

MANAGEMENT'S DISCUSSION AND ANALYSIS

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In accordance with securities regulatory requirements, the discussion and analysis which follows for Guardian Capital Group Limited and its subsidiaries and other controlled entities ("Guardian") pertains to the periods ended March 31, 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 May 11, 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 placed on these statements, as a number of factors could cause actual results to differ materially from Guardian's objectives, plans, expectations and estimates reflected in the forward-looking statements. Factors which could cause actual results to differ from expectations include, among other things, general economic and market conditions, including interest rates, business competition, changes in government regulations or in tax laws, and other factors.

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 March 31, 2017, Guardian had \$27 billion in assets under management ("AUM") and \$17 billion of financial advisory assets under administration ("AUA"). In addition, Guardian has a diversified portfolio of securities which had a fair value of approximately \$636 million at the end of the quarter.

HIGHLIGHTS FOR THE QUARTER ENDED MARCH 31, 2017

Guardian's AUM and AUA, as at March 31, 2017 were \$27.0 billion and \$17.0 billion, respectively, this quarter.

The operating earnings for the quarter ended March 31, 2017 were \$12.5 million, compared to \$11.4 million in 2016. Net earnings available to shareholders were \$25.0 million, or \$0.86 per share, diluted, compared to \$23.8 million or \$0.79 per share, diluted a year ago.

Guardian sold 100,000 of its Bank of Montreal ("BMO") shares during the quarter for total proceeds of \$10.3 million and recognized a gain of \$6.7 million. Subsequent to the quarter-end, Guardian used the proceeds to invest into an investment fund managed by Guardian.

Guardian also repurchased 131,500 of its shares during the quarter under its Normal Course Issuer Bid.

USE OF NON-IFRS MEASURES

Guardian uses certain measures to evaluate and assess the performance of its business. Two of the measures that Guardian uses, EBITDA and adjusted cash flow from operations, are not defined within International Financial Reporting Standards ("IFRS"). 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.

EBITDA

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. Guardian believe this is an important measure, 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 measure is "Net earnings", which is disclosed in Guardian's Consolidated Statements of Operations.

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

For the periods ended March 31 (\$ in thousands)	2017	2016
Net earnings, as reported	\$ 25,518	\$ 24,072
Add (deduct):		
Income tax expense	4,529	4,056
Net (gains)	(17,589)	(16,778)
Stock-based compensation	432	346
Interest expense	208	213
Amortization	1,026	1,040
Non-controlling interests	(818)	(471)
EBITDA	\$ 13,306	\$ 12,478

Adjusted cash flow from operations

Adjusted cash flow from operations is used by management to indicate 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. Many companies similar to Guardian use a similar measure in this manner. The most comparable IFRS measure is "Net cash from operating activities", which is disclosed in Guardian's Consolidated Statements of Cash Flow.

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

For the periods ended March 31 (\$ in thousands)	2017		2016	
Net cash from (used in) operating activities, as reported	\$	(6,091)	\$	4,450
Add (deduct):				
Net change in non-cash working capital items		11,161		5,479
Non-controlling interests		(653)		(346)
Adjusted cash flow from operations	\$	4,417	\$	9,583

CONSOLIDATED FINANCIAL RESULTS

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

For the periods ended March 31 (\$ in thousands, except per share amounts)	2017		2016	
Net revenue	\$	38,618	\$	35,070
Expenses		26,160		23,720
Operating earnings		12,458		11,350
Net gains		17,589		16,778
Net earnings before income taxes		30,047		28,128
Income tax expense		4,529		4,056
Net earnings	\$	25,518	\$	24,072
Net earnings available to shareholders	\$	25,003	\$	23,818
EBITDA		13,306		12,478
Adjusted cash flow from operations		4,417		9,583
Diluted per share amounts				
Net earnings available to shareholders	\$	0.86	\$	0.79
EBITDA		0.46		0.42
Adjusted cash flow from operations		0.15		0.32
As at (\$ in millions, except per share amounts)	2017		2016	
	March 31	December 31	March 31	
Assets under management	\$ 26,967	\$ 27,280	\$ 24,817	
Assets under administration	16,958	16,489	14,987	
Shareholders' equity	605	580	498	
Securities	636	620	534	
Diluted per share				
Shareholders' equity	\$ 20.58	\$ 19.62	\$ 16.63	
Securities	21.63	20.97	17.84	

RESULTS OF OPERATIONS

The AUM at Guardian as at March 31, 2017 was \$27.0 billion, 1% lower than \$27.3 billion at December 31, 2016, and up 9% from \$24.8 billion at March 31, 2016. The increases in AUM compared to the first quarter of 2016 were largely due to strong market gains with some net outflow of assets during the period. The successes in gathering new assets in the earlier part of 2016 in our private wealth and retail intermediary businesses were offset largely by the institutional client net redemptions in the fourth quarter of 2016 and the first quarter of 2017. The net outflows of assets in the latter half of the period were primarily the result of clients reducing their Canadian equity exposure, after strong market returns over the last twelve months. This rebalancing trend largely accounted for the decreased AUM in the first quarter of 2017, compared to December 31, 2016. The AUA at March 31, 2017 was \$17.0 billion, a 3% increase from \$16.5 billion at December 31, 2016 and a 13% increase from \$15.0 billion at March 31, 2016. The increases in current quarter's AUA compared to the end of 2016 and the first quarter of 2016 was due to a combination of market improvements, net sales and recruitment during those periods.

For the quarter ended March 31, 2017, Guardian's operating earnings were \$12.5 million, a 10% increase from \$11.4 million reported for the same quarter in 2016. The increase in operating earnings in the current quarter was led by the Financial Advisory Segment, which grew its earnings by 67% compared to the prior year. The growth was particularly strong in the MGA subsidiary, which doubled its operating earnings from Q1, 2016, benefiting from a significant increase in the sales of life insurance policies compared to the prior year. The sales trend in the MGA business is expected to normalize to lower historical levels in the second quarter of 2017. This growth in the MGA business continues to improve the diversification of earnings sources for Guardian. The Investment Management Segment's operating earnings decreased slightly by \$0.2 million, compared to the same quarter in the prior year. This Segment increased its net management fee revenue by 10% but this was offset by the increases in expenses, largely related to

the investments in the development of new businesses, including the hiring of a marketing and distribution team in the US. Included in the current quarter's operating earnings from the Investment Management Segment is \$1.5 million in operating losses related to the UK and the US operations, compared to \$1.0 million in the prior year. These investments in the business are expected to continue to have a dampening effect on earnings in the short-term, but lead to improved operating earnings in the future.

The operating earnings in the Corporate Activities and Investments Segment decreased by \$0.4 million compared to the prior year, due largely to Guardian's strategic decision to reallocate a portion of its investment in the BMO shares into the UCITS. The dividend yield, less fund expenses, from the investment in UCITS is lower than the dividend yield from BMO shares, resulting in lower operating earnings in this segment in the current quarter.

Net gains for the current quarter were \$17.6 million, compared to a net gain of \$16.8 million in 2016. The net gains during the current quarter were largely related to \$6.7 million on the sale of 100,000 shares of BMO and \$10.7 million related to Guardian's proportionate share of the net gains realized within the consolidated investments funds.

Net earnings available to shareholders were \$25.0 million in the current quarter, compared to \$23.8 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.

EBITDA for the quarter was \$13.3 million, compared to \$12.5 million in 2016. The adjusted cash flow from operations for the quarter was \$4.4 million, compared to \$10.0 million in 2016. The decrease in adjusted cash flow from operations was due largely to the increase in income tax installments made in the current quarter compared to the same period in the prior year. The first quarter of each year results in true up of tax installments for the prior year. In years where taxable earnings are growing, the true ups will be to increase the tax installments. The taxable net gains realized in 2016 was significantly higher than in 2015, resulting in higher true up in the first quarter of 2017 for 2016 taxes than in same period in the prior year for true up of 2015 taxes.

ASSETS UNDER MANAGEMENT

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

As at (\$ in millions)	2017		2016	
	March 31	December 31	March 31	March 31
Institutional	\$ 23,932	\$ 24,380	\$ 22,483	
Private client	3,035	2,900	2,334	
Total AUM	\$ 26,967	\$ 27,280	\$ 24,817	
Institutional AUM is composed of:				
Canadian equities	\$ 12,459	\$ 13,294	\$ 12,314	
Global equities	3,627	3,306	3,122	
Fixed income	7,846	7,780	7,047	
Total Institutional AUM	\$ 23,932	\$ 24,380	\$ 22,483	

REVENUES AND EXPENSES

Management Fee Income, Net

The largest source of revenue at Guardian is investment management fees received from clients, which vary as a result of changes in the values of assets managed, and variations in the rates of management fees charged.

Management fee income, net of referral fees paid, for the first quarter of 2017 were \$18.0 million, an 11% increase from \$16.2 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 \$14.1 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 quarter amounted to \$3.9 million, compared to \$3.4 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 \$17.0 billion, up 13% compared to \$15.0 billion in the prior year, due to a combination of market performance, net sales and recruitment. The premiums on life insurance policies sold by the MGA increased to \$29.4 million in the current quarter, compared to \$16.6 million in the prior year. Net commission revenue in this Segment for the current quarter was \$11.5 million, an increase of 25% compared to \$9.2 million a year earlier.

The net commission revenue earned in the MGA business, in the current quarter was \$8.0 million, compared to \$6.1 million in the prior year. Included in the net commission revenue were servicing commissions of \$2.8 million in the current quarter, which are earned on in-force life insurance policies, compared to \$2.4 million in the prior year. The net commission revenue earned in the Dealers business in the current quarter was \$3.5 million, compared to \$3.1 million in the prior year.

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 \$3.7 million for the current quarter, compared to \$4.2 million a year earlier. The reduction was due largely to lower transactional fees earned in the International Private Banking business in the current quarter. The first quarter of 2016 benefited from higher level of transactions than the historical norm.

Dividend and Interest Income

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

For the periods ended March 31 (\$ in thousands)	Three months	
	2017	2016
Dividends on Bank of Montreal shares	\$ 3,520	\$ 3,806
Other dividends	1,586	1,254
Dividend income	5,106	5,060
Interest income	385	418
Total dividend and interest income	\$ 5,491	\$ 5,478

The slight increase in dividends in the current quarter compared to the same quarter in the prior year is due to a net effect of reallocating Guardian's capital away from BMO shares and into proprietary funds to support the growth of the investment management business. The increased investments into the UCITS and other proprietary strategies resulted in increased dividends being earned within these funds. This is offset by the reduction in dividends earned on BMO shares as we continue to reduce our holding.

Expenses

Guardian's expenses increased to \$26.2 million in the current quarter, compared with \$23.7 million in the same quarter of 2016, largely as a result of the growth of the businesses and the planned increased investments into the businesses to support their future growth. Included in these planned investments were the initial buildout of the US distribution team formed in the second quarter of 2016 and the increased expenditures related to improvements in technology, compliance and operations, largely in the Financial Advisory Segment.

NET GAINS (LOSSES)

For the periods ended March 31 (\$ in thousands)		
	2017	2016
Held for trading securities	\$ 10,682	\$ 3,380
Available for sale securities	6,670	13,324
	17,352	16,704
Disposal of intangible assets	181	107
Foreign exchange	56	(33)
Net gains	\$ 17,589	\$ 16,778

Included in the net gains in the current quarter were \$6.7 million (2016 - \$13.3 million) in gains from the sale of 100,000 BMO shares (2016 - 342,400) and \$10.7 million (2016 - \$3.4 million) in net gains related to the consolidated investment fund.

LIQUIDITY AND CAPITAL RESOURCES

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

As at (\$ in thousands, except per share amounts)	2017		2016	
	March 31	December 31	March 31	March 31
Securities:				
Short-term securities	\$ 10,298	\$ 12,567	\$ 2,058	
Bonds	1,158	1,147	1,104	
Fixed income mutual funds	14,744	9,449	7,972	
Equity mutual funds	34,177	27,599	46,477	
Bank of Montreal common shares	387,387	386,240	330,071	
Other equity securities	164,220	159,457	123,822	
Real estate funds	23,759	23,759	22,341	
Securities	\$ 635,743	\$ 620,218	\$ 533,845	
Total securities per share, diluted	\$ 21.63	\$ 20.97	\$ 17.84	

Guardian's shareholders' equity as at March 31, 2017 amounted to \$605 million, or \$20.58 per share, diluted, compared to \$580 million, or \$19.58 per share, diluted, at the end of 2016. Guardian's securities as at March 31, 2017 had a fair value of \$636 million, or \$21.63 per share, diluted, compared with \$620 million, or \$20.97 per share, diluted, at the end of 2016. As at March 31, 2017, the securities consisted of 61% BMO shares and 39% 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 30%, compared to 28% at the end of 2016.

Guardian's total bank borrowings at March 31, 2017 amounted to \$66.8 million, compared with \$62.7 million at the end of 2016. During the quarter, 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, increased to \$137.0 million from \$103.0 million.

Guardian's adjusted cash flow from operations for the current quarter was \$4.4 million. Using a combination of its adjusted cash flow from operations, increased borrowing and net proceeds of disposition of securities, Guardian funded its dividend payment, repurchased 131,500 shares and paid down its accrued liabilities from the end of 2016, including the annual variable compensation.

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 March 31, 2017 (\$ in thousands)	Total	Within one year	One to three years	Three to five years	After five years
Bank loans and borrowings	\$ 66,797	\$ 66,797	\$ --	\$ --	\$ --
Third party investor liabilities	121,577	121,577	--	--	--
Client deposits	67,597	67,597	--	--	--
Accounts payable and other	27,804	27,097	707	--	--
Payable to clients	53,271	53,271	--	--	--
Investment commitment - real estate fund	11,834	11,834	--	--	--
Operating lease obligations	15,208	2,020	3,524	3,706	5,958
Total contractual obligations	\$ 364,088	\$ 350,193	\$ 4,231	\$ 3,706	\$ 5,958

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.

Subsequent to quarter-end, to accommodate other investors wishing to accelerate their investment in the real estate fund, Guardian sold a portion of its investment to other investors for proceeds of \$8.2 million. Guardian has maintained its initial commitment to invest a total of \$35 million and as a result, Guardian's uninvested commitment has increased to \$20.0 million as at the date of this report.

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)	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015
Net revenue	\$ 38,618	\$ 38,240	\$ 35,185	\$ 34,191	\$ 35,070	\$ 34,353	\$ 33,188	\$ 33,066
Operating earnings	12,458	12,371	10,646	10,300	11,350	10,256	10,876	11,390
Net gains (losses)	17,589	10,754	10,057	1,028	16,778	9,658	(2,407)	602
Net earnings	25,518	19,859	17,475	9,169	24,072	17,362	6,278	9,786
Net earnings available to shareholders	25,003	19,417	17,353	8,887	23,818	17,138	6,053	9,604
Shareholders' equity	605,039	580,177	545,339	513,939	497,656	504,255	470,533	473,944
Net earnings available to shareholders per Class A and Common share								
Basic	\$ 0.91	\$ 0.69	\$ 0.61	\$ 0.31	\$ 0.83	\$ 0.59	\$ 0.21	\$ 0.33
Diluted	0.86	0.65	0.58	0.30	0.79	0.56	0.20	0.31
Shareholders' equity per Class A and Common share								
Basic	\$ 21.81	\$ 20.75	\$ 19.11	\$ 18.08	\$ 17.51	\$ 17.37	\$ 15.96	\$ 16.08
Diluted	20.58	19.62	18.07	17.10	16.63	16.55	15.23	15.32
Dividends paid	\$ 0.085	\$ 0.085	\$ 0.085	\$ 0.085	\$ 0.075	\$ 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 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 growth in net revenues during the periods shown above has generally resulted from 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 throughout the periods; and 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. 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. 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 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 changes in foreign currency translation adjustment on 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 the Consolidated Financial Statements, contained in Guardian's First Quarter 2017 Report to Shareholders, 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 first 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 \$387 million in Bank of Montreal shares, which represents 61% (December 31, 2016 – 62%) of Guardian's securities. Guardian has accepted this concentration risk, as the bank is a diversified company with a history of steady and growing dividend payments. However, Guardian has been reducing its exposure over time, disposing over 1 million share 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, 30% (December 31, 2016 – 28%) non-Canadian equities and 5% (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 First Quarter 2017 Report to Shareholders. The review and assessment phase for these two standards is expected to be completed over the next two quarters and we anticipate the implementation to commence in the fourth quarter of this year.

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.

OUTLOOK

Global monetary easing will continue for some time although the tone is quietly shifting. The majority of large central banks retain an easing bias on concerns over weak growth and inflation, but we are likely past "peak" easing. Only the U.S. Federal Reserve has so far moved to tighten, but it has been a very slow process and likely to remain relatively slow in the coming year. As well, at current levels, even the Fed's policy remains largely accommodative. The Bank of Canada will likely remain on the sidelines but might consider tightening if economic conditions continue to improve. 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. In China, economic momentum was evident towards the close of last year and has continued into 2017. What is more, the gains appear to be becoming more broad-based and wholesale prices have begun to rise. Economists have begun to increase growth forecasts and are no longer fretting about the consequences of sustained disinflation. The 6.5% official growth target should be achievable without a huge amount of stimulus, allowing authorities to continue implementing needed economic reforms. In Europe, the most recent data suggests the Eurozone economy continues to plod along, although recent momentum has generally improved as Brexit concerns have also subsided on the continent. Fourth quarter GDP grew at a decent clip, and it is possible that Europe could start to become a positive factor for global growth. In this environment, the risks of a recession appear limited.

Although market valuations are testing new highs we remain relatively confident that equities will remain resilient on a global basis. The U.S. economy is accelerating sufficiently, even before a Trump tax cut or infrastructure spending. As such, we expect earnings to accelerate after a sluggish few years. This will benefit companies globally, but especially Canadian companies selling into, operating in, or benefiting from U.S. dollar-denominated commodity prices, even if the Canadian economy remains tepid. We expect that low, and medium priced stocks can still benefit from a P/E multiple expansion as either headwinds to growth in earnings recede, or as earnings growth actually picks up, and that it will take much higher long rates, and/or a more expensive stock market to end the bull market. However, we anticipate that higher multiple stocks (highly valued growth stocks and high-yield equities) could endure multiple compression as interest rates rise.

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 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 incur operating losses in these businesses currently, 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 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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