

Management's Discussion and Analysis

In accordance with securities regulatory requirements, the discussion and analysis which follows for Guardian Capital Group Limited ("Guardian") pertains to the year ended December 31, 2017, with comparatives for the year ended December 31, 2016. Readers are encouraged to refer to Guardian's Consolidated Financial Statements contained in the 2017 Annual Report. This discussion and analysis has been prepared as of February 22, 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 these 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 from Guardian's objectives, plans, expectations and estimates reflected in the forward-looking statements.

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 ("UK"), the United States ("US") and the Caribbean. As at December 31, 2017, Guardian had \$27.3 billion of assets under management ("AUM") and \$17.8 billion of assets under administration ("AUA"). In addition, Guardian has a diversified portfolio of securities which, together with its investment in Bank of Montreal ("BMO") shares, had a fair value of approximately \$652 million at the end of the year. On January 2, 2018, Guardian increased its presence in the US by closing a transaction to acquire 70% of Alta Capital Management, LLC, ("Alta") a Salt Lake City, Utah-based investment management firm. As at closing Alta, managed \$3.3 billion USD in client assets.

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 22 of this report, a description of how these measures are defined by Guardian is provided, with reconciliations to their most comparable IFRS measures.

2017 HIGHLIGHTS

In 2017, Guardian continued to carry out its strategic plan, leveraging the investments made in 2016. We focused on growing our non-domestic AUM to diversify our revenue sources in the Investment Management Segment. We increased our marketing efforts in the non-North American markets and started to see some consistent flows into the Global Equities UCITS fund in the latter half of the year. Although the flows are still modest, we expect steady flows of new assets to continue in 2018 as the strategy has delivered stellar performance in calendar year 2017 and since inception of the strategy at Guardian commencing in 2014. In North America, we focused on marketing non-domestic strategies, largely the Global Dividend strategy, in the US market, utilizing the US retail intermediary distribution team created in 2016. Despite growth-biased strategies being more in demand by investors during the recent market trends we still managed to generate net assets inflows for our income-biased strategies.

Guardian's total AUM as at December 31 2017, was \$27.3 billion, the same as at December 31, 2016. The positive market performance overall was offset by the outflow of assets from our clients. The outflows of assets were largely due to two influences. Firstly, certain institutional clients rebalanced their Canadian equity exposures downward, after a strong positive market performance in 2016. This is consistent with our experience in prior periods, after strong market performances. During this period, one co-advised mutual fund client restructured their funds and internalized the investment management function, becoming the only lost client of any significant size. Secondly, within the mutual funds and wrap broker dealer platforms we sub-advise, many retail investors initiated greater degree of redemptions from Canadian equities.

On November 20, 2017, Guardian entered into an agreement to acquire 70% of Alta Capital Management, LLC ("Alta"), a Salt Lake City, Utah investment management firm, for a purchase price of \$45 million USD on closing, with additional contingent amounts of up to \$10 million USD payable over 4 years from closing. The transaction closed on January 2, 2018, adding approximately \$3.3 billion USD in AUM on that date. The acquisition was funded by increased borrowing by \$45 million USD. This acquisition aligns well with our strategic plan to expand into the US market, and to diversify our revenue sources from the current Canadian equity concentration. The acquisition increased our non-domestic AUM to 28% of total institutional AUM from 16% as at January 2, 2018, added new US high conviction equities strategies to our product offering and enhances our ability to market existing Guardian products through Alta's established US distribution network. We are excited by the new opportunities for future growth in this market.

In the Financial Advisory Segment, we experienced tremendous growth in both businesses. The Dealers business delivered strong growth in operating earnings, benefiting from the growth in AUA from positive market performance, while focusing much of management time on preparing for technology platform upgrade. The first phase of the upgrade was completed in early 2018, with the second and final phase expected to be completed later in 2018. We expect this strategically important platform upgrade to better position us to serve the needs of our advisors and grow through recruitment of new advisors. The MGA business delivered another historic high in operating earnings in 2017. This is significant considering our sales volumes came down to more historic levels after the unusually high sales volumes we witnessed in 2016, driven by the changes to tax legislation which came into effect on January 1, 2017. The growth in operating earnings were further strengthened by contributions resulting from our continued successes in recruiting top advisors to our MGA.

In the Corporate Activities and Investments Segment, in addition to the time spent on the acquisition of Alta, we continued to manage our security portfolio. During the year we reduced our exposure to BMO by selling 300,000 shares. The proceeds were used to further diversify our securities portfolio, including additional allocation to proprietary funds and partially fund share buybacks completed during the year. Guardian continued to return cash flows to shareholders in 2017, with \$26.3 million in share buybacks and dividends.

CONSOLIDATED FINANCIAL RESULTS

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

For the years ended December 31 (\$ in thousands, except per share amounts)	2017	2016	% change
Net revenue	\$ 151,238	\$ 142,686	6%
Expenses	103,069	98,019	5%
Operating earnings	48,169	44,667	8%
Net gains	62,534	38,617	62%
Earnings before income taxes	110,703	83,284	33%
Income tax expense	15,516	12,709	22%
Net earnings	\$ 95,187	\$ 70,575	35%
Available to shareholders			
Net earnings	\$ 93,692	\$ 69,475	35%
EBITDA	52,754	49,549	6%
Adjusted cash flow from operations	41,313	38,659	7%
Available to shareholders, per share, diluted			
Net earnings	\$ 3.19	\$ 2.32	38%
EBITDA	1.80	1.66	8%
Adjusted cash flow from operations	1.41	1.30	8%

As at December 31 (\$ in millions, except per share amounts)	2017	2016	% change
Shareholders' equity	634	580	9%
Securities	652	620	5%
Per share, diluted			
Shareholders' equity	\$ 21.88	\$ 19.62	11%
Securities	22.49	20.97	7%

For the years ended December 31 (\$ in millions)	2017	2016	% change
Annual premiums on insurance policies sold	\$ 77	\$ 90	-14%

Guardian's operating earnings in 2017 were \$48.2 million, compared to \$44.7 million in 2016, an 8% increase. Guardian benefited from its diversified revenue and earnings sources, where the Financial Advisory Segment provided the biggest increase in our operating earnings.

The operating earnings from the Investment Management segment were \$20.4 million in 2017, a slight increase from \$20.2 million in 2016. The increased net management fees earned on higher average AUM during the current year were offset by the increased expenses, largely related to the US distribution team which was formed in July 2016. While dealing with significant headwinds associated with clients rebalancing their Canadian equities allocations, the domestic investment management operations still delivered positive operating earnings growth, along with the Private Wealth business increasing their earnings and the UK operations reducing their operating losses. These positive contributions were offset, largely by the reduced operating earnings from our International Private Banking operations, which earned lower banking transaction fees in the current year, compared to 2016 when the transaction fees were significantly above historic levels.

The Financial Advisory Segment, both the MGA and the Dealer businesses combined to deliver another historic high in operating earnings with \$14.6 million in 2017, compared to \$11.0 million in 2016, a 33% increase. The Dealer business was aided by the growth in AUA, which increased its revenues in excess of its increased expenses related to the technology platform upgrade. The MGA business benefited from its growth in annual service commissions, which are earned on renewed life insurance policies sold in prior years. It also generated the same level of sales commissions compared to the prior year when historic levels of life insurance sales were achieved. Higher margin products sold and the benefits of successful advisor recruitments helped maintain the same level of sales commissions.

The Corporate Activities and Investments Segment earned \$13.2 million in operating earnings, compared to \$13.5 million in 2016. The growth in operating earnings contributions from the security portfolio and the consolidated funds were offset by \$0.6 million in costs associated with the Alta acquisition in this segment.

The net gains in 2017 were \$62.5 million, compared to \$38.6 million in 2016. The largest contributor to the increase was the gains recognized on change in fair value of held for trading securities invested within the consolidated funds. On the back of a significant positive performance of the global markets, the funds recognized \$38.9 million in net gains in the current year, compared to \$13.1 million in 2016.

Higher income tax expense in 2017 was the result of higher operating earnings and higher net gains realized during the year, compared to 2016.

Net earnings available to shareholders for 2017 were \$93.7 million, compared to \$69.5 million in 2016, a 35% increase. The increase was the result of improved operating earnings and the significant increase in net gains in 2017.

EBITDA for 2017 was \$52.8 million, compared to \$49.5 million in 2016, a 6% increase. Adjusted cash flow from operations for the year amounted to \$41.3 million, compared to \$38.7 million in 2016, a 7% increase. The increases in both measures are due to improved operating results compared to 2016.

The per share amounts in net earnings, EBITDA, and adjusted cash flow from operations, increased as a result of the continued improvements in operations, and the benefits of the repurchase of 0.6 million shares in 2017.

The following is a summary of Guardian's assets under management and assets under administration:

Years ended December 31 (\$ in millions)	2017	2016
Assets under management, beginning of year	\$ 27,280	\$ 24,278
Net additions (reductions) from clients during year	(1,780)	282
Market appreciation	1,750	2,720
Assets under management, end of year	\$ 27,250	\$ 27,280
Comprised of:		
Institutional	\$ 24,279	\$ 24,380
Private wealth and international private banking	2,971	2,900
Total	\$ 27,250	\$ 27,280
Institutional AUM is comprised of:		
Canadian equities	\$ 12,246	\$ 13,294
Global equities	3,887	3,306
Fixed Income	8,146	7,780
Total institutional AUM	\$ 24,279	\$ 24,380
Assets Under Administration	\$ 17,795	\$ 16,489

REVENUES AND EXPENSES

Investment Management Revenues

The largest source of revenue at Guardian is management fees received from clients, which vary as a result of changes in the amounts of client assets managed, and variations in the rates of management fees charged.

Guardian's total AUM were \$27.3 billion at December 31, 2017, unchanged from the end of the prior year. As described in the 2017 Highlights section above, the positive market performance in the equity markets were offset by the outflow of assets, as clients reduced their allocation to Canadian equities in our institutional investment management businesses. In the Private Wealth business, a large client redeemed a portion of their accounts for estate planning purposes, which largely offset the increase in AUM from other net inflows and positive market performance.

Management fees, net of referral fees paid, for the year 2017 were \$71.8 million, 5% higher than the \$68.2 million for 2016. Institutional management fees increased 5% to \$54.9 million in 2017 from \$52.4 million in 2016, as a result of higher average AUM in 2017. Private Wealth and International Private Banking management fees, net of referral fees paid, increased 7% during the year to \$16.9 million from \$15.8 million in 2016, reflecting the increase in average AUM in this business.

Financial Advisory Commission Revenues

Net commission revenue earned from 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.

Total AUA at Guardian at the end of 2017 amounted to \$17.8 billion, 8% higher than the \$16.5 billion at the end of 2016. The increase in AUA was due to successful recruitment efforts, net new sales, and market performance during the year.

The Annual Premiums on Life Insurance Policies Sold ("Premiums Sold") in 2017 by the MGA subsidiary were \$76.8 million, compared to \$90.4 million in 2016, when tax changes drove the sales volumes to historic levels. Although the Premiums Sold were lower in 2017, the sales commissions earned were the same as in 2016 due to higher margin being earned in the current year.

Net commission revenue from the Financial Advisory Segment amounted to \$42.0 million in 2017, 9% higher than the \$38.4 million in 2016. The Dealer net commission revenue increased to \$13.4 million from \$13.2 million in 2016. The increase was largely the result of higher average AUA in the Dealer business. The MGA net commission revenue increased to \$28.6 million from \$25.2 million in 2016. The increase was due largely to the increase in continuing service commission revenue, resulting from prior year's Premiums Sold and increases in trailer and sales commissions related to segregated funds and other products. Included in the MGA net commission revenue were \$11.4 million in service commissions, an increase of \$1.6 million from 2016.

Administrative Services Income

Administrative services income in 2017 was comprised of \$8.3 million of registered plan and other fees earned in the Financial Advisory Segment, \$6.0 million in fund administration, trust, corporate administration and other fees earned in the Investment Management Segment, for a total of \$14.3 million, compared with \$14.6 million in 2016. The decrease is due to lower banking transaction fees earned in the International Private Banking business.

Dividend and Interest Income

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

For the years ended December 31 (\$ in thousands)	2017	2016
Dividend on Bank of Montreal shares	\$ 13,792	\$ 14,442
Other dividends	7,585	5,383
Dividend income	21,377	19,825
Interest income	1,705	1,706
Total dividend and interest income	\$ 23,082	\$ 21,531

Dividend and interest income increased to \$23.1 million in 2017, a 7% increase from the prior year. The increase is due largely to the increased dividend income recognized in the consolidated investment funds which have grown over the year, offset slightly by the decrease in dividends earned from the BMO shares.

Consistent with our strategic plan, Guardian sold 300,000 shares of BMO in 2017, to continue to diversify its concentration in BMO shares when opportunity arises. The reduction in the number of BMO shares held resulted in lower BMO dividends earned, offset slightly by the increase in dividend rates compared to the prior year.

Due to the success in marketing the Global Equities UCITS fund and the resulting inflow of client assets during 2017, the fund is no longer deemed to be controlled by Guardian and was deconsolidated at the end of 2017. As a result in the future, the dividend income from our investment in this fund will no longer be recorded in our operating earnings but recorded in net gains. The revenue and operating earnings contribution from this fund in 2017 were \$3.5 million and \$2.0 million, respectively.

Expenses

Guardian's operating expenses, excluding commissions paid and referral fees, were \$103.1 million in 2017, compared with \$98.0 million in 2016, an increase of 5%. The increase in expenses is largely related to expenditures to support the strategic investments in the business, some of which were initiated in 2016. The increase in employee compensation and benefits related to: the full year effect of the cost of US distribution team hired in mid-2016; the additional UK investment professionals hired, in mid-2016; and the hires in the Financial Advisory Segment to support the growth in the MGA business. The increase in other expenses are due to: increased marketing efforts related to our investment strategies in various non-domestic markets; increased fund administration costs due to growth in both our proprietary funds and those funds which are consolidated; one-time costs associated with the Alta acquisition, and non-capitalized cost associated with our technology platform conversion in our Financial Advisory Segment.

NET GAINS

For the years ended December 31 (\$ in thousands)	2017	2016
Net gains in consolidated investment funds	\$ 38,828	\$ 13,080
Net gains on securities directly held	22,325	25,161
Net gains on securities	61,153	38,241
Net foreign exchange gains (losses)	541	(644)
Net gains on disposal of intangible assets	840	1,020
Net gains	\$ 62,534	\$ 38,617

The large increase in net gains in 2017 compared to 2016 was due largely to the increased gains recognized within the consolidated funds. The most significant increase in net gains was recognized within the Global Equity UCITS fund which generated significant, positive performance in 2017.

In addition, Guardian disposed of 300,000 shares of BMO in 2017, recognizing \$19.0 million in net gains, compared to \$24.0 million recognized in 2016 on the sale of 531,120 shares of BMO.

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 the appropriate levels of working capital in each of its areas of operation, make the necessary capital expenditures to develop and support its businesses and make appropriate use of borrowings, including financing the expansion of its businesses. The hallmark of Guardian's balance sheet is the significant liquid marketable securities portfolio as presented below.

As at December 31 (\$ in thousands, except per share amounts)	2017	2016
Securities		
Proprietary investment strategies		
Short-term securities	\$ 9,810	\$ 12,567
Fixed-income securities	19,328	10,484
Canadian equities	21,819	13,507
Global equities	203,474	161,153
Real estate	13,545	23,759
	267,976	221,470
Bank of Montreal common shares	372,146	386,240
Other securities	12,054	12,508
Securities	\$ 652,176	\$ 620,218
Total securities per share, diluted	\$ 22.49	\$ 20.97

Guardian's securities as at December 31, 2017 had a fair value of \$652 million, or \$22.49 per share, diluted, compared with \$620 million, or \$20.97 per share, diluted, as at December 31, 2016, as shown above. Reflecting this value, Guardian's shareholders' equity as at December 31, 2017 amounted to \$631 million, or \$21.75 per share, diluted, compared to \$580 million, or \$19.62 per share, diluted, as at December 31, 2016. During the current year, 300,000 shares of BMO were sold for total proceeds of \$29.9 million.

In 2017, Guardian negotiated increases to certain of its borrowing facilities so that it now has available under various borrowing arrangements, total credit of \$157 million. At December 31, 2017, the total bank borrowing amounted to \$55.9 million, compared with \$62.7 million at December 31, 2016.

On January 2, 2018, Guardian closed its acquisition of 70% interest in Alta and paid \$45 million USD on closing. The purchase price was funded by borrowing \$45 million USD under its credit facilities.

Guardian generated adjusted cash flow from operations of \$41.3 million in 2017, an increase of \$2.6 million from \$38.7 million in 2016. At current levels of cash flow and anticipated dividend payout rates, Guardian generates sufficient cash flow to meet its operating obligations, necessary capital expenditures, dividend payments and share buybacks.

In 2017, using its strong balance sheet and cash flow, Guardian returned \$26.3 million to the shareholders in the form of dividends and share repurchases, made \$4.2 million in net capital expenditures to support the business and reduced bank loans and borrowings by \$6.8 million.

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 December 31, 2017 (\$ in thousands)	Total	Within one year	One to three years	Three to five years	After five years
Bank loans and borrowings	\$ 55,859	\$ 55,859	\$ —	\$ —	\$ —
Third party investor liabilities	5,688	5,688	—	—	—
Client deposits	52,653	52,653	—	—	—
Accounts payable and other liabilities	42,344	42,344	—	—	—
Payable to clients	63,366	63,366	—	—	—
Investment commitment – real estate fund	22,484	22,484	—	—	—
Operating lease obligations	16,483	2,042	4,345	4,381	5,715
Total contractual obligations	\$ 258,877	\$ 244,436	\$ 4,345	\$ 4,381	\$ 5,715

Not included in the above table is the \$45 million USD paid on January 2, 2018 on closing of the Alta acquisition, plus the additional contingent payment of up to \$10 million USD due over the next four years from closing. Guardian's contractual obligations are supported by its strong financial position, including its securities, referred to above under

“Liquidity and Capital Resources”. Client deposits, in the offshore banking subsidiary, are supported by interest-bearing deposits with banks. The third party investor liabilities are offset by securities backing third party investor liabilities. 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. Guardian’s commitment to further invest into a real estate limited partnership managed by a subsidiary was \$22.5 million, as at December 31, 2017. This balance is expected to be invested as appropriate real estate product becomes available to the limited partnership, at which time Guardian’s management will decide on the appropriate strategy for funding this commitment.

SELECTED ANNUAL INFORMATION

Years ended December 31 (\$ in thousands, except per share amounts)	2017	2016	2015
Net revenue	\$ 151,238	\$ 142,686	\$ 132,911
Net earnings available to shareholders	93,692	69,475	44,105
Per share			
Net earnings available to shareholders			
Basic	\$ 3.37	\$ 2.44	\$ 1.50
Diluted	3.19	2.32	1.44
Dividends paid	0.385	0.33	0.29
As at December 31			
Total assets	\$ 912,484	\$ 982,262	\$ 810,249

Decrease in total assets in 2017, compared to 2016 was due to the reduction in Securities backing third party investor liabilities amounts, resulting from the deconsolidation of an investment fund in the current year. Increase in total assets in 2016, compared to 2015 was due to the increase in the fair value of Securities and the Securities backing third party investor liabilities.

SUMMARY OF QUARTERLY RESULTS

The following table summarizes Guardian’s financial results for the past eight quarters.

Quarters ended (\$ in thousands)	2017				2016			
	Dec 31	Sept 30	Jun 30	Mar 31	Dec 31	Sept 30	Jun 30	Mar 31
Assets under management	\$ 27,250	\$ 26,335	\$ 26,379	\$ 26,967	\$ 27,280	\$ 27,269	\$ 25,654	\$ 24,816
Assets under administration	17,795	17,271	17,073	16,958	16,489	16,134	15,425	14,987
Net revenue	39,097	36,315	37,208	38,618	38,240	35,185	34,191	35,070
Operating earnings	13,046	10,505	12,160	12,458	12,371	10,646	10,300	11,350
Net gains (losses)	23,175	10,987	10,783	17,589	10,754	10,057	1,028	16,778
Net earnings	31,799	18,232	19,638	25,518	19,859	17,475	9,169	24,072
Net earnings available to shareholders	31,315	17,987	19,387	25,003	19,417	17,353	8,887	23,818
Shareholders’ equity	634,416	608,013	603,428	605,039	580,177	545,339	513,939	497,656
Per Class A and Common share (in \$)								
Net earnings available to shareholders								
Basic	\$ 1.13	\$ 0.65	\$ 0.70	\$ 0.91	\$ 0.69	\$ 0.61	\$ 0.31	\$ 0.83
Diluted	1.07	0.61	0.67	0.86	0.65	0.58	0.30	0.79
Shareholders’ equity (1)								
Basic	\$ 23.20	\$ 21.87	\$ 21.75	\$ 21.81	\$ 20.75	\$ 19.11	\$ 18.08	\$ 17.51
Diluted	21.88	20.67	20.54	20.58	19.62	18.07	17.10	16.63
Dividends paid	\$ 0.100	\$ 0.100	\$ 0.100	\$ 0.085	\$ 0.085	\$ 0.085	\$ 0.085	\$ 0.075

Over the past 8 quarters presented above, Guardian’s net revenue and operating earnings have generally shown an upward trend, although they have fluctuated from time to time. These fluctuations have largely been driven by fluctuations in revenues which are influenced by 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. The growth in the significance of insurance commissions, as the MGA business continued to grow, has dampened the correlation between the fluctuations in net revenues and the financial markets, as these revenues are less influenced by the volatility of those financial markets. Some seasonality in the commission revenues occurs in the MGA business, where the last quarter of the year could result in increased revenues from “volume bonuses” earned from the life insurance companies. The seasonality which in the past existed in the Dealer business, with some concentration of commissions in the traditional “RSP season” in the first quarter of each year, has now become less significant. This change is due to the continuing move away from sales commissions and toward “trailer” commissions, which are on-going commissions based on average AUA during each period, and the increasing significance of commissions from the life insurance MGA. 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 to the various influences described above, the net revenue in the fourth quarter of 2016 and the first quarter of 2017 were also affected by significant increases in sales of life insurance policies, driven by changes to income tax legislation that came into effect at the beginning of 2017. Since gains and losses are recorded on disposal of available for sale securities or other assets, on changes in the value of held for trading and held for sale securities, and on changes in the value of foreign currency balances held, and such amounts can vary from quarter to quarter, the amounts included in “Net gains” each quarter have fluctuated, as shown in the quarterly results above.

The quarterly fluctuations in shareholders’ equity shown above have been caused largely by the changes in the value of Guardian’s securities holdings, less the provision for deferred income taxes thereon.

RISK FACTORS

Guardian applies many of the same risk management principles to its business as a whole, as it does to the management of risks on behalf of its clients. One of the 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 the notes to the Consolidated Financial Statements, contained in Guardian’s 2017 Annual Report, 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 significant part of our revenues, including management fees, are generally based on market values. Additionally, market fluctuations can impact the amounts being invested by the clients of our financial advisory businesses, 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 securities are managed independently of clients’ assets, except for those of our assets that are invested in Guardian’s investment funds.

Portfolio Value and Concentration Risk

Guardian’s securities are subject to price fluctuation risk. Guardian manages this risk through professional in-house investment management expertise, which takes a disciplined approach to investment management. All securities are held by well-known independent custodians chosen by Guardian. With the exception of the investment of \$372 (2016 – \$386) million in the Bank of Montreal shares, which represents 57% (December 31, 2016 – 62%) of Guardian’s securities, they are diversified, from both an asset class and a geographical perspective. At the end of 2017, the securities were made up of 62% (2016 – 68%) Canadian equities, consisting mainly of the Bank of Montreal shares, 34% (2016 – 28%) non-Canadian equities and 4% (2016 – 4%) fixed income securities.

Foreign Currency Risk

Guardian’s investments in its foreign subsidiaries are subject to the risk of foreign currency exchange rate fluctuations. The effects of changes in foreign currency exchange rates on the values of these investments are not included in Net earnings, but are recorded as changes in the “foreign currency translation adjustment” in Guardian’s Statements of Comprehensive Income, and the cumulative effect is included in Accumulated Other Comprehensive Income in the Shareholders’ Equity section of the Consolidated Balance Sheets. In addition, the operating results of these subsidiaries can fluctuate with the change in the foreign currency exchange rates against the Canadian dollars. These foreign currency exposures are not actively managed, due to the long-term nature of these investments, but are closely monitored by management. Foreign currency fluctuations can also affect Guardian earnings through its impact on the securities portfolio and AUM. As the Canadian dollar appreciates or depreciates in value against other currencies, the

value of the securities portfolio, the income earned from those securities, and the management fees earned on non-domestic AUM could fluctuate. From time to time, the foreign subsidiaries hold foreign cash currency balances which are different from Guardian or its subsidiaries' functional currencies, which can result in foreign exchange gains or losses being recorded by the subsidiaries.

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 managers 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 Dealer 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' abilities 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 borrowing facilities with major Canadian banks, which currently total \$157 million through three credit facilities, and 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, borrowing facilities and the holding of securities provides sufficient resources to manage its liquidity risk.

Regulatory Risk 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 changes in regulations, 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.

Performance Risk

Product performance presents another risk. It is a relative, as well as an absolute measure, because the risk is that we will not perform as well as the market, our peers, or in line with our clients' expectations. We manage this risk by having a disciplined approach to investment management, and by ensuring that our compliance capabilities are strong. With respect to clients' expectations, we also ensure that we are fully aware of all of those expectations, and that we properly communicate with our clients to develop, report on and comply with client mandates on a continuous basis.

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.

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.

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.

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 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 classified as level 3 within the fair value hierarchy.

The impairment assessment of goodwill includes a comparison of the carrying value and the recoverable amount of each business unit to verify that the recoverable amount of the business unit is greater than its carrying value. In 2017 and 2016, the recoverable amounts were estimated using the fair value less cost to sell method for each of the business units. Guardian used valuation approaches to determine fair value based on a multiple of AUM, AUA, annual service fee revenues and first year's commissions. These multiples are developed by management based on recent transactions and research reports by independent research analysts. These valuation approaches are most sensitive to the levels of AUM, AUA and annual service fees.

A financial instrument is classified as level 3 when the fair value of the instrument is determined using valuation techniques based on inputs which are not observable in the market. The fair values of securities classified as level 3 in note 4(b) to Guardian's 2017 Consolidated Financial Statements were based on a valuation approach using a multiple of AUM and further corroborated by a multiple of EBITDA observed in market transactions. The multiple was developed based on prior tender offers and recent research reports by independent research analysts for similar types of business. This valuation approach is most sensitive to the level of AUM and the EBITDA generated by these entities.

FUTURE CHANGES IN ACCOUNTING POLICIES

A number of new standards, and amendments to existing standards, have been issued by the International Accounting Standards Board ("IASB"), which are effective for Guardian's consolidated financial statements in future periods. Readers are encouraged to refer to note 2 to the Consolidated Financial Statements contained in Guardian's 2017 Annual Report, for Guardian's assessment of the potential impact of these new standards. Guardian continues to evaluate the impact these new standards will have on its consolidated financial statements. The following is a description of these new standards and amendments.

Financial Instruments

On July 24, 2014, IASB issued its fourth and final version of IFRS 9 Financial Instruments ("IFRS 9"), which is to replace IAS 39 Financial Instruments: Recognition and Measurement with revised guidance on classification and measurement of financial instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

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 from contracts with customers and replaces several other standards and interpretations. The core principle of IFRS 15 is that an entity recognizes revenue upon the transfer of services to customers that reflects the payments to which it expects to be entitled. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

Leases

On January 13, 2016, the IASB issued IFRS 16 Leases ("IFRS 16"), which is to replace IAS 17 Leases. The standard provides a single lessee 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.

NON-IFRS MEASURES

EBITDA and EBITDA per share

Guardian defines EBITDA as net earnings before interest, income tax, amortization, stock-based compensation, and any net gains or losses, less amounts attributable to non-controlling interests. EBITDA per share is calculated using the same average shares outstanding as are used in calculating net earnings available to shareholders per share. Guardian believes 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 measure to this non-IFRS measure:

For the years ended December 31 (\$ in thousands)	2017	2016
Net earnings, as reported	\$ 95,187	\$ 70,575
Add (deduct):		
Income tax expense	15,516	12,709
Net gains	(62,534)	(38,617)
Stock-based compensation	1,988	1,731
Interest expense	814	837
Amortization	4,213	4,185
Non-controlling interests	(2,430)	(1,871)
EBITDA	\$ 52,754	\$ 49,549

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 Statement of Cash Flow. Adjusted cash flow from operations per share is calculated using the same average shares outstanding as are used in calculating net earnings available to shareholders per share.

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

For the years ended December 31 (\$ in thousands)	2017	2016
Net cash from operating activities, as reported	\$ 44,638	\$ 42,515
Add (deduct):		
Net change in non-cash working capital items	(1,427)	(2,454)
Non-controlling interests	(1,898)	(1,402)
Adjusted cash flow from operations	\$ 41,313	\$ 38,659

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 shares outstanding as at period end.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROL

Management is responsible for establishing and maintaining adequate internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There have been no changes in Guardian's internal control over financial reporting during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, Guardian's internal control over financial reporting.

Management of Guardian has evaluated the effectiveness of its disclosure controls and procedures and internal controls over financial reporting (as defined under National Instrument 52-109) as of December 31, 2017, under the supervision of the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the design and operation of those disclosure controls and procedures and internal controls over financial reporting were effective.

OUTLOOK

2017 was a strong year for global economic growth, with near universal strengthening around the world. Purchasing Managers Index ("PMI") readings for the world's major economies strengthened throughout the year for both manufacturing and services, with nearly all indicating economic expansion. A similar trend was generally seen for most major economies in the rates of GDP growth (increasing), and a decline in unemployment. In 2017, a number of central banks began tightening rates and reducing monetary stimulus. Notably, the Fed implemented three 25 bps hikes to increase its benchmark interest rate from a target range of 0.5%-0.75% to a target range of 1.25%-1.5%, the Bank of England increased once by 25 bps, and the Bank of Canada increased twice by 25 bps to 1.0%. Most metrics for the Canadian economy outperformed expectations in 2017, indicating healthy momentum: the manufacturing PMI remained in the mid-50's throughout the year; GDP was strong in the first and second quarters at 3.7% and 4.5%, respectively, trailing off somewhat in the third quarter to 1.7%; and the unemployment rate steadily declined, from 6.9% at the end of 2016 to 5.7% at the end of 2017. While these signs were all positive, the renegotiation of NAFTA is a potential overhang on the Canadian economy heading into 2018, as is the high level of household debt-to-GDP (at 101.0% as of June 2017). In 2017, the S&P/TSX Composite generated a total return of 9.1%, while the S&P 500 returned 21.8%. (All figures are in local currencies). Globally, most major developed markets had a strong year in 2017, but lagged the performance of the U.S.; most notably emerging markets also were strong, performing as well or better than the S&P 500. 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 into the background and investors recognized that the U.S. economy was healing. From this point forward, the dynamics behind our bullishness are changing toward some multiple expansion for low and medium-priced stocks, and earnings growth for the market in general. In early 2018, we have seen some increased market volatility and, as we go further into the calendar year, we will need to carefully 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; as a result, we will need to watch how bond yields behave, and how the shape of the yield curve responds to this tightening. We anticipate that the secure growth footing underlying the U.S. economy will help drive earnings in both the U.S. and Canada. Often at this stage of a cycle, with the Fed tightening into an expanding economy, earnings growth will continue to drive stocks even while interest rates are rising. This generally continues until long bond yields rise enough to begin to crimp valuations and the yield curve inverts, signaling pressure on earnings from a slowdown or recession to come. 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. In summary, we believe that the world will continue to benefit from synchronized global growth, even if there are some challenges to be overcome.

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 very high. For the last few years, Guardian has been focusing on increasing our investment management capabilities, both within Canada and throughout the world. 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 to benefit 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 also 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 Global Fundamental 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 grow in 2017. Our patience in building Worldsource over several years, both through acquisition and internal growth, has resulted in its transformation from a collection of small, money losing operations, to a relatively large, profitable and valuable asset. 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 partners at Worldsource. In order to remain competitive, Worldsource will need to continue to invest in improving its technology offering, which is becoming more and more critical to our efficiency and that of our advisors.

2017 was a relatively quiet year for recruitment and acquisitions at IDC WIN, our insurance Managing General Agency (MGA). However, we continued to see strong organic growth which led to new highs in profitability for the year. In 2018, we expect to continue to grow organically and through new advisor recruitment, and we will consider any opportunity to make potential acquisitions to increase the scale of our business.

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 much smaller growth opportunity for us. Our acquisition of Alta is another significant milestone for Guardian in our ongoing strategy to grow our capability to address larger portions of the global investment management business. 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 worldwide. We believe that investing in distribution and continuing to diversify our offering will give Guardian an additional opportunity to grow over the longer term.