

MANAGEMENT'S DISCUSSION AND ANALYSIS

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In accordance with securities regulatory requirements, the discussion and analysis which follows for Guardian Capital Group Limited and its subsidiaries and other controlled entities ("Guardian") pertains to the three months ended March 31, 2018 and the comparative period 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 May 10, 2018.

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

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

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

OVERVIEW OF GUARDIAN'S BUSINESS

Guardian is a diversified financial services company, which serves the wealth management needs of a range of clients through its various business segments. The areas in which Guardian operates are: institutional and private wealth investment management; financial advisory, which includes an insurance managing general agency ("MGA"), a mutual fund dealer and a securities dealer (together, the "Dealers"); and corporate activities and investments. Guardian is headquartered in Canada and operates in Canada, the United Kingdom, the United States and the Caribbean. As at March 31, 2018, Guardian had \$29.5 billion of investment management assets under management ("AUM") and \$17.6 billion of financial advisory assets under administration ("AUA"). Included in the AUM figure above are \$4.2 billion (\$3.2 billion USD) managed by Alta Capital Management, LLC ("Alta"), a 70% owned Utah-based investment management subsidiary, acquired on January 2, 2018. In addition, Guardian has a diversified portfolio of securities which had a fair value of approximately \$648 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 24 of this report, a description of how these measures are defined by Guardian is provided, with reconciliations to their most comparable IFRS measures.

HIGHLIGHTS FOR THE QUARTER ENDED MARCH 31, 2018

On January 2, 2018, Guardian closed the previously announced acquisition of 70% interest in Alta. Consistent with our strategic plan, this acquisition further expands our presence in the US market and diversifies our revenue sources from the current Canadian equity concentration. The acquisition added \$4.2 billion (\$3.2 billion USD) in AUM and increased our non-domestic institutional AUM to 30% of total AUM as at March 31, 2018 from 16% as at December 31, 2017. It also added new high conviction US equity strategies to our product offering and enhanced our ability to market existing Guardian products in the US market through its established distribution network. The current quarter is the first reporting period to include the results of Alta.

Guardian's operating earnings for the quarter ended March 31, 2018 were \$10.5 million, compared to \$12.5 million during the same quarter in the prior year. This decrease in operating earnings was due to several factors. Firstly, the operating earnings contribution from the MGA business decreased in the current quarter by \$1.5 million compared to the prior year. As previously reported, this was largely the result of the prior year's operating earnings being unusually high as insurance sales volumes were higher due to incoming tax changes. Secondly, both the Investment Management and the Financial Advisory Segments incurred increased expenses, which are temporary in nature. The Investment Management Segment incurred a one-time increased expense of approximately \$1 million related to the integration of recently acquired Alta, and the Financial Advisory Segment incurred increased expenses related to the new technology platform to which it upgraded during the quarter. Thirdly, operating earnings decreased by \$0.7 million in the Corporate Activities and Investments Segment, largely due to the deconsolidation of earnings from the Global UCITS fund. Finally, these were partially offset by the operating earnings contribution from Alta of \$1.9 million.

Effective January 1, 2018, Guardian adopted a new accounting standard on *Financial Instruments*, on a retrospective basis. All prior period figures have been restated to reflect the new standard. As described in Guardian's previous disclosures, this new standard introduces significant volatility into the Company's Net gains (losses) and therefore its Net earnings (loss). In reviewing Guardian's results, in addition to considering Net earnings (loss), it may therefore be beneficial for readers to consider other measures, such as operating earnings and EBITDA(1), which provide views of Guardian's results without the volatility introduced by the new standard. As a result of significant unrealized losses on securities, including the Bank of Montreal shares, Guardian recorded \$15.9 million in Net losses in the current quarter, compared to Net gains of \$25.9 million in the prior year. In future periods, similar unrealized gains or losses will continue to be included in Net gains (losses) in arriving at Guardian's Net earnings.

As a result of the Net losses described above, the Company is reporting Net losses attributable to shareholders in the current quarter of \$6.2 million, compared to Net earnings attributable to shareholders of \$33.3 million in the prior year.

During the current quarter, the Dealers business, as part of its strategic plan, completed its initial phase of a technology platform upgrade. This upgraded technology is a key component of the growth plans for this business, providing an enhanced platform for digital capabilities, operational efficiencies and scalability.

CONSOLIDATED FINANCIAL RESULTS

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

For the three months ended March 31 (\$ in thousands, except per share amounts)	2018		Restated (note 2b) 2017	
Net revenue	\$	41,516	\$	38,618
Expenses		31,012		26,160
Operating earnings		10,504		12,458
Net gains (losses) ⁽²⁾		(15,932)		25,871
Net earnings before income taxes		(5,428)		38,329
Income tax expense		(149)		4,529
Net earnings (loss)	\$	(5,279)	\$	33,800
Net earnings (loss) attributable to shareholders ⁽²⁾	\$	(6,208)	\$	33,285
EBITDA		12,471		13,306
Adjusted cash flow from operations		8,764		10,122
Diluted per share amounts				
Net earnings (loss) attributable to shareholders ⁽²⁾	\$	(0.23)	\$	1.14
EBITDA		0.44		0.46
Adjusted cash flow from operations		0.31		0.35
As at				
(\$ in millions, except per share amounts)	2018		2017	
	March 31	December 31	March 31	
Shareholders' equity	624	634	605	
Securities	648	652	636	
Diluted per share				
Shareholders' equity	\$ 21.98	\$ 21.88	\$ 20.58	
Securities	22.84	22.49	21.63	

RESULTS OF OPERATIONS

For the quarter ended March 31, 2018, Guardian's operating earnings were \$10.5 million, down from \$12.5 million reported for the same quarter in 2017. The main drivers of the operating earnings by segment are described below.

The Investment Management Segment's operating earnings in the current quarter were \$5.1 million, compared to \$4.9 million in the same quarter in the prior year. The increase included an operating earnings contribution from Alta of \$1.9 million, offset partially by a one-time expense of \$1 million incurred to integrate Alta into the investment management business, and lower management fee revenue earned in the domestic investment management business, largely as the result of lower average AUM this quarter. The outflow of client assets, mainly in Canadian equity strategies, and negative performance in the Canadian equity market during the current quarter resulted in average domestic equity AUM being lower than in the prior year.

The Financial Advisory Segment's operating earnings in the current quarter were \$2.9 million, compared to \$4.4 million in the same quarter in the prior year. Both the MGA and the Dealers businesses saw their operating earnings decrease, compared to the prior year. The decrease in the MGA's operating earnings was due largely to the current quarter's life insurance sales volumes being at a more historic level, compared to the prior year, when the incoming tax legislation changes increased sales volumes up significantly. In the Dealers business, there were higher expenses related to the technology platform upgrade completed during the current quarter. Certain additional expenditures are expected to continue into the second quarter of 2018.

The Corporate Activities and Investments Segment's operating earnings for the current quarter were \$2.6 million, compared to \$3.2 million during the same quarter in the prior year. The deconsolidation of the Global UCITS fund at the end of 2017 eliminated the dividend income earned in the fund from Guardian's operating earnings. The increased investment into the fund by third-party investors resulted in lower operating earnings for this Segment, but higher management fees earned 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 Highlights for the Quarter Ended March 31, 2018 above, the adoption of IFRS 9 resulted in higher Net losses being recognized this quarter than would have occurred under the previous standard. The decrease in the fair values of the securities, including BMO, resulted in \$15.9 million in Net losses for the current quarter, compared to Net gains of \$25.9 million in the prior year. In future periods, similar unrealized gains and losses will continue to increase volatility in Net gains (losses).

The Net losses on securities of \$15.9 million was partially offset by the operating earnings of \$10.5 million, resulting in Net losses attributable to shareholders of \$6.2 million in the current quarter, compared to Net earnings attributable to shareholder of \$33.3 million in the same quarter in the prior year.

EBITDA for the quarter was \$12.5 million, compared to \$13.3 million in the same period in 2017. The adjusted cash flow from operations for the quarter was \$8.8 million, compared to \$10.1 million in the same period in 2017. The decreases in both measures were largely due to the lower operating earnings in the current quarter, compared to the prior year.

ASSETS UNDER MANAGEMENT AND ADMINISTRATION

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

As at (\$ in millions)	2018 March 31	December 31	2017 March 31
Assets under management			
Institutional			
Canadian equities	\$ 10,539	\$ 12,246	\$ 12,459
Global equities	8,001	3,887	3,627
Fixed income	7,960	8,146	7,846
	26,500	24,279	23,932
Private client	2,957	2,971	3,035
Total assets under management	\$ 29,457	\$ 27,250	\$ 26,967
Assets under administration	\$ 17,601	\$ 17,795	\$ 16,958

The AUM as at March 31, 2018 was \$29.5 billion, an increase of 8% from \$27.3 billion at December 31, 2017, and 10% from \$27.0 billion at March 31, 2017. The increase in AUM in the current quarter was due largely to the inclusion of \$4.2 billion (\$3.2 billion USD) of AUM from Alta, offset partially by the reduction in Canadian equities AUM from net outflows of assets and negative market performance during the quarter. In line with our strategic plan to diversify our revenue sources, the addition of Alta's AUM has increased the non-domestic AUM to 30% of the institutional AUM, compared with 16% as at December 31, 2017.

The AUA at March 31, 2018 was \$17.6 billion, a slight decrease from \$17.8 billion at December 31, 2017, and up from \$17.0 billion as at March 31, 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 March 31, 2018 was \$22.3 million, a 24% increase from \$18.0 million in the same quarter in the prior year. Institutional management fee income earned in the current quarter was \$18.1 million, compared to \$13.9 million a year earlier. The increase in institutional management fee income this quarter was mainly the result of the inclusion of Alta and the increase in management fee earned in our UK investment management business, offset by the decrease in revenue in the domestic investment management business. With the addition of Alta, Guardian's non-domestic management fee revenue reached approximately 50% of the institutional investment management revenue, 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 \$4.2 million, substantially unchanged 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 \$10.4 million, compared to \$11.5 million a year earlier. Within the Segment, the net commission revenue contributed by the Dealers business in the current quarter was \$3.4 million, substantially the same as in the prior year. The net commission revenue contributed by the MGA business in the current quarter was \$7.0 million, compared to \$8.0 million in the same quarter in the prior year. The decrease in net commission revenue was mainly due to the life insurance policy sales volumes returning to a more historic level, compared to the prior year when sales volumes were driven up significantly by incoming income tax changes. The premiums on life insurance policies sold were \$16.6 million in the current quarter, compared to \$29.4 million in the prior year. The decrease in life insurance sales commission revenue was partially offset by the increase in service commission revenue, which are earned as policies sold in prior years are renewed in the current year. The service commissions in the current quarter were \$3.1 million, compared to \$2.8 million in the same quarter in the prior year.

Administrative Services Income

Administrative services income is comprised of registered plan administration and other fees earned in the Financial Advisory Segment, trust and corporate administration and other related fees earned in the International Private Banking business, and fund administration fees earned from managed investment funds. This income amounted to \$3.4 million for the current quarter, down slightly from \$3.7 million, in the prior year. The reduction mainly related to a lower level of transactional fee revenue earned in the Dealers and the International Private Banking businesses.

Dividend and Interest Income

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

For the three months ended March 31 (\$ in thousands)	2018		2017	
Dividends on Bank of Montreal shares	\$	3,441	\$	3,520
Other dividends		1,135		1,586
Dividend income		4,576		5,106
Interest income		843		385
Total dividend and interest income	\$	5,419	\$	5,491

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. To a lesser extent, the dividend income earned on BMO was lower as fewer number of shares were held in the current quarter, compared to the prior year. The higher interest income earned in the current quarter, compared to the same quarter in the prior year, is due to the reallocation of part of the securities portfolio to higher interest earning securities, and higher interest-spread income being earned in the Dealer business as interest rates increased,

Expenses

Guardian's expenses increased to \$31.0 million in the current quarter, compared to \$26.2 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 and a one-time cost associated with integrating Alta into the Segment. In the Financial Advisory Segment, the initial phase of the technology platform upgrade was completed in the current quarter, resulting in increased expenses, including some temporary increases in costs during the transition to the new platform. This temporary increase in expenses is expected to continue into the next quarter. 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.

NET GAINS (LOSSES)

For the three months ended March 31 (\$ in thousands)	2018		Restated (note 2b) 2017	
Fair value through profit or loss	\$	(14,429)	\$	25,634
On disposal of intangible assets		481		181
Foreign exchange gains (loss)		(1,984)		56
Net gains (losses)	\$	(15,932)	\$	25,871

Guardian recorded Net losses of \$15.9 million, compared to net gains of \$25.9 million in the same quarter in 2017. The significant fluctuation in Net gains (losses) was 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 Net gains (losses) on securities are expected to continue to be more volatile under the new standard. Included in the current quarter Net losses are \$2.0 million in foreign exchange losses, largely associated with the \$45 million USD loan used to fund the acquisition of Alta. Equal and offsetting foreign exchange gains associated with the acquisition were recorded in Net change in foreign currency translation on foreign subsidiary and included in Other comprehensive income.

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		2017	
	March 31	December 31	March 31	
Securities, carried at fair value				
Proprietary investment strategies				
Short-term securities	\$	--	\$	9,810
Fixed-income securities		19,456		19,328
Canadian equities		19,403		21,819
Global equities		212,076		203,474
Real estate		14,536		13,545
		265,471		267,976
Bank of Montreal common shares		359,825		372,146
Other securities		12,847		12,054
		638,143		652,176
				635,743
Securities, carried at amortized cost		10,000		--
Securities	\$	648,143	\$	652,176
Total securities per share, diluted	\$	22.84	\$	22.49
				21.63

Guardian's securities as at March 31, 2018 had a fair value of \$648 million, or \$22.84 per share, diluted, compared with \$652 million, or \$22.49 per share, diluted, at the end of 2017. On January 2, 2018, Guardian reallocated \$10 million of its short-term securities into preferred shares of a private corporation, paying dividends of 9% per annum. Shareholders' equity as at March 31, 2018 amounted to \$624 million, or \$21.98 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 March 31, 2018, the total bank borrowing amounted to \$128.5 million, compared with \$55.9 million at the end of 2017. The increase in borrowing was mainly due to an additional \$45 million USD borrowed to finance the Alta acquisition.

Guardian's adjusted cash flow from operations for the current quarter was \$8.8 million, compared to \$10.1 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 \$2.8 million in dividends and \$13.2 million in share buy-backs, using a combination of 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 March 31, 2018 (\$ in thousands)	Total	Within one year	One to three years	Three to five years	After five years
Bank loans and borrowings	\$ 128,457	\$ 128,457	\$ --	\$ --	\$ --
Client deposits	53,283	53,283	--	--	--
Payable to clients	49,182	49,182	--	--	--
Accounts payable and other	30,705	30,705	--	--	--
Other liabilities	28,583	--	6,155	--	22,428
Investment commitment - real estate fund	21,504	21,504	--	--	--
Operating lease obligations	16,201	2,122	4,418	4,377	5,284
Third party investor liabilities	6,107	6,107	--	--	--
Total contractual obligations	\$ 334,022	\$ 291,360	\$ 10,573	\$ 4,377	\$ 27,712

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)	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
Net revenue	\$ 41,516	\$ 39,097	\$ 36,315	\$ 37,208	\$ 38,618	\$ 38,240	\$ 35,185	\$ 34,191
Operating earnings	10,504	13,046	10,505	12,160	12,458	12,371	10,646	10,300
Net gains (losses)	(15,932)	38,186	4,068	(3,603)	25,871	45,511	26,492	14,831
Net earnings (loss)	(5,279)	44,466	12,555	7,493	33,800	49,514	32,197	21,234
Net earnings (loss) attributable to shareholders	(6,208)	43,982	12,310	7,242	33,285	49,072	32,075	20,952
Shareholders' equity	623,511	634,416	608,013	603,428	605,039	580,177	545,339	513,939

Per Class A and Common share (in \$)

Net earnings (loss) attributable to shareholders								
Basic	\$ (0.23)	\$ 1.59	\$ 0.44	\$ 0.26	\$ 1.21	\$ 1.74	\$ 1.13	\$ 0.74
Diluted	(0.23)	1.51	0.42	0.25	1.14	1.65	1.07	0.70
Shareholders' equity								
Basic	\$ 23.27	\$ 23.20	\$ 21.87	\$ 21.75	\$ 21.81	\$ 20.75	\$ 19.11	\$ 18.08
Diluted	21.98	21.88	20.67	20.54	20.58	19.62	18.07	17.10
Dividends paid	\$ 0.100	\$ 0.100	\$ 0.100	\$ 0.100	\$ 0.085	\$ 0.085	\$ 0.085	\$ 0.085

As at period end

Total Class A and Common shares outstanding, including treasury shares (in thousands of shares)	29,012	29,523	30,023	30,023	30,023	30,023	30,155	30,729
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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 change in AUM and AUA, which are correlated to the volatility of the financial markets. Dampening this correlation 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 first 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 realized and unrealized gains (losses) on 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 first 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 \$360 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 1.2 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 first 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. From time to time, advisors in the Financial Advisory segment may owe to the Dealers or the MGA, advances received or amounts resulting from reversal of commissions. The credit risk associated with these amounts are mitigated by management's review of the advisors' ability to repay the advances or the potential commission reversals, particularly in the MGA business, before amounts are paid to the advisors.

Interest Rate Risk

Guardian'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.

Liquidity Risk

Guardian manages liquidity risk through the monitoring and managing of cash flows from operations, by establishing sufficient cash borrowing facilities with major Canadian banks, which currently total \$137 million through three credit facilities, and leveraging the support of its significant security portfolio. The maturities of Guardian's contractual commitments are outlined under "Contractual Commitments" in this discussion and analysis. The combination of the cash flows from operations, the securities holdings and the borrowing facilities provide sufficient cash resources to manage its liquidity risk.

Regulatory and Legal Risk

Guardian and its subsidiaries operate in an environment subject to various laws and regulations. Given the nature of certain of Guardian's subsidiaries, they may, from time to time, be subject to claims or complaints from investment clients and sanctions from governing bodies. These risks are mitigated by maintaining relevant in-house competence in laws and regulations, compliance and product review oversight, adequate insurance coverage and, where appropriate, utilizing assistance from external advisors.

Financial Advisory Risk

Because of the number of advisors who publicly represent each of the Worldsource operating entities, there are risks associated in their dealings with their clients. These risks are mitigated by the strong compliance and product review capabilities of the Worldsource organization, significant management oversight and insurance coverage carried by both Worldsource and the advisors.

Information Technology and Cybersecurity Risk

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

Competition Risk

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

CHANGES IN ACCOUNTING POLICIES

On January 1, 2018, Guardian adopted IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers, as discussed in prior quarter's financial statements and the management's discussions and analysis. IFRS 9 had the greatest impact on Guardian's results this quarter. 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 (losses) attributable to shareholders. The adoption of IFRS 9 and IFRS 15 is discussed further in note 2 (b) of Guardian's first 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. The standard provides a single lease accounting model, requiring lessees to recognize assets and liabilities for all leases, unless the term is 12 months or less or the underlying asset has a low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Guardian is currently evaluating the impact IFRS 16 will have on its consolidated financial statements.

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 three months ended March 31 (\$ in thousands)	2018	Restated (note 2b) 2017
Net earnings (loss), as reported	\$ (5,279)	\$ 33,800
Add (deduct):		
Income tax expense	(149)	4,529
Net (gains) losses	15,932	(25,871)
Stock-based compensation	529	432
Interest expense	620	208
Amortization	2,266	1,026
Non-controlling interests	(1,448)	(818)
EBITDA	\$ 12,471	\$ 13,306

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 three months ended March 31 (\$ in thousands)	2018	Restated (note 2b) 2017
Net cash from (used in) operating activities, as reported	\$ (5,381)	\$ (386)
Add (deduct):		
Net change in non-cash working capital items	15,268	11,161
Non-controlling interests	(1,123)	(653)
Adjusted cash flow from operations	\$ 8,764	\$ 10,122

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

Equity markets started off extremely strong at the beginning of the new year but, in late January, the markets entered a corrective phase. The correction was brought about or worsened, in part, by rumours regarding the on going special investigation into the Trump campaign's possible collusion with foreign intelligence, bellicose words and threats regarding trade, North Korea, and the Syrian government, but probably the most important factor was the need for a pause from a runup in markets that had lasted for more than a year in a ten-year aging bull market. In 2017, a number of Central Banks began tightening rates and reducing monetary stimulus, and in the first quarter of 2018, the Federal Reserve and the Bank of Canada both proceeded with 25 basis point interest rate increases. It is expected that the Fed will be more aggressive than the Bank of Canada in raising rates in the near term, but overall liquidity is clearly slowly being reduced. The Canadian economy is generally performing well, despite trade concerns, with the manufacturing PMI strengthened marginally and the unemployment rate edged down in the first quarter. However, the net change in employment through January and February reporting shows reduced jobs as full-time employment gains have been more than offset by part-time job losses. During the first quarter, the S&P/TSX Composite generated a total return of negative 4.5%, with a cumulative return of positive 1.7% for the trailing twelve month period. The S&P 500 generated a total return of negative 0.8% during the quarter, with a cumulative return of positive 14.0% for the trailing twelve month period (all figures are in local currencies).

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 continue to be bullish into 2018, but we are cognizant of the risk that rising interest rates will pose. We are now at a stage in the equity market and interest rate cycle where earnings growth is in a race against rising interest rates, and little more benefit can be expected from stock market multiple expansions. We believe that earnings will win out for a period of time, so for now, we remain bullish on stocks. Because interest rates remain low, stocks are cheap relative to interest rates, though they are no longer as obviously cheap as they were a few years ago. 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. As we go further into 2018, we will monitor how quickly Central Banks raise rates and reduce their bond holdings (accumulated through quantitative easing). 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. Another thing to be somewhat concerned about is 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. For now, it appears that a trade war will not get out of hand – President Trump's pronouncements are mostly to better his bargaining position - but trade tensions are certainly a possible catalyst to slow global growth and introduce inflationary pressures. 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. Ultimately, if bond yields continue to rise enough to crimp valuations and the yield curve inverts, it will likely put pressure on earnings, causing a slowdown or recession. We continue to expect China to muddle its way through a soft-landing, maintaining growth of 6% to 6.5%, and then tapering off over the next few years. While we had anticipated that the uncertainty related to Brexit would cause the EU economies to slow, we do note that the economies in Europe are accelerating during this interim period in response to a long period of monetary ease finally having an effect. Overall, we remain bullish on stocks and are constructive on the more important components of the global economy in 2018. However, we are at a time when Central Bank tightening has started and, as such, the pace at which earnings grow relative to an increase in long rates, and the changing shape of the yield curve (a flattening, or turning negative) will be factors that could change our view sometime in the near future.

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 acquisition of a 70% stake in Alta, we have added a high-quality team of US-focused investment professionals whose skill set and investment processes align with and compliment those of our Canada and UK-based teams. Guardian will 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. Alta generates very respectable levels of profitability, which we expect will contribute to Guardian's bottom line in 2018. Another promising sign is that our UK-based global team is slowly gaining sales traction in their asset class, giving us hope and confidence that our non-Canadian investment capabilities will, over time, represent a more significant portion of our overall business.

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 large exposure to Canadian equities in general.

Another benefit of our balance sheet is to enable us to consider growth through acquisition opportunities. While much of our focus in 2018 will be on implementing our strategy with respect to Alta, we will continue to explore and evaluate opportunities in a range of investments related to financial service businesses.

Guardian's Financial Advisory subsidiary, Worldsource Wealth Management ("WWM"), continued to generate meaningful revenue and profit for us in the quarter. However, year over year growth was constrained by a very strong first quarter of 2017 in IDC WIN, our insurance managing general agency, and putting recruitment on hold in our investment advisor channel as we proceeded to implement a new technology platform during the quarter. Going forward, our plan is to continue to invest in increasing the scale of these businesses through recruitment of new advisors, as well as prudently considering acquisitions, if they become available. 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 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 continuing expanding our offering will give Guardian a diverse set of opportunities to grow over the longer term.



Our history. Your future.

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