ 37,208	\$ 34,191	\$ 75,826	\$ 69,261
Expenses	25,048	23,891	51,208	47,611
Operating earnings	12,160	10,300	24,618	21,650
Net gains	10,783	1,028	28,372	17,806
Net earnings before income taxes	22,943	11,328	52,990	39,456
Income tax expense	3,305	2,159	7,834	6,215
Net earnings	\$ 19,638	\$ 9,169	\$ 45,156	\$ 33,241
Net earnings available to shareholders	\$ 19,387	\$ 8,887	\$ 44,390	\$ 32,705
EBITDA	13,470	11,607	26,776	24,085
Adjusted cash flow from operations	10,859	9,435	15,276	19,018
Diluted per share amounts				
Net earnings available to shareholders	\$ 0.67	\$ 0.30	\$ 1.52	\$ 1.09
EBITDA	0.46	0.39	0.92	0.80
Adjusted cash flow from operations	0.37	0.32	0.53	0.64

**CONSOLIDATED FINANCIAL RESULTS (continued)**

As at (\$ in millions, except per share amounts)	2017 June 30		2016 December 31		June 30
Shareholders' equity	\$	603	\$	580	\$ 514
Fair value of corporate holding of securities		627		620	540
Diluted per share					
Shareholders' equity	\$	20.54	\$	19.62	\$ 17.10
Fair value of corporate holding of securities		21.35		20.97	17.96

**RESULTS OF OPERATIONS**

For the quarter ended June 30, 2017, Guardian's operating earnings were \$12.2 million, an 18% increase from \$10.3 million reported for the same quarter in 2016. All segments contributed positively to this growth. Included in the operating earnings for the current quarter were \$1.5 million in operating losses, compared to \$0.9 million in the same quarter in the prior year, related to the investments made in the development of the investment management business in the UK and the distribution capabilities in the US. These investments are expected to continue to have a dampening effect on operating earnings in the short term, but lead to improved results in the future.

The increase in operating earnings in the current quarter was led by the Financial Advisory Segment, which grew its earnings by \$0.8 million to \$3.0 million, a 35% increase, compared to the same quarter in the prior year. The increase was largely due to the growth in recurring revenues in the form of life insurance service commissions and mutual fund trailer commissions, which are driven by increases in the premiums of in-force life insurance policies and AUA, respectively.

The Investment Management Segment's operating earnings increased by \$0.6 million to \$5.2 million, a 14% increase, compared to the same quarter in the prior year, largely due to increased management fee revenue, which is driven by the increase in AUM. This increase was achieved while supporting a \$0.6 million increase in operating losses related to the two developing operations in the UK and the US.

The operating earnings in the Corporate Activities and Investments Segment increased by \$0.5 million, a 13% increase, compared to the same quarter in the prior year, due largely to increased allocation of the securities portfolio to higher dividend yielding securities and increased dividend income from a growing securities portfolio.

Net gains for the current quarter were \$10.8 million, compared to a net gain of \$1.0 million in 2016. The net gains during the current quarter were largely related to gains realized on global equity securities within the consolidated investment funds.

Net earnings available to shareholders were \$19.4 million in the current quarter, compared to \$8.9 million in the same quarter in the prior year. The increase was due largely to the increase in operating earnings and net gains, as described above, offset by higher income taxes.

EBITDA for the quarter was \$13.5 million, compared to \$11.6 million in the same period in 2016. The adjusted cash flow from operations for the quarter was \$10.9 million, compared to \$9.4 million in the same period in 2016. The increases in EBITDA and adjusted cash flow from operations were due largely to the increase in operating earnings in the current quarter compared to the same period in the prior year.

**ASSETS UNDER MANAGEMENT AND ADMINISTRATION**

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

As at (\$ in millions)	2017 June 30		2016 December 31		June 30
Assets under management					
Institutional					
Canadian equities	\$	11,928	\$	13,294	\$ 12,561
Global equities		3,640		3,306	3,317
Fixed income		7,964		7,780	7,369
		23,532		24,380	23,247
Private client		2,847		2,900	2,407
Total assets under management	\$	26,379	\$	27,280	\$ 25,654
Assets under administration	\$	17,073	\$	16,489	\$ 15,425

The AUM at Guardian as at June 30, 2017 was \$26.4 billion, up 3% from \$25.7 billion at June 30, 2016, and 3% lower than \$27.3 billion at December 31, 2016. In the first quarter, we reported that a client had notified us of its intention to internalize the management of two closed-end funds which we co-advise. This has resulted in the loss of approximately \$150 million in AUM related to this client. We also recorded some net outflow of assets in our Private Wealth business in the current quarter, due mainly to a large partial withdrawal by a client for estate planning purposes.

The AUA at June 30, 2017 was \$17.1 billion, an 11% increase from \$15.4 billion at June 30, 2016, and a 4% increase from \$16.5 billion at December 31, 2016.

**REVENUES AND EXPENSES****Management Fee Income, Net**

Management fee income, net of referral fees paid, for the quarter ended June 30, 2017 were \$17.7 million, a 7% increase from \$16.5 million in the same quarter in the prior year. Both the institutional and private wealth units within the Investment Management Segment increased their management fee as a result of the increases in the average AUMs compared to the same quarter in 2016. Institutional management fees earned in the current quarter were \$13.6 million, compared to \$12.8 million a year earlier. Private wealth and international private banking management fees,

net of referral fees paid, earned in the current quarter amounted to \$4.1 million, compared to \$3.7 million a year earlier.

### Financial Advisory Commission Revenue

Net commission revenue earned from the Financial Advisory Segment is the commission revenue 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 AUA at the end of the current quarter in the Financial Advisory Segment was \$17.1 billion, up 11% compared to \$15.4 billion in the prior year, due to a combination of market performance, net sales and recruitment.

Net commission revenue in the Financial Advisory Segment for the current quarter was \$9.9 million, an increase of 8% compared to \$9.2 million a year earlier. The net commission revenue contributed by the Dealers business in the current quarter was \$3.6 million, compared to \$3.3 million in the same quarter in the prior year, due largely to increase in trailer commissions driven by the increase in AUA. The net commission revenue contributed by the MGA business in the current quarter was \$6.3 million, compared to \$5.9 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. As we had anticipated, the Premiums Sold in the current quarter returned to more normal levels of \$15.8 million, from the highs we achieved in the previous two quarters. During the same quarter in the prior year, the Premiums Sold was \$17.3 million. The lower Premiums Sold in the current quarter did not result in a decrease in sales commission revenue as the margins were higher on the current quarter sales.

### Administrative Services Income

Administrative services income is comprised of registered plan and other fees earned in the Financial Advisory Segment, administration fees earned from managed investment funds in the investment management business, and trust, corporate administration and other related fees earned in the International Private Banking business. This income amounted to \$3.4 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 June 30 (\$ in thousands)	Three months		Six months	
	2017	2016	2017	2016
Dividends on Bank of Montreal shares	\$ 3,432	\$ 3,519	\$ 6,952	7,325
Other dividends	2,303	1,285	3,889	2,539
Dividend income	5,735	4,804	10,841	9,864
Interest income	452	389	837	807
	\$ 6,187	\$ 5,193	\$ 11,678	10,671

The increase in dividends in the current quarter compared to the same quarter in the prior year is due to a combination of higher dividends being earned on a larger portfolio of securities and increased allocation to higher dividend yielding securities. In addition, dividends on many of the global equity securities are paid semi-annually. This results in the increase in dividend income earned being more pronounced in the quarters when dividends are paid compared to the non-dividend paying quarters. As a result, the increase in dividend income from global securities earned in the current quarter compared to the prior year were significantly higher than in the first quarter of 2017 compared to the first quarter of 2016.

### Expenses

Guardian's expenses increased to \$25.0 million in the current quarter, compared with \$23.9 million in the same quarter of 2016, largely as a result of the planned investments into developing the US distribution channel, which was launched in late second quarter in 2016, and to lesser extent the planned investments into other businesses to strengthen its technology, compliance and operational capabilities.

### NET GAINS

For the periods ended June 30 (\$ in thousands)	Three months		Six months	
	2017	2016	2017	2016
Held for trading securities	\$ 9,222	\$ 554	\$ 19,903	3,934
Available for sale securities	1,147	(237)	7,817	13,087
Net gains on securities	10,369	317	27,720	17,021
Gains on disposal of intangible assets	200	425	382	532
Foreign exchange losses	214	286	270	253
Net gains	\$ 10,783	\$ 1,028	\$ 28,372	17,806

Net gains in the current quarter were \$10.8 million compared to \$1.0 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 to a lesser extent from the partial sale of the investments in the real estate fund and the reallocation of capital within the securities portfolio.

**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 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 (\$ in thousands, except per share amounts)	2017 June 30		2016 December 31		June 30
<b>Securities:</b>					
Proprietary investment strategies:					
Short-term securities	\$	--	\$	12,567	\$ 2,061
Fixed income securities		15,663		10,484	9,481
Canadian equities		20,003		13,507	16,103
Global equities		187,981		161,153	141,130
Real estate		17,498		23,759	15,120
		241,145		221,470	183,895
Bank of Montreal common shares		371,358		386,240	342,554
Other securities		14,754		12,508	13,102
<b>Securities</b>	<b>\$</b>	<b>627,257</b>	<b>\$</b>	<b>620,218</b>	<b>\$ 539,551</b>
<b>Total securities per share, diluted</b>	<b>\$</b>	<b>21.35</b>	<b>\$</b>	<b>20.97</b>	<b>\$ 17.96</b>

Guardian's securities as at June 30, 2017 had a fair value of \$627 million, or \$21.35 per share, diluted, compared with \$620 million, or \$20.97 per share, diluted, at the end of 2016. As at June 30, 2017, the securities consisted of 59% BMO shares and 41% in largely 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 32%, compared to 28% at the end of 2016. Guardian's shareholders' equity as at June 30, 2017 amounted to \$603 million, or \$20.54 per share, diluted, compared to \$580 million, or \$19.62 per share, diluted, at the end of 2016.

Guardian's total bank borrowings at June 30, 2017 amounted to \$65.2 million, compared with \$62.7 million 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. As a result, at the end of the current quarter, the total credit available, under various borrowing arrangements, amounted to \$137.0 million.

Guardian's adjusted cash flow from operations for the current quarter was \$10.9 million, compared to \$9.4 million in the same quarter in 2016. 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, purchase of shares for its Employee Profit Sharing Plan and capital expenditures. Any excess adjusted cash flow from operations is used to either pay down debt or increase its investment in securities and any shortfall in adjusted cash flow from operations is offset by either increase in debt or disposal 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 June 30, 2017 (\$ in thousands)	Total	Within one year	One to three years	Three to five years	After five years
Bank loans and borrowings	\$ 65,212	\$ 65,212	\$ --	\$ --	\$ --
Third party investor liabilities	143,446	143,446	--	--	--
Client deposits	51,458	51,458	--	--	--
Accounts payable and other	33,058	32,356	702	--	--
Payable to clients	65,808	65,808	--	--	--
Investment commitment - real estate fund	17,896	17,896	--	--	--
Operating lease obligations	17,355	2,045	4,203	4,344	6,763
<b>Total contractual obligations</b>	<b>\$ 394,233</b>	<b>\$ 378,221</b>	<b>\$ 4,905</b>	<b>\$ 4,344</b>	<b>\$ 6,763</b>

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 offset by securities backing third party investor liabilities.

Subsequent to June 30, 2017, Guardian invested an additional amount into the real estate fund and also made a partial sale of units of the fund to arm's length investors, reducing its investment by \$6.1 million. Consequently, the uninvested commitment to invest in the fund was increased to \$24.0.

**SUMMARY OF QUARTERLY RESULTS**

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

<b>Three months ended</b> <i>(\$ in thousand, except per share amounts)</i>	<b>Jun 30,</b> <b>2017</b>	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015
Net revenue	\$ <b>37,208</b>	\$ 38,618	\$ 38,240	\$ 35,185	\$ 34,191	\$ 35,070	\$ 34,353	\$ 33,188
Operating earnings	<b>12,160</b>	12,458	12,371	10,646	10,300	11,350	10,256	10,876
Net gains (losses)	<b>10,783</b>	17,589	10,754	10,057	1,028	16,778	9,658	(2,407)
Net earnings	<b>19,638</b>	25,518	19,859	17,475	9,169	24,072	17,362	6,278
Net earnings available to shareholders	<b>19,387</b>	25,003	19,417	17,353	8,887	23,818	17,138	6,053
Shareholders' equity	<b>603,428</b>	605,039	580,177	545,339	513,939	497,656	504,255	470,533
Net earnings available to shareholders per Class A and Common share								
Basic	\$ <b>0.70</b>	\$ 0.91	\$ 0.69	\$ 0.61	\$ 0.31	\$ 0.83	\$ 0.59	\$ 0.21
Diluted	<b>0.67</b>	0.86	0.65	0.58	0.30	0.79	0.56	0.20
Shareholders' equity per Class A and Common share								
Basic	\$ <b>21.75</b>	\$ 21.81	\$ 20.75	\$ 19.11	\$ 18.08	\$ 17.51	\$ 17.37	\$ 15.96
Diluted	<b>20.54</b>	20.58	19.62	18.07	17.10	16.63	16.55	15.23
Dividends paid	\$ <b>0.100</b>	\$ 0.085	\$ 0.085	\$ 0.085	\$ 0.085	\$ 0.075	\$ 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. 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 quarter 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, reflecting the general growth trend in average AUM and improved margins, management fees in the investment management business have generally increased; 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 reflects 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 back into the business in the form of additional resources 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, it can fluctuate based on the timing of the disposition of securities. The more significant disposals of available for sale securities occurred in the quarter ended 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 second 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 second 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 \$371 million in Bank of Montreal shares, which represents 59% (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 one 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 were made up of 65% (December 31, 2016 - 68%) Canadian equities, consisting mainly of the Bank of Montreal shares, 32% (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 Second 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 in the same manner as net earnings available to shareholders per share, except EBITDA is used as the numerator rather than net earnings available to shareholders. Guardian believes 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 June 30 (\$ in thousands)	Three months		Six months	
	2017	2016	2017	2016
<b>Net earnings, as reported</b>	\$ 19,638	\$ 9,169	\$ 45,156	\$ 33,241
<b>Add (deduct):</b>				
Income tax expense	3,305	2,159	7,834	6,215
Net losses (gains)	(10,783)	(1,028)	(28,372)	(17,806)
Stock-based compensation	516	461	948	807
Interest expense	187	228	395	441
Amortization	1,052	1,035	2,078	2,075
Non-controlling interests	(445)	(417)	(1,263)	(888)
<b>EBITDA</b>	<b>\$ 13,470</b>	<b>\$ 11,607</b>	<b>\$ 26,776</b>	<b>\$ 24,085</b>

**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 in the same manner as net earnings available to shareholders per share except that adjusted cash flow from operations is used as the numerator.

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

For the periods ended June 30 (\$ in thousands)	Three months		Six months	
	2017	2016	2017	2016
<b>Net cash from operating activities, as reported</b>	\$ 14,541	\$ 13,294	\$ 8,450	\$ 17,744
<b>Add (deduct):</b>				
Net change in non-cash working capital items	(3,519)	(3,557)	7,642	1,922
Non-controlling interests	(163)	(302)	(816)	(648)
<b>Adjusted cash flow from operations</b>	<b>\$ 10,859</b>	<b>\$ 9,435</b>	<b>\$ 15,276</b>	<b>\$ 19,018</b>

**Shareholders' equity per share**

Shareholders' equity per share, diluted, is used by management to indicate the retained value 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 securities outstanding as at period end. The dilutive securities outstanding as at period end is calculated in a manner that is similar to that which is used in the calculation of net earnings available to shareholders per share.

### 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 securities outstanding as at period end. The dilutive securities outstanding as at period end is calculated in a manner that is similar to that which is used in the calculation of net earnings available to shareholders per share.

### OUTLOOK

With the US and Canada starting to slowly tighten monetary policy, markets will likely require earnings growth to continue to be strong in order to propel these countries' stock markets further. While most of the other major central banks are not tightening and continue to have concerns over weak growth and inflation, there seems to be a shift in the messages they are putting out, and one can assume that we are getting closer to a period of policy normalization than would have been apparent only a few months ago. It seems likely that if widespread tightening comes, it will be at a very slow pace, and the effects of the tightening will be very carefully monitored. The U.S. economy looks poised for a modest acceleration in growth this year. Historically low interest rates, steady jobs growth, wage growth, strong consumer spending, relatively low consumer debt, improved household formation and relatively cheap fuel prices provide an encouraging economic backdrop. We continue to expect China to muddle its way through a soft landing, maintaining growth of 6% to 7%, and then tapering off over the next few years. While China's growth has, at times shown indications of weakness, China does have considerable fiscal and monetary firepower at its disposal to offset or moderate the imbalances in the economy. China has been utilizing monetary and fiscal action in a measured way for some time now, stimulating parts of the economy and reigning in other parts, and we anticipate this to continue. While we had anticipated that the uncertainty related to Brexit would cause the EU economies to slow, we do note that the economies in Europe are accelerating during this interim period (Brexit negotiations will occur over the next two years).. Even if Europe slows, we believe that the U.S. and Asia can continue to grow without Europe. This was the case during Europe's post financial-crisis periods of recession and stagnant growth, and analogous to how the rest of the world has grown without Japan since the 1990s. We note that the UK and the EU represent only about 2% and 16% of world growth, respectively.

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 has 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, reflects our desire to establish new areas for growth in AUM. 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 it greater scale and better align our interest with those of our clients and prospective clients, with the expectations that it will accelerate the growth in those strategies. Although we continue to currently incur operating losses in these businesses, we are encouraged by the frequent and high quality discussions we continue to have with existing and prospective clients regarding 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 away 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 MGA, which has lower correlation to the equity markets than our Dealers business, and the generally balanced allocation of AUA throughout the 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.



Our history. Your future.

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