Guardian

Guardian Capital Group Limited

Report to Shareholders

Second Quarter 2018

June 30, 2018

TO OUR SHAREHOLDERS:

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

For the periods ended June 30	**Three months**		**Six months**	
($ in thousands, except per share amounts)	**2018**	2017	**2018**	2017
Net revenue	**$ 42,924**	$ 37,208	**$ 84,440**	$ 75,826
Operating earnings	**11,302**	12,160	**21,806**	24,618
Net gains (loss)[2]	**20,800**	(3,603)	**4,868**	22,977
Net earnings (loss) attributable to shareholders[2]	**25,385**	7,242	**19,177**	40,527
EBITDA[1]	**$ 13,313**	$ 13,470	**$ 25,784**	$ 26,776
Adjusted cash flow from operations[1]	**10,310**	10,859	**19,074**	20,981
Per share:				
Net earnings (loss) attributable to shareholders[2]	**$ 0.90**	$ 0.25	**$ 0.68**	$ 1.39
EBITDA[1]	**0.47**	0.46	**0.91**	0.92
Adjusted cash flow from operations[1]	**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 holdings of securities	**670**	652	627
Per share:			
Shareholders' equity[1]	**$ 22.74**	$ 21.88	$ 20.54
Fair value of corporate holdings of securities[1]	**23.63**	22.49	21.35

Summary

The Company's operating earnings for the quarter ended June 30, 2018 were $11.3 million, compared to $12.2 million during the same quarter in the prior year. The total revenue increased to $42.9 million in the current quarter, $5.7 million higher than $37.2 million in the same quarter in the prior year. Both the management fee income and commission revenue increased compared to the prior year. Included in the management fee income this quarter is $4.5 million contribution from the recently acquired Alta business, accounting for substantially all of the increased management fee income compared to the prior year. Substantially all of the increase in commission revenue was contributed by the MGA business through its organic growth and successful recruitment of new advisors.

The expenses for the quarter were higher than the prior year by $6.6 million. Included in the current quarter's expenses were increased expenses related to the new technology platform and a further one-time expense related to its implementation in the Dealers business, operating expenses of Alta and the associated amortization and interest expenses and general growth in expenses to support the growth of our businesses. The impact of the one-time technology platform implementation cost to the Company's operating earnings was approximately $1.0 million.

The adoption of IFRS 9 by the Company on January 1, 2018, introduced significant volatility to net gains (losses). 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 $20.8 million being recorded in the current quarter, compared to net losses of $3.6 million in the prior year.

As a result of the net gains described above, the Company is reporting net earnings attributable to shareholders in the current quarter of $25.4 million, compared to net earnings attributable to shareholders of $7.2 million in the prior year.

The Company's AUM was $29.7 billion as at June 30, 2018, compared to $27.3 billion at the end of 2017 and $26.4 billion as at June 30, 2017. The increase in AUM is due largely to the addition of assets managed by Alta in 2018, positive financial market performance, partially offset by outflow of assets. The Company's assets under administration were $18.0 billion as at June 30, 2018, compared to $17.8 billion at the end of 2017 and $17.1 billion as at June 30, 2017.

EBITDA[1] for the current quarter was $13.3 million, or $0.47 per share, compared to $13.5 million, or $0.46 per share for 2017. Adjusted cash flow from operations[1] for the current quarter was $10.3 million, or $0.37 per share, compared to $10.9 million, or $0.37 per share for 2017.

The Company's shareholders' equity as at June 30, 2018 was $645 million, or $22.74 per share[1], compared to $634 million, or $21.88 per share[1] as at December 31, 2017, and $603 million, or $20.54 per share[1], as at June 30, 2017. The fair value of the Company's Securities as at June 30, 2018 was $670 million, or $23.63 per share[(1)], compared to $652 million, or $22.49 per share[(1)], as at December 31, 2017, and $627 million or $21.35 per share[(1)], as at June 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 and Outlook

In the second quarter, the S&P/TSX Composite generated a total return of 6.8%, with a cumulative return of 10.4% for the trailing twelve-month period. The S&P 500 generated a total return of 3.4% during the quarter, with a cumulative return of 14.4% for the trailing period. Over the course of the quarter, markets were volatile as they made numerous peaks and troughs and made a run at the highs of the year during the second quarter, but fell short on a pickup in trade war rhetoric. Tech industry-focused stocks continue to lead the market, but energy companies outperformed in the second quarter on the back of rising energy prices. Globally, most major developed markets had positive returns, with nearly half outperforming the S&P 500. However, emerging markets generally had poor performance, with most having negative returns. As we enter the tenth year of economic expansion, many feel that the next recession must be on the horizon. However, GDP growth in the US is expected to be greater than 3% in the second quarter and near the 3% mark for the full year. Unemployment rates continued to improve in most major economies, and remain at cycle lows.

Guardian's core business continues to be Investment Management. The headwinds faced by Canadian domestic asset managers over the past number of years continue, with Canadian equity weightings being reduced by many institutional investors. Over the past twenty years, we have seen institutional investor asset allocation to Canadian equities reduced toward the low teens or even single-digit percentage allocations. The executive team at Guardian is constantly considering this challenge and making investments that we feel will be able to withstand the challenges we face, and indeed flourish. Our primary goal over the last few years has been to diversify our investment management capabilities beyond our core Canadian competency. With the recent acquisition of US-based Alta Capital Management, alongside our organically built Global Systematic investment team in Toronto and Fundamental Global and Emerging Market Equity team in London, UK, we have built a meaningful amount of assets under management in non-Canadian investments. 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 the platforms in the foreseeable 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 been broadening 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, Continental Europe and the Far East. Institutionally, we have greater appeal to investors across the globe, due to our successful investment teams and solutions added over the last several years. In the retail intermediary market, we are looking to increase penetration of our products in the US taking advantage of the roster of broker dealer partners brought to us by Alta, who were very successful in building such partnerships. In the private client market, Guardian continues to attract new clients, and more importantly, experience 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 the recent acquisition in the US. 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 second quarter, our Investment Management Segment delivered operating earnings of $6.5 million, a meaningful improvement over the prior year, mostly attributable to a very strong quarter from our recently-acquired US equity business. Improvements were also seen in key financial metrics at our UK operations, as new client assets continue to flow, although not yet enough to make a significant impact on the overall results of the Company. Our core Canadian investment management operation continues to experience net redemptions, but at levels much reduced from the first quarter and our performance, relative to our benchmarks, has shown some improvement. The growth drivers for our Investment Management Segment in the near term will likely be from the increased interest in our non-Canadian offerings. Worldsource, our Financial Advisory Segment, essentially serves two distinct type of independent financial advisors across Canada. It operates both a mutual fund and securities dealership (Dealers) which largely focus on independent financial advisors offering investment advice to their clients, and it also operates a Managing General Agency (MGA) which is focused on servicing independent life insurance advisors. The Dealers had good organic and market-assisted growth in its assets under administration but the unit was a slight negative contributor to operating earnings as our mutual fund business was adversely affected by some post implementation challenges related to our new leading-edge core technology platform. In the current quarter, we incurred approximately $1.0 million in additional one-time costs related to the implementation. 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. Our MGA, IDC WIN, had a strong quarter with over $35 Million of new life insurance premiums put in force and new segregated fund deposits exceeding $110 million. Strong recruitment of advisors focused on the ultra-high net worth market continued. IDC WIN exhibited very strong growth over the same quarter in 2017 and came very close to equaling last year's 6 month results despite the unusually strong Q1 2017 results discussed in previous quarters. Part of the increase in quarter-over-quarter results is a reflection of our success in recruiting high-end advisors, and acquiring relatively long tail of associated service fees, but we are also benefitting from healthy levels of sales and recurring revenues from long standing advisors associated with our MGA. We continue to be pleased at the growth in this business, both from organic growth in new policies and advisor recruitment. We are also proud to say that IDC WIN has once again been highlighted as the top MGA in Canada ranked by several measures of advisor satisfaction. Despite the temporary challenges at our mutual fund dealership in the quarter, the Financial Advisory segment contributed $2.1 million in operating earnings in Q2, representing roughly 19% of the Company's total operating earnings in the quarter and is well positioned to generate improved results in this metric in the coming quarters..

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 a fair market value of $375 million. This holding represents approximately 56% of our total corporate marketable securities portfolio, down from 57% at year-end and 59% a year earlier, with the remaining portfolio largely allocated to global equities. . Despite some volatility in this quarter, global equity markets trended upwards, with our portfolio growing to a value of $670 million at the end of the current quarter, up from $652 million at year-end and $627 million a year earlier.

Recently, we have contemplated enhancing 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. We continue to see investment management firms that are seeking a strategic owner, due to their own succession issues or challenges to achieve 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 $20 million to shareholders by repurchasing and cancelling 511,000 shares in the first quarter and paid out nearly $3.5 million in dividends this quarter and $6.3 million year to date. In February, we announced our intention to increase our quarterly dividend from $0.10 per share to $0.125 per share, an increase of 25%, which were paid in April and July 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 October 18, 2018 to the shareholders of record on October 11, 2018.

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,

August 9, 2018

(signed) "James Anas"

Chairman of the Board

(signed) "George Mavroudis"

President and Chief Executive Officer

CONSOLIDATED BALANCE SHEETS (Unaudited)

As at *($ in thousands)*	June 30 2018	Restated (note 2b) December 31 2017
ASSETS		
Current assets		
Cash	$ 39,508	$ 48,887
Interest-bearing deposits with banks	52,996	52,637
Accounts receivable and other	44,073	39,087
Receivables from clients and broker	43,259	63,366
Securities backing third party investor liabilities (note 3)	7,308	5,688
	187,144	209,665
Securities (note 4)	670,190	652,176
Other assets		
Deferred tax assets	1,561	1,557
Intangible assets	119,933	29,575
Equipment	5,285	4,497
Goodwill	46,735	15,014
	173,514	50,643
Total assets	$ 1,030,848	$ 912,484
LIABILITIES		
Current liabilities		
Bank loans and borrowings (note 5)	$ 144,362	$ 55,859
Third party investor liabilities (note 3)	7,308	5,688
Client deposits	51,805	52,653
Accounts payable and other	35,279	41,011
Income taxes payable	898	1,333
Payable to clients	43,259	63,366
	282,911	219,910
Other liabilities (note 6)	22,736	--
Deferred tax liabilities	65,150	51,370
Total liabilities	370,797	271,280
EQUITY		
Shareholders' equity		
Capital stock (note 7a and 7b)	19,500	19,871
Treasury stock (note 8a)	(25,523)	(23,764)
Contributed surplus	16,324	15,882
Retained earnings	615,966	617,179
Accumulated other comprehensive income	18,689	5,248
	644,956	634,416
Other equity interests	15,095	6,788
Total equity	660,051	641,204
Total liabilities and equity	$ 1,030,848	$ 912,484

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Unaudited)

For the periods ended June 30	**Three months**		**Six months**	
($ in thousands, except per share amounts)	**2018**	2017 (note 2b)	**2018**	2017 (note 2b)
Revenue				
Gross commission revenue	**$ 35,414**	$ 33,279	**$ 70,134**	$ 67,245
Commissions paid to advisors	**(24,202)**	(23,351)	**(48,515)**	(45,858)
	11,212	9,928	**21,619**	21,387
Management fee income, net (note 9)	**22,248**	17,685	**44,504**	35,649
Administrative services income	**3,308**	3,408	**6,742**	7,112
Dividend and interest income (note 10)	**6,156**	6,187	**11,575**	11,678
Net revenue	**42,924**	37,208	**84,440**	75,826
Expenses				
Employee compensation and benefits	**17,574**	15,419	**36,675**	31,638
Amortization	**2,408**	1,052	**4,674**	2,078
Interest	**811**	187	**1,431**	395
Other expenses	**10,829**	8,390	**19,854**	17,097
	31,622	25,048	**62,634**	51,208
Operating earnings	**11,302**	12,160	**21,806**	24,618
Net gains (losses) (note 11)	**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
Other comprehensive income (loss)				
Net change in foreign currency translation on foreign subsidiaries	**859**	(6,875)	**14,567**	(7,777)
Comprehensive income	**$ 27,104**	$ 618	**$ 35,533**	$ 33,516
Net earnings attributable to:				
Shareholders	**$ 25,385**	$ 7,242	**$ 19,177**	$ 40,527
Non-controlling interests	**860**	251	**1,789**	766
	$ 26,245	$ 7,493	**$ 20,966**	$ 41,293
Net earnings attributable to shareholders per Class A and Common share (note 12)				
Basic	**$ 0.95**	$ 0.26	**$ 0.71**	$ 1.47
Diluted	**0.90**	0.25	**0.68**	1.39
Comprehensive income attributable to:				
Shareholders	**$ 25,802**	$ 367	**$ 32,618**	$ 32,750
Non-controlling interests	**1,302**	251	**2,915**	766
Comprehensive income	**$ 27,104**	$ 618	**$ 35,533**	$ 33,516

CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

For the periods ended June 30 ($ in thousands)	Three months 2018	Three months 2017 (note 2b)	Six months 2018	Six months 2017 (note 2b)
Total equity, beginning of period	$ 654,550	$ 610,847	$ 641,204	$ 585,470
Shareholders' equity, beginning of period	623,493	605,039	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	(25,645)	(24,627)	(23,764)	(22,342)
Acquired (note 8a)	--	--	(2,255)	(2,300)
Disposed of (note 8a)	122	419	496	434
Treasury stock, end of period	(25,523)	(24,208)	(25,523)	(24,208)
Contributed surplus, beginning of period	16,061	14,394	15,882	13,972
Stock-based compensation expense	285	516	814	948
Redemption of equity-based entitlements	(22)	(42)	(372)	(52)
Contributed surplus, end of period	16,324	14,868	16,324	14,868
Retained earnings, beginning of period	595,305	573,981	617,179	546,259
Net earnings (loss)	25,385	7,242	19,177	40,527
Dividends declared and paid (note 7d)	(3,481)	(2,881)	(6,317)	(5,337)
Capital stock acquired and cancelled (note 7c)	--	--	(12,830)	(3,107)
Acquisition of non-controlling interests (note 17)	(1,243)	--	(1,243)	--
Net gain on treasury stock	--	10	--	10
Retained earnings, end of period	615,966	578,352	615,966	578,352
Accumulated other comprehensive income, beginning of period	18,272	21,118	5,248	22,020
Other comprehensive income (loss)	417	(6,875)	13,441	(7,777)
Accumulated other comprehensive income, end of period	18,689	14,243	18,689	14,243
Shareholders' equity, end of period	644,956	603,428	644,956	603,428
Other equity interests, beginning of period	15,821	5,808	6,788	5,293
Non-controlling interests, beginning of period	31,057	5,808	6,788	5,293
Net earnings	860	251	1,789	766
Other comprehensive income	442	--	1,126	--
Dividends declared and paid	(653)	--	(653)	--
Acquisition of non-controlling interests (note 17)	(639)	--	(639)	--
Acquisition of subsidiary (note 16)	--	--	22,656	--
Non-controlling interests, end of period	31,067	6,059	31,067	6,059
Obligations to non-controlling interests, beginning of period	(15,236)	--	--	--
On acquistion of subsidiary (note 6)	--	--	(14,404)	--
Change during period	(736)	--	(1,568)	--
Obligations to non-controlling interests, end of period	(15,972)	--	(15,972)	--
Other equity interests, end of period	15,095	6,059	15,095	6,059
Total equity, end of period	$ 676,023	$ 609,487	$ 676,023	$ 609,487

CONSOLIDATED STATEMENTS OF CASH FLOW (Unaudited)

For the periods ended June 30	**Three months**		**Six months**	
($ in thousands)	**2018**	2017 (note 2b)	**2018**	2017 (note 2b)
Operating activities				
Net earnings	**$ 26,245**	$ 7,493	**$ 20,966**	$ 41,293
Adjustments for:				
Income taxes paid	**(2,371)**	(2,690)	**(5,900)**	(5,925)
Income tax expense	**5,857**	1,064	**5,708**	6,302
Net (gains) losses	**(20,800)**	3,603	**(4,868)**	(22,977)
Amortization of intangible assets	**2,172**	861	**4,213**	1,708
Amortization of equipment	**236**	191	**461**	370
Stock-based compensation	**285**	516	**814**	948
Other non-cash expenses	**15**	(16)	**132**	78
	11,639	11,022	**21,526**	21,797
Net change in non-cash working capital items (note 14)	**5,238**	3,519	**(10,030)**	(7,642)
Net cash from operating activities	**16,877**	14,541	**11,496**	14,155
Investing activities				
Net (acquisition) disposition of securities	**1,442**	(905)	**306**	8,760
Net acquisition of securities backing third party investor liabilities	**610**	(17,331)	**680**	(36,069)
Income taxes paid	**(1,426)**	--	**(2,852)**	(5,705)
Acquisition of intangible assets	**(21,762)**	(412)	**(24,100)**	(1,131)
Acquisition of equipment	**(1,060)**	(259)	**(1,212)**	(550)
Disposition of intangible assets	**219**	426	**1,238**	913
Acquisition of subsidiary (note 16)	**--**	--	**(56,327)**	425
Net cash used in investing activities	**(21,976)**	(18,481)	**(82,267)**	(33,357)
Financing activities				
Dividends paid to shareholders	**(3,481)**	(2,881)	**(6,317)**	(5,337)
Dividends paid to non-controlling interests	**(653)**	--	**(653)**	--
Acquisition and cancellation of capital stock	**--**	--	**(13,201)**	(3,202)
Acquisition of treasury stock	**--**	--	**(2,255)**	(2,300)
Disposition of treasury stock	**122**	429	**496**	444
(Net repayment) draw of bank loan and bankers acceptances	**15,137**	(6,456)	**100,658**	(12,406)
Net subscriptions from third party investors	**(610)**	17,331	**(680)**	36,069
Acquisition of non-controlling interests	**(1,882)**	--	**(1,882)**	--
Net cash from financing activities	**8,633**	8,423	**76,166**	13,268
Foreign exchange				
Net effect of foreign exchange rate changes on cash balances	**9**	(566)	**200**	(818)
Net change in net cash	**3,544**	3,917	**5,596**	(6,752)
Net cash, beginning of period	**33,180**	27,305	**31,128**	37,974
Net cash, end of period	**$ 36,724**	$ 31,222	**$ 36,724**	$ 31,222
Net cash represented by:				
Cash			**$ 39,508**	$ 46,176
Net bank indebtedness			**(2,784)**	(14,954)
			$ 36,724	$ 31,222

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 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. Accordingly, certain information and disclosure normally included in annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed in these consolidated interim financial statements. These consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 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 August 9, 2018.

(b) Changes in Accounting Policies

(i) Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9 - *Financial Instruments* ("IFRS 9"), which replaces IAS 39 - *Financial Instruments*: *Recognition and Measurement*, 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 held 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 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)**	**June 30, 2018**	December 31, 2017	January 1, 2017
Increase (decrease) in the reported amounts under IFRS 9 compared to IAS 39:			
Retained earnings	**$ 233,488**	$ 221,717	$ 218,590
Accumulated other comprehensive income	**(233,488)**	(221,717)	(218,590)
Shareholders' equity	**$ --**	$ --	$ --

For the periods June 30 **($ in thousands)**	Three months **2018**	Three months 2017	Six months **2018**	Six months 2017
Increase (decrease) in the reported amounts under IFRS 9 compared to IAS 39:				
Net gains (losses)	**$ 26,353**	$ (14,386)	**$ 13,824**	$ (5,395)
Earnings (loss) before income taxes	**26,353**	(14,386)	**13,824**	(5,395)
Income tax expense (recovery)	**4,071**	(2,241)	**2,053**	(1,532)
Net earnings (loss)	**22,282**	(12,145)	**11,771**	(3,863)
Net earnings (loss) attributable to shareholders	**22,282**	(12,145)	**11,771**	(3,863)
Other comprehensive income (loss)	**(22,282)**	12,145	**(11,771)**	3,863
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 period, 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 $261 related to new revenue streams secured during the current quarter. Under the previous standards, the Company would have recognized employee compensation costs of approximately $65.

(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 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 the Company's leases did not result in the recognition of an asset or a lease obligation. In addition, under IAS 17, the Company'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 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 would 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 year 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 interest 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 interest in the consolidated funds. The liabilities are payable on redemption of the units of the funds by the third party investors and will be settled with the proceeds from the disposition of securities backing third party investor liabilities. The value of the liabilities is equal to and varies with the value of the securities backing third party investor liabilities. 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	June 30 2018	December 31 2017
Fair value through profit or loss:		
Short-term securities (i)	$ --	$ 9,810
Fixed-income securities (i)	21,220	19,328
Bank of Montreal common shares (ii)	375,846	372,146
Other equity securities (i)	248,552	237,347
Real estate fund (iii)	14,572	13,545
	660,190	652,176
Amortized cost securities (iv)	10,000	--
	$ 670,190	$ 652,176

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

(ii) During the three and six months ended June 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) Subsequent to quarter-end, 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		June 30 2018		December 31 2017
Level 1	$	592,086	$	586,130
Level 2		55,478		54,141
Level 3		12,626		11,905
	$	660,190	$	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 June 30		Three months				Six months		
		2018		2017		2018		2017
Securities categorized as Level 3, beginning of period	$	12,691	$	13,675	$	11,905	$	12,367
Increase (decrease) in fair value		(65)		941		721		2,249
Securities categorized as Level 3, end of period	$	12,626	$	14,616	$	12,626	$	14,616

5. BANK LOANS AND BORROWINGS

Bank loans and borrowings are composed of the following:

As at		June 30 2018		December 31 2017
Bank indebtedness	$	2,784	$	17,759
Bankers' acceptances payable (i)		141,578		38,100
	$	144,362	$	55,859

i) The Bankers' acceptances payable include $45,000 USD borrowed on January 2, 2018 to finance the acquisition, as described in note 16, of a Utah-based investment management firm. Subsequent to quarter-end, the USD borrowings were reduced to $43,400.

6. OTHER LIABILITIES

Other liabilities are comprised of the following:

As at		June 30 2018		December 31 2017
Deferred payment (i)	$	6,440	$	--
Obligations to non-controlling interests (ii)		16,296		--
	$	22,736	$	--

i) The amount represents a deferred payment arising from the January 2, 2018 acquisition, as described in note 16, of a U.S.-based investment management firm. The amount is an estimated present value of the US dollar 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 out of 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 the 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 and this resulted in a $7,192 reduction of the initial obligations, which was recognized and previously reported. These obligations relate to potential future transactions between equity interests, therefore 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 June 30	2018 Shares	2018 Amount	2017 Shares	2017 Amount
Class A shares				
Outstanding, beginning of period	25,823	$ 18,729	26,554	$ 19,335
Acquired and cancelled	--	--	--	--
Outstanding, end of period	25,823	18,729	26,554	19,335
Common shares				
Outstanding, beginning of period	3,189	771	3,469	838
Acquired and cancelled	--	--	--	--
Outstanding, end of period	3,189	771	3,469	838
Total outstanding, end of period	29,012	$ 19,500	30,023	$ 20,173

For the six months ended June 30	2018 Shares	2018 Amount	2017 Shares	2017 Amount
Class A shares				
Outstanding, beginning of period	26,334	$ 19,100	26,686	$ 19,430
Acquired and cancelled	(511)	(371)	(132)	(95)
Outstanding, end of period	25,823	18,729	26,554	19,335
Common shares				
Outstanding, beginning of period	3,189	771	3,469	838
Acquired and cancelled	--	--	--	--
Outstanding, end of period	3,189	771	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 June 30	Three months 2018	Three months 2017	Six months 2018	Six months 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 June 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 June 30	Three months 2018	Three months 2017	Six months 2018	Six months 2017
Dividends declared and paid, per share	$ 0.125	$ 0.100	$ 0.225	$ 0.185

The Company has also declared dividends of $0.125 per share payable on July 17, 2018 and October 18, 2018, 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 June 30	2018			2017		
	Shares		Amount	Shares		Amount
Balance, beginning of period	2,220	$	25,645	2,282	$	24,627
Disposed	(13)		(122)	(59)		(419)
Balance, end of period	2,207	$	25,523	2,223	$	24,208

For the six months ended June 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	(62)		(496)	(61)		(434)
Balance, end of period	2,207	$	25,523	2,223	$	24,208

During the three and six months ended June 30, 2018, the Company disposed of 13 and 62 (2017 – 59 and 61) shares of the treasury stock respectively for proceeds equal to their cost.

As at June 30, 2018, the treasury stock was composed of 30 common shares (2017 – 32) and 2,177 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 June 30	Three months		Six months	
	2018	2017	2018	2017
Equity-based entitlements, beginning of period	1,055	1,018	1,011	928
Provided	--	--	91	92
Exercised	(2)	(2)	(49)	(4)
Forfeited	--	(1)	--	(1)
Equity-based entitlements, end of period	1,053	1,015	1,053	1,015

During the three and six months ended June 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 June 30	2018			2017		
	Shares		Weighted average exercise price	Shares		Weighted average exercise price
Option-like entitlements, beginning of period	1,165	$	9.62	1,264	$	9.49
Exercised	(11)		9.69	(56)		6.57
Option-like entitlements, end of period	1,154	$	9.62	1,208	$	9.63

For the six months ended June 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	(13)		9.69	(56)		6.57
Option-like entitlements, end of period	1,154	$	9.62	1,208	$	9.63

During the three and six months ended June 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 June 30	Three months		Six months	
	2018	2017	**2018**	2017
Management fee income, gross	**$ 23,832**	$ 18,803	**$ 47,558**	$ 37,833
Less: fees paid to referring agents	**(1,584)**	(1,118)	**(3,054)**	(2,184)
	$ 22,248	$ 17,685	**$ 44,504**	$ 35,649

10. DIVIDEND AND INTEREST INCOME

Dividend and interest income is composed of the following:

For the periods ended June 30	Three months		Six months	
	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

11. NET GAINS (LOSSES)

Net gains (losses) are composed of the following:

For the periods ended June 30	Three months		Six months	
	2018	2017 (note 2b)	**2018**	2017 (note 2b)
Securities held at fair value through profit or loss(i)	**$ 21,906**	$ (4,017)	**$ 7,477**	$ 22,325
On disposal of intangible assets	**124**	200	**605**	382
Foreign exchange (iii)	**(1,230)**	214	**(3,214)**	270
	$ 20,800	$ (3,603)	**$ 4,868**	$ 22,977

(i) Net gains (losses) are a result of both, 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 individual 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 June 30	Three months		Six months	
	2018	2017	**2018**	2017
Weighted average number of Class A and common shares outstanding:				
Basic	**26,796**	27,569	**26,885**	27,569
Effects of outstanding entitlements from stock-based compensation plans	**1,566**	1,646	**1,596**	1,638
	28,362	29,215	**28,481**	29,207
Net earnings available to shareholders:				
Basic	**$ 25,385**	$ 7,242	**$ 19,177**	$ 40,527
Effects of outstanding entitlements from stock-based compensation plans	**98**	62	**186**	123
	$ 25,483	$ 7,304	**$ 19,363**	$ 40,650

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 June 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	$ --	$ --	$ 35,949	$ 33,516	$ --	$ --	$ (535)	$ (237)	$ 35,414	$ 33,279
Commissions paid to advisors	--	--	(24,202)	(23,351)	--	--	--	--	(24,202)	(23,351)
	--	--	11,747	10,165	--	--	(535)	(237)	11,212	9,928
Management fee income, net	22,085	17,784	--	--	--	--	163	(99)	22,248	17,685
Administrative services income	1,592	1,441	1,703	1,955	13	12	--	--	3,308	3,408
Dividend and interest income	132	134	500	182	5,350	5,840	174	31	6,156	6,187
Net revenue	23,809	19,359	13,950	12,302	5,363	5,852	(198)	(305)	42,924	37,208
Expenses										
Employee compensation and benef	10,198	8,734	4,854	4,449	2,522	2,236	--	--	17,574	15,419
Amortization	1,253	96	1,038	843	117	113	--	--	2,408	1,052
Interest	40	12	107	--	737	175	(73)	--	811	187
Other expenses	5,836	5,335	5,845	4,034	(727)	(674)	(125)	(305)	10,829	8,390
	17,327	14,177	11,844	9,326	2,649	1,850	(198)	(305)	31,622	25,048
Operating earnings	6,482	5,182	2,106	2,976	2,714	4,002	--	--	11,302	12,160
Net gains (losses)	1,623	141	125	199	19,052	(3,943)	--	--	20,800	(3,603)
Net earnings before income taxes	8,105	5,323	2,231	3,175	21,766	59	--	--	32,102	8,557
Income tax expense	1,887	1,661	524	895	3,446	(1,492)	--	--	5,857	1,064
Net earnings	$ 6,218	$ 3,662	$ 1,707	$ 2,280	$ 18,320	$ 1,551	$ --	$ --	$ 26,245	$ 7,493
Net earnings attributable to:										
Shareholders	$ 5,699	$ 3,662	$ 1,366	$ 2,029	$ 18,320	$ 1,551	$ --	$ --	$ 25,385	$ 7,242
Non-controlling interests	519	--	341	251	--	--	--	--	860	251
	$ 6,218	$ 3,662	$ 1,707	$ 2,280	$ 18,320	$ 1,551	$ --	$ --	$ 26,245	$ 7,493
Additions to segment assets:										
Intangible assets	$ 47	$ --	$ 21,762	$ 412	$ 0	$ --	$ --	$ --	$ 21,809	$ 412
Equipment	12	2	1,008	36	40	221	--	--	1,060	259

For the six months ended June 30	Investment Management 2018	Investment Management 2017	Financial Advisory 2018	Financial Advisory 2017	Corporate Activities and Investments 2018	Corporate Activities and Investments 2017	Inter-Segment Transactions 2018	Inter-Segment Transactions 2017	Consolidated 2018	Consolidated 2017
Revenue										
Gross commission revenue	$ --	$ --	$ 71,155	$ 67,677	$ --	$ --	$ (1,021)	$ (432)	$ 70,134	$ 67,245
Commissions paid to advisors	--	--	(48,515)	(45,858)	--	--	--	--	(48,515)	(45,858)
	--	--	22,640	21,819	--	--	(1,021)	(432)	21,619	21,387
Management fee income, net	44,206	35,739	--	--	--	--	298	(90)	44,504	35,649
Administrative services income	3,089	3,040	3,628	4,047	25	25	--	--	6,742	7,112
Dividend and interest income	196	212	845	350	10,114	11,061	420	55	11,575	11,678
Net revenue	47,491	38,991	27,113	26,216	10,139	11,086	(303)	(467)	84,440	75,826
Expenses										
Employee compensation and benef	21,761	17,969	9,674	9,036	5,240	4,633	--	--	36,675	31,638
Amortization	2,496	188	1,945	1,675	233	215	--	--	4,674	2,078
Interest	93	24	130	20	1,281	371	(73)	(20)	1,431	395
Other expenses	11,268	10,755	10,400	8,155	(1,584)	(1,366)	(230)	(447)	19,854	17,097
	35,618	28,936	22,149	18,886	5,170	3,853	(303)	(467)	62,634	51,208
Operating earnings	11,873	10,055	4,964	7,330	4,969	7,233	--	--	21,806	24,618
Net gains (losses)	(286)	179	607	380	4,547	22,418	--	--	4,868	22,977
Net earnings (loss) before income taxes	11,587	10,234	5,571	7,710	9,516	29,651	--	--	26,674	47,595
Income tax expense	3,188	2,827	1,449	2,173	1,071	1,302	--	--	5,708	6,302
Net earnings	$ 8,399	$ 7,407	$ 4,122	$ 5,537	$ 8,445	$ 28,349	$ --	$ --	$ 20,966	$ 41,293
Net earnings attributable to:										
Shareholders	$ 7,309	$ 7,407	$ 3,423	$ 4,771	$ 8,445	$ 28,349	$ --	$ --	$ 19,177	$ 40,527
Non-controlling interests	1,090	--	699	766	--	--	--	--	1,789	766
	$ 8,399	$ 7,407	$ 4,122	$ 5,537	$ 8,445	$ 28,349	$ --	$ --	$ 20,966	$ 41,293
Additions to segment assets:										
Intangible assets	$ 66,576	$ --	$ 24,090	$ 1,131	$ 10	$ --	$ --	$ --	$ 90,676	$ 1,131
Equipment	58	26	1,034	40	120	484	--	--	1,212	550

As at June 30, 2018 and December 31, 2017	Investment Management 2018	Investment Management 2017	Financial Advisory 2018	Financial Advisory 2017	Corporate Activities and Investments 2018	Corporate Activities and Investments 2017	Inter-Segment Transactions 2018	Inter-Segment Transactions 2017	Consolidated 2018	Consolidated 2017
Assets and liabilities:										
Assets	$ 210,710	$ 90,457	$ 140,676	$ 144,393	$ 739,656	$ 720,020	$ (60,194)	$ (42,386)	$1,030,848	$ 912,484
Liabilities	102,888	71,647	123,263	128,956	204,840	113,063	(60,194)	(42,386)	370,797	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 2018	Canada 2017	Rest of the World 2018	Rest of the World 2017	Inter-Segment Transactions 2018	Inter-Segment Transactions 2017	Consolidated 2018	Consolidated 2017
For the three months ended June 30								
Net revenue	$ 34,561	$ 32,864	$ 8,400	$ 4,443	$ (37)	$ (99)	$ 42,924	$ 37,208
For the six months ended June 30								
Net revenue	$ 68,694	$ 68,360	$ 16,023	$ 7,897	$ (277)	$ (431)	$ 84,440	$ 75,826
As at June 30, 2018 and December 31, 2017								
Non-current assets:								
Intangible assets	$ 51,566	$ 28,683	$ 68,367	$ 892	$ --	$ --	$ 119,933	$ 29,575
Equipment	4,573	3,823	712	674	--	--	5,285	4,497
Goodwill	13,826	13,826	32,909	1,188	--	--	46,735	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 June 30	Three months		Six months	
	2018	2017	**2018**	2017
Decrease (increase) in non-cash working capital assets:				
Interest-bearing deposits with banks	**$ 2,591**	$ 14,378	**$ 2,313**	$ 23,304
Accounts receivable and other	**(1,115)**	(1,054)	**(2,957)**	109
Receivables from clients and broker	**5,923**	(12,537)	**20,107**	(5,136)
Increase (decrease) in non-cash working capital liabilities:				
Client deposits	**(2,418)**	(14,352)	**(3,518)**	(23,400)
Accounts payable and other	**6,180**	4,547	**(5,868)**	(7,655)
Payable to clients	**(5,923)**	12,537	**(20,107)**	5,136
	$ 5,238	$ 3,519	**$ (10,030)**	$ (7,642)

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 $375,846 (December 31, 2017 – $372,146) investment in the Bank of Montreal shares, which represents 56% (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 $37,585 (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 June 30, 2018		
Canada	**$ 32,890**	**±$ 3,289**
Rest of World	**230,234**	**23,023**
	$ 263,124	**±$ 26,312**
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 $222,297 (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 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 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 $75. 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 $45,000 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		June 30 2018		December 31 2017
Interest rate sensitive assets:				
Interest-bearing deposits with banks	$	52,996	$	52,637
Fixed-income securities		21,220		19,328
Amortized cost securities		10,000		--
	$	84,216	$	71,965
Interest rate sensitive liabilities:				
Bank loans and borrowings	$	144,362	$	55,859
Client deposits		51,805		52,653
	$	196,167	$	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		June 30 2018		December 31 2017
Cash	$	39,508	$	48,887
Interest-bearing deposits with banks		52,996		52,637
Accounts receivable and other		44,073		39,087
Receivables from clients and broker		43,259		63,366
Short-term securities		--		9,810
Fixed-income securities		21,220		19,328
Amortized cost securities		10,000		--
	$	211,056	$	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. The Company manages the credit risk associated with this investment by reviewing the credit worthiness of the issuer prior to investing in the securities, and thereafter. 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 are managed by monitoring the activities of the portfolio managers who, through diversification and credit quality reviews of the investments, manage the credit risk. The short-term securities are investment-quality securities.

(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. ACQUISTION

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 $62,298 ($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 interest 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 price which is 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 becomes exercisable.

The fair value of the non-controlling interest 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 represents 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 in the non-controlling interest and goodwill being recognized. 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 and 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 June 30, 2018		**Three months**		**Six months**
Net revenues	$	4,531	$	9,132
Net earnings		1,286		2,865
Net earnings attributable to shareholders		766		1,774

Included in the net earnings is $1,121 of amortization expense related to the intangible assets described in the above table.

17. ACQUISITION OF NON-CONTROLLING INTERESTS

During the quarter, 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 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 *($ in thousands)*	Three months 2018	Three months 2017 (restated)	Six months 2018	Six months 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 *($ in thousands, except per share amounts)*	2018 June 30	2017 December 31	2017 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 w orking 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.

GUARDIAN
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Our history. Your future.

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