

Guardian

GUARDIAN CAPITAL GROUP LIMITED
Report to Shareholders

THIRD QUARTER
SEPTEMBER 30, 2018

TO OUR SHAREHOLDERS:

We present below a summary of the Company's operating results for the periods ended September 30, 2018. All per share figures disclosed below are stated on a diluted basis.

For the periods ended September 30 (\$ in thousands, except per share amounts)	Three months		Nine months	
	2018	2017	2018	2017
Net revenue	\$ 42,773	\$ 36,315	\$ 127,213	\$ 112,141
Operating earnings	12,444	10,505	34,250	35,123
Net gains (loss) ⁽²⁾	28,481	4,068	33,349	27,045
Net earnings (loss) attributable to shareholders ⁽²⁾	34,320	12,310	53,497	52,837
EBITDA ⁽¹⁾	\$ 15,562	\$ 11,811	\$ 41,346	\$ 38,587
Adjusted cash flow from operations ⁽¹⁾	11,083	9,064	30,157	30,045
Per share:				
Net earnings (loss) attributable to shareholders ⁽²⁾	\$ 1.21	\$ 0.42	\$ 1.89	\$ 1.81
EBITDA ⁽¹⁾	0.55	0.40	1.46	1.32
Adjusted cash flow from operations ⁽¹⁾	0.39	0.31	1.07	1.03

As at (\$ in millions, except per share amounts)	2018		2017	
	September 30	December 31	September 30	
Assets under management	\$ 29,185	\$ 27,250	\$ 26,335	
Assets under administration	18,096	17,795	17,271	
Shareholders' equity	670	634	608	
Securities	688	652	621	
Per share:				
Shareholders' equity ⁽¹⁾	\$ 23.57	\$ 21.88	\$ 20.67	
Securities ⁽¹⁾	24.20	22.49	21.12	

Summary

The Company's operating earnings for the quarter ended September 30, 2018 were \$12.4 million, compared to \$10.5 million during the same quarter in the prior year. The total revenue increased to \$42.8 million in the current quarter, \$6.5 million higher than \$36.3 million in the same quarter in the prior year. All of the main components of revenue increased compared to the prior year. Included in the management fee income this quarter is \$4.6 million from the recently acquired US-based investment management business ("Alta"), accounting for substantially all of the increased management fee income compared to the prior year. Substantially all of the increase in commission revenue in the Financial Advisory Segment was contributed by the life insurance Managing General Agency business, through its organic growth and successful recruitment of new advisors.

The expenses for the quarter were higher than the prior year by \$4.5 million. Included in the current quarter's expenses were \$3.1 million of operating expenses of Alta, additional costs in the Financial Advisory Segment associated with the continuing costs of the new technology platform and higher amortization expenses associated with significant recruitments of advisors in prior quarters, and increased interest expenses in the Corporate Segment resulting from increased financing used to acquire Alta.

The adoption of IFRS 9 by the Company on January 1, 2018, introduced significant volatility to net gains (losses) resulting from the financial markets. As a result, we continued to see fluctuations in net gains (losses) in the current quarter. The fair value of the securities increased significantly, including the shares of Bank of Montreal, resulting in net gains of \$28.5 million being recorded in the current quarter, compared to net gains of \$4.1 million in the prior year.

As a result of the net gains and improved operating earnings as described above, the Company is reporting net earnings attributable to shareholders in the current quarter of \$34.3 million, compared to net earnings attributable to shareholders of \$12.3 million in the prior year.

The Company's AUM was \$29.2 billion as at September 30, 2018, compared to \$27.3 billion at the end of 2017 and \$26.3 billion as at September 30, 2017. The increase in AUM is due largely to the addition of assets managed by Alta, positive financial market performance, partially offset by outflow of assets. The Company's assets under administration were \$18.1 billion as at September 30, 2018, compared to \$17.8 billion at the end of 2017 and \$17.3 billion as at September 30, 2017.

EBITDA⁽¹⁾ for the current quarter was \$15.6 million, or \$0.55 per share, compared to \$11.8 million, or \$0.40 per share for 2017. Adjusted cash flow from operations⁽¹⁾ for the current quarter was \$11.1 million, or \$0.39 per share, compared to \$9.1 million, or \$0.31 per share for 2017.

The Company's shareholders' equity as at September 30, 2018 was \$670 million, or \$23.57 per share⁽¹⁾, compared to \$634 million, or \$21.88 per share⁽¹⁾ as at December 31, 2017, and \$608 million, or \$20.67 per share⁽¹⁾, as at September 30, 2017. The fair value of the Company's Securities as at September 30, 2018 was \$688 million, or \$24.20 per share⁽¹⁾, compared to \$652 million, or \$22.49 per share⁽¹⁾, as at December 31, 2017, and \$621 million or \$21.12 per share⁽¹⁾, as at September 30, 2017.

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

⁽²⁾ The Company adopted IFRS 9 – *Financial Instruments* on January 1, 2018 on a retrospective basis. The prior period figures have been restated to reflect the application of this new standard.

Commentary

During the third quarter, the S&P/TSX Composite had a total return of -0.6%, with a cumulative return of 5.9% for the trailing twelve-month period. During the same periods, the S&P 500 generated a total return of 7.7% and a cumulative return of 17.9%. Globally, developed markets had mixed results, with slightly more than half generating a positive return during the quarter, and all underperforming the S&P 500. Emerging markets also had mixed performance, as China experienced negative returns, but the remaining BRIC markets had reasonably strong performance.

In our core Investment Management business, Canadian domestic asset managers have faced significant headwinds for many years, with Canadian equity weightings systematically being reduced by many institutional investors. The decrease is due largely to an overall desire to reduce significant home bias and diversify into alternative strategies, and several large domestic institutional asset owners internalizing certain investment capabilities, including domestic equities. Given these structural headwinds, Guardian has managed to maintain and grow market share in domestic strategies, through strong, valued long-term relationships with clients, remaining consistent to our investment process and a willingness to continue reinvesting in human capital to maintain a significant domestic team supporting multiple product solutions. Domestic market challenges have been more acute over the past couple of years as Canada has fallen out of favour relative to most other global developed markets. However, Guardian's executive team is patient and committed to preserving a strong foundation in domestic investment management capabilities, and ultimately remain one of a few select independent managers of choice. Given some of the structural and cyclical trends toward domestic investment solutions, a major goal over the last few years has been to diversify our investment management capabilities beyond our core Canadian competency. With the acquisition of US-based Alta Capital Management early this year and the building of a global systematic investment team in Toronto and fundamental global and emerging market equity team in London, UK, our non-Canadian assets under management (AUM) now amount to over 30% of our institutional AUM, and we expect this non-Canadian component to continue to grow as a percentage of total AUM. Within our Canadian AUM as well, we have been incubating and marketing new Canadian focused strategies, and are investing to improve our support of, and develop innovations to augment, our existing products. We believe that with a broad investment platform offering unique high-conviction and innovative multi-factor solutions, there will be considerable growth opportunities available across all of our platforms, both within Canada, and in a number of targeted non-domestic markets in the near future.

In addition to broadening our portfolio management capabilities, we have also been investing heavily to expand the distribution of our investment management products. We have improved our geographic reach over the past number of years, using both proprietary and third-party distribution partnerships to add clients beyond Canada, including the US, UK, Australia, Continental Europe, the Middle East and the Far East. Institutionally, we have greater appeal to investors across the globe, due to our successful focused global developed and emerging markets equity investment teams and solutions added over the last several years. In the retail intermediary market, we are actively working on increasing the penetration of our products into the US, taking advantage of the breadth of broker dealer partners in place with Alta, who were very successful in building such partnerships, as well as improving sales of our new and existing products with our existing Canadian partners. In the private client market, Guardian continues to attract new clients and, more importantly, is experiencing a high rate of retention of existing clients. Resources continue to be invested in recruiting client portfolio managers and building greater brand awareness for our high-quality bespoke private wealth portfolio management services. Guardian's private wealth offering is well-positioned to benefit from the significant inter-generational wealth transfer which we have witnessed in recent years.

The expansion of our investment management business into other jurisdictions has made our business more complex, but we are better prepared today to deal with this complexity, due to our prudent organic investment over the years and our interest in Alta, our US equities team. A tremendous intangible benefit gained over these years is the know-how and infrastructure to deal with these increased complexities. Overall, we have put in place the operational support and capacity to add assets under management and to expand the marginal fees we earn.

In the third quarter, our Investment Management Segment delivered operating earnings of \$6.6 million, a meaningful improvement from the \$4.7 million in the prior year, and a slight improvement from the previous quarter. Much of the year over year growth comes from the acquisition of our US equity business. AUM suffered a quarter over quarter decline to \$29.2 billion from \$29.7 billion, both as a result of slight declines in the fixed income and Canadian equity markets, and net redemptions from these product lines. GuardCap, our UK investment management operation, continues to make progress in adding client assets under management, and is making encouraging progress toward our expectation of becoming a meaningful contributor to this business segment in the not too distant future. Performance remains very strong, and we anticipate improving financial performance as our AUM continues to increase. We continue to witness tangible interest in our fundamental global product from large global institutions, and have a growing pipeline of opportunities that we expect to convert into awarded mandates at an accelerated pace in the quarters to come. Our core Canadian investment management operation continues to experience net redemptions, largely as a result of rebalancing by our clients in both fixed income and equity lines. However, it is encouraging to note that, with greater volatility in the market, performance relative to our benchmarks has shown some improvement. The increased volatility in the equity markets has also shifted greater interest and awareness toward quality growth investments rather than simply growth issuers which have been dominated by the FAANG (Facebook, Apple, Amazon, Netflix and Google) stocks in recent years. Alta, our US investment management operation, has traditionally held an investment philosophy and track record with an emphasis on quality growth investing. Accordingly, Alta is very well-positioned to benefit from a shift in the market sentiment toward quality growth. In this past quarter, relative performance for our flagship US equity strategies were strong and, given exceptional product support and positioning, and an informed client base, we remain hopeful that our allocation of resources to wholesaling across the several broker dealer partners will build a steady stream of additional assets under management.

Worldsource, our Financial Advisory Segment, essentially serves two distinct types of independent financial advisors across Canada. It operates a mutual fund and securities dealership (the Dealers) which focuses largely on independent financial advisors offering investment advice to their clients, and it operates a Managing General Agency (the MGA) which is focused on servicing independent life insurance advisors. The Dealers had small gains in their assets under administration and the unit was back to being a positive contributor to operating earnings, despite continuing post-implementation challenges related to our new core technology platform. We expect that once the post-implementation issues are resolved, this new platform will offer us improved efficiencies for our advisor network, and automated tools that will allow us to improve our overall offering and lead to further success in maintaining and recruiting advisors for years to come. We do acknowledge that the implementation has been difficult for our staff, and the advisors who trust us to efficiently process their business, but we believe most of the pain is behind us. Our MGA had another strong quarter, with premiums on life insurance policies sold of \$29.7 million, compared to \$14.2 million in Q3 of the prior year, and net commission revenue amounting to \$8.1 million, compared with \$6.9 million in Q3 a year earlier. As a result, it is now ahead of last year's pace on a year to date basis, despite Q1 2017 being an anomalously strong quarter as discussed in previous quarters. We continue to be pleased with the growth in this business, both from organic growth in new policies and advisor recruitment. The Financial Advisory segment contributed \$3.7 million in operating earnings in Q3, representing roughly 30% of the Company's total operating earnings.

In addition to the strength in our Investment Management and Financial Advisory Segments, steady and reliable investment income from our corporate securities portfolio is an important contributor to our overall profitability. Much of this income is derived from our holdings of the Bank of Montreal ("BMO"). In the quarter, we did not sell any BMO, and continue to hold 3,700,000 shares, with an increased fair market value of \$394 million. This holding represents approximately 57% of our total corporate marketable securities portfolio, up from 56% last quarter and 58% a year earlier, with the

remaining portfolio largely allocated to global equities. Global equity markets trended upwards, with our total portfolio growing to a value of \$688 million at the end of the current quarter, up from \$652 million at year-end and \$621 million a year earlier.

Recently, we have added to our traditional organic growth approach by taking advantage of our strong financial position and good reputation to acquire businesses in the financial services industry. Our management team, over the past few years, has gained meaningful experience in M&A, primarily relating to our insurance MGA, but our recent acquisition of a majority stake in Alta, also gave us some added experience acquiring and integrating investment management businesses. Opportunities to acquire businesses in the MGA segment still exist, but for bigger, more strategic acquisitions, we are seeing significant increases in enterprise valuations. While this validates our opinion that IDC WIN, our MGA business, is a valuable and strategic asset, the price inflation in this business likely means that for the time being, our focus will be on recruiting new advisors and perhaps small acquisitions. We are now continuously being approached by investment management firms or their advisors who are seeking a strategic investor, or new owner, due to their own succession issues or challenges in achieving economies of scale. Obviously, we are not the only potential buyer of these businesses, and many of the businesses for sale do not address all of our needs. However, we will continue to assess complimentary businesses that can provide us with the opportunity to achieve our goals of; 1) developing a sustainable, profitable business; 2) diversifying from our concentrated exposure to Canadian equities; and 3) contributing to building our global footprint.

Quality companies generate strong cash flows and, as we grow this financial metric, Guardian is committed to returning an ever-increasing amount of cash to its shareholders. So far this year, Guardian has returned roughly \$23 million to shareholders by repurchasing and cancelling 511,000 shares in the first quarter, and paying nearly \$3.5 million in dividends this quarter and \$9.8 million year to date. In April, we increased our quarterly dividend from \$0.10 per share to \$0.125 per share, and continued dividends at that rate in July and October of this year. The Board is pleased to report that we have again declared the next quarterly dividend of \$0.125 per share, payable on January 18, 2019 to the shareholders of record on January 11, 2019.

Our core values at Guardian are to be Trustworthy, to act with Integrity and to ensure Stability throughout the organization. Clients, Shareholders, Employees, Partners and other stakeholders of Guardian should be assured that, from top to bottom, our organization embraces the responsibilities with which we are entrusted very seriously, and is continuously striving to make improvements to all aspects of how we do business. As long as we continue to live up to these expectations, all of our stakeholders should expect to benefit from our success.

On behalf of the Board,

(signed) "James Anas"

Chairman of the Board

November 8, 2018

(signed) "George Mavroudis"

President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS (Unaudited)

As at	Restated (note 2b)	
<i>(\$ in thousands)</i>	September 30	December 31
	2018	2017
ASSETS		
Current assets		
Cash	\$ 45,172	\$ 48,887
Interest-bearing deposits with banks	58,513	52,637
Accounts receivable and other	45,054	39,087
Receivables from clients and broker	52,437	63,366
Securities backing third party investor liabilities (note 3)	7,187	5,688
	208,363	209,665
Securities (note 4)	688,275	652,176
Other assets		
Deferred tax assets	1,574	1,557
Intangible assets	117,738	29,575
Equipment	5,153	4,497
Goodwill	46,205	15,014
	170,670	50,643
Total assets	\$ 1,067,308	\$ 912,484
LIABILITIES		
Current liabilities		
Bank loans and borrowings (note 5)	\$ 133,161	\$ 55,859
Third party investor liabilities (note 3)	7,187	5,688
Client deposits	56,913	52,653
Accounts payable and other	41,329	41,011
Income taxes payable	1,324	1,333
Payable to clients	52,437	63,366
	292,351	219,910
Other liabilities (note 6)	22,398	--
Deferred tax liabilities	67,790	51,370
Total liabilities	382,539	271,280
EQUITY		
Shareholders' equity		
Capital stock (note 7a and 7b)	19,500	19,871
Treasury stock (note 8a)	(25,243)	(23,764)
Contributed surplus	16,928	15,882
Retained earnings	646,804	617,179
Accumulated other comprehensive income	12,393	5,248
	670,382	634,416
Other equity interests	14,387	6,788
Total equity	684,769	641,204
Total liabilities and equity	\$ 1,067,308	\$ 912,484

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Unaudited)

For the periods ended September 30 (\$ in thousands, except per share amounts)	Three months		Nine months	
	2018	2017 (note 2b)	2018	2017 (note 2b)
Revenue				
Gross commission revenue	\$ 36,762	\$ 33,144	\$ 106,896	\$ 100,389
Commissions paid to advisors	(25,263)	(22,947)	(73,778)	(68,805)
	11,499	10,197	33,118	31,584
Management fee income, net (note 9)	22,031	17,323	66,535	52,972
Administrative services income	3,496	3,347	10,238	10,459
Dividend and interest income (note 10)	5,747	5,448	17,322	17,126
Net revenue	42,773	36,315	127,213	112,141
Expenses				
Employee compensation and benefits	17,525	15,601	54,200	47,239
Amortization	2,714	1,051	7,388	3,129
Interest	1,192	191	2,623	586
Other expenses	8,898	8,967	28,752	26,064
	30,329	25,810	92,963	77,018
Operating earnings	12,444	10,505	34,250	35,123
Net gains (note 11)	28,481	4,068	33,349	27,045
Net earnings before income taxes	40,925	14,573	67,599	62,168
Income tax expense	5,846	2,018	11,554	8,320
Net earnings	\$ 35,079	\$ 12,555	\$ 56,045	\$ 53,848
Other comprehensive income (loss)				
Net change in foreign currency translation on foreign subsidiaries	(6,695)	(5,363)	7,872	(13,140)
Comprehensive income	\$ 28,384	\$ 7,192	\$ 63,917	\$ 40,708
Net earnings attributable to:				
Shareholders	\$ 34,320	\$ 12,310	\$ 53,497	\$ 52,837
Non-controlling interests	759	245	2,548	1,011
	\$ 35,079	\$ 12,555	\$ 56,045	\$ 53,848
Net earnings attributable to shareholders per Class A and Common share (note 12)				
Basic	\$ 1.28	\$ 0.44	\$ 1.99	\$ 1.91
Diluted	1.21	0.42	1.89	1.81
Comprehensive income attributable to:				
Shareholders	\$ 28,441	\$ 6,947	\$ 60,642	\$ 39,697
Non-controlling interests	360	245	3,275	1,011
Comprehensive income	\$ 28,801	\$ 7,192	\$ 63,917	\$ 40,708

CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

For the periods ended September 30 (\$ in thousands)	Three months		Nine months	
	2018	2017 (note 2b)	2018	2017 (note 2b)
Total equity, beginning of period	\$ 660,051	\$ 609,487	\$ 641,204	\$ 585,470
Shareholders' equity, beginning of period	644,956	603,428	634,416	580,177
Capital stock, beginning of period	19,500	20,173	19,871	20,268
Acquired and cancelled (note 7c)	--	--	(371)	(95)
Capital stock, end of period	19,500	20,173	19,500	20,173
Treasury stock, beginning of period	(25,523)	(24,208)	(23,764)	(22,342)
Acquired (note 8a)	--	--	(2,255)	(2,300)
Disposed of (note 8a)	280	--	776	434
Treasury stock, end of period	(25,243)	(24,208)	(25,243)	(24,208)
Contributed surplus, beginning of period	16,324	14,868	15,882	13,972
Stock-based compensation expense	669	520	1,483	1,468
Redemption of equity-based entitlements	(65)	--	(437)	(52)
Contributed surplus, end of period	16,928	15,388	16,928	15,388
Retained earnings, beginning of period	615,966	578,352	617,179	546,259
Net earnings (loss)	34,320	12,310	53,497	52,837
Dividends declared and paid (note 7d)	(3,482)	(2,882)	(9,799)	(8,219)
Capital stock acquired and cancelled (note 7c)	--	--	(12,830)	(3,107)
Acquisition of non-controlling interests (note 17)	--	--	(1,243)	--
Net gain on treasury stock	--	--	--	10
Retained earnings, end of period	646,804	587,780	646,804	587,780
Accumulated other comprehensive income, beginning of period	18,689	14,243	5,248	22,020
Other comprehensive income (loss)	(6,296)	(5,363)	7,145	(13,140)
Accumulated other comprehensive income, end of period	12,393	8,880	12,393	8,880
Shareholders' equity, end of period	670,382	608,013	670,382	608,013
Other equity interests, beginning of period	15,095	6,059	6,788	5,293
Non-controlling interests, beginning of period	31,067	6,059	6,788	5,293
Net earnings	759	245	2,548	1,011
Other comprehensive income	(399)	--	727	--
Dividends declared and paid	(892)	--	(1,545)	--
Acquisition of non-controlling interests (note 17)	--	--	(639)	--
Acquisition of subsidiary (note 16)	--	--	22,656	--
Non-controlling interests, end of period	30,535	6,304	30,535	6,304
Obligations to non-controlling interests, beginning of period	(15,972)	--	--	--
On acquisition of subsidiary (note 6)	--	--	(14,404)	--
Change during period	(176)	--	(1,744)	--
Obligations to non-controlling interests, end of period	(16,148)	--	(16,148)	--
Other equity interests, end of period	14,387	6,304	14,387	6,304
Total equity, end of period	\$ 684,769	\$ 614,317	\$ 684,769	\$ 614,317

CONSOLIDATED STATEMENTS OF CASH FLOW (Unaudited)

For the periods ended September 30 (\$ in thousands)	Three months		Nine months	
	2018	2017 (note 2b)	2018	2017 (note 2b)
Operating activities				
Net earnings	\$ 35,079	\$ 12,555	\$ 56,045	\$ 53,848
Adjustments for:				
Income taxes (paid) refunded	(3,471)	(2,500)	(9,371)	(8,425)
Income tax expense	5,846	2,018	11,554	8,320
Net (gains) losses	(28,481)	(4,068)	(33,349)	(27,045)
Amortization of intangible assets	2,455	855	6,668	2,563
Amortization of equipment	259	196	720	566
Stock-based compensation	669	520	1,483	1,468
Other non-cash expenses	24	(17)	156	61
	12,380	9,559	33,906	31,356
Net change in non-cash working capital items (note 14)	5,721	6,644	(4,309)	(998)
Net cash from operating activities	18,101	16,203	29,597	30,358
Investing activities				
Net (acquisition) disposition of securities	3,616	5,225	3,922	13,985
Income taxes (paid) refunded	1,661	(4,279)	(1,191)	(9,984)
Net (acquisition) of securities backing third party investor liabilities	(273)	(24,247)	407	(60,316)
Acquisition of intangible assets	(2,333)	(809)	(26,433)	(1,940)
Acquisition of equipment	(1,239)	(282)	(2,451)	(832)
Disposition of intangible assets	267	284	1,505	1,197
Acquisition of subsidiary (note 16)	--	--	(56,327)	425
Net cash used in (from) investing activities	1,699	(24,108)	(80,568)	(57,465)
Financing activities				
Dividends paid to shareholders	(3,482)	(2,882)	(9,799)	(8,219)
Dividends paid to non-controlling interests	(892)	--	(1,545)	--
Acquisition and cancellation of capital stock	--	--	(13,201)	(3,202)
Acquisition of treasury stock	--	--	(2,255)	(2,300)
Disposition of treasury stock	280	--	776	444
(Net repayment) draw of bank loan and bankers acceptances	(9,263)	(10,021)	91,396	(22,427)
Net subscriptions from third party investors	273	24,247	(407)	60,316
Acquisition of non-controlling interests	--	--	(1,882)	--
Net cash from (used in) financing activities	(13,084)	11,344	63,083	24,612
Foreign exchange				
Net effect of foreign exchange rate changes on cash balances	(79)	(635)	121	(1,453)
Net change in net cash	6,637	2,804	12,233	(3,948)
Net cash, beginning of period	36,724	31,222	31,128	37,974
Net cash, end of period	\$ 43,361	\$ 34,026	\$ 43,361	\$ 34,026
Net cash represented by:				
Cash			\$ 45,172	\$ 73,888
Net bank indebtedness			(1,811)	(39,862)
			\$ 43,361	\$ 34,026

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, 2017, except for the adoption of IFRS 9 – *Financial Instruments* ("IFRS 9") and IFRS 15 – *Revenue from Contracts with Customers* which were adopted on January 1, 2018. The new standards are discussed in more detail below. The prior period figures have been restated to reflect the retrospective application of IFRS 9. 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, 2017, which are included in the Company's 2017 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 2017 comparative financial information in order to conform to the current period's presentation.

These consolidated interim financial statements were authorized for issuance by the Board of Directors of Guardian on November 8, 2018.

(b) Changes in Accounting Policies

(i) Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, which replaces IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39"), with a more simplified guidance on the classification and measurement of financial instruments. The Company adopted IFRS 9 on January 1, 2018 and has elected to apply it on a retrospective basis, with restatement of comparative amounts and balances.

In applying the new standard, there are no changes to how the carrying values of the Company's financial instruments are determined. However, the recording of changes in fair values of certain financial instruments has changed. On transition, the Company's securities, previously classified as Available for Sale ("AFS") and Held for Trading ("HFT"), were reclassified as Fair Value Through the Profit or Loss ("FVTPL"). As the AFS classification was eliminated upon transition, changes in fair value of those securities will no longer flow through other comprehensive income but rather through net earnings.

The implementation of IFRS 9 also resulted in the transfer of accumulated unrealized gains on AFS securities, net of taxes, from accumulated other comprehensive income to retained earnings.

The following tables summarize the effects of the adoption of IFRS 9 on the Company's consolidated financial statements.

The 2017 figures below reflect the adjustments from the previously reported balances, under the previous standard. The 2018 figures reflect the differences between the current balances under IFRS 9, compared with what the balances would have been under the previous standard.

As at (\$ in thousands)	September 30 2018		December 31 2017		January 1 2017	
Increase (decrease) in the reported amounts under IFRS 9 compared to IAS 39:						
Retained earnings	\$	252,230	\$	221,717	\$	218,590
Accumulated other comprehensive income		(252,230)		(221,717)		(218,590)
Shareholders' equity	\$	--	\$	--	\$	--

For the periods ended September 30 (\$ in thousands)	Three months 2018		2017		Nine months 2018		2017	
Increase (decrease) in the reported amounts under IFRS 9 compared to IAS 39:								
Net gains (losses)	\$	22,441	\$	(6,919)	\$	35,858	\$	(12,314)
Earnings (loss) before income taxes		22,441		(6,919)		35,858		(12,314)
Income tax expense (recovery)		3,373		(1,242)		5,345		(2,774)
Net earnings (loss)		19,068		(5,677)		30,513		(9,540)
Net earnings (loss) attributable to shareholders		19,068		(5,677)		30,513		(9,540)
Other comprehensive income (loss)		(19,068)		5,677		(30,513)		9,540
Comprehensive income (loss)		--		--		--		--
Comprehensive income (loss) attributable to shareholders		--		--		--		--

IFRS 9 also introduced two other major classifications of financial instruments: Amortized Cost; and Fair Value Through the Other Comprehensive Income. These classifications are largely limited to investments in debt instruments and are further limited by the contractual terms of the instrument and the business model used to manage the instrument. During the current year, the Company invested in a security (Note 4) which met the criteria to be classified as Amortized Cost and, as a result, it will be measured at amortized cost using the effective interest rate method.

(ii) Revenue

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 earned from contracts with customers. 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.

The Company adopted IFRS 15 on January 1, 2018 and has elected to apply the standard, using the cumulative effect method with no restatement of the comparative periods.

In applying the new standard, there will be no impact on the manner in which the Company recognizes revenue. However, the incremental costs incurred in securing a new revenue stream ("Contract Costs") will result in the recognition of an asset and a liability on commencement of the revenue stream. The amortization period for Contract Costs will include the initial term of a contract and all anticipated renewal periods. The Company has estimated that this amortization period will be 10 to 15 years. Under the previous standard, these Contract Costs, which mainly consist of variable compensation costs to employees, were expensed and paid over the first year of a new revenue stream.

On January 1, 2018, the Company recognized Contract Costs and accrued liabilities of \$795 as part of intangibles and accounts payable and other, respectively. The Company recorded amortization expense of \$32 associated with the above Contract Costs during the current quarter. Under the previous standards, the Company would have recognized employee compensation costs of approximately \$398.

In addition, the Company added Contract Costs of approximately \$26 related to new revenue streams secured during the current quarter. Under the previous standards, the Company would have recognized employee compensation costs of approximately \$7.

(c) Future Changes in Accounting Policies

On January 13, 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16"), which is to replace IAS 17 *Leases* effective for annual periods beginning on January 1, 2019. The standard provides a single lease accounting model for lessees, under which substantially all leases will be accounted for as asset acquisitions financed by lease obligations. The acquired lease asset will be amortized over its useful life, which will generally be the lease term. Lease payments will be accounted for as repayments of the lease obligation, and interest will be recorded on the obligation. This differs from IAS 17, under which most of the Company's leases do not result in the recognition of an asset or a lease obligation. In addition, under IAS 17, the Company's average lease payment is expensed over the term of the lease as part of other expenses. IFRS 16 may be implemented on a retrospective basis or a modified retrospective basis. The modified retrospective basis allows for certain practical expedients to facilitate transition.

Based on the Company's evaluations to date, the adoption of IFRS 16 will result in increases in the Company's assets, liabilities and amortization and interest expense and a decrease in other expenses. In addition, under IFRS 16, the expenses will be higher at the outset of the lease and decline over the lease term, whereas under IAS 17 the expenses remain unchanged over the term. The Company continues to evaluate the impact IFRS 16 will have on its consolidated financial statements. Over the balance of the current year, the Company expects to finalize its assessment of IFRS 16, select the transition method, and quantify the opening adjustments required based on the transition method selected.

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

Securities backing third party investor liabilities represent the third party investors' proportionate interests in the assets of the consolidated investment funds. These securities are classified as fair value through the profit or loss and are categorized as Level 1, based upon the fair value hierarchy.

Third party investor liabilities represent third party investors' proportionate ownership interests in the consolidated funds. The liabilities are payable on redemption of the units of the funds by the third party investors and will be settled with the proceeds from the disposition of securities backing third party investor liabilities. The value of the liabilities is equal to and varies with the value of the securities backing third party investor liabilities. These liabilities are classified as fair value through the profit or loss 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 classifications and by the type of security is as follows:

As at	September 30 2018	December 31 2017
Fair value through profit or loss:		
Short-term securities (i)	\$ --	\$ 9,810
Fixed-income securities (i)	20,141	19,328
Bank of Montreal common shares (ii)	394,198	372,146
Other equity securities (i)	245,895	237,347
Real estate fund (iii)	18,041	13,545
	678,275	652,176
Amortized cost securities (iv)	10,000	--
	\$ 688,275	\$ 652,176

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

(ii) During the three months and nine months ended September 30, 2018, the company disposed of nil and nil (2017 – nil and 100) Bank of Montreal common shares for proceeds of \$ nil and \$ nil (2017 – \$ nil and \$10,294).

(iii) During the current quarter, the Company increased its investment in the fund by \$3,409.

(iv) Amortized cost securities, which were acquired on January 2, 2018, are an investment in term preferred shares which have a term of 8 years and a dividend yield of 9% per annum.

(b) Fair value hierarchy

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

As at	September 30 2018		December 31 2017	
Level 1	\$	601,820	\$	586,130
Level 2		61,917		54,141
Level 3		14,538		11,905
	\$	678,275	\$	652,176

During 2018 and 2017, there have been no transfers of securities between Levels.

(c) Changes in Level 3 securities

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

For the periods ended September 30	Three months		Nine months					
	2018	2017	2018	2017				
Securities categorized as Level 3, beginning of period	\$	12,626	\$	14,616	\$	11,905	\$	12,367
Increase (decrease) in fair value		(831)		21		(110)		2,270
Additions		2,743		--		2,743		--
Securities categorized as Level 3, end of period	\$	14,538	\$	14,637	\$	14,538	\$	14,637

5. BANK LOANS AND BORROWINGS

Bank loans and borrowings are composed of the following:

As at	September 30 2018		December 31 2017	
Bank indebtedness	\$	1,811	\$	17,759
Bankers' acceptances payable		131,350		38,100
	\$	133,161	\$	55,859

The Bankers' acceptances payable include a balance of \$43,400 USD remaining from the \$45,000 USD borrowed on January 2, 2018 to finance the acquisition of a U.S.-based investment management firm, as described in note 16.

6. OTHER LIABILITIES

Other liabilities are comprised of the following:

As at	September 30 2018		December 31 2017	
Deferred payment (i)	\$	6,440	\$	--
Obligations to non-controlling interests (ii)		15,958		--
	\$	22,398	\$	--

- i) The amount represents deferred payments totaling \$5.0 million USD arising from the January 2, 2018 acquisition of a U.S.-based investment management firm. The amount is an estimated present value of the payments expected in future periods, discounted at 2.7%. The future payments are dependent upon the level of assets under management then achieved in certain investment strategies, to a maximum amount of \$10,000 USD.
- ii) Arising from the 70% acquisition of the U.S.-based investment management firm, the minority partners of the business were granted options to sell their remaining interests in the firm to the Company in the future at prices determined based on the level of revenue achieved by the firm at that time. This option is exercisable between January 2, 2023 and January 2, 2033. On January 2, 2018, the Company recognized the initial obligations to non-controlling interests of \$14,404, (USD \$11,508), which represents the present value of the estimated US dollar payments required on or about January 31, 2023, discounted at 11.6%, should the minority partners exercise their option. As discussed in Note 16, the Company revised its provisional accounting for the acquisition, resulting in the recognition of a \$7,192 reduction of the initial obligations, which was previously reported. Since these obligations relate to potential future transactions between equity interests, all changes in the obligation are reflected in the statement of equity.

7. 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

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

For the three months ended September 30	2018		2017	
	Shares	Amount	Shares	Amount
Class A shares				
Outstanding, beginning of period	25,793	\$ 18,723	26,554	\$ 19,335
Acquired and cancelled	--	--	--	--
Outstanding, end of period	25,793	18,723	26,554	19,335
Common shares				
Outstanding, beginning of period	3,219	777	3,469	838
Acquired and cancelled	--	--	--	--
Outstanding, end of period	3,219	777	3,469	838
Total outstanding, end of period	29,012	\$ 19,500	30,023	\$ 20,173

For the nine months ended September 30	2018		2017	
	Shares	Amount	Shares	Amount
Class A shares				
Outstanding, beginning of period	26,304	\$ 19,094	26,686	\$ 19,430
Acquired and cancelled	(511)	(371)	(132)	(95)
Outstanding, end of period	25,793	18,723	26,554	19,335
Common shares				
Outstanding, beginning of period	3,219	777	3,469	838
Acquired and cancelled	--	--	--	--
Outstanding, end of period	3,219	777	3,469	838
Total outstanding, end of period	29,012	\$ 19,500	30,023	\$ 20,173

(c) Issuer bid

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

For the periods ended September 30	Three months		Nine months	
	2018	2017	2018	2017
Shares purchased and cancelled				
Class A	--	--	511	132
Consideration paid	\$ --	--	\$ 13,201	\$ 3,202
Less average issue price, charged to share capital	--	--	371	95
Excess consideration charged to retained earnings	\$ --	\$ --	\$ 12,830	\$ 3,107

Under the current NCIB, which commenced on November 21, 2017 and expires on November 20, 2018, the Company may purchase up to 173 common shares and 1,912 class A shares. As of September 30, 2018, the Company has purchased and cancelled 29 common shares and 886 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 September 30	Three months		Nine months	
	2018	2017	2018	2017
Dividends declared and paid, per share	\$ 0.125	\$ 0.100	\$ 0.350	\$ 0.285

The Company has also declared dividends of \$0.125 per share payable on October 18, 2018 and January 18, 2019, 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.

8. TREASURY STOCK

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

(a) Changes in treasury stock

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

For the three months ended September 30	2018		2017	
	Shares	Amount	Shares	Amount
Balance, beginning of period	2,207	\$ 25,523	2,223	\$ 24,208
Acquired	--	--	--	--
Disposed	(33)	(280)	--	--
Balance, end of period	2,174	\$ 25,243	2,223	\$ 24,208

For the nine months ended September 30	2018		2017	
	Shares	Amount	Shares	Amount
Balance, beginning of period	2,178	\$ 23,764	2,192	\$ 22,342
Acquired	91	2,255	92	2,300
Disposed	(95)	(776)	(61)	(434)
Balance, end of period	2,174	\$ 25,243	2,223	\$ 24,208

During the three months and nine months ended September 30, 2018, the Company disposed of 33 and 95 (2017 – nil and 61) shares of the treasury stock respectively for proceeds equal to their cost.

As at September 30, 2018, the treasury stock was composed of 30 common shares (2017 – 32) and 2,144 class A shares (2017– 2,191).

(b) Equity-based entitlements

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

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

For the periods ended September 30	Three months		Nine months	
	2018	2017	2018	2017
Equity-based entitlements, beginning of period	1,053	1,015	1,011	928
Provided	--	--	91	92
Exercised	(8)	--	(57)	(4)
Forfeited	--	--	--	(1)
Equity-based entitlements, end of period	1,045	1,015	1,045	1,015

During the three months and nine months ended September 30, 2018, the equity-based entitlements provided had a fair value of \$ nil and \$2,255 respectively (2017 - \$ nil and \$2,300).

Equity-based entitlements are valued at the fair market value of the shares purchased by the EPSP Trust on the date of the provision of the entitlement. This value is recorded by the Company as compensation cost over the vesting period, and is credited to contributed surplus. On exercise of an entitlement, treasury stock and contributed surplus are reduced for the value of the entitlement exercised.

(c) Option-like entitlements

The option-like entitlements allow the employees to purchase shares of the Company from the EPSP Trust for an amount that is equal to the amount of borrowings pertaining to those shares, subject to predetermined vesting arrangements and other conditions. Due to the nature of these entitlements and the conditions attached to them, the contractual life of the entitlement is indeterminable.

A summary of the changes in the option-like entitlements is as follows:

For the three months ended September 30	2018		2017	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Option-like entitlements, beginning of period	1,154	\$ 9.62	1,208	\$ 9.63
Exercised	(25)	8.55	--	--
Option-like entitlements, end of period	1,129	\$ 9.64	1,208	\$ 9.63

For the nine months ended September 30	2018		2017	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Option-like entitlements, beginning of period	1,167	\$ 9.62	1,264	\$ 9.49
Exercised	(38)	8.94	(56)	6.57
Option-like entitlements, end of period	1,129	\$ 9.64	1,208	\$ 9.63

During the three months and nine months ended September 30, 2018, no option-like entitlements were provided (2017 – same).

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.

9. MANAGEMENT FEE INCOME, NET

Management fee income, net is composed of the following:

For the periods ended September 30	Three months		Nine months	
	2018	2017	2018	2017
Management fee income, gross	\$ 23,670	\$ 18,498	\$ 71,228	\$ 56,330
Less: fees paid to referring agents	(1,639)	(1,175)	(4,693)	(3,358)
	\$ 22,031	\$ 17,323	\$ 66,535	\$ 52,972

10. DIVIDEND AND INTEREST INCOME

Dividend and interest income is composed of the following:

For the periods ended September 30	Three months		Nine months	
	2018	2017	2018	2017
Dividends on Bank of Montreal shares	\$ 3,552	\$ 3,420	\$ 10,434	\$ 10,372
Other dividends	1,155	1,637	3,934	5,526
Dividend income	4,707	5,057	14,368	15,898
Interest income	1,040	391	2,954	1,228
	\$ 5,747	\$ 5,448	\$ 17,322	\$ 17,126

11. NET GAINS

Net gains are composed of the following:

For the periods ended September 30	Three months		Nine months	
	2018	2017 (note 2b)	2018	2017 (note 2b)
Securities held at fair value through profit or loss(i)	\$ 27,278	\$ 4,209	\$ 34,755	\$ 26,535
Disposal of intangible assets	148	149	753	531
Foreign exchange gains (losses) (ii)	1,055	(290)	(2,159)	(21)
	\$ 28,481	\$ 4,068	\$ 33,349	\$ 27,045

(i) Net gains are a result of realized and unrealized gains or losses related to the securities in this classification, securities backing third party investor liabilities, and the third party investor liabilities.

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

12. EARNINGS PER SHARE

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

For the periods ended September 30	Three months		Nine months	
	2018	2017	2018	2017
Weighted average number of Class A and common shares outstanding:				
Basic	26,822	27,801	26,864	27,723
Effects of outstanding entitlements from stock-based compensation plans	1,585	1,635	1,592	1,637
	28,407	29,436	28,456	29,360
Net earnings available to shareholders:				
Basic	\$ 34,320	\$ 12,310	\$ 53,497	\$ 52,837
Effects of outstanding entitlements from stock-based compensation plans	106	75	292	197
	\$ 34,426	\$ 12,385	\$ 53,789	\$ 53,034

13. 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 (prior period figures have been restated to reflect the retrospective application of IFRS 9):

For the three months ended September 30	Investment Management		Financial Advisory		Corporate Activities and Investments		Inter-Segment Transactions		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenue										
Gross commission revenue	\$ --	\$ --	\$ 37,308	\$ 33,368	\$ --	\$ --	\$ (546)	\$ (224)	\$ 36,762	\$ 33,144
Commissions paid to advisors	--	--	(25,263)	(22,947)	--	--	--	--	(25,263)	(22,947)
Management fee income, net	21,855	17,349	12,045	10,421	--	--	(546)	(224)	11,499	10,197
Administrative services income	1,446	1,383	2,038	1,953	12	13	--	(2)	3,496	3,347
Dividend and interest income	119	12	503	226	5,036	5,188	89	22	5,747	5,448
Net revenue	23,420	18,744	14,586	12,600	5,048	5,201	(281)	(230)	42,773	36,315
Expenses										
Employee compensation and benefit	9,709	8,956	5,099	4,536	2,717	2,109	--	--	17,525	15,601
Amortization	1,259	90	1,341	841	114	120	--	--	2,714	1,051
Interest	44	13	250	--	1,072	178	(174)	--	1,192	191
Other expenses	5,773	4,943	4,215	4,496	(983)	(242)	(107)	(230)	8,898	8,967
	16,785	14,002	10,905	9,873	2,920	2,165	(281)	(230)	30,329	25,810
Operating earnings	6,635	4,742	3,681	2,727	2,128	3,036	--	--	12,444	10,505
Net gains	76	212	147	146	28,258	3,710	--	--	28,481	4,068
Net earnings before income taxes	6,711	4,954	3,828	2,873	30,386	6,746	--	--	40,925	14,573
Income tax expense	1,686	1,358	1,005	839	3,155	(179)	--	--	5,846	2,018
Net earnings	\$ 5,025	\$ 3,596	\$ 2,823	\$ 2,034	\$ 27,231	\$ 6,925	\$ --	\$ --	\$ 35,079	\$ 12,555
Net earnings attributable to:										
Shareholders	\$ 4,599	\$ 3,596	\$ 2,490	\$ 1,789	\$ 27,231	\$ 6,925	\$ --	\$ --	\$ 34,320	\$ 12,310
Non-controlling interests	426	--	333	245	--	--	--	--	759	245
	\$ 5,025	\$ 3,596	\$ 2,823	\$ 2,034	\$ 27,231	\$ 6,925	\$ --	\$ --	\$ 35,079	\$ 12,555
Additions to segment assets:										
Intangible assets	\$ 26	\$ --	\$ 2,123	\$ 809	\$ 210	\$ --	\$ --	\$ --	\$ 2,359	\$ 809
Equipment	--	3	1,137	203	102	76	--	--	1,239	282

For the nine months ended September 30	Investment Management		Financial Advisory		Corporate Activities and Investments		Inter-Segment Transactions		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenue										
Gross commission revenue	\$ --	\$ --	\$ 108,463	\$ 101,045	\$ --	\$ --	\$ (1,567)	\$ (656)	\$ 106,896	\$ 100,389
Commissions paid to advisors	--	--	(73,778)	(68,805)	--	--	--	--	(73,778)	(68,805)
Management fee income, net	66,061	53,088	--	--	--	--	474	(116)	66,535	52,972
Administrative services income	4,535	4,423	5,666	6,000	37	38	--	(2)	10,238	10,459
Dividend and interest income	315	224	1,348	576	15,150	16,249	509	77	17,322	17,126
Net revenue	70,911	57,735	41,699	38,816	15,187	16,287	(584)	(697)	127,213	112,141
Expenses										
Employee compensation and benefit	31,470	26,925	14,773	13,572	7,957	6,742	--	--	54,200	47,239
Amortization	3,755	278	3,286	2,516	347	335	--	--	7,388	3,129
Interest	137	37	380	20	2,353	549	(247)	(20)	2,623	586
Other expenses	17,041	15,698	14,615	12,651	(2,567)	(1,608)	(337)	(677)	28,752	26,064
	52,403	42,938	33,054	28,759	8,090	6,018	(584)	(697)	92,963	77,018
Operating earnings	18,508	14,797	8,645	10,057	7,097	10,269	--	--	34,250	35,123
Net gains (losses)	(210)	391	754	526	32,805	26,128	--	--	33,349	27,045
Net earnings (loss) before income taxes	18,298	15,188	9,399	10,583	39,902	36,397	--	--	67,599	62,168
Income tax expense	4,874	4,185	2,454	3,012	4,226	1,123	--	--	11,554	8,320
Net earnings	\$ 13,424	\$ 11,003	\$ 6,945	\$ 7,571	\$ 35,676	\$ 35,274	\$ --	\$ --	\$ 56,045	\$ 53,848
Net earnings attributable to:										
Shareholders	\$ 11,908	\$ 11,003	\$ 5,913	\$ 6,560	\$ 35,676	\$ 35,274	\$ --	\$ --	\$ 53,497	\$ 52,837
Non-controlling interests	1,516	--	1,032	1,011	--	--	--	--	2,548	1,011
	\$ 13,424	\$ 11,003	\$ 6,945	\$ 7,571	\$ 35,676	\$ 35,274	\$ --	\$ --	\$ 56,045	\$ 53,848
Additions to segment assets:										
Intangible assets	\$ 66,602	\$ --	\$ 26,213	\$ 1,940	\$ 220	\$ --	\$ --	\$ --	\$ 93,035	\$ 1,940
Equipment	58	29	2,171	243	222	560	--	--	2,451	832

As at September 30, 2018 and December 31, 2017	Investment Management		Financial Advisory		Corporate Activities and Investments		Inter-Segment Transactions		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Assets and liabilities:										
Assets	\$ 220,524	\$ 90,457	\$ 151,053	\$ 144,393	\$ 752,094	\$ 720,020	\$ (56,363)	\$ (42,386)	\$ 1,067,308	\$ 912,484
Liabilities	112,375	71,647	130,817	128,956	195,710	113,063	(56,363)	(42,386)	382,539	271,280

(b) Geographic segments

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

	Canada		Rest of the World		Inter-Segment Transactions		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017
For the three months ended September 30								
Net revenue	\$ 34,989	\$ 32,616	\$ 7,784	\$ 3,517	\$ --	\$ 182	\$ 42,773	\$ 36,315
For the nine months ended September 30								
Net revenue	\$ 103,683	\$ 100,976	\$ 23,807	\$ 11,414	\$ (277)	\$ (249)	\$ 127,213	\$ 112,141
As at September 30, 2018 and December 31, 2017								
Non-current assets:								
Intangible assets	\$ 51,687	\$ 28,683	\$ 66,051	\$ 892	\$ --	\$ --	\$ 117,738	\$ 29,575
Equipment	4,479	3,823	674	674	--	--	5,153	4,497
Goodwill	13,826	13,826	32,379	1,188	--	--	46,205	15,014

14. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

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

For the periods ended September 30	Three months		Nine months	
	2018	2017	2018	2017
Decrease (increase) in non-cash working capital assets:				
Interest-bearing deposits with banks	\$ (6,428)	\$ (2,046)	\$ (4,115)	21,258
Accounts receivable and other	(33)	1,723	(2,990)	1,832
Receivables from clients and broker	(9,178)	1,382	10,929	(3,754)
Increase (decrease) in non-cash working capital liabilities:				
Client deposits	6,019	2,046	2,501	(21,354)
Accounts payable and other	6,163	4,921	295	(2,734)
Payable to clients	9,178	(1,382)	(10,929)	3,754
	\$ 5,721	\$ 6,644	\$ (4,309)	\$ (998)

15. 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 \$394,198 (December 31, 2017 – \$372,146) investment in the Bank of Montreal shares, which represents 57% (December 31, 2017 – 57%) 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 gain or loss of \$39,420 (December 31, 2017 - \$37,215) being recorded in net gains.

(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. Changes in the fair values of its securities are recognized in net gains (losses) and can have a significant impact on net earnings (loss) attributable to shareholders. 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 as a result of a 10% change in the market prices:

	Securities at fair value, excluding Bank of Montreal shares and short-term securities and bonds	Gain or loss recognized from a 10% change in fair value
As at September 30, 2018		
Canada	\$ 33,024	±\$ 3,302
Rest of World	230,912	23,091
	\$ 263,936	±\$ 26,394
As at December 31, 2017		
Canada	\$ 35,364	3,536
Rest of World	215,528	21,553
	\$ 250,892	±\$ 25,089

The price risk associated with Securities backing third party investor liabilities are equal to 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 \$225,911 (December 31, 2017 - \$188,085). 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. With the recently closed acquisition described in note 16, the Company recognized Obligations to non-controlling interests on its balance sheet, which are denominated in US dollars. As described in note 6, the changes in the value of the obligations, including changes resulting from foreign exchange rate fluctuations, is recorded directly in the Statements of Equity. This currency risk is managed in a manner similar to the investments in foreign subsidiaries. These foreign currency exposures are monitored by management but not actively managed, due to the long-term nature of these investments. As the Company expands globally, the foreign currency exchange rate fluctuations can have an increasingly more significant impact. A 5% change in the value of Canadian dollars against foreign currencies would change the operating earnings by approximately \$164. In addition, the Company or a subsidiary may hold, from time to time, certain foreign currency balances which result in foreign exchange net gains (losses) being recognized in net earnings. These balances include the current \$43,400 USD bank loan used to finance the acquisition in the US, and the Canadian dollar balances held by a foreign subsidiary. The resulting gains and losses have equal and offsetting gains and losses recorded in Net change in foreign currency translation on foreign subsidiaries. This is not considered to be a currency risk as there is no economic risk to the Company.

iii) Interest rate risk

The Company is exposed to interest rate risk through the following interest sensitive financial instruments:

As at	September 30 2018	December 31 2017
Interest rate sensitive assets:		
Interest-bearing deposits with banks	\$ 58,513	\$ 52,637
Fixed-income securities	20,141	19,328
Amortized cost securities	10,000	--
	\$ 88,654	\$ 71,965
Interest rate sensitive liabilities:		
Bank loans and borrowings	\$ 133,161	\$ 55,859
Client deposits	56,913	52,653
	\$ 190,074	\$ 108,512

The interest rate risk associated with the Company's investments in fixed-income securities, which are mainly held through investment funds, 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 rate risk on amortized cost security is not actively managed, as it is a long-term investment, but monitored by management. The bank loans and borrowings are short-term in nature and are subject to interest rate risks. If interest rates increase, the Company's interest expense associated with the bank loans and borrowings will increase and net earnings will decrease. This interest rate risk is partially offset by certain cash balances, which may be used to offset the bank indebtedness for the calculation of interest.

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's total credit risk exposure, without consideration of any collateral or other credit enhancements, is as outlined below:

As at	September 30 2018	December 31 2017
Cash	\$ 45,172	\$ 48,887
Interest-bearing deposits with banks	58,513	52,637
Accounts receivable and other	45,054	39,087
Receivables from clients and broker	52,437	63,366
Short-term securities	--	9,810
Fixed-income securities	20,141	19,328
Amortized cost securities	10,000	--
	\$ 231,317	\$ 233,115

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

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities, which are substantially all due within one year. The Company manages this financial risk by monitoring and managing cash flows from various segments, maintaining a portfolio of liquid securities and by arranging for significant borrowing facilities with major Canadian banks, which currently total \$157,000.

16. ACQUISITION

On January 2, 2018, the Company acquired a 70% interest in Alta Capital Management, LLC ("Alta"), an investment management firm based in Salt Lake City, Utah, USA. On closing, Alta had in excess of \$3,200,000 USD of asset under management ("AUM"). The primary reasons for acquiring Alta are to provide the Company with increased access to the US market to distribute its investment products and further diversify the sources of its AUM and revenues. The remaining 30% interest in Alta continues to be held by its key employees, who all have entered into employment agreements with the Company.

The total consideration for the transaction was approximately \$62,259 (\$49,770 USD) which is comprised of \$56,327 (\$45,000 USD) paid on closing and the present value of an estimated deferred payment, due over four years from closing. The deferred payment is calculated based on the level of AUM then achieved to a maximum of \$10,000 USD.

The provisional accounting for the transaction is as follows:

Fair value of the consideration:	
Cash paid on closing	\$ 56,327
Deferred payment	5,932
Total consideration	\$ 62,259
Fair value of identifiable net assets acquired:	
Intangible assets	\$ 66,529
Deferred tax liability	(12,109)
	54,420
Less: Fair value of the non-controlling interests	(22,656)
Goodwill	30,495
	\$ 62,259

As part of the transaction, the Company provided an option to the minority shareholders of Alta to sell their remaining interests in Alta, and the Company received an option to buy the remaining minority interest in Alta on the same terms and conditions. These options become exercisable commencing on the 5th anniversary of the acquisition and expire on the 15th anniversary of the acquisition, and have exercise prices which are determined based on the level of revenue achieved by Alta. The Company has recognized a liability in respect of the options held by the minority shareholders based on the estimated present value of the expected payment required by the Company on the earliest date the options become exercisable.

The fair value of the non-controlling interests is the sum of the present value of the expected cash distributions of profits, which will be made to the non-controlling interests prior to the options becoming exercisable, and the liability which has been recognized in respect of the options.

The intangible assets acquired primarily represent Alta's existing investment contracts with clients, and the goodwill represents the value of Alta arising from retention of key employees, access to established distribution networks in a key market, addition of new products and other potential synergies.

The acquisition accounting is provisional as of the period end, as the Company is still in the process of finalizing the fair value of the identifiable net assets acquired, including the valuation of investment contracts with clients and non-controlling interests, and the determination of deferred tax liabilities and goodwill. During the period, the Company revised its fair value estimate of the non-controlling interests, which resulted in an increase of \$1,060 being recognized in the non-controlling interest and goodwill. In addition, as part of this update, the fair value of the put option liability and the offsetting equity account, obligations to non-controlling interests, were each decreased by \$7,192. These changes, which have been accounted for retrospectively, did not result in any changes to previously reported net earnings or comprehensive income.

The costs associated with this transaction were approximately \$600, which were included in the Company's 2017 statement of net earnings as part of other operating expenses.

Since acquisition on January 2, 2018, Alta's contributions to the Company's results are as follows:

For the periods ended September 30, 2018	Three months	Nine months
Net revenues	\$ 4,568	\$ 13,701
Net earnings	1,156	4,021
Net earnings attributable to shareholders	731	2,505

Included in the net earnings for three months and nine months is \$1,155 and \$3,419 of amortization expense related to the intangible assets described above.

17. ACQUISITION OF NON-CONTROLLING INTERESTS

During the first quarter of the year, the Company purchased for cash consideration of \$1,882 a portion of the non-controlling interest in its subsidiary, IDC Worldsource Insurance Networks Inc., thereby increasing the Company's ownership interest to 81.6% from 79.7%. The effects of this transaction were recorded in the equity accounts as follows:

Consideration paid	\$ 1,882
Carrying value of non-controlling interests	639
Excess consideration charged to retained earnings	\$ 1,243

18. FINANCIAL STATEMENT REVIEW

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

In accordance with securities regulatory requirements, the discussion and analysis which follows for Guardian Capital Group Limited and its subsidiaries and other controlled entities ("Guardian") pertains to the periods ended September 30, 2018 and the comparative periods in the year 2017, as well as to certain other prior quarterly periods. Readers are encouraged to refer to the discussions and analyses contained in the 2017 Annual Report. This discussion and analysis has been prepared as of November 8, 2018.

On January 1, 2018, Guardian adopted IFRS 9 on a retrospective basis. As a result, the prior period comparative figures were restated to reflect the change in accounting policy. Readers are encouraged to refer to note 2 of Guardian's third quarter Consolidated Financial Statements for further discussion on the adoption of IFRS 9.

Additional information relating to Guardian and its business, including Guardian's Annual Information Form, is available on "SEDAR" at www.sedar.com.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Guardian may, from time to time, make "forward-looking statements" in annual and quarterly reports, and in other documents prepared for shareholders or filed with securities regulators. These statements, characterized by such words as "goal", "outlook", "intends", "expects", "plan", "prospects", "are confident", "believe" and "anticipate", are intended to reflect Guardian's objectives, plans, expectations, estimates, beliefs and intentions.

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

OVERVIEW OF GUARDIAN'S BUSINESS

Guardian is a diversified financial services company, which serves the wealth management needs of a range of clients through its various business segments. The areas in which Guardian operates are: institutional and private wealth investment management; financial advisory, which includes an insurance managing general agency ("MGA"), a mutual fund dealer and a securities dealer (together, the "Dealers"); and corporate activities and investments. Guardian is headquartered in Canada and operates in Canada, the United Kingdom, the United States and the Caribbean. As at September 30, 2018, Guardian had \$29.2 billion of investment management assets under management ("AUM") and \$18.1 billion of financial advisory assets under administration ("AUA"). Included in the AUM figure above are \$4.5 billion (\$3.5 billion USD) managed by Alta Capital Management, LLC ("Alta"), a 70% owned Utah-based investment management subsidiary, which was acquired on January 2, 2018. In addition, Guardian has a diversified portfolio of securities which had a fair value of approximately \$688 million at the end of the quarter.

USE OF NON-IFRS MEASURES

Guardian uses certain measures to evaluate and assess the performance of its business, which are not defined within International Financial Reporting Standards ("IFRS"). These measures are EBITDA, EBITDA per share, adjusted cash flow from operations, adjusted cash flow from operations per share, equity per share, and securities per share. Non-IFRS measures do not have standardized meanings prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other companies. However, Guardian believes that most shareholders, creditors, other stakeholders and investment analysts prefer to include the use of these measures in analyzing Guardian's results. On page 26 of this report, a description of how these measures are defined by Guardian is provided, with reconciliations to their most comparable IFRS measures.

CONSOLIDATED FINANCIAL RESULTS

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

For the periods ended September 30 (\$ in thousands, except per share amounts)	Three months		Nine months	
	2018	2017 (restated)	2018	2017 (restated)
Net revenue	\$ 42,773	\$ 36,315	\$ 127,213	\$ 112,141
Expenses	30,329	25,810	92,963	77,018
Operating earnings	12,444	10,505	34,250	35,123
Net gains (loss)	28,481	4,068	33,349	27,045
Net earnings before income taxes	40,925	14,573	67,599	62,168
Income tax expense	5,846	2,018	11,554	8,320
Net earnings	\$ 35,079	\$ 12,555	\$ 56,045	\$ 53,848
Net earnings attributable to shareholders	\$ 34,320	\$ 12,310	\$ 53,497	\$ 52,837
EBITDA	15,562	11,811	41,346	38,587
Adjusted cash flow from operations	11,083	9,064	30,157	30,045
Diluted per share amounts				
Net earnings attributable to shareholders	\$ 1.21	\$ 0.42	\$ 1.89	\$ 1.81
EBITDA	0.55	0.40	1.46	1.32
Adjusted cash flow from operations	0.39	0.31	1.07	1.03

As at (\$ in millions, except per share amounts)	2018		2017	
	September 30	December 31	September 30	
Shareholders' equity	670	634	608	
Fair value of corporate holding of securities	688	652	621	
Diluted per share				
Shareholders' equity	\$ 23.57	\$ 21.88	\$ 20.67	
Fair value of corporate holding of securities	24.20	22.49	21.12	

RESULTS OF OPERATIONS

For the quarter ended September 30, 2018, Guardian's operating earnings were \$12.4 million, an 18% increase from the \$10.5 million reported for the same quarter in 2017. The main drivers of the operating earnings by segment are described below.

The Investment Management Segment's operating earnings in the current quarter were \$6.6 million, compared to \$4.7 million in the same quarter in the prior year. The increase was due to a \$1.8 million increase in operating earnings from the non-domestic business, substantially all of which was attributable to Alta, minimally offset by lower operating earnings in the domestic investment management business, as a result of lower average AUM this quarter.

The Financial Advisory Segment's operating earnings in the current quarter were \$3.7 million, compared to \$2.7 million in the same quarter in the prior year. The increased operating earnings this quarter are attributable to: largely the significant improvements in service commissions and continuing improvements in sales commissions in the MGA business from organic growth and newly recruited advisors; and to lesser extent the improvements in commission revenue and interest income, offset by higher expenses, in the Dealers business.

The Corporate Activities and Investments Segment's operating earnings for the current quarter were \$2.1 million, compared to \$3.0 million during the same quarter in the prior year. Expenses in the current quarter were higher than in the same quarter in the prior year due to the additional investment in staffing costs to support our continued expansion and increased interest expenses due to higher debt levels incurred to finance our expansion into the US, together with higher interest rates.

As discussed in Q1 2018, the adoption of IFRS 9 on January 1, 2018, introduced significant volatility to Guardian's net gains (losses). The volatility continued in the current quarter, resulting in significant net gains for the quarter of \$28.5 million, compared to \$4.1 million in the prior year. The net gains recorded in the current quarter were attributable largely to changes in unrealized gains on the Bank of Montreal shares, which appreciated in fair value by \$18.4 million, and the UCITS Global Equity Fund, which appreciated by \$7.2 million.

The net earnings available to shareholders were \$34.3 million, compared to \$12.3 million in the prior year. The increase was due to the large increases in net gains and operating earnings, offset partially by a resulting increase in income taxes.

EBITDA for the quarter was \$15.6 million, compared to \$11.8 million in the same period in 2017. The adjusted cash flow from operations for the quarter was \$11.1 million, compared to \$9.1 million in the same period in 2017. The increases in both measures were due to the improvements in operating earnings, including the addition of EBITDA and adjusted cash flow from Alta.

ASSETS UNDER MANAGEMENT AND ADMINISTRATION

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

As at (\$ in millions)	2018		2017	
	September 30	December 31	September 30	
Assets under management				
Institutional				
Canadian equities	\$ 10,269	\$ 12,246	\$ 12,006	
Global equities	8,611	3,887	3,636	
Fixed income	7,289	8,146	7,864	
	26,169	24,279	23,506	
Private client	3,016	2,971	2,829	
Total assets under management	\$ 29,185	\$ 27,250	\$ 26,335	
Assets under administration	\$ 18,096	\$ 17,795	\$ 17,271	

The AUM as at September 30, 2018 was \$29.2 billion, an increase of 7% from \$27.3 billion at December 31, 2017, and 11% from \$26.3 billion at September 30, 2017. The increases in AUM compared to December 31, 2017 and September 30, 2017 are both due to the acquisition of Alta and positive market performance, partially offset by net outflows. The net outflows were largely in domestic strategies resulting from rebalancing of portfolios by institutional clients and net redemptions out of sub-advisory mandates in the retail intermediary channel.

The AUA at September 30, 2018 was \$18.1 billion, a slight increase from \$17.8 billion at December 31, 2017, and up from \$17.3 billion as at September 30, 2017.

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

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

Management fee income, net of referral fees paid, for the quarter ended September 30, 2018 was \$22.0 million, a 27% increase from \$17.3 million in the same quarter in the prior year. Institutional management fee income earned in the current quarter was \$17.6 million, an increase of \$4.3 million compared to \$13.3 million a year earlier. The increase in institutional management fee income was driven by the non-domestic operations, with Alta contributing \$4.6 million, offset partially by a reduction in the domestic operations. With the growth in our non-domestic operations, Guardian's non-domestic management fee income now represents just over 50% of the institutional investment management fees, consistent with our strategic plan to diversify our revenue sources. Private wealth and international private banking management fees, net of referral fees paid, earned in the current quarter amounted to \$4.4 million, compared to \$4.0 million a year earlier.

Financial Advisory Commission Revenue

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

The net commission revenue for the current quarter was \$12.0 million, a 16% increase from \$10.4 million a year earlier. Net commissions from the Dealers increased to \$3.9 million in the quarter from \$3.5 million a year earlier. However, the bulk of the growth in revenue was attributable to the MGA business, where the net commission revenue amounted to \$8.1 million, compared to \$6.9 million a year earlier. During the current quarter, our MGA increased its service commission revenue by approximately \$0.9 million to \$3.6 million, reaping the benefits from sales of life insurance policies in prior years, and from new advisor recruitments. The premiums on life insurance policies sold were \$29.7 million in the current quarter, compared to \$14.2 million in the prior year.

Administrative Services Income

Administrative services income is comprised of registered plan administration and other fees earned in the Financial Advisory Segment, trust and corporate administration and other related fees earned in the International Private Banking business, and fund administration fees earned from managed investment funds. This income amounted to \$3.5 million for the current quarter, slightly higher than the \$3.3 million in the prior year.

Dividend and Interest Income

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

For the periods ended September 30 (\$ in thousands)	Three months		Nine months	
	2018	2017	2018	2017
Dividends on Bank of Montreal shares	\$ 3,552	\$ 3,420	\$ 10,434	\$ 10,372
Other dividends	1,155	1,637	3,934	5,526
Dividend income	4,707	5,057	14,368	15,898
Interest income	1,040	391	2,954	1,228
	\$ 5,747	\$ 5,448	\$ 17,322	\$ 17,126

The decrease in other dividend income in the current quarter, compared to the same quarter in the prior year, is mainly due to the dividend income earned within the Global UCITS fund no longer being consolidated in 2018. The higher interest income earned in the current quarter compared to the same quarter in the prior year is due to higher interest-earning securities being held in the portfolio, and higher interest-spread income being earned in the Dealers business.

Expenses

Guardian's expenses increased to \$30.3 million in the current quarter, compared to \$25.8 million in the same quarter in the prior year. The increase in the Investment Management Segment is largely due to the inclusion of Alta's expenses of \$3.1 million in the current quarter, including the increased amortization of intangible assets arising from the acquisition. During the current quarter, the U.S. marketing and client service team was integrated into Alta's operations. The current quarter's expenses for Alta includes the costs associated with these employees. The increase in the Financial Advisory Segment resulted from increased expenses in both the Dealers and the MGA businesses. The increase in the Dealers business relates to the increased expenses associated with the new technology platform. In the MGA business, the additional expenses include increased amortization costs of \$0.5 million resulting from the acquisition of intangible assets through recruiting new advisors during this calendar year. The increased expenses in the Corporate Activities and Investments Segment were due to additional resources being added to support the global expansion of the operating businesses, and the increased interest expenses arising from higher debt levels used to finance this global expansion.

NET GAINS (LOSSES)

For the periods ended September 30 (\$ in thousands)	Three months		Nine months	
	2018	2017 (restated)	2018	2017 (restated)
Fair value through profit or loss securities	\$ 27,278	\$ 4,209	\$ 34,755	\$ 26,535
Disposal of intangible assets	148	149	753	531
Foreign exchange gains (losses)	1,055	(290)	(2,159)	(21)
Net gains	\$ 28,481	\$ 4,068	\$ 33,349	\$ 27,045

The above chart summarizes the main components of net gains during the current period, with the prior year as a comparison. As discussed in prior quarters, significant fluctuations in net gains (losses) have been brought about by the adoption of a new accounting standard, IFRS 9, on January 1, 2018. The adoption of the new standard results in changes in fair value of substantially all of Guardian's securities being recorded in net gains whereas, under the previous standard, changes in fair value of securities classified as available for sale were recorded in other comprehensive income. The increase in fair value of securities resulted in large net gains being recorded in the current quarter including \$18.4 million on Bank of Montreal shares and \$7.2 million on the UCITS Global Equity Fund. The net gains (losses) on securities are expected to continue to be more volatile under the new standard. Also included in the current quarter is foreign exchange gain of \$1.1 million associated with the US dollar loan used to fund the acquisition of Alta. Offsetting losses associated with the investment in Alta were recorded in other comprehensive income as net change in foreign currency translation on foreign subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

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

As at (\$ in thousands, except per share amounts)	2018 September 30	December 31	2017 September 30
Securities, carried at fair value			
Proprietary investment strategies			
Short-term securities	\$ --	\$ 9,810	\$ 9,777
Fixed-income securities	20,141	19,328	15,313
Canadian equities	14,983	21,819	20,948
Global equities	216,211	203,474	190,462
Real estate	18,041	13,545	11,480
	269,376	267,976	247,980
Bank of Montreal common shares	394,198	372,146	358,606
Other securities	14,701	12,054	14,775
	678,275	652,176	621,361
Securities, carried at amortized cost	10,000	--	--
Securities	\$ 688,275	\$ 652,176	\$ 621,361
Total securities per share, diluted	\$ 24.20	\$ 22.49	\$ 21.12

Guardian's securities as at September 30, 2018 had a fair value of \$688 million, or \$24.20 per share, diluted, compared with \$652 million, or \$22.49 per share, diluted, at the end of 2017. Shareholders' equity as at September 30, 2018 amounted to \$670 million, or \$23.57 per share, diluted, compared to \$634 million, or \$21.88 per share, diluted, at the end of 2017.

In addition to the strong balance sheet, Guardian has, under various borrowing arrangements, total borrowing capacity of \$157 million. As at September 30, 2018, the total bank borrowing amounted to \$133.2 million, compared with \$55.9 million at the end of 2017. The increased borrowing since the end of 2017 was used to finance the Alta acquisition and to partially fund over \$24 million in intangible assets acquired in the MGA business during the current year.

Guardian's adjusted cash flow from operations for the current quarter was \$11.1 million, compared to \$9.4 million in the same quarter in 2017. Guardian uses its adjusted cash flow from operations primarily to fund its working capital, pay its quarterly dividends, repurchase shares under its Normal Course Issuer Bid, repay debt, where possible, and for capital expenditures.

During the current quarter, Guardian paid \$3.5 million in dividends to its shareholders, paid down \$9.3 million in debt and continued to finance the recruitment of advisors, using its adjusted cash flow.

CONTRACTUAL OBLIGATIONS

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

As at September 30, 2018 (\$ in thousands)	Total	Within one year	One to three years	Three to five years	After five years
Bank loans and borrowings	\$ 133,161	\$ 133,161	\$ --	\$ --	\$ --
Client deposits	56,913	56,913	--	--	--
Payable to clients	52,437	52,437	--	--	--
Accounts payable and other	42,653	42,653	--	--	--
Other liabilities	22,398	--	6,440	15,958	--
Investment commitments	30,352	30,352	--	--	--
Operating lease obligations	14,985	2,139	4,413	4,215	4,218
Third party investor liabilities	7,187	7,187	--	--	--
Total contractual obligations	\$ 360,086	\$ 324,842	\$ 10,853	\$ 20,173	\$ 4,218

Guardian's contractual commitments are supported by its strong financial position, including its securities, referred to above under the heading "Liquidity and Capital Resources". The payable to clients, in Guardian's securities dealer subsidiary, which can fluctuate with client activities, is offset by the receivable from clients and broker. Client deposits in the offshore banking subsidiary are supported by the interest-bearing deposits with banks. The third party investor liabilities are supported by securities backing third party investor liabilities. During the quarter, Guardian committed to invest \$15 million in a venture capital fund, of which \$2.7 million was called during the quarter.

SUMMARY OF QUARTERLY RESULTS

The following chart summarizes Guardian's financial results for the past eight quarters (all prior period figures have been restated to reflect the retrospective application of IFRS 9):

For the three months ended (\$ in thousands)	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016
Net revenue	\$ 42,773	\$ 42,924	\$ 41,516	\$ 39,097	\$ 36,315	\$ 37,208	\$ 38,618	\$ 38,240
Operating earnings	12,444	11,302	10,504	13,046	10,505	12,160	12,458	12,371
Net gains (losses)	28,481	20,800	(15,932)	38,186	4,068	(3,603)	25,871	45,511
Net earnings (loss)	35,079	26,245	(5,279)	44,466	12,555	7,493	33,800	49,514
Net earnings (loss) attributable to shareholders	34,320	25,385	(6,208)	43,982	12,310	7,242	33,285	49,072
Shareholders' equity	670,382	644,956	623,511	634,416	608,013	603,428	605,039	580,177

Per Class A and Common share (in \$)

Net earnings (loss) attributable to shareholders								
Basic	\$ 1.28	\$ 0.95	\$ (0.23)	\$ 1.59	\$ 0.44	\$ 0.26	\$ 1.21	\$ 1.74
Diluted	1.21	0.90	(0.23)	1.51	0.42	0.25	1.14	1.65
Shareholders' equity								
Basic	\$ 24.98	\$ 24.06	\$ 23.27	\$ 23.20	\$ 21.87	\$ 21.75	\$ 21.81	\$ 20.75
Diluted	23.57	22.74	21.98	21.88	20.67	20.54	20.58	19.62
Dividends paid	\$ 0.125	\$ 0.125	\$ 0.100	\$ 0.100	\$ 0.100	\$ 0.100	\$ 0.085	\$ 0.085

As at period end

Total Class A and Common shares outstanding (in thousands of shares)	29,012	29,012	29,012	29,523	30,023	30,023	30,023	30,023
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Over the past 8 quarters presented above, Guardian's net revenue has generally shown an upward trend, although it has fluctuated from time to time. These fluctuations have influenced operating earnings and have been driven largely by the factors described below.

Management fees earned in the Investment Management Segment and trailer commissions earned on mutual funds and segregated funds in the Financial Advisory Segment are highly correlated to the changes in AUM and AUA, which are affected by the volatility of the financial markets and additions and withdrawals of client assets. Offsetting this volatility is the growing significance of insurance commissions earned in the MGA business, which are less correlated to the volatility of the financial markets. In the Corporate Investing and Activities Segment, some fluctuations in dividend income can be seen in the second quarter and, to a lesser extent, in the fourth quarter of each year, due largely to dividends from foreign equities, which pay semi-annual dividends and some "special" dividends mid-year during those periods. In addition, the timing of consolidation or deconsolidation of certain investment funds can also have an impact on the level of dividend income recorded in the period.

The adoption of IFRS 9 changed the method of recognizing Net gains (losses) on securities. All prior year figures have been restated to reflect the adoption of the new standard. Under the new standard, the Net gains (losses) from securities will be much more volatile and, as a result, will also cause Net earnings (losses) attributable to shareholders to be much more volatile. The adoption of IFRS 9 is described in note 2 (b) to Guardian's third quarter 2018 Consolidated Financial Statements.

In addition to the various influences described above, the net revenue in the fourth quarter of 2016 and the first quarter of 2017 included significant increases in insurance commissions arising from sales of life insurance policies, driven by changes to income tax legislation that came into effect at

the end of 2016. In the first and subsequent quarters of 2018, the increases in net revenue were due largely to the inclusion of Alta. However, the operating earnings in the first and second quarters were lower due to one-time costs associated with the integration of Alta and increased expenses in the Dealer business, arising from the transition to the new technology platform. With the adoption of IFRS 9, applied retrospectively, the Net gains (losses) reflect changes in fair values of the securities during each period. This volatility of these Net gains (losses) reflects the volatility of the financial markets in which Guardian's securities trade. The volatility of gains (losses) also directly impacted Net earnings (losses) attributable to shareholders during those periods.

The quarterly fluctuations in shareholders' equity shown above are caused largely by Guardian's Net earnings, less dividends paid and shares repurchased.

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 15 to Guardian's third quarter Consolidated Financial Statements for additional information on financial risk management.

Market Risk

Market fluctuations can have a significant effect on the value of both clients' portfolios and our earnings, since management fees are generally based on market values. In the financial advisory business, market fluctuations can have a significant impact on the amounts being invested by the clients, increasing or reducing our commission revenues. We manage the risk of market fluctuations by having a diversified client base with different investment needs and by having a variety of products and services, which may be attractive in different market environments and which have different correlations to equity and other financial markets and to each other. Guardian's security holdings are managed independently of clients' assets, except for those of our assets that are invested in Guardian's investment funds.

Portfolio Value and Concentration Risks

Guardian's securities are subject to price risk. The potential impact of market fluctuations on the value of the securities is provided in note 15 to Guardian's third quarter 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 \$394 million in Bank of Montreal shares, which represents 57% (December 31, 2017 – 57%) 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, selling over 1.3 million shares of the bank since the second quarter of 2013. With the exception of the investment in the Bank of Montreal shares, the securities are diversified from both an asset class and a geographical perspective. At the end of the current quarter, the corporate holding of securities consisted of 62% (December 31, 2017 - 62%) Canadian equities, consisting mainly of the Bank of Montreal shares, 35% (December 31, 2017 – 34%) non-Canadian equities and 3% (December 31, 2017 – 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 (loss), but are recorded as changes in the "foreign currency translation adjustment" in Other Comprehensive Income, and the cumulative effect is included in Accumulated Other Comprehensive Income in the Shareholders' Equity section of the Consolidated Balance Sheets. With the recently closed acquisition of Alta, Guardian recognized Obligations to non-controlling interests on its balance sheet, which are denominated in US dollars. As these are transactions between equity interests, the changes in the value of the obligation, including changes resulting from foreign exchange rate fluctuations, are recorded directly in the Statements of Equity. This currency risk is managed in a manner similar to the investments in other foreign subsidiaries. They are not actively managed, due to the long-term nature of these investments, but are closely monitored by management. As Guardian continues to expand into foreign jurisdictions and the revenue and earnings sources grow and diversify into other currencies, the operating results can fluctuate with the changes in foreign currency exchange rates compared to the Canadian dollar. As the foreign operations grow, Guardian will be increasingly exposed to foreign currency risks. From time to time, Guardian may record certain foreign exchange Net gains (losses), such as on the current USD borrowing used to finance the recent acquisition of Alta or the Net gains (losses) on Canadian dollar cash balances recorded by foreign subsidiaries. However, these foreign exchange gains and losses result in equal and offsetting Net gains (losses) being recorded in Other comprehensive income. These are not considered to be currency risks, as there is no economic risk to Guardian. Readers are encouraged to refer to note 15 in Guardian's third quarter Consolidated Financial Statements for further discussion and sensitivity analysis.

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 monitoring of activities of the portfolio manager who, through diversification and credit quality reviews of the funds' investments, manage the funds' credit risk. The credit risk associated with the investment in amortized cost securities is managed by monitoring the issuer's operations through discussions with the issuer's management. From time to time, advisors in the Financial Advisory segment may owe to the Dealers or the MGA, advances made or amounts resulting from the reversal of commissions. The credit risk associated with these amounts is 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's most significant exposure to interest rate risk is through its bank loans and borrowings. The interest rates on these borrowings are short-term, and Guardian's interest expense and net earnings will fluctuate with the changes in short-term rates. 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 risk associated with Guardian's investment in fixed-income mutual funds is managed by monitoring the activities of the portfolio manager, who manages this risk by positioning the portfolio for various interest rate environments. The interest rate risk associated with the investment in amortized cost securities is not actively managed, as it is a long-term investment, but monitored by management.

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 \$157 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

Guardian uses information technology and the internet to streamline business operations and to improve client and advisor experience. However, the use of information technology can also introduce operational risk related to its use by employees, which may result in errors and lead to financial loss to Guardian. In addition, through 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 disruption risks that could potentially have an adverse impact on its business. Guardian actively monitors these risks 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.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2018, Guardian adopted IFRS 9 – *Financial Instruments* and IFRS 15 – *Revenue from Contracts with Customers*. IFRS 9 had a significant impact on Guardian's results in 2018. The new standard eliminated Available for Sale and Held for Trading classifications for financial instruments, which resulted in substantially all of Guardian's securities being classified as Fair Value Through the Profit or Loss ("FVTPL"), including the shares of Bank of Montreal ("BMO"). All changes in fair values of FVTPL securities are recognized in Net gains (losses) in the Statement of Operations. Under the previous standard, any changes in fair values of Available for Sale securities were recognized in Other comprehensive income. The fluctuations in the fair value of securities including BMO, resulted in significant Net gains or losses being recognized each quarter in the Statements of Operations. As discussed in previous quarters, this new standard will continue to result in greater volatility in Net gains or losses, and therefore Net earnings or (loss) attributable to shareholders. The adoption of IFRS 9 and IFRS 15 is discussed further in note 2 (b) of Guardian's third quarter 2018 Consolidated Financial Statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

On January 13, 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16"), which is to replace IAS 17 *Leases* effective for annual periods beginning on January 1, 2019. The standard provides a single lease accounting model for lessees, under which, substantially all leases will be accounted for as an asset acquisitions financed by lease obligations. The acquired lease asset will be amortized over its useful life, which will generally be the lease term. Lease payments will be accounted for as repayments of the lease obligation, and interest will be recorded on the obligation. This differs from IAS 17, under which most of Guardian's leases do not result in the recognition of an asset or a lease obligation. In addition, under IAS 17, Guardian's average lease payment is expensed over the term of the lease as part of other expenses. IFRS 16 may be implemented on a retrospective basis or a modified retrospective basis. The modified retrospective basis allows for certain practical expedients to facilitate transition.

Based on Guardian's evaluations to date, the adoption of IFRS 16 will result in increases in Guardian's assets, liabilities and amortization and interest expense and a decrease in other expenses. In addition, under IFRS 16, the expenses will be higher at the outset of the lease and decline over the lease term, whereas under IAS 17 the expenses remain unchanged over the term. Guardian continues to evaluate the impact IFRS 16 will have on its consolidated financial statements. Over the balance of the current year, Guardian expects to finalize its assessment of IFRS 16, select the transition method, and quantify the opening adjustments required based on the transition method selected.

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, 2017, Consolidated Financial Statements. The most significant accounting estimates are related to the impairment assessment of goodwill and the determination of fair value of securities which are classified as level 3 within the fair value hierarchy. These valuation approaches are most sensitive to the levels of AUA and annual service fees for goodwill and the level of AUM for the determination of fair value of level 3 securities. No changes to the valuation methodologies were made during the current quarter.

NON-IFRS MEASURES**EBITDA and EBITDA per share**

Guardian defines EBITDA as net earnings before interest, income tax, amortization, stock-based compensation, and net gains or losses, less amounts attributable to non-controlling interests. EBITDA per share is calculated using the same method, which is used to determine net earnings available to

shareholders per share, including any adjustment to the average number of shares outstanding, or to income, to calculate the dilutive effect. Guardian believe these are important measures, as they allow management to assess the operating profitability of our business and to compare it with other investment management companies, without the distortions caused by the impact of non-core business items, different financing methods, levels of income taxes, the amounts of net earnings available to non-controlling interests and the level of capital expenditures. The most comparable IFRS measures are "Net earnings" and "Net earnings available to shareholders per share, diluted", which are disclosed in Guardian's Consolidated Statements of Operations.

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

For the periods ended September 30 (\$ in thousands)	Three months		Nine months	
	2018	2017 (restated)	2018	2017 (restated)
Net earnings, as reported	\$ 35,079	\$ 12,555	\$ 56,045	\$ 53,848
Add (deduct):				
Income tax expense	5,846	2,018	11,554	8,320
Net losses (gains)	(28,481)	(4,068)	(33,349)	(27,045)
Stock-based compensation	669	520	1,483	1,468
Interest expense	1,192	191	2,623	586
Amortization	2,714	1,051	7,388	3,129
Non-controlling interests	(1,457)	(456)	(4,398)	(1,719)
EBITDA	\$ 15,562	\$ 11,811	\$ 41,346	\$ 38,587

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

Guardian defines Adjusted cash flow from operations as net cash from operating activities, net of changes in non-cash working capital items and non-controlling interests. Adjusted cash flow from operations and the per share amount are used by management to measure the amount of cash, either provided by or used, in Guardian's operating activities available to shareholders, without the distortions caused by fluctuations in its working capital. The most comparable IFRS measure is "Net cash from operating activities", which is disclosed in Guardian's Consolidated Statements of Cash Flow. Adjusted cash flow from operations per share is calculated using the same method, which is used to determine net earnings available to shareholders per share, including any adjustment to the average number of shares outstanding, or to income, to calculate the dilutive effect.

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

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Shareholders' equity per share

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

Securities per share

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

OUTLOOK

Globally, growth continued in the third quarter, but some signs of a slowdown exist, particularly in China, while interest rates seem to be on an upward trend. Another worry is that trade tensions are continuing to be an issue, particularly between the United States on one side, and China and the European union on the other. We are cautiously optimistic for Q4/2018 and into 2019, but we are cognizant of the risk that rising interest rates will pose, and the disruption that trade wars can manifest. We are now at a stage in the equity markets and interest rate cycle where earnings growth is in a race against rising interest rates, and little benefit can be expected from stock market multiple expansions. Rather, multiples could begin to contract. We continue to believe that earnings growth will win for some time, so we remain positive on stocks for now, trade issues aside. The good news is that rates are rising from a relatively low level and may need to go meaningfully higher to change the winner in this race. Stocks are still cheap relative to current interest rates, although they are no longer more than 1 standard deviation cheaper than historically. In an absolute sense, S&P/TSX multiples are average and S&P 500 multiples remain above average. Because of the issues highlighted above, the pace at which we believe earnings will grow relative to an increase in long rates, and the changing shape of the yield curve (flattening, or turning negative) will be factors that could change our generally positive view on equities sometime in 2019. Trade issues make us more cautious at this time than we would otherwise be.

Guardian has historically been highly levered to Canadian equities, across its main business segments as well as its corporate investment portfolio. While we have gradually been increasing exposure to non-Canadian assets, our overall exposure to Canadian equities is significant. For the last few years, Guardian has been focusing on increasing our investment management capabilities, both within and beyond Canada. With our ownership of a 70% stake in US-based Alta, our Toronto Systematic Equities team, a small but growing contribution from our UK-based global equities team and our strong presence in fixed income markets, Canadian equities are now significantly less than half of our institutional AUM, and non-Canadian equity exposure is roughly 30% of our AUM. As stated before, Guardian is committed to focus on cross-marketing our existing product line, in particular our global capabilities, through Alta's distribution channels and, reciprocally, introducing Alta and their US investment expertise to our pre-existing channels. Canadian equities, however, do have a place in the investment portfolios of Canadian residents and can add to the diversification of any worldwide portfolio. We remain committed to adding new products, supporting and growing our presence in this important market.

Guardian's management will continue to use its strong balance sheet to assist in our growth plans, by creating and seeding new strategies to gain a track record of performance and back our theories on optimizing our investment management processes. We have found that substantial investments in newly-offered products can help us to gain clients in the early stages of our product development. Two recent examples of this are in our Real Estate and our Fundamental Global Equity strategies, where substantial commitments of our own capital accelerated attracting third-party investors.

Investing in our own products also serves the purpose of slowly and methodically diversifying from our core holding of shares in the Bank of Montreal, as well as potentially diversifying from our ownership exposure to Canadian equities in general.

Another benefit of our balance sheet is to enable us to consider growth through acquisition opportunities. We continue to focus on implementing our strategy with respect to Alta, but the wider market awareness of our acquisition has resulted in a significant increase in the number of M&A opportunities being presented to us. While we do not feel that we are under pressure to make another acquisition, we do have the management and financial capacity to make another transaction if we find the right partner at the right price, and will continue to monitor and evaluate the market in order to explore options to expand our investment capabilities.

Guardian's Financial Advisory subsidiary, Worldsource, has become a meaningful generator of revenue and operating earnings for us over the past few years. Worldsource's MGA unit is performing very well, and we expect this to continue over the foreseeable future. Once the post-implementation issues related to our technology upgrade at our mutual fund distribution operation are resolved, our plan is to continue to invest in increasing the scale of the Financial Advisory businesses through recruitment of new advisors, as well as to prudently consider acquisitions, if opportunities arise. Guardian has made some strides in the past few years in creating and distributing market-competitive investment products which are attractive to our partners throughout Worldsource.

Over the past several years, Guardian has had a great deal of success in growing and improving the profitability of its businesses in Canada. Going forward, while we feel that there are still opportunities to succeed in the Canadian investment management market, it is a capacity-constrained market and we acknowledge that we need to find other niches to continue to grow. In order to accelerate our growth in the long term, Guardian plans to continue to invest in our global investment management capabilities and, equally important, to continue to invest in expanding our distribution capabilities, in order to seek new clients in Canada, in the United States and internationally. We believe that investing in distribution and continually expanding our offering will give Guardian a diverse set of opportunities to grow over the longer term.



Our history. Your future.

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