Guardian

Guardian Capital Group Limited

Report to Shareholders

Second Quarter 2017

TO OUR SHAREHOLDERS:

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

For the periods ended June 30	**Three months**		**Six months**	
($ in thousands, except per share amounts)	**2017**	2016	**2017**	2016
Net revenue	**$ 37,208**	$ 34,191	**$ 75,826**	$ 69,261
Operating earnings	**12,160**	10,300	**24,618**	21,650
Net gains	**10,783**	1,028	**28,372**	17,806
Net earnings available to shareholders	**19,387**	8,887	**44,390**	32,705
EBITDA [1]	**$ 13,470**	$ 11,607	**$ 26,776**	$ 24,085
Adjusted cash flow [1]	**10,859**	9,435	**15,276**	19,018
Per share:				
Net earnings available to shareholders	**$ 0.67**	$ 0.30	**$ 1.52**	$ 1.09
EBITDA [1]	**0.46**	0.39	**0.92**	0.80
Adjusted cash flow [1]	**0.37**	0.32	**0.53**	0.64

As at	**2017**	**2016**	
($ in millions, except per share amounts)	**June 30**	December 31	June 30
Assets under management	**$ 26,379**	$ 27,280	$ 25,654
Assets under administration	**17,073**	16,489	15,425
Shareholders' equity	**603**	580	514
Fair value of corporate holdings of securities	**627**	620	540
Per share:			
Shareholders' equity [1]	**$ 20.54**	$ 19.62	$ 17.10
Fair value of corporate holdings of securities [1]	**21.35**	20.97	17.96

Summary

The Company's operating earnings for the quarter ended June 30, 2017 were $12.2 million, an 18% increase, compared to $10.3 million in the same period a year earlier. All segments of the Company contributed positively to the growth. This increase was achieved while continuing to invest in developing operations in the UK and the US. The operating losses related to these two initiatives in the current quarter were $1.5 million, $0.6 million higher than the losses incurred in the same quarter in the prior year. These investments will continue to have a dampening effect on earnings in the short term, but are expected, over the long term, to improve future operating earnings.

Net gains in the current quarter were $10.8 million, compared to $1.0 million in the prior period, largely as a result of net gains realized within the investment funds consolidated by the Company.

Net earnings available to shareholders for the current quarter increased to $19.4 million, or $0.67 per share, compared to $8.9 million, or $0.30 per share a year earlier, resulting from the increased operating earnings and net gains, as described above.

The Company's assets under management as at June 30, 2017 were $26.4 billion, an increase of 3% from $25.7 billion at June 30, 2016 but a decrease of 3% from $27.3 billion at the end of 2016. Assets under administration at the end of the current quarter were $17.1 billion, an 11% increase from $15.4 billion at June 30, 2016, and up 4% from $16.5 billion at the end of 2016.

EBITDA[1] for the current quarter was $13.5 million, or $0.46 per share, compared to $11.6 million, or $0.39 per share in 2016. Adjusted cash flow from operations[1] for the current quarter was $10.9 million, or $0.37 per share, compared to $9.4 million, or $0.32 per share in 2016.

The Company's shareholders' equity as at June 30, 2017 was $603 million, or $20.54 per share, compared to $580 million, or $19.62 per share as at December 31, 2016 and $514 million, or $17.10 per share as at June 30, 2016. The Company's securities as at June 30, 2017 were valued at $627 million, or $21.35 per share, compared to $620 million, or $20.97 per share, as at December 31, 2016 and $540 million, or $17.96 per share, as at June 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 second quarter, most major equity markets had positive returns, one exception being the main Canadian equity benchmark, the S&P/TSX Composite, which was negatively affected by resource stocks and had a return of -1.6%. Cumulatively, the S&P/TSX returned 11.0% for the trailing twelve month period. In the United States, despite signs that business-friendly reforms are running into difficulty, the S&P 500 had a positive return of 3.1% during the quarter, and a cumulative return of 17.9% (measured in US dollars), for the past twelve months. Once again, global and emerging markets benchmarks also had positive returns in the quarter.

It appears that the global economy is starting to experience a period of synchronized expansion that may result in monetary policy tightening in the mid-term. The Canadian economy continued its positive surprises in the second quarter. The Bank of Canada (BOC) has begun reversing course on monetary policy, with a rate hike at the July meeting and the potential for another one later in the year. In the U.S., the Federal Reserve has indicated that it will continue to slowly remove stimulus. While these moves are noteworthy, monetary policy continues to be accommodative throughout the world, and will likely remain a positive influence on global growth for the foreseeable future.

As at June 30, 2017, the Company's assets under management ("AUM") were $26.4 billion, up 3% year over year but down 3% since the end of 2016, and assets under administration ("AUA"), at $17.1 billion, increased 11% year over year and 4% since the end of 2016. Positive performance of equity markets overall, and the S&P/TSX in particular, helped to increase AUM over the past 12 months, and led to increased investment management revenues in the second quarter of 2017 versus Q2 2016. The decrease in AUM since the end of 2016 was caused by the net outflow of assets, partially offset by market performance. The net outflows were due largely to the net redemption of Canadian equity assets by our institutional clients and by retail investors from certain sub-advised mutual funds.

Most of the 11% growth in AUA over the past year is market related; however, growth has been aided by some 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 AUA and in-force life insurance policies. Within this segment, our life insurance Managing General Agency ("MGA") had net sales commissions on insurance products at more normal, historical levels this quarter, as expected, from the peaks we recorded in the past two quarters, which had been driven by higher than normal life insurance sales, which were initiated in advance of tax changes announced in the federal budget last year. Despite the decrease in sales volume compared to the prior two quarters, management is encouraged by the results of the second quarter's net commission revenue, which was 6% higher than the comparable period in 2016.

Net revenue and operating earnings for the current quarter were up 9% and 14%, respectively, on a year over year basis. Planned expenses were higher this quarter than last year due to the previously disclosed initiatives of investing in future growth by hiring resources to broaden our investment management product offerings, expanding our distribution capability in the U.S., and increasing our technology infrastructure expenditures across our various business segments. Operating earnings for the three months ended June 30, 2017 were $12.2 million, compared to $10.3 million in the same period in 2016.

In the current quarter, the Company did not realize any gains on its Bank of Montreal position, but we deployed additional amounts of cash on hand as seed investment into our Emerging Market UCITS fund managed by our UK team. As we have done in the past with other early stage offerings, our plan is to demonstrate a high conviction for our investment capabilities, and therefore promote potentially earlier third-party adoption of this product. 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. However, 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.

Over the past few years, the Company has been increasing expenses in order to grow its capabilities in managing global and emerging market equities and Canadian private real estate assets, and improve our U.S. sales coverage. During this period, we have initiated in-house or outsourced distribution capabilities targeted to improve our success in select international markets. We have now substantially completed the initial buildout of these investment management and distribution capabilities, and do not anticipate any significant increase in our expenditures, in the near term. We are still early in the process of developing these initiatives into sustainable and profitable operations, but we are encouraged by the frequent and high quality business development discussions that have led to some early investor clients and sales prospect traction. While the growth in AUM has been modest to date, we are particularly pleased with the performance of the Fundamental Global equity strategy, and its potential to become a strong contributor to our earnings over time.

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 grow further before stabilizing, as the segment is preparing for a technology platform conversion over the next twelve months. 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 will translate into greater growth for the Company.

The Company's securities investments represent a substantial proportion of the total assets on our balance sheet, with a market value of approximately $627 million at June 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 June 30, we owned 3,900,000 shares with a market value of $371 million, representing approximately 59% 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 US dollar unhedged 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 $10.8 million and they were primarily unrealized net gains resulting from the consolidation of a number of investment funds managed by the Company, in which the company holds a controlling stake.

The Company remains highly geared toward the equity markets, across its main business segments and its corporate investment portfolio. An environment which will reward greater equity risk will be positive for your Company's overall performance, as revenue sources such as management fees and commissions are aligned toward higher levels of assets under management or assets under administration.

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 strong cash flows, the Company continues to share these rewards with its shareholders. In July 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 October 11, 2017 to shareholders of record on October 18, 2017.

On behalf of the Board,

August 10, 2017

(signed) "James Anas"

Chairman of the Board

(signed) "George Mavroudis"

President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS (Unaudited)

As at *($ in thousands)*	June 30 2017	December 31 2016
ASSETS		
Current assets		
Cash	$ 46,176	$ 37,974
Interest-bearing deposits with banks	51,462	77,268
Accounts receivables and other	36,426	36,370
Receivables from clients and broker	65,808	60,672
Securities backing third party investor liabilities (note 3)	143,446	99,452
	343,318	311,736
Securities (note 4)	627,257	620,218
Other assets		
Deferred tax assets	1,510	1,618
Intangible assets	28,253	29,386
Equipment	4,123	3,957
Goodwill	15,014	15,014
Investment in associate (note 15)	--	333
	48,900	50,308
Total assets	$ 1,019,475	$ 982,262
LIABILITIES		
Current liabilities		
Bank loans and borrowings (note 5)	$ 65,212	$ 62,664
Third party investor liabilities (note 3)	143,446	99,452
Client deposits	51,458	77,364
Accounts payable and other	30,419	37,829
Income taxes payable	1,937	6,300
Payable to clients	65,808	60,672
	358,280	344,281
Other liability	702	699
Deferred tax liabilities	51,006	51,812
Total liabilities	409,988	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	14,868	13,972
Retained earnings	363,625	327,669
Accumulated other comprehensive income	228,970	240,610
	603,428	580,177
Non-controlling interests	6,059	5,293
Total equity	609,487	585,470
Total liabilities and equity	$ 1,019,475	$ 982,262

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

For the periods ended June 30	**Three months**		**Six months**	
($ in thousands, except per share amounts)	**2017**	2016	**2017**	2016
Revenue				
Gross commission revenue	**$ 33,279**	$ 29,939	**$ 67,245**	$ 59,211
Commissions paid to advisors	**(23,351)**	(20,760)	**(45,858)**	(40,846)
	9,928	9,179	**21,387**	18,365
Management fee income, net (note 8)	**17,685**	16,454	**35,649**	32,673
Administrative services income	**3,408**	3,365	**7,112**	7,552
Dividend and interest income (note 9)	**6,187**	5,193	**11,678**	10,671
Net revenue	**37,208**	34,191	**75,826**	69,261
Expenses				
Employee compensation and benefits	**15,419**	14,487	**31,638**	29,394
Amortization	**1,052**	1,035	**2,078**	2,075
Interest	**187**	228	**395**	441
Other expenses	**8,390**	8,141	**17,097**	15,701
	25,048	23,891	**51,208**	47,611
Operating earnings	**12,160**	10,300	**24,618**	21,650
Net gains (note 10)	**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
Non-controlling interests	**251**	282	**766**	536
	$ 19,638	$ 9,169	**$ 45,156**	$ 33,241
Net earnings available to shareholders per Class A and Common share (note 11)				
Basic	**$ 0.70**	$ 0.31	**$ 1.61**	$ 1.14
Diluted	**0.67**	0.30	**1.52**	1.09

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

For the periods ended June 30	**Three months**		**Six months**	
($ in thousands)	**2017**	2016	**2017**	2016
Net earnings	**$ 19,638**	$ 9,169	**$ 45,156**	$ 33,241
Other comprehensive Income (loss)				
Available for sale securities, net of taxes:				
Net change in fair value	**(13,251)**	13,751	**2,158**	17,467
Income tax provision (recovery)	**(2,090)**	1,742	**(538)**	1,966
	(11,161)	12,009	**2,696**	15,501
Transfer to net earnings of unrealized (gains) loss upon disposal	**(1,135)**	51	**(7,553)**	(12,751)
Reversal of income taxes	**151**	4	**994**	1,717
	(984)	55	**(6,559)**	(11,034)
Net change in available for sale securities, net of taxes	**(12,145)**	12,064	**(3,863)**	4,467
Net change in foreign currency translation on foreign subsidiaries	**(6,875)**	(2,231)	**(7,777)**	(12,515)
Other comprehensive income (loss)	**(19,020)**	9,833	**(11,640)**	(8,048)
Comprehensive income	**$ 618**	$ 19,002	**$ 33,516**	$ 25,193
Comprehensive income available to:				
Shareholders	**$ 367**	$ 18,720	**$ 32,750**	$ 24,657
Non-controlling interests	**251**	282	**766**	536
Comprehensive income	**$ 618**	$ 19,002	**$ 33,516**	$ 25,193

CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

For the periods ended June 30	Three months		Six months	
($ in thousands)	**2017**	2016	**2017**	2016
Total equity, beginning of period	**$ 610,847**	$ 502,103	**$ 585,470**	$ 508,526
Shareholders' equity, beginning of period	**605,039**	497,656	**580,177**	504,255
Capital stock				
Balance, beginning of period	**20,173**	20,675	**20,268**	20,929
Acquired and cancelled (note 6c)	**--**	(7)	**(95)**	(261)
Capital stock, end of period	**20,173**	20,668	**20,173**	20,668
Treasury stock				
Balance, beginning of period	**(24,627)**	(23,758)	**(22,342)**	(21,563)
Acquired (note 7a)	**--**	--	**(2,300)**	(2,200)
Disposed of (note 7a)	**419**	182	**434**	187
Treasury stock, end of period	**(24,208)**	(23,576)	**(24,208)**	(23,576)
Contributed surplus				
Balance, beginning of period	**14,394**	12,626	**13,972**	12,280
Stock-based compensation expense	**516**	461	**948**	807
Redemption of equity-based entitlements	**(42)**	(15)	**(52)**	(15)
Contributed surplus, end of period	**14,868**	13,072	**14,868**	13,072
Retained earnings				
Balance, beginning of period	**347,109**	304,702	**327,669**	291,317
Net earnings available to shareholders	**19,387**	8,887	**44,390**	32,705
Dividends declared and paid (note 6d)	**(2,881)**	(2,498)	**(5,337)**	(4,736)
Capital stock acquired and cancelled (note 6c)	**--**	(560)	**(3,107)**	(8,572)
Acquisition of non-controlling interests	**--**	--	**--**	(183)
Net gain on treasury stock	**10**	--	**10**	--
Retained earnings, end of period	**363,625**	310,531	**363,625**	310,531
Accumulated other comprehensive income				
Balance, beginning of period	**247,990**	183,411	**240,610**	201,292
Unrealized gains on available for sale securities, net of income taxes:				
Balance, beginning of period	**226,872**	162,149	**218,590**	169,746
Net change during period	**(12,145)**	12,064	**(3,863)**	4,467
Balance, end of period	**214,727**	174,213	**214,727**	174,213
Foreign currency translation on foreign subsidiaries:				
Balance, beginning of period	**21,118**	21,262	**22,020**	31,546
Net change during period	**(6,875)**	(2,231)	**(7,777)**	(12,515)
Balance, end of period	**14,243**	19,031	**14,243**	19,031
Accumulated other comprehensive income, end of period	**228,970**	193,244	**228,970**	193,244
Shareholders' equity , end of period	**603,428**	513,939	**603,428**	513,939
Non-controlling interests				
Balance, beginning of period	**5,808**	4,447	**5,293**	4,271
Net earnings available to non-controlling interests	**251**	282	**766**	536
Acquisition of non-controilling interests	**--**	--	**--**	(78)
Non-controlling interests, end of period	**6,059**	4,729	**6,059**	4,729
Total equity, end of period	**$ 609,487**	$ 518,668	**$ 609,487**	$ 518,668

CONSOLIDATED STATEMENTS OF CASH FLOW (Unaudited)

For the periods ended June 30	**Three months**		**Six months**	
($ in thousands)	**2017**	2016	**2017**	2016
Operating activities				
Net earnings	**$ 19,638**	$ 9,169	**$ 45,156**	$ 33,241
Adjustments for:				
Income taxes paid	**(2,690)**	(2,042)	**(11,630)**	(4,999)
Income tax expense	**3,305**	2,159	**7,834**	6,215
Net (gains)	**(10,783)**	(1,028)	**(28,372)**	(17,806)
Amortization of intangible assets	**861**	847	**1,708**	1,704
Amortization of equipment	**191**	188	**370**	371
Stock-based compensation	**516**	461	**948**	807
Other non-cash expenses	**(16)**	(17)	**78**	133
	11,022	9,737	**16,092**	19,666
Net change in non-cash working capital items (note 13)	**3,519**	3,557	**(7,642)**	(1,922)
Net cash from operating activities	**14,541**	13,294	**8,450**	17,744
Investing activities				
Net (acquisition) disposition of securities	**(905)**	6,311	**8,760**	10,325
Net acquisition of securities backing third party investor liabilities	**(17,331)**	(16,571)	**(36,069)**	(38,915)
Acquisition of intangible assets	**(412)**	(1,154)	**(1,131)**	(1,853)
Acquisition of equipment	**(259)**	(333)	**(550)**	(521)
Disposition of intangible assets	**426**	857	**913**	1,105
Other (note 15)	**--**	--	**425**	--
Net cash used in investing activities	**(18,481)**	(10,890)	**(27,652)**	(29,859)
Financing activities				
Dividends	**(2,881)**	(2,498)	**(5,337)**	(4,736)
Acquisition and cancellation of capital stock	**--**	(567)	**(3,202)**	(8,833)
Acquisition of treasury stock	**--**	--	**(2,300)**	(2,200)
Disposition of treasury stock	**429**	182	**444**	187
Net repayment of bank loan and bankers acceptances	**(6,456)**	(10,921)	**(12,406)**	(6,480)
Net subscriptions from third party investors	**17,331**	16,571	**36,069**	38,915
Acquisition of non-controlling interests	**--**	--	**--**	(261)
Net cash from financing activities	**8,423**	2,767	**13,268**	16,592
Foreign exchange				
Net effect of foreign exchange rate changes on cash balances	**(566)**	15	**(818)**	(767)
Net change in net cash	**3,917**	5,186	**(6,752)**	3,710
Net cash, beginning of period	**27,305**	19,198	**37,974**	20,674
Net cash, end of period	**$ 31,222**	$ 24,384	**$ 31,222**	$ 24,384
Net cash represented by:				
Cash			**$ 46,176**	$ 26,229
Net bank indebtedness			**(14,954)**	(1,845)
			$ 31,222	$ 24,384

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 August 10, 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 new classifications for financial instruments to be designated into than 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 classifications which may result in significantly more net gains or losses being recorded in Net Earnings rather than in Other Comprehensive Income. This could lead to significant volatility in net earnings of the Company. The Company continues to evaluate the impact IFRS 9 will have on its consolidated financial statements.

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 may be some changes to how certain expenses associated with securing those revenues are recognized. IFRS 15 requires the capitalization and amortization of certain incremental costs associated with the securing of new revenue. The Company continues to evaluate the impact IFRS 15 will have on its consolidated financial statements.

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. They 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. The 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		June 30 2017		December 31 2016
Available for sale securities:				
Short-term securities (i)	$	--	$	12,567
Fixed income securities (i)		15,663		10,484
Bank of Montreal common shares (ii)		371,358		386,240
Other equity securities (i)		56,803		43,358
Real estate funds (iii)		17,498		23,759
		461,322		476,408
Held for trading securities (iv):				
Equity securities		165,935		143,810
	$	627,257	$	620,218

(i) These securities include units of investment funds.

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

(iii) During the second quarter, to accommodate arm's length investors to fully deploy their capital commitments, the Company sold a portion of its investment in the real estate fund for proceeds of $8,192 (2016 - $6,914). The Company maintained its commitment to invest a total of $35,000 after the sale, and as a result, the uninvested commitment at the end of the quarter was $17,896. Subsequent to quarter end, the Company invested an additional amount into the fund and made another partial sale of units to arm's length investors, resulting in a net reduction in investment of $6,072. Consequently, the uninvested commitment to invest in the fund was increased to $23,968.

(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		June 30 2017		December 31 2016
Level 1	$	551,897	$	548,424
Level 2		60,744		59,427
Level 3		14,616		12,367
	$	627,257	$	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 June 30		Three months				Six months		
		2017		2016		2017		2016
Securities categorized as Level 3, beginning of period	$	13,675	$	12,615	$	12,367	$	12,918
Increase (decrease) in fair value, recognized in Other Comprehensive Income		941		355		2,249		52
Securities categorized as Level 3, end of period	$	14,616	$	12,970	$	14,616	$	12,970

5. BANK LOANS AND BORROWINGS

Bank loans and borrowings are composed of the following:

As at		June 30 2017		December 31 2016
Bank indebtedness	$	14,954	$	--
Bankers' acceptances payable		50,200		62,400
Bank loan		58		264
	$	65,212	$	62,664

On February 3, 2017, certain of the Company's borrowing facilities were amended to increase the borrowing limit to $45,000 from $11,000 and eliminate the offsetting of overdraft positions against cash balances, except for the calculation of 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 June 30	2017		2016	
	Shares	**Amount**	Shares	Amount
Class A shares				
Outstanding, beginning of period	**26,554**	**$ 19,335**	26,847	$ 19,707
Acquired and cancelled	**--**	**--**	--	--
Converted from common shares	**--**	**--**	143	35
Outstanding, end of period	**26,554**	**19,335**	26,990	19,742
Common shares				
Outstanding, beginning and end of period	**3,469**	**838**	4,009	968
Acquired and cancelled	**--**	**--**	(27)	(7)
Converted from common shares	**--**	**--**	(143)	(35)
Outstanding, end of period	**3,469**	**838**	3,839	926
Total outstanding, end of period	**30,023**	**$ 20,173**	30,829	$ 20,668

For the six months ended June 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)**	(282)	(208)
Converted from Common	**--**	**--**	293	72
Outstanding, end of period	**26,554**	**19,335**	26,990	19,742
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**	30,829	$ 20,668

(c) Issuer bid

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

For the periods ended June 30	Three months		Six months	
	2017	2016	**2017**	2016
Shares purchased and cancelled				
Class A	**--**	--	**132**	282
Common	**--**	27	**--**	217
Consideration paid	**$ --**	$ 567	**$ 3,202**	$ 8,833
Less average issue price, charged to share capital	**--**	7	**95**	261
Excess consideration charged to retained earnings	**$ --**	$ 560	**$ 3,107**	$ 8,572

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 June 30	Three months		Six months	
	2017	2016	**2017**	2016
Dividends declared and paid, per share	**$ 0.100**	$ 0.085	**$ 0.185**	$ 0.160

The Company has also declared dividends of $0.100 per share payable on July 18, 2017 and October 18, 2017, 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 that are 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 that is with 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 June 30	2017		2016	
	Shares	**Amount**	Shares	Amount
Balance, beginning of period	**2,282**	**$ 24,627**	2,428	$ 23,758
Disposed of	**(59)**	**(419)**	(32)	(182)
Balance, end of period	**2,223**	**$ 24,208**	2,396	$ 23,576

For the six months ended June 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)**	(33)	(187)
Balance, end of period	**2,223**	**$ 24,208**	2,396	$ 23,576

During the three and six months ended June 30, 2017, the Company disposed of 59 and 61 (2016 – 32 and 33) shares of the treasury stock.

As at June 30, 2017, the treasury stock was composed of 32 common shares (2016 – 32) and 2,191 class A shares (2016 – 2,364).

(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. Due to the nature of these entitlements and the conditions attached to them, the contractual life of the entitlement is indeterminable.

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

For the periods ended June 30	Three months		Six months	
	2017	2016	**2017**	2016
Equity based entitlements, beginning of period	**1,018**	933	**928**	803
Provided	**--**	--	**92**	130
Exercised	**(2)**	(2)	**(4)**	(2)
Forfeited	**(1)**	--	**(1)**	--
Equity based entitlements, end of period	**1,015**	931	**1,015**	931

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 June 30	2017 Shares	2017 average exercise	2016 Shares	2016 average
Option-like entitlements, beginning of period	**1,264**	**$ 9.49**	1,495	$ 8.95
Exercised	**(56)**	**6.57**	(30)	5.52
Option-like entitlements, beginning and end of period	**1,208**	**$ 8.95**	1,465	$ 9.02

For the six months ended June 30	2017 Shares	2017 average exercise	2016 Shares	2016 average
Option-like entitlements, beginning of period	**1,264**	**$ 9.49**	1,496	$ 8.95
Exercised	**(56)**	**6.57**	(31)	5.59
Option-like entitlements, end of period	**1,208**	**$ 9.63**	1,465	$ 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 June 30	Three months 2017	Three months 2016	Six months 2017	Six months 2016
Management fee income, gross	**$ 18,803**	$ 17,452	**$ 37,833**	$ 34,529
Less: fees paid to referring agents	**(1,118)**	(998)	**(2,184)**	(1,856)
	$ 17,685	$ 16,454	**$ 35,649**	$ 32,673

9. DIVIDEND AND INTEREST INCOME

Dividend and interest income is composed of the following:

For the periods ended June 30	Three months 2017	Three months 2016	Six months 2017	Six months 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

10. NET GAINS

Net gains (losses) are composed of the following:

For the periods ended June 30	Three months 2017	Three months 2016	Six months 2017	Six months 2016
Held for trading securities (i)	**$ 9,222**	$ 554	**$ 19,903**	$ 3,934
Available for sale securities (ii)	**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 (iii)	**214**	286	**270**	253
	$ 10,783	$ 1,028	**$ 28,372**	$ 17,806

(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 June 30	Three months		Six months	
	2017	2016	**2017**	2016
Shares sold	**--**	--	**100**	342
Proceeds of sales	**$ --**	$ --	**$ 10,294**	$ 26,068
Gains	**--**	--	**6,669**	13,636
Income tax expense	**--**	--	**883**	1,807

Subsequent to June 30, 2017, the Company sold 100 Bank of Montreal common shares for proceeds of $9,591 and realized gain of $5,966.

(iii) Foreign exchange gains/losses arise from monetary assets and liabilities denominated in foreign currencies which are different from the functional currency of the Company or its individual subsidiaries. The Company's foreign exchange gains/losses mainly relate to the holdings of Canadian dollars by the international banking subsidiary, which uses the US dollar as its functional currency. On translation of this subsidiary's results to Canadian dollars, for the purpose of consolidating it into the Company's results, an equal and offsetting amount is recorded in other comprehensive income.

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 June 30	Three months		Six months	
	2017	2016	**2017**	2016
Weighted average number of Class A and common shares outstanding:				
Basic	**27,569**	28,453	**27,569**	28,593
Effects of outstanding entitlements from stock-based compensation plans	**1,646**	1,530	**1,638**	1,504
Diluted	**29,215**	29,983	**29,207**	30,097
Net earnings available to shareholders:				
Basic	**$ 19,387**	$ 8,887	**$ 44,390**	$ 32,705
Effects of outstanding entitlements from stock-based compensation plans	**62**	56	**123**	116
	$ 19,449	$ 8,943	**$ 44,513**	$ 32,821

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 June 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	**$ --**	$ --	**$ 33,516**	$ 30,081	**$ --**	$ --	**$ (237)**	$ (142)	**$ 33,279**	$ 29,939
Commissions paid to advisors	**--**	--	**(23,351)**	(20,760)	**--**	--	**--**	--	**(23,351)**	(20,760)
	--	--	**10,165**	9,321	**--**	--	**(237)**	(142)	**9,928**	9,179
Management fee income, net	**17,784**	16,387	**--**	--	**--**	--	**(99)**	67	**17,685**	16,454
Administrative services income	**1,441**	1,457	**1,955**	1,908	**12**	--	**--**	--	**3,408**	3,365
Dividend and interest income	**134**	100	**182**	174	**5,840**	4,881	**31**	38	**6,187**	5,193
Net revenue	**19,359**	17,944	**12,302**	11,403	**5,852**	4,881	**(305)**	(37)	**37,208**	34,191
Expenses										
Employee compensation and benefits	**8,734**	8,430	**4,449**	4,235	**2,236**	1,822	**--**	--	**15,419**	14,487
Amortization	**96**	80	**843**	828	**113**	127	**--**	--	**1,052**	1,035
Interest	**12**	55	**--**	53	**175**	157	**--**	(37)	**187**	228
Other expenses	**5,335**	4,813	**4,034**	4,080	**(674)**	(752)	**(305)**	--	**8,390**	8,141
	14,177	13,378	**9,326**	9,196	**1,850**	1,354	**(305)**	(37)	**25,048**	23,891
Operating earnings	**5,182**	4,566	**2,976**	2,207	**4,002**	3,527	**--**	--	**12,160**	10,300
Net gains (losses)	**141**	(8)	**199**	424	**10,443**	612	**--**	--	**10,783**	1,028
Net earnings before income taxes	**5,323**	4,558	**3,175**	2,631	**14,445**	4,139	**--**	--	**22,943**	11,328
Income tax expense	**1,661**	1,390	**895**	747	**749**	22	**--**	--	**3,305**	2,159
Net earnings	**$ 3,662**	$ 3,168	**$ 2,280**	$ 1,884	**$ 13,696**	$ 4,117	**$ --**	$ --	**$ 19,638**	$ 9,169
Net earnings available to:										
Shareholders	**$ 3,662**	$ 3,168	**$ 2,029**	$ 1,602	**$ 13,696**	$ 4,117	**$ --**	$ --	**$ 19,387**	$ 8,887
Non-controlling interests	**--**	--	**251**	282	**--**	--	**--**	--	**251**	282
	$ 3,662	$ 3,168	**$ 2,280**	$ 1,884	**$ 13,696**	$ 4,117	**$ --**	$ --	**$ 19,638**	$ 9,169
Capital expenditures on segment assets:										
Intangible assets	**$ --**	$ --	**$ 412**	$ 1,110	**$ --**	$ 44	**$ --**	$ --	**$ 412**	$ 1,154
Equipment	**2**	277	**36**	--	**221**	56	**--**	--	**259**	333

For the six months ended June 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	**$ --**	$ --	**$ 67,677**	$ 59,555	**$ --**	$ --	**$ (432)**	$ (344)	**$ 67,245**	$ 59,211
Commissions paid to advisors	**--**	--	**(45,858)**	(40,846)	**--**	--	**--**	--	**(45,858)**	(40,846)
	--	--	**21,819**	18,709	**--**	--	**(432)**	(344)	**21,387**	18,365
Management fee income, net	**35,739**	32,404	**--**	--	**--**	--	**(90)**	269	**35,649**	32,673
Administrative services income	**3,040**	3,702	**4,047**	3,850	**25**	--	**--**	--	**7,112**	7,552
Dividend and interest income	**212**	142	**350**	335	**11,061**	10,203	**55**	(9)	**11,678**	10,671
Net revenue	**38,991**	36,248	**26,216**	22,894	**11,086**	10,203	**(467)**	(84)	**75,826**	69,261
Expenses										
Employee compensation and benefits	**17,969**	16,799	**9,036**	8,586	**4,633**	4,009	**--**	--	**31,638**	29,394
Amortization	**188**	155	**1,675**	1,671	**215**	249	**--**	--	**2,078**	2,075
Interest	**24**	108	**20**	104	**371**	313	**(20)**	(84)	**395**	441
Other expenses	**10,755**	9,519	**8,155**	7,715	**(1,366)**	(1,533)	**(447)**	--	**17,097**	15,701
	28,936	26,581	**18,886**	18,076	**3,853**	3,038	**(467)**	(84)	**51,208**	47,611
Operating earnings	**10,055**	9,667	**7,330**	4,818	**7,233**	7,165	**--**	--	**24,618**	21,650
Net gains	**179**	450	**380**	526	**27,813**	16,830	**--**	--	**28,372**	17,806
Net earnings before income taxes	**10,234**	10,117	**7,710**	5,344	**35,046**	23,995	**--**	--	**52,990**	39,456
Income tax expense	**2,827**	2,798	**2,173**	1,537	**2,834**	1,880	**--**	--	**7,834**	6,215
Net earnings	**$ 7,407**	$ 7,319	**$ 5,537**	$ 3,807	**$ 32,212**	$ 22,115	**$ --**	$ --	**$ 45,156**	$ 33,241
Net earnings available to:										
Shareholders	**$ 7,407**	$ 7,319	**$ 4,771**	$ 3,271	**$ 32,212**	$ 22,115	**$ --**	$ --	**$ 44,390**	$ 32,705
Non-controlling interests	**--**	--	**766**	536	**--**	--	**--**	--	**766**	536
	$ 7,407	$ 7,319	**$ 5,537**	$ 3,807	**$ 32,212**	$ 22,115	**$ --**	$ --	**$ 45,156**	$ 33,241
Capital expenditures on segment assets:										
Intangible assets	**$ --**	$ 25	**$ 1,131**	$ 1,760	**$ --**	$ 68	**$ --**	$ --	**$ 1,131**	$ 1,853
Equipment	**26**	310	**40**	6	**484**	205	**--**	--	**550**	521

As at June 30, 2017 and December 31, 2016	Investment Management		Financial Advisory		Corporate Activities and Investments		Inter-Segment Transactions		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Assets and liabilities:										
Assets	$ 87,441	$ 109,371	$ 139,713	$ 132,095	$ 837,742	$ 795,683	$ (45,421)	$ (54,887)	$ 1,019,475	$ 982,262
Liabilities	64,617	94,991	129,907	127,826	260,885	228,862	(45,421)	(54,887)	409,988	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		Rest of the World		Inter-Segment Transactions		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
For the three months ended June 30								
Net revenue	$ 32,864	$ 32,554	$ 4,443	$ 1,823	$ (99)	$ (186)	$ 37,208	$ 34,191
For the six months ended June 30								
Net revenue	$ 68,360	$ 65,001	$ 7,897	$ 4,643	$ (431)	$ (383)	$ 75,826	$ 69,261
As at June 30, 2017 and December 31, 2016								
Non-current assets:								
Intangible assets	$ 27,249	$ 28,268	$ 1,004	$ 1,118	$ --	$ --	$ 28,253	$ 29,386
Equipment	3,388	3,184	735	773	--	--	4,123	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 June 30	Three months		Six months	
	2017	2016	2017	2016
Decrease (increase) in non-cash working capital assets:				
Interest-bearing deposits with banks	$ 14,378	$ (28,444)	$ 23,304	$ (69,135)
Accounts receivable and other	(1,054)	(32)	109	729
Receivables from clients and broker	(12,537)	10,695	(5,136)	(1,002)
Increase (decrease) in non-cash working capital liabilities:				
Client deposits	(14,352)	28,400	(23,400)	69,028
Accounts payable and other	4,547	3,633	(7,655)	(2,544)
Payable to clients	12,537	(10,695)	5,136	1,002
	$ 3,519	$ 3,557	$ (7,642)	$ (1,922)

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 $371,358 (December 31, 2016 – $386,240) investment in the Bank of Montreal shares, which represents 59% (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 $37,136 (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 June 30, 2017				
Canada	**$ 1,386**	**±$ 139**	**$ 36,607**	**±$ 3,661**
Rest of World	**164,549**	**16,455**	**37,694**	**3,769**
	$ 165,935	**±$ 16,594**	**$ 74,301**	**±$ 7,430**
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 $177,269 (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	**June 30 2017**	December 31 2016
Interest rate sensitive assets:		
Interest-bearing deposits with banks	**$ 51,462**	$ 77,268
Fixed income securities	**15,663**	10,484
	$ 67,125	$ 87,752
Interest rate sensitive liabilities:		
Bank loans and borrowings	**$ 65,212**	$ 62,664
Client deposits	**51,458**	77,364
	$ 116,670	$ 140,028

The interest rate risk associated with the Company's investments in fixed-income mutual funds and bonds 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 interest rates on the bank loans and borrowings are short-term and, if short-term rates increase, the Company's interest expense 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		June 30 2017		December 31 2016
Cash	$	46,176	$	37,974
Interest-bearing deposits with banks		51,462		77,268
Accounts receivable and other		36,426		36,370
Receivables from clients and broker		65,808		60,672
Short-term securities		--		12,567
Fixed income securities		15,663		10,484
	$	215,535	$	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. 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 mutual funds and bonds 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. 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 risks associated with these amounts are mitigated by management's review of the ability of the advisors to repay the advances or the potential commission reversals, particularly in the MGA subsidiary, before amounts are paid to the advisors.

(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 bank, which currently totals $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 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.

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.

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	Three months		Six months	
($ in thousands, except per share amounts)	**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	2017	2016	
($ in millions, except per share amounts)	June 30	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	2017	2016	
($ in millions)	June 30	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	Three months		Six months	
($ in thousands)	**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	Three months		Six months	
($ in thousands)	**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	2017	2016	
($ in thousands, except per share amounts)	**June 30**	December 31	June 30
Securities:			
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
Securities	**$ 627,257**	$ 620,218	$ 539,551
Total securities per share, diluted	**$ 21.35**	$ 20.97	$ 17.96

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
Total contractual obligations	$ 394,233	$ 378,221	$ 4,905	$ 4,344	$ 6,763

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:

Three months ended *($ in thousand, except per share amounts)*	**Jun 30, 2017**	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015
Net revenue	**$ 37,208**	$ 38,618	$ 38,240	$ 35,185	$ 34,191	$ 35,070	$ 34,353	$ 33,188
Operating earnings	**12,160**	12,458	12,371	10,646	10,300	11,350	10,256	10,876
Net gains (losses)	**10,783**	17,589	10,754	10,057	1,028	16,778	9,658	(2,407)
Net earnings	**19,638**	25,518	19,859	17,475	9,169	24,072	17,362	6,278
Net earnings available to shareholders	**19,387**	25,003	19,417	17,353	8,887	23,818	17,138	6,053
Shareholders' equity	**603,428**	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	**$ 0.70**	$ 0.91	$ 0.69	$ 0.61	$ 0.31	$ 0.83	$ 0.59	$ 0.21
Diluted	**0.67**	0.86	0.65	0.58	0.30	0.79	0.56	0.20
Shareholders' equity per Class A and Common share								
Basic	**$ 21.75**	$ 21.81	$ 20.75	$ 19.11	$ 18.08	$ 17.51	$ 17.37	$ 15.96
Diluted	**20.54**	20.58	19.62	18.07	17.10	16.63	16.55	15.23
Dividends paid	**$ 0.100**	$ 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 net earnings available to shareholders. 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 June 30	Three months		Six months	
($ in thousands)	**2017**	2016	**2017**	2016
Net earnings, as reported	**$ 19,638**	$ 9,169	**$ 45,156**	$ 33,241
Add (deduct):				
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)
EBITDA	**$ 13,470**	$ 11,607	**$ 26,776**	$ 24,085

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

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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