Guardian

Guardian Capital Group Limited
Report to Shareholders

First Quarter 2017

TO OUR SHAREHOLDERS:

We present below a summary of the Company's operating results for the three months ended March 31, 2017. All per share figures disclosed below are stated on a diluted basis.

For the periods ended March 31 *($ in thousands, except per share amounts)*		**2017**		2016
Net revenue	**$**	**38,618**	$	35,070
Operating earnings		**12,458**		11,350
Net gains		**17,589**		16,778
Net earnings available to shareholders		**25,003**		23,818
EBITDA	**$**	**13,306**	$	12,478
Adjusted cash flow		**4,417**		9,583
Per share:				
Net earnings available to shareholders	**$**	**0.86**	$	0.79
EBITDA		**0.46**		0.42
Adjusted cash flow		**0.15**		0.32

As at		**2017**		**2016**		
($ in millions, except per share amounts)		**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
Per share:						
Shareholders' equity	**$**	**20.58**	$	19.62	$	16.63
Securities		**21.63**		20.97		17.84

Summary

The Company's assets under management as at March 31, 2017 were $27.0 billion, a decrease of 1% from $27.3 billion at the end of 2016 and an increase of 9% from $24.8 billion at March 31, 2016. Assets under administration were $17.0 billion at the end of the current quarter, up 3% from $16.5 billion at the end of 2016 and a 13% increase from $15.0 billion at March 31, 2016.

The Company's operating earnings for the quarter ended March 31, 2017 were $12.5 million, compared to $11.4 million in the same period a year earlier. The increase in operating earnings in the current quarter was led by the Financial Advisory Segment, where they grew by $1.7 million, or 67%, while the Investment Management Segment's operating earnings decreased by $0.2 million, or 4%. In the current quarter, the Investment Management Segment incurred $1.5 million in operating losses related to our building of a UK-based Fundamental Equities investment management team and a US distribution team, compared to losses of $1.0 million in this area in Q1 of 2016. These losses are expected to continue to have a dampening effect on earnings in the short term, setting the stage for improved future operating earnings and long-term value.

Net gains of $17.6 million for the current quarter are slightly higher than the gains of $16.8 million in the prior period. In both periods, the gains arose from a combination of the consolidated UCITS investment fund managed by the Company's subsidiary and the sale of Bank of Montreal shares.

Net earnings available to shareholders for the current quarter were $25.0 million, or $0.86 per share, compared to $23.8 million, or $0.79 per share, a year earlier, with the increase provided by the increased operating earnings and net gains.

EBITDA for the current quarter was $13.3 million, or $0.46 per share, compared to $12.5 million, or $0.42 per share in 2016. Adjusted cash flow from operations for the current quarter was $4.4 million, or $0.15 per share, compared to $10.0 million, or $0.32 per share in 2016. The large reduction in adjusted cash flow from operations is due to higher tax payments in the current quarter compared to Q1 of 2016. These two non-IFRS financial measures used by the Company are defined in its quarterly Management's Discussion and Analysis, including a reconciliation of these measures to their most comparable IFRS measures.

The Company's shareholders' equity as at March 31, 2017 was $605 million or $20.58 per share, compared to $580 million, or $19.62 per share as at December 31, 2016 and $498 million, or $16.63 per share as at March 31, 2016. The Company's securities as at March 31, 2017 were valued at $636 million, or $21.63 per share, compared to $620 million, or $20.97 per share, as at December 31, 2016 and $534 million, or $17.84 per share, as at March 31, 2016.

Commentary and Outlook

The markets were generally strong in the first quarter. Continued growth in the U.S., helped by the promise of significant tax cuts, propelled US markets upward, dragging along most other global markets. During the quarter, the S&P/TSX Composite had a return of 2.4% in US dollars, with a cumulative return of 18.6% for the trailing twelve-month period. The S&P 500 had a return of 6.1% in Canadian dollars during the quarter, with a cumulative return of 17.2% for the trailing twelve-month period. Globally, most major markets in the developed world performed well in the first quarter, with the MSCI World Index delivering a 5.5% return, in Canadian dollars.

The Canadian economy is experiencing an over-heating domestic housing market, particularly in the areas surrounding Toronto and Vancouver. In addition, highly leveraged consumers and moderate to low commodity prices are headwinds to growth, while a strong U.S. economy, a low dollar, and fiscal stimulus from the Canadian government are likely to provide stimulus to the Canadian economy. Going forward, it remains to be seen what effect oil prices, the continuing normalization of U.S. interest rates and potential increases in trade protectionism will have on Canadian, and global, economic prospects.

In the first quarter, the Company's assets under management ("AUM") declined 1% to $27.0 billion, and assets under administration ("AUA") increased by 3% to $17.0 billion. The decline in AUM is due to a combination of a few major institutional clients undergoing measured reductions of weightings in Canadian equities, and the loss of two co-advised, closed end fund mandates, amounting to $200 million, which were transferred internally to the co-advisor. We have also received notice that in Q2 2017, two additional funds with AUM of approximately $150 million will be transferred internally by the same co-advisor. These moves were offset by positive returns on the underlying asset classes managed by the Company and new client net asset growth recorded in our private wealth business unit. The positive performance of equities markets overall, and the S&P/TSX in particular, helped to increase AUM by 9% over the past 12 months, and led to increased investment management revenues in the first quarter of 2017 versus Q1 2016.

The Company's AUA has also grown this past year, in this case by 13% since March 31, 2016. The growth in the Company's net revenues in the current quarter compared to the same period in the prior year is largely due to these increases in AUM and AUA. First quarter net commission revenue was higher in 2017 than in 2016 in our MGA subsidiary, due to a higher than normal level of life insurance sales initiated in the fourth quarter of 2016, in advance of tax changes announced in the federal budget last year, some of which spilled over into the current quarter.

While net revenue increased, our planned expenses also increased due to the previously disclosed initiatives of investing in future growth by hiring resources to improve our investment management retail intermediary distribution capability in the U.S., and increases in our technology infrastructure expenditures across our various business segments. Operating earnings for the three months ended March 31, 2017 were $12.5 million, compared to $11.3 million in the same period in 2016.

In Q1, on the back of continued strong market price growth in Bank of Montreal ("BMO"), we further trimmed our holdings in BMO shares with the intention of redeploying our resources into investment strategies managed by the Company's investment professionals. Material investment commitments into various internally-managed strategies demonstrate our high conviction for our investment capabilities, and therefore promote potentially earlier third-party adoption of these seeding businesses, such as the UK-based Fundamental Global and Emerging Market Equity operations, as well as our Toronto-based Global Systematics team and the Real Estate investment team. The partial redeployment of our investment portfolio from BMO to these internally managed diversified strategies, however, is likely to reduce corporate investment dividend income earned, in exchange for the pursuit of future business segment operating earnings.

These efforts are still relatively early in the context of our long term strategic plans and industry benchmarks. These initiatives will continue to require our patient investment philosophy to organically build them into successful operating earnings contributors. However, we remain confident that our modest early successes will gain momentum and the velocity of this growth will have the potential to be transformative for our Investment Management business segment into the future. In the Financial Advisory Segment, we are adding additional human resources and increased investments in technology, marketing and other operating expenses, as we also prepare this business segment for the next stage of future growth. 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 continues to have frequent and high quality discussions with prospective clients regarding a variety of our investment capabilities. In particular, we are hopeful of gaining new clients for the Fundamental Global equity strategy managed in the UK. While growth in AUM for our Fundamental Global Equity strategy has been tepid to date, we continue to be excited about the prospect of this strategy becoming a strong contributor to our Company over time. Company-wide asset flows were negative overall in the first quarter, primarily due to large institutions rebalancing away from Canadian equities after a period of outperformance. We are reassured by the fact that these institutions continue to be clients of our Canadian equity team, and indications are that the rebalancing activity has abated. Global equity assets managed across the Company's platform continue to rise as a proportion of our total AUM, with approximately $3.6 billion, or 14% of total AUM, represented by this asset class as at March 31st. As we succeed with growing our global equity AUM, we may begin to be more susceptible to currency volatility compared to the Canadian dollar, as most global equity mandates we manage do not hedge for currencies.

The Company's securities represent a substantial proportion of the total assets on our balance sheet, with a market value of approximately $636 million at March 31. BMO shares remain a significant, but declining, proportion of the overall corporate securities portfolio, as we re-allocate funds to other investments. As at March 31, we owned 3,900,000 shares with a market value of $387 million, representing approximately 61% of the total fair market value of the securities. A significant proportion of our remaining investments are in equity funds and other equity securities 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 consolidated funds. Net gains from the sale of BMO shares were $6.7 million and net gains from all other investments were $10.9 million for the quarter, totaling net gains for the period of $17.6 million, compared to $16.8 million in the same period in 2016.

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 commissions and management fees 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 Q1 2017, the Company paid a dividend of $2.5 million and repurchased $3.2 million of shares under its Normal Course Issuer Bid. In April of this year, the Company paid to shareholders a quarterly dividend of $0.10 per share, and the Board is pleased to report that we have declared the next quarterly dividend of $0.10 per share, payable on July 18, 2017 to shareholders of record on July 11, 2017.

On behalf of the Board,	May 11, 2017
(signed) "James Anas"	(signed) "George Mavroudis"
Chairman of the Board	President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS (Unaudited)

As at *($ in thousands)*	**March 31 2017**	December 31 2016
ASSETS		
Current assets		
Cash	$ **37,388**	$ 37,974
Interest-bearing deposits with banks	**67,626**	77,268
Accounts receivables and other	**35,438**	36,370
Receivables from clients and broker	**53,271**	60,672
Securities backing third party investor liabilities (note 3)	**121,577**	99,452
	315,300	311,736
Securities (note 4)	**635,743**	620,218
Other assets		
Deferred tax assets	**1,567**	1,618
Intangible assets	**28,944**	29,386
Equipment	**4,066**	3,957
Goodwill	**15,014**	15,014
Investment in associate (note 15)	**--**	333
	49,591	50,308
Total assets	$ **1,000,634**	$ 982,262
LIABILITIES		
Current liabilities		
Bank loans and borrowings (note 5)	$ **66,797**	$ 62,664
Third party investor liabilities (note 3)	**121,577**	99,452
Client deposits	**67,597**	77,364
Accounts payable and other	**25,879**	37,829
Income taxes payable	**1,218**	6,300
Payable to clients	**53,271**	60,672
	336,339	344,281
Other liability	**707**	699
Deferred tax liabilities	**52,741**	51,812
Total liabilities	**389,787**	396,792
EQUITY		
Shareholders' equity		
Capital stock (note 6a and 6b)	**20,173**	20,268
Treasury stock (note 7a)	**(24,627)**	(22,342)
Contributed surplus	**14,394**	13,972
Retained earnings	**347,109**	327,669
Accumulated other comprehensive income	**247,990**	240,610
	605,039	580,177
Non-controlling interests	**5,808**	5,293
Total equity	**610,847**	585,470
Total liabilities and equity	$ **1,000,634**	$ 982,262

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

For the periods ended March 31 *($ in thousands, except per share amounts)*	**2017**	2016
Revenue		
Gross commission revenue	**$ 33,966**	$ 29,272
Commissions paid to advisors	**(22,507)**	(20,086)
	11,459	9,186
Management fee income, net (note 8)	**17,964**	16,219
Administrative services income	**3,704**	4,187
Dividend and interest income (note 9)	**5,491**	5,478
Net revenue	**38,618**	35,070
Expenses		
Employee compensation and benefits	**16,219**	14,907
Amortization	**1,026**	1,040
Interest	**208**	213
Other expenses	**8,707**	7,560
	26,160	23,720
Operating earnings	**12,458**	11,350
Net gains (note 10)	**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
Non-controlling interests	**515**	254
	$ 25,518	$ 24,072
Net earnings available to shareholders per Class A and Common share (note 11)		
Basic	**$ 0.91**	$ 0.83
Diluted	**0.86**	0.79

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

For the periods ended March 31 *($ in thousands)*	**2017**	2016
Net earnings	**$ 25,518**	$ 24,072
Other comprehensive Income (loss)		
Available for sale securities, net of taxes:		
Net change in fair value	**15,409**	3,716
Income tax provision	**1,552**	224
	13,857	3,492
Transfer to net earnings of unrealized (gains) upon disposal	**(6,418)**	(12,802)
Reversal of income taxes	**843**	1,713
	(5,575)	(11,089)
Net change in available for sale securities, net of taxes	**8,282**	(7,597)
Net change in foreign currency translation adjustment on foreign subsidiaries	**(902)**	(10,284)
Other comprehensive income (loss)	**7,380**	(17,881)
Comprehensive income	**$ 32,898**	$ 6,191
Comprehensive income available to:		
Shareholders	**$ 32,383**	$ 5,937
Non-controlling interests	**515**	254
Comprehensive income	**$ 32,898**	$ 6,191

CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

For the periods ended March 31 *($ in thousands)*	**2017**	2016
Total equity, beginning of period	**$ 585,470**	$ 508,526
Shareholders' equity, beginning of period	**580,177**	504,255
Capital stock		
Balance, beginning of period	**20,268**	20,929
Acquired and cancelled (note 6c)	**(95)**	(254)
Capital stock, end of period	**20,173**	20,675
Treasury stock		
Balance, beginning of period	**(22,342)**	(21,563)
Acquired (note 7a)	**(2,300)**	(2,200)
Disposed of (note 7a)	**15**	5
Treasury stock, end of period	**(24,627)**	(23,758)
Contributed surplus		
Balance, beginning of period	**13,972**	12,280
Stock-based compensation expense	**432**	346
Redemption of equity-based entitlements	**(10)**	--
Contributed surplus, end of period	**14,394**	12,626
Retained earnings		
Balance, beginning of period	**327,669**	291,317
Net earnings available to shareholders	**25,003**	23,818
Dividends declared and paid (note 6d)	**(2,456)**	(2,238)
Capital stock acquired and cancelled (note 6c)	**(3,107)**	(8,012)
Acquisition of non-controlling interests	**--**	(183)
Retained earnings, end of period	**347,109**	304,702
Accumulated other comprehensive income		
Balance, beginning of period	**240,610**	201,292
Unrealized gains on available for sale securities, net of income taxes:		
Balance, beginning of period	**218,590**	169,746
Net change during period	**8,282**	(7,597)
Balance, end of period	**226,872**	162,149
Foreign currency translation adjustment on foreign subsidiaries:		
Balance, beginning of period	**22,020**	31,546
Net change during period	**(902)**	(10,284)
Balance, end of period	**21,118**	21,262
Accumulated other comprehensive income, end of period	**247,990**	183,411
Shareholders' equity , end of period	**605,039**	497,656
Non-controlling interests		
Balance, beginning of period	**5,293**	4,271
Net earnings available to non-controlling interests	**515**	254
Acquisition of non-controilling interests	**--**	(78)
Non-controlling interests, end of period	**5,808**	4,447
Total equity, end of period	**$ 610,847**	$ 502,103

CONSOLIDATED STATEMENTS OF CASH FLOW (Unaudited)

For the periods ended March 31 *($ in thousands)*	2017	2016
Operating activities		
Net earnings	$ 25,518	$ 24,072
Adjustments for:		
Income taxes paid	(8,940)	(2,957)
Income tax expense	4,529	4,056
Net (gains)	(17,589)	(16,778)
Amortization of intangible assets	847	857
Amortization of equipment	179	183
Stock-based compensation	432	346
Other non-cash expenses	94	150
	5,070	9,929
Net change in non-cash working capital items (note 13)	(11,161)	(5,479)
Net cash from (used in) operating activities	(6,091)	4,450
Investing activities		
Net acquisition of securities	9,665	4,013
Net acquisition of securities backing third party investor liabilities	(18,738)	(22,344)
Acquisition of intangible assets	(719)	(699)
Acquisition of equipment	(291)	(188)
Disposition of intangible assets	487	248
Other (note 15)	425	--
Net cash used in investing activities	(9,171)	(18,970)
Financing activities		
Dividends	(2,456)	(2,238)
Acquisition and cancellation of capital stock	(3,202)	(8,266)
Acquisition of treasury stock	(2,300)	(2,200)
Disposition of treasury stock	15	5
Net proceeds of bank loan and bankers acceptances	(5,950)	4,441
Net subscriptions from third party investors	18,738	22,344
Acquisition of non-controlling interests	--	(261)
Net cash from financing activities	4,845	13,825
Foreign exchange		
Net effect of foreign exchange rate changes on cash balances	(252)	(781)
Net change in net cash	(10,669)	(1,476)
Net cash, beginning of period	37,974	20,674
Net cash, end of period	$ 27,305	$ 19,198
Net cash represented by:		
Cash	$ 37,388	$ 26,819
Net bank indebtedness	(10,083)	(7,621)
	$ 27,305	$ 19,198

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 May 11, 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 initial assessment, these new classifications could result in the Company's securities being designated into classifications which may result in more net gains or losses being recorded in Net Earnings rather than in Other Comprehensive Income. 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		March 31 2017		December 31 2016
Available for sale securities:				
Short-term securities (i)	$	10,298	$	12,567
Bonds		1,158		1,147
Fixed income mutual funds		14,744		9,449
Equity mutual funds		34,177		27,599
Bank of Montreal common shares (ii)		387,387		386,240
Other equity securities		16,018		15,647
Real estate funds (iii)		23,759		23,759
		487,541		476,408
Held for trading securities (iv):				
Equity securities		148,202		143,810
	$	635,743	$	620,218

(i) Short-term securities shown above include investments in non-controlled investment funds that primarily invest in short-term securities, as well as directly held short-term securities.

(ii) During the three months to March 31, 2017, the Company sold a total of 100 of its Bank of Montreal common shares (2015 – 342). The gains and other details on these sales are disclosed in note 10.

(iii) Subsequent to quarter end, 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. However, the Company has maintained its initial commitment to invest a total of $35,000. As a result of the disposition, the Company's uninvested commitment has increased to $20,026.

(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		March 31 2017		December 31 2016
Level 1	$	555,303	$	548,424
Level 2		66,765		59,427
Level 3		13,675		12,367
	$	635,743	$	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 March 31		2017		2016
Securities categorized as Level 3, beginning of period	$	12,367	$	12,918
Increase (decrease) in fair value, recognized in Other Comprehensive Income		1,308		(303)
Securities categorized as Level 3, end of period	$	13,675	$	12,615

5. BANK LOANS AND BORROWINGS

Bank loans and borrowings are composed of the following:

As at		March 31 2017		December 31 2016
Bank indebtedness	$	10,083	$	--
Bankers' acceptances payable		55,500		62,400
Bank loan		1,214		264
	$	66,797	$	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 periods ended March 31	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	**--**	**--**	150	37
Outstanding, end of period	**26,554**	**19,335**	26,847	19,707
Common shares				
Outstanding, beginning of period	**3,469**	**838**	4,349	1,051
Acquired and cancelled	**--**	**--**	(190)	(46)
Converted into class A	**--**	**--**	(150)	(37)
Outstanding, end of period	**3,469**	**838**	4,009	968
Total outstanding, end of period	**30,023**	**$ 20,173**	30,856	$ 20,675

(c) Issuer bid

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

For the periods ended March 31	2017	2016
Shares purchased and cancelled		
Class A	**132**	282
Common	**--**	190
Consideration paid	**$ 3,202**	$ 8,266
Average issue price, charged to share capital	**95**	254
Excess consideration charged to retained earnings	**$ 3,107**	$ 8,012

Under the current NCIB, the Company may purchase up to 192 common shares and 1,960 class A shares during the period from November 21, 2016 to November 20, 2017. To date, the Company has purchased and cancelled 190 common shares and 132 class A shares under this NCIB.

(d) Dividends

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

For the periods ended March 31	2017	2016
Dividends declared and paid, per share	**$ 0.085**	$ 0.075

The Company has also declared dividends of $0.100 per share payable on April 18, 2017 and July 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 periods ended March 31	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	(2)		(15)	(1)		(5)
Balance, end of period	2,282	$	24,627	2,428	$	23,758

During the three months ended March 31, 2017, the Company disposed of 2 (2016 – 1) of the class A shares for amounts equal to their costs.

As at March 31, 2017, the treasury stock was composed of 32 common shares (2016 – 32) and 2,250 class A shares (2016 – 2,160).

(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 March 31	2017	2016
Equity based entitlements, beginning of period	928	803
Provided	92	130
Exercised	(2)	--
Equity based entitlements, end of period	1,018	933

Equity-based entitlements provided during the three months to March 31, 2017 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 periods ended March 31	2017			2016		
	Shares		Weighted average exercise price	Shares		Weighted average exercise price
Option-like entitlements, beginning of period	1,264	$	9.49	1,496	$	8.95
Exercised	--		--	(1)		9.69
Option-like entitlements, end of period	1,264	$	9.49	1,495	$	8.95

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 March 31		2017		2016
Management fee income, gross	$	19,030	$	17,078
Less: fees paid to referring agents		(1,066)		(859)
	$	17,964	$	16,219

9. DIVIDEND AND INTEREST INCOME

Dividend and interest income is composed of the following:

For the periods ended March 31	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
	$ 5,491	$ 5,478

10. NET GAINS

Net gains (losses) are composed of the following:

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

(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 March 31	2017	2016
Shares sold	100	342
Proceeds of sales	$ 10,294	$ 26,068
Gains	6,669	13,636
Income tax expense	883	1,807

(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 March 31	2017	2016
Weighted average number of Class A and common shares outstanding:		
Basic	27,569	28,734
Effects of outstanding entitlements from stock-based compensation plans	1,630	1,449
Diluted	29,199	30,183
Net earnings available to shareholders:		
Basic	$ 25,003	$ 23,818
Effects of outstanding entitlements from stock-based compensation plans	61	54
Diluted	$ 25,064	$ 23,872

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 periods ended March 31	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	**$ --**	$ --	**$ 34,161**	$ 29,474	**$ --**	$ --	**$ (195)**	$ (202)	**$ 33,966**	$ 29,272
Commissions paid to advisors	**--**	--	**(22,507)**	(20,086)	**--**	--	**--**	--	**(22,507)**	(20,086)
	--	--	**11,654**	9,388	**--**	--	**(195)**	(202)	**11,459**	9,186
Management fee income, net	**17,955**	16,017	**--**	--	**--**	--	**9**	202	**17,964**	16,219
Administrative services income	**1,599**	2,245	**2,092**	1,942	**13**	--	**--**	--	**3,704**	4,187
Dividend and interest income	**78**	42	**168**	161	**5,221**	5,322	**24**	(47)	**5,491**	5,478
Net revenue	**19,632**	18,304	**13,914**	11,491	**5,234**	5,322	**(162)**	(47)	**38,618**	35,070
Expenses										
Employee compensation and benefits	**9,235**	8,369	**4,587**	4,351	**2,397**	2,187	**--**	--	**16,219**	14,907
Amortization	**92**	75	**832**	843	**102**	122	**--**	--	**1,026**	1,040
Interest	**12**	53	**20**	51	**196**	156	**(20)**	(47)	**208**	213
Other expenses	**5,420**	4,706	**4,121**	3,635	**(692)**	(781)	**(142)**	--	**8,707**	7,560
	14,759	13,203	**9,560**	8,880	**2,003**	1,684	**(162)**	(47)	**26,160**	23,720
Operating earnings	**4,873**	5,101	**4,354**	2,611	**3,231**	3,638	**--**	--	**12,458**	11,350
Net gains	**38**	458	**181**	102	**17,370**	16,218	**--**	--	**17,589**	16,778
Net earnings before income taxes	**4,911**	5,559	**4,535**	2,713	**20,601**	19,856	**--**	--	**30,047**	28,128
Income tax expense	**1,166**	1,408	**1,278**	790	**2,085**	1,858	**--**	--	**4,529**	4,056
Net earnings	**$ 3,745**	$ 4,151	**$ 3,257**	$ 1,923	**$ 18,516**	$ 17,998	**$ --**	$ --	**$ 25,518**	$ 24,072
Net earnings available to:										
Shareholders	**$ 3,745**	$ 4,151	**$ 2,742**	$ 1,669	**$ 18,516**	$ 17,998	**$ --**	$ --	**$ 25,003**	$ 23,818
Non-controlling interests	**--**	--	**515**	254	**--**	--	**--**	--	**515**	254
	$ 3,745	$ 4,151	**$ 3,257**	$ 1,923	**$ 18,516**	$ 17,998	**$ --**	$ --	**$ 25,518**	$ 24,072
Capital expenditures on segment assets:										
Intangible assets	**$ --**	$ 25	**$ 719**	$ 650	**$ --**	$ 24	**$ --**	$ --	**$ 719**	$ 699
Equipment	**24**	33	**4**	6	**263**	149	**--**	--	**291**	188
As at March 31, 2017 and December 31, 2016										
Segment assets and liabilities:										
Assets	**$ 96,116**	$ 109,371	**$ 122,441**	$ 132,095	**$ 829,874**	$ 795,683	**$ (47,797)**	$ (54,887)	**$ 1,000,634**	$ 982,262
Liabilities	**78,200**	94,991	**114,913**	127,826	**244,471**	228,862	**(47,797)**	(54,887)	**389,787**	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:

For the periods ended March 31	Canada		Rest of the World		Inter-Segment Transactions		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Net revenue	**$ 35,496**	$ 32,447	**$ 3,454**	$ 2,820	**$ (332)**	$ (197)	**$ 38,618**	$ 35,070
As at March 31, 2017 and December 31, 2016								
Segment non-current assets:								
Intangible assets	**$ 27,877**	$ 28,268	**$ 1,067**	$ 1,118	**$ --**	$ --	**$ 28,944**	$ 29,386
Equipment	**3,296**	3,184	**770**	773	**--**	--	**4,066**	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 March 31	**2017**	2016
Decrease (increase) in non-cash working capital assets:		
Interest-bearing deposits with banks	**$ 8,926**	$ (40,691)
Accounts receivable and other	**1,163**	761
Receivables from clients and broker	**7,401**	(11,697)
Increase (decrease) in non-cash working capital liabilities:		
Client deposits	**(9,048)**	40,628
Accounts payable and other	**(12,202)**	(6,177)
Payable to clients	**(7,401)**	11,697
	$ (11,161)	$ (5,479)

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 $387,387 (December 31, 2016 – $386,240) investment in the Bank of Montreal shares, which represents 61% (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 $38,739 (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 March 31, 2017				
Canada	**$ 1,403**	**±$ 140**	**$ 33,148**	**±$ 3,315**
United States	**--**	**--**	**13,314**	**1,331**
Rest of World	**146,799**	**14,680**	**27,490**	**2,749**
	$ 148,202	**±$ 14,820**	**$ 73,952**	**±$ 7,395**
As at December 31, 2016				
Canada	$ 2,752	±$ 275	$ 34,898	±$ 3,490
United States	--	--	12,007	1,201
Rest of World	141,058	14,106	20,100	2,010
	$ 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 $171,284 (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	**March 31 2017**	December 31 2016
Interest rate sensitive assets:		
Interest-bearing deposits with banks	**$ 67,626**	$ 77,268
Bonds	**1,158**	1,147
Fixed income mutual funds	**14,744**	9,449
	$ 83,528	$ 87,864
Interest rate sensitive liabilities:		
Bank loans and borrowings	**$ 66,797**	$ 62,664
Client deposits	**67,597**	77,364
	$ 134,394	$ 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	March 31 2017	December 31 2016
Cash	$ 37,388	$ 37,974
Interest-bearing deposits with banks	67,626	77,268
Accounts receivable and other	35,438	36,370
Receivables from clients and broker	53,271	60,672
Short-term securities	10,298	12,567
Bonds	1,158	1,147
Fixed income mutual funds	14,744	9,449
	$ 219,923	$ 235,447

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 net current liability. As a result of the transaction, the Company derecognized the investment in associates 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 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 place on these statements, as a number of factors could cause actual results to differ materially from Guardian's objectives, plans, expectations and estimates reflected in the forward-looking statements. Factors which could cause actual results to differ from expectations include, among other things, general economic and market conditions, including interest rates, business competition, changes in government regulations or in tax laws, and other factors.

OVERVIEW OF GUARDIAN'S BUSINESS

Guardian is a diversified financial services company, which serves the wealth management needs of a range of clients through its various business segments. The areas in which Guardian operates are: institutional and private wealth investment management; financial advisory, which includes an insurance managing general agency ("MGA"), a mutual fund dealer and a securities dealer (together, the "Dealers"); and corporate activities and investments. Guardian is headquartered and operates in Canada and also operates through its subsidiaries GuardCap Asset Management Limited ("GuardCap") in the United Kingdom, Guardian Capital LLC ("GCLLC") in the United States and Alexandria Bancorp Limited ("Alexandria") in the Caribbean. As at 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 March 31	2016 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		2017		2016		
($ in millions)		**March 31**		December 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	Three months	
($ in thousands)	**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	**2017**	2016	
($ in thousands, except per share amounts)	**March 31**	December 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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