MANAGEMENT'S DISCUSSION AND ANALYSIS

In accordance with securities regulatory requirements, the discussion and analysis which follows for Guardian Capital Group Limited and its subsidiaries and other controlled entities ("Guardian") pertains to the periods ended June 30, 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 August 9, 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 second 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 place on these statements, as a number of factors could cause actual results to differ materially from Guardian's objectives, plans, expectations and estimates reflected in the forward-looking statements. Factors which could cause actual results to differ from expectations include, among other things, general economic and market conditions, including interest rates, business competition, changes in government regulations or in tax laws, and other factors.

OVERVIEW OF GUARDIAN'S BUSINESS

Guardian is a diversified financial services company, which serves the wealth management needs of a range of clients through its various business segments. The areas in which Guardian operates are: institutional and private wealth investment management; financial advisory, which includes an insurance managing general agency ("MGA"), a mutual fund dealer and a securities dealer (together, the "Dealers"); and corporate activities and investments. Guardian is headquartered in Canada and operates in Canada, the United Kingdom, the United States and the Caribbean. As at June 30, 2018, Guardian had $29.7 billion of investment management assets under management ("AUM") and $18.0 billion of financial advisory assets under administration ("AUA"). Included in the AUM figures above are $4.3 billion ($3.3 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 $670 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 June 30	Three months		Six months	
($ in thousands, except per share amounts)	**2018**	2017 (restated)	**2018**	2017 (restated)
Net revenue	**$ 42,924**	$ 37,208	**$ 84,440**	$ 75,826
Expenses	**31,622**	25,048	**62,634**	51,208
Operating earnings	**11,302**	12,160	**21,806**	24,618
Net gains (loss)	**20,800**	(3,603)	**4,868**	22,977
Net earnings before income taxes	**32,102**	8,557	**26,674**	47,595
Income tax expense	**5,857**	1,064	**5,708**	6,302
Net earnings	**$ 26,245**	$ 7,493	**$ 20,966**	$ 41,293
Net earnings attributable to shareholders	**$ 25,385**	$ 7,242	**$ 19,177**	$ 40,527
EBITDA	**13,313**	13,470	**25,784**	26,776
Adjusted cash flow from operations	**10,310**	10,859	**19,074**	20,981
Diluted per share amounts				
Net earnings attributable to shareholders	**$ 0.90**	$ 0.25	**$ 0.68**	$ 1.39
EBITDA	**0.47**	0.46	**0.91**	0.92
Adjusted cash flow from operations	**0.37**	0.37	**0.68**	0.72

As at		2018		2017		
($ in millions, except per share amounts)		**June 30**		December 31		June 30
Assets under management	**$**	**29,731**	$	27,250	$	26,379
Assets under administration		**17,980**		17,795		17,073
Shareholders' equity	**$**	**645**	$	634	$	603
Fair value of corporate holding of securities		**670**		652		627
Diluted per share						
Shareholders' equity	**$**	**22.74**	$	21.88	$	20.54
Fair value of corporate holding of securities		**23.63**		22.49		21.35

RESULTS OF OPERATIONS

For the quarter ended June 30, 2018, Guardian's operating earnings were $11.3 million, down from $12.2 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 $6.5 million, compared to $5.2 million in the same quarter in the prior year. The increase was due to increase in operating earnings from the non-domestic business, substantially all of which was attributable to Alta, partially offset by lower operating earnings in the domestic investment management business, as the result of lower average AUM this quarter.

The Financial Advisory Segment's operating earnings in the current quarter were $2.1 million, compared to $3.0 million in the same quarter in the prior year. The lower operating earnings this quarter is largely attributable to approximately $1.0 million in one-time costs incurred in the Dealers business related to the new technology platform implementation. The lower operating earnings in the Dealers business were partially offset by increased operating earnings in the MGA business. The MGA increased its service commission revenue in the current quarter, largely benefiting from the renewal of policies sold in the prior year, and higher sales commissions arising from increased life insurance sales volumes this quarter. This growth has come from both organic growth and from newly recruited advisors.

The Corporate Activities and Investments Segment's operating earnings for the current quarter were $2.7 million, compared to $4.0 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 investments in staffing costs to support our ongoing expansion and increased interest expenses due to higher debt levels incurred to finance our expansion into the US and higher interest rates. In addition, the operating earnings from the Global UCITS fund, which were consolidated into our operating earnings in 2017, are no longer being consolidated in 2018, as a result of successes in attracting third-party investors into this fund. The resulting lower operating earnings in this Segment was partially offset by higher management fees earned from the fund in the Investment Management Segment. This short-term decrease in operating earnings is in line with our plan to grow our investment management business using the support of our capital base.

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 $20.8 million, compared to $3.6 million in net losses in the prior year. The net gains recorded in the current quarter were largely attributable to change in unrealized gains on the Bank of Montreal shares, which appreciated in fair value by $16 million.

The net earnings available to shareholders were $25.4 million, compared to $7.2 million in the prior year. The increase was due to the large increase in net gains, offset partially by the decrease in operating earnings, compared to the prior year.

EBITDA for the quarter was $13.3 million, compared to $13.5 million in the same period in 2017. The adjusted cash flow from operations for the quarter was $10.3 million, compared to $10.9 million in the same period in 2017. The increases in both measures while operating earnings decreased were largely due to the addition of EBITDA and adjusted cash flow from Alta, which does not include the amortization and interest expense related to its acquisition.

ASSETS UNDER MANAGEMENT AND ADMINISTRATION

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

As at		2018		2017		
($ in millions)		**June 30**		December 31		June 30
Assets under management						
Institutional						
Canadian equities	**$**	**10,631**	$	12,246	$	11,928
Global equities		**8,222**		3,887		3,640
Fixed income		**7,877**		8,146		7,964
		26,730		24,279		23,532
Private client		**3,001**		2,971		2,847
Total assets under management	**$**	**29,731**	$	27,250	$	26,379
Assets under administration	**$**	**17,980**	$	17,795	$	17,073

The AUM as at June 30, 2018 was $29.7 billion, an increase of 9% from $27.3 billion at December 31, 2017, and 13% from $26.4 billion at June 30, 2017. The increases in AUM compared to December 31, 2017 and June 30, 2017 are both due to the acquisition of Alta, 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 June 30, 2018 was $18.0 billion, a slight increase from $17.8 billion at December 31, 2017, and up from $17.1 billion as at June 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 June 30, 2018 was $22.2 million, a 25% increase from $17.7 million in the same quarter in the prior year. Institutional management fee income earned in the current quarter was $17.8 million, an increase of $4.2 million compared to $13.6 million a year earlier. The increase in institutional management fee income was driven by the non-domestic operations, with Alta contributing $4.5 million of the increase. This was offset partially by the reduction in the domestic operations. With the growth in our non-domestic operations, Guardian's non-domestic management fee income now represents approximately 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, increasing slightly from 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.

The net commission revenue for the current quarter was $11.2 million, a 13% increase from $9.9 million a year earlier. The growth in revenue was substantially all attributable to the MGA business. During the current quarter, our MGA generated $35.9 million in new premiums on life insurance policies sold ("Premiums Sold"), compared to $15.8 million in the prior year. This improved sales volume contributed to higher sales commission revenue in the current quarter. In addition, the service commissions grew by $0.8 million to $3.5 million, compared to the prior year. These continuing service commission revenue streams arise when life insurance policies sold in prior years are renewed. Contributing to this growth is the effects of successful advisor recruitment campaign. In the current quarter, our MGA had a very successful campaign, acquiring over $21 million in intangible assets associated with the recruitment.

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 $3.3 million for the current quarter, slightly lower than $3.4 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 June 30	Three months		Six months	
($ in thousands)	**2018**	2017	**2018**	2017
Dividends on Bank of Montreal shares	**$ 3,441**	$ 3,432	**$ 6,882**	$ 6,952
Other dividends	**1,644**	2,303	**2,779**	3,889
Dividend income	**5,085**	5,735	**9,661**	10,841
Interest income	**1,071**	452	**1,914**	837
	$ 6,156	$ 6,187	**$ 11,575**	$ 11,678

The decrease in 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 compared to the prior year, and higher interest-spread income being earned in the Dealer business.

Expenses

Guardian's expenses increased to $31.6 million in the current quarter, compared to $25.0 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 in the current quarter, including the increased amortization of intangible assets arising from the acquisition. The increase in the Financial Advisory Segment resulted from increased expenses in both the Dealers and the MGA businesses. The increase in the Dealer business relates to the increased expenses associated with the new technology platform and, as anticipated and discussed in the preceding quarter, additional one-time expense associated with the technology platform implementation. In the MGA business, the additional expenses were incurred to support the growing business. The increased expenses in the Corporate Activities and Investments Segment was due to additional resources being added to better support the global expansion of the operating businesses and the increased interest expenses arising from higher debt levels used to finance the global expansion and higher interest rates on those debt compared to the prior year.

NET GAINS (LOSSES)

For the periods ended June 30	Three months		Six months	
($ in thousands)	**2018**	2017 (restated)	**2018**	2017 (restated)
Fair value through profit or loss	**$ 21,906**	$ (4,017)	**$ 7,477**	$ 22,325
On disposal of intangible assets	**124**	200	**605**	382
Foreign exchange gains (loss)	**(1,230)**	214	**(3,214)**	270
Net gains (losses)	**$ 20,800**	$ (3,603)	**$ 4,868**	$ 22,977

Guardian recorded net gains of $20.8 million, compared to net losses of $3.6 million in the same quarter in 2017. As discussed in Q1, the significant fluctuation in net gains (losses) were largely affected by the new accounting standard, IFRS 9, adopted on January 1, 2018. The adoption of the new standard resulted in the changes in fair value of substantially all the securities being recorded in net gains (losses) compared with, under the previous standard, the changes in fair value of available for sale securities were recorded in other comprehensive income. The increase in fair value of securities, largely the investment in BMO shares, resulted in a large net gains being recorded in the current quarter. 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 $1.2 million in foreign exchange loss, largely associated with the US dollar loan used to fund the acquisition of Alta. Equal and offsetting gains associated with the investment in Alta were recorded in other comprehensive income as net change in foreign currency translation on foreign subsidiary.

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	**2018**	2017	
($ in thousands, except per share amounts)	**June 30**	December 31	June 30
Securities, carried at fair value			
Proprietary investment strategies			
Short-term securities	**$ --**	$ 9,810	$ --
Fixed-income securities	**21,220**	19,328	15,663
Canadian equities	**18,318**	21,819	20,003
Global equities	**217,540**	203,474	187,981
Real estate	**14,572**	13,545	17,498
	271,650	267,976	241,145
Bank of Montreal common shares	**375,846**	372,146	371,358
Other securities	**12,694**	12,054	14,754
	660,190	652,176	627,257
Securities, carried at amortized cost	**10,000**	--	--
Securities	**$ 670,190**	$ 652,176	$ 627,257
Total securities per share, diluted	**$ 23.63**	$ 22.49	$ 21.35

Guardian's securities as at June 30, 2018 had a fair value of $670 million, or $23.63 per share, diluted, compared with $652 million, or $22.49 per share, diluted, at the end of 2017. Shareholders' equity as at June 30, 2018 amounted to $645 million, or $22.74 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 June 30, 2018, the total bank borrowing amounted to $144.4 million, compared with $55.9 million at the end of 2017. The increased borrowing since the end of 2017 was mainly used to finance the Alta acquisition and to partially fund over $21 million in intangible assets acquired in the MGA business in the current quarter.

Guardian's adjusted cash flow from operations for the current quarter was $10.3 million, compared to $10.9 million in the same quarter in 2017. Guardian primarily uses its adjusted cash flow from operations to fund its working capital, payment of quarterly dividends, share repurchases under its Normal Course Issuer Bid, and capital expenditures.

During the current quarter, Guardian returned $3.5 million in dividends to its shareholders and financed the sizable recruitment of advisors using a combination of its adjusted cash flow and bank borrowings.

CONTRACTUAL OBLIGATIONS

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

As at June 30, 2018 *($ in thousands)*	Total	Within one year	One to three years	Three to five years	After five years
Bank loans and borrowings	$ 144,362	$ 144,362	$ --	$ --	$ --
Client deposits	51,805	51,805	--	--	--
Payable to clients	43,259	43,259	--	--	--
Accounts payable and other	36,177	36,177	--	--	--
Other liabilities	22,736	--	6,440	--	16,296
Investment commitment - real estate fund	21,504	21,504	--	--	--
Operating lease obligations	15,584	2,137	4,408	4,293	4,746
Third party investor liabilities	7,308	7,308	--	--	--
Total contractual obligations	$ 342,735	$ 306,552	$ 10,848	$ 4,293	$ 21,042

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.

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)	**Jun 30, 2018**	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016
Net revenue	**$ 42,924**	$ 41,516	$ 39,097	$ 36,315	$ 37,208	$ 38,618	$ 38,240	$ 35,185
Operating earnings	**11,302**	10,504	13,046	10,505	12,160	12,458	12,371	10,646
Net gains (losses)	**20,800**	(15,932)	38,186	4,068	(3,603)	25,871	45,511	26,492
Net earnings (loss)	**26,245**	(5,279)	44,466	12,555	7,493	33,800	49,514	32,197
Net earnings (loss) attributable to shareholders	**25,385**	(6,208)	43,982	12,310	7,242	33,285	49,072	32,075
Shareholders' equity	**644,956**	623,511	634,416	608,013	603,428	605,039	580,177	545,339
Per Class A and Common share (in $)								
Net earnings (loss) attributable to shareholders								
Basic	**$ 0.95**	$ (0.23)	$ 1.59	$ 0.44	$ 0.26	$ 1.21	$ 1.74	$ 1.13
Diluted	**0.90**	(0.23)	1.51	0.42	0.25	1.14	1.65	1.07
Shareholders' equity								
Basic	**$ 24.06**	$ 23.27	$ 23.20	$ 21.87	$ 21.75	$ 21.81	$ 20.75	$ 19.11
Diluted	**22.74**	21.98	21.88	20.67	20.54	20.58	19.62	18.07
Dividends paid	**$ 0.125**	$ 0.100	$ 0.100	$ 0.100	$ 0.100	$ 0.085	$ 0.085	$ 0.085
As at period end								
Total Class A and Common shares outstanding (in thousands of shares)	**29,012**	29,012	29,523	30,023	30,023	30,023	30,023	30,155

Over the past 8 quarters presented above, Guardian's net revenue has generally shown an upward trend, although they have 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 withdraws 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 in Guardian's results 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 period 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 second 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 quarter of 2018, the increase in net revenue was due largely to the inclusion of Alta. However, the operating earnings in the quarter were lower due to one-time cost 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) reflect 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 the changes in the value of Guardian's securities, less the provision for deferred income taxes thereon.

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 first 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 second 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 $376 million in Bank of Montreal shares, which represents 56% (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, disposing 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 61% (December 31, 2017 - 62%) Canadian equities, consisting mainly of the Bank of Montreal shares, 36% (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, 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 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 second 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 the monitoring of the activities of the portfolio manager who, through diversification and credit quality reviews of the funds' investments, manage the funds' credit risk. 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 received or amounts resulting from 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 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 and Cybersecurity Risk

Guardian uses information technology and the internet to streamline business operations and to improve client and advisor experience. However, with the use of information technology, including the use of mobile devices, and the use of internet, such as emails and other online capabilities, Guardian is exposed to information security and other technology disruptions risks that could potentially have an adverse impact on its business. Guardian actively monitors this risk and continues to develop controls to protect against such threats that are becoming more sophisticated and pervasive.

Competition Risk

Guardian operates in a highly competitive environment, with competition based on a variety of factors including investment performance, the type and quality of products offered, business reputation and financial strength. Loss of client assets to competition will result in losses of revenue and earnings to Guardian. Guardian attempts to mitigate this risk by developing and maintaining a competitive product line and competitive relative performance of its products, through the recruitment and retention of high quality investment professionals and a high quality management team. Our ability to compete is also enhanced by our large capital base, which provides Guardian with the financial strength to invest in the development or acquisition of businesses. It also provides existing and future clients with comfort, which allows Guardian to better compete in winning and retaining these clients.

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 the greatest impact on Guardian's results in the first two quarters of 2018. The new standard eliminated Available for Sale and Held for Trading classifications for financial instruments, which resulted in substantially all of the 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 decreases in fair value of securities in the current quarter, including BMO, resulted in significant Net losses being recognized in the Statement of Operations. As discussed in previous quarters, this new standard will result in greater volatility in Net gains (losses), and therefore Net earnings (loss) attributable to shareholders. The adoption of IFRS 9 and IFRS 15 is discussed further in note 2 (b) of Guardian's second 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 acquisition financed by lease obligation. The acquired leased asset will be amortized over its useful life, which will generally be the lease term. Lease payments will be accounted for as repayment of lease obligation. This differs from IAS 17, under which, most of Guardian's leases did not result in the recognition of an asset or a lease obligation. In addition, under IAS 17, Guardian's average lease payment was 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 higher at the outset of the lease and decline over the lease term, whereas under IAS 17 the expenses would 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 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 income for 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 distortion caused by the impact of non-core business items, different financing methods, levels of income taxes, the amounts of net earnings available to non-controlling interests and the level of capital expenditures. The most comparable IFRS measures are "Net earnings" and "Net earnings available to shareholders per share, diluted", which are disclosed in Guardian's Consolidated Statements of Operations.

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

For the periods ended June 30	Three months				Six months			
($ in thousands)	**2018**		2017 (restated)		**2018**		2017 (restated)	
Net earnings, as reported	**$**	**26,245**	$	7,493	**$**	**20,966**	$	41,293
Add (deduct):								
Income tax expense		**5,857**		1,064		**5,708**		6,302
Net losses (gains)		**(20,800)**		3,603		**(4,868)**		(22,977)
Stock-based compensation		**285**		516		**814**		948
Interest expense		**811**		187		**1,431**		395
Amortization		**2,408**		1,052		**4,674**		2,078
Non-controlling interests		**(1,493)**		(445)		**(2,941)**		(1,263)
EBITDA	**$**	**13,313**	$	13,470	**$**	**25,784**	$	26,776

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 income for the dilutive effect.

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

For the periods ended June 30	Three months				Six months			
($ in thousands)	**2018**		2017 (restated)		**2018**		2017 (restated)	
Net cash from operating activities, as reported	**$**	**16,877**	$	14,541	**$**	**11,496**	$	14,155
Add (deduct):								
Net change in non-cash working capital items		**(5,238)**		(3,519)		**10,030**		7,642
Non-controlling interests		**(1,329)**		(163)		**(2,452)**		(816)
Adjusted cash flow from operations	**$**	**10,310**	$	10,859	**$**	**19,074**	$	20,981

Shareholders' equity per share

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

OUTLOOK

We remain positive for the global economy and constructive equity markets into 2018. However, we are cognizant of the risk that rising interest rates will pose. We have been bullish since the 4th quarter of 2012, the underlying premise of our bullishness being that stocks were inexpensive relative to interest rates and would benefit from P/E multiple expansion, as the memory of the financial crisis faded. We are now in the first real period of tightening since the financial crisis. We will monitor interest rates and the shape of the yield curve. Rising short-term interest rates will begin to impact economic growth, and a negative yield curve (short rates higher than long rates) often portends a coming recession; both factors tend to signal declining earnings to come. Despite the growing risk that rising interest rates will pose, our belief, on balance, is that there is still some room for this aging bull market to run. Volatility is showing signs of increasing, as would be expected in an environment where corporate profit growth is competing against tightening monetary policy to determine the level and direction of equity valuations. There may be many small-to-medium sized equity corrections while this race is taking place, given that the dynamics of rising rates and their eventual impact on the economy and earnings are difficult to predict.

We are increasingly concerned that a global trade war may break out. In this eventuality, the stock market could have a sizeable correction or even enter a bear market as trade wars, instead of interest rates, could end the economic cycle. We are more concerned of a trade war breaking out now than we were at the end of the first quarter. A tit-for-tat imposition of tariffs could derail our expectation that China would muddle its way through a soft-landing. For the time being, however, we anticipate that the secure growth footing underlying the U.S. economy will help drive earnings in both the U.S. and Canada. Another concern is the timing of U.S. tax cuts. While tax cuts are great for earnings, they are occurring at a time when the U.S. economy is already at close to full employment and relatively high capacity utilization. Fiscal stimulus, at this point in the cycle, will make the engineering of a benign slowdown more difficult for the Federal Reserve. As well, rising deficits, combined with the Federal Reserve letting their bond holdings mature (rather than replacing them – the end of quantitative easing) could create supply-driven upward pressure on rates, increasing the attractiveness of bond holdings and creating competition with equity ownership.

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 other non-Canadian assets, our overall exposure to Canadian equities remains high. 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 Alta, our Toronto based Systematic team, a small but growing contribution from our UK-based global team and our strong presence in fixed income markets, Canadian equities are now significantly less than half of our institutional 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 do, however have a place in the investment portfolios of Canadian residents and can add to the diversification of any worldwide portfolio. We remain committed to 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 test 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 total ownership exposure in Canadian equities in general.

Another benefit of our balance sheet is to enable us to consider growth through acquisition opportunities. Much of our focus in 2018 will be 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 will continue to monitor and evaluate the market in order to explore options to expand our investment capabilities.

Guardian's Financial Advisory subsidiary, Worldsource Wealth Management ("WWM"), has become a meaningful generator of revenue and operating earnings for us over the past few years. IDC WIN 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 that are attractive to our partners throughout WWM. Our longer-term plan for WWM includes continuing to improve our in-house managed investment offering and increasing our assets under management administered by our WWM partners.

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.